RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
LANSING

OLGA DAZZO
DIRECTOR

April 21, 2011

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 final summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's Final Audit Including the Provisions of the Single Audit Act of the Department of Community Health.

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

Sincerely,

[redacted]

Pam Myers, Director
DCH Office of Audit

Enclosure

cc: Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
Executive Office
DCH, Olga Dazzo
DCH, Nick Lyon
House Appropriations Committee
House Standing Committee
Senate Appropriations Committee
Senate Standing Committee

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

DEPARTMENT OF COMMUNITY HEALTH

October 1, 2007 through September 30, 2009

AUDIT RESPONSE

Approv[redacted]
Olga Dazzo, Director
Department of Community Health

Date: 3/2/11

AUDIT REPORT SUMMARY

DEPARTMENT: Community Health

AUDIT PERIOD: October 1, 2007 through September 30, 2009

REPORT DATED: June 2010

DISPOSITION OF AUDIT RECOMMENDATIONS

CITATIONS COMPLIED WITH	CITATIONS TO BE COMPLIED WITH	CITATIONS WILL NOT COMPLY WITH
1. b. (1-3)	1.b.(4) – March 1, 2011	
2. a (1)		
2. a (2)		
2. a (3)		
2. a (4)		
2. b (1)		
2. b (2)		
2. b. (3)		
2. b. (4)		
3.		
4.		
5.		
	6. October 2011	
7.		
8.		
		9.a.
		9.b.
	9.c.(1) April 2011	
9.c.(2)		
	10. April 2011	
11.a.		
	11.b. April 1, 2011	
12.b.(1)		
12.b.(2)		
	12.c. July 1, 2011	
13.		
	14.a. October 1, 2011	
14.b.		
	15. March 31, 2011	
		16.

CITATIONS COMPLIED WITH	CITATIONS TO BE COMPLIED WITH	CITATIONS WILL NOT COMPLY WITH
17.a.		
	17.b. *	
	17.c. July 1, 2011	
	April 2011	
	18.a. – September 30, 2011	
		18.b.
19.		
20.		
21.		
	22.a. – September 30, 2011	
	22.b. – September 30, 2011	
22.c.		
		22.d.
22.e.		
23.a.		
	23.b. – April 2011	
	23.c. – September 30, 2011	
	24.a. – April 2011	
24.b.		
24.d.		24.c.
24.e.		
	25.a. – April 30,2011	
		25.b
25.c.		
		25.d.
		25.e.(1)
25.e. (SBS)	25.e.(2)	
		25.f.
25.g. (MHP)	25.g. (PIHP) – FY 11	
	25.h. – April 2011	
	26.a. – FY11	
	26.b. – May 2011	
	26.c.(1) – FY11	
26.c.(2) (MHP)	26.c.(2) (PIHP) – October 1, 2012	
		26.c.(3)
	26.d. – FY11	
27.		
	28.a. – June 30, 2011	
		28.b.
	28.c. – June 30, 2011	
29.		
	30.a. – September 30, 2011	
30.b.		
30.c.		
31.a.		
	31.b. - (not yet known)	

CITATIONS COMPLIED WITH	CITATIONS TO BE COMPLIED WITH	CITATIONS WILL NOT COMPLY WITH
	31.c. - (not yet known)	
31.d.		
	31.e. – February 2011	
		32.a.
	32.b. – January 31, 2011	
33.		
34.a.		
	34.b. – April 2011	
35.a.		
	35.b. – April 30, 2011	
	35.c. – April 30, 2011	
	35.d. – May 31, 2011 (documentation), December 31, 2011 (testing)	
	35.e. – April 30, 2011	
	35.f. – April 30, 2011	

* Dependent upon the new CHAMPS data warehouse availability.

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Recommendation 1: Internal Control

For the third consecutive audit, 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.

For the third consecutive audit, we also recommend that DCH improve its efforts to monitor the effectiveness of its internal control using the ICE.

Response:

Part a.: Please refer to the responses for Findings 1.b. through 13 and 15 through 35 for this part of the finding.

Part b (1): During the ICE programmatic risk assessment process, DCH developed a complete inventory of IT systems as each assessable unit listed all IT applications within their area on their risk assessment worksheet. Additionally, DCH obtained the Department of Technology Management and Budget's (DTMB) critical application listing and a listing of significant systems identified by the OAG during the Single Audit. DCH is confident that our inventory of IT systems is complete.

