

Community Mental Health

COMPLIANCE EXAMINATION GUIDELINES

Michigan Department of Community Health



Fiscal Year End September 30, 2013

TABLE OF CONTENTS

INTRODUCTION	1
RESPONSIBILITIES	2
MDCH Responsibilities	2
PIHP Responsibilities	3
CMHSP Responsibilities	5
EXAMINATION REQUIREMENTS	6
Practitioner Selection	6
Examination Objective.....	6
Practitioner Requirements.....	7
Practitioner’s Report	7
Examination Report Submission.....	8
Examination Reporting Package.....	9
Penalty.....	9
Incomplete or Inadequate Examinations.....	9
Management Decision	9
COMPLIANCE REQUIREMENTS.....	10
A. FSR Reporting	10
B. CRCS Reporting	12
C. Real Property Disposition	12
D. Administration Cost Report	13
E. Procurement	13
F. Rate Setting and Ability to Pay.....	13
G. Internal Service Fund (ISF)	13
H. Medicaid Savings and General Fund Carryforward	13
I. Match Requirement.....	14
J. Consumer Fund Review.....	14
K. Activities Allowed or Unallowed	15
L. Cash Management.....	15
M. Subrecipient Monitoring	15
RETENTION OF WORKING PAPERS AND RECORDS.....	16
EFFECTIVE DATE AND MDCH CONTACT	17
GLOSSARY OF ACRONYMS AND TERMS.....	18

INTRODUCTION

These Community Mental Health (CMH) Compliance Examination Guidelines are issued by the Michigan Department of Community Health (MDCH) to assist independent audit personnel, Prepaid Inpatient Health Plan (PIHP) personnel, and Community Mental Health Services Program (CMHSP) personnel in preparing and performing compliance examinations as required by contracts between MDCH and PIHPs or CMHSPs, and to assure examinations are completed in a consistent and equitable manner.

These CMH Compliance Examination Guidelines require that an independent auditor examine compliance issues related to contracts between PIHPs and MDCH to manage the Concurrent 1915(b)/(c) Medicaid Program (hereinafter referred to as “Medicaid Program”), contracts between PIHPs and MDCH to manage the Michigan Medicaid Non-Pregnant Childless Adults Waiver (hereinafter referred to as “ABW Program”) Section 1115 Demonstration Program, contracts between CMHSPs and MDCH to manage and provide mental health services and supports to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in MCL 330.1208 (hereinafter referred to as “GF Program”), and, in certain circumstances, contracts between CMHSPs and MDCH to manage the Community Mental Health Services Block Grant Program (hereinafter referred to as “CMHS Block Grant Program”). These CMH Compliance Examination Guidelines, however, DO NOT replace or remove any other audit requirements that may exist, such as a Financial Statement Audit and/or a Single Audit. An annual Financial Statement audit is required. Additionally, if a PIHP or CMHSP expends \$500,000 or more in federal awards¹, the PIHP or CMHSP must obtain a Single Audit.

PIHPs are ultimately responsible for the Medicaid funds received from MDCH, and are responsible for monitoring the activities of affiliated CMHSPs as necessary to ensure expenditures of Medicaid Program funds are for authorized purposes in compliance with laws, regulations, and the provisions of contracts. Therefore, PIHPs must either require their independent auditor to examine compliance issues related to the Medicaid funds awarded to the affiliated CMHSPs, or require the affiliated CMHSP to contract with an independent auditor to examine compliance issues related to contracts between PIHPs and CMHSPs to manage the Medicaid Program. Further detail is provided in the Responsibilities – PIHP Responsibilities Section (Item #'s 8, 9, & 10).

These CMH Compliance Examination Guidelines will be effective for contract years ending on or after September 30, 2013 and replace any prior CMH Compliance Examination Guidelines or instructions, oral or written.

Failure to meet the requirements contained in these CMH Compliance Examination Guidelines may result in the withholding of current funds or the denial of future awards.

¹ Medicaid payments to PIHPs and CMHSPs for providing patient care services to Medicaid eligible individuals are not considered Federal awards expended for the purposes of determining Single Audit requirements.

