



STATE OF MICHIGAN

DEPARTMENT OF COMMUNITY HEALTH
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JANET OLSZEWSKI
DIRECTOR

July 22, 2009

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 a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's Financial 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,

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, Janet Olszewski
DCH, Mary Jane Russell

House Appropriations Committee
House Standing Committee
Senate Appropriations Committee
Senate Standing Committee
DCH, Kurt Krause
DCH, Paul Reinhart

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

DEPARTMENT OF COMMUNITY HEALTH

October 1, 2005 through September 30, 2007

AUDIT RESPONSE

Approved: Signature Redacted

Jacek Olszewski, Director
Department of Community Health

Date: *June 17, 2009*



AUDIT REPORT SUMMARY

DEPARTMENT: Community Health

AUDIT PERIOD: October 1, 2005 through September 30, 2007

REPORT DATED: October 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.(a)	3.(b)	
4.	4. (PIHP contracts) *	
5.		
6.		
7.		
8.	8.(b)	
9.		
10.	10.(a)	
11.		
12.		
13.	13. (b.1 & b.2)	
14. (b.1 & b.2)	14.(a)	
15.(b)	15.(a)	
16.		
17.		
18.		
19.	19.(b,4)	
20.	20.(b.2)	
21.		
22.		
23.		

**Audit Response
Financial Audit
Including the Provisions of the Single Audit Act of the
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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 again recommend that DCH improve its efforts to monitor the effectiveness of its internal control using the ICE.

Response:

Part a.: Responses to Findings 2 through 23 address corrective action relative to part of this finding.

Part b (1): DCH added a third section entitled "Status/Comments regarding any material weaknesses noted from audits in your area during the last four years." This section was completed for ICE 2008.

Part b (2): DCH completed a schedule showing the current status of all material findings for inclusion into ICE 08.

Part b (3): DCH expects to submit its ICE 08 on a timelier basis this cycle. DCH submitted the ICE to the Office of Internal Audit services for review on July 9, 2009.

Recommendation 2: Accounting and Financial Reporting

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

Response:

Part a: Because part of the examples referred to in this finding represent specific findings that are separately addressed later in this document, the updated corrective action will not be duplicated here but separately addressed in response to each finding.

Part b (1a) and b (1b): No new status to report. Completed and ongoing.

Part b (1c): Guidance is provided in the Grant Agreement Instructions to all staff creating grant agreements to help them determine how to categorize relationships (vendor versus subrecipient). Additional guidance was provided to the program areas as part of subrecipient monitoring training provided to program staff during May and June of 2008.

Part b (2): No new status to report. Completed and ongoing.

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Recommendation 3: Cash Management

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

Response:

Part a: No new status to report.

Part b: The Grants Accounting manager was hired in September 2008. DCH is working with the federal government to ensure any proposed policy changes comply with federal regulations. Completion date is still targeted for September 30, 2009.

Recommendation 4: PIHP and CMHSP Contract Payments

We 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 acknowledged that improvements in the contractual process are necessary. DCH has taken the following actions:

- A memo was sent to all CMHSPs alerting them of DCH's intent to withhold general fund payments until fully-executed contracts were in place. For FY 2009, DCH had fully executed contracts with all 46 CMHSPs before payments were made.

A memo was sent to all PIHPs alerting them of the audit finding. DCH's current MMIS system used to make payments to PIHPs does not allow for withholding of a payment for a single vendor payment amongst a group of providers. For this reason, DCH could not delay payment to all vendors because just two needed an additional 30 days to complete their legally required public hearings and obtain local governing board contract approval. At the start of this fiscal year and prior to any payment, 16 of the 18 PIHPs had entered into fully-executed contracts. Once the CHAMPS system is in place, DCH will have the capacity to withhold individual PIHP provider payments. CHAMPS is expected to go live by September 30, 2009.

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Recommendation 5: Advance Payments

We recommend that DCH obtain prior approval to make advance payments to providers.

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Response:

Future amendments to or increases in advances will be formally documented, and advances will only be disbursed with written approval.

- No new status to report. Corrective action is completed and ongoing.

Recommendation 6: Receivables System (RS) Database

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

Response:

Part a: The Main and Medicaid Support Section (MMSS) provides the Medicaid Integrity Program Section (MIPS) with a monthly report containing receivable activity. The MIPS is responsible for reconciling the report and returning it to the MMSS.

Part b: Nothing new to report. Completed and ongoing.

Part c: The MMSS continues to strive to post receivable on a timelier basis; however, staffing continues to be an issue.

Recommendation 7: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), CFDA 10.557

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

Response:

Part a (1): DIT implemented backup procedures with a backup server for coupon images which began June 1, 2008. DIT will continue to make DVD copies for the WIC Operations Unit for as long as necessary.

Part a (2): Controls are in place with coupons being vigilantly logged and scanned prior to shipment and delivery by DMB delivery services to the WIC operations Unit. With the WIC statewide conversion to EBT completed November 26, 2008, the amount of coupons being processed has substantially been reduced.