Part b (2): During the ICE programmatic risk assessment process, DCH developed a complete inventory of IT systems as each assessable unit provided a list of all IT applications within their area on their risk assessment worksheet. Each system business owner is now currently completing an "IT Risk Assessment" worksheet for each IT application identified. Each system will be assigned a risk/criticality score based on the "IT Risk Assessment" worksheet. All systems that rank as "High Risk/Critical" systems will be assessed in the Risk, Control Activities, & Monitoring (RCAM) process. In addition, all applications listed on the DTMB's critical application listing will be assessed appropriately. All significant systems and processes identified by various sources will be considered when determining what "critical IT systems" will be included in the ICE evaluation.

Part b (3): The current RCAM forms include a summary section of any material weaknesses indentified by an assessable unit. Within this section, control activities addressing the weakness(es) are included or it indicates if a corrective action plan is needed to be created and implemented. The RCAMs will not be "signed off as complete" until this section is completed and any associated "corrective action plans" are created.

Part b (4): DCH will submit the current ICE report by the established deadline.

Recommendation 2: Accounting and Financial Reporting

For the third consecutive audit, we recommend that DCH improve its internal control over accounting and financial reporting to prevent and detect accounting and reporting errors.

Response:

Part a (1): DCH Accounting staff performs a monthly analysis of Tobacco Products Tax revenue received as compared to Treasury's revenue projections. Treasury will be contacted if any significant variances in monthly revenues are identified.

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Part a (2): Accounting Division Procedure 105.0 was amended to now require supervisory approval of all journal entries.

Part a (3): Effective January 2010, DCH implemented a new payment system for AHH which transitioned responsibility for AHH payments from DHS to DCH. The AHH payments previously made from Model Payments System at DHS are now made directly by DCH through the Adult Services Authorized Payments System (ASAP). Payments are only generated for authorized services and for beneficiaries with Medicaid eligibility. In addition, DCH developed a reasonableness check to apply to home help payments on a monthly basis. In addition to this reasonableness check, ASAP will continue to edit for large home help payments each payroll.

Part a. (4): DCH Accounting and Budget developed a process at year-end closing to ensure appropriate entries are completed so that funds are accounted for accurately.

Part b (1): DCH Grants Accounting Section now allocates appropriate expenditures to grant profiles at year-end to ensure total SEFA expenditures equal total MAIN grant expenditures.

Part b. (2): DCH Accounting now monitors compliance supplements for notification of changes impacting managed grants.

Part b. (3): DCH Office of Audit is communicating noted differences in classification to DCH Grants and Purchasing Division. DCH Accounting is performing queries to compare comptroller object codes used on payments to identify discrepancies between MAIN coding and subrecipient/vendor classification noted on current contracts.

Part b. (4): DCH Office of Audit is communicating noted differences in classification to DCH Grants and Purchasing Division. DCH Accounting is performing queries to compare comptroller object codes used on payments to identify discrepancies between MAIN coding and subrecipient/vendor classification noted on current contracts.

Recommendation 3: Third Part Service Organizations (TPSOs)

We recommend that DCH, in conjunction with DTMB, evaluate the sufficiency of TPSO internal assurance audits.

Response:

Part a.: DCH defined a requirement that requires that the SAS-70 audit evaluate internal controls of the subservice organizations used by the vendor. This requirement was included in the RFP issued in August 2010 and will be included in the new contract starting April 1, 2011.

Part b.: DCH defined a requirement to include a technical description of the IT architecture in the SAS-70 audit. This requirement was included in the RFP issued in August 2010 and will be included in the new contract starting April 1, 2011.

Part c.: DCH, in conjunction with DTMB, have developed a process to evaluate the sufficiency of the service auditor's tests of controls. In addition, MDCH will review the findings and corrective action plans with the contractor and subcontractor providing subservice and monitor the corrective action plans in the monthly contractor operational meetings.

Recommendation 4: Cash Management

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

Response:

We have reviewed our draw processes and schedules and believe we now have our draw differentials at an immaterial difference. To reduce the differential further would require additional staffing not warranted for the net difference. The costs would exceed the benefit.

Recommendation 5: PIHP and CMHSP Contract Payments

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

Response:

DCH will continue to implement improvements in the contracting process that will guarantee that fully-executed agreements are in place prior to the initial payment. Additionally, DCH will pursue contract language or changes in the contracting process that will expedite execution of rate modifications, contract amendments or contract extensions. All contracts were fully executed and identified contract changes implemented prior to October 1, 2010.

