



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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

Audit report information can be accessed at:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
391-0100-12

Department of Community Health

October 1, 2009 through September 30, 2011

Released:
June 2012

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.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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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*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 11 programs (including 3 programs with ARRA funding) as major programs and identified known questioned costs of \$35,616. DCH expended a total of \$19.5 billion in federal awards, including \$2.0 billion of ARRA funding, during the two-year period ended September 30, 2011. We issued 10 unqualified opinions and 1 adverse opinion. The opinions issued by major

program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified a material weakness in internal control over federal program compliance (Finding 5). We also identified significant deficiencies in internal control over federal program compliance (Findings 1, 2, 4, and 6 through 12).

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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 1 through 7 and 9 through 12).

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Internal Accounting and Administrative Control System:

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office

of Internal Audit Services, State Budget Office, we have evaluated the implementation of only Section 18.1485 in this financial audit. Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that DCH was in

substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, State Budget Office.

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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
	<u>Aging Cluster:</u>	Unqualified
93.044	• Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	
93.045	• Special Programs for the Aging - Title III, Part C - Nutrition Services	
93.053	• Nutrition Services Incentive Program	
93.705	• ARRA - Aging Home-Delivered Nutrition Services for States	
93.707	• ARRA - Aging Congregate Nutrition Services for States	
93.069	Public Health Emergency Preparedness	Unqualified
	<u>Immunization Cluster:</u>	Unqualified
93.268	• Immunization Grants	
93.712	• ARRA - Immunization	
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	Unqualified
	<u>Temporary Assistance for Needy Families (TANF) Cluster:</u>	Unqualified
93.558	• Temporary Assistance for Needy Families	
93.767	Children's Health Insurance Program	Unqualified
	<u>Medicaid Cluster:</u>	Adverse
93.720	• ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	
93.777	• State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	
93.778	• Medical Assistance Program	
93.778	• ARRA - Medical Assistance Program	
93.917	HIV Care Formula Grants	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

June 26, 2012

Ms. Olga Dazzo, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Dazzo:

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, 2009 through September 30, 2011.

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 that could have a direct and material effect on 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 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 plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

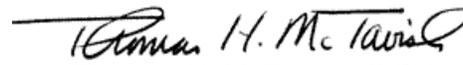

Thomas H. McTavish, C.P.A.
Auditor General

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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. Olga Dazzo, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Dazzo:

We have audited the accompanying financial schedules of the Department of Community Health for the fiscal years ended September 30, 2011 and September 30, 2010, 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, 2011 and September 30, 2010 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012 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.

Sincerely,


Thomas H. McTavish, C.P.A.
Auditor General
June 15, 2012

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

	<u>2011</u>	<u>2010</u>
REVENUES		
Taxes	\$ 1,270,245,142	\$ 1,243,523,301
From federal agencies	9,841,899,717	9,385,972,755
From local agencies	41,668,183	40,499,575
From services	29,142,864	28,083,683
From licenses and permits	30,388,642	29,272,889
Special Medicaid reimbursements	155,058,684	123,205,461
Miscellaneous	69,560,206	73,877,783
Total revenues	<u>\$ 11,437,963,438</u>	<u>\$ 10,924,435,447</u>
OTHER FINANCING SOURCES		
Transfers from Compulsive Gaming Prevention Fund	<u>1,950,000</u>	<u>1,950,000</u>
Total revenues and other financing sources	<u><u>\$ 11,439,913,438</u></u>	<u><u>\$ 10,926,385,447</u></u>

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

	2011	2010
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 2,727,373,000	\$ 2,179,007,500
Balances carried forward	75,732,386	107,316,070
Restricted financing sources	11,961,447,911	11,246,398,229
Less: Intrafund expenditure reimbursements and expenditure credits	(506,537,753)	(331,366,594)
Total	\$ 14,258,015,543	\$ 13,201,355,205
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 14,332,171,836	\$ 13,425,641,480
Less: Intrafund expenditure reimbursements and expenditure credits	(506,537,753)	(331,366,594)
Net expenditures and transfers out	\$ 13,825,634,083	\$ 13,094,274,886
Balances carried forward:		
Multi-year projects	\$ 5,358,166	\$ 6,202,105
Encumbrances	1,912,571	2,517,875
Restricted revenues - not authorized or used	353,688,176	86,521,258
Total balances carried forward	\$ 360,958,914	\$ 95,241,238
Balances lapsed	\$ 127,926,328	\$ 31,347,934
Overexpended	\$ (56,503,781)	\$ (19,508,852)
Total	\$ 14,258,015,543	\$ 13,201,355,205

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The Department of Community Health (DCH) was created by executive order in January 1996. Executive Order No. 2011-4 transferred the Bureau of Health Professions from DCH to the Department of Licensing and Regulatory Affairs effective April 24, 2011. 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, 2011 and September 30, 2010. 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)*.

For purposes of presenting the financial transactions of DCH in the accompanying financial schedules, the Gifts, Bequests, and Deposits Investment Fund, the Hospital Patients' Trust Fund, and the Michigan Merit Award Trust Fund have been excluded from DCH's reporting entity. The Gifts, Bequests, and Deposits Investment Fund, the Hospital Patients' Trust Fund, and the Michigan Merit Award Trust Fund receive no federal funding.

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; other postemployment benefits; leases; and contingencies and commitments.

b. Jointly Governed Organizations

DCH has representation and/or appointing authority on the boards of two jointly governed organizations: the Michigan Public Health Institute (MPHI) and the Detroit Wayne County Health Authority (DWCHA).

The State, the University of Michigan, Michigan State University, and Wayne State University appoint members of the board of MPHI, a nonprofit corporation. MPHI was established to plan, promote, and coordinate health services research with a public university or a consortium of public universities in the State. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of MPHI. The State awarded contracts to MPHI totaling \$38.8 million in fiscal year 2010-11 and \$34.4 million in fiscal year 2009-10.

The City of Detroit, Charter County of Wayne, and DCH appoint members of the board of DWCHA, a public agency. DWCHA was established to plan, promote, and coordinate health services for at-risk populations in the City of Detroit and Wayne County. The State does not appoint a majority of the board, has no right to the assets, and is not responsible for debts of DWCHA. Therefore, the State's accountability for DWCHA does not extend beyond making the appointments. The State awarded contracts to DWCHA totaling \$0.84 million in fiscal year 2010-11 and \$0.75 million in fiscal year 2009-10.

c. 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 present 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.

The ending balances carried forward for fiscal year 2009-10 was not carried into fiscal year 2010-11 because in fiscal year 2009-10 DCH overexpended its authorization by \$19.5 million (see part i. of this note).

- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used to finance programs as detailed in the appropriations acts. 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. Significant restricted financing sources consisted of federal revenues of \$9.9 billion and tax revenues of \$1.3 billion in fiscal year 2010-11 and federal revenues of \$9.4 billion and tax revenues of \$1.2 billion in fiscal year 2009-10.

- 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. Significant intrafund expenditure reimbursements from another General Fund department were \$19.3 million and \$44.1 million for fiscal years 2010-11 and 2009-10, respectively, from the Department of Corrections for the operation of the Center for Forensic Psychiatry. A significant expenditure credit that occurred in fiscal year 2010-11 transferred \$213.8 million to the Medicaid Benefits Trust Fund, a subfund of the General Fund, to cover potential federal disallowances as required by Act 157, P.A. 2011. Other significant expenditure credits for fiscal years 2010-11 and 2009-10 included \$95.4 million and \$92.9 million, respectively, from disproportionate share hospital payments received from the State psychiatric hospitals used to help finance Medicaid; \$100.6 million and \$116.1 million, respectively, from the purchase of State services contract reimbursements; and \$52.3 million and \$52.6 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. Significant carry forwards of this type were \$2.7 million in fiscal year 2010-11 and \$3.7 million in fiscal year 2009-10 for the closed site, transition, and related costs for the Mt. Pleasant Center, which officially closed in October 2009.
- 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. Significant encumbrances for

modernizing information technology systems consisted of \$834,000 in fiscal year 2010-11 and \$1.3 million in fiscal year 2009-10.

- 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 Medicaid Benefits Trust Fund for \$226.3 million in fiscal year 2010-11 and \$12.5 million for fiscal year 2009-10 and the Victim Services Fund for \$1.5 million in fiscal year 2010-11 and \$2.9 million in fiscal year 2009-10.
- 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.
- i. Overexpended: The overexpenditure of line-item appropriations by funding source. In the event of overexpenditure, DCH is required to seek a supplemental appropriation to authorize expenditures that exceed its appropriations. DCH did not request supplemental appropriations in either fiscal year because there was insufficient time required for legislative action.

In fiscal year 2010-11, overexpenditures of \$55.9 million occurred in the federally funded portion of the Long-Term Care Services, Hospital Services and Therapy, Physician Services, School-Based Services, and Adult Home Help Services appropriations and overexpenditures of \$0.6 million occurred in the general purpose funded portion of the Physician Services appropriation. In fiscal year 2009-10, overexpenditures of \$19.5 million occurred in the federally funded portion of the Long-Term Care Services appropriation.

The overexpenditures occurred when accounting adjusting entries were processed during the State's fiscal year-end book closing process. In both fiscal years, DCH recorded enough federal revenue to finance the federally funded expenditures but lacked the appropriation authorization to incur the expenditures, thereby resulting in an overexpenditure. Because

the federal revenue was used to finance these expenditures, it was unavailable for carry forward into the next fiscal year. This resulted in a difference between the amount shown as restricted revenues - not authorized or used balance carried forward in fiscal year 2009-10 and the amount shown as balances carried forward in fiscal year 2010-11.

Note 3 Contingencies

a. Specialized Pharmacy Services, Inc.

In October 2006, the Michigan Department of Attorney General signed a settlement agreement with Specialized Pharmacy Services, Inc. The settlement agreement required Specialized Pharmacy Services, Inc., to pay the State a total of \$49.0 million in several installments. The first payment for \$42.0 million was received in October 2006. DCH received additional payments in October 2006, December 2007, and December 2008. The final payment was received in December 2009. Approximately \$31.8 million of the \$49.0 million settlement related to a penalty arising under State law. As required by federal Medicaid law, DCH returned \$9.0 million in federal financial participation dollars in fiscal year 2006-07 related to the \$17.6 million of Medicaid funds recovered from the settlement with Specialized Pharmacy Services, Inc., but has not returned any of the penalty that arose under State law.

Beginning in late 2007, the federal Centers for Medicare and Medicaid Services (CMS) requested DCH to return an additional amount calculated as the total federal financial participation on the entire settlement agreement. In October 2008, CMS issued a letter stating its intent to recover any such federal financial participation. On January 21, 2009, CMS formally disallowed \$18.7 million. CMS alleges that \$18.7 million of the \$31.8 million penalty, arising under State law, relates to federal financial participation. DCH did not return the \$18.7 million disallowed by CMS. Instead, DCH, through the Department of Attorney General, filed a request with CMS for reconsideration of this disallowance. CMS affirmed the disallowance. DCH has appealed to the federal district court. Act 157, P.A. 2011, appropriated funds from the General Fund to the Medicaid Benefits Trust Fund for the payment of this disallowance should the State not prevail in court.

b. Prior DCH Single Audit Questioned Costs

The DCH single audit for the two fiscal years ended September 30, 2009 identified questioned costs of \$489.0 million. As of September 30, 2011, DCH has repaid the U.S. Department of Health and Human Services (HHS) disallowed costs of \$2.1 million related to the Medicaid Cluster. HHS has issued management decisions indicating that it will not seek repayment of the \$116.4 million and \$5.0 million of questioned costs for the Block Grants for Prevention and Treatment of Substance Abuse and Medicaid Cluster, respectively. HHS has not issued management decisions on the remaining questioned costs.

SUPPLEMENTAL FINANCIAL SCHEDULE

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Financial Assistance					
U.S. Department of Agriculture					
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
School Breakfast Program	10.553	330008002	\$ 47,834	\$	\$ 47,834
National School Lunch Program	10.555	330008002	74,293		74,293
Summer Food Service Program for Children	10.559	20112858			0
Total Child Nutrition Cluster			<u>\$ 122,127</u>	<u>\$ 0</u>	<u>\$ 122,127</u>
Supplemental Nutrition Assistance Program (SNAP) Cluster:					
Pass-Through Program:					
Michigan State University					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	61-5050P	\$ (36,492)	\$	\$ (36,492)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	DCH 10-IA-10	818,374	657,607	1,475,981
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	DCH 11-IA-09			0
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	61-5050O	(3,629)		(3,629)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	61-5050L	(18,306)		(18,306)
Total SNAP Cluster			<u>\$ 759,947</u>	<u>\$ 657,607</u>	<u>\$ 1,417,554</u>
Direct Programs:					
Food Safety Cooperative Agreements	10.479		\$	\$	\$ 0
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		132,358,737	41,957,746	174,316,483
WIC Farmers' Market Nutrition Program (FMNP)	10.572		377,654		377,654
Senior Farmers Market Nutrition Program	10.576		250,453		250,453
Child Nutrition Discretionary Grants Limited Availability	10.579				0
Total Direct Programs			<u>\$ 132,986,844</u>	<u>\$ 41,957,746</u>	<u>\$ 174,944,590</u>
Total U.S. Department of Agriculture			<u>\$ 133,868,918</u>	<u>\$ 42,615,353</u>	<u>\$ 176,484,271</u>
U.S. Department of Housing and Urban Development					
Direct Programs:					
Supportive Housing Program	14.235		\$ 81,399	\$ 1,696,920	\$ 1,778,319
Shelter Plus Care	14.238		(239,030)	4,676,222	4,437,192
Housing Opportunities for Persons with AIDS	14.241		32,180	820,439	852,619
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		553,605	236,865	790,470
Lead Hazard Reduction Demonstration Grant Program	14.905		132,879	197,103	329,982
Total U.S. Department of Housing and Urban Development			<u>\$ 561,033</u>	<u>\$ 7,627,549</u>	<u>\$ 8,188,582</u>
U.S. Department of Justice					
Direct Programs:					
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528		\$	\$	\$ 0
Crime Victim Assistance	16.575		324,968	12,729,022	13,053,990
Crime Victim Compensation	16.576		1,303,054		1,303,054
Residential Substance Abuse Treatment for State Prisoners	16.593		(4,464)		(4,464)
Edward Byrne Memorial Justice Assistance Grant Program	16.738		(76,047)		(76,047)
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742			89,884	89,884
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801		16,812	1,103,900	1,120,712
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803		(525)		(525)
Total U.S. Department of Justice			<u>\$ 1,563,798</u>	<u>\$ 13,922,806</u>	<u>\$ 15,486,604</u>
U.S. Department of Labor					
Direct Programs:					
Senior Community Service Employment Program	17.235		\$ 67,529	\$ 4,287,196	\$ 4,354,725
ARRA - Senior Community Service Employment Program	17.235		12,682	548,049	560,731
Total U.S. Department of Labor			<u>\$ 80,211</u>	<u>\$ 4,835,245</u>	<u>\$ 4,915,456</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 41,108	\$	\$ 41,108	\$ 88,942
64,618		64,618	138,911
8,716	496,290	505,006	505,006
<u>\$ 114,442</u>	<u>\$ 496,290</u>	<u>\$ 610,732</u>	<u>\$ 732,859</u>
\$	\$	\$ 0	\$ (36,492)
(54,673)		(54,673)	1,421,308
278,736	541,762	820,498	820,498
		0	(3,629)
		0	(18,306)
<u>\$ 224,063</u>	<u>\$ 541,762</u>	<u>\$ 765,825</u>	<u>\$ 2,183,379</u>
\$ 200,000	\$	\$ 200,000	\$ 200,000
134,216,860	47,486,317	181,703,177	356,019,660
387,881	4	387,885	765,539
	245,558	245,558	496,011
248,466		248,466	248,466
<u>\$ 135,053,207</u>	<u>\$ 47,731,879</u>	<u>\$ 182,785,086</u>	<u>\$ 357,729,676</u>
\$ 135,391,712	\$ 48,769,931	\$ 184,161,643	\$ 360,645,914
\$ 108,620	\$ 1,925,040	\$ 2,033,660	\$ 3,811,979
(89,022)	4,826,768	4,737,746	9,174,938
(97,950)	1,016,608	918,658	1,771,277
783,480	234,999	1,018,479	1,808,949
95,982	204,730	300,712	630,694
<u>\$ 801,110</u>	<u>\$ 8,208,145</u>	<u>\$ 9,009,255</u>	<u>\$ 17,197,837</u>
\$ 5,886	\$ 45,000	\$ 50,886	\$ 50,886
54,472	14,293,554	14,348,026	27,402,016
1,157,000		1,157,000	2,460,054
		0	(4,464)
		0	(76,047)
		0	89,884
(34,934)		(34,934)	1,085,778
		0	(525)
<u>\$ 1,182,424</u>	<u>\$ 14,338,554</u>	<u>\$ 15,520,978</u>	<u>\$ 31,007,582</u>
\$ (23,359)	\$ 4,540,418	\$ 4,517,059	\$ 8,871,784
0	0	0	560,731
<u>\$ (23,359)</u>	<u>\$ 4,540,418</u>	<u>\$ 4,517,059</u>	<u>\$ 9,432,515</u>