RESPONSIBILITIES

MDCH Responsibilities

MDCH must:

1. Periodically review and revise the CMH Compliance Examination Guidelines to ensure compliance with current Mental Health Code, and federal and state audit requirements; and to ensure the **COMPLIANCE REQUIREMENTS** contained in the CMH Compliance Examination Guidelines are complete and accurately represent requirements of PIHPs and CMHSPs; and distribute revised CMH Compliance Examination Guidelines to PIHPs and CMHSPs.
2. Review the examination reporting packages submitted by PIHPs and CMHSPs to ensure completeness and adequacy within six months of receipt.
3. Issue a management decision (as described in the Examination Requirements – Management Decision Section) on findings, comments, and examination adjustments contained in the PIHP or CMHSP examination reporting package within eight months after the receipt of a complete and final reporting package.
4. Monitor the activities of PIHPs and CMHSPs as necessary to ensure the Medicaid Program, ABW Program, GF Program, and CMHS Block Grant Program funds are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts. MDCH will rely primarily on the compliance examination engagements conducted on PIHPs and CMHSPs by independent auditors to ensure Medicaid Program, ABW Program, and GF Program funds are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts. MDCH will rely on PIHP or CMHSP Single Audits or the compliance examination engagements conducted on PIHPs and CMHSPs by independent auditors to ensure CMHSP Block Grant Program funds are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts. MDCH may, however, determine it is necessary to also perform a limited scope compliance examination or review of selected areas. Any additional reviews or examinations shall be planned and performed in such a way as to build upon work performed by other auditors. The following are some examples of situations that may trigger an MDCH examination or review:
 - a. Significant changes from one year to the next in reported line items on the FSR.
 - b. A PIHP entering the MDCH risk corridor.
 - c. A large percentage or amount of ABW program funding converting to local.
 - d. A large addition to an ISF per the cost settlement schedules.
 - e. A material non-compliance issue identified by the independent auditor.
 - f. The CPA that performed the compliance examination is unable to quantify the impact of a finding to determine the questioned cost amount.
 - g. The CPA issued an adverse opinion on compliance due to their inability to draw conclusions because of the condition of the agency's records.

PIHP Responsibilities

PIHPs must:

1. Maintain internal control over the Medicaid Program and ABW Program that provides reasonable assurance that the PIHP is managing the programs in compliance with laws, regulations, and the provisions of contracts that could have a material effect on the programs.
2. Comply with laws, regulations, and the provisions of contracts related to the Medicaid Program and ABW Program. Examples of these would include, but not be limited to: the Medicaid Managed Specialty Supports & Services Concurrent 1915(b)(c) Waiver Program Contract (Medicaid Program Contract), the Adult Benefits Waiver Contract, the Mental Health Code (Michigan Compiled Laws 330.1001 – 330.2106), OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments located at 2 CFR Part 225), OMB Circular A-102 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments found at 45 CFR 92), the Medicaid Provider Manual, and Generally Accepted Accounting Principles (GAAP).
3. Prepare appropriate financial statements.
4. Ensure that the examination required by these CMH Compliance Examination Guidelines is properly performed and submitted when due.
5. Follow up and take corrective action on examination findings.
6. Prepare a corrective action plan to address each examination finding, and comment and recommendation included in the current year auditor's reports including the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the PIHP does not agree with an examination finding or comment, or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.
7. The PIHP shall not file a revised FSR and Cost Settlement based on the CMH Compliance Examination. Rather, adjustments noted in the CMH Compliance Examination will be evaluated by MDCH and the PIHP will be notified of any required action in the management decision.
8. Monitor the activities of affiliated CMHSPs as necessary to ensure the Medicaid Program and ABW Program funds are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts. PIHPs must either (a.) require the PIHP's independent auditor (as part of the PIHP's examination engagement) to examine the records of the affiliated CMHSP for compliance with the Medicaid Program and ABW Program provisions, or (b.) require the affiliated CMHSP to contract with an independent auditor to examine compliance issues related to contracts between PIHPs and CMHSPs to manage the Medicaid Program and ABW Program. If the latter is chosen, the PIHP must incorporate the examination requirement in the PIHP/CMHSP contract and develop Compliance Examination Guidelines specific to their PIHP/CMHSP contract. Additionally, if the latter is chosen, the CMHSP examination must be

- completed in sufficient time so that the PIHP auditor may rely on the CMHSP examination when completing their examination of the PIHP if they choose to.
9. If requiring an examination of the affiliated CMHSP, review the examination reporting packages submitted by affiliated CMHSPs to ensure completeness and adequacy.
 10. If requiring an examination of the affiliated CMHSP, issue a management decision (as described in the Examination Requirements – Management Decision Section) on findings and questioned costs contained in affiliated CMHSP's examination reporting packages.