Recommendation 6: Special Supplemental Nutrition Program for Women, Infants, and Children

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

Response:

DCH will continue to investigate means to accomplish the required financial management systems reviews at least once every two years on each subrecipient. Further reductions to audit scopes, additional audit staffing, and reliance on subrecipients' Single Audits if WIC is tested as a major program are items being considered to meet compliance.

Recommendation 7: Aging Cluster

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

Response:

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OSA will maintain documentation evidencing the review of documentation that support expenditures reported by the AAAs during the yearly compliance assessments. Additionally, OSA will improve the current process of completing the log that evidences quarterly reviews of financial status expenditure reports. The quarterly log will be competed by the first of the second month following the quarter end showing the review date, reviewer's name, and any comments; and this will be forwarded to the Deputy Director for their review.

Recommendation 8: Public Health Emergency Preparedness

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

Response:

The Office of Public Heath Preparedness is working with the Office of Audit to implement appropriate subrecipient monitoring procedures with limited resources. DCH continues to strive for compliance with federal laws and regulations regarding subrecipient monitoring in an environment of extremely limited resources.

Recommendation 9: Immunization Cluster

We again recommend that DCH improve its internal control over the immunization cluster to ensure compliance with federal laws and regulations regarding special tests and provisions, period of availability of federal funds, and subrecipient monitoring.

Response:

Part a: DCH disagrees that it did not effectively control and account for vaccines provided to LHDS and medical providers. Since the last audit, DCH has moved to an electronic vaccine accountability system built into the Michigan Care Improvement Registry. DCH has exceeded the expectations of CDC for vaccine accountability for all vaccines ordered and distributed using federal funds. DCH acknowledges that site visits did not include a comparison of reported versus actual quantities on hand, but believes that reasonable measures have been taken to assure that vaccines are appropriately controlled and accounted for.

Part b: DCH disagrees that expenditures were improperly charged to the wrong grant period. The entire amount reported in the audit was obligated to the grantee for the period ending December 31, 2008 and therefore is an appropriate expenditure for the grant period.

Part c (1): The Public Health Administration will work with the DCH Office of Audit to implement a procedure for testing a sample of expenditures from high-risk agencies. If however, an agency that is deemed high risk has a specific program selected as major in their most recent single audit; DCH will rely on the results of that audit group and forgo any expenditure testing. Limited staff resources have delayed implementation.

Part c (2): DCH has changed the enrollment form to require licensees to agree that neither they nor any additional licensees were suspended or debarred. DCH then combined the above disclaimer with a background check of the State's disciplinary website. DCH believes that the disclaimer language combined with the background check resulted in the ability to safeguard the program, provides adequate

notice to licensees of their obligations regarding debarment, as well as keeps the form user friendly for licensees wishing to voluntarily participate in the program.

Recommendation 10: Centers for Disease Control and Prevention – Investigations and Technical Assistance

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

Response:

The Public Health Administration will work with the DCH Office of Audit to implement a procedure for testing a sample of expenditures from high-risk agencies. If however, an agency that is deemed high risk has a specific program selected as major in their most recent single audit; DCH will rely on the results of that audit group and forgo any expenditure testing. Limited staff resources have delayed implementation.

Recommendation 11: Temporary Assistance for Needy Families (TANF) Cluster

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

Response:

Part a: DCH modified its sampling methodology to take into account CMHSPs with a larger volume of Family Support Subsidy cases, so that reasonable assurance of the accuracy of the eligibility determination and documentation is achieved.

Part b: DCH will explore available options and request a change to the Admin Code if deemed appropriate. DCH continues to research all available options.

Recommendation 12: Children's Health Insurance Program

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

For the third consecutive audit, we recommend that DCH improve its internal control over CHIP to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Response:

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

Part b (1): DCH worked with DHS to require that MEQC staff track and report missing documentation as part of their annual review, which will allow DCH to monitor the issue and develop corrective measures if necessary.

Part b (2): DCH made modifications to the RFP that was released in August 2010; these modifications will be incorporated into the new contract starting April 1, 2011. DCH believes any additional risks associated with this deficiency are minimal and does not plan on any further changes.

Part c (1): DCH will submit a revised interagency agreement to DHS. Limited staff resources have delayed completion; however, progress has been made on an updated interagency agreement. Once the draft is completed, it will be shared with MSA leadership for review and approval prior to sending to DHS.

Part c (2): The Department will perform an analysis when staff and resources become available. Limited staff resources have delayed completion of this analysis.

Recommendation 13: Medicaid Cluster, Eligibility

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

Response:

DCH worked with DHS to require that MEQC staff track and report missing documentation as part of their annual review, which will allow DCH to monitor the issue and develop corrective measures if necessary.