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Transportation					
Highway Planning and Construction Cluster:					
Pass-Through Programs:					
Michigan Department of Transportation Highway Planning and Construction	20.205	20073112	\$ 19,047	\$ 123,899	\$ 142,946
Total Highway Planning and Construction Cluster			\$ 19,047	\$ 123,899	\$ 142,946
Highway Safety Cluster:					
Pass-Through Programs:					
Michigan Department of State Police					
State and Community Highway Safety	20.600	OP-10-03	\$ 171,135	\$	\$ 171,135
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-10-13		200,000	200,000
State Traffic Safety Information System Improvement Grants	20.610	EM-07-02	(985)		(985)
Child Safety and Child Booster Seats Incentive Grants	20.613	OP-10-05	105,358		105,358
Total Highway Safety Cluster			\$ 275,508	\$ 200,000	\$ 475,508
Total U.S. Department of Transportation			\$ 294,555	\$ 323,899	\$ 618,454
U.S. Environmental Protection Agency					
Direct Programs:					
Great Lakes Program	66.469		\$	\$	\$ 0
Science To Achieve Results (STAR) Research Program	66.509		(52,814)	214,885	162,071
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		377,062	40,812	417,874
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716		(1,694)	49,955	48,261
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802				0
Total U.S. Environmental Protection Agency			\$ 322,554	\$ 305,652	\$ 628,206
U.S. Department of Education					
Special Education Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
Special Education-Grants to States	84.027	100480	\$	\$ 2,440	\$ 2,440
Special Education-Grants to States	84.027	090450-0809	35,476		35,476
Special Education-Grants to States	84.027	100450	30,749		30,749
Special Education-Grants to States	84.027	100490	5,000		5,000
Special Education-Grants to States	84.027	110451-1011			0
Total Special Education Cluster			\$ 71,225	\$ 2,440	\$ 73,665
Early Intervention Services (IDEA) Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
Special Education-Grants for Infants and Families	84.181	091330/IACDCH	\$ (26,250)	\$ 4,959	\$ (21,291)
Special Education-Grants for Infants and Families	84.181	101330/IACDCH	81,730	66,896	148,626
Special Education-Grants for Infants and Families	84.181	111330 - IACDCH			0
Special Education-Grants for Infants and Families	84.181	09431010	(1,368)		(1,368)
Special Education-Grants for Infants and Families	84.181	10-431-012		10,000	10,000
Special Education-Grants for Infants and Families	84.181	11-431-007			0
Total Early Intervention Services (IDEA) Cluster			\$ 54,112	\$ 81,855	\$ 135,967
Pass-Through Programs:					
Michigan Department of Education					
Safe and Drug-Free Schools and Communities State Grants	84.186	Q186A080023	\$ 14,284	\$	\$ 14,284
Safe and Drug-Free Schools and Communities State Grants	84.186	Q186B080024	(95,132)		(95,132)
Total Safe and Drug-Free Schools and Communities State Grants			\$ (80,848)	\$ 0	\$ (80,848)
Total U.S. Department of Education			\$ 44,489	\$ 84,295	\$ 128,784

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 42,635	\$ 145,457	\$ 188,092	\$ 331,038
\$ 42,635	\$ 145,457	\$ 188,092	\$ 331,038
\$	\$	\$ 0	\$ 171,135
		0	200,000
		0	(985)
		0	105,358
\$ 0	\$ 0	\$ 0	\$ 475,508
\$ 42,635	\$ 145,457	\$ 188,092	\$ 806,546
\$ 110,842 (40,632)	\$ 71,971 30,772	\$ 182,813 (9,860)	\$ 182,813 152,211
383,642		383,642	801,516
	5,000	5,000	53,261
2,138	85,599	87,737	87,737
\$ 455,990	\$ 193,342	\$ 649,332	\$ 1,277,538
\$	\$ 4,000	\$ 4,000	\$ 6,440
27,902		0	35,476
		27,902	58,651
		0	5,000
25,705		25,705	25,705
\$ 53,607	\$ 4,000	\$ 57,607	\$ 131,272
\$	\$	\$ 0	\$ (21,291)
		0	148,626
80,246	65,076	145,322	145,322
		0	(1,368)
(17)		(17)	9,983
	10,000	10,000	10,000
\$ 80,229	\$ 75,076	\$ 155,305	\$ 291,272
\$	\$	\$ 0	\$ 14,284
		0	(95,132)
\$ 0	\$ 0	\$ 0	\$ (80,848)
\$ 133,836	\$ 79,076	\$ 212,912	\$ 341,696

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
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		\$ 436,958	\$ 11,194,213	\$ 11,631,171
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		741,259	19,676,815	20,418,074
Nutrition Services Incentive Program	93.053		(3,104)	7,442,118	7,439,014
ARRA - Aging Home-Delivered Nutrition Services for States	93.705		10,000	865,120	875,120
ARRA - Aging Congregate Nutrition Services for States	93.707		100,000	1,535,974	1,635,974
Total Aging Cluster			\$ 1,285,113	\$ 40,714,240	\$ 41,999,353
Immunization Cluster:					
Direct Program:					
Immunization Grants	93.268		\$ 1,840,623	\$ 6,085,968	\$ 7,926,591
ARRA - Immunization	93.712		8,773	1,138,168	1,146,941
Total Immunization Cluster			\$ 1,849,396	\$ 7,224,136	\$ 9,073,532
Temporary Assistance for Needy Families (TANF) Cluster:					
Pass-Through Program:					
Michigan Department of Human Services					
Temporary Assistance for Needy Families	93.558	DCH-09-IA-02	\$ (47,559)	\$	\$ (47,559)
Temporary Assistance for Needy Families	93.558	DCH-10-IA-09	18,823,938	2,965	18,826,903
Temporary Assistance for Needy Families	93.558	DCH 09-IA-14	(3,420)		(3,420)
Temporary Assistance for Needy Families	93.558	DCH-11-1/A-05			0
Total Temporary Assistance for Needy Families (TANF) Cluster			\$ 18,772,959	\$ 2,965	\$ 18,775,924
CCDF Cluster:					
Pass-Through Program:					
Michigan Department of Human Services					
Child Care and Development Block Grant	93.575	DCH 09-IA-07	\$ (42,143)	\$	\$ (42,143)
Child Care and Development Block Grant	93.575	DCH 10-IA-05		997,597	997,597
Total CCDF Cluster			\$ (42,143)	\$ 997,597	\$ 955,454
Head Start Cluster:					
Pass-Through Program:					
Michigan Department of Human Services					
Head Start	93.600	DCH 10-IA-02	\$ 15,765	\$	\$ 15,765
Head Start	93.600	DCH 10-IA-04	7,200		7,200
Total Head Start Cluster			\$ 22,965	\$ 0	\$ 22,965
Medicaid Cluster:					
Direct Program:					
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare Medical Assistance Program	93.777		\$ 9,652,582	\$ 393,360	\$ 10,045,942
ARRA - Medical Assistance Program	93.778		7,452,707,332	128,874,960	7,581,582,292
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	93.778		1,213,778,163	2,894,792	1,216,672,955
			134,456		134,456
Total Medicaid Cluster			\$ 8,676,272,533	\$ 132,163,112	\$ 8,808,435,645
Direct Programs:					
Public Health and Social Services Emergency Fund	93.003		\$ (21,236)	\$	\$ (21,236)
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006		1,044	133,450	134,494
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		(2,801)	163,699	160,898
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042		370,435	168,257	538,692
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043		(11,687)	705,681	693,994
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048		149,414	542,239	691,653
Alzheimer's Disease Demonstration Grants to States	93.051		(74,788)	318,281	243,493
National Family Caregiver Support, Title III, Part E	93.052		161,400	4,688,003	4,849,403
Public Health Emergency Preparedness	93.069		12,387,444	43,161,117	55,548,561
Environmental Public Health and Emergency Response	93.070		299,122	292,436	591,558
Medicare Enrollment Assistance Program	93.071			273,340	273,340

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 595,144	\$ 11,564,057	\$ 12,159,201	\$ 23,790,372
538,554	20,286,757	20,825,311	41,243,385
	7,267,382	7,267,382	14,706,396
		0	875,120
		0	1,635,974
<u>\$ 1,133,698</u>	<u>\$ 39,118,196</u>	<u>\$ 40,251,894</u>	<u>\$ 82,251,247</u>
\$ 1,844,675	\$ 6,726,277	\$ 8,570,952	\$ 16,497,543
99,529	1,746,685	1,846,214	2,993,155
<u>\$ 1,944,204</u>	<u>\$ 8,472,962</u>	<u>\$ 10,417,166</u>	<u>\$ 19,490,698</u>
\$ (50,609)		\$ 0	\$ (47,559)
		(50,609)	18,776,294
		0	(3,420)
<u>18,910,108</u>	<u>3,110</u>	<u>18,913,218</u>	<u>18,913,218</u>
<u>\$ 18,859,499</u>	<u>\$ 3,110</u>	<u>\$ 18,862,609</u>	<u>\$ 37,638,533</u>
\$ (44,244)		\$ 0	\$ (42,143)
		(44,244)	953,353
<u>\$ (44,244)</u>	<u>\$ 0</u>	<u>\$ (44,244)</u>	<u>\$ 911,210</u>
\$ 0	\$ 0	\$ 0	\$ 15,765
		0	7,200
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,965</u>
\$ 10,536,384	\$ 363,046	\$ 10,899,430	\$ 20,945,372
8,381,712,088	142,949,153	8,524,661,241	16,106,243,533
721,047,134	2,430,769	723,477,903	1,940,150,858
97,402		97,402	231,858
<u>\$ 9,113,393,008</u>	<u>\$ 145,742,968</u>	<u>\$ 9,259,135,976</u>	<u>\$ 18,067,571,621</u>
\$ (280)	\$	\$ (280)	\$ (21,516)
795	175,838	176,633	311,127
(534)	162,626	162,092	322,990
379,456	161,936	541,392	1,080,084
	692,606	692,606	1,386,600
26,432	224,807	251,239	942,892
(69,431)	518,284	448,853	692,346
126,843	4,801,809	4,928,652	9,778,055
7,352,540	18,511,579	25,864,119	81,412,680
363,082	495,015	858,097	1,449,655
	268,034	268,034	541,374

DEPARTMENT OF COMMUNITY HEALTH
 Schedule of Expenditures of Federal Awards (1)
 For the Period October 1, 2009 through September 30, 2011
 Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Emergency System for Advance Registration of Volunteer Health Professionals	93.089		\$	\$ 60,000	\$ 60,000
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092				0
Maternal and Child Health Federal Consolidated Programs	93.110		98,174	563,321	661,495
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		717,037	223,176	940,213
Emergency Medical Services for Children	93.127		123,068		123,068
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		(3)		(3)
Injury Prevention and Control Research and State and Community Based Programs	93.136		206,143	1,216,576	1,422,719
Projects for Assistance in Transition from Homelessness (PATH)	93.150		(15,866)	1,709,762	1,693,896
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		31,511	1,178,006	1,209,517
Health Program for Toxic Substances and Disease Registry	93.161				0
Grants to States for Loan Repayment Program	93.165		464,169		464,169
Disabilities Prevention	93.184		277,076	20,910	297,986
Childhood Lead Poisoning Prevention Projects State and Local					
Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		642,357	118,760	761,117
Family Planning Services	93.217		1,289,731	6,871,020	8,160,751
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)					
Traumatic Brain Injury State Demonstration Grant Program	93.224		115,426	149,800	265,226
Affordable Care Act (ACA) Abstinence Education Program	93.234		239,232		239,232
Grants for Dental Public Health Residency Training	93.235		22,243		22,243
State Capacity Building	93.236		(1,717)		(1,717)
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.240		379,892		379,892
Universal Newborn Hearing Screening	93.243		(3,676)	3,723,030	3,719,354
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.251		372,419	28,260	400,679
State Partnership Grant Program to Improve Minority Health	93.270				0
Small Rural Hospital Improvement Grant Program	93.283		13,407,847	9,539,123	22,946,970
ARRA - State Primary Care Offices	93.296				0
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.301		3,185	369,940	373,125
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.414		42,725		42,725
Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	93.505			9,400	9,400
93.518 - Affordable Care Act - Medicare Improvements for Patients and Providers	93.507				0
Centers for Disease Control and Prevention Affordable Care Act (ACA) Communities Putting Prevention to Work	93.512				0
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	93.520				0
State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges	93.521				0
Developmental Disabilities Basic Support and Advocacy Grants	93.525				0
ARRA - Preventing Healthcare-Associated Infections	93.630		1,252,624	1,120,426	2,373,050
ARRA - State Grants to Promote Health Information Technology	93.717		45,093	175,880	220,973
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.719		1,004,400		1,004,400
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.723		459,879	651,618	1,111,497
ARRA Health Information Technology and Public Health	93.725		946	98,248	99,194
Children's Health Insurance Program	93.729				0
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.767		112,631,573	58,796	112,690,369
	93.768		1,200,265	63,505	1,263,770

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For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 72,759	\$	\$ 72,759	\$ 132,759
105,222	3,171	108,393	108,393
458,281	874,172	1,332,453	1,993,948
864,074	198,467	1,062,541	2,002,754
128,587		128,587	251,655
		0	(3)
310,625	1,166,755	1,477,380	2,900,099
55,818	1,803,331	1,859,149	3,553,045
43,122	1,127,114	1,170,236	2,379,753
98,692	91,000	189,692	189,692
277,115		277,115	741,284
151,088	95,053	246,141	544,127
393,333	202,637	595,970	1,357,087
1,188,534	7,222,682	8,411,216	16,571,967
92,288	145,616	237,904	503,130
3,869	235,260	239,129	478,361
497,382	961,274	1,458,656	1,480,899
		0	(1,717)
351,871		351,871	731,763
684,383	904,211	1,588,594	5,307,948
222,632		222,632	623,311
62,977	44,853	107,830	107,830
11,621,386	9,742,006	21,363,392	44,310,362
	4,787	4,787	4,787
3,135	399,579	402,714	775,839
36,194		36,194	78,919
(726)	317,215	316,489	325,889
160,225	154,010	314,235	314,235
208,398	150,060	358,458	358,458
	181,406	181,406	181,406
	52,532	52,532	52,532
271,804	253,158	524,962	524,962
678,474		678,474	678,474
1,308,672	1,038,569	2,347,241	4,720,291
59,266	185,048	244,314	465,287
629,376	4,801,252	5,430,628	6,435,028
437,429	1,599,891	2,037,320	3,148,817
2,249	506,697	508,946	608,140
294,264		294,264	294,264
74,697,853	12,547	74,710,400	187,400,769
1,119,935		1,119,935	2,383,705

DEPARTMENT OF COMMUNITY HEALTH
 Schedule of Expenditures of Federal Awards (1)
 For the Period October 1, 2009 through September 30, 2011
 Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Centers for Medicare and Medicaid Services (CMS)					
Research, Demonstrations and Evaluations	93.779		\$ 550,991	\$ 1,828,884	\$ 2,379,875
Alternate Non-Emergency Service Providers or Networks	93.790		10,338	148,555	158,893
Money Follows the Person Rebalancing Demonstration	93.791		5,250,848		5,250,848
Medicaid Transformation Grants	93.793		811,872	157,203	969,075
National Bioterrorism Hospital Preparedness Program	93.889		1,991,959	12,073,273	14,065,232
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912		(104,618)	630,198	525,580
Grants to States for Operation of Offices of Rural Health	93.913		68,491	100,873	169,364
HIV Emergency Relief Project Grants	93.914				0
HIV Care Formula Grants	93.917		18,630,774	4,138,009	22,768,783
Healthy Start Initiative	93.926				0
Special Projects of National Significance	93.928		81,755		81,755
HIV Prevention Activities Health Department Based	93.940		901,468	6,460,425	7,361,893
HIV Demonstration, Research, Public and Professional Education Projects	93.941		119,043	289,901	408,944
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943				0
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		930,761	684,696	1,615,457
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		42,178	106,005	148,183
Block Grants for Community Mental Health Services	93.958		2,184,436	10,761,628	12,946,064
Block Grants for Prevention and Treatment of Substance Abuse	93.959		907,649	55,317,925	56,225,574
National All Schedules Prescription Electronic Reporting Grant	93.975		2,696	70,000	72,696
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977		1,727,459	1,090,958	2,818,417
Preventive Health and Health Services Block Grant	93.991		958,190	3,514,923	4,473,113
Maternal and Child Health Services Block Grant to the States	93.994		7,982,077	10,731,770	18,713,847
Part A Ryan White HIV/AIDS Treatment Modernization Act	93.252264 (3)		498,294		498,294
State Data Collection Contract (Synectics)	93.283-02-9026 (3)		80,763		80,763
State Data Collection Contract (Synectics)	93.283-07-4803 (3)		2,209		2,209
Mammography Quality Standards Act	93.HHSF223200740081C (3)		452,625		452,625
Tobacco Inspections	93.HHSF223201110085C (3)				0
Genotyping TB	93.200-2008-28200 (3)		528,313		528,313
Social Security Administration - Birth Record Contract	93.SS00-08-60039 (3)		264,947		264,947
Social Security Administration - Death Records	93.SS00-09-60016 (3)		39,371		39,371
Social Security Administration - Electronic Death Registration	93.SS00-05-60090 (3)		14,088		14,088
Vital Statistics - CDC NCHS Contract	93.200-2007-M-19937 (3)		570,422		570,422
National Death Index	93.200-2010-M-3387624997 (3)		73,428		73,428
National Death Index	93.200-2011-M-39324 (3)				0
Healthy Start, Grow Smart	93.HHSM-500-2004-00042C (3)		72,140		72,140
Child Maltreatment/RTI International	93.2-312-209772 (3)		2,087		2,087
Link and Analyze Data	93.200-2008-M-28096 (3)		31,955		31,955
PBB Reconsent	93.200-2008-M-28041 (3)		25,288		25,288
Expansion of Linkage of MCH Data	93.200-2009-M-29621 (3)		50,305		50,305
ARRA - SEARCH Contract	93.HHSH 250-2009-00033C (3)		30,487	110,000	140,487
Link Art Data with Vital Records	93.200-2010-M-36040 (3)				0
PBB Long Term Study	93.200-2011-M-38267 (3)				0
State Demo Dual Eligible	93.HHSM-500-2011-00034C (3)				0
Pregnancy Mortality Data	93.200-2010-M-36026 (3)				0
Total Direct Programs			\$ 194,049,189	\$ 186,611,286	\$ 380,660,475
Pass Through Programs:					
Association of Public Health Laboratories, Inc. Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	93.065	56400-200-306-10-10	\$	\$	\$ 0
Genetic Alliance					
Maternal and Child Health Federal Consolidated Programs	93.110	20093364	\$ 2,002	\$	\$ 2,002
Maternal and Child Health Federal Consolidated Programs	93.110	20102744	2,634		2,634
Total Maternal and Child Health Federal Consolidated Programs			\$ 4,636	\$ 0	\$ 4,636
University of Michigan Injury Prevention and Control Research and State and Community Based Programs	93.136	3001128380	\$ 35,839	\$	\$ 35,839