CMHSP Responsibilities

(as a recipient of Medicaid and ABW funds from PIHP and a recipient of GF funds from MDCH and a recipient of CMHS Block Grant funds from MDCH)

CMHSPs must:

1. Maintain internal control over the Medicaid, ABW, GF, and CMHS Block Grant Programs that provides reasonable assurance that the CMHSP is managing the Medicaid, ABW, GF, and CMHS Block Grant Programs in compliance with laws, regulations, and the provisions of contracts that could have a material effect on the Medicaid, ABW, GF, and CMHS Block Grant Programs.
2. Comply with laws, regulations, and the provisions of contracts related to the Medicaid, ABW, GF, and CMHS Block Grant Programs. Examples of these would include, but not be limited to: the Medicaid Managed Specialty Supports & Services Concurrent 1915(b)(c) Waiver Program Contract (Medicaid Contract), the Managed Mental Health Supports and Services Contract (General Fund Contract), the Adult Benefits Waiver Contract, the CMHS Block Grant Contract, the Mental Health Code (Michigan Compiled Laws 330.1001 – 330.2106), OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments located at 2 CFR Part 225), OMB Circular A-102 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments found at 45 CFR 92), the Medicaid Provider Manual, and Generally Accepted Accounting Principles (GAAP).
3. Prepare appropriate financial statements.
4. Ensure that the examination required by these CMH Compliance Examination Guidelines, and any examination required by the PIHP from which the CMHSP receives Medicaid and/or ABW funds are properly performed and submitted when due.
5. Follow up and take corrective action on examination findings.
6. Prepare a corrective action plan to address each examination finding, and comment and recommendation included in the current year auditor's reports including the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the CMHSP does not agree with an examination finding or comment, or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.
7. The CMHSP shall not file a revised FSR and Cost Settlement based on the CMH Compliance Examination. Rather, adjustments noted in the CMH Compliance Examination will be evaluated by MDCH, and the CMHSP will be notified of any required action in the management decision.

EXAMINATION REQUIREMENTS

PIHPs under contract with MDCH to manage the Medicaid Program and ABW Program, and CMHSPs under contract with MDCH to manage the GF Program are required to contract annually with a certified public accountant in the practice of public accounting (hereinafter referred to as a practitioner) to examine the PIHP's or CMHSP's compliance with specified requirements in accordance with the AICPA's Statements on Standards for Attestation Engagements (SSAE) 10 – Compliance Attestation – AT 601 (Codified Section of AICPA Professional Standards) (hereinafter referred to as an examination engagement). The specified requirements and specified criteria are contained in these CMH Compliance Examination Guidelines under the Section titled “Compliance Requirements.”

Additionally, CMHSPs under contract with MDCH to provide CMHS Block Grant Program services with a contract amount of greater than \$100,000 are required to ensure the above referenced examination engagement includes an examination of compliance with specified requirements related to the CMHS Block Grant Program **IF** the CMHSP does not have a Single Audit or the CMHSP's Single Audit does not include the CMHS Block Grant (CFDA 93.958) as a major Federal program. The specified requirements and specified criteria related to the CMHS Block Grant Program are contained in these CMH Compliance Examination Guidelines under the Section titled “Compliance Requirements.”

Practitioner Selection

In procuring examination services, PIHPs and CMHSPs must engage an independent practitioner, and must follow the procurement standards prescribed by the Grants Management Common Rule (A-102 Common Rule). The codified common rule for PIHPs and CMHSPs is located at 45 CFR 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments. Procurement standards are addressed in Section 92.36. In requesting proposals for examination services, the objectives and scope of the examination should be made clear. Factors to be considered in evaluating each proposal for examination services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price. When possible, PIHPs and CMHSPs are encouraged to rotate practitioners periodically to ensure independence.

Examination Objective

The objective of the practitioner's examination procedures applied to the PIHP's or CMHSP's compliance with specified requirements is to express an opinion on the PIHP's or CMHSP's compliance based on the specified criteria. The practitioner seeks to obtain reasonable assurance that the PIHP or CMHSP complied, in all material respects, based on the specified criteria.

Practitioner Requirements

The practitioner should exercise due care in planning, performing, and evaluating the results of his or her examination procedures; and the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected. The specified requirements and specified criteria are contained in these CMH Compliance Examination Guidelines under the Section titled “Compliance Requirements.” In the examination of the PIHP’s or CMHSP’s compliance with specified requirements, the practitioner should:

1. Obtain an understanding of the specified compliance requirements (see AT 601.40).
2. Plan the engagement (see AT 601.41 through 601.44).
3. Consider the relevant portions of the PIHP’s or CMHSP’s internal control over compliance (see AT 601.45 through 601.47).
4. Obtain sufficient evidence including testing compliance with specified requirements (see AT 601.48 through 601.49).
5. Consider subsequent events (see AT 601.50 through 601.52).
6. Form an opinion about whether the entity complied, in all material respects with specified requirements based on the specified criteria (see AT 601.53).

