



STATE OF MICHIGAN

DEPARTMENT OF COMMUNITY HEALTH
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JANET OLSZEWSKI
DIRECTOR

July 2, 2007

Mr. Michael Moody, Director
DMB Office of Financial Management
Romney Building - Seventh Floor
111 South Capitol
Lansing, Michigan 48933

RE: Financial Audit Including the Provisions of the Single Audit Act of the Department of
Community Health

Dear Mr. Moody:

In accordance with the Department of Management and Budget's Administrative Manual,
Section 1280.02, enclosed is the Department's final response for the above referenced audit.

Please contact me at 373-1508 if you have any questions.

Sincerely,

Signature Redacted

Pam Myers, Acting Director
Office of Audit

PM:kk

Enclosure

cc: Office of the Auditor General	House Appropriations Committee
House Fiscal Agency	House Standing Committee
Senate Fiscal Agency	Senate Appropriations Committee
Executive Office	Senate Standing Committee
DCH, Janet Olszewski	DCH, Ed Dore
DMB, Bob Emerson, State Budget Director	DCH, Nick Lyon

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

DEPARTMENT OF COMMUNITY HEALTH

October 1, 2003 through September 30, 2005

AUDIT RESPONSE

Approved: Signature Redacted
Janet Olszewski, Director
Department of Community Health

Date: June 10, 2007



AUDIT REPORT SUMMARY

DEPARTMENT: Community Health
AUDIT PERIOD: October 1, 2003 through September 30, 2005
REPORT DATED: February 2007

DISPOSITION OF AUDIT RECOMMENDATIONS

<u>CITATIONS COMPLIED WITH</u>	<u>CITATIONS TO BE COMPLIED WITH</u>	<u>CITATIONS NOT COMPLIED WITH</u>
	1.	
2.		
3.		
4.a, 4.b	4.c. September 2007	
5.		
6.		
	7. October and December 2007	
8.		
9.		
10.		
11.b.	11.a. December 2007	
12.		
	13. September 2007	

**Audit Response
Financial Audit
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Recommendation 1: Internal Control

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

We also recommend that DCH effectively use its biennial ICE process to monitor its system of internal control.

Response:

Responses to Findings 2 through 13 address corrective action relative to this finding.

DCH has implemented corrective measures to address the various deficiencies and the corresponding second recommendation for the current evaluation. Steps have been implemented requiring the assessable units to identify and address the material weaknesses within their operations. They have also been instructed to address material weaknesses identified by external sources.

- In the training provided prior to completion of the BICE worksheets DCH verbally instructed attendees to identify material weaknesses within their operations. The written instructions on the worksheets themselves only asked that they identify material weaknesses found through audits by external sources.
- DCH completed a risk assessment that identified approximately 140 IT applications and provided a self ranking by responsible management. In addition, DCH utilized input from DIT, the OAG BICE audit, and the Office of Enterprise Services to determine which IT applications to include in the BICE.

Recommendation 2: Internal Control Over Financial Reporting

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

Response:

Procedures will be implemented and monitored to ensure that the disproportionate share hospital (DSH) calculations are made using the cost-to-charge ratios from the appropriate fiscal year and that the calculations are appropriately documented.

- Nothing has occurred to change this response. The cost-to-charge ratio is completed by the State Budget Office and is now reviewed for accuracy and for proper documentation by the DCH Actuarial Division.

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The pharmacy benefits manager's (PBM's) invoices are now being reconciled to the underlying claims files on a post-payment basis.

- DCH has continued the procedure that reconciles the PBM's weekly drug expenditure invoices to underlying claims. The procedure is performed approximately weekly following the load of the pharmacy claim extract to the data warehouse.
- The reconciliation database contains the reconciliations going back to the weekly invoices in October 2005.

DCH will continue its efforts to improve its review processes in an effort to detect and prevent these types of errors from recurring in the future.

- Nothing has occurred to change this response. Corrective action is completed and ongoing.

Recommendation 3: Schedule of Expenditures of Federal Awards (SEFA)

We recommend that DCH improve its internal control over financial reporting to ensure that DCH prepares its SEFA in accordance with OMB Circular A-133 and State financial management policies.

Response:

DCH maintains that its method of preparing the SEFA and reviewing the amounts for accuracy is fundamentally sound. To further substantiate the accuracy of reported amounts DCH performed an additional procedure that reconciled the SEFA to the expenditures reported on the quarterly federal expenditure reports. This reconciliation will be continued going forward to provide more assurance that the SEFA is accurate.

