



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.  
AUDITOR GENERAL

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

Audit report information can be accessed at:

*<http://audgen.michigan.gov>*



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*  
*Including the Provisions of the Single Audit Act*

Report Number:  
 391-0100-06

*Department of Community Health*

*October 1, 2003 through September 30, 2005*

Released:  
 February 2007

*A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.*

**Financial Schedules:**

**Auditor's Report Issued**

We issued an unqualified opinion on the Department of Community Health's (DCH's) financial schedules.

~ ~ ~ ~ ~

**Internal Control Over Financial Reporting**

We identified reportable conditions related to internal control over financial reporting (Findings 1 through 4). We consider Finding 1 to be a material weakness.

~ ~ ~ ~ ~

**Noncompliance or Other Matters  
 Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

~ ~ ~ ~ ~

**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited 9 programs as major programs and reported known questioned costs of approximately \$125.4 million and known and likely questioned costs totaling \$151.7 million. DCH expended a total of \$11.5 billion in federal awards during the two-year period ended September 30, 2005. We issued 7 unqualified opinions and 2 adverse opinions. The opinions issued by major program are identified on the back of this summary.

~ ~ ~ ~ ~

**Internal Control Over Major Programs**

We identified reportable conditions related to internal control over major programs (Findings 5 through 13). We consider Findings 6 and 11 to be material weaknesses.

~ ~ ~ ~ ~

**Required Reporting of Noncompliance**

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 5 through 13).

~ ~ ~ ~ ~

**Systems of Accounting and Internal Control:**

We determined that DCH was not in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* (Finding 1).

~ ~ ~ ~ ~

We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
16.593	Residential Substance Abuse Treatment for State Prisoners	Unqualified
93.003	Public Health and Social Services Emergency Fund	Unqualified
93.136	Injury Prevention and Control Research and State and Community Based Programs	Adverse
93.217	Family Planning - Services	Unqualified
93.767	State Children's Insurance Program	Unqualified
93.777 and 93.778	Medicaid Cluster	Adverse
93.917	HIV Care Formula Grants	Unqualified
93.958	Block Grants for Community Mental Health Services	Unqualified
93.994	Maternal and Child Health Services Block Grant to the States	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General  
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Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

February 16, 2007

Ms. Janet Olszewski, Director  
Department of Community Health  
Capitol View Building  
Lansing, Michigan

Dear Ms. Olszewski:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Community Health (DCH) for the period October 1, 2003 through September 30, 2005.

This report contains our report summary; our independent auditor's report on the financial schedules; and the DCH financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains DCH's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General



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INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL SCHEDULES



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on the Financial Schedules

Ms. Janet Olszewski, Director  
Department of Community Health  
Capitol View Building  
Lansing, Michigan

Dear Ms. Olszewski:

We have audited the accompanying financial schedules of the Department of Community Health for the fiscal years ended September 30, 2005 and September 30, 2004, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of Community Health's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and other financing sources and the sources and disposition of authorizations of the Department of Community Health for the fiscal years ended September 30, 2005 and September 30, 2004, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2006 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of certain General Fund assets and liabilities are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is written in a cursive style with a horizontal line extending to the left of the first letter.

Thomas H. McTavish, C.P.A.  
Auditor General  
May 1, 2006

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of General Fund Revenues and Other Financing Sources  
Fiscal Years Ended September 30

	2005	2004
REVENUES		
Taxes (Note 5)	\$ 1,088,231,115	\$ 577,780,948
Federal agencies	5,686,396,428	5,606,325,370
From local agencies	35,715,211	32,414,998
From services	24,973,556	26,031,679
From licenses and permits	24,804,057	10,267,708
Special Medicaid Reimbursements (Note 6)	467,969,648	704,550,545
Miscellaneous (Note 5)	86,344,103	50,565,568
Total Revenues	\$ 7,414,434,118	\$ 7,007,936,816
OTHER FINANCING SOURCES		
Transfers from Compulsive Gaming Prevention Fund	\$ 2,990,000	\$ 2,990,000
Total Revenues and Other Financing Sources	\$ 7,417,424,118	\$ 7,010,926,816

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30

	<u>2005</u>	<u>2004</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 2,590,540,216	\$ 2,609,843,614
Budgetary transfers in (out)		1,415,232
Balances carried forward	66,880,418	50,416,813
Restricted financing sources	7,757,220,020	7,346,061,572
Less: Intrafund expenditure reimbursements and expenditure credits	<u>(345,094,616)</u>	<u>(372,381,867)</u>
 Total	 <u>\$ 10,069,546,038</u>	 <u>\$ 9,635,355,364</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and transfers out	\$ 10,307,447,443	\$ 9,955,698,922
Less: Intrafund expenditure reimbursements and expenditure credits	<u>(345,094,616)</u>	<u>(372,381,867)</u>
Net expenditures and transfers out	<u>\$ 9,962,352,827</u>	<u>\$ 9,583,317,055</u>
Balances carried forward:		
Encumbrances	\$ 1,699,044	\$ 168,580
Restricted revenues - authorized		76,518
Restricted revenues - not authorized	68,792,817	92,080,887
Total balances carried forward	<u>\$ 70,491,861</u>	<u>\$ 92,325,985</u>
Balances lapsed	<u>\$ 36,701,350</u>	<u>\$ 6,854,597</u>
Overexpended	<u>\$ 0</u>	<u>\$ (47,142,273)</u>
 Total	 <u>\$ 10,069,546,038</u>	 <u>\$ 9,635,355,364</u>

The accompanying notes are an integral part of the financial schedules.

## Notes to the Financial Schedules

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The Department of Community Health (DCH) was created by an executive order in January 1996. DCH is generally composed of the former Departments of Mental Health and Public Health; the Medical Services Administration, which was part of the Department of Human Services; and several programs transferred from the Department of Management and Budget. Executive Order No. 2003-18 transferred the Bureaus of Health Systems and Health Professions to DCH from the Department of Labor and Economic Growth effective April 1, 2004. DCH's mission is to strive for a healthier Michigan by promoting access to the broadest possible range of quality services and supports, taking steps to prevent disease, promoting wellness and improving quality of life, and striving for the delivery of those services and supports in a fiscally prudent manner.

The accompanying financial schedules report the results of the financial transactions of DCH for the fiscal years ended September 30, 2005 and September 30, 2004. The financial transactions of DCH are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to DCH. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; pension benefits and other postemployment benefits; leases; contingencies and commitments; and subsequent events.

For purposes of presenting the financial transactions of DCH in the accompanying financial schedules, the Hospital Patients' Trust Fund has been excluded from DCH's reporting entity. The Hospital Patients' Trust Fund receives no federal funding and is periodically audited by the Office of the Auditor General.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for DCH's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DCH or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized.

The balances carried forward into the fiscal year ended September 30, 2004 of \$50.4 million was \$9.4 million more than the total balances carried forward out of the fiscal year ended September 30, 2003. The additional

authorization is because of the transfer of the Bureau of Health Systems and the Bureau of Health Services from the Department of Labor and Economic Growth to DCH.

The balances carried forward into the fiscal year ended September 30, 2005 of \$66.9 million was \$25.4 million less than the total balances carried forward out of the fiscal year ended September 30, 2004. This decrease in balances carried forward was because of the overexpenditure of non-General Fund funding sources for the fiscal year ended September 30, 2004. DCH was required to lapse \$25.4 million of the restricted revenues - not authorized for the fiscal year ended September 30, 2004.

- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized.
- d. Intrafund expenditure reimbursements and expenditure credits: Funding from other General Fund departments or other programs within a department to finance a program or a portion of a program that is the responsibility of the receiving department. An example of a significant program reimbursement from another General Fund department is the \$41 million and \$66 million for fiscal years 2004-05 and 2003-04, respectively, from the Department of Corrections for the operation of the Center for Forensic Psychiatry. Expenditure credits included \$113 million and \$110 million, respectively, from the purchase of State services contract reimbursements; \$133 million and \$142 million, respectively, from disproportionate share payments received from State mental health facilities used to help finance the Medicaid Program; and \$50 million from food and drug rebates for each of fiscal years 2004-05 and 2003-04.

- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- f. Restricted revenues - authorized: Revenues that, by statute or the State Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization.
- g. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type are the Medicaid Benefits Trust Fund, Victim Service Fund, and the Health Professions Regulatory Fund.
- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- i. Overexpended: The total overexpenditure of line-item authorizations. DCH is required to seek a supplemental appropriation to authorize the expenditure.

DCH overexpended its legislative authorizations for the fiscal year ended September 30, 2004 by \$47,142,273, which represents noncompliance with State budget laws. As of May 2006, DCH had not requested a supplemental appropriation to cover the overexpenditure.

### Note 3 Contingencies

- a. School Based Services Outreach Program  
The financial schedules include expenditures and revenues related to the School Based Services Outreach Program. The Program pays intermediate school districts to provide medical services to Medicaid eligible students. These expenditures are partially funded by Medicaid (Title XIX). The Centers for Medicare and Medicaid Services (CMS)

issued a financial management review dated June 16, 2000 that cited several inadequacies regarding the time study procedures used in allocating the expenditures to Medicaid resulting in a disallowance. In reference to this disallowance, DCH reached a settlement with the U.S. Department of Health and Human Services on May 24, 2002, which was amended on May 7, 2003 and September 30, 2003.

As required in the settlement, DCH has developed and obtained CMS approval of revised time study codes and methodologies. Based on CMS-approved implementation of the results of the new methodology for the four quarters to begin January 1, 2004, a retroactive adjustment will be made to "backcast" the results to the claims submitted for the period January 1, 2000 through December 31, 2003 as follows:

\$ 396,607,198	Quarters ended March 31, 2000 through June 2003, which were funded at 30% per settlement.
12,341,677	Quarters ended September 30, 2003 and December 31, 2003, which were funded at 20% per settlement.
\$ 408,948,875	Total Federal Funds Received

Any variance from the amount of federal revenue already received due to the "backcasting" will result in a corresponding adjustment in DCH's accounting for federal revenue and remain an immeasurable gain or loss contingency as of September 30, 2005. The financial schedules include a liability in the amount of \$20,737,997 for an account payable to intermediate school districts based on their share of the total revenue received, but not paid, pending the "backcasting" results.

b. Non-Medicaid Nursing Home "Bed Tax" Lawsuits

Two lawsuits involving a group of eight non-Medicaid nursing homes challenge the constitutionality and legality of Section 333.20161 of the *Michigan Compiled Laws*. Originally enacted in May 2002, this provision requires DCH to assess a "bed tax" against all nongovernmental nursing homes, to use this revenue to draw down "matching" federal funds, and to

pay the combined sum to Medicaid nursing homes as increased reimbursement. For the first fiscal year, this resulted in more than \$100 million in increased payments. For fiscal year 2003-04, this sum more than doubled. In November 2003, the circuit court ruled that the original version of the statute violated the State Constitution by not distinctly stating the assessment as a tax. In December 2003, the Legislature corrected this misunderstanding, made it retroactive to May 2002, and increased the cap on the amount that DCH could assess. In two subsequent rulings, the circuit court has effectively exempted the plaintiff homes from payment of the tax for two periods of time. In 2005, a settlement was reached that included several major provisions: (1) legislation passed (Act 187, P.A. 2005) that will make the tax assessable on non-Medicare days rather than licensed beds and make two different payment levels, approximately \$2 and \$11 per day, depending on the size of the home; (2) DCH will attempt to obtain federal approval of a State Plan amendment to implement these changes; (3) the homes will be releasing an estimated \$6 million escrow back to the State; and (4) the State will make payment of about \$2.7 million total to the homes for attorney and expert fees. Appropriate orders were entered with the courts dismissing all of the actions in November 2005.

Note 4 Payroll and Fringe Benefit Accrual

In fiscal year 2003-04, the Office of Financial Management, Department of Management and Budget, changed its method of computing and recording accrued payroll and fringe benefit expenditures. In the *SOMCAFR*, the expenditures are not reported at the agency level; instead, they are presented at the Statewide level. The Office of Financial Management has issued a waiver which allows departments to report these transactions in their financial schedules for the fiscal year ended September 30, 2004. Reporting these transactions at the department level resulted in an increase to DCH's expenditures and transfers out and a decrease to balances lapsed of \$3.7 million.

In fiscal year 2004-05, the Office of Financial Management returned to the practice of split payroll as in prior fiscal years.

Note 5 Change in Classification

Act 234, P.A. 2003, changed the quality assurance assessment from a fee to a tax. As a result, beginning in fiscal year 2003-04, the State began reporting quality assurance assessment revenue as tax revenue rather than as miscellaneous revenue. The amount of tax revenue related to quality assurance assessments for fiscal years 2004-05 and 2003-04 was \$509.9 million and \$325.2 million, respectively.

Note 6 Special Medicaid Reimbursements

Special Medicaid reimbursements decreased because of a 2001 change in the upper payment limit rule that, when applied to Michigan, required phase-down of inpatient adjuster payments to public nursing homes and special outpatient adjuster payments. DCH was required to reduce the amount of each of these payments in fiscal years 2003-04 and 2004-05. Both payments were completely eliminated beginning in fiscal year 2005-06.

SUPPLEMENTAL  
FINANCIAL SCHEDULES



DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Certain General Fund Assets and Liabilities  
As of September 30

	2005	2004
<b>ASSETS</b>		
Current Assets:		
Accounts Receivable:		
Taxes, interest, and penalties receivable	\$ 122,225,293	\$ 117,089,185
Amounts due from federal agencies	319,593,675	356,032,194
Amounts due from local agencies	43,103,552	51,634,908
Miscellaneous (other current assets)	216,349,976	170,210,893
Total Accounts Receivable	\$ 701,272,496	\$ 694,967,180
Inventories*	\$ 5,602	\$ 404,637
Noncurrent Assets:		
Accounts Receivable:		
Taxes, interest, and penalties receivable	\$ 133,297	\$ 100,912
Amounts due from federal agencies	\$ 3,074,763	\$ 2,200,918
Other noncurrent assets		\$ 460,000
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and other liabilities	\$ 616,315,136	\$ 619,726,281
Amounts due to other funds	\$ 340,887	\$ 184,320
Deferred revenue	\$ 15,019,913	\$ 5,881,370
Unearned receipts	\$ 1,192,495	\$ 289,046
Deferred revenue - Long-term	\$ 133,297	\$ 560,912

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Department of Community Health. This schedule does not include certain assets and liabilities that are accounted for centrally by the State, such as land, building, equipment, equity in common cash, cash in transit, and warrants outstanding.

\* These amounts represent the cost of office and laboratory supplies on hand as of September 30.

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2003 through September 30, 2005

For the Fiscal Year Ended September 30, 2004

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b>Financial Assistance</b>					
<b>U.S. Department of Agriculture</b>					
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
School Breakfast Program	10.553		\$ 52,418	\$	\$ 52,418
National School Lunch Program	10.555		81,768		81,768
Total Child Nutrition Cluster			<u>\$ 134,186</u>	<u>\$ 0</u>	<u>\$ 134,186</u>
Direct Programs:					
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		\$ 101,058,728	\$ 26,870,279	\$ 127,929,007
WIC Farmers' Market Nutrition Program (FMNP)	10.572		515,490		515,490
Senior Farmers Market Nutrition Program	10.576			75,000	75,000
WIC Grants to States (WGS)	10.578				0
Total Direct Programs			<u>\$ 101,574,218</u>	<u>\$ 26,945,279</u>	<u>\$ 128,519,497</u>
Pass-Through Program:					
Michigan State University					
Food Stamps	10.551	61-5001i	\$	\$	\$ 0
Total Food Stamps			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>\$ 101,708,404</b></u>	<u><b>\$ 26,945,279</b></u>	<u><b>\$ 128,653,683</b></u>
<b>U.S. Department of Housing and Urban Development</b>					
Direct Programs:					
Supportive Housing Program	14.235		\$ 72,058	\$ 547,047	\$ 619,105
Shelter Plus Care	14.238		2,837	1,842,253	1,845,090
Housing Opportunities for Persons with AIDS	14.241		31,546	990,569	1,022,115
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		614,482	260,000	874,482
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>\$ 720,923</b></u>	<u><b>\$ 3,639,869</b></u>	<u><b>\$ 4,360,792</b></u>
<b>U.S. Department of Justice</b>					
Direct Programs:					
National Institute of Justice Research, Evaluation, and Development					
Project Grants	16.560		\$	\$ 80,886	\$ 80,886
Crime Victim Assistance	16.575		7,883,021	2,272,572	10,155,593
Crime Victim Compensation	16.576		728,867		728,867
Byrne Formula Grant Program	16.579		653,252	14,094,112	14,747,364
Local Law Enforcement Block Grants Program	16.592		(45,379)	882,961	837,582
Residential Substance Abuse Treatment for State Prisoners	16.593		45,088	1,999,599	2,044,687
<b>Total U.S. Department of Justice</b>			<u><b>\$ 9,264,849</b></u>	<u><b>\$ 19,330,130</b></u>	<u><b>\$ 28,594,979</b></u>
<b>U.S. Department of Labor</b>					
Direct Program:					
Senior Community Service Employment Program	17.235		\$ 96,519	\$ 2,771,538	\$ 2,868,057
<b>Total U.S. Department of Labor</b>			<u><b>\$ 96,519</b></u>	<u><b>\$ 2,771,538</b></u>	<u><b>\$ 2,868,057</b></u>
<b>U.S. Department of Transportation</b>					
Highway Safety Cluster:					
Pass-Through Program:					
Michigan Department of State Police					
State and Community Highway Safety	20.600	PS-04-01	\$ 35,000	\$	\$ 35,000
State and Community Highway Safety	20.600	PS-05-01			0
State and Community Highway Safety	20.600	CP-04-06		326,519	326,519
State and Community Highway Safety	20.600	CP-05-01			0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2005