Practitioner’s Report

The practitioner’s examination report on compliance should include the information detailed in AT 601.55 and 601.56, which includes the practitioner’s opinion on whether the entity complied, in all material respects, with specified requirements based on the specified criteria. When an examination of the PIHP’s or CMHSP’s compliance with specified requirements discloses noncompliance with the applicable requirements that the practitioner believes have a material effect on the entity’s compliance, the practitioner should modify the report as detailed in AT 601.64 through AT 601.67.

In addition to the above examination report standards, the practitioner must prepare:

1. A Schedule of Findings **including the applicable finding detail² listed in OMB Circular A-133, Section 510(b)** that includes the following:

² Finding detail must be presented in sufficient detail for the PIHP or CMHSP to prepare a corrective action plan and for MDCH to arrive at a management decision. The following specific information must be included, as applicable, in findings:

- a. **The criteria or specific requirement upon which the finding is based including statutory, regulatory, contractual, or other citation. The Compliance Examination Guidelines should NOT be used as criterion.**
- b. The condition found, including facts that support the deficiency identified in the finding.
- c. Identification of applicable examination adjustments and how they were computed.
- d. Information to provide proper perspective regarding prevalence and consequences.
- e. The possible asserted effect.
- f. Recommendations to prevent future occurrences of the deficiency(ies) noted in the finding.
- g. Views of responsible officials of the PIHP/CMHSP when there is a disagreement with the finding.

- a. Control deficiencies that are individually or cumulatively material weaknesses in internal control over the Medicaid, ABW, GF, and/or CMHS Block Grant Program(s).
 - b. Material noncompliance with the provisions of laws, regulations, or contracts related to the Medicaid, ABW, GF, and/or CMHS Block Grant Program(s).
 - c. Known fraud affecting the Medicaid, ABW, GF, and/or CMHS Block Grant Program(s).
2. A schedule showing final reported Financial Status Report (FSR) amounts, examination adjustments [including applicable adjustments from the Schedule of Findings and the Comments and Recommendations Section (addressed below)], and examined FSR amounts. All examination adjustments must be explained and must have a corresponding finding or comment. This schedule is called the “Examined FSR Schedule.” Note that Medicaid and ABW FSRs must be provided for PIHPs. All applicable FSRs must be included in the practitioner’s report regardless of the lack of any examination adjustments.
 3. A schedule showing a revised cost settlement for the PIHP or CMHSP based on the Examined FSR Schedule. This schedule is called the “Examined Cost Settlement Schedule.” This must be included in the practitioner’s report regardless of the lack of any examination adjustments.
 4. A Comments and Recommendations Section that includes all noncompliance issues discovered that are not individually or cumulatively material weaknesses in internal control over the Medicaid, ABW, GF, and/or CMHS Block Grant program(s), and recommendations for strengthening internal controls, improving compliance, and increasing operating efficiency. The list of details required for findings (a. through j. in footnote 2) must also be provided for the comments.

Examination Report Submission

The examination must be completed and the reporting package described below must be submitted to MDCH within the earlier of 30 days after receipt of the practitioner’s report, or June 30th following the contract year end. The PIHP or CMHSP must submit the reporting package by e-mail to MDCH at MDCH-AuditReports@michigan.gov. The required materials must be assembled as one document in PDF file compatible with Adobe Acrobat (read only). The subject line must state the agency name and fiscal year end. MDCH reserves the right to request a hard copy of the compliance examination report materials if for any reason the electronic submission process is not successful.

-
- h. Planned corrective actions.
 - i. Responsible party(ies) for the corrective action.
 - j. Anticipated completion date.

Examination Reporting Package

The reporting package includes the following:

1. Practitioner's report as described above;
2. Corrective action plan prepared by the PIHP or CMHSP.

Penalty

If the PIHP or CMHSP fails to submit the required examination reporting package by June 30th following the contract year end and an extension has not been granted by MDCH, MDCH may withhold from current funding five percent of the examination year's grant funding (not to exceed \$200,000) until the required reporting package is received. MDCH may retain the withheld amount if the reporting package is delinquent more than 120 days from the due date and MDCH has not granted an extension.

Incomplete or Inadequate Examinations

If MDCH determines the examination reporting package is incomplete or inadequate, the PIHP or CMHSP, and possibly its independent auditor will be informed of the reason of inadequacy and its impact in writing. The recommendations and expected time frame for resubmitting the corrected reporting package will be indicated.

Management Decision

MDCH will issue a management decision on findings, comments, and examination adjustments contained in the PIHP or CMHSP examination report within eight months after the receipt of a complete and final reporting package. The management decision will include whether or not the examination finding and/or comment is sustained; the reasons for the decision; the expected PIHP or CMHSP action to repay disallowed costs, make financial adjustments, or take other action; and a description of the appeal process available to the PIHP or CMHSP. Prior to issuing the management decision, MDCH may request additional information or documentation from the PIHP or CMHSP, including a request for practitioner verification or documentation, as a way of mitigating disallowed costs. The appeal process available to the PIHP or CMHSP is included in the applicable contract.

