

Community Mental Health

COMPLIANCE EXAMINATION GUIDELINES

Michigan Department of Community Health



November 2006
(Applicable for FYE 9/30/2007 and FYE 9/30/2008 Examinations)

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INTRODUCTION

These Community Mental Health (CMH) Compliance Examination Guidelines are being 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 Programs (hereinafter referred to as “Medicaid Program”), and 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”). 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 still obtain a Single Audit.

These CMH Compliance Examination Guidelines require that an independent auditor examine compliance issues related specifically to MDCH contracts with PIHPs for the Medicaid Program, and MDCH contracts with CMHSPs for the GF Program. These CMH Compliance Examination Guidelines, however, do not address compliance examinations for CMHSPs for the Medicaid funds received under contract with PIHPs. 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 subawarded Medicaid Program funds are used 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 7, 8, & 9).

These CMH Compliance Examination Guidelines will be effective for fiscal years ending on or after September 30, 2007.

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 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 four months of receipt.
3. Issue a management decision (as described in the Examination Requirements – Management Decision Section) on findings and questioned costs contained in the PIHP or CMHSP examination reporting package within six 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 and GF Program funds are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts. MDCH will rely primarily on the examination engagements conducted on PIHPs and CMHSPs by independent auditors to ensure funds are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts. However, MDCH may 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 or CMHSP entering the MDCH risk corridor.
 - c. A large addition to an ISF per the cost settlement schedules.
 - d. A material non-compliance issue identified by the independent auditor.
 - e. The CPA that performed the compliance examination is unable to quantify the impact of a finding to determine the questioned cost amount.
 - f. 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 that provides reasonable assurance that the PIHP is managing the Medicaid Program in compliance with laws, regulations, and the provisions of contracts that could have a material effect on the Medicaid Program.
2. Comply with laws, regulations, and the provisions of contracts related to the Medicaid Program.
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 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 the examination findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.
7. Monitor the activities of affiliated CMHSPs as necessary to ensure subawarded Medicaid 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 subawarded Medicaid 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. 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.
8. If requiring an examination of the affiliated CMHSP, review the examination reporting packages submitted by affiliated CMHSPs to ensure completeness and adequacy.
9. 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 funds from PIHP and a recipient of GF funds from MDCH)**

CMHSPs must:

1. Maintain internal control over the Medicaid and GF Programs that provides reasonable assurance that the CMHSP is managing the Medicaid and GF Programs in compliance with laws, regulations, and the provisions of contracts that could have a material effect on the Medicaid and GF Programs.
2. Comply with laws, regulations, and the provisions of contracts related to the Medicaid and GF Programs.
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 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 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 the examination findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

EXAMINATION REQUIREMENTS

PIHPs under contract with MDCH to manage the Medicaid 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.”

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(s) of findings for the Medicaid and/or GF Program(s) that includes the following:
 - a. Reportable conditions that are individually or cumulatively material weaknesses in internal control over the Medicaid and/or GF Program(s).
 - b. Material noncompliance with the provisions of laws, regulations, or contracts related to the Medicaid and/or GF Program(s).
 - c. Known fraud affecting the Medicaid and/or GF Program(s).
2. A schedule(s) showing reported Financial Status Report (FSR) amounts, examination adjustments, and examined FSR amounts for the Medicaid and/or GF Program(s). The examination adjustments must be explained. This schedule is called the “Examined FSR Schedule.”
3. A schedule(s) showing a revised cost settlement(s) for the PIHP or CMHSP based on the Examined FSR Schedule(s). Any amount due back to MDCH from the PIHP or CMHSP represents a “questioned cost” amount. This schedule is called the “Examined Cost Settlement Schedule.”

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(s), or nine months after the end of the PIHP's or CMHSP's fiscal year end. The PIHP or CMHSP must submit the reporting package to MDCH at the following address:

Michigan Department of Community Health
Office of Audit
Quality Assurance and Review Section
P.O. Box 30479
Lansing, Michigan 48909-7979
Or
400 S. Pine Street
Capitol Commons Center
Lansing, Michigan 48933

Alternatives to paper filing may be viewed at www.michigan.gov/mdch by selecting Inside Community Health – MDCH Audit.

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 within nine months after the end of the agency's fiscal year 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 9-month 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 and questioned costs contained in the PIHP or CMHSP examination report within six months after the receipt of a complete and final reporting package. The management decision will include whether or not the examination finding 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 and/or questioned costs, MDCH will notify the PIHP or CMHSP that 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 following specified requirements.