Recommendation 14: Medicaid Cluster, CFDA 93.777 and 93.778, Special Tests and Provisions - Provider Agreements and Certifications

We recommend that DCH ensure compliance with federal laws and regulations for the Medicaid Cluster special tests and provisions requirements pertaining to provider agreements with Medicaid's AHH Program providers.

For the third consecutive audit, we recommend that DCH ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to DSH payments for state psychiatric hospitals.

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

Response:

Part a: The AHH provider agreement has been finalized and will be implemented throughout the upcoming fiscal year as beneficiaries complete their annual redetermination.

Part b: Funding to obtain certification was initially included in DCH's FY 08 budget, and has been continued in FY 09 and FY 10. CPP is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). CPP certification was achieved effective November 17, 2010.

Recommendation 15: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Allowability of Medical Services

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

Response:

DCH will explore options for improving providers' maintenance of appropriate documentation to support the services they provide and for which they bill.

Recommendation 16: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - ARRA Prompt Pay Requirements

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:

DCH disagreed with OAG's finding and recommendation. It is the Department's position that not meeting the ARRA prompt pay requirements at this time represents neither an internal control weakness nor non-compliance with federal laws and regulations. DCH also disagreed that it was not eligible to receive increased FMAP for the 12 days of alleged non-compliance. Nonetheless, DCH will continue to work in partnership with the federal government to comply with the ARRA statute, as well as federal regulations. DCH requested, and was granted a waiver of ARRA prompt pay requirements through December 31, 2010.

Recommendation 17: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Improper Payments

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

We also recommend that DCH continue its efforts to recover improper payments from providers.

Response:

Part a.: The AHH program has undergone significant changes in FY 10, including a transition to a new payment system under the supervision of DCH. Controls have been instituted in the new payment system to give DCH direct control over the payment process and greater assurance as to the accuracy of the payments. This new system interfaces with the Medicaid eligibility file, resulting in payments only for Medicaid-eligible beneficiaries.

Part b.: DCH has reactivated the identification and recoupment processes as the relevant areas of the CHAMPS data warehouse have been implemented. The Department will continue to work to reduce the

number of inappropriate payments and to enhance its recoupment efforts, including the establishment of a process to recoup payments made to deceased providers.

Part c.: DCH will develop and implement a recoupment process for inappropriate payments made for audit home help services.

Recommendation 18: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles and Special Tests and Provisions - Managed Care

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 and special tests and provisions pertaining to managed care.

Response:

Part a.: DCH will explore the feasibility of testing a sample of the reports related to fraud and abuse to ensure their accuracy. Limited staff resources have delayed exploration of testing a sample of the reports related to fraud and abuse.

Part b.: DCH strongly disagrees with the conclusion that its rate setting process is contrary to sound business practice, that it cannot ensure that its capitation rates are actuarially sound and, consequently, that payments made to its Medicaid Health Plans were reasonable in amount.

The rate setting process that is employed by the Department is fully compliant with requirements for actuarial soundness as specified in 42 CFR 438.6 and with guidance from the Centers for Medicare and Medicaid Services (CMS) as reflected in "Financial Review Documentation for At-risk Capitated Contracts Rate Setting." Furthermore, the rates that were applied to Michigan's Medicaid Health Plans during the audit period were certified as being actuarially sound by an actuary who is a member of the American Academy of Actuaries and meets the standards established by the American Academy of Actuaries. Finally, these rates were reviewed and approved by the Centers for Medicare and Medicaid Services.

DCH contracted with Milliman, an actuarial firm, to develop the reimbursement rates for the Medicaid Health Plans. The process for determining actuarially sound rates is complex and includes numerous factors. In addition to encounter data, the actuary considers fee-for-service data, financial data obtained from health plans and OFIR (Office of Financial and Insurance Regulation.), Medicaid fee screen data, survey data from health plans as well as Milliman Medicaid Cost Guidelines and other Milliman proprietary data.

The Department has been engaged in a quality improvement process for encounter data for over a decade. The quality of the data has improved dramatically over that time span. Editing of the data has been increasingly rigorous as has the use of the data for various incentive arrangements embedded in the rate-setting process. DCH has a formal and consistently executed feedback process with the health plans regarding both data completion and quality. We are convinced that Michigan's Medicaid encounter data is among the best in the nation in regard to both completeness and quality. Nevertheless, DCH will continue to work with health plans to improve data quality and completeness knowing that there always will be room for improvement.

