Audit Report

Great Lakes

Community Mental Health Authority

October 1, 1998 – September 30, 2001

Office of Audit
Grayling Regional Office

August 2005

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JANET OLSZEWSKI
DIRECTOR

August 2, 2005

CERTIFIED MAIL

Herb Lemcool, Chairperson
Northern Lakes Community
Mental Health Authority Board of Directors
105 Hall Street, Suite A
Traverse City, MI 49684
and
Gregory Paffhouse, CEO
Northern Lakes Community
Mental Health Authority
105 Hall Street, Suite A
Traverse City, MI 49684
and
Ms. Janet Olszewski, Director
Department of Community Health
Lewis Cass Building
Lansing, MI 48913

Dear Mr. Lemcool, Mr. Paffhouse, and Ms. Olszewski:

Enclosed is our report on the audit of the Great Lakes County Community Mental Health Authority, an agency under contract with the Department of Community Health.

Sincerely,

Ray Bankert, Regional Manager
Grayling Regional Office
Office of Audit

Enclosure

c: Ed Dore
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DESCRIPTION OF AGENCY

Great Lakes Community Mental Health Authority (GLCMHA) was established in 1973 as Grand Traverse Leelanau County Community Mental Health Services Program. Effective January 1, 1997, GLCMHA became a community mental health authority. GLCMHA operates under the provisions of Act 258 of 1974, the Mental Health Code, Sections 330.1001 – 330.2106.

During the fiscal years audited, GLCMHA provided outpatient, residential, partial day, case management, prevention, emergency, and Omnibus Budget Reconciliation Act (OBRA) services to residents within Grand Traverse and Leelanau Counties. GLCMHA also provided services under the Michigan Department of Community Health (MDCH) MI Choice Home and Community Based Services Waiver for the Elderly and Disabled (Elderly Waiver). During the fiscal years audited, GLCMHA's board consisted of 12 members appointed for three-year terms by the county boards of commissioners. The board members resided within the two counties served by GLCMHA. GLCMHA's administrative offices are located in the city of Traverse City.

As of October 1, 2002, GLCMHA merged with North Central Community Mental Health to become Northern Lakes CMH. Additionally, Northern Lakes CMH affiliated with the West Michigan CMH to form the Northwest Affiliation. As a result of the merger and affiliation, and other policy changes at MDCH, the flow of funds from MDCH and various reporting responsibilities changed. However, the underlying cost principles and the shared-risk concept remain unchanged.

FUNDING METHODOLOGY

GLCMHA contracted with MDCH under a Managed Specialty Supports and Services Contract (MSSSC) for FY 2000-2001, FY 1999-2000, and FY 1998-1999. GLCMHA reported expenditures of $21.4 million in FY 2000-2001, $19.2 million in FY 1999-2000, and $16.8 million in FY 1998-1999. MDCH provided the funding under these contracts to GLCMHA with both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology. An attachment to each contract includes the specific rates paid on the PEPM basis. MDCH also distributed the non-Medicaid full-year State Mental Health General Funds (GF) based on separate formulas attached to the contracts. GLCMHA also received special and/or designated funds, fee for services funds, and MIChild capitated funds under special contractual arrangements with MDCH. Each agreement specifies the funding methodologies. MIChild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services. MDCH also provided funding under the MI Choice Home and Community Based Services Waiver for the Elderly and Disabled (Elderly Waiver).

PURPOSE AND OBJECTIVES

The purpose of this review was to determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to assess the agency's performance relative to the requirements and best practice guidelines set forth in the contracts.

Audit Objectives

1. To assess GLCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

2. To assess GLCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practices guidelines.

3. To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and to identify any balance due to/from GLCMHA.

SCOPE AND METHODOLOGY

We examined GLCMHA's records and activities for the period October 1, 1998 through September 30, 2001. We also reviewed prior and subsequent periods pertaining to lease expense, pension expense, and payments to Northern Family Intervention Services. We reviewed internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed GLCMHA's executive, financial, and administrative staff. We reviewed GLCMHA's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status report (FSR) in compliance with the MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from January 2002 through June 2002.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

FINANCIAL REPORTING

Objective 1: To assess GLCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: GLCMHA did not accurately report their financial activity to MDCH as required by the MSSSC, applicable statutory requirements, Medicaid regulations, and applicable accounting standards. We found exceptions related to cost allocations (finding 1), pension expense (finding 2), Red Mill Building lease payments (finding 3), interest revenue (finding 4), capital expenditures related to the Red Mill Building (finding 5), capital asset purchases (finding 6), payments to subcontractors (finding 7), grant program expenditures (finding 8), clubhouse revenue (finding 9), ISF investment revenue (finding 10), and payroll expense allocation (finding 11).

Finding

1. **Errors in Reported Cost Allocation**

GLCMHA did not correctly report the allocation of costs for Medicaid and General Fund services on their FY 2000-2001, FY 1999-2000, and FY 1998-1999 FSRs.

The MSSSC, Attachment 8.9.1, Section 1.0, paragraph 2, states,

> *The accounting and financial systems established by the CMHSP must have the capability to identify specialty managed care services provided to Medicaid recipients; all children's waiver expenditures; and to separately identify the funding source – either a capitated payment, formula funding, or other reimbursement or revenue in such a way as to determine whether the expenditure qualifies for 100% state funding.*

The MSSSC states that Office of Management and Budget (OMB) Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87, Attachment A, Section C. Basic Guidelines, 3. Allocable costs, states:

> *a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

GLCMHA's cost allocation methodology was based upon costs for services to individual consumers. Salaries, cost center overhead, and allocated administration were the bases for their cost finding in FY 2000-2001 and FY 1998-1999. In FY 1999-2000 GLCMHA deviated from these bases and used an average unit cost.

GLCMHA could not provide nor reproduce supporting documentation for the cost allocations as filed on the FSRs. During our fieldwork, GLCMHA recreated the underlying support for each fiscal year to arrive at revised cost calculations. We sampled the revised cost calculations for 92 consumers over the three-year audit period. We reviewed these calculations for accuracy, proper classification to Medicaid or General Fund, and proper classification as 100% or 90/10% matchable services. We made adjustments to accept GLCMHA's revised cost calculations to establish a starting point from which subsequent audit adjustments could be made. The initial adjustments are as follows:

	Medicaid Adjustments			General Fund Adjustments		
	100 %	90/10%	Net	100 %	90/10%	Net
FY 2000-2001	171,762	(283,689)	(111,927)	230,650	(118,723)	111,927
FY 1999-2000	395,579	(416,825)	(21,246)	279,383	(258,137)	21,246
FY 1998-1999	319,363	(85,035)	234,328	14,810	(249,138)	(234,328)

The net adjustments reclassifying costs are shown as follows:

FY 2000-2001	Schedules A and B
FY 1999-2000	Schedules D and E
FY 1998-1999	Schedules G and H

We also found that GLCMHA did not properly allocate Managed Care Administration costs on their FY 2000-2001 FSR. GLCMHA incorrectly classified $1,065,660 of administrative costs as General Fund 90/10% matchable services. This resulted in a misstatement of costs for services to all consumers and for costs of services allocated between 100% and 90/10% matchable programs. We made an audit adjustment for $729,549 redistributing a portion of Managed Care Administration costs from General Fund to Medicaid matchable services. This adjustment is shown on Schedules A and B.