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2011			Total Expended and
Directly	Distributed to	Total Expended	Distributed for the
Expended	Subrecipients	and Distributed	Two-Year Period
\$ 522,023	\$ 2,381,798	\$ 2,903,821	\$ 5,283,696
(36,036)	72,053	36,017	194,910
7,462,196	25,971	7,488,167	12,739,015
2,599,813	314,879	2,914,692	3,883,767
2,124,546	10,850,312	12,974,858	27,040,090
(150,857)	561,443	410,586	936,166
72,920	50,425	123,345	292,709
499,779		499,779	499,779
11,234,396	4,654,075	15,888,471	38,657,254
(561)		(561)	(561)
		0	81,755
1,127,755	6,661,470	7,789,225	15,151,118
		0	408,944
481,800	868,621	1,350,421	1,350,421
1,292,486	863,124	2,155,610	3,771,067
42,131	70,000	112,131	260,314
2,121,188	12,328,171	14,449,359	27,395,423
1,060,113	54,548,712	55,608,825	111,834,399
(25,548)	111,755	86,207	158,903
338,307	2,462,642	2,800,949	5,619,366
442,174	2,706,053	3,148,227	7,621,340
7,539,520	9,800,118	17,339,638	36,053,485
		0	498,294
		0	80,763
87,648		87,648	89,857
470,095		470,095	922,720
350		350	350
577,444		577,444	1,105,757
280,239		280,239	545,186
28,311		28,311	67,682
		0	14,088
609,460		609,460	1,179,882
		0	73,428
46,425		46,425	46,425
		0	72,140
		0	2,087
(2,182)		(2,182)	29,773
		0	25,288
(1,003)		(1,003)	49,302
43,094	70,000	113,094	253,581
10,330	8,569	18,899	18,899
	16,468	16,468	16,468
127,542		127,542	127,542
4,840		4,840	4,840
<u>\$ 146,800,227</u>	<u>\$ 169,913,546</u>	<u>\$ 316,713,773</u>	<u>\$ 697,374,248</u>

\$ 971 \$ 971 \$ 971 \$ 971

\$ 366 \$ 0 \$ 366 \$ 5,002

\$ 106,037 \$ 106,037 \$ 141,876

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
National Association of State Mental Health Program Directors (NASMHPD) Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	20092950	\$ 15,244	\$ 8,969	\$ 24,213
Michigan State University Occupational Safety and Health Program	93.262	61-0405	\$ 115,299	\$	\$ 115,299
Occupational Safety and Health Program	93.262	61-0406MDCH	45,155		45,155
Total Occupational Safety and Health Program			\$ 160,454	\$ 0	\$ 160,454
Michigan State University Allergy, Immunology and Transplantation Research MSU National Children's Study Center	93.855 93.HHSN26720070034C (3)	61-0049MDCH 611407MD	\$	\$	\$ 0
			\$ (2,700)	\$ 87,057	\$ 84,357
University of Wisconsin Drug Abuse and Addiction Research Programs	93.279	X424852	\$ 132,853	\$	\$ 132,853
Association of State and Territorial Health Officials (ASTHO) Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	8220-07AST9.1	\$ 1,983	\$	\$ 1,983
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	16005/02-Michigan001-2122	89,963		89,963
Association of Public Health Laboratories, Inc. (APHL) Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	20103502	1,453		1,453
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	20112797			0
Council of State & Territorial Epidemiologists (CSTE) Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	20103467			0
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	20113362			0
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5U38HM000414-03			0
Alzheimer's Association Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	20110259			0
National Association of Chronic Disease Directors Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	1082011			0
Total Centers for Disease Control and Prevention - Investigations and Technical Assistance			\$ 93,399	\$ 0	\$ 93,399
Academy for Educational Development Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	20101917	\$ 0	\$ 60,000	\$ 60,000
Michigan Department of Human Services Child Support Enforcement	93.563	DCH 10-IA-12	\$ 507,093	\$	\$ 507,093
Child Support Enforcement	93.563	11-IA-03			0
Total Child Support Enforcement			\$ 507,093	\$ 0	\$ 507,093
Michigan Department of Human Services Community-Based Child Abuse Prevention Grants	93.590	11-431-007	\$	\$	\$ 0
Michigan Department of Human Services Child Abuse and Neglect State Grants	93.669	DCH 09-IA-14	\$ (5,474)	\$	\$ (5,474)
Child Abuse and Neglect State Grants	93.669	10-431-012		65,000	65,000
Child Abuse and Neglect State Grants	93.669	11-431-007			0
Total Child Abuse and Neglect State Grants			\$ (5,474)	\$ 65,000	\$ 59,526
State of Minnesota National Bioterrorism Hospital Preparedness Program	93.889	B40616/B56658	\$ 12,100	\$	\$ 12,100
Michigan Department of Education Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	092750/092770 CDC2009	\$ 46,677	\$	\$ 46,677

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 0	\$ 0	\$ 0	\$ 24,213
\$ 144,089		\$ 0	\$ 115,299
\$ 144,089	\$ 0	\$ 144,089	\$ 189,244
\$ 144,089	\$ 0	\$ 144,089	\$ 304,543
\$ 27,324		\$ 27,324	\$ 27,324
\$ 16,664	\$ 77,503	\$ 94,167	\$ 178,524
\$ (32,508)		\$ (32,508)	\$ 100,345
\$	\$	\$ 0	\$ 1,983
		0	89,963
32,867	5,550	38,417	39,870
6,180	9,700	15,880	15,880
94,407		94,407	94,407
2,265		2,265	2,265
	6,553	6,553	6,553
	20,500	20,500	20,500
	20,000	20,000	20,000
\$ 135,719	\$ 62,303	\$ 198,022	\$ 291,421
\$ 0	\$ 40,000	\$ 40,000	\$ 100,000
\$ 582,796		\$ 0	\$ 507,093
\$ 582,796	\$ 0	\$ 582,796	\$ 582,796
\$ 582,796	\$ 0	\$ 582,796	\$ 1,089,889
\$ 4,198	\$ 9,551	\$ 13,749	\$ 13,749
\$ (113)		\$ 0	\$ (5,474)
		(113)	64,887
	65,000	65,000	65,000
\$ (113)	\$ 65,000	\$ 64,887	\$ 124,413
\$ 17,574		\$ 17,574	\$ 29,674
\$	\$	\$ 0	\$ 46,677

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	102770-CSHP2010 102750-HIV2010	\$ 60,049	\$	\$ 60,049
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	112770-CSHP2011 112750-HIV2011			0
Total Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			\$ 106,726	\$ 0	\$ 106,726
American College of Obstetricians and Gynecologists HIV Demonstration, Research, Public and Professional Education Projects	93.941	20112300	\$	\$	\$ 0
State of Illinois Assistance Programs for Chronic Disease Prevention and Control	93.945	93285005	\$ (15)	\$	\$ (15)
Assistance Programs for Chronic Disease Prevention and Control	93.945	03285004		15,000	15,000
National Association of State & Territorial Chronic Disease Program Directors (NACDD) Assistance Programs for Chronic Disease Prevention and Control	93.945	20101914	80,000		80,000
Total Assistance Programs for Chronic Disease Prevention and Control			\$ 79,985	\$ 15,000	\$ 94,985
Wayne State University SEER Data	93.N01 PC 35145 (3)	N01 PC 35145	\$ 57,196	\$	\$ 57,196
Magna Systems New Freedom Initiative Financial Support	93.820027 (3)		\$ 14,033	\$	\$ 14,033
Northrop Grumman Fetal Alcohol Disorder Prevention	93.283-07-3000 (3)	7500027045	\$ 29,348	\$ 272,000	\$ 301,348
Battelle Memorial HPV Prevalence Study	93.200-2002-00573 (3)	213643	\$ 14,992	\$	\$ 14,992
HPV Prevalence Study	93.200-2008-27956 (3)	226793	61,500		61,500
Total HPV Prevalence Study			\$ 76,492	\$ 0	\$ 76,492
University of Utah Novel Technologies in Newborn Screening	93.20112942 (3)	10019195-02	\$ 0	\$ 0	\$ 0
McKInG Consulting Corporation Genetic Services	93.200-2003-01396 (3)	2010-128	\$ 3,780	\$	\$ 3,780
Genetic Services	93.20113803 (3)	4554			0
Total Genetic Services			\$ 3,780	\$ 0	\$ 3,780
Safe States Field Triage State Implementation	93.200-2009-3175 (3)	200-2009-3175	\$	\$	\$ 0
National Association of State Offices of Minority Health NASOMH NPA Implementation Initiative	93.HHSP233200600186U (3)	HHSP233200600186U	\$	\$	\$ 0
Total Pass-Through Programs			\$ 1,321,004	\$ 508,026	\$ 1,829,030
Total U.S. Department of Health and Human Services			\$ 8,893,531,016	\$ 368,221,362	\$ 9,261,752,378
U.S. Department of Homeland Security					
Homeland Security Cluster:					
Pass-Through Programs:					
Michigan Department of State Police Homeland Security Grant Program	97.067	2010-SS-T0-0009	\$	\$	\$ 0
Total Homeland Security Cluster			\$ 0	\$ 0	\$ 0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 50,950	\$	\$ 50,950	\$ 110,999
<u>69,796</u>		<u>69,796</u>	<u>69,796</u>
\$ 120,746	\$ 0	\$ 120,746	\$ 227,472
\$	\$ 13,136	\$ 13,136	\$ 13,136
\$	\$	\$ 0	\$ (15)
(41)		(41)	14,959
		0	80,000
\$ (41)	\$ 0	\$ (41)	\$ 94,944
\$	\$	\$ 0	\$ 57,196
\$ 44,360	\$	\$ 44,360	\$ 58,393
\$ 30,073	\$ 271,381	\$ 301,454	\$ 602,802
\$	\$	\$ 0	\$ 14,992
		0	61,500
\$ 0	\$ 0	\$ 0	\$ 76,492
\$ 108,169	\$ 0	\$ 108,169	\$ 108,169
\$	\$	\$ 0	\$ 3,780
4,498	12,578	17,076	17,076
\$ 4,498	\$ 12,578	\$ 17,076	\$ 20,856
\$ 394	\$ 15,000	\$ 15,394	\$ 15,394
\$	\$ 10,000	\$ 10,000	\$ 10,000
\$ 1,311,316	\$ 576,452	\$ 1,887,768	\$ 3,716,798
\$ 9,283,397,708	\$ 363,827,234	\$ 9,647,224,942	\$ 18,908,977,320
\$ 100,000	\$	\$ 100,000	\$ 100,000
\$ 100,000	\$ 0	\$ 100,000	\$ 100,000

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2010		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Programs:					
Michigan Department of State Police Emergency Management Performance Grants	97.042	20112735	\$	\$	\$ 0
Michigan Department of State Driver's License Security Grant Program	97.089	2008-ID-T8-0031	538,245	64,660	602,905
Total Pass-Through Programs			<u>\$ 538,245</u>	<u>\$ 64,660</u>	<u>\$ 602,905</u>
Total U.S. Department of Homeland Security			<u>\$ 538,245</u>	<u>\$ 64,660</u>	<u>\$ 602,905</u>
Total Financial Assistance			\$ 9,030,804,819	\$ 438,000,821	\$ 9,468,805,640
Nonfinancial Assistance					
U.S. Department of Agriculture					
Child Nutrition Cluster:					
Direct Program:					
Michigan Department of Education National School Lunch Program	10.555		\$ 8,289	\$	\$ 8,289
Total Child Nutrition Cluster			<u>\$ 8,289</u>	<u>\$ 0</u>	<u>\$ 8,289</u>
Total U.S. Department of Agriculture			<u>\$ 8,289</u>	<u>\$ 0</u>	<u>\$ 8,289</u>
U.S. Department of Health and Human Services					
Immunization Cluster:					
Direct Programs:					
Immunization Grants	93.268		\$ 97,190,686	\$	\$ 97,190,686
ARRA - Immunization	93.712		4,598,116		4,598,116
Total Immunization Cluster			<u>\$ 101,788,802</u>	<u>\$ 0</u>	<u>\$ 101,788,802</u>
Direct Programs:					
Public Health Emergency Preparedness	93.069		\$	\$	\$ 0
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977		51,139		51,139
Total Direct Programs			<u>\$ 51,139</u>	<u>\$ 0</u>	<u>\$ 51,139</u>
Total U.S. Department of Health and Human Services			<u>\$ 101,839,941</u>	<u>\$ 0</u>	<u>\$ 101,839,941</u>
Total Nonfinancial Assistance (4)			\$ 101,848,230	\$ 0	\$ 101,848,230
Total Expenditures of Federal Awards			<u>\$ 9,132,653,049</u>	<u>\$ 438,000,821</u>	<u>\$ 9,570,653,870</u>

(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 U.S. Office of Management and Budget (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) CFDA number is not available. Number derived from federal agency number and federal contract or grant number.

(4) The basis used to determine the value of the nonfinancial assistance is as follows:

CFDA Number	
10.555	U.S. Department of Agriculture Food Distribution Recipient Entitlement Balance Report
93.069	Notice of Grant Award
93.268	Centers for Disease Control and Prevention's National Immunization Program Vaccine System
93.712	Centers for Disease Control and Prevention's National Immunization Program Vaccine System
93.977	Notice of Grant Award

For the Fiscal Year Ended September 30, 2011			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 3,879	\$	\$ 3,879	\$ 3,879
19,486		19,486	622,391
<u>\$ 23,365</u>	<u>\$ 0</u>	<u>\$ 23,365</u>	<u>\$ 626,270</u>
\$ 123,365	\$ 0	\$ 123,365	\$ 726,270
\$ 9,421,505,421	\$ 440,102,157	\$ 9,861,607,578	\$ 19,330,413,218

\$ 7,371	\$	\$ 7,371	\$ 15,660
<u>\$ 7,371</u>	<u>\$ 0</u>	<u>\$ 7,371</u>	<u>\$ 15,660</u>
\$ 7,371	\$ 0	\$ 7,371	\$ 15,660

\$ 93,599,262	\$	\$ 93,599,262	\$ 190,789,948
		0	4,598,116
<u>\$ 93,599,262</u>	<u>\$ 0</u>	<u>\$ 93,599,262</u>	<u>\$ 195,388,064</u>

\$ 108,875	\$	\$ 108,875	\$ 108,875
76,410		76,410	127,549
<u>\$ 185,285</u>	<u>\$ 0</u>	<u>\$ 185,285</u>	<u>\$ 236,424</u>
\$ 93,784,547	\$ 0	\$ 93,784,547	\$ 195,624,488
\$ 93,791,918	\$ 0	\$ 93,791,918	\$ 195,640,148
<u>\$ 9,515,297,339</u>	<u>\$ 440,102,157</u>	<u>\$ 9,955,399,496</u>	<u>\$ 19,526,053,366</u>

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. Olga Dazzo, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Dazzo:

We have audited the financial schedules of the Department of Community Health for the fiscal years ended September 30, 2011 and September 30, 2010, as identified in the table of contents, and have issued our report thereon dated June 15, 2012. 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

Management of the Department is responsible for establishing and maintaining effective 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.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

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*.

This report is intended solely for the information and use of the Governor, the Legislature, management, others within the Department, 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.

Sincerely,



Thomas H. McTavish, C.P.A.