As it pertains specifically to the observation that DCH did not test a sample of encounter data and related medical records, that was a conscious decision and reflected appropriate priorities in establishing actuarially sound rates. Rather than test individual records, it was deemed more important to achieve alignment between the financial reporting of health plans to OFIR and the aggregate values of the encounter data versus validating data at the micro level. DCH does not have unlimited time or resources.

Recommendation 19: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Pharmacy Payments and Rebates

We recommend that DCH improve its internal control over the Medicaid Cluster, CHIP, and the MCH Block Grant Program related to payments to DCH's PBM to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

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

Response:

Part a.: DCH revised its reconciliation review procedures to include and document management's review and approval of the quarterly rebate reconciliation results and the reconciliation of billed amounts to underlying claim data.

Part b.: DCH implemented changes to place further access restrictions of the internal control procedures and databases.

Part c.: DCH modified its procedures to track details needed to reproduce the point-in-time rebate reconciliation results at later dates.

Recommendation 20: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Medicare Part A and Part B

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

Response:

DCH initiated additional reasonableness review procedures. DCH continues to review available options and will implement additional procedures as deemed appropriate.

Recommendation 21: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Disproportionate Share Hospital (DSH) Pools

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

Response:

DCH updates collectability factors on an annual basis to ensure that estimated first party payments (charges multiplied by updated collectability factors) are applied when calculating DSH limits for state psychiatric hospitals.

Recommendation 22: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Third Party Liabilities

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

Response:

Part a.: DCH is exploring the ability to capture appropriate data from vital records that could allow identification of the father.

Part b.: The Department is in the process of updating the resolution status of all cost request records transferred to the new PCRS system in 2005, which should resolve this issue.

Part c.: DCH considered making a change to the State Plan. At this time, DCH does not have available resources to conduct this function even if the State Plan was amended.

Part d.: DCH agrees that it did not include some pregnancy and birthing-related Medicaid costs in its reports to the PA and FOC offices. However, DCH disagrees that it missed an opportunity to recover up to $3.2 million of federal Medicaid costs. DCH reviews the appropriateness of costs selected for this process on a yearly basis and modifies accordingly.

Maternal support services costs are predominately used by DCH and are rarely reimbursed by private insurance. As DCH includes in its reports only those pregnancy and birthing-related costs that are routinely reimbursed by private insurance, few of the maternal support services costs are included.

Part e.: DCH continues to work with PA and FOC offices and DHS to improve operational protocols.

Recommendation 23: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Sanctioned Providers

We again recommend that DCH's internal control over the Medicaid cluster ensure compliance with special tests and provisions pertaining to provider eligibility.

Response:

Part a.: The Medicaid Integrity Program Section (MIPS) has met with the Bureau of Health Professions (BHP) and is in the process of refining a data use agreement between BHP and MIPS and MSA. MIPS has begun receiving the BHP Disciplinary Action Reports.

Part b.: Staff from appropriate areas within DCH will collaborate to develop improved processes to ensure the Sanctioned Provider List is updated on a regular basis and available to all appropriate staff. Limited staff resources have delayed development of a procedure outlining a timeline for sanction provider updates.

Part c.: DCH will consider verifying that the identified deficiencies have been addressed on a case by case basis.

Recommendation 24: Medicaid Cluster, *CFDA* 93.777 and 93.778, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Omnibus

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.

We also recommend that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations regarding activities allowed or unallowed.

Response:

Part a.: DCH will meet to explore options to improve the timeliness of hospital cost settlements. Limited staff resources have delayed development of options to improve the timeliness of hospital cost settlements.

Part b.: DCH implemented a new payment system for AHH which transitioned responsibility for AHH payments from DHS to DCH. The AHH payments previously made from Model Payments System at DHS are now made directly by DCH through the Adult Services Authorized Payments System (ASAP). Authorizations are interfaced daily from the authorized services system (ASCAP) to ASAP. Payments are only generated for authorized services and for beneficiaries with Medicaid eligibility. In addition, DCH developed a reasonableness check to apply to home help payments on a monthly basis. In addition to this reasonableness check, ASAP will continue to edit for large home help payments each payroll.

Part c.: DCH disagrees that its method of reviewing inpatient hospital annual cost reports did not effectively ensure that inpatient hospital payment rates were reasonable and adequate to meet the costs incurred by inpatient hospitals. In order for the inpatient hospital rates to be at risk, there must be a risk for material overstatement. Given the application of a State Operating Limit at the average cost per discharge for all inpatient admissions within Michigan, the contention that the inpatient hospital rates are at risk of overstatement is not accurate.

