Office of the Auditor General
Performance Audit Report

Children's Special Health Care Services

Michigan Department of Health and Human Services

March 2016

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

391-0724-15

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

Article IV, Section 53 of the Michigan Constitution

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Report Summary

Performance Audit
Children's Special Health Care Services (CSHCS)
Michigan Department of Health and Human Services (MDHHS)

Report Number:
391-0724-15

Released:
March 2016

The CSHCS Division oversees services provided to individuals with special health care needs. The Division expended $190.0 million in fiscal year 2014, including $177.7 million for medical care and treatment. As of June 30, 2015, the Division had 35,536 CSHCS clients and 31 full-time staff.

Audit Objective	Conclusion
Objective #1: To assess the sufficiency of MDHHS's oversight of services provided to individuals with special health care needs.	Sufficient

Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not applicable

Audit Objective	Conclusion
Objective #2: To assess the effectiveness of MDHHS's efforts to ensure compliance with CSHCS client eligibility requirements.	Effective

Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not applicable

Audit Objective	Conclusion
Objective #3: To assess the appropriateness of MDHHS's establishment and enforcement of the CSHCS fee structure.	Appropriate with exceptions

Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDHHS's process to collect delinquent accounts needs improvement. The State may be at risk of losing up to $1.4 million in delinquent account balances (Finding #1).		X	Agrees
The Division did not properly verify and correct client-reported payment agreement information; therefore, it could not ensure that it appropriately charged CSHCS clients (Finding #2).		X	Agrees

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March 25, 2016

Mr. Nick Lyon, Director
Michigan Department of Health and Human Services
Capitol View Building
Lansing, Michigan

Dear Mr. Lyon:

I am pleased to provide this performance audit report on Children's Special Health Care Services, Michigan Department of Health and Human Services.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above 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,

Doug Ringler

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

SUFFICIENCY OF OVERSIGHT OF SERVICES PROVIDED TO INDIVIDUALS WITH SPECIAL HEALTH CARE NEEDS

BACKGROUND

The Children's Special Health Care Services (CSHCS) Division oversees enrollment and support services for the CSHCS program. The Division partners with 45 local health departments to provide outreach, enrollment, and support services and contracts with parent consultants to administer a family center and support phone line, manage a parent-to-parent support network, provide outreach services, and provide a personal perspective into the CSHCS program. Also, the Division provides comprehensive coordinated care through children's multidisciplinary specialty (CMDS) clinics where a team of medical specialists and other health professionals collaborate to develop a multidisciplinary plan of care.

AUDIT OBJECTIVE

To assess the sufficiency of the Michigan Department of Health and Human Services' (MDHHS's) oversight of services provided to individuals with special health care needs.

CONCLUSION

Sufficient.

FACTORS IMPACTING CONCLUSION

- The Division reviewed outreach activities and obtained a comprehensive plan of action for identified deficiencies for all 8 of the 8 site visits reviewed. The Division performed 25 site visits during the audit period.
- Division management maintained communication and collaboration with parent consultants.
- CMDS clinic billings were appropriate for 75 (97.4%) of 77 patients reviewed.
- CSHCS diagnosis codes and authorized providers were appropriate for 50 and 49, respectively, of the 50 claims reviewed.
- The Division performed an overall assessment of the CSHCS program and analyzed enrollment data and trends. The Division has identified areas for improvement and started enhancing communication.
- The Division actively advised clients to obtain and disclose other insurance coverage, thus providing cost savings to the State and additional insurance coverage for CSHCS clients.
- The Division conducted a satisfaction survey of CSHCS clients to be used as baseline data for future analysis.

EFFECTIVENESS OF EFFORTS TO ENSURE COMPLIANCE WITH ELIGIBILITY REQUIREMENTS

BACKGROUND

The Division determines CSHCS client eligibility. Clients must have at least one of more than 2,700 qualifying diagnoses and meet medical evaluation criteria as well as age, citizenship, and residency requirements. CSHCS coverage is typically issued in 12-month increments and covers services that are medically necessary, related to one of the client's qualifying diagnoses, and ordered by one of the client's CSHCS authorized specialists or subspecialists. Medical evaluations are required to be renewed every 1, 2, 3, or 5 years depending on the primary diagnosis.

