



STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JANET OLSZEWSKI  
DIRECTOR

February 7, 2007

Name  
Title  
Local Health Department Name  
Street Address  
City, State Zip

Dear Health Officer:

The Centers for Medicare and Medicaid Services (CMS) conducted an audit of the cost and reimbursement calculations used in the cost settlement process to the Local Health Departments (LHDs). They have proposed several changes including elimination of any Medicaid Health Plan (MHP) encounters and limiting overhead to a maximum of ten percent (10%). These audit adjustments would be effective for fiscal years ending in 2004 and later and would result in approximately a 50 percent reduction in payments to the LHDs.

We did not process any settlements after we became aware of the extent of the proposed audit changes. We anticipated having the final audit report by the end of the 2006 calendar year so that we could prepare a response to the findings. As of this date, we have not yet received it. Many LHDs have voiced concerns about their decreased cash flow. After further consideration and discussion we have decided to resume processing settlements on a limited basis in order to allow for continued cash flow to the LHDs. We will begin processing any unpaid 2005 and 2006 settlements based on the CMS auditors proposed changes. These settlements will be sent out within two weeks.

We continue to work with the CMS auditors and will vigorously contest any adverse decisions. We will not recoup any funds until the report and the appeals process is complete. Once a final settlement is reached, the LHDs will be responsible for the federal share of the audit findings. If you have any questions, please contact David Stirdivant at (517) 335-5353. We will keep you informed of the final report and outcome.

Sincerely,

A handwritten signature in black ink that reads "Paul Reinhart".

Paul Reinhart, Director  
Medical Services Administration