Auditor General

June 15, 2012



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 That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Ms. Olga Dazzo, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Dazzo:

Compliance

We have audited the Department of Community Health's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the two-year period ended September 30, 2011. 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 of its major federal programs 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 preceding 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 Finding 5 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding eligibility that are applicable to its Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Department of Community Health did not comply, in all material respects, with the requirements referred to in the first paragraph that could have a direct and material effect on the Medicaid Cluster. Also, in our opinion, the Department of Community Health complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its other major federal programs for the two-year period ended September 30, 2011. 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 in Findings 1 through 4, 6, 7, and 9 through 12.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 5 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 1, 2, 4, and 6 through 12 to be significant deficiencies.

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 the Governor, the Legislature, management, others within the Department, 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.

Sincerely,



Thomas H. McTavish, C.P.A.

Auditor General

June 15, 2012

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?	No
Significant deficiencies* identified?	None reported
Noncompliance or other matters material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified?	Yes

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

Unqualified for all major programs except for the Medicaid Cluster, which is adverse*.

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
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Identification of major programs:

<u>CFDA* Number</u>	<u>Name of Federal Program or Cluster*</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
	<u>Aging Cluster:</u>
93.044	• Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers
93.045	• Special Programs for the Aging - Title III, Part C - Nutrition Services
93.053	• Nutrition Services Incentive Program
93.705	• ARRA* - Aging Home-Delivered Nutrition Services for States
93.707	• ARRA - Aging Congregate Nutrition Services for States

* See glossary at end of report for definition.

93.069	Public Health Emergency Preparedness
	<u>Immunization Cluster:</u>
93.268	• Immunization Grants
93.712	• ARRA - Immunization
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance
	<u>Temporary Assistance for Needy Families (TANF) Cluster:</u>
93.558	• Temporary Assistance for Needy Families
93.767	Children's Health Insurance Program
	<u>Medicaid Cluster:</u>
93.720	• ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative
93.777	• State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	• Medical Assistance Program
93.778	• ARRA - Medical Assistance Program
93.917	HIV Care Formula Grants
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

We did not report any findings related to the financial schedules.

* See glossary at end of report for definition.

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

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

FINDING (3911201)

1. Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557

U.S. Department of Agriculture	CFDA 10.557: Special Supplemental Nutrition Program for Women, Infants, and Children
Award Number: 2MI700003	Award Period: 10/01/2010 - 09/30/2011
	Known Questioned Costs: \$0

* See glossary at end of report for definition.

The Department of Community Health's (DCH's) internal control over the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) did not ensure compliance with federal laws and regulations regarding reporting.

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.

Federal expenditures for the WIC Program totaled \$356.0 million for the two-year period ended September 30, 2011, including \$89.4 million that was distributed to subrecipients*.

Title 2, Part 170 of the *Code of Federal Regulations (CFR)* implemented the Federal Funding Accountability and Transparency Act of 2006 (FFATA) requirements for reporting information on subawards. Federal regulation 2 *CFR* 170, Appendix A, requires that recipients must report, on the federal Web site, each action that obligates \$25,000 or more in federal funds by the end of the month following the month in which the subaward was made.

Our review of DCH's FFATA reporting process disclosed that DCH did not report the WIC Program subaward information on the federal Web site on a timely basis. During fiscal year 2010-11, DCH made subawards that required reporting by January 31, 2011, May 31, 2011, and June 30, 2011. However, DCH did not report information for these WIC Program subawards on the federal Web site until August 16, 2011.

RECOMMENDATION

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

* See glossary at end of report for definition.

FINDING (3911202)

2. Aging Cluster, CFDA 93.044, 93.045, 93.053, 93.705 (ARRA), and 93.707 (ARRA)

U.S. Department of Health and Human Services	Aging Cluster: <i>CFDA 93.044: Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers</i> <i>CFDA 93.045: Special Programs for the Aging - Title III, Part C - Nutrition Services</i> <i>CFDA 93.053: Nutrition Services Incentive Program</i> <i>CFDA 93.705: ARRA - Aging Home-Delivered Nutrition Services for States</i> <i>CFDA 93.707: ARRA - Aging Congregate Nutrition Services for States</i>
Award Number: 10AAMIT3SP 10AAMINSIP 11AAMIT3SP 11AAMINSIP 09AAMIC1RR 09AAMIC2RR	Award Period: 10/01/2009 - 09/30/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2010 - 09/30/2011 03/17/2009 - 09/30/2010 03/18/2009 - 09/30/2010
	Known Questioned Costs: \$0

DCH's internal control over the Aging Cluster did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment and reporting.

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

Federal expenditures for the Aging Cluster totaled \$82.3 million for the two-year period ended September 30, 2011, including \$79.8 million that was distributed to 16 subrecipients.

Our exceptions, by compliance area, are as follows:

a. Procurement and Suspension and Debarment

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

Federal regulation 2 *CFR* 180.300 requires DCH to verify that an entity is not suspended or debarred from participating in federally funded grants by checking the federal Excluded Parties List System, collecting a certification from that entity, or adding a clause or condition to the grant with that entity. DCH's internal control did not include procedures to ensure that subrecipients were not suspended or debarred.

We reviewed the federal Excluded Parties List System and verified that none of the 16 Aging Cluster subrecipients were suspended or debarred. As a result, we have not reported any questioned costs for this item.

b. Reporting

DCH's internal control did not ensure that it complied with FFATA reporting requirements.

Federal regulation 2 *CFR* 170 implemented the FFATA requirements for reporting information on subawards. Federal regulation 2 *CFR* 170, Appendix A, requires that recipients must report, on the federal Web site, each action that obligates \$25,000 or more in federal funds by the end of the month following the month in which the subaward was made.

Our review of DCH's FFATA reporting process disclosed that DCH did not report Aging Cluster subaward information on the federal Web site on a timely basis. During fiscal year 2010-11, DCH made subawards that required reporting by November 30, 2010, April 30, 2011, and July 31, 2011. However, DCH did not report Aging Cluster subaward information on the federal Web site until October 2011 and November 2011.

RECOMMENDATION

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

FINDING (3911203)

3. Children's Health Insurance Program, CFDA 93.767

U.S. Department of Health and Human Services	CFDA 93.767: Children's Health Insurance Program
Award Number: 05-0905MICPBP 05-1005MI5021 05-1005MICPBP 05-1105MI5021	Award Period: 10/01/2008 - 09/30/2009 10/01/2009 - 09/30/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2012
	Known Questioned Costs: \$1,922

DCH did not comply with federal laws and regulations regarding eligibility for the Children's Health Insurance Program (CHIP). As a result, we identified known questioned costs of \$1,922.

Federal expenditures for CHIP totaled \$187.4 million for the two-year period ended September 30, 2011.

Our review disclosed:

- a. DCH did not maintain the application to support client eligibility for 1 (3%) of 39 expenditures reviewed. DCH informed us that the application had been inadvertently purged from its files.
- b. DCH incurred an expenditure for services provided to a client after the client's eligibility had been terminated for 1 (3%) of 39 expenditures reviewed.

To ensure that individuals meet requirements for CHIP, federal regulation 42 *CFR* 457.965 requires DCH to maintain case file documentation to support decisions on eligibility. If case file documentation is not maintained, DCH cannot demonstrate that it is in compliance with established eligibility policies and procedures and, therefore, DCH cannot ensure that payments were made on behalf of eligible individuals.

We reported a similar condition in our prior single audit. DCH indicated that it would work with the Department of Human Services (DHS) to require that Medicaid Eligibility Quality Control (MEQC) staff track and report missing documentation as

part of their annual review, which would allow DCH to monitor the issue and develop corrective measures, if necessary.

RECOMMENDATION

We recommend that DCH comply with federal laws and regulations regarding eligibility for CHIP.

FINDING (3911204)

4. Medicaid Cluster, CFDA 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles

U.S. Department of Health and Human Services	Medicaid Cluster: <i>CFDA 93.720</i> : ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative <i>CFDA 93.777</i> : State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare <i>CFDA 93.778</i> : Medical Assistance Program <i>CFDA 93.778</i> : ARRA - Medical Assistance Program
Award Number: 05-0805MI5028 05-0905MI5028 05-0905MI5028 05-0805MI5048 05-0905MI5048 05-1005-MI-5000 05-1105-MI-5000 05-1005-MI-5001 05-1105-MI-5001 05-1005MI5ADM 05-1105MI5ADM 05-1005MI5MAP 05-1005MI5MAP 05-1105MI5MAP 05-1005MIMDSH 05-0905MIARRA 05-1005MIARRA 05-1105MIARRA 05-1105MIEXTN 05-1005MIQUAL 05-1105MIQUAL	Award Period: 10/01/2009 - 03/31/2010 10/01/2005 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2010 - 03/31/2011 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2005 - 09/30/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 03/31/2011 01/01/2011 - 06/30/2011 01/01/2010 - 09/30/2010 10/01/2010 - 09/30/2011
	Known Questioned Costs: \$16,978

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we identified known questioned costs totaling \$16,978.

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 \$18.1 billion for the two-year period ended September 30, 2011.

DCH's internal control did not ensure that Medicaid Cluster expenditures met the allowable cost principles of Appendix A of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (federal regulation 2 CFR 225). Our review of Medicaid expenditures regarding allowable costs/cost principles during the audit period disclosed:

- a. DCH's internal control did not ensure that it pursued available discounts on monthly payments to a contracted vendor for 21 (88%) of 24 months during fiscal years 2010-11 and 2009-10. As a result, we questioned costs of \$16,979. According to the contract with this vendor, if DCH remits payment within 15 days, it is to receive a 1% discount on the total invoice amount. Although DCH often paid its invoices within this time frame, its payment amounts were not net of the available discount.
- b. DCH's internal control did not ensure that proper payments were made for fee-for-service ambulatory outpatient hospital services provided for 2 (3%) of 66 sampled Medicaid expenditures. As a result, we identified questioned costs totaling \$3. After we informed DCH of this issue, it identified total hospital overpayments in the amount of \$285,023.

At the time of payment, DCH used the most recent published ambulatory outpatient hospital rates available. On March 26, 2010 (subsequent to payment), new rates, with a retroactive effective date of January 1, 2010, were published and uploaded onto DCH's Medicaid payment processing system (the Community Health Automated Medicaid Processing System [CHAMPS]). However, DCH did not re-adjudicate the claims that were previously paid for dates of service from January 2010 through March 2010.

- c. DCH did not ensure that proper payments were made for 1 (25%) of 4 pharmacy expenditures reviewed. As a result, we identified negative questioned costs of \$4. After we informed DCH of this issue, it identified additional pharmacy payments to be made in the amount of \$176,190.

DCH contracted with a pharmacy benefits manager (PBM) to provide pharmacy claims payment (paper and electronic), claims instructions, and maximum allowable cost rate setting services. The Medicaid Provider Manual (Pharmacy Chapter, Section 13) indicates that pharmaceutical reimbursement is the lower of the usual and customary charge or DCH's product cost payment limits and a dispensing fee minus the beneficiary copayment. Product cost payment limits are based on the national drug code. Reimbursement is the lower of the average wholesale price minus a discount, the wholesale acquisition cost markup, the maximum allowable cost, or the provider's charge. A different discount percentage is used for a chain pharmacy versus an independent pharmacy.

Based on the pharmacy reimbursement policy, the PBM created business rules to process the claims and pay the appropriate amount as described in policy. The error occurred because the business rule used to process the claims did not distinguish between a chain pharmacy and an independent pharmacy. DCH indicated that as of April 1, 2010, the business rule did not include the pharmacy classification code. Instead, all claims adjudicated under this business rule were adjudicated as a chain pharmacy.

- d. DCH did not make payments to a specific group of hospitals for graduate medical education (GME) and disproportionate share hospital (DSH) payments in accordance with the Medicaid State Plan timeliness requirements. According to the State Plan, GME payments are to be made quarterly in four equal payments and DSH payments are to be made annually in a single distribution. During fiscal year 2010-11, DCH advanced GME payments for two quarters, in the amount of \$8.1 million, to a specific group of hospitals. During fiscal year 2009-10, DCH also made DSH payments to the same group of hospitals, in the amount of \$23.1 million, ten months before DSH payments were made to all remaining hospitals.

Appendix A, section C(2) of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires costs to be reasonable. Further, it states that, in determining reasonableness, consideration should be given to the restraints or requirements imposed by such factors as terms and conditions of the federal award. Medicaid federal award agreements state that expenditures are to be made in accordance with the federally approved Medicaid State Plan.

- e. DCH's internal control did not ensure that it included all pregnancy and birthing-related Medicaid costs, such as maternal support services costs, in its third party cost reports to the Friend of the Court (FOC) or local prosecuting attorney (PA) office responsible for establishing paternity and for seeking court-ordered child support. Federal regulation 42 *CFR* 433.138 requires DCH to develop a methodology for identifying third parties, determining third party liabilities, and recovering reimbursement from third parties for services paid for under the Medicaid State Plan. Also, Section 722.712 of the *Michigan Compiled Laws* allows for the father of a child not born to a marriage to be charged for up to 100% of the mother's pregnancy and birthing-related Medicaid costs.

According to DCH's Paternity Casualty Recovery System, we noted that DCH reported most pregnancy and birthing-related Medicaid costs, in the amount of \$155.7 million during our audit period, but it did not identify and report additional pregnancy and birthing-related costs, such as prenatal care risk assessments or preventive counseling, in the amount of \$2.1 million during the audit period. It is important for DCH to report all pregnancy and birthing-related Medicaid costs to maximize potential third party recoveries.

We reported the same condition in our prior single audit. DCH indicated that it agreed that it did not include some pregnancy and birthing-related Medicaid costs in its reports to the PA and FOC offices. DCH further indicated that maternal support services costs are rarely reimbursed by private insurance and, as a result, DCH includes in its reports only those pregnancy and birthing-related costs that are routinely reimbursed by private insurance.

RECOMMENDATION

We again 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 (3911205)

5. Medicaid Cluster, CFDA 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Eligibility

U.S. Department of Health and Human Services	Medicaid Cluster: <i>CFDA 93.720</i> : ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative <i>CFDA 93.777</i> : State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare <i>CFDA 93.778</i> : Medical Assistance Program <i>CFDA 93.778</i> : ARRA - Medical Assistance Program
Award Number: 05-0805MI5028 05-0905MI5028 05-0905MI5028 05-0805MI5048 05-0905MI5048 05-1005-MI-5000 05-1105-MI-5000 05-1005-MI-5001 05-1105-MI-5001 05-1005MI5ADM 05-1105MI5ADM 05-1005MI5MAP 05-1005MI5MAP 05-1105MI5MAP 05-1005MIMDSH 05-0905MIARRA 05-1005MIARRA 05-1105MIARRA 05-1105MIEXTN 05-1005MIQUAL 05-1105MIQUAL	Award Period: 10/01/2009 - 03/31/2010 10/01/2005 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2010 - 03/31/2011 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2005 - 09/30/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 03/31/2011 01/01/2011 - 06/30/2011 01/01/2010 - 09/30/2010 10/01/2010 - 09/30/2011
	Known Questioned Costs: \$16,692

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding eligibility. Our review disclosed a material

weakness in internal control and material noncompliance* with the eligibility compliance requirement. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Medicaid Cluster. We also identified known questioned costs totaling \$16,692.

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

Title XIX of the Social Security Act, enacted in 1965, authorizes federal grants to states for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children. Within broad federal rules, each state decides Medicaid eligible groups, types and range of services, payment levels for services, and administrative and operating procedures. DCH has developed policies and procedures to establish eligibility requirements for these eligible groups. DCH has an interagency agreement with DHS, which contains the specific responsibilities of each agency. DHS is responsible for determining beneficiary eligibility in accordance with eligibility requirements defined in jointly approved DCH and DHS policies.

To ensure that individuals meet financial and categorical requirements for Medicaid, federal regulation 42 *CFR* 435.913 requires that case file documentation be maintained to support the eligibility decision, such as a signed request for assistance application (DHS-1171). If case file documentation is not maintained, DCH cannot demonstrate that it is in compliance with established eligibility policies and procedures and, therefore, DCH cannot ensure that payments were made to eligible individuals.

DCH did not ensure or demonstrate compliance with federal laws and regulations relating to beneficiary eligibility for Medicaid services for 19 (29%) of 66 Medicaid cases. The federal share of expenditures related to the 19 cases, for our sampled dates of service, totaled \$16,692. Our review disclosed:

- a. Beneficiary eligibility was not determined in accordance with eligibility requirements for 3 (5%) of 66 cases reviewed.
- b. Case file documentation to support beneficiary eligibility was not maintained for 16 (24%) of 66 cases reviewed.

* See glossary at end of report for definition.

We reported the same condition in our prior single audit. DCH indicated that it would work with DHS to require that MEQC staff track and report missing documentation as part of their annual review, which would allow DCH to monitor the issue and develop corrective measures, if necessary.