Recommendation

We recommend GLCMHA implement policies and procedures to ensure accurate cost allocations in compliance with the MSSSC, applicable regulations, and sound business practices.

Finding

2. Unallowable Pension Expense

GLCMHA did not exercise sound business practice in compliance with OMB Circular A-87 when they provided an enhanced early retirement benefits package in FY 1999-2000.

In 2000, GLCMHA offered an early retirement "window" for their employees. For those employees who qualified and retired between July 1, 2000 and December 31, 2000, retirement benefits were enhanced to include no age minimum with 20 years service (15 years service for unionized employees), a favorable change in the Final Average Compensation (FAC) calculation, the elimination of the surviving spouse benefit reduction, and Cost of Living Adjustments (COLA) for union employees.

GLCMHA was unable to provide documentation to support a valid business purpose for the enhanced early retirement. We analyzed GLCMHA's expenditures for the early retirement package and compared those costs, using present values, to payroll cost savings. We determined that GLCMHA spent approximately $1.17 million in additional pension costs for the early retirement enhanced benefits. Because GLCMHA replaced the majority of the retired employees, they realized only $1.04 million in payroll savings. We determined GLCMHA incurred additional cost, on a present value basis, of $131,998 from the early retirement enhanced benefits package. The GLCMHA Chief Financial Officer agreed with the assumptions used in the analysis and accepted the analysis as a "fair representation."

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, 1. Factors affecting allowability of costs, states, in part:

To be allowable under Federal awards, costs must meet the following general criteria:

(a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, 2. Reasonable Costs, states, in part:

In determining reasonableness of a given cost, consideration shall be given to:

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

(b) The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

(c) Market prices for comparable goods or services.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

(e) Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

The additional cost for the enhanced early retirement benefits package was not ordinary and necessary for the performance of the contract, and GLCMHA did not act with prudence in their decision to provide the enhanced early retirement benefits package. GLCMHA acknowledged using inadequate information in their decision to provide the enhanced early retirement benefits package. GLCMHA's actions unjustifiably increased the cost of the program. The additional cost is unallowable based on the provisions of OMB Circular A-87. An adjustment removing $131,998 is shown on Schedules D and E. The GLCMHA Chief Financial Officer provided written agreement to the $131,998 adjustment.

Recommendation

We recommend GLCMHA implement policies and procedures to ensure all expenditures are in compliance with the MSSSC and applicable regulations, and the board and executive management act with prudence and sound business practices in exercising their fiduciary responsibilities.

Finding

3. Unallowable Less-Than-Arms-Length Lease Payments

GLCMHA reported rent expense paid under a less-than-arms-length lease on the FY 2000-2001 FSR, which was not in compliance with OMB Circular A-87.

OMB Circular A-87, Attachment B, Section 38(c) states,

> *Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where: (1) One party to the lease is able to control or substantially influence the actions of the other; (2) Both parties are parts of the same governmental unit; or (3) The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.*

The Grand Traverse Leelanau County Community Mental Health Services Program (GTLCCMHSP) created the Foundation for Mental Health Grand Traverse/Leelanau (Foundation) in 1987. The Foundation is a non-profit organization created to provide resources for organizations affiliated with the delivery of mental health services (primarily GTLCCMHSP, now GLCMHA).

In FY 1999-2000, the Foundation secured financing for the Red Mill Office Complex. The financing was accomplished through an agreement in which Empire (now Huntington) National Bank purchased $6.06 million in tax-exempt bonds from the Michigan Strategic Fund. The Foundation then borrowed the money from the Michigan Strategic Fund to demolish existing buildings and to construct a new 41,400 square foot building. In December 1999, GLCMHA and the Foundation entered into a Build-to-Suit Lease, and a 23-year lease for the Red Mill Office Complex commenced on January 20, 2001.

The sole fact that the GTLCCMHSP created the Foundation to acquire and lease facilities to GTLCCMHSP makes any lease arrangement between the two parties (including successor parties such as GLCMHA) less-than-arms-length. Additionally, the following facts further support that the lease between GLCMHA and the Foundation is less-than-arms-length under the definition provided in OMB Circular A-87 whereby GLCMHA appears to have been able to control or substantially influence the actions of the Foundation:

- GLCMHA exercised control over the Foundation's building location, selection of developer, building design, and building construction.
- The contractor was not paid by the Foundation without the consent of GLCMHA.
- The Foundation passed resolutions to transfer ownership to GLCMHA when the building debt is retired.
- The Foundation's by-laws state that GLCMHA will take over the Foundation's assets should the Foundation dissolve. Note that as a result of this preliminary audit finding (providing further evidence of substantial influence), the Foundation revised their bylaws on June 20, 2002 to remove specific reference to GLCMHA's reversionary interest.

As further support for the less-than-arms-length lease determination is the fact that the Foundation's audited financial statements for FY 2000-2001, FY 1999-2000, and FY 1998-1999 disclose transactions between GLCMHA and the Foundation as related-party transactions.

Since the lease between GLCMHA and the Foundation is a less-than-arms-length lease, allowable costs for GLCMHA are limited to the amount that would be allowed had title to the property vested in GLCMHA. We reviewed the audited financial statements of the Foundation to determine the costs allowable to GLCMHA. We determined that depreciation on the building leased to GLCMHA was $84,570 and the underlying interest was $213,861 for a total of $298,431 of allowable costs. In FY 2000-2001, GLCMHA occupied the newly constructed Red Mill office complex and paid $420,552 in rent to the Foundation. Therefore, an adjustment for $122,121 is shown on Schedules A and B.

Recommendation

We recommend GLCMHA include as rental expense on the FSR only the underlying costs of the Foundation for Mental Health Grand Traverse/Leelanau, instead of the rent paid, to comply with OMB Circular A-87 requirements.

Finding

4. Interest Revenue Reporting Error

GLCMHA did not properly report interest revenue on the FSR for FY 1998-1999 in compliance with the MSSSC.

GLCMHA reported interest revenue of $114,787 as Other Reimbursements on the Expenditures page of the FSR. GLCMHA is not required to report interest revenue as a reimbursement as it is considered local revenue. This error resulted in an understatement of MDCH's share of expenditures.