- Corrective action to change the method of preparation and review for the SEFA is not necessary as DCH believes the methodology utilized is fundamentally sound.

The grant has been assigned a new coding structure that correctly identifies and codes these transactions as subrecipient grant expenditures in the accounting records.

All contracts now include specific language indicating whether the arrangement represents a vendor or subrecipient relationship and the expenditures are now properly coded in the State's accounting system with the correct designation.

The SEFA was corrected based upon the OAG finding.

- Nothing has occurred to change these responses. Corrective action has been completed.

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Recommendation 4: Receivables System (RS) Database

We recommend that DCH improve its internal control to ensure the completeness and accuracy of its RS Database.

Response:

DCH has implemented procedures to send monthly reports to the Program Investigation Section to provide it with the opportunity to confirm the accuracy of the data.

- Nothing has occurred to change this response. Corrective action is completed.

DCH will not implement the approval process as the potential benefit to be derived is not supported by the cost and effort required to implement such a process.

- No corrective action will be taken by DCH.

DCH has published guidelines to prioritize the pursuit of MQ-774 receivables. Detailed policies and procedures are under development.

- September 30, 2007, remains the targeted due date for the completion of these detailed policies and procedures.

Recommendation 5: Residential Substance Abuse Treatment for State Prisoners (RSAT),
CFDA 16.593

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

Response:

To address the issue on an ongoing basis, DCH's Office of Drug Control Policy revised and implemented updated monitoring procedures in spring 2005 that address the federal allowable cost principles.

DCH has taken the necessary steps to ensure that documentation of site visits is retained in the future.

- Nothing has occurred to change these responses. Corrective action is completed and ongoing.

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Recommendation 6: Injury Prevention and Control Research and State and Community Based Programs (IPP), CFDA 93.136

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

Response:

Correcting entries were processed for the three separate transactions that made up the exception. In the future DCH will request written approval from the Centers for Disease Control and Prevention (CDC) prior to approving equipment purchases for its subcontractors.

- Nothing has occurred to change this response. Corrective action is completed.

Various other corrective actions were taken by DCH to address/correct other expenditure reporting problems cited in the audit report. For two items cited DCH was to revise the financial status reports (FSR) and request permission from the CDC to carry over unspent funds into the next grant period. DCH processed a correcting entry to transfer a third expense to state funding and return the unallowable expenditure to the CDC. A fourth issue was deemed to be immaterial and will only be corrected upon direction of the CDC. In the final case, DCH requested an extension from the CDC for the submission of the FSR.

- The FSRs have been revised as indicated.
- Permission from the CDC to carry over unspent funds into the new grant period has been requested, however, the CDC has not yet responded to this request.
- All unallowable expenditures have been returned to the CDC except the amounts that DCH intends to carry over into the next grant period.
- The CDC has not requested the revision of the FSR related to the amount deemed immaterial.

To address these issues in the future, DCH will implement procedures to allow IPP to routinely review transaction level detail expenditures throughout the year to help identify and correct inappropriate payments prior to year-end.

- Budget will begin to send detail expenditure information to IPP on a monthly basis beginning in May 2007. In the interim, Grant Accounting has provided reports as needed, upon request.

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Recommendation 7: Family Planning – Services (FPS), CFDA 93.217

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

Response:

The Division of Family and Community Health has made several changes to the program monitoring process for subrecipients since the audited time period. The Division has put in place a new financial monitoring tool and program monitoring protocols have been revised.

- As of March 2007 three vacant program consultant positions were filled.
- Staff needs assessments are conducted and training plans developed based upon the results of those assessments.
- A peer review of site visits and monitoring visits is under development with expected completion date of October 2007.
- Ongoing development of a protocol to document policies and procedures in the staff manual.
- Development of a methodology to collect data on unsatisfactory findings and to analyze for trends with expected completion date of December 2007.
- Beginning in the summer of 2005 implemented a monitoring visit between site/accreditation visits to review and confirm Title X required activities.
- Revised the financial monitoring review tool in 2005.

A fiscal control and monitoring specialist was hired to assist in program monitoring. Improvements have been made in staffing that should help to ensure that site visits meet the audit requirements in the future. DCH should be able to perform the site visits at least every three years in the future.

- Accreditation and site review cycles are now in compliance with the three year requirement.

Recommendation 8: State Children’s Insurance Program (SCHIP), CFDA 93.767

We recommend that DCH improve its internal control over SCHIP to ensure compliance with federal laws and regulations regarding eligibility, reporting, and subrecipient monitoring.