RECOMMENDATION

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

FINDING (3911206)

6. Medicaid Cluster, CFDA 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Reporting

U.S. Department of Health and Human Services	Medicaid Cluster: <i>CFDA 93.720:</i> ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative <i>CFDA 93.777:</i> State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare <i>CFDA 93.778:</i> Medical Assistance Program <i>CFDA 93.778:</i> ARRA - Medical Assistance Program
Award Number: 05-0805MI5028 05-0905MI5028 05-0905MI5028 05-0805MI5048 05-0905MI5048 05-1005-MI-5000 05-1105-MI-5000 05-1005-MI-5001 05-1105-MI-5001 05-1005MI5ADM 05-1105MI5ADM 05-1005MI5MAP 05-1005MI5MAP 05-1105MI5MAP 05-1005MIMDSH 05-0905MIARRA 05-1005MIARRA 05-1105MIARRA 05-1105MIEXTN 05-1005MIQUAL 05-1105MIQUAL	Award Period: 10/01/2009 - 03/31/2010 10/01/2005 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2010 - 03/31/2011 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2005 - 09/30/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 03/31/2011 01/01/2011 - 06/30/2011 01/01/2010 - 09/30/2010 10/01/2010 - 09/30/2011
	Known Questioned Costs: \$0

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

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* 431.16 requires DCH to submit its quarterly cash transactions (PSC-272) report, which identifies cash activity for the Medical Assistance Program. It also requires DCH to submit its quarterly statement of expenditures (CMS-64) report, which reports several items, such as expenditures and third party recoveries. Federal regulation 2 *CFR* 170 implemented the FFATA requirements for reporting information on subawards. Federal regulation 2 *CFR* 170, Appendix A, requires that recipients must report, on the federal Web site, each action that obligates \$25,000 or more in federal funds by the end of the month following the month in which the subaward was made.

Our review of DCH's reporting procedures disclosed:

- a. DCH needs to improve its internal control to ensure that it documents approval for internal journal vouchers (IJVs). During the audit period, DCH did not document supervisory approval for 4 (50%) of 8 quarterly IJV draw reports. These IJVs are used to reconcile cash on hand, which is reported in DCH's PSC-272 reports. DCH's internal control requires a DCH manager to review all IJVs and the supporting documentation.

We reported a similar condition in our prior single audit. DCH stated in its corrective action plan in the prior single audit that it would modify its Journal Voucher Approval policy to incorporate management review and approval of all IJVs. However, DCH did not completely correct the deficiency.

- b. DCH did not have controls in place to ensure that it accurately reported Medicaid payments recovered from providers for services identified by DCH's Third Party Liability Division. During the audit period, DCH's CMS-64 reports identified only \$41.5 million in third party recoveries, although DCH's Third Party Liability Division activity report showed that it had recovered \$50.7 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.

We reported the same condition in the prior two single audits. DCH stated in its corrective action plan in the prior single audit that its accounting staff would work with the Third Party Liability Division staff to develop a process for ensuring that Medicare recoveries are accurately reported on the CMS-64. However, DCH did not correct the deficiency.

- c. DCH's internal control did not ensure that it complied with FFATA reporting requirements. DCH did not report Medicaid subaward information on the federal Web site on a timely basis. During fiscal year 2010-11, DCH made subawards that required reporting by November 30, 2010, February 28, 2011, May 31, 2011, and August 31, 2011. However, DCH did not report Medicaid subaward information on the federal Web site until February 2012.

RECOMMENDATION

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

FINDING (3911207)

7. Medicaid Cluster, CFDA 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Utilization Control and Program Integrity

U.S. Department of Health and Human Services	<p>Medicaid Cluster:</p> <p><i>CFDA 93.720</i>: ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative</p> <p><i>CFDA 93.777</i>: State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</p> <p><i>CFDA 93.778</i>: Medical Assistance Program</p> <p><i>CFDA 93.778</i>: ARRA - Medical Assistance Program</p>
<p>Award Number:</p> <p>05-0805MI5028</p> <p>05-0905MI5028</p> <p>05-0905MI5028</p> <p>05-0805MI5048</p> <p>05-0905MI5048</p> <p>05-1005-MI-5000</p> <p>05-1105-MI-5000</p> <p>05-1005-MI-5001</p> <p>05-1105-MI-5001</p> <p>05-1005MI5ADM</p> <p>05-1105MI5ADM</p> <p>05-1005MI5MAP</p> <p>05-1005MI5MAP</p> <p>05-1105MI5MAP</p> <p>05-1005MIMDSH</p> <p>05-0905MIARRA</p> <p>05-1005MIARRA</p> <p>05-1105MIARRA</p> <p>05-1105MIEXTN</p> <p>05-1005MIQUAL</p> <p>05-1105MIQUAL</p>	<p>Award Period:</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2005 - 09/30/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2010 - 03/31/2011</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2005 - 09/30/2010</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 03/31/2011</p> <p>01/01/2011 - 06/30/2011</p> <p>01/01/2010 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p>
	Known Questioned Costs: Undeterminable

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to utilization control and program integrity.

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 DCH's Medicaid utilization control and program integrity procedures disclosed:

- a. DCH did not ensure that periodic audits of Medicaid pharmacy claims were completed. Federal regulation 42 *CFR* 456.22 requires DCH to have procedures for the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid Services.

DCH did not contract for pharmacy claims to be audited and did not conduct pharmacy claim audits itself from April 1, 2010 through September 30, 2011. The amount of pharmacy claims paid by Medicaid during this time totaled \$892.5 million.

- b. DCH's explanation of benefits (EOB) procedures did not ensure compliance with federal regulation 42 *CFR* 455.20, which requires DCH to have a method for verifying with beneficiaries whether services billed by providers were received. Our review disclosed:

- (1) DCH did not send out EOB letters for paid claims data every 45 days as required by federal regulation 42 *CFR* 433.116. DCH informed us that it was unable to produce and send EOB letters from December 1, 2009 through April 30, 2010 because of the conversion to CHAMPS. As of May 1, 2010, DCH was capable of producing and sending EOB letters; however, it did not run retroactive EOB letters for the claims paid from October 1, 2009 through April 30, 2010.

- (2) DCH did not retain and analyze undeliverable EOB letters from October 1, 2009 through July 31, 2011. Instead, DCH shredded the undeliverable EOB letters. The undeliverable EOB letters might have been used to identify improper billing by providers for falsified or nonexistent persons.

- (3) DCH did not require contracted prepaid inpatient health plans (PIHPs) to send EOB letters to plan enrollees and beneficiaries for services performed by health plan participating providers during the audit period. According to the fiscal year 2010-11 contract between DCH and the PIHPs, DCH assembled a workgroup to develop a program integrity process to verify claimed services provided, including EOB letters for beneficiaries, to meet the Centers for Medicare and Medicaid Services (CMS) audit requirements; however, implementation of an EOB letter process did not occur during the audit period.

We reported the same condition in our prior single audit. DCH indicated in its corrective action plan that it would review the federal regulations to determine what, if any, action is required. DCH further indicated that it would develop language to include in its contracts with the PIHPs to address the issue and that appropriate entities within DCH would work together to ensure that requirements are met and that there is a consistent process across the department.

- c. DCH's Surveillance and Utilization Review System (SURS) review process did not ensure compliance with federal regulation 42 *CFR* 456.23, which requires that DCH have a post-payment review process. Such a process would allow DCH to develop and review recipient utilization and provider service profiles so that it can correct misutilization practices of recipients and providers. Our review disclosed:

- (1) DCH did not perform any SURS reviews of Medicaid expenditures with dates of service between October 1, 2009 and September 30, 2010.
- (2) DCH's SURS review process did not include analysis of Adult Home Help (AHH) expenditures. The Medicaid AHH expenditures totaled \$547.2 million for fiscal years 2009-10 and 2010-11 combined. DCH informed us that the AHH expenditures were not included in the SURS reviews because the underlying support for the claims was not contained in the CHAMPS data warehouse.

- (3) DCH's procedures indicate that it will perform two episode of care SURS reviews and two profiling SURS reviews annually. In fiscal year 2009-10, DCH performed two episode of care SURS reviews and only one profiling SURS review. In fiscal year 2010-11, DCH performed only one episode of care SURS review and no profiling SURS reviews.

We reported the same condition in our prior single audit. DCH indicated in its corrective action plan that, due to changes in staffing and the need to train two new data analysts in the SURS process, a total of three SURS reviews were planned to be completed during fiscal year 2009-10.

- d. DCH did not perform timely follow-up of issues identified in the AHH program audits performed by its contractor at the DHS local offices. As a result, DCH could not ensure that it complied with utilization control and program integrity requirements established in federal regulation 42 *CFR* 456.23 for the AHH Program.

Our review of a random sample of two AHH audits performed during fiscal years 2009-10 and 2010-11 disclosed that DCH did not obtain a corrective action plan to address issues identified for either of these audits. DCH has procedures to follow up on the findings of these audits and to ensure that corrective action is taken. However, DCH informed us that it has not been able to perform the follow-up of these issues identified because it did not have the staff available to do so.

- e. DCH did not recover costs from providers when long-term care retrospective reviews, based on the State Medicaid agencies' nursing facility level of care criteria, identified ineligible beneficiary charges. DCH did not recover costs from any providers during fiscal year 2009-10 and did not have the records to determine the total amount of the potential ineligible costs related to the fiscal year 2009-10 reviews. DCH began recovering Medicaid costs from long-term care providers in October 2010, and it recovered \$181,399 through gross adjustments from these providers in fiscal year 2010-11. DCH also identified potential recoveries of \$139,553 from long-term care providers in fiscal year 2010-11. As a result of the lack of available records, we were not able to estimate the total amount of potential questioned costs.

- f. DCH did not ensure that it complied with federal regulation 42 *CFR* 455.14 regarding conducting preliminary investigations of complaints of Medicaid fraud or abuse. Federal regulation 42 *CFR* 455.14 indicates that if DCH receives a complaint of Medicaid fraud or abuse from any source or identifies any questionable practices, it must conduct a preliminary investigation to determine whether there is sufficient basis to warrant a full investigation. Our review of a random sample of 25 complaints closed in the case management tracking system for fiscal years 2009-10 and 2010-11 disclosed:
- (1) Three (12%) of 25 files for complaints did not have documentation to support the follow-up of the complaint or that the documentation was signed by the supervisor. DCH procedures indicate that the analyst will research the complaint, document his or her findings, indicate the course of action, and then submit it to the supervisor for approval of the action.
 - (2) Two (8%) of 25 complaint files did not match the resolution in the case management tracking system. DCH procedures indicate that the analyst will close all activities for the complaint and ensure the proper disposition in the case tracking management system. This is to ensure that the analyst has addressed all open complaints and noted the disposition.

RECOMMENDATION

We again recommend that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to utilization control and program integrity.

FINDING (3911208)

8. Medicaid Cluster, CFDA 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Inpatient Hospital and Long-Term Care Audits

U.S. Department of Health and Human Services	Medicaid Cluster: <i>CFDA 93.720</i> : ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative <i>CFDA 93.777</i> : State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare <i>CFDA 93.778</i> : Medical Assistance Program <i>CFDA 93.778</i> : ARRA - Medical Assistance Program
Award Number: 05-0805MI5028 05-0905MI5028 05-0905MI5028 05-0805MI5048 05-0905MI5048 05-1005-MI-5000 05-1105-MI-5000 05-1005-MI-5001 05-1105-MI-5001 05-1005MI5ADM 05-1105MI5ADM 05-1005MI5MAP 05-1005MI5MAP 05-1105MI5MAP 05-1005MIMDSH 05-0905MIARRA 05-1005MIARRA 05-1105MIARRA 05-1105MIEXTN 05-1005MIQUAL 05-1105MIQUAL	Award Period: 10/01/2009 - 03/31/2010 10/01/2005 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2010 - 03/31/2011 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2005 - 09/30/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 03/31/2011 01/01/2011 - 06/30/2011 01/01/2010 - 09/30/2010 10/01/2010 - 09/30/2011
	Known Questioned Costs: \$0

DCH needs to improve its internal control to ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to inpatient hospital and long-term care audits.

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* 447.253 requires that DCH pay for inpatient hospital services and long-term care facility services using rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers to provide services in conformity with applicable State and federal laws, regulations, and quality and safety standards. It further requires that DCH provide for periodic audits of the financial and statistical records of participating providers. According to the Medicaid State Plan, cost reports related to both inpatient hospitals and long-term care facilities must be audited.

Our review of DCH audited cost reports disclosed:

- a. DCH did not follow its established audit procedures for 3 (25%) of 12 inpatient hospital cost report audits reviewed. DCH's procedures indicate inpatient hospital cost reports will be reviewed for missing data, corrections, and variances. If variances are not resolved, DCH may issue a "stop payment" letter. For 2 of the 3 audits, DCH did not document explanations for identified variances. For the remaining audit, DCH obtained an explanation; however, DCH subsequently indicated that it should not have accepted the explanation. DCH explained that the cost report was accepted without verifying the explanation to avoid a disruption in payments.
- b. DCH did not follow its established audit procedures for 6 (19%) of 31 long-term care facility cost report audits reviewed. DCH's audit procedures indicate that management will sign off on the risk assessment and scope that identifies the items of cost that will be audited to ensure that it is sufficient and the staff will document their review of each identified cost item. For these 6 audits, DCH did not review all cost items indicated in the audit plan scopes. It is critical that cost reports be thoroughly reviewed as the information is used to determine Medicaid reimbursement rates.

RECOMMENDATION

We recommend that DCH improve its internal control to ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to inpatient hospital and long-term care audits.

FINDING (3911209)

9. Medicaid Cluster, CFDA 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Provider Eligibility and Provider Health and Safety Standards

U.S. Department of Health and Human Services	Medicaid Cluster: <i>CFDA 93.720</i> : ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative <i>CFDA 93.777</i> : State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare <i>CFDA 93.778</i> : Medical Assistance Program <i>CFDA 93.778</i> : ARRA - Medical Assistance Program
Award Number: 05-0805MI5028 05-0905MI5028 05-0905MI5028 05-0805MI5048 05-0905MI5048 05-1005-MI-5000 05-1105-MI-5000 05-1005-MI-5001 05-1105-MI-5001 05-1005MI5ADM 05-1105MI5ADM 05-1005MI5MAP 05-1005MI5MAP 05-1105MI5MAP 05-1005MIMDSH 05-0905MIARRA 05-1005MIARRA 05-1105MIARRA 05-1105MIEXTN 05-1005MIQUAL 05-1105MIQUAL	Award Period: 10/01/2009 - 03/31/2010 10/01/2005 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2010 - 03/31/2011 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2005 - 09/30/2010 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011 10/01/2009 - 09/30/2010 10/01/2009 - 03/31/2010 10/01/2009 - 09/30/2010 10/01/2010 - 03/31/2011 01/01/2011 - 06/30/2011 01/01/2010 - 09/30/2010 10/01/2010 - 09/30/2011
	Known Questioned Costs: \$0

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to provider eligibility and provider health and safety standards.

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* 440.260 requires states to include in their state plan the methods and standards used to ensure that Medicaid services are of high quality. To comply with the federal regulations, DCH's Medicaid State Plan contains various assurances regarding how the State will license eligible providers and ensure compliance with provider health and safety standards.

Our review of DCH's internal control over ensuring that Medicaid providers were licensed in accordance with federal, State, and local laws and regulations and had met prescribed health and safety standards disclosed:

- a. DCH did not have controls in place to ensure that pharmacists dispensing prescriptions to Medicaid beneficiaries were properly licensed and were not excluded from participating in Medicaid, as required by the Medicaid State Plan.

DCH's PBM utilized subproviders to provide pharmacy services. Although DCH assigned the responsibility for credentialing and monitoring subproviders to the PBM, DCH remains responsible for ensuring that it does not pay an unlicensed or excluded subprovider. DCH required the PBM to have controls in place to ensure that only licensed pharmacies were enrolled in Medicaid; however, it did not require the PBM to capture licensing information about the individual pharmacists dispensing Medicaid prescriptions. In April 2011, DCH revised the form used to enroll pharmacies in Medicaid to include language that the pharmacy will comply with all licensing and registration laws applicable to its business, but the form does not require the pharmacy to provide information on the individual pharmacists it employs. Prior to April 1, 2010, DCH relied on audits performed by the pharmacy audit vendor to verify that pharmacists were appropriately licensed; however, no audits were

performed from April 1, 2010 through September 30, 2011. As a result, neither the provider nor DCH could verify that pharmacists dispensing prescriptions to Medicaid beneficiaries were properly licensed and not excluded from Medicaid participation.

DCH's Medicaid State Plan assured the federal government that all providers of medical care are licensed in compliance with State licensing requirements, as required in the Public Health Code. Section 333.17711 of the *Michigan Compiled Laws* requires dispensing pharmacists to be licensed.

We reported the same condition in our prior single audit. DCH indicated in its corrective action plan that it did not agree with the prior finding because, upon enrollment, the pharmacy providers agreed to accept responsibility for compliance with DCH policy and procedures, including proper employee training, licensure, and nonexcluded status.

- b. DCH did not have controls in place to ensure that renewals for professional licenses were properly completed. When submitting a license renewal, providers are asked to disclose if the provider has been convicted of a criminal offense. In addition, the provider must disclose whether or not the provider met the continuing education requirements of the health profession. This information was not disclosed in 2 (29%) of 7 renewal applications reviewed, and DCH did not have documentation indicating that it performed a review of these disclosures. DCH confirmed that it has not developed alternative procedures for supervisory review and approval of renewal licenses. As a result, DCH could not ensure that all providers of medical services were licensed in accordance with State laws.