If there are no findings, comments, and/or questioned costs, MDCH will notify the PIHP or CMHSP when the review of the examination reporting package is complete and the results of the review.

COMPLIANCE REQUIREMENTS

The practitioner must examine the PIHP's or CMHSP's compliance with the A-J specified requirements based on the specified criteria stated below. If the CMHSP does not have a Single Audit or the CMHSP's Single Audit does not include the CMHS Block Grant (CFDA 93.958) as a major Federal program, the practitioner must also examine the CMHSP's compliance with the K-M specified requirements based on the specified criteria stated below that specifically relate to the CMHS Block Grant, but only if the CMHSP's contract amount for the CMHS Block Grant is greater than \$100,000.

COMPLIANCE REQUIREMENTS A-J (APPLICABLE TO ALL PIHP AND CMHSP COMPLIANCE EXAMINATIONS)

A. FSR Reporting

The final FSR complies with contractual provisions as follows:

- a. FSR agrees with agency financial records (general ledger) (Contract, Section 6.6.1).
- b. FSR includes only allowable costs as specified in OMB Circular A-87 (located at 2 CFR Part 225); and the Mental Health Code, Sections 240, 241, and 242 (Contract, Section 6.6.1).
- c. FSR includes revenues and expenditures in proper categories and according to reporting instructions (Contract, Sections 6.6.1 and 7.8, and Attachment 7.8.1).

Differences between the general ledger and FSR should be adequately explained and justified. Any differences not explained and justified must be shown as an adjustment on the practitioner's "Examined FSR Schedule." Any reported expenditures that do not comply with the OMB Circular A-87 cost principles, the Code, or contract provisions must be shown on the auditor's "Examined FSR Schedule."

The following items should be considered in determining allowable costs:

OMB Circular A-87 cost principles (2 CFR Part 225, Appendix A, Section C. 1.) require that for costs to be allowable they must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of the grant.
- b. Be allocable to the grant under the provisions of the applicable OMB Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.

- d. Conform to any limitations or exclusions set forth in the applicable OMB Circular, other applicable laws and regulations, or terms and conditions of the grant and agreement.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment.
- g. Be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

Reimbursements to **subcontractors** (including PIHP payments to CMHSPs for Medicaid services) must be supported by a valid subcontract and adequate, appropriate supporting documentation on costs and services (OMB Circular A-87, Appendix A, Section C.1.j.). Contracts should be reviewed to determine if any are to related parties. If related party subcontracts exist, they should receive careful scrutiny to ensure the reasonableness criteria of OMB Circular A-87, Appendix A, Section C.1.a., was met. If subcontractors are paid on a net cost basis, rather than a fee-for-service basis, the subcontractors' costs must be verified for existence and appropriate supporting documentation (OMB Circular A-87, Appendix A, Section C.1.j.). When the PIHP pays FQHCs and RHCs for specialty services included in the specialty services waiver the payments need to be reviewed to ensure that they are no less than amounts paid to non-FQHC and RHCs for similar services. NOTE: Rather than the practitioner performing examination procedures at the subcontractor level, agencies may require that subcontractors receive examinations by their own independent practitioner, and that examination report may be relied upon if deemed acceptable by the practitioner.

Reported rental costs for **less-than-arms-length transactions** must be limited to underlying cost (OMB Circular A-87, Appendix B, Section 37.c.). For example, the agency may rent their office building from the agency's board member/members, but rent charges cannot exceed the actual cost of ownership if the lease is determined to be a less-than-arms-length transaction. Guidance on determining less-than-arms-length transactions is provided in OMB Circular A-87.

Reported costs for **sale and leaseback arrangements** must be limited to underlying cost (OMB Circular A-87, Appendix B, Section 37.b.).

Capital asset purchases that cost greater than \$5,000 must be capitalized and depreciated over the useful life of the asset rather than expensing it in the year of purchase (OMB Circular A-87, Appendix B, Sections 11. and 15.). All invoices for a remodeling or renovation project must be accumulated for a total project cost when

determining capitalization requirements; individual invoices should not simply be expensed because they are less than \$5,000.

Costs must be allocated to programs in accordance with relative benefits received. Accordingly, **Medicaid costs must be charged to the Medicaid Program, Adult Benefits Waiver Costs must be charged to the Adult Benefits Waiver, and GF costs must be charged to the GF Program.** Additionally, **administrative/indirect costs** must be distributed to programs on bases that will produce an equitable result in consideration of relative benefits derived in accordance with OMB Circular A-87, Appendix A, Sections C. and F., provisions.