Part b (1): As of December 18, 2008, DCH Office of Audit had revised the standard audit program used to perform periodic fiscal reviews to reduce time spent to enable a two-year cycle review. The audit program is being field tested, further revisions may be necessary to

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accomplish a two-year review cycle. Quarterly analyses will be performed to ensure the two-year review cycle is ultimately accomplished.

Part b (2): No new status to report. Corrective action is completed and ongoing.

Recommendation 8: 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, cash management, and subrecipient monitoring.

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

Response:

Part a: No new status to report. Corrective action is completed and ongoing.

Part b: DCH has drafted a policy/procedure for the appropriate reporting of grant obligations. The policy is expected to be formalized by September 30, 2009.

Part c: The IPP began implementing the guidelines established by the workgroup as of October 2008. Most agencies have been assessed for relative levels of risk, and are being monitored accordingly.

Recommendation 9: Immunization Grants, CFDA 93.268, Special Tests and Provisions

We recommend that DCH improve its internal control over the Immunization Grants Program to ensure compliance with federal laws and regulations regarding special tests and provisions (control, accountability, and safeguarding of vaccines).

Response:

Part a: All local health departments are now using the vaccine inventory module through the electronic web-based Michigan Care Improvement Registry System.

Part b: There is only a very small inventory maintained in the depot. DCH has designated an external person to ensure that the vaccine inventory is accurate.

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Recommendation 10: Immunization Grants, CFDA 93.268, Period of Availability and Subrecipient Monitoring

We recommend that DCH improve its internal control over the Immunization Grants Program to ensure compliance with federal laws and regulations regarding period of availability of federal funds.

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

Response:

Part a: DCH has drafted a policy/procedure for the appropriate reporting of grant obligations. The policy is expected to be formalized by September 30, 2009.

Part b: No new status to report. Corrective action is completed and ongoing.

Recommendation 11: Centers for Disease Control and Prevention - Investigations and Technical Assistance, CFDA 93.283

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

Response:

The OPHP instituted a system for subrecipient monitoring in June 2008. This system tracks budgetary as well as programmatic compliance. Site reviews were scheduled as necessary.

Recommendation 12: Temporary Assistance for Needy Families (TANF), CFDA 93.558

We recommend that DCH implement internal control over TANF to ensure compliance with federal laws and regulations regarding eligibility.

Response:

Part a: The updated family support subsidy manual was disseminated to CMHSPs on September 30, 2008. Technical assistance is routinely provided to CMHSPs in clarification of manual contents and in response to individual situations.

Part b: No new status to report. Corrective action is completed and ongoing.

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Recommendation 13: 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 allowable costs/cost principles.

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

Response:

Part a: No new status to report. Corrective action is completed and ongoing.

Part b (1): DCH still expects to develop a crosswalk for selected items in the interagency agreement to DHS' Program Eligibility Manual. DCH will attempt to work with DHS to add language to the interagency agreement that allows DCH to monitor DHS' compliance. Expected completion date, September 30, 2009.

Part b (2): DHS' new eligibility determination system (Bridges) will more systematically identify children who qualify for HKME. When the system has been fully implemented, a final and more definitive outcome on this issue will occur. Bridges is expected to be fully implemented by fall 2009.

Recommendation 14: Medicaid Cluster, CFDA 93.777 and 93.778, Special Tests and Provisions

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.

Response:

DCH agreed that there were opportunities for improvement to ensure compliance with federal laws and regulations regarding special tests and provisions.

Part a: No new status to report.

Part b (1): Criminal background checks have been conducted on new license applications since October 2008.

Part b (2): The CHAMPS provider enrollment system terminates the eligibility if the license terms and will not let the provider enroll if the license does not validate.

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Recommendation 15: Medicaid Cluster, CFDA 93.777 and 93.778, Allowable Costs/Cost Principles – Omnibus

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 generally agreed that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding allowable costs/cost principles, but did not necessarily agree with all components of the finding.

Part a: As hiring/budget allows, the Division will be requesting additional positions to accomplish this goal. Without additional staff, the status will remain the same. Due to the policy using filed cost reports to reimburse providers for multiple programs, we have implemented additional desk reviews, this will not only delay the processing of filed cost reports, but also requires an amended filed cost report for prior years. All of these steps take staff time which would normally be used to process final settlements. The positive side of this is that payments are being made on more accurate information and overpayments will be minimal.

Part b: In March 2008, DCH implemented the Provider Enrollment component of its new Medicaid Management Information System (MMIS). This included a number of changes that has improved DCH's ability to ensure that its Medicaid provider information is current, complete, and accurate.

Part c: Refer to the response for Finding 4.

Recommendation 16: 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 to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Response:

DCH generally agrees with the finding, but does not agree that they inappropriately received \$273,293 in federal reimbursement.