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 53,014	\$	\$ 53,014	\$ 105,432
82,790		82,790	164,558
<u>\$ 135,804</u>	<u>\$ 0</u>	<u>\$ 135,804</u>	<u>\$ 269,990</u>
\$ 98,525,748	\$ 29,818,296	\$ 128,344,044	\$ 256,273,051
514,717		514,717	1,030,207
(9,826)	68,312	58,486	133,486
152,069	86,998	239,067	239,067
<u>\$ 99,182,708</u>	<u>\$ 29,973,606</u>	<u>\$ 129,156,314</u>	<u>\$ 257,675,811</u>
\$ 50,435	\$ 22,500	\$ 72,935	\$ 72,935
<u>\$ 50,435</u>	<u>\$ 22,500</u>	<u>\$ 72,935</u>	<u>\$ 72,935</u>
<b>\$ 99,368,947</b>	<b>\$ 29,996,106</b>	<b>\$ 129,365,053</b>	<b>\$ 258,018,736</b>
\$ (1,885)	\$ 536,813	\$ 534,928	\$ 1,154,033
136,455	1,916,429	2,052,884	3,897,974
(10,023)	977,775	967,752	1,989,867
750,782	260,000	1,010,782	1,885,264
<u>\$ 875,329</u>	<u>\$ 3,691,017</u>	<u>\$ 4,566,346</u>	<u>\$ 8,927,138</u>
\$	\$ 247,199	\$ 247,199	\$ 328,085
8,282,080	2,166,066	10,448,146	20,603,739
951,088		951,088	1,679,955
484,267	15,747,919	16,232,186	30,979,550
(34,482)	830,187	795,705	1,633,287
(112,958)	300,000	187,042	2,231,729
<u>\$ 9,569,995</u>	<u>\$ 19,291,371</u>	<u>\$ 28,861,366</u>	<u>\$ 57,456,345</u>
\$ 72,061	\$ 2,758,894	\$ 2,830,955	\$ 5,699,012
<u>\$ 72,061</u>	<u>\$ 2,758,894</u>	<u>\$ 2,830,955</u>	<u>\$ 5,699,012</u>
\$	\$	\$ 0	\$ 35,000
44,541		44,541	44,541
		0	326,519
	151,184	151,184	151,184

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2003 through September 30, 2005  
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
State and Community Highway Safety	20.600	OP-02-09	\$ 117,527	\$ 24,397	\$ 141,924
State and Community Highway Safety	20.600	OP-05-01			0
Total Highway Safety Cluster			\$ 152,527	\$ 350,916	\$ 503,443
Pass-Through Program:					
Michigan Department of State Police					
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	CP-03-13	\$ (9,993)	\$	\$ (9,993)
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-04-03		262,858	262,858
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-05-04			0
Total Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants			\$ (9,993)	\$ 262,858	\$ 252,865
<b>Total U.S. Department of Transportation</b>			<b>\$ 142,534</b>	<b>\$ 613,774</b>	<b>\$ 756,308</b>
<b>U.S. Environmental Protection Agency</b>					
Direct Programs:					
Great Lakes Program	66.469		\$	\$	\$
Surveys, Studies, Investigations and Special Purpose Grants	66.606		(9)		(9)
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		416,765		416,765
Total Direct Programs			\$ 416,756	\$ 0	\$ 416,756
Pass-Through Programs:					
Wisconsin Department of Health and Family Services					
Great Lakes Program	66.469	20041775	\$	\$	\$ 0
Total Great Lakes Program			\$ 0	\$ 0	\$ 0
Mickey Leland National Urban Air Toxics Research Center					
Surveys, Studies, Investigations and Special Purpose Grants	66.606		\$	\$	\$ 0
Total Surveys, Studies, Investigations and Special Purpose Grants			\$ 0	\$ 0	\$ 0
Total Pass-Through Programs			\$ 0	\$ 0	\$ 0
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 416,756</b>	<b>\$ 0</b>	<b>\$ 416,756</b>
<b>U.S. Department of Education</b>					
Special Education Cluster:					
Pass-Through Program:					
Michigan Department of Education					
Special Education - Grants to States	84.027	040490-CB	\$ 831	\$	\$ 831
Special Education - Grants to States	84.027	050490-CB			0
Special Education - Grants to States	84.027	040480-EOSD	6,600		6,600
Special Education - Grants to States	84.027	050490-EOSD			0
Special Education - Grants to States	84.027	030440-0203	43,208		43,208
Special Education - Grants to States	84.027	040440-0304	12,971		12,971
Special Education - Grants to States	84.027	040490-TS	30,000		30,000
Special Education - Grants to States	84.027	050490-0405			0
Total Special Education Cluster			\$ 93,610	\$ 0	\$ 93,610
Direct Program:					
Safe and Drug-Free Schools and Communities - State Grants	84.186		\$ 129,218	\$ 3,106,990	\$ 3,236,208
Total Direct Program			\$ 129,218	\$ 3,106,990	\$ 3,236,208
Pass-Through Programs:					
Michigan Department of Education					
Special Education - Grants for Infants and Families with Disabilities	84.181	031330/IACDCH	\$ (3,316)	\$	\$ (3,316)
Special Education - Grants for Infants and Families with Disabilities	84.181	041330/IACDCH	138,068	49,997	188,065
Special Education - Grants for Infants and Families with Disabilities	84.181	051330/IACDCH			0
Total Special Education Grants for Infants and Families with Disabilities			\$ 134,752	\$ 49,997	\$ 184,749

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2005

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 166,692	\$	\$ 0	\$ 141,924
\$ 211,233	\$ 151,184	\$ 362,417	\$ 865,860
\$ (76,143)	\$	\$ 0	\$ (9,993)
\$ (76,143)	\$ 250,056	\$ (76,143)	\$ 186,715
	\$ 250,056	\$ 250,056	\$ 250,056
\$ (76,143)	\$ 250,056	\$ 173,913	\$ 426,778
<b>\$ 135,090</b>	<b>\$ 401,240</b>	<b>\$ 536,330</b>	<b>\$ 1,292,638</b>
\$ 5,779	\$	\$ 5,779	\$ 5,779
		0	(9)
454,825		454,825	871,590
\$ 460,604	\$ 0	\$ 460,604	\$ 877,360
\$ 131,387	\$	\$ 131,387	\$ 131,387
\$ 131,387	\$ 0	\$ 131,387	\$ 131,387
\$ 64,016	\$ 5,847	\$ 69,863	\$ 69,863
\$ 64,016	\$ 5,847	\$ 69,863	\$ 69,863
\$ 195,403	\$ 5,847	\$ 201,250	\$ 201,250
<b>\$ 656,007</b>	<b>\$ 5,847</b>	<b>\$ 661,854</b>	<b>\$ 1,078,610</b>
\$ 696	\$	\$ 0	\$ 831
		696	696
		0	6,600
6,600		6,600	6,600
		0	43,208
68,279		68,279	81,250
		0	30,000
30,000		30,000	30,000
\$ 105,575	\$ 0	\$ 105,575	\$ 199,185
\$ 113,458	\$ 3,147,860	\$ 3,261,318	\$ 6,497,526
\$ 113,458	\$ 3,147,860	\$ 3,261,318	\$ 6,497,526
\$	\$	\$ 0	\$ (3,316)
		0	188,065
126,924	61,550	188,474	188,474
\$ 126,924	\$ 61,550	\$ 188,474	\$ 373,223

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2003 through September 30, 2005  
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A010023	\$ (3,266)	\$	\$ (3,266)
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A020023	162,835		162,835
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A030023	481,474		481,474
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A040023	11,187		11,187
Total Safe and Drug-Free Schools and Communities State Grants			\$ 652,230	\$ 0	\$ 652,230
Total Pass-Through Programs			\$ 786,982	\$ 49,997	\$ 836,979
<b>Total U.S. Department of Education</b>			<b>\$ 1,009,810</b>	<b>\$ 3,156,987</b>	<b>\$ 4,166,797</b>
<b>U.S. Department of Health and Human Services</b>					
Aging Cluster:					
Direct Programs:					
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		\$ 202,939	\$ 11,243,595	\$ 11,446,534
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		298,803	18,685,168	18,983,971
Nutrition Services Incentive Program	93.053		(13,201)	6,846,331	6,833,130
Total Aging Cluster			\$ 488,541	\$ 36,775,094	\$ 37,263,635
Child Care Cluster:					
Pass-Through Program:					
Michigan Department of Human Services					
Child Care and Development Block Grant	93.575	IA 02-34	\$ (13)	\$	\$ (13)
Child Care and Development Block Grant	93.575	IA 03-06	(10,533)		(10,533)
Child Care and Development Block Grant	93.575	04-IA-03	406,083	297,303	703,386
Child Care and Development Block Grant	93.575	DCH05001			0
Total Child Care Cluster			\$ 395,537	\$ 297,303	\$ 692,840
Medicaid Cluster:					
Direct Program:					
State Survey and Certification of Health Care Providers and Suppliers	93.777		\$ 1,404,800	\$ 5,689,969	\$ 7,094,769
Medical Assistance Program	93.778		4,910,045,536	105,939,141	5,015,984,677
Total Medicaid Cluster			\$ 4,911,450,336	\$ 111,629,110	\$ 5,023,079,446
Research and Development Cluster:					
Direct Programs:					
Injury Prevention and Control Research and State and Community Based Programs	93.136		\$ 304,920	\$	\$ 304,920
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		46,007		46,007
Pass-Through Program:					
Emory University					
Biometry and Risk Estimation - Health Risks from Environmental Exposures	93.115				0
Total Research and Development Cluster			\$ 350,927	\$ 0	\$ 350,927
Direct Programs:					
Public Health and Social Services Emergency Fund	93.003		\$ 915,024	\$ 15,499,427	\$ 16,414,451
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		(1,480)	176,680	175,200
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042			440,177	440,177
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043		(28,931)	746,490	717,559
Alzheimer's Disease Demonstration Grants to States	93.051		6,244	272,599	278,843
National Family Caregiver Support	93.052		(236,009)	5,501,915	5,265,906
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		925,234		925,234
Maternal and Child Health Federal Consolidated Programs	93.110		83,168	1,177,958	1,261,126

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2005

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$	\$	\$ 0	\$ (3,266)
		0	162,835
15,993		15,993	497,467
424,121		424,121	435,308
<u>\$ 440,114</u>	<u>\$ 0</u>	<u>\$ 440,114</u>	<u>\$ 1,092,344</u>
<u>\$ 567,038</u>	<u>\$ 61,550</u>	<u>\$ 628,588</u>	<u>\$ 1,465,567</u>
<b>\$ 786,071</b>	<b>\$ 3,209,410</b>	<b>\$ 3,995,481</b>	<b>\$ 8,162,278</b>

\$ 297,282	\$ 10,755,644	\$ 11,052,926	\$ 22,499,460
724,733	18,655,352	19,380,085	38,364,056
	6,754,623	6,754,623	13,587,753
<u>\$ 1,022,015</u>	<u>\$ 36,165,619</u>	<u>\$ 37,187,634</u>	<u>\$ 74,451,269</u>

\$	\$	\$ 0	\$ (13)
		0	(10,533)
(11,909)		(11,909)	691,477
1,097,344	137,303	1,234,647	1,234,647
<u>\$ 1,085,435</u>	<u>\$ 137,303</u>	<u>\$ 1,222,738</u>	<u>\$ 1,915,578</u>

\$ 6,676,997	\$ 532,134	\$ 7,209,131	\$ 14,303,900
4,990,887,538	122,191,444	5,113,078,982	10,129,063,659
<u>\$ 4,997,564,535</u>	<u>\$ 122,723,577</u>	<u>\$ 5,120,288,113</u>	<u>\$ 10,143,367,559</u>

\$	\$	\$ 0	\$ 304,920
49,933		49,933	95,940
81,167		81,167	81,167
<u>\$ 131,100</u>	<u>\$ 0</u>	<u>\$ 131,100</u>	<u>\$ 482,027</u>

\$ (4,417,749)	\$ 4,745,684	\$ 327,935	\$ 16,742,386
(402)	171,335	170,933	346,133
(93,816)	562,779	468,963	909,140
(14,886)	731,282	716,396	1,433,955
11,871	255,191	267,062	545,905
(5,419)	5,298,692	5,293,273	10,559,179
(67,125)		(67,125)	858,109
89,246	373,713	462,959	1,724,085

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2003 through September 30, 2005  
Continued

For the Fiscal Year Ended September 30, 2004					
Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		\$ 95,671	\$ 700,464	\$ 796,135
Emergency Medical Services for Children	93.127		711	18,387	19,098
Primary Care Services Resource Coordination and Development	93.130		103,880	129,172	233,052
Injury Prevention and Control Research and State and Community Based Programs	93.136		238,655	1,581,343	1,819,998
Projects for Assistance in Transition from Homelessness (PATH)	93.150		1,145,180		1,145,180
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		(33,717)	1,233,168	1,199,451
Grants To States for Loan Repayment Program	93.165		685,110		685,110
Childhood Lead Poisoning Prevention Projects - State and Local					
Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		414,515	270,695	685,210
Surveillance of Hazardous Substance Emergency Events	93.204				0
Human Health Studies - Applied Research and Development	93.206		87,050	54,719	141,769
Family Planning - Services	93.217		787,133	6,756,943	7,544,076
Traumatic Brain Injury State Demonstration Grant Program	93.234		(21,714)	215,697	193,983
Abstinence Education Program	93.235		424,220	1,078,325	1,502,545
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238		39,990	130,485	170,475
State Capacity Building	93.240		359,662		359,662
State Rural Hospital Flexibility Program	93.241		(4,010)	513,600	509,590
Mental Health Research Grants	93.242		41,100	38,795	79,895
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		971,386	1,806,371	2,777,757
Universal Newborn Hearing Screening	93.251		20,154	208,887	229,041
State Planning Grants Health Care Access for the Uninsured	93.256				0
Rural Access to Emergency Devices Grant	93.259		28,584	220,236	248,820
Occupational Safety and Health Program	93.262		118,082	132,052	250,134
Immunization Grants	93.268		2,643,119	5,306,348	7,949,467
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		13,777,331	33,204,669	46,982,000
Small Rural Hospital Improvement Grant Program	93.301		(33)	291,840	291,807
Developmental Disabilities Basic Support and Advocacy Grants	93.630		1,450,867	1,143,208	2,594,075
State Children's Insurance Program	93.767		167,665,575	1,355,220	169,020,795
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		375,171	1,257,769	1,632,940
State Pharmaceutical Assistance Programs	93.786				0
National Bioterrorism Hospital Preparedness Program	93.889				0
Grants to States for Operation of Offices of Rural Health	93.913			75,000	75,000
HIV Care Formula Grants	93.917		10,640,398	4,827,043	15,467,441
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		(1,082)		(1,082)
Healthy Start Initiative	93.926		31		31
HIV Prevention Activities Health Department Based	93.940		410,657	6,371,782	6,782,439
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		289,426	2,296,999	2,586,425
Assistance Programs for Chronic Disease Prevention and Control	93.945		636,971	70,091	707,062
Trauma Care Systems Planning and Development	93.952			29,999	29,999
Block Grants for Community Mental Health Services	93.958		14,664,763	637,665	15,302,428
Block Grants for Prevention and Treatment of Substance Abuse	93.959		12,616,538	43,539,480	56,156,018
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977		358,801	2,365,494	2,724,295
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		594,011	460,490	1,054,501
Preventive Health and Health Services Block Grant	93.991		1,046,764	4,170,353	5,217,117
Maternal and Child Health Services Block Grant to the States	93.994		8,666,416	12,426,778	21,093,194
Bioterrorism Training and Curriculum Development Program	93.996			25,766	25,766
Client Demonstration Project (CDP): Evaluation of HIV/AIDS Service Programs	93.a (3)		(598)		(598)
Implementation of Uniform Alcohol & Drug Abuse Data Collection System	93.b (3)		114,154		114,154

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2005

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 189,543	\$ 633,271	\$ 822,814	\$ 1,618,949
41,029	23,397	64,426	83,524
129,963	193,171	323,134	556,186
617,592	1,858,439	2,476,031	4,296,029
1,319,454	11,062	1,330,516	2,475,696
(77,086)	1,251,183	1,174,097	2,373,548
616,812		616,812	1,301,922
423,232	289,944	713,176	1,398,386
16,819	59,239	76,058	76,058
139,088		139,088	280,857
632,049	7,307,054	7,939,103	15,483,179
2,256	60,002	62,258	256,241
112,217	1,449,411	1,561,628	3,064,173
68,218	132,211	200,429	370,904
346,085		346,085	705,747
(10,539)	501,545	491,006	1,000,596
	12,865	12,865	92,760
1,090,283	2,042,490	3,132,773	5,910,530
93,130	93,431	186,561	415,602
80,983	341,959	422,942	422,942
3,727	145,934	149,661	398,481
69,059	58,552	127,611	377,745
2,048,077	6,635,964	8,684,041	16,633,508
15,764,153	32,312,389	48,076,542	95,058,542
	290,400	290,400	582,207
1,722,037	806,307	2,528,344	5,122,419
168,978,882	1,411,258	170,390,140	339,410,935
771,100	2,358,797	3,129,897	4,762,837
701,793		701,793	701,793
555,193	12,307,791	12,862,984	12,862,984
52,678	118,597	171,275	246,275
14,932,205	3,866,940	18,799,145	34,266,586
		0	(1,082)
923	511,800	512,723	512,754
282,597	6,510,441	6,793,038	13,575,477
251,089	2,009,893	2,260,982	4,847,407
561,903	29,623	591,526	1,298,588
16,998		16,998	46,997
11,943,350	322,042	12,265,392	27,567,820
407,542	55,453,377	55,860,919	112,016,937
720,769	2,348,282	3,069,051	5,793,346
520,702	267,360	788,062	1,842,563
1,614,243	3,839,133	5,453,376	10,670,493
8,378,142	12,343,622	20,721,764	41,814,958
		0	25,766
		0	(598)
114,154		114,154	228,308

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2003 through September 30, 2005  
Continued