The MSSSC, Section 8.3 Revenue Sources for Local Obligation states, in part,

> *The following subsections describe potential revenue sources for the CMHSP's local obligation:*
>
> > *…8.3.5 – Investment Interest – Interest earned on funds deposited or invested by or on behalf of the CMHSP. Also, interest earned on MDCH funds by contract agencies and/or network providers as specified in its contracts with the CMHSP to provide mental health services.*

An adjustment for $114,787 decreasing Other Reimbursements and increasing MDCH's share of expenditures is shown on Schedules G and H.

Recommendation

We recommend GLCMHA implement policies and procedures to ensure interest revenue is reported in compliance with the MSSSC.

Finding

5. Improper Reporting of Red Mill Building Capital Purchases

GLCMHA did not report purchases of equipment, moving costs, and building improvements on the FY 2000-2001 FSR in compliance with the Mental Health Code, OMB Circular A-87, and the terms of the MSSSC.

GLCMHA reported expenditures of $328,640 for equipment, moving costs, and building improvements related to the Red Mill Office Complex as Expenditures Not Otherwise Reported on the Expenditures page of the FSR in FY 2000-2001. This resulted in the exclusion of the allowable capitalized portion of these expenditures from Matchable Services. GLCMHA also reported $328,640 of revenue related to the purchases as Local Funding Total – All Other on the Revenues page of the FSR. As GLCMHA was not required to fund these expenditures with local money, this resulted in the overstatement of GLCMHA's local revenue.

The Mental Health Code, Section 240, Expenditures eligible for state financial support states, in part:

> *All expenditures by a community mental health services program necessary to execute the program shall be eligible for state financial support, except those excluded under section 242.*

The MSSSC states that OMB Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87, Attachment B, Section 19, states, in part:

> *b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation…c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency…d. Items of equipment with an acquisition cost of less than $5000 are considered to be supplies and are allowable as direct costs…*

OMB Circular A-87, Attachment B, Section 15, states, in part:

Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefitting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.

Approval by the awarding agency for capital expenditures to be charged as a direct cost has not been granted. Therefore, the appropriate method of reporting expenditures for these capital assets would be depreciation or use allowance, not to fully expense the purchase price.

Applying the useful lives as published by the American Hospital Association and using the straight-line depreciation method and allowing for a partial year's life in the year of acquisition based on the month of acquisition, the allowable depreciation is $17,478. We also determined that $17,065 of the expenditures were allowable in the current period. An adjustment for FY 2000-2001 reclassifying $17,065 is shown on Schedules A and B. An adjustment for FY 2000-2001 removing expenditures for the full purchase prices of capital purchases for $311,575 and substituting an appropriate depreciation allowance of $17,478 is shown on Schedules A and B.

An adjustment to the Revenues page of the FSR removing $328,640 of Local Funding Total – All Other is also shown on Schedules A and B.

Recommendation

We recommend GLCMHA adopt policies and procedures to ensure compliance with the requirements of the Mental Health Code, the MSSSC, and OMB Circular A-87 in reporting capital asset purchases.

Finding

6. Improper Reporting of Capital Asset Purchases

GLCMHA did not report purchases of vehicles, computers, office equipment, and building improvements on the FY 2000-2001, FY 1999-2000, and FY 1998-1999 FSRs in compliance with OMB Circular A-87 and the terms of the MSSSC.

GLCMHA reported expenditures of $130,292, and $186,024, and $403,665 for capital assets on the FY 2000-2001, FY 1999-2000, and FY 1998-1999 FSRs, respectively. The reported expenditures were overstated as they were for the full purchase prices of the items rather than a depreciation amount or use allowance.

Prior to FY 1998-1999, GLCMHA's contract with MDCH allowed the full purchase prices of capital asset purchases to be expensed in the year of purchase. Management believed this practice could continue when they signed the new contract in FY 1998-1999. However, the MSSSC clearly states that the "contractual agreement represents a departure from the contractual agreement between the MDCH and CMHSP that expired on September 30, 1998." Also, the MSSSC requires compliance with OMB Circular A-87 and accrual accounting.

The MSSSC states that OMB Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87, Attachment B, Section 19, states, in part:

> *b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation…c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency…d. Items of equipment with an acquisition cost of less than $5000 are considered to be supplies and are allowable as direct costs…*

OMB Circular A-87, Attachment B, Section 15, states, in part:

> *Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefitting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.*

Additionally, the MSSSC, Section 8.9 and its Attachment 8.9.1, Section 1.3 – Financial Status Report, states, in part:

> *With the exception of P.A. 423 Grant Funds, all reported revenue and expenditure information is required to be provided on an accrual basis of accounting. This accrual basis is expected to recognize all revenues and expenditures through the reporting periods.*

Approval by the awarding agency for capital expenditures to be charged as a direct cost has not been granted. Therefore, the appropriate method of reporting expenditures for these capital assets would be depreciation or use allowance, not to fully expense the purchase price.

We calculated depreciation using the useful lives as published by the American Hospital Association, the straight-line depreciation method, and allowing for a partial year's life in the year of acquisition based on the month of acquisition.

An adjustment for FY 2000-2001 removing expenditures for the full purchase prices of capital assets for $130,292 and substituting an appropriate depreciation allowance of $158,105 is shown on Schedules A and B. A related adjustment for FY 2000-2001 removing $26,055 in loan principal payments is also shown on Schedules A and B.

An adjustment for FY 1999-2000 removing expenditures for the full purchase prices of capital assets for $186,024 and substituting an appropriate depreciation allowance of $126,077 is shown on Schedules D and E.

An adjustment for FY 1998-1999 removing expenditures for the full purchase prices of capital assets for $403,665 and substituting an appropriate depreciation allowance of $66,756 is shown on Schedules G and H.

Recommendation

We recommend GLCMHA adopt policies and procedures to ensure compliance with the requirements of the MSSSC, and OMB Circular A-87 in reporting capital asset purchases.

Finding

7. Overpayments to Subcontractors

GLCMHA overpaid contractors for community inpatient hospital psychiatric services (finding 7a), transportation services (finding 7b), and day treatment program services (finding 7c) in FY 1998-1999 through FY 2000-2001.

a. GLCMHA made overpayments for community inpatient hospital psychiatric services. The majority of GLCMHA's inpatient psychiatric services are provided by one community hospital. We reviewed the contracts between GLCMHA and the hospital and the payments, and determined that, in the three fiscal years under audit, the hospital billed and GLCMHA paid a higher per diem rate for Medicaid patients than for non-Medicaid patients, which is a violation of the Code of Federal Regulations and the Medical Services Administration All Providers Manual.