AUDIT OBJECTIVE

To assess the effectiveness* of MDHHS's efforts to ensure compliance with CSHCS client eligibility requirements.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- The Division sufficiently and appropriately documented eligibility decisions for 99% of 100 CSHCS clients reviewed.
- The Division ensured that medical reviews were completed in a timely manner for 96% of 100 CSHCS clients reviewed.
- The Division appropriately ended coverage prior to a client's 21st birthday for 99.8% of the 5,712 clients that turned 21 during the audit period and did not have a qualifying diagnosis to continue coverage.

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

APPROPRIATENESS OF ESTABLISHMENT AND ENFORCEMENT OF FEE STRUCTURE

BACKGROUND

CSHCS clients may be required to pay part of the cost of care as established through a financial assessment process. Annual fees are based on family income and size and range from $120 to $2,964.

Clients are exempt from financial participation if at least one of the following applies:

- Client is enrolled in Medicaid or MIChild.
- Client is a ward of the county or State.
- Client is living in a foster home or a private placement agency.
- Client has a court-appointed guardian.

AUDIT OBJECTIVE

To assess the appropriateness of MDHHS's establishment and enforcement of the CSHCS fee structure.

CONCLUSION

Appropriate with exceptions.

FACTORS IMPACTING CONCLUSION

- The Division properly established or adjusted payment agreement fees, based on documented information, for 96.7% of the 92 payment agreements reviewed.
- Reportable conditions* related to improving:
  - Collection efforts for delinquent accounts.
  - The payment agreement information verification process.

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

FINDING #1

MDHHS's process to collect delinquent accounts needs improvement. The State may be at risk of losing up to $1.4 million in delinquent account balances.

MDHHS's collection efforts for delinquent accounts need improvement.

Section 333.5841 of the *Michigan Compiled Laws* specifies that parents, spouses, and children with the ability to pay for all or part of care and treatment charges for a child or youth with special health care needs shall pay an amount determined by agreement with MDHHS. Also, the State of Michigan Financial Management Guide (Part II, Chapter 11, Section 200) requires agencies to refer delinquent accounts greater than $100 to the Department of Treasury's Office of Collections after collection efforts have been made by the agency for a six-month period. In addition, Section 600.5813 of the *Michigan Compiled Laws* indicates that the statute of limitations on collections is generally six years from the date that claims accrue.

$1.4 million in delinquent account balances was outstanding for up to six years.

MDHHS made some attempts to collect delinquent account balances. However, as of June 30, 2015, 4,005 delinquent accounts, individually greater than $100 and totaling $1,434,633, had been outstanding for up to six years as follows:

Fiscal Year	Total Assessed	Total Collected	Total Outstanding	Total Delinquent
2015*	$ 3,054,262	$ 1,507,984	$1,546,278	$ 0
2014	3,753,526	3,276,648	476,878	307,999
2013	3,670,785	3,374,257	296,528	288,774
2012	3,529,449	3,236,201	293,248	284,564
2011	3,442,738	3,139,333	303,405	293,504
2010	3,196,578	2,929,146	267,432	259,792
	$20,647,338	$17,463,569	$3,183,769	$1,434,633

*Includes payment agreements through June 30, 2015.

MDHHS had not established formal procedures to follow up delinquent accounts and had not forwarded them to the Office of Collections.

RECOMMENDATION

We recommend that MDHHS improve its process to collect delinquent accounts, including forwarding uncollectible accounts to the Department of Treasury's Office of Collections.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MDHHS agrees that it does not have a formal process in place to refer delinquent accounts for families with the ability to pay for all or part of the cost of care and treatment to the

Department of Treasury. CSHCS is working with the MDHHS Bureau of Finance to establish a formalized referral process to refer delinquent accounts to the Department of Treasury's Office of Collections. This process is expected to be implemented in fiscal year 2016.

FINDING #2

Process to verify and correct client-reported payment agreement information needs improvement.