DCH's Medicaid State Plan assured the federal government that all providers of medical care are licensed in compliance with State licensing requirements, as required in the Public Health Code. The duties performed by the Bureau of Health Professions within DCH were transferred to the Department of Licensing and Regulatory Affairs (LARA) by Executive Order No. 2011-4, effective April 24, 2011.

- c. DCH's internal control did not ensure that Medicaid providers made all disclosures as required by federal regulation 42 *CFR* 455, subpart B. Our review of provider applications and contracts disclosed:
- (1) DCH's provider application process did not capture (1) the owner's date of birth; (2) information on ownership or control interest in subcontractors or subcontractor's relationship to owners; (3) managing employee address and date of birth; or (4) the identity of any person who is an agent.
 - (2) DCH's contracts with managed care organizations did not require the disclosure of (1) the owner's name, address, date of birth, and social security number or entity identification number; (2) the name and address of any subcontractor in which the managed care organization has an ownership or control interest or whether any persons named as owners or subcontractors are related to one another or own other similar organizations; (3) the managing employee name, address, date of birth, and social security number; (4) certain business transactions with any wholly owned suppliers or any subcontractors; and (5) the identity of any person who is an agent and has been convicted of a crime related to the person's involvement in any Medicare, Medicaid, or Title XX services. DCH informed us that it had changed the contract language for managed care organizations to include the preceding disclosures starting October 1, 2011.
 - (3) DCH's contract with the PBM did not (1) capture the owner's name, address, date of birth, and social security number or entity identification number; (2) capture managing employee name, address, date of birth, and social security number; or (3) require disclosure of the name and address of any subcontractor in which the PBM has an ownership or control interest or whether any person named as owners or subcontractors are related to one another or own other similar organizations. DCH informed us that it executed a change notice, subsequent to our audit period, in which it required that the contractor agreed to provide the owner's name and address, ownership in subcontractors, and relationships between the owners and subcontractors, if any.

Federal regulation 42 *CFR* 455, subpart B, requires all providers to enter into an agreement with DCH that includes certain required disclosures. We reported the same condition in our prior single audit. DCH indicated in its corrective action plan that it partially agreed and had made changes to the provider applications and contracts to include the required information.

- d. DCH did not perform State licensing surveys in accordance with State licensing requirements. The Medicaid State Plan requires DCH to perform on-site surveys and resurveys of health facilities, institutions, and agencies providing medical care to ensure that they are meeting State and federal standards. State licensing requirements, contained in the Public Health Code (Section 333.20155 of the *Michigan Compiled Laws*), require DCH to perform surveys of health facilities. DCH informed us that it was unable to conduct some State licensing surveys, required by State law, for certain types of facilities, such as laboratories and residential hospice, because of resource limitations. The duties performed by the Bureau of Health Systems within DCH were transferred to the Department of Licensing and Regulatory Affairs (LARA) by Executive Order No. 2011-4, effective April 24, 2011.

We reported the same condition in our prior single audit. DCH agreed that it did not perform some State licensing surveys but asserted that certification to participate in Medicare or Medicaid was more stringent and relevant than the State's licensing requirements.

- e. DCH did not have controls in place to ensure that the borderland* nursing facilities participating in Medicaid had met CMS's long-term care standards, which are the minimum health and safety standards that providers and suppliers must meet in order to be Medicare and Medicaid certified.

Federal regulation 42 *CFR* 483.1 requires DCH to perform surveys of nursing facilities to determine whether the facilities meet the requirements for participation in Medicare and Medicaid. Although DCH would not complete surveys for facilities that are located out of the state, DCH should ensure that the facilities are certified prior to providing services for eligible Medicaid participants.

* See glossary at end of report for definition.

DCH made Medicaid payments of \$1.1 million to borderland nursing facilities during our audit period. After bringing this to DCH's attention, DCH obtained documentation to demonstrate that the facilities were certified by the states in which they are located. As a result, we have not reported questioned costs for the payments to these facilities.

RECOMMENDATION

We again recommend that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to provider eligibility and provider health and safety standards.

FINDING (3911210)

10. Block Grants for Prevention and Treatment of Substance Abuse, 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: 2B08TI010026-10 2B08TI010026-11	Award Period: 10/01/2009 - 09/30/2011 10/01/2010 - 09/30/2012
	Known Questioned Costs: \$0

DCH's internal control over the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) did not ensure compliance with federal laws and regulations regarding reporting.

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

Federal expenditures for SAPT totaled \$111.8 million for the two-year period ended September 30, 2011, including \$109.9 million that was distributed to subrecipients.

Federal regulation 2 CFR 170 implemented the FFATA requirements for reporting information on subawards. Federal regulation 2 CFR 170, Appendix A, requires that recipients must report, on the federal Web site, each action that obligates \$25,000 or more in federal funds by the end of the month following the month in which the subaward was made.

Our review of DCH's FFATA reporting process disclosed that DCH did not report SAPT subaward information on the federal Web site on a timely basis. During fiscal year 2010-11, DCH made subawards that required reporting by January 31, 2011, February 28, 2011, June 30, 2011, August 31, 2011, and September 30, 2011. However, DCH did not report SAPT subaward information on the federal Web site until December 7, 2011.

RECOMMENDATION

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

FINDING (3911211)

11. Maternal and Child Health Services Block Grant to the States, 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: 1 B04MC11171-01-00 6 B04MC11171-01-01 6 B04MC11171-01-02 6 B04MC11171-01-03 6 B04MC11171-01-04 1 B04MC16999-01-00 6 B04MC16999-01-01 6 B04MC16999-01-02 6 B04MC16999-01-03 6 B04MC16999-01-04 6 B04MC16999-01-05 1 B04MC21386-01-00 6 B04MC21386-01-01 6 B04MC21386-01-02 6 B04MC21386-01-03 6 B04MC21386-01-04 6 B04MC21386-01-05 6 B04MC21386-01-06	Award Period: 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011 10/01/2010 - 09/30/2012 10/01/2010 - 09/30/2012
	Known Questioned Costs: \$24

DCH's internal control over the Maternal and Child Health Services Block Grant to the States (MCH Block Grant) Program did not ensure compliance with federal

laws and regulations regarding eligibility and reporting. As a result, we identified known questioned costs of \$24 and likely questioned costs in excess of \$10,000. Also, DCH did not comply with federal laws and regulations regarding program income.

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 totaled \$36.1 million for the two-year period ended September 30, 2011.

Our exceptions, by compliance area, are as follows:

a. Eligibility

DCH's internal control did not ensure that Children's Special Health Care Services (CSHCS) clients met program eligibility requirements. As a result, payments for medical services were made on behalf of ineligible clients.

Our review of a sample of CSHCS clients disclosed that, for 2 (8%) of 25 CSHCS clients, either the client did not meet eligibility requirements for CSHCS coverage or DCH did not have sufficient documentation in the case to determine whether eligibility requirements were met. DCH's eligibility policy indicates that CSHCS clients are required to meet citizenship status and meet medical evaluation criteria, such as a qualifying diagnosis. For one client, DCH did not verify citizenship status before approving eligibility. The client's application indicated that the client was not a U.S. citizen and DCH did not complete a citizenship status check-off form to determine whether the client was eligible for CSHCS. DCH's eligibility policy indicates that a citizenship status check-off form is to be completed when the information on the application indicates that the individual is not a citizen. For the other client, DCH approved coverage without support that the client was medically eligible and agreed that coverage was approved in error. DCH subsequently ended coverage for this client in the month following the application for coverage. We identified known questioned costs of \$24.

b. Program Income

DCH collected \$47,417 of CSHCS enrollment fees from low-income families from December 1, 2009 through September 30, 2010. Title 42, section 705(a)(5)(D) of the *United States Code* states that, if any charges are imposed for the provision of health services assisted by the State, such charges will not be imposed with respect to services provided to low-income mothers or children. In addition, DCH's 2010 MCH Block Grant Application stated that there are no fees assessed for families whose income is at or below 250% of the federal poverty level.

Effective December 1, 2009, DCH changed its CSHCS payment agreement to no longer exclude low-income families and began imposing enrollment fees in order for low-income families to participate in the program and receive services. However, DCH did not inform the federal awarding agency of the payment agreement change until it submitted its fiscal year 2010-11 award application. The application was approved November 30, 2010 and effective October 1, 2010. We have not reported questioned costs for this instance of noncompliance because the fees represent revenue and are not recorded as costs of the federal program.

c. Reporting

DCH's internal control did not ensure that it complied with FFATA reporting requirements.

Federal regulation 2 *CFR* 170 implemented the FFATA requirements for reporting information on subawards. Federal regulation 2 *CFR* 170, Appendix A, requires that recipients must report, on the federal Web site, each action that obligates \$25,000 or more in federal funds by the end of the month following the month in which the subaward was made.

Our review of DCH's FFATA reporting process disclosed that DCH did not report MCH Block Grant subaward information on the federal Web site on a timely basis. During fiscal year 2010-11, DCH made subawards that required reporting by November 30, 2010. The federal awarding agency did not populate the DCH awards on the federal Web site until January 5, 2011 which

precluded DCH from reporting the subaward information until January 2011. However, DCH did not report MCH Block Grant subaward information on the federal Web site until February 2012.

RECOMMENDATIONS

We recommend that DCH improve its internal control over the MCH Block Grant Program to ensure compliance with federal laws and regulations regarding eligibility and reporting.

We also recommend that DCH comply with federal laws and regulations regarding program income.

FINDING (3911212)

12. Automated Data Processing (ADP) Security Program

U.S. Department of Agriculture	<i>CFDA</i> 10.557: Special Supplemental Nutrition Program for Women, Infants, and Children
Award Number: 2MI700003	Award Period: 10/01/2009 - 09/30/2011
	Known Questioned Costs: \$0

U.S. Department of Health and Human Services	Temporary Assistance for Needy Families (TANF) Cluster: <i>CFDA</i> 93.558: Temporary Assistance for Needy Families
Award Number: DCH-10-IA-09 DCH-11-I/A-05	Award Period: 10/01/2009 - 09/30/2010 10/01/2010 - 09/30/2011
Pass-Through Entity: Michigan Department of Human Services	Known Questioned Costs: \$0

U.S. Department of Health and Human Services	<p>Medicaid Cluster:</p> <p><i>CFDA 93.720:</i> ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative</p> <p><i>CFDA 93.777:</i> State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</p> <p><i>CFDA 93.778:</i> Medical Assistance Program</p> <p><i>CFDA 93.778:</i> ARRA - Medical Assistance Program</p>
<p>Award Number:</p> <p>05-0805MI5028</p> <p>05-0905MI5028</p> <p>05-0905MI5028</p> <p>05-0805MI5048</p> <p>05-0905MI5048</p> <p>05-1005-MI-5000</p> <p>05-1105-MI-5000</p> <p>05-1005-MI-5001</p> <p>05-1105-MI-5001</p> <p>05-1005MI5ADM</p> <p>05-1105MI5ADM</p> <p>05-1005MI5MAP</p> <p>05-1005MI5MAP</p> <p>05-1105MI5MAP</p> <p>05-1005MIMDSH</p> <p>05-0905MIARRA</p> <p>05-1005MIARRA</p> <p>05-1105MIARRA</p> <p>05-1105MIEXTN</p> <p>05-1005MIQUAL</p> <p>05-1105MIQUAL</p>	<p>Award Period:</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2005 - 09/30/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2010 - 03/31/2011</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2005 - 09/30/2010</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2009 - 03/31/2010</p> <p>10/01/2009 - 09/30/2010</p> <p>10/01/2010 - 03/31/2011</p> <p>01/01/2011 - 06/30/2011</p> <p>01/01/2010 - 09/30/2010</p> <p>10/01/2010 - 09/30/2011</p>
	Known Questioned Costs: \$0

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 B04MC11171-01-00	10/01/2008 - 09/30/2010
6 B04MC11171-01-01	10/01/2008 - 09/30/2010
6 B04MC11171-01-02	10/01/2008 - 09/30/2010
6 B04MC11171-01-03	10/01/2008 - 09/30/2010
6 B04MC11171-01-04	10/01/2008 - 09/30/2010
1 B04MC16999-01-00	10/01/2009 - 09/30/2011
6 B04MC16999-01-01	10/01/2009 - 09/30/2011
6 B04MC16999-01-02	10/01/2009 - 09/30/2011
6 B04MC16999-01-03	10/01/2009 - 09/30/2011
6 B04MC16999-01-04	10/01/2009 - 09/30/2011
6 B04MC16999-01-05	10/01/2009 - 09/30/2011
1 B04MC21386-01-00	10/01/2010 - 09/30/2012
6 B04MC21386-01-01	10/01/2010 - 09/30/2012
6 B04MC21386-01-02	10/01/2010 - 09/30/2012
6 B04MC21386-01-03	10/01/2010 - 09/30/2012
6 B04MC21386-01-04	10/01/2010 - 09/30/2012
6 B04MC21386-01-05	10/01/2010 - 09/30/2012
6 B04MC21386-01-06	10/01/2010 - 09/30/2012
	Known Questioned Costs: \$0

DCH had not established a comprehensive ADP security program over its information systems. As a result, DCH cannot demonstrate that it has implemented effective controls to ensure the integrity, availability, and confidentiality of its information systems and, as a result, cannot ensure that DCH complies with applicable direct and material federal compliance requirements, such as the Medicaid Cluster ADP special tests and provisions requirement.

Federal regulation 45 *CFR* 95.621 makes state agencies responsible for the security of all information systems used to administer federal programs. The regulations require state agencies to implement and maintain a comprehensive ADP security program. A comprehensive ADP security program includes establishment of a security plan, including provisions for disaster recovery.

Our review of DCH's risk analysis and system security procedures disclosed:

- a. DCH, in conjunction with the Department of Technology, Management, and Budget (DTMB), had not prepared an information system security plan for

1 (7%) of 15 significant information systems and had not fully implemented information system security plans for 9 (60%) of 15 information systems. Without documented security plans, DCH cannot demonstrate that appropriate security safeguards have been implemented to mitigate potential risks that could result in unauthorized disclosure, modification, or destruction of sensitive information stored or processed on DCH's information systems.

- b. DCH, in conjunction with DTMB, did not prepare and test disaster recovery plans for 7 (47%) of 15 significant information systems. Without documented and tested disaster recovery plans, DCH cannot ensure that its information systems and data will be completely recovered in the event of a disruption.

We reported the same condition in our prior single audit. DCH indicated that it, in conjunction with DTMB, would complete security plans for all systems still in production, complete the documentation of all disaster recovery plans, and test the disaster recovery plans.

RECOMMENDATION

We again recommend that DCH establish a comprehensive ADP security program over its information systems.

OTHER SCHEDULES

DEPARTMENT OF COMMUNITY HEALTH
Summary Schedule of Prior Audit Findings
As of June 15, 2012

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911001
Finding Title: Internal Control

Finding: 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.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911002
Finding Title: Accounting and Financial Reporting

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

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911003
Finding Title: Third Party Service Organizations (TPSOs)

Finding: DCH, in conjunction with the Department of Technology, Management & Budget (DTMB), did not evaluate the sufficiency of third party service organization (TPSO) internal control assurance audits.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911004
Finding Title: Cash Management

Finding: DCH needs to improve its internal control over its compliance with State and federal cash management requirements.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911005
Finding Title: PIHP and CMHSP Contract Payments

Finding: 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.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911006
Finding Title: Special Supplemental Nutrition Program for Women, Infants, and Children, *CFDA* 10.557

Finding: DCH's internal control over the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911007
Finding Title: Aging Cluster, *CFDA* 93.044, 93.045, 93.053, 93.705, and 93.707

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

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911008
Finding Title: Public Health Emergency Preparedness, *CFDA* 93.069

Finding: DCH's internal control over the Public Health Emergency Preparedness (PHEP) Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911009

Finding Title: Immunization Cluster, *CFDA* 93.268 and 93.712

Finding: DCH's internal control over the Immunization Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions, period of availability of federal funds, and subrecipient monitoring.

Agency Comments: DCH received a management decision from the U.S. Department of Health and Human Services (HHS) indicating that its processes effectively controlled and accounted for Centers for Disease Control and Prevention (CDC) vaccines. As a result, part a. is no longer applicable.

DCH received permission from HHS to allow liquidation of expenditures beyond the funding period. As a result, part b. is no longer applicable.

DCH has corrected the deficiencies noted in part c.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911010

Finding Title: Centers for Disease Control and Prevention - Investigations and Technical Assistance, *CFDA* 93.283

Finding: 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.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911011
Finding Title: Temporary Assistance for Needy Families (TANF) Cluster, *CFDA* 93.558

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

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911014
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Provider Agreements and Certifications

Finding: DCH did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to provider agreements with Medicaid's Adult Home Help (AHH) Program providers and Medicaid-funded disproportionate share hospital (DSH) payments for a State psychiatric hospital.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911015
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Allowability of Medical Services

Finding: DCH's internal control over the Children's Health Insurance Program (CHIP), Medicaid Cluster, and Maternal and Child Health Service Block Grant to the States (MCH Block Grant) Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911016
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - ARRA Prompt Pay Requirements

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

Agency Comments: DCH has corrected the deficiency noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911017
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Improper Payments

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

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911018
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles and Special Tests and Provisions - Managed Care

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and special tests and provisions pertaining to managed care.