Federal Agency/Program Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Mammography Quality Standards Act	93.c (3)		\$ 97,962	\$	\$ 97,962
Minority Health - Obesity Conference	93.d (3)		13,508		13,508
Vital Statistics Cooperative Study	93.e (3)		502,610		502,610
National Death Index	93.f (3)		41,950		41,950
Vital Statistics Cooperative Program	93.g (3)				0
Social Security Administration - Birth Enumerations	93.h (3)		165,785		165,785
Social Security Administration - Death Records	93.i (3)		50,490		50,490
Healthy Start, Grow Smart	93.j (3)				0
Genotyping TB	93.k (3)		325,106		325,106
Total Direct Programs			<u>\$ 244,311,583</u>	<u>\$ 158,760,579</u>	<u>\$ 403,072,162</u>
Pass-Through Programs:					
Michigan Department of Human Services					
Temporary Assistance for Needy Families	93.558		\$ (1,137)	\$	\$ (1,137)
Temporary Assistance for Needy Families	93.558		(38,387)		(38,387)
Temporary Assistance for Needy Families	93.558	03-IA-47	16,447,299	3,387	16,450,686
Total Temporary Assistance for Needy Families			<u>\$ 16,407,775</u>	<u>\$ 3,387</u>	<u>\$ 16,411,162</u>
Child Support Enforcement					
Child Support Enforcement	93.563	03-IA-23	\$ (14,614)	\$	\$ (14,614)
Child Support Enforcement	93.563	04-IA-11	148,150	116,000	264,150
Total Child Support Enforcement			<u>\$ 133,536</u>	<u>\$ 116,000</u>	<u>\$ 249,536</u>
Social Services Block Grant					
Social Services Block Grant	93.667	04-IA-11	\$ 25,000	\$	\$ 25,000
Total Social Services Block Grant			<u>\$ 25,000</u>	<u>\$ 0</u>	<u>\$ 25,000</u>
Michigan Department of Education					
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems					
	93.938	032770 CSHP03	\$ 41,432	\$	\$ 41,432
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems					
	93.938	042770 SHU04	45,795		45,795
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems					
	93.938	052770/SHU05			0
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems					
	93.938	032770	9,767		9,767
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems					
	93.938	042770	11,905		11,905
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems					
	93.938	052770			0
Total Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			<u>\$ 108,899</u>	<u>\$ 0</u>	<u>\$ 108,899</u>
Emory University					
Biometry and Risk Estimation - Health Risks from Environmental Exposures	93.115		\$ 71,383	\$ 150	\$ 71,533
University of Michigan					
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	F011874	\$	\$	\$ 0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2005

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 376,143	\$	\$ 376,143	\$ 474,105
		0	13,508
		0	502,610
55,147		55,147	97,097
523,547		523,547	523,547
248,909		248,909	414,694
53,513		53,513	104,003
26,688		26,688	26,688
484,282		484,282	809,388
<u>\$ 233,512,393</u>	<u>\$ 172,347,852</u>	<u>\$ 405,860,245</u>	<u>\$ 808,932,407</u>
\$ (1,394)	\$	\$ (1,394)	\$ (2,531)
(2,700)		(2,700)	(41,087)
17,289,798	3,372	17,293,170	33,743,856
<u>\$ 17,285,704</u>	<u>\$ 3,372</u>	<u>\$ 17,289,076</u>	<u>\$ 33,700,238</u>
\$	\$	\$ 0	\$ (14,614)
\$ 0	\$ 0	\$ 0	264,150
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 249,536</u>
\$	\$	\$ 0	\$ 25,000
\$ 0	\$ 0	\$ 0	25,000
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,000</u>
\$	\$	\$ 0	\$ 41,432
52,397		52,397	98,192
59,406		59,406	59,406
		0	9,767
7,657		7,657	19,562
5,738		5,738	5,738
<u>\$ 125,198</u>	<u>\$ 0</u>	<u>\$ 125,198</u>	<u>\$ 234,097</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 71,533</u>
<u>\$ 16,694</u>	<u>\$</u>	<u>\$ 16,694</u>	<u>\$ 16,694</u>

DEPARTMENT OF COMMUNITY HEALTH  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2003 through September 30, 2005  
Continued

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
APHL					
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		\$	\$	\$ 0
Total Centers for Disease Control and Prevention - Investigations and Technical Assistance			\$ 0	\$ 0	\$ 0
Michigan State University Shiga Toxin E. Coli (S.T.E.C.)	93.l (3)	4000012	\$ 6,313	\$ 0	\$ 6,313
Wayne State University SEER Data	93.m (3)	Y-286871	\$ 4,389	\$ 38,327	\$ 42,716
Total Pass-Through Programs			\$ 16,757,295	\$ 157,864	\$ 16,915,159
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 5,173,754,219</b>	<b>\$ 307,619,950</b>	<b>\$ 5,481,374,169</b>
Total Financial Assistance			\$ 5,287,114,014	\$ 364,077,527	\$ 5,651,191,541
<u>Nonfinancial Assistance</u>					
<u>U.S. Department of Agriculture</u>					
Direct Program:					
Food Donation	10.550		\$ 18,310	\$	\$ 18,310
<b>Total U.S. Department of Agriculture</b>			<b>\$ 18,310</b>	<b>\$ 0</b>	<b>\$ 18,310</b>
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
Immunization Grants	93.268		\$ 29,725,824	\$	\$ 29,725,824
HIV Prevention Activities: Health Department Based	93.940		75,775		75,775
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977		103,195		103,195
Preventive Health and Health Services Block Grant	93.991		105,126		105,126
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 30,009,920</b>	<b>\$ 0</b>	<b>\$ 30,009,920</b>
Total Nonfinancial Assistance			\$ 30,028,230	\$ 0	\$ 30,028,230
Total Expenditures of Federal Awards			\$ 5,317,142,244	\$ 364,077,527	\$ 5,681,219,771

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Community Health and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from the accounts presented in, or used in the preparation of, the financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. The federal agency grant or control numbers are as follows:

Client Demonstration Project (CDP): Evaluation of HIV/AIDS Service Programs	93.a	231-00-0100
Implementation of Uniform Alcohol & Drug Abuse Data Collection System	93.b	283-02-9026
Mammography Quality Standards Act	93.c	223-03-4421
Minority Health - Obesity Conference	93.d	03T02506101D
Vital Statistics Cooperative Study	93.e	200-2000-07222
National Death Index	93.f	200-98-7259
Vital Statistics Cooperative Program	93.g	200-2000-07222
Social Security Administration - Birth Enumerations	93.h	0600-03-60015
Social Security Administration - Death Records	93.i	0600-01-60018
Healthy Start, Grow Smart	93.j	HHSM-500-2004-0004C
Genotyping TB	93.k	200-2003-02571
Shiga Toxin E. Coli (S.T.E.C.)	93.l	NO1-AI-30058
SEER Data	93.m	NO1-PC-35145

For the Fiscal Year Ended September 30, 2005			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 71,296	\$ 46,500	\$ 117,796	\$ 117,796
<u>\$ 87,990</u>	<u>\$ 46,500</u>	<u>\$ 134,490</u>	<u>\$ 134,490</u>
\$ 206,549	\$ 0	\$ 206,549	\$ 212,862
\$ (1,139)	\$ 137,146	\$ 136,007	\$ 178,723
<u>\$ 17,704,302</u>	<u>\$ 187,018</u>	<u>\$ 17,891,320</u>	<u>\$ 34,806,479</u>
<b><u>\$ 5,251,019,780</u></b>	<b><u>\$ 331,561,370</u></b>	<b><u>\$ 5,582,581,150</u></b>	<b><u>\$ 11,063,955,319</u></b>
\$ 5,362,483,280	\$ 390,915,255	\$ 5,753,398,535	\$ 11,404,590,076
\$ 22,245	\$ 0	\$ 22,245	\$ 40,555
<b><u>\$ 22,245</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 22,245</u></b>	<b><u>\$ 40,555</u></b>
\$ 37,556,504	\$ 0	\$ 37,556,504	\$ 67,282,328
12,439		12,439	88,214
171,913		171,913	275,108
23,333		23,333	128,459
<b><u>\$ 37,764,189</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 37,764,189</u></b>	<b><u>\$ 67,774,109</u></b>
\$ 37,786,434	\$ 0	\$ 37,786,434	\$ 67,814,664
<u>\$ 5,400,269,714</u>	<u>\$ 390,915,255</u>	<u>\$ 5,791,184,969</u>	<u>\$ 11,472,404,740</u>



INDEPENDENT AUDITOR'S REPORTS ON  
INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Ms. Janet Olszewski, Director  
Department of Community Health  
Capitol View Building  
Lansing, Michigan

Dear Ms. Olszewski:

We have audited the financial schedules of the Department of Community Health for the fiscal years ended September 30, 2005 and September 30, 2004, as identified in the table of contents, and have issued our report thereon dated May 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish". The signature is written in a cursive style with a horizontal line extending to the left of the first letter.

Thomas H. McTavish, C.P.A.  
Auditor General  
May 1, 2006



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

Ms. Janet Olszewski, Director  
Department of Community Health  
Capitol View Building  
Lansing, Michigan

Dear Ms. Olszewski:

Compliance

We have audited the compliance of the Department of Community Health with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2005. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Findings 6 and 11 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles, period of availability of federal funds, and special tests and provisions that are applicable to its Injury Prevention and Control Research and State and Community Based Programs and its Medicaid Cluster Programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the previous paragraph, the Department of Community Health did not comply in all material respects, with the requirements referred to in the first paragraph that are applicable to the Injury Prevention and Control Research and State and Community Based Programs and the Medicaid Cluster Programs. Also, in our opinion, the Department of Community Health complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its other major federal programs for the two-year period ended September 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 5, 7 through 10, 12, and 13.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 5 through 13.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 6 and 11 to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Thomas H. McTavish, C.P.A.  
May 1, 2006

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weakness* identified?	Yes
Reportable conditions* identified that are not considered to be material weaknesses?	Yes
Noncompliance or other matters material to the financial schedules?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Reportable conditions identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs:  
 Unqualified for all major programs except for Injury Prevention and Control Research and State and Community Based Programs and Medicaid Cluster, which are adverse\*.

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.593	Residential Substance Abuse Treatment for State Prisoners
93.003	Public Health and Social Services Emergency Fund
93.136	Injury Prevention and Control Research and State and Community Based Programs

\* See glossary at end of report for definition.

93.217	Family Planning - Services
93.767	State Children's Insurance Program
93.777 and 93.778	Medicaid Cluster
93.917	HIV Care Formula Grants
93.958	Block Grants for Community Mental Health Services
93.994	Maternal and Child Health Services Block Grant to the States

Dollar threshold used to distinguish between type A and type B programs: \$30,000,000

Auditee qualified as a low-risk auditee\*? No

## Section II: Findings Related to the Financial Schedules

### **FINDING (3910601)**

#### 1. Internal Control

The Department of Community Health's (DCH's) internal control was not sufficient to ensure the accuracy of its financial accounting and reporting and its compliance with direct and material federal requirements. Also, DCH did not effectively use its biennial internal control evaluation (ICE) process to monitor its system of internal control. As a result, we identified reportable conditions related to financial accounting, reporting, and 7 of 9 major programs audited as part of this Single Audit\*.

Section 18.1485 of the *Michigan Compiled Laws* requires the head of each principal department to establish and maintain an internal accounting and administrative control system. Internal control is a process that is designed to provide reasonable assurance regarding the achievement of reliable financial reporting, effective and efficient operations, and compliance with applicable

\* See glossary at end of report for definition.

requirements. Internal control is made up of the control environment (i.e., the tone of the organization, which is the foundation for all of the other components), risk assessment, policies and procedures, information and communication, and monitoring of the quality of internal control performance over time.

Our review noted:

- a. DCH's internal control over financial accounting and reporting and compliance with federal requirements needs improvement.

Findings 2 through 4 of this audit report identify DCH's need to improve internal control over its accounting and reporting of financial information, its schedule of expenditures of federal awards (SEFA) preparation process, and its Receivables System Database, which DCH uses to record past due amounts owed to DCH by Medicaid providers.

Findings 5 through 13 of this audit report identify DCH's need to improve internal control over various aspects related to its ability to effectively comply with federal requirements. Findings 5 through 13 present reportable conditions related to 7 of the 9 major programs audited during this Single Audit. Findings 6 and 11 present internal control deficiencies that were material to their respective programs. The internal control deficiencies resulted in adverse opinions on DCH's compliance with federal requirements.

- b. DCH's efforts to monitor the effectiveness of its internal control using the ICE needed improvement.

The head of each principal department is required to provide a biennial report on the evaluation (which is known as an ICE) of the department's internal accounting and administrative control system to the Governor, the Auditor General, the Senate and House Appropriations Committees, the Senate and House Fiscal Agencies, and director of the Department of Management and Budget (DMB). The ICE is required to include a description of any material weakness discovered in connection with the evaluation of the department's control and the plans and a time schedule for correcting the weakness.

The State Budget Director developed guidance, entitled "Evaluation of Internal Controls - A General Framework and System of Reporting" (Framework), for

use by the principal departments in preparing the ICE. The Framework provides guidance on how to identify assessable units within a department. The Framework also describes how the assessable units can identify and assess weaknesses and material weaknesses within their internal control systems. Using an evaluation report, the assessable units report their self-evaluations to the designated senior official, who coordinates and prepares the ICE.

Our review of the completion activities for DCH's May 1, 2005 ICE disclosed:

- (1) DCH did not determine which information technology systems to include in its ICE. As a result, the ICE excluded 75 of DCH's 90 information systems. Eight of the 75 excluded information systems are used in Medicaid Program efforts (Prior Authorization Mainframe, Provider Enrollment System, Sanction Monitoring System, etc.).

DCH relies on a number of key information systems to run its everyday operations and maintain vital records. Failure to include such systems in the ICE reduces DCH's assurance that DCH can identify and correct deficiencies in internal control over its information technology systems, such as access to the systems and completeness and accuracy of data entered into the systems.

For example, DCH did not include the Itemized Billing System (IBS) in its ICE. IBS collects data and performs the calculations necessary to invoice patients and other liable parties for services provided by DCH mental health facilities. IBS processed invoices in the amount of \$167.4 million in fiscal year 2003-04.

- (2) DCH did not require its assessable units to describe material weaknesses identified by their evaluation reports, which the designated senior official used to prepare the ICE.

The assessable units have the most accurate perspective of the materiality of weaknesses they identify. Therefore, to ensure that their perspective is appropriately considered in the preparation of the ICE, it is important that the evaluation report provide the assessable units with an opportunity to assess the materiality of weaknesses noted.

Although the evaluation report included assessable unit functions, the controls in place, and the monitoring activities over the controls, the evaluation report did not provide an area for specifically describing and assessing the materiality of weaknesses noted. For example, an assessable unit that administers the Specialty Managed Care activities within Medicaid classified each of 12 risks that it identified as high. However, the unit provided its perspective on and described only 4 of the 12 risks. The unit did not provide its perspective on or describe the other 8 high risks that it identified.

- (3) DCH did not require its assessable units to include material weaknesses identified by external sources (e.g., Office of the Auditor General [OAG] audit reports) in the assessable units' respective evaluation reports. As a result, DCH's assessable units did not include five material weaknesses identified in OAG audit reports on DCH entities. For example, the OAG's performance audit of the Bureau of Health Systems, Department of Community Health (63-450-03), noted that the Bureau of Health Systems did not sufficiently survey or inspect hospices, hospice residences, and other licensed health care facilities, all of which use Medicaid funding.

Inclusion of material weaknesses identified by external sources in the assessable units' evaluation reports would assist DCH management in identifying weaknesses within DCH and is required by the Framework. After weaknesses are identified, DCH management can ensure that corrective action is taken to address the weaknesses. DCH's letter to the Governor on its ICE did report that external audits of DCH had identified material weaknesses. However, it is critical that these material weaknesses be identified and addressed by the assessable units to help ensure that the material weaknesses are corrected.

## **RECOMMENDATIONS**

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 also recommend that DCH effectively use its biennial ICE process to monitor its system of internal control.

## **FINDING (3910602)**

### **2. Internal Control Over Financial Reporting**

DCH's internal control did not prevent and detect certain accounting and reporting errors. As a result, errors occurred in DCH's financial schedules, notes to the financial schedules, and supplemental financial schedules.

Sections 18.1141 and 18.1485 of the *Michigan Compiled Laws* require each department to establish a comprehensive system of internal control in the management of the State's financial affairs. This includes maintaining an internal accounting and administrative control system of recordkeeping procedures to control assets, liabilities, revenues, and expenditures and to record transactions both in accordance with generally accepted accounting principles (GAAP) and as required by State law.

Our audit disclosed:

- a. DCH's internal control did not ensure that it recorded amounts billed to third party insurance carriers for Medicaid pharmaceutical claims in the State's accounting system. Also, DCH could not identify which insurance carriers were billed and could not identify receipts realized from the billings.

The OAG's performance audit of Selected Medicaid Pharmaceutical Drug Transactions, Medical Services Administration, Department of Community Health (39-115-04), reported that DCH did not sufficiently monitor and investigate Medicaid fee-for-service prescription drug payments processed by its pharmacy benefits manager (PBM) to help ensure that Medicaid is the payer of last resort. The audit report also stated that DCH did not determine the appropriateness of questionable third party payment amounts, did not determine if it had recovered inappropriate Medicaid payments for pharmacy claims, and did not determine the amounts for which the pharmacy providers or the PBM may be liable.

In DCH's response to the audit report, DCH stated that it billed approximately \$23.9 million of the questionable claims to third party insurance carriers. However, our review determined that DCH could not demonstrate that it recorded financial transactions associated with the billings of \$23.9 million, could not identify which third party insurance carriers it billed, and could not

identify the receipts realized from the billings. Without records that reflect billings to and collections from specific insurance carriers, DCH cannot identify and collect past due amounts owed to the State.

- b. DCH's internal control did not prevent errors in the calculation of disproportionate share hospital (DSH) payments to State psychiatric hospitals and did not ensure that DCH always acquired related source documentation. As a result, DCH overpaid hospitals approximately \$15.5 million in DSH payments for fiscal year 2003-04 and made a DSH payment of approximately \$45.4 million to one hospital in fiscal year 2004-05 without supporting documentation.

Because of complexities involved in calculating the costs of Medicaid services provided to Medicaid participants (direct costs, indirect costs, standard costs, allocated costs, etc.), DCH stated that its hospitals' cost accounting systems cannot determine the actual costs of providing medical services to Medicaid participants. In the absence of actual Medicaid cost information, DCH has established a process to estimate the cost of providing Medicaid services to Medicaid participants. The process involves the calculation of a cost-to-charge ratio for each hospital.

DCH calculates each hospital's cost-to-charge ratio by dividing each hospital's total costs by the hospital's total charges. DMB then uses the cost-to-charge ratio to calculate the maximum DSH payment a hospital can receive. Total DSH payments to State psychiatric hospitals for fiscal years 2004-05 and 2003-04 were approximately \$133.1 million and \$141.9 million, respectively.