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Response:

Identified exceptions are now being addressed and eligibility verified prior to enrollment.

- Nothing has occurred to change this response. Corrective action is completed.

Quarterly reports are now being prepared and submitted as required. The quarterly reports cited in the finding have been prepared and submitted to CMS.

- Nothing has occurred to change this response. Corrective action is completed.

DCH will continue to utilize and monitor the Single Audit conducted of DHS to ensure compliance with federal requirements.

- Corrective action is not necessary as DCH does not agree with this item of the finding.

Recommendation 9: Medicaid Cluster, CFDA 93.777 and 93.778, Allowable Costs/Cost Principles

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

Response:

Procedures will be implemented and monitored to ensure that the disproportionate share hospital (DSH) calculations are made using the cost-to-charge ratios from the appropriate fiscal year and that the calculations are appropriately documented.

- Nothing has occurred to change this response. The cost-to-charge ratio is completed by the State Budget Office and is now reviewed for accuracy and for proper documentation by the DCH Actuarial Division.

DCH had already identified the problem involving the overpayments made to certain pharmacy providers pertaining to incentive fees for repackaging certain pharmaceutical products and is in the process of taking appropriate action to recover any overpayments. Post-payment reviews will continue to be performed periodically and inappropriate payments will be pursued accordingly.

- DCH has recouped some of these incentive fee overpayments.

The amount identified as known questioned costs was attributed to an error involving an edit in the PBM's claims system. That problem has been identified and corrected. The federal portion of the known inappropriate payments has been returned, approximately \$3.2 million of the

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overpayment identified has been recovered, and DCH continues to pursue recovery of the additional amounts. Payment will no longer be made for any pharmaceutical products potentially covered by Medicare without evidence that the claim had initially been submitted and adjudicated by Medicare.

- DCH has billed Medicare for diabetic supplies and received \$3.4 million in payments for service dates within Medicare's billing limit. DCH will not be submitting any more claims to Medicare relating to the audit report recommendation due to services dates outside of the billing limit.
- It is not appropriate to pursue recoveries from pharmacies or the PBM for the remaining portion of the overpayments because the claims and payments were processed in accordance with DCH specifications in effect when the services were rendered.

DCH has made policy changes to the Emergency Services Only Chapter dealing with Medicaid coverage issues and has implemented a payment edit in its claims processing system to reject dental claims for individuals with emergency services only eligibility. DCH intends to implement a post-payment review process to examine the propriety of payments for this population.

- When policy was modified DCH put edits in place to prevent emergency only services clients from payment for dental service. There was no retroactive recovery.
- The post-payment review process has been implemented and is ongoing.

DCH has implemented a process to identify physicians and hospitals that received fee-for-service payments when a Medicaid health plan received a capitation payment for a beneficiary who was retroactively enrolled into the plan. At the beginning of each quarter, Medical Services Administration processes claim adjustments to recover these fee-for-service payments. DCH will return the federal portion of the known questioned costs.

- The federal portions of the inappropriate payments were returned on the March 31, 2007 quarterly report.

A system edit error in the claims processing system used by DCH's PBM permitted payment of pharmaceutical benefits on behalf of beneficiaries enrolled in managed care plans. The system edit error has been corrected and the federal portion of inappropriate payments will be returned.

- The federal portions of the inappropriate payments were returned on the March 31, 2007 quarterly report.

DCH has identified a number of actions to prevent duplicate payments for beneficiaries with multiple identification numbers. Actions include meeting with staff who assign beneficiary

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identification numbers, implementing a more extensive search method to identify beneficiaries with multiple ID numbers, utilizing birth records to activate a case, and exploring options for using the DCH data warehouse. DCH has also implemented a process to recover capitation payments made when the same Medicaid health plan was paid for multiple ID numbers and the federal portion of inappropriate payments will be returned.

- DCH continues to do recoveries on duplicate ID numbers.
- Recoveries are handled through claim adjustments.

DCH has implemented procedures to perform a monthly electronic match of the Medicaid eligibility file with both the death certificates from Vital Records and the Social Security Administration' master file of proven deaths. The Medicaid eligibility file is immediately updated with the date of death on the day these matches are performed. System edits have also been implemented in the claims processing system that identify and reject claims submitted for deceased beneficiaries. Payments dating back to January 1, 2002 that were made inappropriately for deceased beneficiaries have been identified and actual recoveries were processed in October 2004 for approximately 99% of these inappropriate payments.