Distributions of salaries and wages for employees that work on multiple activities or cost objectives, must be supported by personnel activity reports that meet the standards listed in OMB Circular A-87, Appendix B, Section 8.h.(4.).

B. CRCS Reporting

The final CRCS complies with reporting instructions contained in the contract (Contract, Section 7.8, and Attachment 7.8.1).

C. Real Property Disposition

The PIHP's or CMHSP's real property disposition (for property acquired with Federal funds) complied with the requirements contained in the A-102 Common Rule, or 45 CFR 92.31. Specifically, the following are required:

1. The PIHP or CMHSP must have prior consent of MDCH to dispose of or encumber the title to real property acquired with Federal funds.
2. For sales of real property, the PIHP or CMHSP must ensure sales procedures provide for competition to the extent practicable and result in the highest possible return.
3. The PIHP or CMHSP must obtain disposition instructions from MDCH.
4. The PIHP or CMHSP must comply with the disposition instructions obtained from MDCH. The disposition instructions will likely require a remittance to MDCH of the Federal portion (based on the Federal participation in the project) of the net sales proceeds. If the property is retained, but no longer needed to support the program, the PIHP or CMHSP will likely be required to compensate MDCH for the Federal portion of the current fair market value of the property. If the title to the property is transferred, the PIHP or CMHSP will likely be required to compensate MDCH for the Federal portion of the current fair market value of the property.

D. Administration Cost Report

The most recently completed PIHP's or CMHSP's Administration Cost Report complies with the applicable CMHSP/PIHP Administration Cost Reporting Instructions and the applicable standards in ESTABLISHING ADMINISTRATIVE COSTS WITHIN AND ACROSS THE CMHSP SYSTEM and contract provisions.

E. Procurement

The PIHP or CMHSP followed the procurement requirements contained in 45 CFR 92.36 (b) – (i), and ensured that organizations or individuals selected and offered contracts have not been debarred or suspended or otherwise excluded from or ineligible for participation in Federal assistance programs as required by 45 CFR 92.35.

F. Rate Setting and Ability to Pay

The PIHP/CMHSP determined responsible parties' insurance coverage and ability to pay before, or as soon as practical after, the start of services as required by MCL 330.1817. Also, the PIHP/CMHSP annually determined the insurance coverage and ability to pay of individuals who continue to receive services and of any additional responsible party as required by MCL 330.1828. Also, the PIHP/CMHSP completed a new determination if informed of a significant change in a responsible party's ability to pay as required by MCL 330.1828. (Medicaid eligible consumers are deemed to have zero ability to pay, so there is no need to determine their ability to pay. The one exception is during the period when a Medicaid eligible consumer has a deductible. In that case an ability to pay determination does apply.)

The PIHP's or CMHSP's charges for services represent the lesser of ability to pay determinations or cost of services according to MCL 330.1804. Cost of services means the total operating and capital costs incurred according to MCL 330.1800. (In the comparison of cost to ability to pay the practitioner may consider a cost based rate sheet or other documentation that is supported by cost records as evidence of costs of services.)

G. Internal Service Fund (ISF)

The PIHP's Internal Service Fund complies with the Internal Service Fund Technical Requirement contained in Contract Attachment P 7.7.4.1 with respect to funding and maintenance.

H. Medicaid Savings and General Fund Carryforward

The PIHP's Medicaid Savings was expended in accordance with the PIHP's reinvestment strategy as required by Sections 7.7.2.2 and 7.7.2.3 of the Contract. The CMHSP's General Fund Carryforward earned in the previous year was used in the current year on allowable General Fund expenditures as required by sections 7.7.1 and 7.7.1.1 of the contract.

I. Match Requirement

The PIHP or CMHSP met the local match requirement, and all items considered as local match actually qualify as local match according to Section 7.2 of the Contract. Some examples of funds that do NOT qualify as local match are: (a.) revenues (such as workers' compensation refunds) that should be offset against related expenditures, (b.) interest earned from ISF accounts, (c.) revenues derived from programs (such as the Clubhouse program) that are financially supported by Medicaid or GF, (d.) donations of funds from subcontractors of the PIHP or CMHSP, (e.) Medicaid Health Plan (MHP) reimbursements for MHP purchased services that have been paid at less than the CMHSP's actual costs, and (f) donations of items that would not be an item generally provided by the PIHP or CMHSP in providing plan services.

If the PIHP or CMHSP does not comply with the match requirement in the Mental Health Code, Section 302, or cannot provide reasonable evidence of compliance, the auditor shall determine and report the amount of the shortfall in local match requirement.