Because DCH calculates the cost-to-charge ratios for each fiscal year using actual hospital costs and charges from the most current fiscal year for which data is available, the cost-to-charge ratio for fiscal year 2003-04 should have been based on actual costs and charges from fiscal year 2001-02. However, the cost-to-charge ratios for fiscal year 2003-04 were based on data from fiscal year 2000-01. As a result, the total DSH payments to State psychiatric hospitals were overstated by approximately \$15.5 million for fiscal year 2003-04.

In addition, DMB did not acquire documentation to support the cost-to-charge ratio used for determining one State psychiatric hospital's fiscal year 2004-05

DSH amount. The payment was approximately \$45.4 million. As a result of our audit, DCH obtained the appropriate cost-to-charge ratio information and provided documentation sufficient to support the cost-to-charge ratio for the psychiatric hospital. Therefore, there were no federal questioned costs as defined by OMB Circular A-133.

- c. DCH's internal control over accounting did not include a reconciliation of invoices from the contracted PBM to the underlying claims files. As a result, DCH could not document that its payments for Medicaid pharmaceutical claims were complete and accurate. DCH paid approximately \$2 billion for Medicaid pharmaceutical claims during our audit period.

The State contracted with the PBM to process Medicaid pharmacy claims. The PBM processed payments for pharmacy claims and provided DCH with weekly claims files of paid pharmacy claims. DCH also received an invoice from the PBM for the weekly claims processed and paid by the PBM. DCH paid the invoices to the PBM without comparing them to the weekly claims file of paid pharmacy claims supplied by the PBM.

To ensure that the recording of an expenditure transaction is complete and accurate, accounting practices should include a comparison of invoices supplied by vendors with underlying supporting documentation. We noted this same condition in our prior Single Audit. As of the end of the audit fieldwork for our current audit, DCH had attempted to develop, but had not yet finalized, a process to reconcile the PBM's invoices to the underlying claims files.

- d. DCH's internal control over accounting did not prevent DCH from recording numerous accounting transactions in error during our audit period. Also, DCH did not comply with GAAP. As a result, we noted transactions that DCH recorded in error or as a result of noncompliance with GAAP. Receivables were overstated by \$13.9 million and \$88.1 million, payables were overstated by \$27.1 million and \$88.1 million, revenues were overstated by \$17.1 million and \$83.6 million, and expenditures were overstated by \$30.3 million and \$83.6 million in fiscal years 2004-05 and 2003-04, respectively.

DCH is required by Section 18.1485(2)(c) of the *Michigan Compiled Laws* to maintain a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures. Also, GAAP requires that

revenues be recognized in the period in which they are measurable and available and that expenditures be recorded when the related liability is incurred.

DCH recorded a liability and related receivable based on a State Plan amendment. However, the amendment had not been approved by the federal government. Because the amendment was not approved, the liability was not incurred and should not have been recorded. Therefore, related transactions recorded by DCH did not comply with GAAP. Included in the preceding reported amounts, DCH overstated receivables and revenues by \$82.7 million and overstated payables and expenditures by \$82.0 million in fiscal year 2003-04.

DCH subsequently corrected all of these errors except for a Medicaid accrual methodology error. As a result, in fiscal year 2003-04, DCH's reported receivables were understated by \$1.4 million, revenues were overstated by \$1.8 million, and expenditures were overstated by \$3.2 million.

### **RECOMMENDATION**

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

### **FINDING (3910603)**

#### **3. Schedule of Expenditures of Federal Awards (SEFA)**

DCH's internal control over financial reporting did not ensure that DCH prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies.

OMB Circular A-133 requires the auditee to identify in its accounts all federal awards received and expended and the federal programs under which the awards were received. The SEFA includes amounts directly expended by DCH and amounts that DCH distributes to its subrecipients\*. DMB's Financial Management Guide requires that the SEFA must be reconcilable to the information contained in

\* See glossary at end of report for definition.

DCH's financial schedules and requires DCH to identify in its accounts all federal awards received and expended and the federal programs under which the federal funds were received.

Our review of DCH's SEFA preparation process and its SEFA for the audit period disclosed:

- a. DCH was unable to provide procedures for reconciling the specific expenditure transactions in the State's accounting records to the Medicaid and State Children's Insurance Program (SCHIP) federal program expenditures presented in its SEFA.

DCH provided us with a method for reconciling the Medicaid and SCHIP federal program expenditure transactions in the State's accounting records to the SEFA. However, when we applied DCH's method, we noted unreconciled differences between the expenditures reported on the SEFA and the expenditures contained in the State's accounting records. We did not consider these differences to be questioned costs, as defined by OMB Circular A-133.

For the Medicaid Program, direct expenditures recorded in the State's accounting records exceeded the direct expenditures reported on the SEFA by approximately \$1.3 million for fiscal year 2004-05 and direct expenditures reported on the SEFA exceeded the direct expenditures recorded in the State's accounting records by approximately \$26.7 million for fiscal year 2003-04.

For SCHIP, direct expenditures recorded in the State's accounting records exceeded the direct expenditures reported on the SEFA by approximately \$2.9 million for fiscal year 2004-05 and direct expenditures recorded in the State's accounting records were less than direct expenditures reported on the SEFA by approximately \$3.2 million for fiscal year 2003-04.

- b. DCH did not have adequate procedures to ensure that subrecipient expenditures reported on its SEFA accurately reflected the expenditures recorded in the State's accounting records.

As a result, we determined that subrecipient expenditures reported on the SEFA exceeded expenditures recorded in the State's accounting records by

approximately \$3.1 million for fiscal year 2004-05. In fiscal year 2003-04, subrecipient expenditures recorded in the State's accounting records exceeded expenditures reported on the SEFA by approximately \$15.2 million. We did not consider these differences to be questioned costs, as defined by OMB Circular A-133.

- c. DCH's internal control did not ensure that expenditures recorded in the State's accounting records were accurately reported on the SEFA as payments to subrecipients or payments to vendors.

As a result, DCH understated amounts "Distributed to Subrecipients" and overstated amounts "Directly Expended" by approximately \$11.2 million and \$14.0 million for fiscal years 2004-05 and 2003-04, respectively. We did not consider these differences to be questioned costs, as defined by OMB Circular A-133.

- d. DCH's internal control did not ensure that federal expenditures were accurately reported under the appropriate *Catalog of Federal Domestic Assistance (CFDA)* number on its SEFA.

As a result, DCH's SEFA understated fiscal year 2003-04 expenditures for the Centers for Disease Control and Prevention - Investigations and Technical Assistance (*CFDA* 93.283) by approximately \$9.5 million because DCH reported the expenditures under a *CFDA* number no longer used by the federal government. DCH corrected the SEFA as a result of our review.

## **RECOMMENDATION**

We recommend that DCH improve its internal control over financial reporting to ensure that DCH prepares its SEFA in accordance with OMB Circular A-133 and State financial management policies.

## **FINDING (3910604)**

### 4. Receivables System (RS) Database

DCH's internal control did not ensure the completeness and accuracy of its RS Database, which is used to record past due amounts owed to DCH by Medicaid

providers. As a result, DCH cannot ensure that it is properly collecting amounts owed to the State and federal governments.

DCH's Medicaid Collections Unit makes DCH's final effort to collect from Medicaid providers on past due receivables. These are receivables for amounts owed by these providers for various reasons, including overpayments resulting from mistakes, fraud, or abuse or amounts owed after the provider has been through an annual cost settlement process. These receivables generally originated with other DCH units and other State agencies that were initially responsible for recouping Medicaid funds.

During our audit period, the Unit obtained information on past due receivables from two sources:

- The Unit extracted past due receivable information from the gross adjustment details report (the MQ-774 report), which is generated from the Claims Processing Subsystem of the Medicaid Management Information System. The MQ-774 report is a centralized report of provider receivables produced from regular day-to-day Medicaid payment operations within DCH.
- The Unit received past due receivable referrals from other agencies that are often responsible for the identification of these amounts, such as DCH's Program Investigation Section, the Department of the Attorney General, and the Department of Human Services (DHS).

During fiscal year 2004-05, the Unit posted \$20.3 million in past due receivables to the RS Database. In fiscal year 2004-05, the Unit collected \$4.4 million on past due receivables and referred approximately \$273,000 to the Department of Treasury as uncollectible. As of September 30, 2005, total Medicaid receivables recorded in the RS Database were \$16.7 million.

We identified the following control weaknesses relating to the completeness and accuracy of the RS Database:

- a. The Unit did not periodically reconcile the RS Database with receivables referred to the Unit from other DCH units and other State agencies.

Periodic reconciliations of receivables referred from other units and agencies would help the Unit ensure that the RS Database completely and accurately reflects those receivables. A reconciliation process could include: (1) providing activity reports to the other units and agencies that contain debtor information and detailed changes from the previous activity report and (2) resolving responses as to the completeness and accuracy of the activity reports from the referring units and agencies.

While the Unit should periodically provide reports of items posted to the RS Database to all of the units and agencies responsible for referring past due receivables to the Unit, it did not do so. The Unit stated that it attempted to reconcile the receivables information forwarded from DCH's Program Investigation Section beginning in May 2005 using a monthly activity report. However, the Program Investigation Section stated that it received reports for only May, June, and September 2005. The Unit stated that it did not require responses as to the completeness and accuracy of the activity reports.

- b. The Unit did not ensure that its review and approval of postings to the RS Database were complete, accurate, and timely.

The State has adopted Control Objectives for Information and Related Technology\* (COBIT) standards. These standards state that entities that process data need to have processes to ensure that data and system errors are detected and corrected. The standards also state that data should be validated and edited (i.e., reviewed) as close to the point of origination (e.g., the forwarding agency or data base) as possible. Also, timely review and approval of data posted to a database help prevent the occurrence of errors and reduce the possibility that an agency will make program decisions based on incorrect information. Posting of the data to the database should not occur until after the data is reviewed and approved.

The Unit implemented its RS Database posting approval process in May 2005. Contrary to COBIT, the process included the review and approval of the completeness and accuracy of the amounts after they were posted to the RS Database. We reviewed 216 of the 333 original amounts (i.e., new debtors) posted to the RS Database beginning in May 2005. Fourteen of the 216

\* See glossary at end of report for definition.

postings, representing approximately \$408,000, were not reviewed and approved. On average, the Unit took 34 days to perform the reviews and provide the approvals.

- c. The Unit did not have procedures for identifying and documenting MQ-774 receivables to be posted to the RS Database. As a result, the Unit was unable to readily provide documentation for selected overdue receivables that were not posted to the RS Database. As a subsequent result, DCH did not initially attempt to collect a past due receivable of \$47,491 from a Medicaid provider.

Procedures for identifying and documenting MQ-774 receivables to be posted to the RS Database would help ensure that the RS Database completely and accurately reflects the Unit's related collection responsibilities. Procedures also would help the Unit to assist other Medical Services Administration agencies to identify past due receivables that those agencies are responsible for collecting.

The Unit initially stated that its criterion for posting MQ-774 receivables to the RS Database was to post receivables that had no collection activity for more than 90 days (the 90-day requirement).

After we identified MQ-774 receivables that appeared to meet the 90-day requirement but were not posted to the RS Database, the Unit explained that there were exceptions to the 90-day requirement. However, the Unit was not able to readily document the propriety of the exclusion of the MQ-774 receivables we identified. As a result of our efforts to acquire the documentation from the Unit, it was determined that one past due receivable was overlooked by both the Unit and the Medicaid agency responsible for the collection. The receivable had been contained in the MQ-774 report since January 2005 and was valued at \$47,491. After we brought the oversight to DCH's attention, DCH stated that it initiated efforts to collect from the provider.

## **RECOMMENDATION**

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

## Section III: Findings and Questioned Costs\* Related to Federal Awards

### **FINDING (3910605)**

5. Residential Substance Abuse Treatment for State Prisoners (RSAT), CFDA 16.593

U.S. Department of Justice	CFDA 16.593: Residential Substance Abuse Treatment for State Prisoners
Award Number: 2003-RT-BX-0034	Award Period: 10/01/2002 - 09/30/2006
	Questioned Costs: \$0

DCH's internal control over RSAT did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of RSAT awards.

OMB Circular A-133 requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished using various methods, depending on the nature and timing of the compliance requirement.

During the two-year audit period, DCH provided \$2.3 million in RSAT funds to three subrecipients.

We reviewed DCH's RSAT subrecipient monitoring procedures and noted:

- a. DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable costs/cost principles requirements.

DCH stated that it relies on Single Audits of its subrecipients for monitoring subrecipient allowable costs/cost principles. However, for fiscal year 2003-04, the audits of two subrecipients did not include major program testing of RSAT. Therefore, DCH had no basis for reliance on Single Audits of those subrecipients and should develop other methods to monitor compliance by the subrecipients.

\* See glossary at end of report for definition.

The two subrecipients received \$720,000 in federal funds during our audit period.

- b. DCH could document only 1 of 10 RSAT subrecipient site visits that were required by DCH's procedures.

DCH procedures require a site visit of each subrecipient at least once during the grant award period as part of its subrecipient monitoring process. Site visits, which can be an integral part of a subrecipient monitoring process, include an assessment of the accuracy and timeliness of subrecipient reporting and an assessment of the grantees' performance under the grants.

**RECOMMENDATION**

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

**FINDING (3910606)**

- 6. Injury Prevention and Control Research and State and Community Based Programs (IPP), CFDA 93.136

U.S. Department of Health and Human Services	CFDA 93.136: Injury Prevention and Control Research and State and Community Based Programs
Award Number:	Award Period:
U17 / CCU511067 - 09	09/30/2003 - 09/29/2004
U17 / CCU511067 - 10 - 1	09/30/2004 - 09/29/2005
U17 / CCU519401 - 04	09/30/2003 - 09/29/2004
U17 / CCU519401 - 04 - 1	09/30/2003 - 09/29/2004
U17 / CCU519401 - 04 - 2	09/30/2003 - 07/31/2005
VF1 / CCV519922 - 02	11/01/2002 - 10/31/2003
VF1 / CCV519922 - 02 - 1	11/01/2002 - 10/31/2003
VF1 / CCV519922 - 03	11/01/2003 - 10/31/2004
VF1 / CCV519922 - 03 - 1	11/01/2003 - 10/31/2004
VF1 / CCV519922 - 04	11/01/2004 - 10/31/2005
VF1 / CCV519922 - 04 - 1	11/01/2004 - 10/31/2005
U17 / CCU522265 - 01 - 2	09/30/2002 - 06/29/2004
U17 / CCU522312 - 01	09/30/2002 - 09/29/2003
U17 / CCU522312 - 02	09/30/2003 - 09/29/2004
U17 / CCU522312 - 02 - 1	09/30/2003 - 09/29/2004
U17 / CCU522312 - 03	09/30/2004 - 09/29/2005
U17 / CCU522312 - 03 - 1	09/30/2004 - 09/29/2005
U17 / CCU522312 - 03 - 2	09/30/2004 - 07/31/2006
U17 / CCU523418 - 01	09/30/2003 - 09/29/2004
U17 / CCU523418 - 02	09/30/2004 - 09/29/2005
U17 / CCU524341 - 01	09/01/2004 - 08/31/2005
	Questioned Costs: \$274,822

DCH's internal control over IPP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and period of availability of federal funds. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles and period of availability of federal funds. As a result, we issued an adverse opinion on compliance with federal laws and regulations for IPP.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of IPP awards.

IPP consisted of seven subprograms during the audit period, including the Rape Prevention and Education Program, the Targeted Injury Prevention Programs, and the Community-Based Interventions to Reduce Motor-Vehicle-Related Injuries. The Rape Prevention and Education Program is administered by DCH through the use of subrecipients. DHS is one of the Program's subrecipients. Expenditures incurred by DHS are funded by transfers from DCH. Federal expenditures for IPP by DCH and transfers to DHS totaled approximately \$4.6 million for the two-year period ended September 30, 2005. We reported known questioned costs totaling \$274,822 and known and likely questioned costs totaling \$323,192.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states that program costs must conform to any limitations or exclusions set forth in federal laws, regulations, and awards. Title 45, Part 92, section 23 of the *Code of Federal Regulations (CFR)* states that where the federal awarding agency specifies a funding period, a grantee may only charge costs to the award resulting from obligations that occurred during the funding period. It also states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DCH authorized an IPP subrecipient to expend federal funds for an equipment purchase that exceeded allowable federal limits. Also, DCH authorized other IPP expenditures that were not allowable under program regulations. As a result, we reported known questioned costs that totaled \$1,418 and known and likely questioned costs that totaled \$49,788.

b. Period of Availability of Federal Funds

Our review disclosed:

- (1) DCH improperly charged Rape Prevention and Education Program costs incurred by DHS during the Program's funding period ended October 31, 2005 to the Program's funding period ended October 31, 2004. As a result, we reported known questioned costs of \$229,580.
- (2) DCH charged Targeted Injury Prevention Program costs to the funding period ended September 29, 2003 although the costs were eventually reduced by a refund from a subrecipient. This refund was recorded as a reduction of current year costs, thus understanding Program expenditures for the funding period ended September 29, 2004. As a result, we reported known questioned costs of \$4,062 for the funding period ended September 29, 2003 and known negative questioned costs of \$4,062 for the funding period ended September 29, 2004.
- (3) DCH improperly charged Rape Prevention and Education Program costs incurred by DCH during the Program's funding period ended October 31, 2004 to the Program's funding period ended October 31, 2005. As a result, we reported known questioned costs of \$1,373.
- (4) DCH liquidated an obligation from the Community-Based Interventions to Reduce Motor-Vehicle-Related Injuries Program 27 days after the 90-day requirement. As a result, we reported known questioned costs of \$40,118.
- (5) DCH liquidated obligations from the Rape Prevention and Education Program with payments that were 79 days and 103 days after the 90-day requirement. As a result, we reported known questioned costs of \$2,333.

**RECOMMENDATION**

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

## **FINDING (3910607)**

### **7. Family Planning - Services (FPS), *CFDA* 93.217**

U.S. Department of Health and Human Services	<i>CFDA</i> 93.217: Family Planning - Services
Award Number: 6 FPHPA050173-32-03 6 FPHPA050173-33-01 6 FPHPA050173-34-01	Award Period: 04/01/2003 - 03/31/2004 04/01/2004 - 03/31/2005 04/01/2005 - 03/31/2006
	Questioned Costs: \$0

DCH's internal control over FPS did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of FPS awards.