DCH agrees that cost acceptance procedures are not sufficient in themselves to ensure reasonable and adequate rates. For this reason, the Hospital Rate Review Section spends in excess of one full time equivalent (FTE) per year on rate setting in testing claims data, cost data, indirect medical education data,

Medicare audited wage data, comparing to industry norms (Medicare rates), submitting said data for public review, reviewing all appeals and responses, releasing all draft and preliminary rates to industry, and considering all public comments, including a review of the rates by health maintenance organizations which apply the said rates as a basis for the majority of their Medicaid contracts.

Part d.: DCH will continue to implement improvements in the contracting process that will guarantee that fully-executed agreements are in place prior to the initial payment. Additionally, DCH will pursue contract language or changes in the contracting process that will expedite execution of rate modifications, contract amendments or contract extensions. All contracts were fully executed and identified contract changes implemented prior to October 1, 2010.

Part e.: Accounting Division Procedure 105.0 was amended to now require supervisory approval of all journal entries.

Recommendation 25: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Provider Eligibility and Provider Health and Safety Standards

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.

We also 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 health and safety standards.

We further recommend that DCH ensure that all Medicaid providers make required disclosures.

Response:

Part a.: The Department will work with the Department of Technology, Management and Budget to improve the general controls over the noted applications.

Part b.: DCH disagreed that licenses issued during that time were improperly issued. Although the Department was unable to fully implement the criminal background check as described in MCL 333.16174, there was a substantially equivalent review process in place. Nonetheless, DCH is reviewing available options for obtaining a criminal history background check on licensees initially licensed during the period noted in the audit.

Part c.: With the implementation of the new MMIS (CHAMPS – Community Health Automated Medicaid Processing System), and additional procedures that were put in place at the time of CHAMPS implementation, DCH is confident that future payments will only be made to licensed providers.

Part d.: DCH disagreed that it was in violation of any federal regulation or state law. This was a pilot program initiated by the Bureau of Health Professions for the purpose of doing a periodic internal audit of its processes. The pilot was distinct and separate from the licensing process and the audits were conducted after the license had already been issued.

Part e.(1): DCH disagreed that verification of pharmacists' licensure does not occur. Upon enrollment, pharmacy providers have agreed to accept responsibility for compliance with Department policy and procedures, including proper employee training, licensure, non-excluded status, etc. DCH, through its pharmacy benefits manager, enrolls and reimburses pharmacies, but does not enroll or reimburse pharmacists.

Part e.(2): The Department will consider performing a more in-depth analysis of MHPs' credentialing processes, should additional staffing and resources become available.

As part of the next round of EQRs, DCH will work with its EQR contractor to ensure that the effectiveness of the PIHPs' credentialing activities are adequately assessed and reported.

DCH audit staff are now checking to determine if an ISD has verified credentials in accordance with program requirements. Effective for the 2011 School Year (7/1/10-6/30/11) the Michigan Department of Education will perform a provider credential review and report the results to DCH.

Part f.: DCH acknowledges there are limitations with its information systems relating to surveying health facilities and that it did not perform some state licensing surveys. In addition, it is the Department's position that certification of some types of facilities is more stringent and more relevant than licensure.

For many types of facilities, including hospitals and hospices, to participate in Medicare, the federal Centers for Medicare and Medicaid Services (CMS) requires them to be certified by the State Survey Agency (DCH) or accredited by a CMS-designated third party as meeting Medicare's Conditions of Participation. DCH believes these Conditions of Participation are more stringent than state licensure. The Department requires hospitals and hospices to have Medicare certification to enroll and be paid as a Medicaid provider. All hospitals and hospices in Michigan have been accredited by a CMS-designated third party or certified by DCH.

Clinical laboratories that provide testing in Michigan and that bill Medicaid are required to have an active Clinical Laboratory Improvement Amendments (CLIA) certificate. DCH, as the State Survey Agency, is responsible for ensuring laboratories seeking CLIA certification meet regulatory requirements. DCH believes the requirements for CLIA certification, which are more current than Michigan's laboratory licensing rules, are more relevant than state licensure.

Part g.: Changes have been made to the provider agreement and MHP and PIHP contracts and this information is now being captured and utilized. To ensure the adequacy and thoroughness of the PIHPs' compliance with the contract requirements referenced in the findings, DCH will incorporate examination of these requirements in the next round of External Quality Reviews.