J. ~~Consumer Fund Review~~

~~The PIHP or CMHSP has policies and procedures that address residents' property and funds as required by MCL 330.1752. The policies and procedures should address the proper handling of consumer funds by the agency, if applicable, and any applicable service provider; and require PIHP/CMHSP monitoring of resident funds and valuables for compliance with the Licensing Rules for Adult Foster Care Small Group Homes (R 400.14315). Consumer funds must be maintained separate from other agency funds, revenues and expenditures must be properly tracked, consumers' funds cannot be commingled and used for each others' expenses, and sufficient controls must exist to protect the consumers' funds. The auditor should verify that the PIHP or CMHSP performed monitoring of their employees and/or service providers for compliance with the Licensing Rules for Adult Foster Care Small Group Homes (R 400.14315).~~

NOTE: Please review Tom Renwick's memo on Consumer Funds and the Compliance Examinations dated 7/24/13 which follows this document.

COMPLIANCE REQUIREMENTS K-M
(APPLICABLE TO CMHSPs WITH A CMHS BLOCK GRANT OF GREATER THAN \$100,000
THAT DID NOT HAVE A SINGLE AUDIT OR THE CMHS BLOCK GRANT WAS NOT A
MAJOR FEDERAL PROGRAM IN THE SINGLE AUDIT)

K. Activities Allowed or Unallowed

The CMHSP expended CMHS Block Grant (CFDA 93.958) funds only on allowable activities in accordance with the OMB Circular A-133 Compliance Supplement and the Grant Agreement between MDCH and the CMHSP. CMHS Block Grant funds were NOT expended to supplant existing mental health funding; fund Medicaid-approved services; purchase medications; purchase or lease vehicles; purchase vehicle insurance; pay for administrative or indirect expenses; provide inpatient hospital services; make cash payments to recipients of health services; purchase or improve land; purchase, construct, or permanently improve any building; purchase major medical equipment; provide matching funds for other Federal funding; or provide financial assistance to any entity other than a public or non-profit entity.

L. Cash Management

The CMHSP complied with the applicable cash management compliance requirements that are contained in the OMB Circular A-133 Compliance Supplement. This includes the requirement that when entities are funded on a reimbursement basis, program costs must be paid for by CMHSP funds before reimbursement is requested from MDCH.

M. Subrecipient Monitoring

If the CMHSP contracts with other subrecipients (“subrecipient” per the OMB Circular A-133 definition) to carry out the Federal CMHS Block Grant Program, the CMHSP complied with the following requirements of OMB Circular A-133, Section .400 (d):

1. properly identified Federal award information and compliance requirements to the subrecipient, and approved only allowable activities in the award documents;
2. monitored subrecipient activities to provide reasonable assurance that the subrecipient administered Federal awards in compliance with Federal requirements;
3. ensured required audits are performed, issued a management decision on audit findings within 6 months after receipt of the sub-recipient’s audit report, and ensured that the subrecipient took timely and appropriate corrective action on all audit findings; and
4. took appropriate action using sanctions if a subrecipient had a continued inability or unwillingness to have the required audits performed.

RETENTION OF WORKING PAPERS AND RECORDS

Examination working papers and records must be retained for a minimum of three years after the final examination review closure by MDCH. Also, PIHPs are required to keep affiliate CMHSP's reports on file for three years from date of receipt. All examination working papers must be accessible and are subject to review by representatives of the Michigan Department of Community Health, the Federal Government and their representatives. There should be close coordination of examination work between the PIHP and affiliate CMHSP auditors. To the extent possible, they should share examination information and materials in order to avoid redundancy.

EFFECTIVE DATE AND MDCH CONTACT

These CMH Compliance Examination Guidelines are effective beginning with the fiscal year 2012/2013 examinations. Any questions relating to these guidelines should be directed to:

Debra S. Hallenbeck, Manager
Quality Assurance and Review, Office of Audit
Michigan Department of Community Health
Capitol Commons Center
400 South Pine Street
Lansing, Michigan 48933
hallenbeckd@michigan.gov
Phone: (517) 241-7598 Fax: (517) 241-7122

GLOSSARY OF ACRONYMS AND TERMS

- AICPA.....American Institute of Certified Public Accountants.

- CMHS Block Grant Program.The program managed by CMHSPs under contract with MDCH to provide Community Mental Health Services Block Grant program services under CFDA 93.958.

- CMHSP.....Community Mental Health Services Program (CMHSP). A program operated under Chapter 2 of the Michigan Mental Health Code – Act 258 of 1974 as amended.

- Examination EngagementA PIHP or CMHSP’s engagement with a practitioner to examine the entity’s compliance with specified requirements in accordance with the AICPA’s Statements on Standards for Attestation Engagements (SSAE) 10 – Compliance Attestation – AT 601 (Codified Section of AICPA Professional Standards).