FSR Reconciliation

The auditor must reconcile the Financial Status Report (FSR) to the general ledger, and determine if amounts reported on the FSR are supported by the PIHP's or CMHSP's general ledger. Any differences between the general ledger and FSR should be adequately explained and justified, and all FSR reporting must comply with the contractual FSR reporting instructions. Any differences not explained and justified must be shown as an adjustment on the practitioner's "Examined FSR Schedule."

Expenditure Reporting

The auditor must determine if the PIHP's or CMHSP's expenditures reported on the FSR comply with the Office of Management and Budget (OMB) Circular A-87 cost principles, the Mental Health Code (Code), and contract provisions. 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."

Generally, OMB Circular A-87 cost principles 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.

All reported expenditures must be traceable to the agency's general ledger, and adequately supported.

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. 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 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. If the subcontract is for inpatient services, the rates need to be reviewed to ensure the rates paid do not exceed the rates generally paid for Medicaid patients. 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 costs for **less-than-arms-length transactions** must be limited to underlying cost. 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.

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. 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, 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.

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.

Expenditures relating to providing the **20 outpatient visit services** for Qualified Health Plans (QHPs) must be recorded as earned contract expenditures, NOT matchable expenditures.

Revenue Reporting

The auditor must determine if the PIHP or CMHSP has properly reported all revenue on the FSR.

SSI revenue and other reimbursements that support matchable Medicaid and GF expenditures must be properly recorded to offset matchable expenditures.

SSA Revenue received and then sent to residential providers cannot be recorded as a matchable expenditure.

Revenue received from QHPs for providing 20 outpatient visits must be recorded as earned contract revenue.

Procurement

The auditor must determine if the acquisition of assets or services complied with contractual and regulatory requirements.

Rate Setting and Ability to Pay

The auditor must determine if service rates are updated at least annually. The auditor must determine if consumers are completing ability to pay forms.

Internal Service Fund (ISF)

The auditor must determine if the establishment, funding, and maintenance of any Internal Service Fund complies with the contractual provisions. The auditor must verify that:

- a. The establishment and funding of the ISF is based on a sound actuarial study or historical cost information,
- b. assumptions used in the actuarial or historical study used to justify the ISF are supported,
- c. any interest earned on the ISF is reinvested back into the ISF,
- d. any use of the ISF is for risk corridor financing for allowable costs, and
- e. any overfunding of the ISF is reduced through an abatement of current charges.
- f. The ISF is not commingled with funds of other departments, agencies, governmental funds or entities.

Medicaid Savings and General Fund Carryforward

The auditor must determine that Medicaid Savings and General Fund Carryforward earned in the previous year was used in the current year on allowable expenditures and it was properly recorded on the FSR (matchable expenditures must be properly reduced).

Match Requirement

The auditor must determine if the PIHP or CMHSP met the local match requirement. As part of this determination, the auditor must determine if items considered as local match actually qualify as local match. 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, and (e.) 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 Chapter 3 sec. 302, or cannot provide reasonable evidence of compliance, the auditor shall determine and report the amount of the short fall in local match requirement.

Service Documentation

The auditor must determine if services are adequately documented according to contractual and Code provisions.

Consumer Fund Review

The auditor must determine that consumer funds are maintained separate from other CMH funds, amounts are accurate, SSI revenue is properly recorded, rent payments made on behalf of consumers are accurate, consumers' funds are not commingled and used for each others' expenses, and sufficient controls exist to protect the consumers' funds.

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 2006/2007 examinations. Any questions relating to these guidelines should be directed to:

James B. Hennessey, Director
Office of Audit
Michigan Department of Community Health
Capitol Commons Center
400 S. Pine Street
Lansing, Michigan 48933
hennesseyj@michigan.gov
Phone: (517) 335-5323 Fax: (517) 335-5443

Debra S. Hallenbeck, Manager
Quality Assurance and Review, Office of Audit
Michigan Department of Community Health
Capitol Commons Center
400 S. Pine Street
Lansing, Michigan 48933
hallenbeckd@michigan.gov
Phone: (517) 241-7598 Fax: (517) 335-5443

GLOSSARY OF ACRONYMS AND TERMS

AICPA.....	American Institute of Certified Public Accountants.
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 Engagement	A 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.
PIHP	Prepaid 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, consistent with the requirements of 42 CFR part 401 et al June 14, 2002, regarding Medicaid managed care.
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.