



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ROBERT GORDON
DIRECTOR

June 17, 2020

Rick Lowe, Chief Internal Auditor
Office of Internal Audit Services
George W. Romney Building
111 South Capitol Avenue, 8th Floor
Lansing, Michigan 48913

Dear Mr. Lowe:

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

Questions regarding the summary table or corrective action plans should be directed to me at 517-241-4237 or MyersP3@michigan.gov.

Sincerely,

Pam Myers, Director
Bureau of Audit

PM:wb

Enclosure

c: Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
Executive Office
DHHS, Elizabeth Hertel
DHHS, Farah Hanley

House Appropriations Committee
House Standing Committee
Senate Appropriations Committee
Senate Standing Committee
DHHS, Katherine Massey
DHHS, Emily Schwarzkopf

PERFORMANCE AUDIT OF
ADMINISTRATION OF MEDICAID
PAYMENTS TO NURSING FACILITIES
FOR LONG-TERM CARE

DEPARTMENT OF HEALTH AND
HUMAN SERVICES

AUDIT RESPONSE

Approved: Farah A. Hanley

Farah A. Hanley, Senior Deputy Director
Department of Health and Human Services

Date: 06/17/20



AUDIT REPORT SUMMARY

DEPARTMENT: Financial Operations Administration

AUDIT PERIOD: October 1, 2015 through July 31, 2018

REPORT DATED: November 15, 2019

DISPOSITION OF AUDIT RECOMMENDATIONS

CITATIONS COMPLIED WITH	CITATIONS TO BE COMPLIED WITH	CITATIONS MDHHS DID NOT AGREE WITH
	Finding 1 (6/30/2020)	
	Finding 2 (8/15/2020)	
Finding 3		
Finding 4		
Finding 5		

Audit Response
Performance Audit
2018 Administration of Medicaid Payments to
Nursing Facilities for Long-Term Care
Department of Health and Human Services
October 1, 2015 through July 31, 2018

Recommendation 1: Consideration of alternative reimbursement methodologies.

We recommend that MDHHS reevaluate its Medicaid LTC cost reimbursement methodology.

Response

As referenced in the finding, MDHHS has done some preliminary work in assessing alternative reimbursement methodologies. We continue that research and plan to develop a recommendation on how to best identify and implement reforms to the current methodology.

Recommendation 2: Improvements needed to the cost report acceptance process.

We recommend that MDHHS enhance its cost report submission and initial review processes.

Response

Public Act 612 of 2018 amended the Michigan Social Welfare Act effective June 26, 2019 and established timelines for the cost report acceptance process. To ensure compliance with the statute, MDHHS updated its cost report acceptance, audit and settlement policy through bulletin MSA 19-28. All LTC staff were trained on these policy changes at staff meetings and providers were trained on these policy changes at the first annual "Audit Seminar" in the fall of 2019 (in 4 different locations). The policy changes in bulletin MSA 19-28 are effective November 1, 2019.

MDHHS is also working to implement an automated cost report acceptance process which will reduce the number of cost reports submitted with errors significantly.

Finally, LTC Audit Division staff educated both providers and cost report preparers on several statewide "cost report submission error" trends during the "Audit Seminar". The intent of providing this information during the seminar was to help reduce the number of cost reports returned to providers for correction in future years.

Recommendation 3: Cost report audit process needs improvement.

We recommend that MDHHS improve its audit procedures to help identify unallowable costs and more consistently disallow unallowable costs.

Response

During the audit process, MDHHS auditors perform an analysis of the cost report to determine which expenditures to select for audit during that cost report period. This analysis is done every year and the expenditures selected for review each year may change. However, in the event that an MDHHS auditor disallows expenditures that haven't previously been reviewed or questioned during an audit, the industry has interpreted this as MDHHS is changing or reinterpreting policy. As a result of this, MDHHS has received significant pressure from external parties, and as noted in the finding, modified some disallowances.

Regardless of this, the LTC audit teams have still been identifying significant audit adjustment and

recovery amounts across the State. For fiscal year (FY) 2016 through FY 2019, the initial and final settlements processed through Gross Adjustments totaled:

- FY 2016 – Net savings of \$1,785,924
- FY 2017 – Net savings of \$4,293,669
- FY 2018 – Net savings of \$11,146,324
- FY 2019 – Net savings of \$14,820,485

To further improve audit procedures, the LTC audit teams have begun using a new audit management software (TeamMate) in 2019 that is designed to help with all aspects of the audit process. This audit software is also currently utilized by 6 other State departments/offices (including the Office of the Auditor General) and helps with the consistency of our audit steps and findings.

In addition, the LTC Audit Division is holding monthly manager meetings and quarterly staff meetings to specifically discuss policy and emerging audit trends to ensure that there is consistency of our interpretation and audit procedures across all regional offices.

Finally, the LTC Audit Division conducted its first annual "Audit Seminar" in the fall of 2019 (in 4 different locations) to educate our providers on the statewide audit trends. The compilation of data for the "Audit Seminar" involved multiple meetings with all three regional offices and helped to ensure that we are identifying and consistently addressing issues across all LTC audits.

Recommendation 4: Timeliness of audit process needs improvement.

We recommend that MDHHS improve the timeliness of its audit process and perform on-site audits at least once every four years.

Response

Public Act 612 of 2018 established new LTC audit timelines for newly accepted cost reports and prior year unaudited cost reports. To ensure compliance with this statute's timelines, MDHHS implemented a new audit policy through bulletin MSA 19-28 (effective November 1, 2019). All LTC audit staff were trained on these policy changes and providers were trained on these policy changes at the first annual "Audit Seminar" held in the fall of 2019 (in 4 different locations).

MDHHS LTC Audit Division has implemented various tools to monitor the audit process and ensure PA 612 requirements will be met. These tools are used during the biweekly regional office managers meetings to review the status of all audits. 681 LTC audits were completed between 10/1/18 – 9/30/19 and all FY15 & FY16 cost reports have been audited. All FY17 cost report audits are projected to be completed by September 2020 and all FY18 audits will be completed by April 2021, all in compliance with PA 612 timelines.

MDHHS also amended the Medicaid State Plan and eliminated the requirement of on-site audits once every four years. LTC Audit Division staff will continue to perform a significant amount of audits on-site but have recognized that advancements in technology is creating efficiencies in audit work and allowing us to receive the same documentation in an electronic format.

Recommendation 5: Improvements needed to the cost settlement process.

We recommend that MDHHS improve the timeliness and accuracy of its cost settlement process.

Response

Public Act 612 of 2018 amended the Michigan Social Welfare Act effective June 26, 2019 to establish timelines for new cost report settlements and prior year unprocessed cost report settlements.

To ensure compliance with this statute's new timelines, MDHHS updated its cost report acceptance, audit and settlement policy through bulletin MSA 19-28. All LTC staff were trained on these policy

changes at staff meetings and providers were trained on these policy changes at the first annual "Audit Seminar" in the fall of 2019 (in 4 different locations). The policy changes noted in bulletin MSA 19-28 are effective November 1, 2019.

The MDHHS LTC Reimbursement Division has begun utilizing new reports to monitor the settlement process. These reports are being utilized during the weekly staff meetings to track the status of all settlements and prioritize the work accordingly to ensure PA 612 requirements will be met.