   The Code of Federal Regulations (CFR), Title 42, Section 447.271, Upper limits based on customary charges, states,

   > *(a) Except as provided in paragraph (b) of this section, the agency may not pay a provider more for inpatient hospital services under Medicaid than the provider's customary charges to the general public for the services.*
   >
   > *(b) The agency may pay a public provider that provides services free or at a nominal charge at the same rate that would be used if the provider's charges were equal to or greater than its costs.*

The Medical Services Administration All Providers Manual, Chapter One, Page 24 states,

> *The provider cannot charge Medicaid a higher rate for a service rendered to a recipient than the lowest charge that would be made to others for the same or similar service. This includes advertised discounts, special promotions, or other programs to initiate reduced prices made available to the general public or a similar segment of the population.*

Adjustments to disallow the overpayments are shown as follows:

FY 2000-2001	Schedules A and B	$75,635
FY 1999-2000	Schedules D and E	$39,735
FY 1998-1999	Schedules G and H	$32,695

b. GLCMHA made payments for transportation services that were not in compliance with the provisions of their own contracts. The vendor contracts specified maximum annual amounts. GLCMHA paid in excess of the contract maximum in two of the three years under audit. Adjustments are as follows:

FY 1999-2000	Schedules D and E	$35,530
FY 1998-1999	Schedules G and H	$3,699

c. GLCMHA made payments for day treatment program services that were not in compliance with the provisions of their own contracts. The vendor contracts specified maximum annual amounts. GLCMHA paid in excess of the contract maximum in two of the three years under audit. Adjustments are as follows:

FY 2000-2001	Schedules A and B	$34,388
FY 1998-1999	Schedules G and H	$4,196

Recommendation

We recommend GLCMHA implement policies and procedures to ensure that contracts are in compliance with applicable regulations. We also recommend GLCMHA implement policies and procedures to ensure that payments made to subcontractors are in accordance with contract terms, and properly reported to MDCH.

Finding

8. Unallowable Grant Program Expenditures

GLCMHA did not properly report Wraparound Block Grant expenditures in compliance with the Federal Block Grant Special Contract and the MSSSC for FY 1998-1999.

In FY 1998-1999 MDCH authorized a Federal Block Grant to GLCMHA to provide Wraparound services. GLCMHA provided these services through a subcontractor. The subcontractor billed GLCMHA for reimbursement through Wraparound facilitation invoices. We reviewed the invoices and determined that GLCMHA reimbursed the subcontractor $7,085 for expenses that were not allowed by the Federal Block Grant contract. These expenses consisted of items for personal client use or on the client's behalf such as clothes and car insurance.

Attachment E of the Federal Block Grant Special Contract Provisions, states, in part:

As mandated by federal public law 102-321, this contract may not be used to:

- *A. Provide inpatient services;*
- *B. Make cash payments to intended recipients of health services, including but not limited to:*
  - *payments to or on behalf of the client that could be interpreted as providing cash to the client,*
  - *purchase of such items as clothing, or vehicles for the client,*
  - *rent payments, mortgage payments, down payments, or other payments that enable the client to purchase a house or other real estate;*
- *C. Purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment;*
- *D. Satisfy any requirement for the expenditure of non-federal funds as a condition for the receipt of federal funds (e.g. medicaid match); or*
- *E. Provide financial assistance to other than a public or nonprofit private entity.*

The MSSSC, Section 8.9 and its attachment 8.9.1, Section 2.4.3 – Row H – MDCH Earned Contracts states, in part,

> *Expenditures entered in this section should include those made by the CMHSP for services or goods or the provision of services as stated in the applicable contractual agreement.*

Adjustments removing $7,085 from MDCH Earned Contracts on both the Revenues and Expenditures pages of the FSR are shown on Schedules G and H. As this overpayment is due directly back to MDCH for the Block Grant Program, $7,085 is also shown as an amount due on Schedule I.

Recommendation

We recommend GLCMHA implement policies and procedures to ensure that only allowable grant expenditures are reported in compliance with grant contract provisions and the MSSSC.

Finding

9. Clubhouse Revenue and Expenditure Reporting Error

GLCMHA did not properly report clubhouse revenue and expenditures in FY 2000-2001, FY 1999-2000, and FY 1998-1999 in compliance with the MSSSC.

GLCMHA's consumers operate a clubhouse that generates revenue from sales of food and beverages. GLCMHA incorrectly reported revenue from the clubhouse as local revenue on the FSR in FY 2000-2001, FY 1999-2000, and FY 1998-1999. Also, GLCMHA did not properly adjust matchable expenditures that were supported by this revenue on the FSR in FY 2000-2001 and FY 1999-2000. The errors resulted in an overstatement of local revenue and an overstatement of MDCH's share of expenditures.

The revenue generated from the clubhouse does not qualify as local revenue as defined in Section 8.3 of the MSSSC. Since the services are provided by GLCMHA's consumers, the revenue is clearly not allowed as local revenue. The MSSSC, Section 8.3.7 – Revenue

Sources for Local Obligation – Other Revenue, describes a potential local revenue source with the exception of revenue generated from services provided by recipients as follows:

> *As long as federal or state funds are not paid to or used by the CMHSP to pay for any costs of the mental health or non-mental health services, revenues in excess of expenditures for CMHSP mental health or non-mental health services provided by persons other than recipients to agencies/businesses other than those identified in Section 8.3.6.*

Since the clubhouse is a service to the consumers, related expenditures should be reported as matchable. Additionally, any related revenue should be reported as " Reimbursements" to ultimately reduce the MDCH obligation. In FY's 2000-2001 and 1999-2000, expenditures were reported as matchable, but the earned revenue was not recorded as " Reimbursements." In FY 1998-1999, expenditures were reported as "Expenditures Not Otherwise Reported" instead of matchable while the earned revenue was not recorded as "Reimbursements."

The MSSSC, Section 8.9 and its Attachment 8.9.1, Section 2.4.3 – Row Instructions – Row L-5 – Reimbursements states,

> *Enter all reimbursements associated with this expenditure category.*

An adjustment for FY 2000-2001 reclassifying $24,427 from Local Revenue to Revenues Not Otherwise Reported on the Revenues page of the FSR is shown on Schedules A and B. An adjustment on the Expenditures page recording the same amount as Other Reimbursements is also shown on Schedule A.

An adjustment for FY 1999-2000 reclassifying $8,074 from Local Revenue to Revenues Not Otherwise Reported on the Revenues page of the FSR is shown on Schedules D and E. An adjustment on the Expenditures page recording the same amount as Other Reimbursements is also shown on Schedule D.

Adjustments for FY 1998-1999 reclassifying $8,192 from Local Revenue to Revenues Not Otherwise Reported on the Revenues page of the FSR and reclassifying $7,686 from Expenditures Not Otherwise Reported to Matchable Expenditures on the Expenditures page are shown on Schedules G and H. An adjustment on the Expenditures page recording the revenue amount as Other Reimbursements is also shown on Schedules G and H.