Part a: No new status to report. Corrective action is completed and ongoing.

Part b: No new status to report. Corrective action is completed and ongoing.

Part c: No new status to report. Corrective action is completed and ongoing.

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Recommendation 17: Medicaid Cluster, CFDA 93.777 and 93.778, Allowable Costs/Cost Principles - Pharmacy Rebates

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

Response:

DCH generally agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Part a.: The Pharmacy Services Section continues to complete the quarterly procedure which validates the reasonableness of the invoiced amounts to provide assurance that the Department is maximizing allowable rebates. Updates are made as necessary.

Part b: No new status to report. Corrective action is completed and ongoing.

Recommendation 18: Medicaid Cluster, CFDA 93.777 and 93.778, Allowable Costs/Cost Principles - Medicare Part A and Part B

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

Response:

DCH continues to compare for reasonableness. The new oracle application can pull any transaction by month for reconciliation.

Recommendation 19: Medicaid Cluster, CFDA 93.777 and 93.778, Allowable Costs/Cost Principles - Third Party Liabilities

We 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:

DCH generally agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding allowable costs/cost principles but disagrees that it missed the opportunity for potential Medicaid recoveries in the amounts noted in the finding.

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Part a.: DCH has processed corrected gross adjustments to return the money owed the two providers and has verified that other third party liability gross adjustments processed during the audit period were paid correctly.

Part b.(1): Discussions with the Wayne County Friend of the Court indicate that the cost to recreate the requests would far outweigh the recovery that might result from the effort. Further efforts to pursue these recoveries would not be cost-effective.

Part b.(2): A random sample of the unanswered requests indicates that many of them are duplicates. Of the duplicates, many did have payments entered on the mother's case.

Part b.(3): No new status to report. Corrective action is completed and ongoing.

Part b.(4): DCH has worked with DHS' Office of Child Support Services (OCS), the State Court Administrative Office (SCAO) and the Friend of the Courts (FOCs) and still believes that a process to resolve the issue will be developed and implemented by September 30, 2009.

Part b.(5): No new status to report. Corrective action is completed and ongoing.

Part b.(6): No new status to report. Corrective action is completed and ongoing.

Recommendation 20: Medicaid Cluster, CFDA 93.777 and 93.778, Reporting and Subrecipient Monitoring

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

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 agrees that there are opportunities for improvement in the internal controls over the Medicaid Cluster to ensure compliance with federal laws and regulations.

Part a.(1): No new status to report. Corrective action is completed and ongoing.

Part a.(2): DCH has adjusted a subsequent report as indicated in the initial response. Reconciliation procedures were developed and implemented by April 1, 2009.

Part b.(1): No new status to report. Corrective action is completed and ongoing.

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Part b.(2): DCH hired a contractor and is in the process of establishing a universe of data from which they can draw a sample to conduct audits. The implementation of Bridges has played a role in this process.

Part b.(3): No new status to report. Corrective action is completed and ongoing.

Part b.(4): Corrective action is completed and ongoing. Onsite monitoring began in 2008 and continues.

Recommendation 21: Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations (CMS Research), CFDA 93.779

We recommend that DCH improve its internal control over the CMS Research Program to ensure compliance with federal laws and regulations regarding the period of availability of federal funds.

Response:

DCH agreed that there were opportunities for improvement in the internal control over the Medicare/Medicaid Assistance Program Grant to ensure compliance with federal laws and regulations regarding period of availability of federal funds.

- No new status to report. Corrective action is completed and ongoing.

Recommendation 22: Block Grants for Prevention and Treatment of Substance Abuse (SAPT), 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; subrecipient monitoring; and special tests and provisions.

Response:

DCH agreed that there are opportunities for improvement in internal control over SAPT to ensure compliance with federal laws and regulations.

Part a: DCH developed written procedures to ensure administrative and program expenditures are properly classified. Subsequent to the audit DCH contacted the Substance Abuse Prevention and Treatment Administration and requested clarification on reporting of administration expenses for the coordinating agencies. DCH has received clarification that the 5% limitation applies to administration expense charged for the recipient of the SAPT Block Grant at the

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Single State Agency level and not for the regional levels. Therefore, this finding is no longer an issue.

Part b: No new status to report. Corrective action is completed and ongoing.

Part c: No new status to report. Corrective action is completed and ongoing.

Recommendation 23: Maternal and Child Health Services Block Grant to the States (MCH Block Grant), CFDA 93.994

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

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

Response:

DCH agreed that there are opportunities for improvement in the internal control over the MCH Block Grant Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Part a.: The Health Insurance Cost Avoidance and Recovery Section is transitioning from seeking recoveries from insurance carriers to processing provider claim adjustments. Through this process, HICARS recovers money from providers and the providers are then responsible for seeking reimbursement from insurance carriers. This will eliminate any refund payments due to insurance carriers.

Part b.: Agencies have been assessed for relative levels of risk, and are being monitored accordingly.