OMB Circular A-133 requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished using various methods, depending on the nature and timing of the compliance requirement.

DCH stated that it generally relied on Single Audits for monitoring of all direct and material federal requirements applicable to FPS subrecipients' activities. DCH also stated that it conducted periodic site visits of subrecipients, which included efforts to determine whether subrecipients complied with federal requirements related to activities allowed or unallowed. However, those visits did not cover the other applicable compliance requirements, which were allowable costs/cost principles, cash management, period of availability of federal funds, program income, and reporting.

During the two-year audit period, DCH provided \$14.0 million in FPS funds to 51 subrecipients. Our review of DCH's monitoring of FPS subrecipients disclosed:

- a. DCH placed improper reliance on subrecipients' Single Audits for compliance with federal program requirements.

We noted that Single Audits either did not include major program testing of FPS or were not received by DCH for 12 (75%) of the 16 subrecipients reviewed. Therefore, DCH had no basis for its reliance on Single Audits of

those subrecipients. These 12 subrecipients received \$3.3 million in federal funds during our audit period.

Because DCH could not rely on the Single Audits of those subrecipients, DCH should have implemented other monitoring procedures to ensure that the subrecipients complied with all direct and material federal program requirements.

- b. DCH did not comply with its policy requiring on-site visits at least every three years.

DCH's policy provided for on-site visits of subrecipients at least once every three years. However, DCH did not perform on-site visits for 7 (14%) of 51 subrecipients within a three-year period as required by DCH's policy. As a result, DCH could not ensure that subrecipients expended federal awards only for allowed activities. Six of the 7 subrecipients received \$1.2 million in federal funds during our audit period. The remaining subrecipient received approximately \$117,000 and is included in item a.

**RECOMMENDATION**

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

**FINDING (3910608)**

8. State Children's Insurance Program (SCHIP), CFDA 93.767

U.S. Department of Health and Human Services	CFDA 93.767: State Children's Insurance Program
Award Number: 05-0105MI5021 05-0405MI5R21 05-0505MI5R21 05-0405MI5021 05-0505MI5021	Award Period: 10/01/2000 - 09/30/2001 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005
	Questioned Costs: \$435

U.S. Department of Health and Human Services	CFDA 93.777 and 93.778: Medicaid Cluster
Award Number: 05-0405MI5028 05-0505MI5028 05-0405MI5048 05-0505MI5048	Award Period: 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005
	Questioned Costs: (\$370)

DCH's internal control over SCHIP did not ensure compliance with federal laws and regulations regarding eligibility, reporting, and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of SCHIP awards.

SCHIP initiates and expands health care coverage to certain uninsured, low-income children. SCHIP consists of the Adult Benefits Waiver (ABW) Program, MICHild Program, Healthy Kids Medicaid Expansion (HKME), and Maternity Outpatient Medical Services (MOMS). The ABW Program provides health care coverage to childless adults whose family income is at or below 35% of the federal poverty level (FPL). The MICHild Program provides health care coverage for children under age 19 of families whose family income is above 150% and at or below 200% of the FPL depending on the child's age. HKME provides health care coverage for children aged 16 through 18 whose family income is at or below 150% of the FPL. MOMS provides health care coverage to the unborn child of a Medicaid-eligible future mother.

DCH expended federal funds of approximately \$339 million to provide health care coverage each month to approximately 69,000 children and 70,000 adults. As a result of our audit, we reported known questioned costs totaling \$435 and known and likely questioned costs totaling \$1,243,106 pertaining to SCHIP. We also reported negative known questioned costs totaling \$370 and negative known and likely questioned costs totaling \$1,058,223 pertaining to the Medical Assistance Program.

Our exceptions, by compliance area, are as follows:

a. Eligibility

DCH's internal control did not prevent it from enrolling ineligible children into the MIChild Program. Also, DCH did not refer eligible children to the Medicaid Program.

During the two-year audit period, DCH expended approximately \$82.4 million pertaining to the MIChild Program.

Our review of 35 case files for the MIChild Program disclosed 8 monthly premium payments for 1 child who was erroneously determined to be eligible for the MIChild Program instead of the Medicaid Program. As a result, we reported known questioned costs totaling \$435 and known and likely questioned costs totaling \$1,243,106 pertaining to SCHIP and negative known questioned costs totaling \$370 and negative known and likely questioned costs totaling \$1,058,223 pertaining to the Medical Assistance Program.

We reported that DCH enrolled ineligible children in SCHIP in Finding 390410 of the prior Single Audit.

b. Reporting

DCH's internal control did not ensure compliance with federal laws and regulations regarding reporting.

Section III (1) of the special terms and conditions for the ABW Program requires quarterly progress reports, which are due 60 days after the end of each quarter, and are to include information on operational and policy issues.

DCH did not submit required quarterly reports for the quarters ended June 30, 2005 and September 30, 2005.

c. Subrecipient Monitoring

DCH's internal control over SCHIP did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

OMB Circular A-133 requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective

monitoring of subrecipients by DCH can be accomplished using various methods, depending on the nature and timing of the compliance requirement. OMB Circular A-133 also requires DCH to make its arrangements for subrecipient monitoring in its agreement with its subrecipient. As a good business practice, such arrangements should include, where applicable, specific potential monetary sanctions for noncompliance with the agreement. Specifying compliance requirements, monitoring rights, and sanctions for noncompliance within the agreement would help DCH ensure that subrecipients comply with federal and other requirements.

DCH relied on DHS to determine eligibility for ABW and HKME populations. DCH's interagency agreement with DHS provided for DHS to make eligibility determinations for HKME. However, the interagency agreement did not specify DHS's responsibilities for making eligibility determinations for ABW. The agreement also did not specify the federal and other requirements with which DCH expects DHS to comply. In addition, the agreement did not specify that DHS must allow DCH to monitor DHS's compliance with the agreement. Further, the agreement did not provide for potential monetary sanctions on DHS for noncompliance with the agreement. Also, DCH did not monitor DHS's eligibility determinations for ABW or HKME.

**RECOMMENDATION**

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

**FINDING (3910609)**

9. **Medicaid Cluster, CFDA 93.777 and 93.778, Allowable Costs/Cost Principles**

U.S. Department of Health and Human Services	CFDA 93.777 and 93.778: Medicaid Cluster
Award Number: 05-0405MI5028 05-0505MI5028 05-0405MI5048 05-0505MI5048	Award Period: 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005
	Questioned Costs: \$14,153,645

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards. Also, because of the internal control weaknesses identified in the finding, DCH could not ensure that Medicaid payments were only being made on behalf of eligible clients.

OMB Circular A-87 states that program costs must conform to any limitations or exclusions set forth in federal laws, regulations, and awards. OMB Circular A-87 requires costs charged to federal program to be reasonable in nature and amount, which includes restraints or requirements imposed by laws and regulations, sound business practices, and terms and conditions of the federal award.

Federal expenditures for the Medicaid Cluster totaled approximately \$10.1 billion for the two-year period ended September 30, 2005. We reported known questioned costs totaling \$14,153,645 and known and likely questioned costs totaling \$40,245,846.

Our review of Medicaid expenditures during the audit period noted:

- a. DCH's internal control did not ensure the accuracy of selected Medicaid payments:
  - (1) DMB did not accurately calculate the DSH payments to eligible State psychiatric hospitals. DCH did not provide DMB with accurate data as it calculated fiscal year 2003-04 DSH payments to certain State facilities. As a result, we reported known questioned costs of \$4,479,215.
  - (2) DCH did not properly calculate the incentive fee for the repackaged unit pharmacy providers. Section 15.3 of DCH's Medicaid Provider Manual allows DCH to pay \$.03 per capsule or tablet to pharmacy providers to repack traditional containers of capsules or tablets (bottles of 500, 1,000, etc.) into unit dose packages. We noted that the calculated fee exceeded \$.03 in approximately 22,000 (1%) of 1.7 million capsules or tablets. As a result, DCH overpaid pharmacy providers by \$31,730. We reported the federal portion of these payments as known questioned costs of \$18,104.

- b. DCH did not ensure that Medicaid was the payer of last resort, as reported in the OAG's performance audit of Selected Medicaid Pharmaceutical Drug Transactions, Medical Services Administration, Department of Community Health (39-115-04).

DCH made overpayments of pharmaceutical costs and made questionable payments of pharmaceutical costs for the period July 1, 2000 through September 30, 2004 (see Findings 1 and 2 and related recommendations in that report). We reported the federal portion of these payments as known questioned costs of \$8,514,418 and known and likely questioned costs of \$30,803,537.

- c. DCH did not have sufficient controls in place to ensure proper payments for certain managed care and fee-for-service medical services, as reported in the OAG's performance audit of Selected Medicaid Managed Care and Fee-for-Service Payments, Medical Services Administration, Department of Community Health (39-701-04):

- (1) DCH did not ensure that its Medicaid payments for beneficiaries entitled to emergency services only (e.g., non-citizens of the United States) complied with federal regulations. For the period January 1, 1999 through July 31, 2004, DCH made payments of \$490,510 for nonemergency medical services provided to persons entitled to only emergency services. We reported the federal portion of these payments as known questioned cost of \$288,616 and known and likely questioned costs of \$818,211 (see Finding 1 and related recommendations in that report).

- (2) DCH did not prevent, or have procedures to recover, fee-for-service overpayments of \$870,318 made to physicians and inpatient hospitals for Medicaid beneficiaries who were retroactively enrolled in a managed care health plan for the period July 1, 2001 through June 30, 2004. We reported the federal portion of these payments as known questioned costs of \$512,095 and known and likely questioned costs of \$3,706,920 (see Finding 2 and related recommendation in that report).

- (3) DCH did not ensure that its Medicaid managed care health plans provided all required pharmaceutical services to enrolled Medicaid

beneficiaries. We identified improper fee-for-service payments made by DCH of \$1,219 for the period of July 1, 2002 through June 30, 2004 that should have been paid for by Medicaid managed care health plans. We reported the federal portion of these payments as known questioned costs of \$717 and known and likely questioned costs of \$79,379 (see Finding 3 and related recommendations of that report).

- (4) DCH did not prevent duplicate Medicaid payments for persons having multiple beneficiary identification numbers. We identified improper payments of \$385,386 for the period January 1, 1999 through June 30, 2004. We reported the federal portion of these payments as known questioned costs of \$226,761 (see Finding 4.a. and related recommendation in that report).
- (5) DCH did not ensure that deceased Medicaid beneficiaries receiving full Medicaid benefits were identified on a timely basis and promptly removed from the beneficiary eligibility databases. We identified improper payments of \$193,267 for the period June 1, 2002 through July 31, 2004. We reported the federal portion of these payments as known questioned costs of \$113,719 (see Finding 4.b. and related recommendation in that report).

### **RECOMMENDATION**

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.

## **FINDING (3910610)**

### **10. Medicaid Cluster, *CFDA 93.777* and *93.778*, Procurement and Suspension and Debarment and Subrecipient Monitoring**

U.S. Department of Health and Human Services	<i>CFDA 93.777</i> and <i>93.778</i> : Medicaid Cluster
Award Number: 05-0205MI5028 05-0305MI5028 05-0405MI5028 05-0505MI5028 05-0205MI5048 05-0305MI5048 05-0405MI5048 05-0505MI5048	Award Period: 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005
Questioned Costs: \$44,965	

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards. Also, because of the internal control weaknesses identified in the finding, DCH could not ensure that Medicaid payments were only being made to eligible clients.

Our review of the Medicaid Cluster relative to procurement and suspension and debarment and subrecipient monitoring requirements noted:

a. **Procurement and Suspension and Debarment**

Section 1128 and Section 1902(a)(39) of the Social Security Act prohibit DCH from reimbursing a provider for services that were ordered or prescribed by a sanctioned provider. DCH compiles a cumulative listing of sanctioned providers twice a year and updates the list monthly.

We compared the sanctioned provider list with Medicaid claims paid during the audit period. The comparison showed instances in which DCH and Medicaid health plan payment controls did not prevent Medicaid payments for services provided by sanctioned providers. DCH made improper payments totaling \$79,290 for 1,321 pharmaceutical prescriptions written by 37 sanctioned

providers. We reported the federal portion of these improper payments as known questioned costs of \$44,965.

We also identified 41 sanctioned providers that provided 508 prescriptions to Medicaid recipients enrolled in DCH's Medicaid health plans. However, information regarding improper payments made by the Medicaid health plans for prescriptions issued by these sanctioned providers was not available. As a result, we could not identify questioned costs related to payments to these providers.

b. Subrecipient Monitoring

OMB Circular A-133 requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished using various methods, depending on the nature and timing of the compliance requirement. OMB Circular A-133 also requires DCH to make its arrangements for subrecipient monitoring in its agreement with its subrecipient. As a good business practice, such arrangements should include, where applicable, specific potential monetary sanctions for noncompliance with the agreement.

Federal regulations require the states to determine client eligibility for Medicaid services. Through a grant from DCH, DHS was responsible for determining client eligibility for the Medicaid Program. DCH entered into an interagency agreement with DHS, which contained the specific requirements of each agency.

Federal regulations also require states to operate a Medicaid Eligibility Quality Control (MEQC) system to help ensure the propriety of eligibility determinations using requirements established by the Centers for Medicare and Medicaid Services (CMS). DCH's interagency agreement with DHS required DHS to have an MEQC system to assess the accuracy of DHS eligibility determinations. DHS's Office of Quality Assurance (OQA) developed a sampling plan as part of its MEQC system to assess DHS eligibility determinations. The sampling plan was reviewed and approved by DCH. DCH and DHS submitted the plan to CMS and obtained CMS approval.

The approved sampling plan required OQA to test a sample of DHS caseworker-determined Medicaid-eligible and Medicaid-ineligible cases. DHS

caseworkers processed 638,078 and 664,210 Medicaid applications in fiscal years 2003-04 and 2004-05, respectively.

DHS reported that its OQA staff performed 1,141 MEQC reviews in fiscal year 2003-04, which resulted in 155 error cases and 986 non-error cases. At the time of our audit fieldwork, OQA had not yet compiled the number of its reviews for fiscal year 2004-05. DCH monitoring practices included following up selected error cases.

The interagency agreement also required DHS to calculate and provide mispayment information to CMS that was based on the results of the samples tested.

Our review disclosed the following related to the monitoring of subrecipient efforts to ensure the eligibility of Medicaid clients:

- (1) DCH did not monitor whether DHS followed the CMS-approved sampling plan.

The sampling plan should ensure that transactions tested by OQA are representative of the population from which the transactions are drawn. A representative sample helps to ensure that resulting mispayment rate calculations, underlying reasons for the errors, and resulting corrective action plans reported to CMS are accurate.

Because DCH did not monitor whether DHS actually followed the approved sampling plan, DCH could not ensure that reports to CMS were accurate.

- (2) DCH did not monitor the propriety of MEQC non-error assessments.

Monitoring the propriety of non-error assessments could help DCH identify instances in which the audits by OQA did not identify improper eligibility determinations. Although DCH could obtain a level of assurance as to the propriety of OQA's audit efforts from its reviews and analyses of error assessments, DCH could not demonstrate that OQA's non-error assessments were appropriate without monitoring non-error

assessments. Such monitoring could include risk-based sampling from the population of non-error determinations.

In fiscal year 2003-04, DCH did not monitor 986 (86%) of 1,141 MEQC eligibility determinations. Fiscal year 2004-05 statistics were not available for this report.

- (3) DCH did not monitor the propriety and accuracy of the MEQC Medicaid mispayment error rate calculations and did not determine the cause of sizable periodic error rate fluctuations.

Monitoring the propriety and accuracy of the mispayment error rate could help ensure that conclusions made by CMS are based on accurate information. Determining the cause of sizable rate fluctuations could help DCH and DHS formulate an effective corrective action plan to reduce future mispayment error rates.

CMS compares the mispayment error rate calculated by OQA to the federal mispayment tolerance of 3% when it determines whether to sanction DCH for excessive mispayment error rates. For fiscal year 2003-04, the OQA-calculated mispayment error rate was 4.93%. The mispayment error rate increased each quarter from 2.86% for the first quarter to 6.27% for the fourth quarter.

In response to DCH's fiscal year 2003-04 MEQC error rate analysis report, CMS stated (to DCH) that "the majority of errors and mispayment errors were caused by the DHS . . . ." CMS suggested that DHS determine where the errors were occurring in an effort to target corrective action and reduce the identified error. CMS also indicated that it was concerned that the mispayment rate had increased and added that "while the State was able to identify the cause of error rates, the data provided does not indicate the effectiveness of the corrective action plan."

After the fourth quarter 2003-04 error rate of 6.27%, the mispayment error rate for the first quarter of fiscal year 2004-05 dropped to 3.38% (a 46% decrease). However, DCH did not perform monitoring efforts to identify the basis for the sizable decrease in the mispayment error rate.

- (4) DCH did not specify within its agreement with DHS potential monetary sanctions against DHS for noncompliance with the agreement.

Specifying sanctions for noncompliance within the agreement would help provide DCH with the right to obtain reimbursements from DHS for federal sanctions resulting from erroneous DHS eligibility determinations.

We noted a similar condition relating to subrecipient monitoring in our prior Single Audit.

**RECOMMENDATIONS**

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

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER THE MEDICAID CLUSTER TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

**FINDING (3910611)**

11. Medicaid Cluster, CFDA 93.777 and 93.778, Special Tests and Provisions

U.S. Department of Health and Human Services	CFDA 93.777 and 93.778: Medicaid Cluster
Award Number: 05-0205MI5028 05-0305MI5028 05-0405MI5028 05-0505MI5028 05-0205MI5048 05-0305MI5048 05-0405MI5048 05-0505MI5048	Award Period: 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2004 - 09/30/2005
	Questioned Costs: \$110,928,198

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding special tests and provisions. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Medicaid Cluster.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Our review of Medicaid expenditures during the audit period disclosed:

- a. In the 1980's, Congress enacted changes to Medicaid that required states to increase the payments made to hospitals serving a disproportionately high number of Medicaid eligible or low-income uninsured patients (i.e., DSHs).

