



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH

JAMES K. HAVEMAN
DIRECTOR

September 20, 2012

Mr. Doug Ringler
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached are the preliminary summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's Performance Audit of the Long-Term Care Nursing Facility Medicaid Reimbursement and Rate Setting Process.

Questions regarding the summary table or corrective action plans should be directed to me at (517) 373-1508 or Myersp3@michigan.gov.

Sincerely,

Signature Redacted

Pam Myers, Director
DCH Office of Audit

Enclosure

Cc: Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
Executive Office
DCH, James K. Haveman
DCH, Timothy Becker
DCH, Karla Garcia

House Appropriations Committee
House Standing Committee
Senate Appropriations Committee
Senate Standing Committee
DCH, Nick Lyon
DCH, John Donaldson

PERFORMANCE AUDIT OF THE
LONG-TERM CARE NURSING FACILITY
MEDICAID REIMBURSEMENT AND RATE SETTING PROCESS

DEPARTMENT OF COMMUNITY HEALTH

APRIL 2012

AUDIT RESPONSE

Approved: _____

Timothy T. Becker
Timothy T. Becker, Senior Deputy Director
Department of Community Health, Operations Administration

Date: _____

08/03/2012



AUDIT REPORT SUMMARY

DEPARTMENT: Community Health

AUDIT PERIOD: October 1, 2008 – April 30, 2011

REPORT DATED: April 17, 2012

DISPOSITION OF AUDIT RECOMMENDATIONS

<u>CITATIONS COMPLIED WITH</u>	<u>CITATIONS TO BE COMPLIED WITH</u>	<u>CITATIONS DCH DID NOT AGREE WITH</u>
Finding 1		
Finding 2	Finding 2	
		Finding 3

Audit Response
Performance Audit
Long-Term Care Nursing Facility Medicaid Reimbursement and Rate Setting Process
Department of Community Health
October 1, 2008 through April 30, 2011

Recommendation 1: Allocation of General Service Cost

OAG recommended that DCH maintain documentation of the justification for and preapproval of the providers' use of an alternative statistical basis for allocation of general service costs.

Response:

DCH agreed with the recommendation to maintain documentation of the justification for and preapproval of any provider initiated use of an alternative statistical basis for allocation of general service costs. For fiscal 2012 Medicaid cost reports, DCH issued a letter to all Medicaid providers requiring the submission of a written request by August 31, 2012 to utilize an alternative statistical basis. In addition, DCH intends to issue a letter to all new providers notifying them that a written request will need to be submitted for utilization of any alternative statistical basis for any cost center beginning with their first Medicaid cost report filing. In both instances, CHAMPS will maintain copies of both the provider's request letter and DCH's approval/denial letter.

Recommendation 2: Timeliness of Long-Term Care Facility Audits

OAG recommended that DCH ensure completion of audits of cost reports for Medicaid long-term care facilities in a timely manner and perform on-site audits at least once every four years.

Response:

DCH agreed to perform on-site audits at least once every four years and will continue to strive for more timely completion of long term care facility audits.

However, as previously noted, staffing constraints, audit access limitations, etc. continues to be an issue. In addition, audits are often prioritized based on historical knowledge of the individual facility being audited. If a provider historically has had minimal adjustments affecting reimbursement, the audit may be delayed for a few years so that staff can focus on higher risk providers. When these low risk audits are conducted, the auditor often bundles multiple years of cost reports for audit at the same time. Finally, an initial settlement is usually completed prior to the final audit of reported costs. If it is determined at the time of initial settlement that the provider has been reimbursed in excess, the Medical Services Administration recoups any excess funding prior to the audit. Because of the numerous variables that affect the timeliness of completion of long term care facility audits, it is difficult to estimate a compliance date.

Recommendation 3: Timeliness of Cost Settlements

OAG recommended that DCH cost settle cost reports for Medicaid long-term care facilities in a timely manner.

**Audit Response
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Response:

DCH agreed that cost settlements should be completed on a timely basis; however disagreed with the OAG's assumptions that 23 months was a reasonable period to expect completion of all final settlements.

To support DCH's perspective, the latest Appropriation Act removed the requirement for settlements to be completed within 9 months of receiving the "final report" and it no longer appears in the Public Act. In addition, final settlements cannot be completed until the nursing facilities undergo an audit of their final cost report. These audits are sometimes delayed as noted in the response for finding two above.