Recommendation

We recommend GLCMHA implement policies and procedures to ensure that all revenues and expenditures are properly reported in compliance with the MSSSC.

Finding

10. ISF Investment Revenue Reporting Error

GLCMHA did not report investment revenue earned from the Internal Service Fund (ISF) in FY 2000-2001 and FY 1999-2000 in compliance with the MSSSC and OMB Circular A-87.

GLCMHA established an Internal Service Fund for risk reserve. In FY 2000-2001 and FY 1999-2000, GLCMHA reported investment revenue generated from their ISF as Local Revenue - Interest Income. The MSSSC requires that ISF investment revenue be reported as an addition to the ISF and is not available to meet GLCMHA's local obligation.

The MSSSC, Internal Service Fund Technical Requirement (Attachment 8.8.4.1), General Restrictions, Section C states,

> *The CMHSP may invest ISF funds in accordance with statutes regarding investments (e.g. Mental Health Code 330.1205, Sec.205(g)). The earnings from the investment of ISF funds shall be used to fund the risk reserve requirements of the ISF in accordance with OMB Circular A-87, Attachment B, paragraph 25(d)(2).*

OMB Circular A-87, Attachment B, paragraph 25(d)(2) states,

> *Earnings or investment income on reserves must be credited to those reserves.*

We made adjustments to ISF investment revenue on the Revenues page of the FSR. These adjustments have no financial impact on GLCMHA's Matchable Services. For FY 1999-2000, an adjustment for $36,269 reclassifying the ISF investment revenue from Local Revenue to Revenues Not Otherwise Reported is shown in Schedules D and E. For FY 2000-2001, an adjustment for $27,742 removing the ISF investment revenue from Local Revenue is shown on Schedules A and B. Since the $27,742 for FY 2000-2001 had already been added to the Reserve Balances – Planned for Use – Internal Service Fund (line F-2) as a reconciling item between the general ledger and the FSR, this amount was not reclassified into the Revenues Not Otherwise Reported as was done for the FY 1999-2000 adjustment. An adjustment for $36,269 for FY 2000-2001 to increase the Reserve Balances – Planned for Use – Internal Service Fund is also shown on Schedules A and B. This adjustment was made to correct the Reserve Balance – Internal Service Fund by the amount of the ISF investment revenue that should have been reported in FY 1999-2000.

Recommendation

We recommend GLCMHA implement policies and procedures to ensure that all revenues are properly reported in compliance with the MSSSC and OMB Circular A-87.

Finding

11. Improper Payroll Expense Allocation

GLCMHA did not properly allocate payroll costs in compliance with the requirements of OMB Circular A-87 and the MSSSC.

GLCMHA utilized a budgeted staffing plan as its basis of payroll expense allocation. When an employee worked in more than one program area, costs allocated to the various programs were not supported by personnel activity reports or periodic certifications as required by OMB Circular A-87. Generally, the allocations were based on the best guess of the employee's supervisor.

GLCMHA is required to implement the provisions of OMB Circular A-87 related to the allocation of personnel costs. OMB Circular A-87, Attachment B, Section 11. –

Compensation for Personnel Services, Section h. – Support of salaries and wages, states, in part:

> *These standards regarding time distribution are in addition to the standards for payroll documentation…*
>
> *(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*
>
> *(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*
>
> - *(a) more than one Federal award,*
> - *(b) a Federal award and a non-Federal award,*
> - *(c) an indirect cost activity and a direct cost activity,*
> - *(d) two or more indirect activities which are allocated using different allocation bases, or*
> - *(e) an unallowable activity and a direct or indirect cost activity.*
>
> *(5) Personnel activity reports or equivalent documentation must meet the following standards:*
>
> - *(a) They must reflect an after-the-fact distribution of the actual activity of each employee,*
> - *(b) They must account for the total activity for which each employee is compensated,*
> - *(c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
> - *(d) They must be signed by the employee.*

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

The required supporting documentation must be retained for seven years according to Section 4.11 of the MSSSC, which states, in part:

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this Contract in accordance with generally accepted principles of accounting and other procedures specified by the State of Michigan.…The CMHSP shall maintain in a legible manner, via hard copy or electronic storage/imaging, financial and clinical records necessary to fully disclose and document the extent of services provided to recipients. The records shall be retained for a period of seven (7) years from the date of service or termination of service for any reason.

Although our review did not identify any material impropriety in the allocation of payroll costs that would result in a financial adjustment, GLCMHA needs to adhere to the above requirements to ensure that costs are being properly identified and charged to the proper program.

Recommendation

We recommend GLCMHA implement policies and procedures to ensure personnel cost allocations are in compliance with OMB Circular A-87. We also recommend GLCMHA retain documentation supporting their personnel cost allocations in compliance with the requirements in the MSSSC, Section 4.11.

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 2: To assess GLCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practices guidelines.

Conclusion: GLCMHA was generally effective and efficient in establishing and implementing specific policies and procedures, and complying with the best practices guidelines. However, we found exceptions related to the MSSSC financial reporting requirements (findings 1-11), internal service fund assumptions (finding 12), contract management (finding 13), procurement practices (finding 14), and coordination agreements (finding 15).

Finding

12. Unsupported Internal Service Fund Assumptions

GLCMHA did not adequately support the assumptions included in the FY 1997-1998 through FY 2000-2001 analyses used to justify contributions to the Internal Service Fund (ISF) for risk reserve in violation of the MSSSC and OMB Circular A-87.

GLCMHA established an ISF for risk reserve of $150,700 with MDCH General Fund monies by exercising a provision in a FY 1997-1998 MDCH contract amendment. In FY's 1998-1999 and 1999-2000, GLCMHA made contributions of $396,400 and $258,121, respectively, to the ISF for risk reserve based on a provision in Section 8.8.4 of the MSSSC. In FY 2000-2001, the ISF earned $27,742 in interest increasing the fund to $832,963.

Following are the relevant references relating to the establishment of the ISF:

Amendment A to the FY 97 Contract Extension #3 states, in part,

> *The CMHSP may make payments into an Internal Service Fund for the purpose of readiness regarding management of risk in the FY 99 Specialty Services Contract. To be matchable, these payments must comply with the Internal Service Fund Technical Requirement (8.8.4.1) which is attached to and a part of this amendment.*

Section 8.8.4 of the MSSSC states:

The CMHSP may establish an Internal Service Fund (ISF) for risk financing in accordance with the shared risk provisions of this Contract. The requirements of an ISF are attached to this Contract (Attachment 8.8.4.1).