To qualify for Medicaid payments, federal regulation 42 *CFR* 482.1(a)(5) requires that hospitals obtain CMS certification. A primary focus of the certification requirements pertains to hospital staffing. Hospital staffing needs to be sufficient to carry out an active program of treatment for patients and contribute to the health and safety of the patients. Without CMS certification, services provided are not eligible for Medicaid reimbursement.

Also, federal regulation 42 *CFR* 435.1008 precludes Medicaid payments with respect to individuals who are inmates of a public institution. In addition, federal regulation 42 *CFR* 431.107 requires that a Medicaid state plan provide for a written agreement between the Medicaid agency and each provider or organization furnishing services under the plan. This agreement requires that each provider comply with Medicaid's conditions of participation. The state plan that DCH submitted to the federal government stated that all providers met this and all other requirements.

During our audit, we noted:

- (1) DCH made Medicaid-funded DSH payments of \$95.8 million to the Center for Forensic Psychiatry (CFP) during our audit period and payments of \$68.7 million during fiscal year 2000-01 through fiscal year 2002-03. DCH also made DSH payments to CFP in fiscal year 2005-06. However, unlike other State psychiatric hospitals, CFP had not received the required CMS certification or entered into a written provider agreement with DCH. Therefore, the federal portion of the Medicaid payments to CFP that were a result of noncompliance with federal requirements is \$92.5 million and is a known questioned cost.

- (2) DCH made Medicaid-funded DSH payments of \$32.7 million to the Huron Valley Center (HVC) during fiscal year 2000-01. HVC received these DSH payments for providing psychiatric services to Department of Corrections' inmates. However, the costs of providing psychiatric services to Department of Corrections' inmates is not an allowable charge to the Medicaid Program. Therefore, the federal portion of the Medicaid payments to HVC that were a result of noncompliance with federal regulations is \$18.4 million and is reported as a known questioned cost.
- b. DCH made payments of \$49,723 to 22 unlicensed providers during the audit period, of which \$28,198 was federally funded and is reported as known questioned costs.

Federal regulation 42 *CFR* 440.260 requires states to include in their state plan the methods and standards used to ensure that Medicaid services are of high quality. DCH's Medicaid State Plan assured the federal government that all providers of medical care are licensed in compliance with State licensing requirements. State licensing requirements, as contained in the Michigan Public Health Code (Section 333.16201(3) of the *Michigan Compiled Laws*), do not allow licensees to practice or use their titles during the period their licenses are lapsed.

**RECOMMENDATION**

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.

**FINDING (3910612)**

12. **Block Grants for Community Mental Health Services, CFDA 93.958**

U.S. Department of Health and Human Services	CFDA 93.958: Block Grants for Community Mental Health Services
Award Number: 02 B1 MI CMHS 03 B1 MI CMHS 04 B1 MI CMHS	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

DCH's internal control over Block Grants for Community Mental Health Services did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Block Grants for Community Mental Health Services awards.

OMB Circular A-133 requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished using various methods, depending on the nature and timing of the requirement. DCH stated that it relies on Single Audits of its subrecipients for monitoring of federal requirements related to allowable costs/cost principles and cash management.

During the two-year audit period, DCH distributed approximately \$26.1 million of federal Block Grants for Community Mental Health Services funds to its 54 subrecipients. We reviewed DCH's monitoring efforts for 10 of the 54 subrecipients. Our review disclosed that 1 of the 10 subrecipients did not submit Single Audits for fiscal year 2002-03 or fiscal year 2003-04. Therefore, DCH had no basis for reliance on Single Audits of that subrecipient for allowable costs/cost principles and cash management requirements. The subrecipient received \$14.0 million (54%) of the \$26.1 million distributed by DCH.

Because DCH had not received Single Audit reports from this subrecipient, it should have implemented other monitoring procedures to ensure that the subrecipient was in compliance with federal requirements related to allowable costs/cost principles and cash management.

## **RECOMMENDATION**

We recommend that DCH improve its internal control over Block Grants for Community Mental Health Services to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

## **FINDING (3910613)**

### 13. Maternal and Child Health Services Block Grant to the States, CFDA 93.994

U.S. Department of Health and Human Services	CFDA 93.994: Maternal and Child Health Services Block Grant to the States
Award Number: 6 BO4 MC 00299 - 07 6 BO4 MC 02416-01-03	Award Period: 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

DCH's internal control over the Maternal and Child Health Services Block Grant to the States (MCH Block Grant) did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of MCH Block Grant awards.

OMB Circular A-133 requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished using various methods, depending on the nature and timing of the compliance requirement.

DCH stated that it generally relied on Single Audits of its subrecipients for monitoring of all direct and material federal requirements applicable to subrecipient activities. DCH also stated that it conducted periodic site visits of subrecipients, which included efforts to determine whether subrecipients complied with federal requirements related to activities allowed or unallowed. However, those visits did not cover the other applicable compliance requirements, which were allowable costs/cost principles, cash management, period of availability of federal funds, program income, and reporting.

During the two-year audit period, DCH provided \$24.8 million in MCH Block Grant funds to 84 subrecipients. We reviewed DCH's monitoring efforts for 6 of the 84 subrecipients. Our review disclosed that, for 4 (67%) of 6 subrecipients, either Single Audit reports were not received by DCH or the Single Audits of the subrecipients did not include major program testing of MCH Block Grant federal requirements. Therefore, DCH had no basis for reliance on the Single Audits of those subrecipients for determining compliance with federal requirements. The 4 subrecipients received \$2.2 million in federal funds during our audit period.

Because DCH was not able to rely on receiving Single Audits of MCH Block Grant subrecipients that included major program testing of the MCH Block Grant federal requirements, DCH should have implemented other monitoring procedures to ensure that the subrecipients complied with all direct and material federal program requirements.

**RECOMMENDATION**

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

## OTHER SCHEDULES

DEPARTMENT OF COMMUNITY HEALTH  
Summary Schedule of Prior Audit Findings  
As of September 30, 2005

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390403  
**Finding Title:** Receipts Processing Controls

**Finding:** The Department of Community Health's (DCH's) internal control over its cash receipting process did not ensure separation of duties for cash receipts.

**Comments:** DCH has corrected the noted deficiency.

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390404  
**Finding Title:** Controls Over Procurement Card\* Usage

**Finding:** DCH's internal control did not ensure that procurement card users complied with State procurement card policies and procedures.

**Comments:** DCH has corrected the noted deficiency.

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390405  
**Finding Title:** Payroll Controls

\* See glossary at end of report for definition.

**Finding:** DCH did not comply with established controls over payroll expenditures.

**Comments:** DCH has corrected the noted deficiency.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003

**Finding Number:** 390401

**Finding Title:** Biennial Internal Control Assessment

**Finding:** DCH's biennial internal control assessment was materially noncompliant with State requirements:

- a. DCH did not require all managers of departmental activities to document internal control for their respective areas of responsibility.
- b. DCH assessment activities failed to identify material weaknesses in the internal control of one of the assessable units included in the biennial assessment.
- c. DCH did not take steps to correct a material weakness reported in the previous biennial assessment process.
- d. DCH did not consider material weaknesses identified by external sources when completing the assessment process for the fiscal year 2001-02 biennial assessment.

**Comments:** DCH has corrected the deficiency noted in item a. of the finding.

Item b. of the finding is no longer valid as the one assessable unit noted in the finding is no longer in operation.

For item c. of the finding, DCH will be including an additional conclusion column to allow for additional identification of

strengths and weaknesses. A yes/no check-off area for any material weaknesses identified will also be included.

For item d. of the finding, the designated senior official will include all known material weaknesses on the evaluation reports for each assessable unit.

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390402  
**Finding Title:** Internal Control Over Financial Reporting and Accounting

**Finding:** DCH's internal control did not prevent certain reporting and accounting errors:

- a. DCH's internal control over financial reporting did not ensure that its schedule of expenditures of federal awards (SEFA) was accurately prepared.
- b. DCH's internal control over accounting did not prevent errors in the reporting of intrafund expenditure reimbursements and expenditure credits, long-term deferred revenue, and one contingent liability in DCH's notes to its financial schedules.
- c. DCH's internal control over accounting did not include a reconciliation of invoices from DCH's pharmacy benefits manager (PBM) to the underlying claims files.
- d. DCH's internal control over accounting did not properly account for federal funds passed through to the Department of Corrections.
- e. DCH's internal control over accounting did not prevent DCH from recording accounting transactions during our audit period that needed adjustment.

**Comments:** DCH corrected the deficiencies noted in items b. and d. of the finding.

For item a. of the finding, this was generally an isolated incident that unfortunately repeated itself in the current audit. DCH incorrectly identified some vendor payments as expenditures disbursed to subrecipients. DCH has made improvements that substantially reduce the likelihood of these errors occurring in the future.

For item c. of the finding, DCH has finalized procedures to ensure that invoices from the PBM are consistently reconciled to the underlying claims files. Reconciliations are now being completed regularly on a post-payment review basis, and any necessary adjustments will be processed accordingly.

For item e. of the finding, DCH has and will continue to review and evaluate its procedures and make changes as necessary to prevent these errors from occurring in the future.

#### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

##### Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003

**Finding Number:** 390407

**Finding Title:** Byrne Formula Grant Program, *CFDA* 16.579

**Finding:** DCH's internal control over the Byrne Formula Grant Program did not ensure compliance with federal laws and regulations regarding certain activities related to allowable costs/cost principles and subrecipient monitoring.

**Comments:** DCH has corrected the noted deficiencies.

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390414  
**Finding Title:** Block Grants for Prevention and Treatment of Substance Abuse, *CFDA* 93.959

**Finding:** DCH did not comply with federal laws and regulations regarding matching, level of effort, and earmarking for the Block Grants for Prevention and Treatment of Substance Abuse (Substance Abuse Block Grants).

**Comments:** DCH has corrected the noted deficiency.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390406  
**Finding Title:** Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), *CFDA* 10.557

**Finding:** DCH's internal control over the WIC Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring:

- (1) DCH did not issue management evaluation reports to subrecipients in a timely manner.
- (2) DCH did not ensure that WIC Program subrecipients submitted corrective action plans.
- (3) In our review of 6 of the 33 corrective action plans submitted by subrecipients, WIC Program staff did not approve or deny 2 (33%).

**Comments:** For item (1) of the finding, DCH has made significant progress in the issuance of site visit management evaluation reports. All required management reports were issued for site visits

conducted during fiscal year 2004-05. There were some evaluation reports that were late; however, there was improvement from prior fiscal years. DCH will continue to work toward timely issuance of the evaluation reports.

For item (2) of the finding, DCH received all the required corrective action plans for fiscal year 2004-05; however, several of the reports were received after the DCH submission requirement. DCH will continue to work with subrecipients for timely submission of corrective action plans.

DCH corrected the deficiency noted in item (3) of the finding.

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390408  
**Finding Title:** Aging Cluster, *CFDA* 93.044 and 93.045, and National Family Caregiver Support, *CFDA* 93.052

**Finding:** DCH's internal control over the Aging Cluster and the National Family Caregiver Support Program did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring:

- a. DCH did not report \$4,512,488 in program income earned by subrecipients to the Administration on Aging, U.S. Department of Health and Human Services (HHS), in fiscal year 2001-02.
- b.(1) DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable cost requirements.
- b.(2) DCH subrecipient monitoring procedures over cash management compliance requirements did not identify subrecipients that received cash in excess of immediate

needs from the Aging Cluster and the National Family Caregiver Support Program.

b.(3) DCH subrecipient monitoring procedures did not verify the accuracy and completeness of program income reported by subrecipients.

b.(4) DCH subrecipient monitoring procedures did not identify subrecipients that did not comply with earmarking requirements for certain Aging Cluster funds set forth in the State Plan for Michigan, which is approved by the HHS Administration on Aging.

**Comments:** DCH corrected the deficiencies noted in items a. and b.(2) of the finding.

For items b.(1), b.(3), and b.(4) of the finding, DCH has made significant improvements since the audit. A new assessment guide is in place that reviews area agency on aging fiscal operations. The Office of Services to the Aging has an analyst on staff who conducts on-site assessments of the area agencies on aging that fail the risk factors. All other assessments are conducted by other field representatives on staff. A spreadsheet was developed to ensure that earmarking requirements are met. Budgets are not approved unless they meet the minimum percentages or a waiver has been specifically approved by the Michigan Commission on Services to the Aging in accordance with established policy.

**Audit Period:** October 1, 2001 through September 30, 2003

**Finding Number:** 390409

**Finding Title:** Immunization Grants, *CFDA* 93.268

**Finding:** DCH's internal control over the Immunization Grants Program did not ensure compliance with federal laws and regulations

regarding allowable costs/cost principles and subrecipient monitoring:

- a. DCH's internal control did not prevent noncompliance with allowable cost/cost principle provisions related to payroll costs.
- b.(1) DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable cost requirements.
- b.(2) DCH procedures did not ensure that DCH reconciled subrecipient inventory reports to DCH inventory records and did not ensure that subrecipients submitted their inventory reports in a timely manner.
- b.(3) DCH did not document its monitoring activities to ensure subrecipient compliance with federal guidelines regarding client vaccinations and eligibility.
- b.(4) DCH did not document its monitoring activities to ensure that subrecipients complied with federal requirements regarding vaccination fees charged to clients.

**Comments:**

DCH has corrected the deficiencies noted in items a., b.(3), and b.(4).

For item b.(1) of the finding, the Immunization Grants Program has made progress toward a risk-based approach to subrecipient monitoring. Grants staff will be modifying the assessment tool to better fit the specifics of the Immunization Grants Program. All local health departments will be ranked based on this tool, and reviews will be completed for groups ranked as high risk throughout 2007.

For item b.(2) of the finding, the Centers for Disease Control and Prevention is moving grantees to a centralized distribution

system. DCH is developing a vaccine inventory model through the registry that will facilitate accurate accountability of vaccine at the provider's office and local health departments. This will also be the method for ordering vaccine and will allow DCH to monitor the amount of vaccine ordered against the amount administered.

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390410  
**Finding Title:** State Children's Insurance Program (SCHIP), *CFDA* 93.767

**Finding:** DCH's internal control over SCHIP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and eligibility:

- a. DCH's accounting did not ensure that a vendor for SCHIP had effective internal control over its program efforts.
- b. DCH enrolled children in SCHIP who were not eligible in accordance with federal regulations. Also, DCH did not refer eligible children to the Healthy Kids Program.

**Comments:** DCH has corrected the deficiency noted in item a.

As of June 2004, DCH has corrected the deficiency noted in item b.

**Audit Period:** October 1, 2001 through September 30, 2003  
**Finding Number:** 390411  
**Finding Title:** Medicaid Cluster, *CFDA* 93.778, Internal Control

**Finding:** DCH's internal control over the Medicaid Cluster did not sufficiently ensure the preparation of reconciliations of a vendor's

invoices to underlying claims and the receipt of amounts owed by a hospital to the State and federal government:

- a. DCH controls over accounting did not include a reconciliation of invoices from the PBM to the underlying claims files.
- b. DCH did not recover amounts owed to the State by a hospital, repay related unearned federally funded Medicaid amounts to the federal government, and refer the accounts receivable to the Michigan Department of Treasury for collection, as required by federal and State regulations.

**Comments:**

For item a. of the finding, DCH is finalizing procedures to ensure that invoices from the PBM are consistently reconciled to the underlying claims files. Reconciliations will be completed regularly on a post-payment review basis and any necessary adjustments will be processed accordingly.

DCH has corrected the deficiency noted in item b.

**Audit Period:**

October 1, 2001 through September 30, 2003

**Finding Number:**

390412

**Finding Title:**

Medicaid Cluster, *CFDA* 93.778, Subrecipient Monitoring

**Finding:**

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding subrecipient monitoring:

- a. DCH did not document how and whether it resolved Medicaid Eligibility Quality Control (MEQC) error cases.
- b. DCH did not monitor the propriety of MEQC non-error assessments.
- c. DCH did not monitor the propriety and accuracy of the MEQC Medicaid mispayment error rates.

Also, the interagency agreement, which was last updated in 1996, did not include federal award information required by U.S. Office of Management and Budget (OMB) Circular A-133.

**Comments:** DCH has corrected the deficiencies noted in item a. and in the last item related to the interagency agreement.

Item b. of the finding does not warrant further action by DCH. The Medicaid Cluster was selected and tested as a major program in the Department of Human Services (DHS) Single Audit, and the MEQC is specifically identified in the *OMB Circular A-133 Compliance Supplement* as an area that must be tested. There were no findings related to this system in the most recent DHS Single Audit.

Item c. of the finding does not warrant further action by DCH. A committee has been established and a joint workgroup created involving staff from DCH, DHS, and the Department of Management and Budget to discuss and develop strategies for reducing Medicaid eligibility errors. By initiating and taking action in an attempt to reduce the error rate to an acceptable level in and of itself represents an example that appropriate monitoring activities are taking place.

**Audit Period:** October 1, 2001 through September 30, 2003

**Finding Number:** 390413

**Finding Title:** Medicaid Cluster, *CFDA* 93.778, Reporting and Special Tests and Provisions

**Finding:** DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding reporting and special tests and provisions:

- a. DCH submitted reports to the federal government that misclassified expenditures among categories.

- b.(1) DCH did not establish and maintain a program for conducting a biennial risk assessment of the Medicaid Management Information System (MMIS), as required by federal regulations.
- b.(2) DCH did not have controls in place to ensure that it did not make Medicaid payments to medical providers who had not renewed their State medical licenses.

**Comments:**

DCH has corrected the deficiencies noted in item a.

For item b.(1) of the finding, DCH will develop and implement a procedure for performing a risk assessment along with implementation of the new MMIS (commonly referred to as CHAMPS).

For item b.(2) of the finding, DCH developed and tested a systems solution to prevent Medicaid payments from being made to providers whose medical licenses had lapsed. The edit subsequently had to be turned off because it ended up identifying a large number of licensed providers incorrectly as not having a current license. Because DCH is in the very time-consuming process of implementing a new MMIS and the amounts at issue are relatively immaterial, DCH out of necessity has decided to delay further testing of this solution for the time being. While DCH expects this issue to be addressed by the new system, DCH will consider further testing of the current solution if time and resources become available.