- GF Program.....The program managed by CMHSPs under contract with MDCH to provide mental health services and supports to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in MCL 330.1208.

- MDCH.....Michigan Department of Community Health

- Medicaid Program.....The Concurrent 1915(b)/(c) Medicaid Program managed by PIHPs under contract with MDCH.

- Adult Benefits WaiverThe Michigan Medicaid Non-Pregnant Childless Adults Waiver (Adult Benefits Waiver) Section 1115 Demonstration Program managed by PIHPs under contract with MDCH

- PIHPPrepaid Inpatient Health Plan. An organization that manages Medicaid specialty services under the state’s approved Concurrent 1915(b)/1915(c) Waiver Program, on a prepaid, shared-risk basis, and manages services under the state’s approved Michigan Medicaid Non-Pregnant Childless Adults Waiver (Adult Benefits Waiver) Section 1115 Demonstration Program.

- Practitioner.....A certified public accountant in the practice of public accounting under contract with the PIHP or CMHSP to perform an examination engagement.

- SSAE.....AICPA’s Statements on Standards for Attestation Engagements.



STATE OF MICHIGAN

DEPARTMENT OF COMMUNITY HEALTH
LANSING

RICK SNYDER
GOVERNOR

JAMES K. HAVEMAN
DIRECTOR

July 24, 2013

TO: CMHSP Executive Directors
FROM:  Tom Renwick
SUBJECT: Consumer Funds and Compliance Examinations

A number of questions about the appropriate scope and breadth of CMHSP monitoring of consumer funds and the role of Compliance Examinations in assessing CMHSP oversight in that area have recently arisen. Subsequent discussion of these questions and issues by the DCH Office of Audit and the Behavioral Health and Developmental Disabilities Administration (BHDDA) led to proposed FY14 contract changes in this area. The remainder of this memorandum will explain the change for the FY14 contract and the impact on the Compliance Examination process.

As you are likely aware, the CMH Compliance Examination Guidelines (CMHSP Contract Attachment C 7.6.1) contained the following requirement:

J. Consumer Fund Review

The PIHP or CMHSP has policies and procedures that address residents' property and funds as required by MCL 330.1752. The policies and procedures should address the proper handling of consumer funds by the agency, if applicable, and any applicable service provider; and require PIHP/CMHSP monitoring of resident funds and valuables for compliance with the Licensing Rules for Adult Foster Care Small Group Homes (R 400.14315). Consumer funds must be maintained separate from other agency funds, revenues and expenditures must be properly tracked, consumer's funds cannot be commingled and used for each others' expenses, and sufficient controls must exist to protect the consumers' funds. The auditor should verify that the PIHP or CMHSP performed monitoring of their employees and/or service providers for compliance with the Licensing Rules for Adult Foster Care Small Group Homes (R 400.14315).

A number of CMHSP compliance examinations contained findings that CMHSPs did not adequately meet this requirement. Some of the findings described an expectation that the CMHSP conduct a formal audit of the consumer funds. As noted above, these findings prompted internal discussion between BHDDA and the Office of Audit about the underlying expectation for CMHSP monitoring of consumer funds. In addition, the Contract and Financial Issues subcommittee of the Michigan Association for Community Mental Health Boards proposed contractual changes in this area for the FY14 CMHSP contract.

The result of these internal discussions and the FY 14 contract negotiations is as follows:

1. DCH has agreed to remove the requirement from the Compliance Examination Guidelines.

2. DCH will insert the following language into the FY14 CMHSP contract:
The Community Mental Health Services Program shall assure that it has policies and procedures that address residents' property and funds as required by MCL 330.1752. The policies and procedures should address the proper handling of consumer funds by the agency, if applicable, and any applicable service provider; and require Community Mental Health Services Program monitoring of resident funds and valuables for compliance with the Licensing Rules for Adult Foster Care Small Group Homes (R 400.14315).
3. This contract language continues to require that the CMHSP have a policy that addresses the protection of consumer property and funds and a process for ensuring that the policy is implemented and effective. However, the scope of future Compliance Examinations will not include an evaluation of a CMHSP's activities in this area. A CMHSP's adherence to the underlying Mental Health Code and CMHSP contract requirements concerning the safeguarding and protection of resident's property and funds will be assessed through routine Office of Recipient Rights and DCH contract monitoring processes.

Though this contract language change is occurring with the FY14 contract, it also has implications on the scope of FYE13 Compliance Examinations. In accordance with the FY14 contract language change, the Department has decided that an examination of this requirement can be eliminated from the FYE13 Compliance Examinations. Please share this change with your compliance examination practitioners.

Feel free to contact me if you have any questions regarding this.

cc: John Duvendeck
Cynthia Kelly
Pam Myers
Deb Hallenbeck