The Division did not properly verify and correct client-reported payment agreement information. The Division may not be assessing approximately $125,000 of payment agreement fee revenue per year.

Section 333.5841 of the *Michigan Compiled Laws* provides that parents, spouses, and children with the ability to pay for all or part of care and treatment charges for a child or youth with special health care needs must pay an amount agreed upon with MDHHS. Also, MDHHS's Medicaid Provider Manual (CSHCS chapter, Section 5.1) indicates that CSHCS clients enrolled in Medicaid or MIChild are exempt from any fee assessment.

The Division established client payment agreement amounts based on client-reported information and conducted random audits to verify income. The Division randomly selected for audit 842 (6.1%) of the 13,752 payment agreements created during the 21-month period October 1, 2013 through June 30, 2015. Our review of 50 of the 842 agreements noted:

a. The Division waived the audit process for 23 (46%) clients, which occurs if the client meets certain criteria, such as being enrolled in Medicaid or MIChild. However, the Division improperly waived 2 (8.7%) audits for clients not meeting any of the applicable criteria.

b. The Division did not obtain sufficient documentation to verify the information reported for 4 (14.8%) of the 27 agreements audited.

c. The Division did not properly correct the fees for 2 (7.4%) of the 27 agreements audited based on the supporting documentation received. In both instances, the Division determined that the family income was underreported and the family size was overreported. We determined that the annual fees should have been increased by $540 and $252 for these 2 clients. Based on this, we estimated that the Division may not be assessing approximately $125,000 of payment agreement fee revenue per year.

The Division did not have procedures to instruct staff on how to verify information and when it is appropriate to waive the audit process.

RECOMMENDATION

We recommend that the Division properly verify and correct client-reported payment agreement information.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MDHHS agrees that it did not always properly verify and/or correct client-reported payment agreement information. CSHCS is currently evaluating its payment agreement verification process and as part of this process will develop written procedures to better instruct staff on the verification process. These procedures will describe when the income verification process is to be completed, circumstances upon which income verification is not necessary, documentation requirements, and the procedures that need to be followed for any applicable fee corrections, if necessary.

DESCRIPTION

Section 333.5815 of the *Michigan Compiled Laws* requires MDHHS to establish and administer a program of services for children and youth with special health care needs and children who are suffering from conditions which lead to special health care needs because of disease or specified medical condition. Also, Title V of the Social Security Act requires the State to provide and promote family-centered, community-based, coordinated care for children with special health care needs.

The CSHCS program strives to enable individuals with special health care needs to have improved health outcomes and an enhanced quality of life through the appropriate use of the CSHCS system of care. CSHCS program goals* are to:

- Assist individuals with special health care needs in accessing the broadest possible range of appropriate medical care, health education, and supports.
- Ensure delivery of these services and supports in an accessible, family-centered, culturally competent, community-based, and coordinated manner.
- Promote and incorporate parent/professional collaboration in all aspects of the program.
- Remove barriers that prevent individuals with special health care needs from achieving these goals.

The CSHCS Division was within the Department of Community Health's Bureau of Family, Maternal, and Child Health until Executive Order No. 2015-4 combined the former Departments of Human Services and Community Health into the newly created Michigan Department of Health and Human Services (MDHHS), effective April 10, 2015. The CSHCS Division is now within MDHHS.

The CSHCS program is funded through the federal Maternal and Child Health Services Block Grant, Medicaid, the State's General Fund, CSHCS fees, and private donations.

In fiscal year 2014, the Division expended $190.0 million, including $177.7 million for medical care and treatment. As of June 30, 2015, the Division had 35,536 CSHCS clients and 31 full-time staff.

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

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records and processes of CSHCS. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2013 through June 30, 2015.

METHODOLOGY

We conducted a preliminary survey of CSHCS operations to formulate a basis for defining the audit objectives and scope. During our preliminary survey, we:

- Interviewed Division staff to obtain an understanding of their processes to provide services for children and youth with special health care needs.
- Reviewed applicable laws, policies, procedures, manuals, and guidelines.