Attachment 8.8.4.1, Internal Service Fund Technical Requirement, General Provisions, states, in part:

C. *When establishing an ISF, the CMHSP may apply any method it considers appropriate to determine the amounts to be charged to the various funds covered by the ISF provided that:*

1. *The total amount charged to the various funds does not exceed the amount of the estimated liability determined pursuant to Governmental Accounting Standards Board (GASB) Statement 10, General Principles of Liability Recognition, or such other authoritative guidance as issued by the American Institute of Certified Public Accountants (AICPA); and*

2. *The estimated liability is computed based on an actuarial method or historical cost information as provided under Office of Management and Budget (OMB) Circular A-87, Attachment B, paragraph 25(d), which is attached to this document and, accordingly, made a part of this Technical Requirement. Under this method, additional charges may be made to various funds that represent a reasonable provision for expected future catastrophic losses."*

D. *Non-compliance with the provisions of GASB Statement No. 10 and OMB Circular A-87 relative to any applicable matter herein will cause the ISF charges to be unallowable for the purposes of the MDCH/CMHSP contract.*

OMB Circular A-87, Attachment B, paragraph 25(d) states, in pertinent part,

…Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions…

Also, the Specialty Community Mental Health Services and Supports Plan Requirements and Technical Information, Section VIII, Financial Management, Risk Reserves, states,

In developing an ISF, the process should consider the following:

A. The ISF must be built upon a methodologically sound projection of risks.

   1. Determine the realistic level of risk (estimated potential liability)

      a. The estimation of risk is a compilation of service utilization scenarios reflective of historical indicators (the highest and lowest state service use in the past few years, community inpatient utilization, high-cost specialized residential, as examples).

      b. What is the probability of significant exceptions given that history?

      c. How well are your Managed Care functions established to mitigate worst case scenarios as stated in items (a) and (b). For example, are your Utilization Management practices sufficient and sound (also need to examine your access, information, and contacting systems and all aspects of your CQI structure).

      d. How do your population trends impact this analysis?

      e. Integrate the information gathered and analyzed in items (a) though (d) in determining the level of risk protection that is necessary. (The likelihood of the dollar amount equaling 7.5% is remote.)

The FY 1997-1998 ISF for risk reserve was improperly established with excess funds from the Fee-for-Service program. GLCMHA did not use an actuarial method or historical cost information to support the establishment of the ISF as required by the Internal Service Fund Technical Requirement.

In FY 1998-1999 and FY 1999-2000, GLCMHA submitted a Risk Management Strategic Plan (RMS) to MDCH, which included the ISF analysis used for both years. The analysis did not have adequately documented historical support.

In 2001, an outside CPA firm prepared a study, using FY 1999-2000 data, that resulted in a "Suggested Internal Service Fund Deposit" of $1,125,840. Instead of the suggested amount, GLCMHA deposited $27,742 to bring the ISF up to $832,963. The study also contained various assumptions with an estimated increase in expenditures of $1,622,923. GLCMHA provided a schedule of amounts associated with each assumption. GLCMHA was unable to provide documented historical data to support the dollar amounts assigned to the various assumptions.

The majority of the assumptions contained in GLCMHA's analyses, though deemed reasonable, were not supported by documented historical data. Consequently, the analyses did not comply with the MSSSC and OMB Circular A-87 as there was no documentation to support that the studies were methodologically sound projections of risks as required by the Specialty Community Mental Health Services and Supports Plan Requirements and Technical Information.

However, GLCMHA ultimately needed an ISF for risk reserve. In FY 2000-2001, GLCMHA used their entire ISF for risk to offset costs that exceeded budgeted funding authorizations in accordance with the shared-risk provisions of the MSSSC. Therefore, no financial adjustment is proposed.

Recommendation:

We recommend GLCMHA perform a biennial analysis of any ISF balance as required by OMB Circular A-87, and ensure any ISF contributions and balance are based on sound actuarial principles using historical experience and reasonable assumptions. We also recommend GLCMHA retain documentation supporting the analysis of the ISF. The documentation must include the assumptions and supporting historical data, and evidence of a methodologically sound projection of risks as required by the Specialty Community Mental Health Services and Supports Plan Requirements and Technical Information.

Finding

13. Contract Management Weaknesses

GLCMHA did not properly manage their contracts in compliance with sound business practices.

The Code of Federal Regulations, Title 42, Part 434 sets forth requirements for contracts. Section 434.6 requires that all contracts must include provisions that define a sound and complete procurement contract. For subcontracts, Part 434 (b) states

> *All subcontracts must be in writing and fulfill the requirements of this part that are appropriate to the service or activity delegated under the subcontract.*

We determined that GLCMHA had internal control weaknesses related to contract management. GLCMHA expends approximately half of their annual budget for contracted services. Effective internal controls related to contracts are an essential component of efficient and effective fiscal management.

In each of the fiscal years under audit, we reviewed significant contracts for key characteristics of an effective subcontracting agreement as follows:

	Number of Contracts Reviewed	Total Value of Contracts Reviewed	Percent of Total Audited Expenditures
FY 2000-2001	8	$4,052,679	19%
FY 1999-2000	12	$4,652,891	24%
FY 1998-1999	8	$3,045,348	18%

GLCMHA was unable to provide an executed contract for five of the 28 contracts requested. In 22 cases, contracts were executed or amended during or after the end of the fiscal year. For the 23 contracts that GLCMHA provided, we identified the following deficiencies:

a. Contract value not clearly stated – 1 contract
b. Number of consumers or units of service not clearly identified – 2 contracts
c. Reimbursement method not indicated – 1 contract

d. Independent audit not required - 12 contracts
e. No provisions for contract monitoring by both parties – 3 contracts
f. Explanation of grievance procedure not included – 11 contracts
g. No provision related to equal opportunity employment – 2 contracts
h. Maintenance of clinical or financial records not addressed – 3 contracts

Recommendation

We recommend GLCMHA implement a master control of contracts and implement policies and procedures to ensure contracts are executed timely for all contracted services. We also recommend GLCMHA review, update, and revise the language and provisions of their contracts to ensure uniformity and completeness.

Finding

14. Improper Procurement Practices

GLCMHA's purchases of software and equipment were not in compliance with the MSSSC, their own procurement policies, and sound business practices.

GLCMHA's purchasing policy requires staff to obtain three quotations (when possible and reasonable) for purchases less than $10,000. The policy requires publicly solicited bids for purchases over $10,000, when exact requirements can be specified. The policy also specifies the circumstances in which competitive and non-competitive negotiation can be used for agency contracts over $200,000.

The MSSSC, Attachment 4.7.6.1.1, Procurement Technical Requirement, generally requires a competitive procurement process. However, under certain circumstances, a non-competitive procurement process is allowed.