Agency Comments: DCH has corrected the deficiency noted in part a. and has provided documentation to support that part b. is no longer applicable.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911019
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Pharmacy Payments and Rebates

Finding: DCH's internal control over the Medicaid Cluster, CHIP, and the MCH Block Grant Program related to payments to DCH's pharmacy benefits manager (PBM) did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. Also, DCH's internal control over the Medicaid Cluster and CHIP related to pharmacy rebates did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911020
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Medicare Part A and Part B

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

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911021
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Disproportionate Share Hospital (DSH) Pools

Finding: DCH's internal control over the Medicaid Cluster related to the calculation of DSH payments to State psychiatric hospitals did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911023

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

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with special tests and provisions pertaining to provider eligibility.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911027

Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Long-Term Care Facility Audits

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to long-term care facility audits.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911028

Finding Title: Medicaid Cluster, *CFDA* 93.777 and 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.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911030

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

Finding: DCH, in conjunction with the Department of Technology, Management & Budget (DTMB), did not establish effective general controls over the Community Health Automated Medicaid Processing System (CHAMPS). Without effective general controls, DCH cannot ensure the CHAMPS application and data have been properly secured against unauthorized access or modification.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911031

Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles and Special Tests and Provisions - CHAMPS Other

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

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911032

Finding Title: HIV Care Formula Grants, *CFDA* 93.917

Finding: DCH's internal control over the HIV Care Formula Grants Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911033

Finding Title: Block Grants for Prevention and Treatment of Substance Abuse, *CFDA* 93.959

Finding: DCH's internal control over the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and special tests and provisions.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 3911034

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 (MCH Block Grant) Program did not ensure compliance with federal laws and regulations regarding cash management and subrecipient monitoring.

Agency Comments: DCH has corrected the deficiencies noted in the finding.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911012
Finding Title: Children's Health Insurance Program, *CFDA* 93.767

Finding: DCH's internal control over the Children's Health Insurance Program (CHIP) did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, and subrecipient monitoring.

Agency Comments: DCH has corrected the deficiencies noted in parts a., b.(2), and c.(2).

Part b.(1) no longer applies as Medicaid Eligibility Quality Control (MEQC) federal regulations only apply to Title XIX, not Title XXI (CHIP) programs. DCH believes CHIP does not have a corresponding MEQC requirement.

For part c.(1), DCH drafted and submitted a revised interagency agreement to the Medical Services Administration (MSA) for review and approval. DCH-MSA anticipates finalizing and implementing the agreement by October 1, 2012.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911013
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Eligibility

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

Agency Comments: The Department of Human Services (DHS) has implemented the pilot stage of an electronic data management system. This documentation management system will improve the ease of locating case files and management of the large volume of paper documents. DCH considers corrective action ongoing.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911022
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Third Party Liabilities

Finding: 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.

Agency Comments: DCH has corrected the deficiencies noted in parts a., b., c., and e. of the finding.

DCH continues to disagree with part d. of this finding. DCH includes only pregnancy and birthing-related costs that typically are reimbursed by private insurance carriers.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911024
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Omnibus

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

Agency Comments: For part a., DCH completed 25% of the hospital settlement backlog and continues to work to eliminate the backlog. DCH anticipates completing the remaining backlog by September 30, 2012.

DCH corrected the deficiencies noted in parts b., d., and e.

DCH disagrees with part c.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911025
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Provider Eligibility and Provider Health and Safety Standards

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to provider eligibility and provider health and safety standards.

Agency Comments: DCH has corrected the deficiencies noted in parts a., c., and e.(2).

DCH disagrees with parts b., d., e.(1), and f.

For parts g. and h., DCH considers corrective action ongoing.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911026
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Utilization Control and Program Integrity

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to utilization control and program integrity.

Agency Comments: DCH corrected the deficiencies noted in parts a., b., c.(1), and c.(2).

DCH disagrees with part c.(3).

For part d., it is DCH's position that there are no federal requirements specifying the number of Surveillance and Utilization Review System (SURS) runs to be completed in a

specific period, and Section policy or procedure is not the equivalent of State or federal law. DCH continues to adjust internal processes as necessary, including SURS, to yield best results or practices and considers corrective action ongoing.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911029
Finding Title: Medicaid Cluster, *CFDA* 93.777 and 93.778, Reporting

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

Agency Comments: DCH has corrected the deficiency noted in part b. DCH considers corrective action to be ongoing for parts a. and c.

Audit Period: October 1, 2007 through September 30, 2009
Finding Number: 3911035
Finding Title: Automated Data Processing (ADP) Security Program

Finding: DCH had not established a comprehensive ADP security program over its information systems.

Agency Comments: DCH corrected the deficiencies noted in parts a. and f.

For parts b. and c., DCH, in conjunction with DTMB, continues to complete information technology system risk assessments. Twelve of 23 risk assessments were closed due to completion (2), system replacement (7), application re-write (2), and transfer to another department (1). For the remaining 11 systems, DCH and DTMB consider corrective action ongoing.

For part d., DCH continues to develop and test information system disaster recovery plans. DCH will continue to work with

DTMB to finalize and test disaster recovery plans and considers corrective action ongoing.

For part e., DCH will schedule biennial reviews at the completion of parts b., c., and d. In accordance with the State of Michigan's SEM (SUITE) process, revisions of the DIT-170s will be enforced when there are changes to an application that affect the DIT-170 information. DCH considers corrective action ongoing.

DEPARTMENT OF COMMUNITY HEALTH

Corrective Action Plan

As of June 6, 2012

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 2010-11 and 2009-10.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 3911201
Finding Title: Special Supplemental Nutrition Program for Women, Infants, and Children, *CFDA* 10.557

Management Views: The Department of Community Health (DCH) agrees that there are opportunities for improvement over the processes for ensuring compliance with federal laws and regulations regarding reporting.

DCH agrees that Federal Funding Accountability and Transparency Act of 2006 (FFATA) reporting was not always timely. There were a number of barriers that DCH had to overcome to comply with this new reporting requirement, such as (1) awards were not always populated in the federal reporting system on a timely basis (until this occurred, subaward information could not be reported); (2) there are limited instructions on the reporting system, and it has been difficult to obtain technical assistance for reporting issues; (3) the federal reporting system assigns a unique federal number to awards (these numbers had

to be cross-referenced to accounting records to ensure that appropriate data is reported); and (4) the location of all of the data for FFATA reporting is not available in a single contract file or system. In addition, the federal agencies providing technical assistance to states on FFATA reporting have indicated that DCH has complied with the new requirement to a greater extent than the majority of states.

Planned Corrective Action: DCH completed all of the fiscal year 2010-11 FFATA reporting by February 29, 2012. Future FFATA reporting is expected to be completed on a timely basis as long as the federal grant award information is accessible to DCH on the federal Web site.

Anticipated Completion Date: Completed

Responsible Individual: Kristi Broessel

Finding Number: 3911202

Finding Title: Aging Cluster, *CFDA* 93.044, 93.045, 93.053, 93.705 (ARRA), and 93.707 (ARRA)

Management Views: DCH agrees that there are opportunities for improvement over the review process for ensuring compliance with federal laws and regulations regarding suspension and debarment and federal reporting.

- a. DCH acknowledges that it did not adequately review area agencies on aging (AAAs) to ensure that they were not suspended or debarred.

- b. DCH agrees that FFATA reporting was not always timely. There were a number of barriers that DCH had to overcome to comply with this new reporting requirement, such as (1) awards were not populated in the federal reporting system on a timely basis (until this occurred, subaward information could not be reported); (2) there are limited instructions on the reporting system, and it has been difficult to obtain technical assistance for reporting issues; (3) the federal reporting system assigns a unique federal number to awards (these numbers had to be cross-referenced to accounting records to ensure that appropriate data is reported); and (4) the location of all of the data for FFATA reporting is not available in a single contract file or system. In addition, the federal agencies providing technical assistance to states on FFATA reporting have indicated that DCH has complied with the new requirement to a greater extent than the majority of states.

Planned Corrective Action:

- a. DCH will require that a suspension and debarment certification form be submitted annually by AAAs as part of the State's requirements for annual implementation plans (AIPs).
- b. DCH completed all of the fiscal year 2010-11 FFATA reporting by February 29, 2012. Future FFATA reporting is expected to be completed on a timely basis as long as the federal grant award information is accessible to DCH on the federal Web site.

- Anticipated Completion Date:** a. The addition of suspension and debarment certification language was added to the AIP requirements and documentation requirements for the fiscal year 2012-13 AIPs.
- b. Completed
- Responsible Individuals:** a. Kari Sederburg
- b. Kristi Broessel
-

Finding Number: 3911203

Finding Title: Children's Health Insurance Program, *CFDA* 93.767

- Management Views:**
- a. DCH agrees that it did not maintain the application to support client eligibility for 1 (3%) of 39 expenditures reviewed. This file was properly transferred from on-site storage to records center storage but was inadvertently misfiled at the records center. This led to the unavailability of the case file for review.
- b. DCH agrees that it incurred an expenditure for services provided after the client's eligibility had been terminated. The expenditure in question was for the Adult Medical Program (AMP)/Adult Benefit Waiver (ABW) and occurred during a month in which the client was eligible for a Medicaid (Title XIX) program, rather than the AMP/ABW Program.

- Planned Corrective Action:**
- a. DCH has moved to electronic storage of applications. Currently, all case file information is available electronically, thereby eliminating the possibility of hard copies being misfiled and subsequently unavailable.

- b. The funding source for the AMP/ABW Program has been changed to Title XIX (Medicaid). AMP/ABW is no longer a Children's Health Insurance Program (CHIP) program, and expenditures for this program are now properly covered with Medicaid funds.

Anticipated Completion Date: Completed

Responsible Individual: Dan Ridge

Finding Number: 3911204

Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles

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.

- a. DCH acknowledges that it did not pursue an available 1% discount on some monthly payments for one vendor during the audit period.
- b. DCH acknowledges that it did not document its process for determining the financial impact of retroactive rate changes for the Outpatient Perspective Payment System update issued by the Centers for Medicare and Medicaid Services (CMS) with a retroactive effective date of January 1, 2010.

- c. DCH acknowledges that the pharmacy benefits manager's (PBM's) business rule, implemented December 2, 2010 and coded to apply to claims submitted thereafter with service dates April 1, 2010 forward, did not process the pricing distinguishment between chain and independent pharmacy providers as specified in the policy.
- d. DCH acknowledges that graduate medical education (GME) and disproportionate share hospital (DSH) payments made to a specific group of hospitals were not made in accordance with the Medicaid State Plan timeliness requirements. However, the annual amounts for these hospitals were calculated and paid in accordance with the Medicaid State Plan. These hospitals constitute the largest Medicaid hospital provider in the State and provide a safety net for a significant number of Michigan residents. The timing of these payments served to provide immediate and necessary cash flow to these hospitals to ensure their continued financial viability and ability to serve the Medicaid and uninsured population.
- e. DCH agrees that it does not report all Maternal and Infant Health Program (MIHP) costs; however, DCH disagrees that this is a result of inadequate internal control.

DCH includes only pregnancy and birthing-related costs that typically are reimbursed by private insurance companies. It would be inequitable to incorporate these additional expenditures into the costs charged to parents of Medicaid

beneficiaries. Including these additional MIHP costs in birth expense reports will slow response time, making it more difficult and labor-intensive for local prosecutors and Friends of the Court.

In addition, DCH believes that, after application of the mandatory "ability to pay" formula, including MIHP expenses in birth expense reports will result in nominal, if any, additional recoveries.

Planned Corrective Action:

- a. DCH has implemented an expedited approval process that ensures payments will be processed within the 15-day payment window to receive the 1% discount on all future payments to this vendor.
- b. DCH's adjustment analysis will be submitted to management for decision/determination of further action. Final determination of outcomes will be fully documented.
- c. The PBM coding changes were completed and deployed into production on April 5, 2012. The PBM will mail a DCH-approved provider notice to affected pharmacies regarding the re-adjudication of claims involved. The re-adjudication process will be complete 60 days following the provider notice. DCH will process underpayments totaling \$176,189.53 subsequent to appropriate provider notification.
- d. DCH will ensure that the timing of future GME and DSH payments are made in accordance with the Medicaid State Plan timeliness requirements.

- e. DCH will consider the feasibility of including additional MIHP expenses in the birth expense reports if it can be determined that doing so would be cost beneficial.

- Anticipated Completion Date:**
- a. Completed
 - b. July 2012
 - c. July 2012
 - d. Completed
 - e. September 2012

- Responsible Individuals:**
- a. Ann Dennis, Ruthanne Monkman, and Brian Barrie
 - b. John Spitzley
 - c. Trish O'Keefe
 - d. Brian Keisling and Jason Jorkasky
 - e. Dan Voss

Finding Number: 3911205
Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Eligibility

Management Views: DCH agrees that there are opportunities to improve processes for ensuring compliance with federal laws and regulations regarding beneficiary eligibility determination and case file documentation.

- a. DCH acknowledges that program eligibility was not appropriately determined for the 3 beneficiaries noted in the finding.
- b. DCH agrees that proper case file documentation was not available for the sample date selected. However, that does not necessarily mean that the beneficiary was ineligible for Medicaid services.

- Planned Corrective Action:**
- a. The Department of Human Services' (DHS's) Office of Training and Staff Development is developing Web-based training modules to train specialists to more accurately enter data into the Bridges Integrated Automated Eligibility Determination System (Bridges). The modules will primarily affect income budgeted and include emphasis and instruction on the use of SOLQ and consolidated inquiry. DCH is working with DHS to review and approve these modules as they are developed.
 - b. DHS has implemented the pilot stage of an electronic data management system. The documentation management system will improve the ease of locating case files and management of the large volume of paper documents. Mecosta County is currently operating as the pilot county for this system and early reports are very encouraging. The intent is to ultimately eliminate paper files and store files and accompanying documentation and verification electronically that can be retrieved locally from central office. This system is expected to be implemented Statewide during fiscal year 2012-13.

- Anticipated Completion Date:**
- a. Ongoing
 - b. September 2013

Responsible Individual: Dan Ridge

Finding Number: 3911206
Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Reporting

Management Views:

DCH generally agrees that there are opportunities for improvement in the preparation of its federal reports.

- a. DCH agrees that the manager did not approve all quarterly cash draw internal journal vouchers (IJVs) as required by the Community Health Automated Medicaid Processing System (CHAMPS) procedure manual.
- b. DCH acknowledges that all third party recoveries may not have been reported on the appropriate line on the CMS-64 report. However, third party recoveries are all taken into consideration when reporting quarterly expenditures on the CMS-64. DCH processes third party recoveries using several different methods, such as reimbursement in the form of checks from insurance carriers, etc., or as claim adjustments/voids. When a claim adjustment/void is processed, the recovery is offset against future expenditures and, in these instances, the recovery is incorporated into the subsequent reimbursement as an expenditure credit.
- c. DCH agrees that FFATA reporting was not always timely. There were a number of barriers that DCH had to overcome to comply with this new reporting requirement, such as (1) awards were not always populated in the federal reporting system on a timely basis (until this occurred, subaward information could not be reported); (2) there are limited instructions on the reporting system, and it has been difficult to obtain technical assistance for reporting issues; (3) the federal reporting system assigns a unique federal

number to awards (these numbers had to be cross-referenced to accounting records to ensure that appropriate data is reported); and (4) the location of all of the data for FFATA reporting is not available in a single contract file or system. In addition, the federal agencies providing technical assistance to states on FFATA reporting have indicated that DCH has complied with the new requirement to a greater extent than the majority of states.

Planned Corrective Action:

- a. The Grants Section manager will review and approve all IJVs effective immediately.
- b. DCH will work with its federal partners to determine the appropriate reporting of claim adjustments/voids on the CMS-64 report.
- c. DCH completed all of the fiscal year 2010-11 FFATA reporting by February 29, 2012. Future FFATA reporting is expected to be completed on a timely basis as long as the federal grant award information is accessible to DCH on the federal Web site.

Anticipated Completion Date:

- a. Completed
- b. September 2012
- c. Completed

Responsible Individuals:

- a. Ann Dennis
 - b. Ann Dennis and Mark West
 - c. Kristi Broessel
-

Finding Number:

3911207

Finding Title:

Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Utilization Control and Program Integrity

Management Views:

DCH generally agrees that there are opportunities for improvement to better ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to utilization control and program integrity. However, DCH does not agree with all components of the finding.

- a. DCH agrees that, during part of the audit period, it was without a pharmacy contract auditor; however, during that time, DCH was actively developing a request for proposal, opening the proposal for bidding, and selecting a new audit contract vendor. Subsequent to awarding the contract, DCH's new pharmacy audit contractor immediately started performing audits on payments made during the gap in the contract.

However, DCH disagrees that it did not evaluate Medicaid pharmacy claims on a sample basis to verify necessity, quality, and timeliness of services.

During the audit period, DCH performed 65 preliminary investigations specific to pharmacy and pharmacy related services, participated in 27 global settlements specific to pharmacy and pharmacy related services, performed 32 suspensions and/or terminations of pharmacies, and finalized almost 250 pharmacy audits. In addition,

Medicaid interim payment (MIP) staff participated in a significant project with the federal Drug Enforcement Agency, U.S. Department of Justice, and Department of Attorney General, which resulted in the indictment of 26 pharmacies and 4 doctors.