DEPARTMENT OF COMMUNITY HEALTH

Corrective Action Plan

As of January 30, 2007

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 3910601

**Finding Title:** Internal Control

**Management Views:** Item a.: The Department of Community Health (DCH) agrees in principle with the first recommendation. DCH does not agree that all the deficiencies cited as examples are indicative of ineffective monitoring of DCH's internal control using the internal control evaluation (ICE) process. DCH does not agree that an improved ICE process could realistically have been expected to identify and prevent all of the types of deficiencies described in this item. Most of the deficiencies cited as examples were not material, and one in particular (Finding 3910611, item a.) was not indicative of an internal control weakness. Because all of the examples referred to in this item 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.

Item b.: DCH generally agrees with the finding and corresponding second recommendation.

**Corrective Action:** Item a.: Refer to the responses to Findings 2 through 13.

Item b.: DCH has implemented corrective measures to address the various deficiencies and the corresponding second recommendation for the current

evaluation. Steps have been implemented requiring the assessable units to identify and address the material weaknesses within their respective operations. The assessable units have also been instructed to address material weaknesses identified by external sources.

**Anticipated Completion Date:** May 1, 2007 and ongoing

**Responsible Individual:** Jim Brandell and the various individuals responsible for the activities within their specific assessable units.

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**Finding Number:** 3910602

**Finding Title:** Internal Control Over Financial Reporting

**Management Views:** DCH agrees with the recommendation and with all but one of the examples cited in support of the conclusion that DCH's internal control did not prevent and detect certain accounting and reporting errors.

Item a.: DCH disagrees that this situation represents an internal control weakness because the amounts billed to third party insurance carriers for Medicaid pharmaceutical claims were not being recorded in the State's accounting system, presumably as a receivable. Bills are routinely sent to third party insurance carriers for those recipients identified as having third party coverage; however, DCH has no way to quantify how much, if any, of the amount billed will be covered by other insurance. Consequently, because DCH does not believe that the amounts billed represent actual and known and quantifiable receivables, DCH does not intend to record these amounts in the State's accounting system. While DCH acknowledges that it could not identify which third party carriers were billed by recipient and what was

realized or collected from those billings, the information would still be of relatively minor significance because of the inability to determine how much of the amount billed should have been covered by the other insurance carrier. In the current environment, it is not administratively feasible to investigate each claim that potentially could be covered by other insurance.

DCH generally agrees with the examples presented in items b., c., and d. of the finding.

**Corrective Action:**

Item a.: None required or contemplated

Item b.: Procedures will be implemented and monitored to ensure that the disproportionate share hospital (DSH) calculations are made using the cost-to-charge ratios from the appropriate fiscal year and that the calculations are appropriately documented.

Item c.: Procedures have been implemented to address this deficiency. The pharmacy benefits manager's (PBM's) invoices are now being reconciled to the underlying claims files on a post-payment basis.

Item d.: DCH will continue its efforts to improve its review processes in an effort to detect and prevent these types of errors from recurring in the future.

**Anticipated Completion Date:**

Item a.: Not applicable

Item b.: Completed

Item c.: Completed

Item d.: Completed and ongoing

- Responsible Individuals:**
- a. Not applicable
  - b. Richard Miles
  - c. Trish O'Keefe
  - d. Lyle Ross and Nancy Grugel
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**Finding Number:** 3910603

**Finding Title:** Schedule of Expenditures of Federal Awards (SEFA)

**Management Views:** DCH agrees in part with certain components of the finding but disagrees that its schedule of expenditures of federal awards (SEFA) is not being prepared in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 and State financial management policies and procedures.

Item a.: DCH does not agree and has no plans to significantly alter its procedures for preparing the SEFA, which would be required to address the purported deficiency. However, DCH will continue to assess and revise its reconciliation procedures, as necessary, to ensure that the amounts reported are accurate. Because of limitations in the Medicaid Management Information System (MMIS) and other complicating factors specific to the Medicaid Program, all expenditures required to be reported on the SEFA are not recorded in the State's accounting system. Because the federal revenues received by the State for the Medicaid Program are based on expenditures, DCH intends to continue to use these revenues as the starting point for preparing its SEFA report. Except for the exceptions described in the other items of this finding, there is no evidence that the amounts reported on the SEFA are materially inaccurate.

Item b.: DCH agrees that its internal control procedures should have detected and prevented the

understatement of subrecipient expenditures and corresponding overstatement of direct expenditures for the fiscal year 2003-04 SEFA. In this particular instance, subrecipient expenditures for one particular grant were coded to an account primarily designated for vendor expenditures. When the grant was assigned to a new accountant, the subrecipient expenditures included in this account were inadvertently not picked up and reported on the SEFA as subrecipient expenditures.

Item c.: DCH agrees with the finding. The majority of the amounts that were reported incorrectly related to one particular grant for which payments had been historically treated as vendor payments, rather than subrecipient payments.

Item d.: DCH agrees that because of human error, it failed to update the *Catalog of Federal Domestic Assistance (CFDA)* number for one program component when it was consolidated with two other components into one grant with a single *CFDA* number.

**Corrective Action:**

Item a.: DCH maintains that its method of preparing the SEFA and reviewing the amounts for accuracy is fundamentally sound. In an attempt to further substantiate the accuracy of the amounts reported on the SEFA, DCH performed an additional procedure that reconciled the SEFA to the expenditures reported on the four quarterly federal expenditure reports. DCH will continue to perform this reconciliation as an additional step going forward to provide even more assurance that its controls provide reasonable assurance that the SEFA is accurate.

Item b.: This grant has been assigned a new coding structure that correctly identifies and codes these transactions as subrecipient grant expenditures in the accounting records.

Item c.: To ensure that similar errors do not occur in the future, all contracts now include specific language indicating whether the arrangement represents a vendor or subrecipient relationship and the expenditures are now properly coded in the State's accounting system with the correct designation. The actual variances identified in the finding are somewhat overstated as they incorrectly include prior year write-offs of accounts payable as pertaining to subrecipient expenditures, whereas the write-offs should have been attributed to vendor expenditures.

Item d.: This is not an ongoing issue and the correction has been made.

**Anticipated Completion Date:** Item a.: Corrective action not necessary or contemplated because this would require a fundamental change in how DCH compiles its SEFA.  
Item b.: Completed  
Item c.: Completed  
Item d.: Completed

**Responsible Individual:** Lyle Ross

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**Finding Number:** 3910604  
**Finding Title:** Receivables System (RS) Database

**Management Views:** DCH agrees with the recommendation to the extent that it should strive to ensure that its RS Database is complete and accurate, but disagrees with the conclusion that complete and accurate data in the

system has a direct correlation to DCH's ability to ensure that it is properly collecting amounts owed to the State and federal government. Such a statement greatly exaggerates the significance this system has on the State's ability to collect amounts owed from Medicaid providers. The RS Database was designed as an additional tool to help the Medicaid Collections Unit better monitor referrals it receives from other DCH units and/or other State agencies. While DCH maintains that this is not a significant system involving substantial risk, DCH nevertheless conceptually agrees with the deficiencies described in items a. and c. of the finding but disagrees with the deficiency described in item b.

**Corrective Action:**

Item a.: DCH has implemented procedures to send monthly reports to the Program Investigation Section to provide it with the opportunity to confirm the accuracy of the data.

Item b.: Not applicable; DCH will not implement the approval process as the potential benefit to be derived is not supported by the cost and effort required to implement such a process.

Item c.: DCH has published guidelines to prioritize the pursuit of MQ-774 receivables. Detailed policies and procedures are under development.

**Anticipated Completion Date:**

Item a.: Completed  
Item b.: Not applicable  
Item c.: September 30, 2007

**Responsible Individual:**

Nancy Grugel

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## FINDINGS RELATED TO FEDERAL AWARDS

**Finding Number:** 3910605  
**Finding Title:** Residential Substance Abuse Treatment for State Prisoners (RSAT), *CFDA* 16.593

**Management Views:** DCH agrees with the finding and corresponding recommendation.

**Corrective Action:** Item a.: To address the issue on an ongoing basis, DCH's Office of Drug Control Policy revised and implemented updated monitoring procedures in spring 2005 that address the federal allowable cost principles.

Item b.: While site visits were conducted, DCH acknowledges that it could not locate documentation to support 9 of the required site visits. DCH has taken the necessary steps to ensure that documentation of such visits is retained in the future.

**Anticipated Completion Date:** Item a.: Ongoing  
Item b.: Completed

**Responsible Individual:** Doris Gellert

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**Finding Number:** 3910606  
**Finding Title:** Injury Prevention and Control Research and State and Community Based Programs (IPP), *CFDA* 93.136

**Management Views:** DCH agrees with the examples cited in the finding and the recommendation. The overstatement of costs during the September 30, 2003 grant period was attributed solely to an unexpected refund of costs from a subrecipient that was not received until after the final financial status report (FSR) had been filed for the

grant period and the books had been closed. The refund was reported in the subsequent year's FSR as a reduction in allowable expenditures. The net effect was a wash, with expenditures being overstated and understated by the same amount in consecutive years.

**Corrective Action:**

Item a.: Correcting entries were processed for the three separate transactions that made up the \$1,418 exception. In the future, DCH will request written approval from the Centers for Disease Control and Prevention (CDC) prior to approving equipment purchases for its subcontractors.

Item b.: DCH will revise the affected FSR for the amount cited in subsection (1) and request permission from the CDC to carry over the unspent funds into the next grant period. The situation is similar for subsection (3) of the finding, although DCH recognized that the amount claimed was also miscoded and does not represent allowable grant expenditures. DCH has processed a correcting entry to transfer this expense to State funding and will return the unallowable expenditure to the CDC. DCH does not intend to revise the previously filed 2003 FSR to reflect the refund subsequently received from a subrecipient in subsection (2). Because the amount was immaterial, DCH chose to offset the refund against expenses reported for the 2004 grant period and will only reopen and revise previously filed FSRs if directed by the CDC.

With respect to the expenditures being liquidated after the 90-day requirement, DCH requested and was granted permission for an extension to submit the final FSR. DCH also specifically informed the CDC in its request that the final FSR included obligations that exceeded the 90-day requirement. The \$40,118

mentioned in subsection (4) was included as part of the amount referenced in the exception request. While the CDC did not specifically address DCH's request for an exception to the 90-day requirement when it approved the extension request to file the final FSR, DCH nevertheless considered the CDC's silence as an approval. DCH requested an exception and specifically informed the CDC that the final FSR contained obligations that were liquidated beyond the 90-day requirement. The CDC approved the final FSR and also subsequently approved a carry-forward of the remaining \$30,992. The actions of the CDC in response to DCH's request can logically be construed to represent approval of the request for an exception to the 90-day requirement. If the CDC truly intended to reject the request, presumably its decision would have been directly addressed in its written response. The example described in subsection (5) more closely resembles the program expenditures pertaining to a subsequent reporting period, similar to the example described in subsection (1). DCH will revise the affected final FSRs and request that the CDC approve a carry-over into the subsequent funding period.

To address these issues in the future, DCH will implement procedures to allow IPP to routinely review transaction level detail expenditures throughout the year to help identify and correct inappropriate payments prior to year-end.

**Anticipated Completion Date:** March 31, 2007

**Responsible Individuals:** Linda Scarpetta  
Mary Jane Russell  
Lyle Ross

**Finding Number:** 3910607  
**Finding Title:** Family Planning - Services (FPS), *CFDA* 93.217

**Management Views:** DCH agrees with the finding and corresponding recommendation.

**Corrective Action:** Item a.: The Division of Family and Community Health has made several changes to the program monitoring process for subrecipients since the audited time period. The Division has put in place a new financial monitoring tool, and program monitoring protocols have been revised.

Item b.: In June 2006, a fiscal control and monitoring specialist was hired to assist in program monitoring. Improvements have been made in staffing that should help to ensure that site visits meet the audit requirements in the future. DCH should be able to perform the site visits at least every three years in the future.

**Anticipated Completion Date:** Item a.: Completed  
Item b.: Ongoing

**Responsible Individuals:** Paulette Dobyne Dunbar  
Jeanette Lightning

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**Finding Number:** 3910608  
**Finding Title:** State Children's Insurance Program (SCHIP), *CFDA* 93.767

**Management Views:** DCH agrees in principle and in part with both the finding and corresponding recommendation.

Item a.: DCH agrees that its internal control regarding eligibility could be improved and agrees with the

amount classified as known questioned costs. However, DCH does not agree with the amount characterized as likely questioned costs. The amount of questioned costs characterized as likely relied exclusively on a determination made by an organization that was under contract with DCH to enroll eligible children into SCHIP. The validity of those determinations was not independently verified and, therefore, cannot be relied upon to accurately estimate the amount of likely questioned costs. In an effort to confirm the accuracy of the contractor's conclusions, DCH reviewed the errors identified by the contractor and was able to demonstrate that the contractor was incorrect in 2 of 3 specific instances.

Item b.: DCH agrees that its internal control over reporting could be improved. While the required written quarterly reports were not filed, the Centers for Medicare and Medicaid Services (CMS) was regularly kept apprised of the status of the Adult Benefits Waiver (ABW) Program through regular monthly progress calls.

Item c.: DCH does not agree with this item of the finding relating to subrecipient monitoring. Other than a blanket conclusion that DCH did not monitor the Department of Human Services' (DHS's) eligibility determinations for ABW and Healthy Kids Medicaid Expansion (HKME), the major focus of the finding centered on deficiencies involving the interagency agreement, rather than on specific monitoring activities.

Pursuant to OMB Circular A-133, auditees are required to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with

laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. As a pass-through entity, DCH maintains that its activities are sufficient to satisfy its subrecipient monitoring responsibilities. The eligibility function is performed by DHS as a single process for all of the various Medicaid-operated or Medicaid-administered programs, which include the ABW and HKME population groups. While DCH realizes that it cannot rely solely on Single Audits to satisfy all of its monitoring responsibilities as a pass-through agency, Single Audits that specifically select and test major programs for compliance, in DCH's opinion, should be sufficient to satisfy the reasonable assurance criteria. The Medicaid Cluster was selected and tested as a major program in the DHS Single Audit. The Medicaid Eligibility Quality Control (MEQC) system is specifically identified in the OMB Circular A-133 Compliance Supplement as an area that must be tested. The DHS Single Audit did not identify any internal control weaknesses related to eligibility. Simply based on the sheer volume of pass-through awards that DCH makes, it, by necessity, must place as much reliance on these reviews as possible. Because this issue is also applicable to Finding 3910610, item b., DCH's response to that finding as it relates to the subrecipient monitoring issue is equally applicable to SCHIP and will not be repeated here.

DCH also generally disagrees with the examples cited as deficiencies relating to the terms and conditions as specified in the interagency agreement. While the contract language may not have addressed each of the elements with a particular degree of specificity, DCH nevertheless maintains that, with the possible exception of sanctions for noncompliance, major

elements were adequately addressed in the agreement effective for fiscal year 2004-05.

**Corrective Action:**

Item a.: This was corrected in June 2004. Identified exceptions are now being addressed and eligibility verified prior to enrollment.

Item b.: Quarterly reports are now being prepared and submitted as required. The quarterly reports cited in the finding have been prepared and submitted to CMS.

Item c.: None required; DCH will continue to utilize and monitor the Single Audit conducted of DHS to ensure compliance with federal requirements.

**Anticipated Completion Date:**

Item a.: Corrected  
Item b.: Corrected  
Item c.: Not required

**Responsible Individuals:**

Item a.: Dan Ridge  
Item b.: Jackie Prokop  
Item c.: Not applicable

**Auditor's Epilogue**

DCH has not established that it has complied with subrecipient monitoring requirements. While the review and follow-up of a Single Audit report of a subrecipient can be an integral part of the monitoring of that subrecipient, this alone is not enough to comply with federal compliance requirements. DCH should employ other monitoring mechanisms to ensure that its subrecipients are meeting federal compliance requirements, including the use of progress reports, site visits, and/or financial reports, in addition to the review and follow-up of Single Audits of subrecipients. In accordance with OMB Circular A-133, auditees are required to maintain internal control over federal programs that provides reasonable assurance that

subrecipients are managing federal awards in compliance with federal requirements. DCH has not documented, with reasonable assurance, that its subrecipient is managing federal awards in compliance with federal requirements.

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**Finding Number:**

3910609

**Finding Title:**

Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles

**Management Views:**

DCH generally agrees with the amount of known questioned costs identified in the finding, substantially disagrees with the amounts characterized as likely questioned costs, and agrees that its internal control could be improved. DCH does not believe that a control structure could be implemented to provide absolute assurance that Medicaid payments are only made on behalf of eligible clients.

Item a.(1): DCH acknowledges that it used incorrect fiscal year cost-to-charge ratios that resulted in the \$4.5 million in questioned costs related to the DSH payments made to eligible State psychiatric hospitals.

Item a.(2): DCH agrees with the amount identified as known questioned costs and had already identified and was in the process of addressing this problem prior to the start of the audit.

Item b.: DCH agrees with the amount of known questioned costs identified and has returned the federal portion of the overpayment. DCH has successfully recovered approximately \$3.2 million of the gross overpayment identified in the original audit and continues to pursue recovery of the remaining amount. DCH does not agree with the amount

characterized as likely questioned costs. The additional amount identified as likely questioned costs reflects certain pharmaceutical products that may be covered by Medicare, but only under certain circumstances. While it is likely that some portion of that amount should have been covered by Medicare, neither DCH nor the audit staff have identified how much was paid by Medicaid inappropriately. DCH lacks the resources that would be required to individually review each claim to accurately identify the amount of any inappropriate payments. The likely questioned costs also include amounts billed to other third party insurance carriers for recipients identified as having other insurance. The basis for disagreeing with this portion of the finding is specifically addressed in the management views responding to Finding 3910602, item a.

Item c.(1): DCH agrees with the amount identified as known questioned costs, but not the amount characterized as likely questioned costs. The known questioned costs represented payments for certain dental services and/or Medicaid managed care capitated payments made on behalf of beneficiaries who should only have been eligible for emergency services. DCH does not agree with the amount identified as likely questioned costs related to the emergency services because these costs relate to certain professional disciplines, such as physician services. As stated in DCH's response to the Office of the Auditor General performance audit cited in this finding, DCH continues to disagree with the use of diagnosis codes as the primary indicator of what constituted an emergency.

Item c.(2): DCH agrees with the amount identified as known questioned costs that were the result of

beneficiaries receiving services on a fee-for-service basis prior to being retroactively enrolled in a managed care plan.