Part h.: DCH agreed to explore options other than ASPEN to ensure that all appropriate parties receive notification of certifications and de-certifications. Limited staff resources have delayed exploration of other options.

Recommendation 26: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Utilization Control and Program Integrity

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 pertaining to utilization control and program integrity.

Response:

Part a: DCH will explore the feasibility of testing a sample of the MHP reports to ensure their accuracy. However, in a time of limited resources and competing priorities, DCH does not view this as one of the higher risk areas and will make judgments from that perspective. MHPs are paid capitated rates at full risk and, therefore, have direct financial interest in preventing fraud and making recoveries in the instances it occurs. DCH has incorporated these market principles to align financial self-interest with the overall goals of the program.

Part b: DCH recently received proposals for the pharmacy audit function. Once the new contract is in place, the pharmacy audit function will report directly to DCH.

Part c.(1): DCH will review the Federal regulations to determine what, if any, action is required for the Department to be in compliance.

Part c.(2): The MHP contract that began in October, 2009 instructs the plans to begin the process of sending EOBs to their members. DCH will develop language to include in its contract with the PIHPs to address this issue. Appropriate entities within DCH will work together to assure requirements are met and that there is a consistent process across the Department.

Part c.(3): Beneficiaries of Medicaid Adult Home Help service costs are required to sign a log verifying which services they received that month. This replaces the Medicaid EOB letter verification process.

Part d: Due to changes in staffing within the Section and the need to train two new data analysts in the SURS process, during fiscal year 09-10 one SURS EOC and one SURS Profile were completed. Completion of at least one additional SURS run is planned.

Recommendation 27: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - Long-Term Care Facility Audits

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 pertaining to long-term care facility audits.

Response:

DCH has initiated an additional step in the audit planning process to ensure that an on-site review is completed at least once every four year.

Recommendation 28: Medicaid Cluster, *CFDA* 93.777 and 93.778, Subrecipient Monitoring

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For the fourth consecutive audit we recommend that DCH improve its internal control over the Medicaid cluster to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Response:

Part a.: DCH will conduct an overview of samples, to the extent staff time permits, to provide the assurance that the sampling plan is adhered to.

Part b.: DCH disagreed that it did not monitor the propriety and accuracy of the MEQC Medicaid mispayment rate calculations. DCH meets on a regular basis with MEQC staff to review each identified error for accuracy as it applies to the error rate calculations. Also, the Medicaid Error Review Committee, which consists of representatives from DCH, DHS central office, and DHS local offices, meets 3 times per month to review each error. In reviewing the errors, corrections are made, suggestions are considered, and any training needs are identified.

The Department acknowledges that it did not evaluate the cause of periodic mispayment rate fluctuations. The sampling plan submitted to CMS by the Department was developed to provide a statistically accurate evaluation of eligibility error rates on an annual basis. Periodic fluctuations are not statistically reliable, and subject to anomalies that may be caused by one or several outlier errors. The Department does not consider these fluctuations reliable, and sees little value in devoting scarce resources to determining the cause of these anomalies.

Part c.: While attempting to draw conclusions regarding the direct correlation between corrective actions and reducing the mispayment rate can be problematic, the Department will attempt to develop evaluative techniques that quantify such correlations.

Recommendation 29: Medicaid Cluster, *CFDA* 93.777 and 93.778, Reporting

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

Response:

Part a.: DCH modified its Journal Voucher Approval policy to incorporate management review and approval of all IJVs.

Part b.: DCH modified its Journal voucher Approval policy to incorporate management review and approval of all IJVs. In addition, DCH will make an adjustment to the CMS-64 to correct the previous reporting error.

Part c.: DCH Accounting and the Third Party Liability Division have developed a process for ensuring that Medicare recoveries are accurately reported on the CMS-64.

Recommendation 30: Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions - CHAMPS

We recommend that DCH, in conjunction with DTMB, establish effective general controls over CHAMPS.

Response:
Part a: DCH has contracted with an independent entity to perform a security assessment of CHAMPS in preparation of federal certification. This assessment will include devolvement of a security plan.

Part b: DTMB worked with the CHAMPS contractor to ensure that security and access controls over the development servers aligned with State of Michigan policy.

Part c: DTMB in conjunction with DCH developed and documented appropriate change control procedures for CHAMPS.

Recommendation 31: Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles and Special Tests and Provisions - CHAMPS Other

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 and special tests and provisions.

Response:

Part a: The conversion was completed and production of EOBs resumed in June 2010.