We reviewed GLCMHA's procurement process and found that GLCMHA did not adhere to their established purchasing policies related to bidding and procurement of software and equipment. We reviewed 51 separate equipment purchases. In two cases, vehicles were purchased and supported by an appropriate bidding process. In two cases, GLCMHA purchased computers and office furniture and solicited valid bids. In the other 47 tested purchases, GLCMHA a.) did not obtain quotations or sealed bids, as applicable, or b.) did not provide valid support for exceptions to the procurement process, or c.) did obtain quotations but did not purchase the item from the lower priced vendors and did not document reasons for not choosing the lower priced vendors. In addition to not adhering to their own procurement policies, GLCMHA violated the MSSSC by not using a competitive procurement process or documenting the circumstances that allowed a non-competitive procurement process.

Recommendation

We recommend GLCMHA revise and implement policies and procedures to ensure that purchases are made in compliance with the MSSSC, established procurement policies, and sound business practices.

15. Lacking Coordination Agreements

GLCMHA does not have documented coordination agreements with the area agencies as required by the MSSSC.

GLCMHA could not provide documentation of coordination agreements with Multi Purpose Collaborative Bodies and the Schools/Intermediate School Districts. The MSSSC requires coordination agreements with Health Plans, Multi Purpose Collaborative Bodies, Schools/Intermediate School Districts, the Department of Career Development – Rehabilitation Services, Family Independence Agency, Coordinating Agencies – Substance Abuse, and primary health care providers.

The MSSSC, Section 4.9, Coordination, states, in part,

> *The following subsections describe coordination arrangements required by this Contract…*
>
> *4.9.2 Multi Purpose Collaborative Body (MPCB)*

The CMHSP shall be a signatory to the Multi Purpose Collaborative Body (MPCB) collaborative agreement and actively participate as a member of the MPCB.

4.9.3 Schools/Intermediate School Districts (ISD)
The CMHSP shall develop with the Intermediate School District (ISD) a local memorandum of understanding specifying the responsibilities and methods of communication in the coordination and non-duplication of services.

GLCMHA's failure to negotiate all of the required agreements could result in inefficiencies and duplication of services to their consumers.

Recommendation

We recommend GLCMHA obtain all coordination agreements as required by the MSSSC.

MDCH's SHARE OF COSTS AND BALANCE DUE MDCH

Objective 3: To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and to identify any balance due to/from GLCMHA.

Conclusion: MDCH's obligations (excluding the MIChild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments are as follows:

FYE 9/30/1999	FYE 9/30/2000	FYE 9/30/2001
$14,451,343	14,986,698	15,247,799

GLCMHA owes MDCH a balance of $305,217* after considering advances, prior settlements, and other adjustments as summarized below:

FYE 9/30/1999 MDCH Advances in Excess of MDCH Obligation (Schedule I)	$119,802
FYE 9/30/1999 Prior Settlement	(18,969)
FYE 9/30/1998 GF Carryforward	1,994
Due to MDCH for Wraparound Grant (Finding 8)	7,085
FYE 9/30/2000 MDCH Advances in Excess of MDCH Obligation (Schedule F)	8,309
FYE 9/30/2000 Prior Settlement	(3,458)
FYE 9/30/2001 MDCH Advances in Excess of MDCH Obligation (Schedule C)	(534,714)
FYE 9/30/2001 Prior Settlement	725,168
Balance Due to MDCH*	$305,217

* Balance Due includes $102,827 in General Fund lapse from FYE 9/30/1999. GLCMHA must obtain MDCH approval for any redirection of General Funds to create Medicaid savings. If approval is granted, the revised Balance Due to MDCH will be $202,390. Additionally, retention of any Medicaid savings is contingent upon MDCH approval of a Medicaid Savings Reinvestment Plan.

Appendix

Schedule A
Financial Status Report
October 1, 2000 through September 30, 2001

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$2,550,031	$24,427	$2,574,458
B.	Substance Abuse Total	$0	-	$0
C.	Earned Contracts (non DCH) Total	$258,202	-	$258,202
	1 CMH to CMH	126,744	-	126,744
	2 Other	131,458	-	131,458
D.	MI Child - Mental Health	$10,836	-	$10,836
E.	Local Funding Total	$1,688,284	($380,809)	$1,307,475
	1 Special Fund Account (226(a))	316,317	-	316,317
	2 Title XX Replacement	3,565	-	3,565
	3 All Other	1,368,402	(380,809)	987,593
F.	Reserve Balances - Planned for use	$997,948	$36,269	$1,034,217
	1 Carryforward -Section 226(2)(b)(c)	201,254	-	201,254
	2 Internal Service Fund	796,694	36,269	832,963
G.	DCH Earned Contracts Total	$482,534	$0	$482,534
	1 PASARR	391,634	-	391,634
	2 Block Grant for CMH Services	65,900	-	65,900
	3 Prevention	5,000	-	5,000
	4 Alzheimer's Grant	20,000	-	20,000
H.	Gross Medicaid Total	$10,371,361	$0	$10,371,361
	1 Medicaid - Specialty Managed Care	10,182,858	-	10,182,858
	2 Children's Waiver	188,503	-	188,503
I.	Reimbursements Total	$207,566	$0	$207,566
	1 1st and 3rd Party	207,069	-	207,069
	2 SSI	497	-	497
J.	State General Funds Total	$4,517,161	$13,066	$4,530,227
	1 Formula Funding	3,450,357	13,066	3,463,423
	2 Categorical Funding	419,034	-	419,034
	3 State Services Base	647,770	-	647,770
K.	Grand Total Revenues	$21,083,923	($307,047)	$20,776,876
L.	Estimated MDCH Obligation (G+H+J)	$15,371,056	13,066	$15,384,122

Schedule A
Financial Status Report
October 1, 2000 through September 30, 2001

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$21,372,933	($524,483)	$20,848,450
B.	Expenditures Not Otherwise Reported	$2,916,100	($328,640)	$2,587,460
C.	Substance Abuse Total	$0	$0	$0
D.	Earned Contracts (Non MDCH) Total	$258,202	$0	$258,202
	1 CMH to CMH	126,744	-	126,744
	2 Other Earned Contracts	131,458	-	131,458
E.	MI Child - Mental Health	$10,836	$0	$10,836
F.	Local Total	$66,682	$0	$66,682
	1 Local Cost for State Provided Services	66,682		66,682
G.	Expenditures From Reserve Balances	$201,254	$0	$201,254
	1 Carryforward - Sec 226(2)(b)(c)	201,254	-	201,254
H.	MDCH Earned Contracts Total	$482,534	$0	$482,534
	1 PASARR	391,634	-	391,634
	2 Block Grant for CMH Services	65,900	-	65,900
	3 Prevention	5,000	-	5,000
	4 Alzheimer's Grant	20,000	-	20,000
I.	Matchable Services (A-(B through H))	$17,437,325	($195,843)	$17,241,482
J.	Payments to MDCH for State Services	$769,608	-	$769,608