OBJECTIVE #1

To assess the sufficiency of MDHHS's oversight of services provided to individuals with special health care needs.

To accomplish this objective, we:

- Reviewed CMDS clinic billings for 1 randomly selected month for each of 4 randomly selected entities to verify that the 77 patients billed for were CSHCS clients and that claims did not exceed the allowed limit.
- Analyzed and reviewed CMDS claims occurring in the Community Health Automated Medicaid Processing System (CHAMPS) and in the Electronic Grants Administration and Management System (EGrAMS) for duplicate payments.
- Reviewed 50 randomly selected claims payments for appropriate diagnosis codes and providers. We also analyzed these payments to ensure that MDHHS did not make duplicate payments.

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

- Analyzed fee-for-service claims for clients enrolled in a Medicaid Health Plan (MHP) to determine if services should have been covered under the MHP.

- Reviewed 8 judgmentally selected local health department accreditation reviews to determine if the Division properly documented verification of required outreach activities and obtained a comprehensive plan of action if deficiencies were noted.

- Reviewed the 18 refunds of 10 randomly selected clients for proper coding and amount.

- Obtained an understanding of the Division's oversight of family center activities and reviewed the family center contract and statistics.

- Obtained an understanding of the process to evaluate overall effectiveness of the CSHCS program.

We selected random samples to eliminate bias and enable us to project the results into the population. We selected the judgmental sample based on identified risks and county population to obtain maximum coverage.

OBJECTIVE #2

To assess the effectiveness of MDHHS's efforts to ensure compliance with CSHCS client eligibility requirements.

To accomplish this objective, we:

- Tested the propriety of 100 randomly selected client eligibility determinations.

- Reviewed payment agreements for 25 randomly selected clients who had 2 or more outstanding payment agreements to determine if eligibility should have been denied.

- Analyzed records of all clients who were over the age of 21 to determine if they had a qualifying diagnosis to remain eligible.

- Reviewed coverage for all clients enrolled in both the CSHCS program and a long-term or an intermediate care facility during the audit period to identify potential overlapping coverage.

We selected random samples to eliminate bias and enable us to project the results into the population.

OBJECTIVE #3

To assess the appropriateness of MDHHS's establishment and enforcement of the CSHCS fee structure.

To accomplish this objective, we:

- Obtained an understanding of the Division's collection process for delinquent accounts. We analyzed the delinquent account balances and identified those that were within the statute of limitations.
- Reviewed 60 randomly selected delinquent accounts to determine if the Division notified the clients of the delinquent status in a timely manner.
- Reviewed 40 randomly selected payment agreements to determine if the fee structure was appropriate based on the clients' applications and Medicaid and MIChild eligibility status.
- Reviewed 40 randomly selected low income payment agreements to determine if the Division required the clients to apply for Medicaid and MIChild.
- Reviewed 50 randomly selected clients that the Division selected for audit to determine if it properly verified income and corrected payment agreement amounts or appropriately waived the audit.
- Reviewed 25 randomly selected payment agreement adjustments for appropriateness.

We selected random samples to eliminate bias and enable us to project the results into the population.

CONCLUSIONS

We base our conclusions on our audit efforts and the resulting material conditions* and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 2 findings and 2 corresponding recommendations. MDHHS's preliminary response indicates that it agrees with both recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit

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

fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the 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.

PRIOR AUDIT FOLLOW-UP

We released our prior performance audit of the Children's Special Health Care Services Division, Department of Public Health (35-181-93), in February 1995. Within the scope of this audit, we followed up 14 of the 17 prior audit recommendations. The Department complied with 11 prior audit recommendations, we rewrote 1 prior audit recommendation for inclusion in Finding #1 of this audit report, and we determined that 2 prior audit recommendations were no longer applicable.

GLOSSARY OF ABBREVIATIONS AND TERMS

CMDS	children's multidisciplinary specialty.
CSHCS	Children's Special Health Care Services.
effectiveness	Success in achieving mission and goals.
goal	An intended outcome of a program or an entity to accomplish its mission.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MDHHS	Michigan Department of Health and Human Services.
MHP	Medicaid Health Plan.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

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