- b.(1) DCH agrees that explanation of benefits (EOB) letters for paid claims between December 1, 2009 and April 30, 2010 were inadvertently not issued for claims paid between October 1, 2009 and April 30, 2010 subsequent to the conversion to a new CHAMPS data warehouse.
- b.(2) DCH agrees that undeliverable EOB letters were not retained and analyzed and, instead, were shredded from October 1, 2009 through July 31, 2011. However, the address data for Medicaid is provided by DHS, which is responsible for maintaining and updating demographic data based on changes reported timely by Medicaid beneficiaries. Undeliverable mail primarily occurs when beneficiaries fail to report these changes to their DHS caseworkers. DCH cannot forward undeliverable beneficiary letters with Protected Health Information (PHI), which includes EOB letters, based on a forwarding address from United States Postal Service because of Health Insurance Portability and Accountability Act (HIPAA) privacy and confidentiality regulations.

b.(3) DCH agrees that it did not require contracted prepaid inpatient health plans (PIHPs) to send EOB letters to plan enrollees and beneficiaries for services performed by health plan participating providers during the audit period.

c.(1) DCH disagrees that it did not have a review process in place to ensure compliance with Title 42, Part 456, section 23 of the *Code of Federal Regulations (CFR)*. As noted in the finding, Surveillance and Utilization Review System (SURS) runs were completed on services prior to October 2009 during the audit period. During fiscal year 2009-10, DCH was developing a new CHAMPS data warehouse model, which precluded any SURS reports from being generated on fiscal year 2009-10 claims data. In addition, SURS runs are normally not performed on services until a year after the service date to allow for the one-year billing allowance along with any possible claim adjustments. Subsequent to deployment of the new CHAMPS model, DCH began working with its vendor to crosswalk the SURS data elements to the new CHAMPS model in order to develop new SURS run profiles and episodes of care for CHAMPS claims data.

More than 150 SURS/data mining cases were finalized by DCH during the audit period as a result of SURS runs conducted on legacy data. Each of these 150 outliers were investigated by Medicaid integrity staff and appropriate actions conducted.

Subsequent to deployment of the new CHAMPS data warehouse, DCH immediately began working with the data warehouse vendor in revising the data fields to be pulled from the data warehouse so the SURS program could be used to develop new data mining queries using the SURS software. These data mining queries include dates of service from October 1, 2009 to current.

c.(2) DCH agrees that Adult Home Help (AHH) expenditures are not considered in current SURS reviews. Subsequent to development of a new payment system, DCH began development of an AHH data warehouse which contains the necessary underlying support for AHH claims.

c.(3) DCH agrees that it did not perform the SURS reviews contained in its procedures as a guideline; however, DCH was still in compliance with federal regulation 42 *CFR* 456.23, which does not delineate the frequency of SURS reviews. During fiscal year 2009-10, DCH was developing a new CHAMPS data warehouse model and undergoing certification of its new payment system. This delayed DCH from completing all SURS data runs noted in its procedures.

d. DCH agrees that, for a time during the audit period, the staff person responsible for processing corrective action was temporarily on a medical leave. Since the staff person has returned to work, follow-up has occurred and the normal process for corrective action has been reestablished.

- e. DCH agrees that not all costs were recovered from long-term care providers when it was determined that the beneficiary was ineligible for these services. Actual recoupment was delayed while DCH worked through the appropriate notification and adverse action language, as well as establishing a recovery process in CHAMPS.

- f. DCH generally agrees that there are opportunities for improvement in the documentation of complaint resolution but disagrees that it has not ensured compliance with federal regulation 42 *CFR* 455.14.
 - f.(1) DCH was able to provide documentation that the complaints were appropriately investigated and resolved by Medicaid integrity program staff. In addition, one of the referrals did not pertain to an actual Medicaid case so it would not warrant any further investigation once it was determined that the referral was not Medicaid related.

 - f.(2) DCH was able to provide documentation that the complaints were appropriately investigated and resolved by Medicaid integrity program staff. In addition, one of the referrals did not pertain to an actual Medicaid case so it would not warrant any further investigation once it was determined that the referral was not Medicaid related. Therefore, the CRM disposition of "No Further Action" actually did match the case result. For the other case, the investigation

resulted in a referral to DHS's Office of Inspector General, which was documented in the case file. DCH acknowledges that, in this instance, the CRM should have indicated that the case was referred.

Planned Corrective Action:

- a. Not applicable
- b.(1) Retroactive EOBs will be requested and coordinated with the Department of Technology, Management, and Budget (DTMB) for any future issues. An automated acknowledgement e-mail was set up to inform the DCH business owners when the EOB process runs and to allow for follow-up with DTMB when issues occur.
- b.(2) DCH is forwarding EOB letters returned as undeliverable if the address on CHAMPS has been updated. Any returned letters without an updated address are sent to DHS Field Operations in a monthly report to notify the local DHS offices to review and follow up with the beneficiary to obtain the correct address.
- b.(3) Corrective actions were completed in summer 2011 and included in contracts distributed and signed with an effective date of October 1, 2011.
- c.(1) Not applicable
- c.(2) MIP staff will work with staff within DCH to determine the data elements available for

Adult Home Help (AHH) services. Once this determination is completed, an appropriate course of action will be determined.

- c.(3) MIP staff will review its policies and procedures and determine if any necessary changes or clarification is warranted.
- d. Upon return from medical leave, follow-up was conducted and the normal process for corrective action plans is proceeding as established. In addition, DCH will cross train an additional staff person so that coverage is maintained.
- e. Policy analysts will work with appropriate areas in DCH to ensure appropriate recoupment actions.
- f. The complaint process was changed in December 2011. At that time, a step was included to have management close all cases in the CRM.

- Anticipated Completion Date:**
- a. Not applicable
 - b.(1) Completed
 - b.(2) Completed
 - b.(3) Completed
 - c. June 2012
 - d. June 2012
 - e. September 2012
 - f. Completed

- Responsible Individuals:**
- a. Michele Warstler
 - b.(1) Jamy Hengesbach
 - b.(2) Jamy Hengesbach
 - b.(3) Tom Renwick
 - c. Michele Warstler
 - d. Susan Yontz
 - e. Liz Aastad
 - f. Michele Warstler
-

Finding Number: 3911208

Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Inpatient Hospital and Long-Term Care Audits

Management Views: DCH agrees that there are opportunities for improvement over the documentation of variances in audit scopes for inpatient hospital and long-term care audits.

- a. DCH agrees that variances to audit procedures should be noted regardless of the materiality to the overall audit.
- b. DCH agrees that any change to audit plan scopes during the audit planning process needs to be appropriately documented.

- Planned Corrective Action:**
- a. DCH will reiterate to staff the importance of documenting any changes to audit procedures.
 - b. DCH will implement a step in the audit process to document that all areas noted in the audit scope have been considered during the audit.

Anticipated Completion Date: a. Completed
b. Completed

Responsible Individuals: a. Steve Ireland
b. Pam Myers

Finding Number: 3911209

Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Provider Eligibility and Health and Safety Standards

Management Views: DCH and the Department of Licensing and Regulatory Affairs (LARA) generally agree that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to provider eligibility and provider health safety standards but do not necessarily agree with all components of the finding.

- a. DCH disagrees with this finding as the CMS-approved Medicaid State Plan requires controls for ensuring that Medicaid providers are licensed in accordance with federal, State, and local laws and regulations. However, the Medicaid State Plan does not identify individual pharmacists as "providers" in the Medicaid program, nor does Medicaid enroll a pharmacist in its Medicaid payments system as a provider of medical services. DCH, through its pharmacy benefits manager (PBM), enrolls and reimburses pharmacies, but does not enroll or reimburse pharmacists.

- b. LARA agrees that for two sample items, the renewal applicant did not complete the appropriate disclosures. However, in the case of convictions, the Public Health Code requires all licensees to notify the department of any conviction within 30 days.
- c.(1) DCH agrees that the current provider enrollment process does not capture all of the necessary disclosures required by federal regulation.
- c.(2) DCH agrees that, prior to October 1, 2011, managed care organization contracts did not require the disclosure of all appropriate information.
- c.(3) DCH agrees that DCH's contract with the PBM did not capture all of the necessary disclosures required by federal regulation.
- d. DCH agrees that State licensing surveys were not completed for some health facilities. Fees to accomplish this task have not been raised in at least 30 years.
- e. DCH agrees that it did not maintain appropriate documentation to support that borderland nursing facilities participating in Medicaid were certified by the states in which they were licensed.

Planned Corrective Action:

- a. Not applicable
- b. In January 2011, LARA instituted an on-line renewal process for all licensees. All potential renewal applicants must respond to a series of

questions pertaining to convictions and continuing education. If the answer to the conviction question is "yes," a notice is placed on the renewal and staff print reports of all of the "yes" responses so they can obtain additional documentation regarding the situation to pursue possible disciplinary action, if warranted. The same notice is posted on the record if continuing education is marked as "not completed." Letters are sent to the licensees requesting explanations of the responses and submission of documentation of the responses.

c.(1) DCH is working with the system developers to update CHAMPS to collect the additional disclosures.

c.(2) Not applicable

c.(3) DCH executed a contract change notice in which it required that the PBM contractor shall provide disclosures as required in federal regulation 42 *CFR* 455, Subpart B.

d. LARA has been working with the Legislature to resolve the audit issue since 2011 and has included boilerplate language to address the funding issues.

e. DCH has modified its enrollment processes for borderland nursing facilities to ensure appropriate certification documentation is maintained.

- Anticipated Completion Date:**
- a. Not applicable
 - b. Completed
 - c.(1) June 2013
 - c.(2) Not applicable
 - c.(3) Completed
 - d. Ongoing
 - e. Completed

- Responsible Individuals:**
- a. Trish O'Keefe
 - b. Lucinda Clark and Joseph Campbell, LARA
 - c.(1) Teri Chamberlain
 - c.(2) Not applicable
 - c.(3) Trish O'Keefe
 - d. Larry Horvath
 - e. Teri Chamberlain

Finding Number: 3911210
Finding Title: Block Grants for Prevention and Treatment of Substance Abuse, *CFDA* 93.959

Management Views: DCH agrees that there are opportunities for improvement over the review process for ensuring compliance with federal laws and regulations regarding reporting.

DCH agrees that FFATA reporting was not always timely. There were a number of barriers that DCH had to overcome to comply with this new reporting requirement, such as (1) awards were not populated in the federal reporting system on a timely basis (until this occurred, subaward information could not be reported); (2) there are limited instructions on the reporting system, and it has been difficult to obtain technical assistance for reporting issues; (3) the federal reporting system assigns a unique federal number to awards (these numbers had to be

cross-referenced to accounting records to ensure that appropriate data is reported); and (4) the location of all of the data for FFATA reporting is not available in a single contract file or system. In addition, the federal agencies providing technical assistance to states on FFATA reporting have indicated that DCH has complied with the new requirement to a greater extent than the majority of states.

Planned Corrective Action: DCH completed all of the fiscal year 2010-11 FFATA reporting by February 29, 2012. Future FFATA reporting is expected to be completed on a timely basis as long as the federal grant award information is accessible to DCH on the federal Web site.

Anticipated Completion Date: Completed

Responsible Individual: Kristi Broessel

Finding Number: 3911211

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

Management Views: DCH agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding eligibility, reporting, and program income.

- a. DCH agrees that there are additional opportunities for improvement in the program eligibility determinations. However, in the case where eligibility was approved in error, DCH believes its controls were working as the error was caught within a month of approval.

- b. DCH agrees that the program payment agreement, federal law, and the block grant application may be conflicting in regards to enrollment fees.
- c. DCH agrees that FFATA reporting was not always timely. There were a number of barriers that DCH had to overcome to comply with this new reporting requirement, such as (1) awards were not populated in the federal reporting system on a timely basis (until this occurred, subaward information could not be reported); (2) there are limited instructions on the reporting system, and it has been difficult to obtain technical assistance for reporting issues; (3) the federal reporting system assigns a unique federal number to awards (these numbers had to be cross-referenced to accounting records to ensure that appropriate data is reported); and (4) the location of all of the data for FFATA reporting is not available in a single contract file or system. In addition, the federal agencies providing technical assistance to states on FFATA reporting have indicated that DCH has complied with the new requirement to a greater extent than the majority of states.

Planned Corrective Action:

- a. DCH will review current eligibility determination procedures to identify opportunities to strengthen internal control. Continuing education will be conducted with staff to ensure that they understand citizenship requirements for the program. System and process enhancements to identify non-citizens and verify that appropriate paperwork has been received will be fully explored. In addition, for the beneficiary that was

determined eligible without the check-off form, DCH is in the process of obtaining appropriate documentation.

- b. DCH will review federal laws and regulations, the grant application, and current DCH policy for program fees. If it is determined that DCH is not in compliance with federal laws and the grant application, appropriate changes will be made to DCH policy and procedures.
- c. DCH completed all of the fiscal year 2010-11 FFATA reporting by February 29, 2012. Future FFATA reporting is expected to be completed on a timely basis as long as the federal grant award information is accessible to DCH on the federal Web site.

- Anticipated Completion Date:**
- a. August 2012
 - b. October 2012
 - c. Completed

- Responsible Individuals:**
- a. Lonnie Barnett and Rebecca Start
 - b. Lonnie Barnett and Rebecca Start
 - c. Kristi Broessel

Finding Number: 3911212
Finding Title: Automated Data Processing (ADP) Security Program

Management Views: DCH acknowledges that there are opportunities for improvement in its ADP security program over its information systems.

- a. DCH agrees that one information system security plan did not get completed.

- b. DCH agrees that seven disaster recovery plans were not prepared and tested.

Planned Corrective Action:

- a. The application cited is currently being rewritten with a target implementation of June 2012. An information system security plan is part of the development of this new system.
- b. One application has been transferred to another department and is no longer the responsibility of DCH. Two applications are currently being rewritten and a disaster recovery plan will be developed for the new systems at that time. For the remaining four systems, DTMB, in conjunction with DCH, will prepare/test and document the testing of the disaster recovery plans.

Anticipated Completion Date:

- a. June 2012
- b. September 2013

Responsible Individuals:

Jim Bowen and Carmen Redwine (DTMB)

GLOSSARY

Glossary of Acronyms and Terms

AAA	area agency on aging.
ABW Program	Adult Benefits Waiver Program.
ADP	automated data processing.
adverse opinion	An auditor's opinion in which the auditor states that the audited entity did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.
AIP	annual implementation plan.
AHH	Adult Home Help.
American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
AMP	Adult Medical Program.
borderland	A county that is contiguous to the Michigan border or one of several major cities beyond the contiguous county lines.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
CHAMPS	Community Health Automated Medicaid Processing System.

CHIP	Children's Health Insurance Program.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
CMHSP	community mental health services program.
CMS	Centers for Medicare and Medicaid Services.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
CSHCS	Children's Special Health Care Services.
DCH	Department of Community Health.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
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 and correct, misstatements on a timely basis.
DHS	Department of Human Services.

disclaimer of opinion	A statement that the auditor does not express an opinion on the financial schedules and/or financial statements or a statement that the auditor does not express an opinion on the audited agency's compliance with the cited requirements that are applicable to each major federal program.
DSH	disproportionate share hospital.
DTMB	Department of Technology, Management, and Budget.
DWCHA	Detroit Wayne County Health Authority.
EOB	explanation of benefits.
FFATA	Federal Funding Accountability and Transparency Act of 2006.
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.
FOC	Friend of the Court.
GME	graduate medical education.
HHS	U.S. Department of Health and Human Services.
HIV	human immunodeficiency virus.
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.
LARA	Department of Licensing and Regulatory Affairs.
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 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.
material misstatement	A misstatement in the financial schedules 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 amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules will not be prevented, or detected and corrected, on a timely basis.

MCH Block Grant	Maternal and Child Health Services Block Grant to the States.
MEQC	Medicaid Eligibility Quality Control.
MIHP	Maternal and Infant Health Program.
MIP	Medicaid interim payment.
MPHI	Michigan Public Health Institute.
MSA	Medical Services Administration.
PA	prosecuting attorney.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
PBM	pharmacy benefits manager.
PIHP	prepaid inpatient health plan.
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 reflect the actions a prudent person would take in the circumstances.
SAPT	Block Grants for Prevention and Treatment of Substance Abuse.

significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
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 <i>Government Auditing Standards</i> 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.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
SURS	Surveillance and Utilization Review System.
TANF	Temporary Assistance for Needy Families.

unqualified opinion

An auditor's opinion in which the auditor states that:

- a. The financial schedules presenting the basic financial information of the audited entity are fairly presented in conformity with the disclosed basis of accounting; or
- a. The financial schedule presenting supplemental financial information is fairly stated in relation to the basic financial schedules. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedule to the extent necessary to form an opinion on the basic financial schedules, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedule taken by itself; or
- b. The audited entity complied, in all material respects, with the cited requirements that are applicable to each major federal program.

U.S. Office of
Management and
Budget (OMB)

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

WIC Program

Special Supplemental Nutrition Program for Women, Infants, and Children.