Part b: DCH is working to reconcile the new reports generated by CHAMPS.

Part c: DCH is working to reconcile the new reports generated by CHAMPS.

Part d: All gross adjustment functionality specific for TPL adjustments was resolved and DCH began to process gross adjustments in June 2010.

Part e: The recoupment process for deceased beneficiaries in Medicaid Health Plans (MHPs) has been occurring regularly within CHAMPS. Testing on the new fee for service match process was recently completed; DCH expects to resume recoupment procedures within the next month.

Recommendation 32: HIV Care Formula Grants, *CFDA* 93.917

We recommend that DCH improve its internal control over the HIV Care Formula Grants Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

Response:

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Part a.: DCH acknowledges that the 2007 and 2008 waiver requests were not submitted within 120 days of the end of the grant period; however, for grant year 2007 DCH had received an extension to submit final expenditures and therefore do not believe the submission was late. For 2008, DCH disagrees that the waiver requirement was submitted late. The Instructions for FY 2008 Progress Reports changed the final report submission date to August 31, 2009. DCH was granted a one-week extension and submitted their final report and waiver request on September 1, 2009. For both grant periods, the federal agency approved the waiver requests without exception.

Part b.: In January 2010 HAPIS reviewed documentation to support all October 2009 expenditures reported by two other subrecipient agencies. By September 30, 2010, HAPIS plans to perform new risk assessments for each subrecipient, and by December 2010 perform fiscal site visits at agencies determined to be moderate or high risk. The fiscal site visits will include a review of documentation that support expenditures reported at agencies deemed high risk to monitor allowable activities, allowable costs/cost principles, cash management, and eligibility. Staffing constraints and contractor availability during the holidays has delayed compliance.

Recommendation 33: Block Grants for Prevention and Treatment of Substance Abuse, *CFDA* 93.959

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

We again recommend that DCH improve its internal control over SAPT to ensure compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.

Response:

Part a.: DCH Accounting developed a procedure to allocate expenditures to the appropriate program codes to allow for an easier demonstration of compliance with federal level of effort requirements. Year-end allocations will be recorded using preliminary closeout documents from the coordinating agencies as final reports will not be submitted early enough to meet year-end closing requirements.

Part b.: DCH will assure monitoring of direct and material federal requirements applicable to subrecipient activities not less often than every other year. That is, no subrecipient will go more than one year in a row without the SAPT Program being subject to either major program testing in a Single Audit or BSAAS on-site monitoring activities to ensure that the subrecipients used funds in compliance with federal laws and regulations. The Office of Audit will notify BSAAS if a subrecipient's SAPT Program is not selected as a major program for the prior fiscal year (that is, for the year in which audit reports are due; audit reports are due to MDCH nine months after the close of the subrecipient's fiscal year). BSAAS will then contact the subrecipient to see if the SAPT Program has been or will be selected as a major program for the following fiscal year. If not, BSAAS will conduct a special review of that subsequent year to determine compliance with federal requirements.

Part c.: BSAAS adopted more detailed internal procedures regarding site visit tasks, time frames, documentation requirements, reporting, and other elements, with an emphasis on obtaining and retaining evidence of treatment provider accreditation, and will assure that staff is made aware of expectations.

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Recommendation 34: Maternal and Child Health Services Block Grant to the States, *CFDA* 93.994

For the third consecutive audit, we recommend that DCH improve its internal control over the MCH block grant program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

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

Response:
Part a.: We have reviewed our draw processes and schedules and believe we now have our draw differentials at an immaterial difference. To reduce the differential further would require additional staffing not warranted for the net difference, costs would exceed the benefit.

Part b.: The Public Health Administration will work with the Office of Audit to implement appropriate subrecipient monitoring procedures for high-risk agencies. Limited staff resources have delayed implementation.

Recommendation 35: Automated Data Processing (ADP) Security Program

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

Response:

Part a.: DCH as part of the next ICE process will determine the appropriate security categorization of its information systems.

Part b.: DTMB in conjunction with DCH will complete a risk assessment for DCH applications still in productions.

Part c.: DTMB in conjunction with DCH will complete a security plan for all systems still in production.

Part d.: DTMB in conjunction with DCH will complete the documentation of the DR Plans and test the DR plans, after finishing the documentation.

Part e.: DTMB, in conjunction with DCH, will no less than biennially review the system security plans. A written summary of the results including an action plan to correct security weaknesses will be prepared. This will commence with the completion of the security plans.

Part f.: DCH will consider the recommendation of having the security officer report directly to DCH's executive management team.