Item c.(3): DCH agrees with the amount identified as known questioned costs that represented pharmaceutical payments made directly for beneficiaries that should have been covered by their managed care plan.

Item c.(4): DCH agrees with the amount of known questioned costs that represented duplicate Medicaid payments for persons with multiple beneficiary identification numbers.

Item c.(5): DCH agrees with the amount of known questioned costs that represented inappropriate payments made on behalf of deceased beneficiaries. Procedures had already been implemented prior to this audit to address this issue, and DCH has made significant progress toward pursuing recoveries of inappropriate payments.

**Corrective Action:**

Item a.(1): See response to Finding 3910602, item b.

Item a.(2): DCH had already identified the problem involving the overpayments made to certain pharmacy providers pertaining to incentive fees for repackaging certain pharmaceutical products and is in the process of taking appropriate action to recover any overpayments. Post-payment reviews will continue to be performed periodically and inappropriate payments will be pursued accordingly.

Item b.: The amount identified as known questioned costs was attributed to an error involving an edit in the PBM's claims system. That problem has been

identified and corrected. The federal portion of the known inappropriate payments has been returned, approximately \$3.2 million of the gross overpayment identified in the original audit has been recovered, and DCH continues to pursue recovery of the additional amount. Payment will no longer be made for any pharmaceutical products potentially covered by Medicare without evidence that the claim had initially been submitted and adjudicated by Medicare. No corrective action is planned or contemplated regarding the issue of whether Medicaid could ensure that it was the payer of last resort. Please refer to the management views in response to Finding 3910602, item a.

Item c.(1): The known inappropriate payments were related to certain dental services and Medicaid managed care capitated payments made on behalf of beneficiaries who should only have been eligible for emergency services. DCH has made policy changes to the Emergency Services Only Chapter dealing with Medicaid coverage issues and has implemented a payment edit in its claims processing system to reject dental claims for individuals with emergency services only eligibility. DCH intends to implement a post-payment review process to examine the propriety of payments for this population.

Item c.(2): DCH has implemented a process to identify physicians and hospitals that received fee-for-service payments when a Medicaid health plan received a capitation payment for a beneficiary who was retroactively enrolled into the plan. At the beginning of each quarter, Medical Services Administration processes claim adjustments to recover these fee-for-service payments. DCH will return the federal

portion of the known questioned costs that were identified.

Item c.(3): Almost all the questioned costs described in this item related to beneficiaries enrolled in managed care plans who inappropriately had pharmaceutical benefits paid on their behalf because of a system edit error in the claims processing system used by DCH's PBM. The system edit error has been corrected. The federal share of the inappropriate payments will be returned.

Item c.(4): DCH has initiated a number of actions to prevent duplicate payments for beneficiaries with multiple identification numbers. These actions include: meeting with staff who assign beneficiary identification numbers; implementing a more extensive search method to identify beneficiaries with multiple identification numbers; utilizing birth records to activate a case; and exploring options for using the DCH data warehouse. DCH has also implemented a process to recover capitation payments made when the same medicaid health plan was paid for multiple identification numbers. DCH will return the federal portion of the known questioned costs identified in the finding.

Item c.(5): DCH had already implemented procedures to address this issue prior to the start of the audit, and significant progress has been made relating to recoveries. DCH has implemented procedures to perform a monthly electronic match of the Medicaid eligibility file with both the death certificates from DCH's Division for Vital Records and Health Statistics and the Social Security Administration's master file of proven deaths. The Medicaid eligibility file is immediately updated with the date of death on the day

these matches are performed. System edits have also been implemented in the claims processing system that identify and reject claims submitted for deceased beneficiaries. Payments dating back to January 1, 2002 that were made inappropriately for deceased beneficiaries have been identified and actual recoveries were processed in October 2004 for approximately 99% of these inappropriate payments.

**Anticipated Completion Date:** Ongoing and completed

**Responsible Individuals:** Item a.(1): Richard Miles  
Item a.(2): Trish O'Keefe  
Item b.: Trish O'Keefe for the part of the finding with which DCH concurs  
Item c.(1): Jay Slaughter  
Item c.(2): Jay Slaughter  
Item c.(3): Trish O'Keefe  
Item c.(4): Rose Perry and Karen Scott  
Item c.(5): Rose Perry

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**Finding Number:** 3910610

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Procurement and Suspension and Debarment and Subrecipient Monitoring

**Management Views:** Item a.: DCH generally agrees with this item of the finding relating to procurement and suspension and debarment and the corresponding recommendation.

Item b.: DCH does not agree with this item of the finding relating to subrecipient monitoring and the corresponding recommendation.

Pursuant to OMB Circular A-133, auditees are required to maintain internal control over federal

programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. Effective monitoring of subrecipients can be accomplished through a variety of different methods. Requiring that pass-through entities submit Single Audits and reviewing those audits certainly represents an example of subrecipient monitoring activities. While DCH realizes that it cannot rely solely on Single Audits to satisfy all of its monitoring responsibilities as a pass-through agency, Single Audits that specifically select and test major programs for compliance, in DCH's opinion, are sufficient to satisfy the reasonable assurance criteria. The Medicaid Cluster was selected and tested as a major program in the DHS Single Audit. The examples cited as deficiencies in subsections b.(1), b.(2), and b.(3). all represent areas that DCH could have reasonably expected to have been tested as part of the DHS Single Audit. The MEQC System is specifically identified in the OMB Circular A-133 Compliance Supplement as an area that must be tested. The DHS Single Audit did not identify any internal control weaknesses related to eligibility. Simply based on the sheer volume of pass-through awards that DCH makes, it, by necessity, must place as much reliance on these reviews as possible.

As pointed out in DCH's response to this issue when it appeared in the prior Single Audit, DCH continues to maintain that its activities are sufficient to comply with the reasonable assurance requirement. There is absolutely no question that DHS is performing the MEQC responsibilities. DCH receives a copy of the report detailing the results of the case reviews sampled and tested by DHS's Office of Quality

Assurance. All error cases are reviewed and resolved. This is exactly the same process that was in place when the Medicaid Program was part of DHS (formerly named the Department of Social Services and then the Family Independence Agency).

Although the DHS Single Audit did not identify any deficiencies related to the DHS eligibility activities, DCH is well aware that there are issues regarding these determinations that need to be addressed as evidenced by the error rates determined by the Office of Quality Assurance and reported to CMS. A committee has been established and a joint workgroup created involving staff from DCH, DHS, and the Department of Management and Budget to discuss and develop strategies for reducing Medicaid eligibility errors. Initiating and taking action in an attempt to reduce the error rate in and of itself represents another example of monitoring activities that are taking place.

DCH agrees with the conclusion in subsection b.(4).

**Corrective Action:**

Item a.: Because DCH discovered that the Drug Enforcement Agency (DEA) numbers maintained in the Provider Enrollment System were entered manually and not validated against the federal DEA file, DCH intends to conduct a further analysis to verify the accuracy of some of the improper payments identified in the finding. In researching the examples in the finding, DCH discovered that some of the DEA numbers associated with the unique identification numbers identified as exceptions were not valid on the federal file. Consequently, for those specific instances in which the unique identification numbers were not valid on the federal file, DCH intends to review the script maintained at the pharmacy to verify that there was not an error in the claim submission or in provider

enrollment. DCH recently mailed out letters to several pharmacies identified in the audit as having billed DCH for claims with a prescriber DEA number matching that of a DEA number linked to a sanctioned provider in the provider enrollment database. Pharmacies were asked to send in copies of the actual prescriptions for the claims identified. DCH will review the submitted claims to determine if any recoveries are possible.

DCH has also implemented measures to improve its internal control to prevent payments for prescriptions prescribed by sanctioned Medicaid providers. DCH has purchased a subscription to the federal DEA database. This database contains both active and retired DEA numbers for providers throughout the nation. Regular updates are received that will allow DCH to maintain the most current information, which will enable DEA editing for sanctioned Medicaid providers to be conducted at the point-of-sale.

Item b.: Not applicable; additional procedures are not required or contemplated. Current procedures are adequate to meet the OMB standard of reasonable assurance. However, DCH will consider making a change to its interagency agreement to address sanctions that may be imposed through determinations, other than those resulting from Single Audits.

**Anticipated Completion Date:** Item a.: May 31, 2007  
Item b.: Current processes and procedures are adequate to meet the standard and are ongoing.

**Responsible Individuals:** Item a.: Trish O'Keefe  
Item b.: Not applicable, but oversight responsibility for eligibility rests with Dan Ridge.

**Auditor's Epilogue:**

DCH has not established that it has complied with subrecipient monitoring requirements. While the review and follow-up of a Single Audit report of a subrecipient can be an integral part of the monitoring of that subrecipient, this alone is not enough to comply with federal compliance requirements. DCH should employ other monitoring mechanisms to ensure that its subrecipients are meeting federal compliance requirements, including the use of progress reports, site visits, and/or financial reports, in addition to the review and follow-up of Single Audits of subrecipients. The auditors agree with the statement expressed in the management views that, pursuant to OMB Circular A-133, auditees are required to maintain internal control over federal programs that provides reasonable assurance that subrecipients are managing federal awards in compliance with federal requirements. However, DCH has not documented, with reasonable assurance, that its subrecipient is managing federal awards in compliance with federal requirements.

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**Finding Number:**

3910611

**Finding Title:**

Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions

**Management Views:**

Item a.: DCH disagrees that it made ineligible DSH payments to the State-operated facilities described in subsections (1) and (2) of this finding and certainly disagrees that this action was attributed to poor internal control. Any organization charged with the responsibility of providing services to customers would be remiss in its responsibilities if it failed to explore and take advantage of permissible funding sources in an effort to provide better service. DCH carefully researched the federal requirements in this instance

and concluded that these facilities qualified for Medicaid funding under the DSH requirements.

Item a.(1): DCH believes that the federal requirements give the State substantial discretion in establishing criteria for DSH eligibility. Title 42, Part 482, section 1(a)(5) of the *Code of Federal Regulations* does address Medicare certification for hospitals that claim Medicaid for various hospital services. However, this provision applies to regular Medicaid payments, and DSH payments are different from regular Medicaid payments. The major difference is that a portion of any DSH payment made to a hospital may cover uncompensated care provided to individuals who are not eligible for Medicaid. Further, there is nothing in Section 1923 of the Social Security Act (the section that addresses disproportionate share payments to hospitals) requiring that a facility be certified as a condition of receiving DSH funding. Finally, according to Section 1923(b)(4) of the Social Security Act, "the Secretary may not restrict a State's authority to designate hospitals as disproportionate share hospitals."

DCH's legal counsel concluded that the failure of the Center for Forensic Psychiatry (CFP) and the Huron Valley Center (HVC) to have obtained certification for Medicaid participation and to have entered into a provider agreement with the Medicaid agency could reasonably be regarded as technical deficiencies. Because the facilities had Joint Commission on Accreditation of Healthcare Organizations (JCAHO) accreditation, they satisfied the safety and other requirements applicable to hospitals that generally underlie certification.

With respect to DCH's failure to enter into a written agreement with CFP, the facility is owned and operated by DCH. It would be inefficient, inappropriate, and redundant for DCH to enter into a contract with itself.

It is the position of DCH that the establishment of a statewide DSH allotment by the federal government is the basis upon which it intends to limit its DSH obligation, and that the federal government's intent was not to limit the ability of states, within reasonable parameters, to determine which hospitals should receive DSH payments. Based on a reasonable reading of the statutes and regulations cited, it is correct to assume that payments to CFP and HVC were legal and appropriate. If DSH payments to these State psychiatric hospitals had been identified in a prior State or federal review as being inappropriate, DCH would have made alternative arrangements to pay other qualifying hospitals, and the federal obligation, in aggregate, would have remained unchanged.

Item a.(2): DCH disagrees with the characterization of the patients served by HVC as inmates. DCH considers the individuals at HVC to be patients because they were victims of serious mental illness requiring inpatient hospital treatment. They were not placed at HVC directly as the result of a felony conviction.

In terms of additional background, HVC was included in the State psychiatric hospital DSH calculation from 1998 through 2001. During this period, the Department of Corrections retained the annual State funding appropriation while DCH operated the facility under contract. All employees of HVC worked for

DCH, except for perimeter security, which was handled by the Department of Corrections.

Still, although laws and regulations that govern these circumstances may not have been clear, DCH recognized the legitimacy of concerns with the inclusion of HVC in its State psychiatric hospital DSH program. The federal government issued guidance in August 2002 providing clarification that potentially precluded the continued inclusion of HVC in this program. By that time, however, Michigan had already excluded HVC.

Item b.: DCH agrees with the finding relating to inappropriate payments made to unlicensed providers and the corresponding recommendation.

**Corrective Action:**

Items a. (1) and (2): While DCH continues to maintain that its actions with respect to these payments were appropriate, DCH will take steps to initiate discussions directly with CMS to seek clarification and direction regarding these payments. Corrective action will be initiated, if required, based on the results of those discussions.

Item b.: DCH will initiate recovery of these funds from the 22 unlicensed providers. Also, DCH will terminate these providers' participation in the Michigan Medicaid Program if they have not renewed their medical licenses.

DCH developed and tested a systems solution to prevent Medicaid payments from being made to providers whose medical licenses had lapsed. The edit subsequently had to be turned off because it ended up incorrectly identifying a large number of licensed providers as not having a current license.

Because DCH is in the very time-consuming process of implementing a new MMIS (commonly referred to as CHAMPS) and the amounts at issue are relatively immaterial, DCH out of necessity has decided to delay further testing of this solution for the time being. While DCH expects this issue to be addressed by the new system, DCH will consider further testing of the current solution if time and resources become available.

**Anticipated Completion Date:** Item a.: To be determined. Initial contact has been made to initiate direct discussions with CMS and an anticipated completion date for corrective action will be determined at the conclusion of those discussions, if corrective action is found to be required.

Item b.: Upon implementation of the new CHAMPS or sooner if resources permit.

**Responsible Individuals:** Item a.: Richard Miles  
Item b.: Jay Slaughter

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**Finding Number:** 3910612  
**Finding Title:** Block Grants for Community Mental Health Services, CFDA 93.958

**Management Views:** DCH disagrees with the generalized conclusion that its internal control was not sufficient to ensure compliance with federal laws and regulations regarding subrecipient monitoring for this grant. While the finding accurately pointed out that 1 of 10 recipients had not submitted its Single Audit, the incident was isolated and DCH was in frequent contact with the subrecipient. This particular audit was delayed because of a separate forensic audit being completed on the subrecipient. DCH disagrees that other monitoring procedures should have been implemented

for this subrecipient. The Single Audit was in process and it was only a matter of time before it was received. DCH had knowledge that the Block Grants for Community Mental Health Services would be tested as a major program for this subrecipient in at least the fiscal year 2002-03 Single Audit and believes that other DCH monitoring would be a duplication of work.

**Corrective Action:**

DCH will more aggressively pursue delinquent Single Audits by assessing penalties for late submissions as specifically allowed in contracts with subrecipients effective in fiscal year 2004-05.

In addition, the DCH Office of Audit will notify program management of delinquent Single Audits so program management can evaluate the situation and determine if other monitoring procedures should be implemented.

**Anticipated Completion Date:** Ongoing

**Responsible Individual:** Deb Hallenbeck

**Finding Number:**

3910613

**Finding Title:**

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

**Management Views:**

DCH agrees with the finding and corresponding recommendation.

**Corrective Action:**

The Bureau of Family and Community Health has been working on revising its procedures for conducting site visits. A new risk assessment tool has been implemented to assist in determining level of risk. The results of the risk assessment will be used as a tool to select subrecipients for site reviews. Additional changes will be implemented to the site visit protocol

to ensure that the items identified in the audit memorandum are reviewed.

**Anticipated Completion Date:** Risk assessments will be completed by September 30, 2007, and the site visit schedule adjusted accordingly.

**Responsible Individual:** Carol Ogan

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# GLOSSARY

## Glossary of Acronyms and Terms

ABW	Adult Benefits Waiver.
adverse opinion	An auditor's opinion in which the auditor states that: <ol style="list-style-type: none"><li>a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are not fairly presented in conformity with the disclosed basis of accounting;</li><li>b. The financial schedules and/or financial statements presenting supplemental financial information are not fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or</li><li>c. The audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.</li></ol>
AIDS	acquired immune deficiency syndrome.
CDC	Centers for Disease Control and Prevention.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
CFP	Center for Forensic Psychiatry.
<i>CFR</i>	<i>Code of Federal Regulations.</i>

CMS	Centers for Medicare and Medicaid Services.
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines developed by the Information Systems Audit and Control Foundation (ISACF) as a generally applicable and accepted standard for good practices for controls over information technology.
DCH	Department of Community Health.
DEA	Drug Enforcement Agency.
DHS	Department of Human Services (formerly Family Independence Agency).
DMB	Department of Management and Budget.
DSH	disproportionate share hospital.
epilogue	A closing section added to a report providing further comment, interpretation, or information.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FPL	federal poverty level.
FPS	Family Planning - Services.
Framework	Evaluation of Internal Controls - A General Framework and System of Reporting.
FSR	financial status report.
GAAP	generally accepted accounting principles.

HIV	human immunodeficiency virus.
HKME	Healthy Kids Medicaid Expansion.
HVC	Huron Valley Center.
IBS	Itemized Billing System.
ICE	internal control evaluation.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
IPP	Injury Prevention and Control Research and State and Community Based Programs.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level

the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MCH Block Grant	Maternal and Child Health Services Block Grant to the States.
MEQC	Medicaid Eligibility Quality Control.
MMIS	Medicaid Management Information System.
MOMS	Maternity Outpatient Medical Services.
MQ-774 report	gross adjustment details report.
OAG	Office of the Auditor General.
OMB	U.S. Office of Management and Budget.
OQA	Office of Quality Assurance.
PBM	pharmacy benefits manager.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to

match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.

RSAT

Residential Substance Abuse Treatment for State Prisoners.

RS Database

Receivables System Database.

SCHIP

State Children's Insurance Program.

SEFA

schedule of expenditures of federal awards.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have

a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ol style="list-style-type: none"><li>a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting;</li><li>b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or</li><li>c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.</li></ol>
VFC	Vaccination for Children.
WIC Program	Special Supplemental Nutrition Program for Women, Infants, and Children.