- Each month a death recovery process is run to recover payments made for deceased individuals.
- Recoveries are handled through claim adjustments.

Recommendation 10: Medicaid Cluster, CFDA 93.777 and 93.778, Procurement and Suspension and Debarment and Subrecipient Monitoring

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

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

Response:

DCH intends to conduct further analysis to verify the accuracy of some of the improper payments identified in the finding. DCH discovered that some of the DEA numbers were not valid on the federal file. In those cases DCH intends to review the script maintained at the pharmacy to verify that there was not an error in the claim submission or in provider enrollment. DCH will review submitted claims to determine if any recoveries are possible.

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DCH has implemented measures to improve its internal control to prevent payments for prescriptions prescribed by sanctioned Medicaid providers. DCH has purchased a subscription to the federal DEA database. Regular updates will allow DCH to maintain the most current information, which will enable DEA editing for sanctioned Medicaid providers to be conducted at the point-of-sale.

- The DCH Pharmacy Services Section has implemented measures to improve internal controls to prevent payments for prescriptions by sanctioned providers. The Section began implementing these additional controls in October 2005.
- DCH Provider Enrollment has been utilizing the DEA database to verify the accuracy of DEA numbers collected during provider enrollment.
- DCH Pharmacy Services Section has completed a preliminary review of a sample of the questionable claims to evaluate the appropriateness of recoveries. It was determined, after a thorough review of several factors, that rather than pursuing recoveries in the Pharmacy Services Section it would be more appropriate to refer a list of the pharmacies that submitted the largest volume of prescriptions by sanctioned providers, to the Program Investigation Section for potential post-payment audits.

Additional procedures are not required or contemplated. Current procedures are adequate to meet the OMB standard of reasonable assurance. DCH will consider making a change to its interagency agreement to address sanctions that may be imposed through determinations, other than those resulting from Single Audits.

- The interagency agreement signed in 2004/2005 has not been modified. Financial sanctions apply only to audit findings, the agreement does not provide for any other monetary sanctions. Changes are not being pursued at this time.

Recommendation 11: Medicaid Cluster, CFDA 93.777 and 93.778, Special Tests and Provisions

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

Response:

DCH will take steps to initiate discussions directly with CMS to seek clarification and direction regarding these payments. Corrective action will be initiated, if required, based on those discussions.

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- CMS staff have not yet reviewed these audit findings. If after review they agree with the Department's response, then no additional discussion with CMS will be required. If CMS determines there are problems with these DSH payments DCH will engage in discussion with CMS as indicated in the response.
- No further discussions with CMS will be initiated without further instruction from their Lansing office.

DCH will initiate recovery of funds from the 22 unlicensed providers. DCH will terminate the providers' participation in Medicaid if they have not renewed their medical licenses.

- DCH has recovered a portion of the amount identified in the finding. The federal portions of the inappropriate payments were returned on the March 31, 2007, quarterly report.

DCH has delayed testing of systems solutions to prevent Medicaid payments from being made to providers whose medical licenses had lapsed, due to the implementation of a new MMIS (CHAMPS). DCH expects this issue to be addressed by the new system and will consider further testing of the current solution if time and resources become available.

- No corrective action has taken place at this time.

Recommendation 12: Block Grants for Community Mental Health Services, CFDA 93.958

We recommend that DCH improve its internal control over Block Grants for Community Mental Health Services to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Response:

DCH will more aggressively pursue delinquent Single Audits by assessing penalties for late submissions as specifically allowed in contracts with subrecipients beginning in FY 2004/05.

- DCH is now assessing penalties for late submission of Single Audits as allowed in subrecipient contracts.

The DCH Office of Audit will notify program management of delinquent Single Audits so program management can evaluate the situation and determine if other monitoring procedures should be implemented.

- DCH Office of Audit is now notifying program management of delinquent Single Audits.

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Recommendation 13: Maternal and Child Health Services Block Grant to the States, CFDA
93.994

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

Response:

The Bureau of Family and Community Health has been working on revising its procedures for conducting site visits. A new risk assessment tool has been implemented to assist in determining level of risk. The results of the risk assessment will be used as a tool to select subrecipients for site reviews. Additional changes will be implemented to the site visit protocol to ensure that the items identified in the audit memorandum are reviewed.

- It is expected that the risk assessment will be completed by September 2007.
- Revisions to site visit protocols for the Family Planning program have been completed.
- The Bureau will work with other bureaus to develop a coordinated monitoring plan that will address all programs and include a plan for minimizing redundant reviews of common contract agencies.