Schedule A
Financial Status Report
October 1, 2000 through September 30, 2001

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K.	Specialty Managed Care Service Total	$11,393,565	$450,343	$11,843,908
1	100% MDCH Matchable Services	5,004,606	298,331	5,302,937
2	All SSI and Other Reimbursements	207,566	-	207,566
3	Net MDCH Share for 100 % Services (K1-K2)	4,797,040	298,331	5,095,371
4	90/10 Matchable Services	6,388,959	152,012	6,540,971
5	Medicaid Federal Share	3,589,317	85,401	3,674,718
6	Other Reimbursements	-	-	-
7	10% Local Match Funds	279,964	6,661	286,625
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	2,519,678	59,950	2,579,628
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	10,906,035	443,682	11,349,717
L.	GF Categorical and Formula Services Total	$5,085,649	($646,186)	$4,436,499
1	100% MDCH Matchable Services	682,446	244,521	926,967
2	All SSI and Other Reimbursements	-	-	-
3	Net GF and Formula for 100% Services (L1-L2)	682,446	244,521	926,967
4	90/10 Matchable Services	4,403,203	(890,707)	3,512,496
5	Reimbursements	-	24,427	24,427
6	10% Local Match Funds	440,320	(91,513)	348,807
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	3,962,883	(823,621)	3,139,262
8	Total MDCH GF and Formula (L3+L7)	4,645,329	(579,100)	4,066,229
M.	Children's Waiver - Total	$188,503	$0	$188,503
N.	Unobligated Spending Authority Total	$0	$0	$0
O.	Total Local Match Funds (K7+L6)	$720,284	($84,852)	$635,432
P.	Total MDCH Share of Expenditures (J+K9+L8+M4)	$16,509,475	($135,418)	$16,374,057

Schedule B

Explanation of Audit Adjustments

October 1, 2000 through September 30, 2001

Revenues

Revenues Not Otherwise Reported	**$24,427**
To reclassify clubhouse program receipts. (finding 9)	
Local Funding Total	**(380,809)**
($328,640) to remove Local Revenue - Red Mill Building. (finding 5)	
($24,427) to reclassify clubhouse program receipts. (finding 9)	
($27,742) to reclassify ISF for risk reserve investment revenue. (finding 10)	
Reserve Balances – Planned for Use – Internal Service Fund	**36,269**
To adjust for FY 1999-2000 ISF investment revenue. (finding 10)	
State General Funds Total	**13,066**
To increase by the amount State General Fund Authorizations were overpaid.	

Expenditures

Gross Total Expenditures	**(524,483)**
($122,121) to adjust to underlying Red Mill Building costs. (finding 3)	
($311,575) to decrease by the amount of disallowed Red Mill capital assets. (finding 5)	
$17,478 to increase by the amount of depreciation attributable to capitalized Red Mill assets. (finding 5)	

Schedule B – FY 2000-2001 (continued)

($130,292) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$158,105 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($26,055) to remove principal portion of payments on loan for office furniture. (finding 6)

($75,635) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($34,388) to remove payments to day treatment program services in excess of the contract maximum. (finding 7c)

Expenditures Not Otherwise Reported **(328,640)**

($17,065) to reclassify matchable expenditures related to the Red Mill Building. (finding 5)

($311,575) to decrease by the amount of capital expenditures relating to the Red Mill Building. (finding 5)

Matchable Services **(195,843)**

($122,121) to adjust to underlying Red Mill Building costs. (finding 3)

$17,065 to reclassify matchable expenditures related to the Red Mill Building. (finding 5)

$17,478 to increase by the amount of depreciation attributable to capitalized Red Mill assets. (finding 5)

Schedule B – FY 2000-2001 (continued)

($130,292) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$158,105 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($26,055) to remove principal portion of payments on loan for office furniture. (finding 6)

($75,635) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($34,388) to remove payments to day treatment program services in excess of the contract maximum. (finding 7c)

Specialty Managed Care Service Total	**450,343**

($111,927) to adjust to provider's supporting documentation. (finding 1)

$729,549 to correct allocation of Managed Care Administration costs. (finding 1)

($83,604) to adjust to underlying Red Mill Building costs. (finding 3)

$11,682 to reclassify matchable expenditures related to the Red Mill Building. (finding 5)

$11,965 to increase by the amount of depreciation attributable to capitalized Red Mill assets. (finding 5)

($89,198) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

Schedule B – FY 2000-2001 (continued)

$108,238 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($17,837) to remove principal portion of payments on loan for office furniture. (finding 6)

($75,635) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($32,890) to remove payments to day treatment program services in excess of the contract maximum. (finding 7c)

GF Categorical and Formula Services Total **(646,186)**

$111,927 to adjust to provider's supporting documentation. (finding 1)

($729,549) to correct allocation of Managed Care Administration costs. (finding 1)

($38,517) to adjust to underlying Red Mill Building costs. (finding 3)

$5,383 to reclassify matchable expenditures relating to the Red Mill Building. (finding 5)

$5,513 to increase by the amount of depreciation attributable to capitalized Red Mill assets. (finding 5)

($41,094) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$49,867 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

Schedule B – FY 2000-2001 (continued)

($8,218) to remove principal portion of payments on loan for office furniture. (finding 6)

($1,498) to remove payments to day treatment program services in excess of the contract maximum. (finding 7c)

GF Categorical and Formula Services – Reimbursements	**24,427**

To offset by clubhouse program receipts. (finding 9)

Schedule C
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/01

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Savings or Carryforward	Total MDCH Share
A. Maintenance of Effort - Expenditures					
1 OBRA Active Treatment	$140,194	$105,846	$34,348	$0	$140,194
2 OBRA Residential	975,604	849,751	125,853	-	975,604
3 Residential Direct Care Wage Increase #2 - 100% MOE	169,718	156,650	13,068	-	169,718
4 Total	$1,285,516	$1,112,247	$173,269	$0	$1,285,516
5 Maintenance of Effort - Lapse					$0

B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 OBRA Active Treatment	$140,194	75.50%	24.50%	$105,846	$34,348
2 OBRA Residential	975,604	87.10%	12.90%	849,751	125,853
3 Direct Care Wage Increase #2 - 100% MOE	169,718	92.30%	7.70%	156,650	13,068
4 Total	$1,285,516			$1,112,247	$173,269

II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense
A. Total - Specialized Managed Care	$10,182,858	$11,349,717
B. Maintenance of Effort - Summary	1,112,247	1,112,247
C. Net Specialized Managed Care (A-B)	$9,070,611	$10,237,470

III. State/General Fund Formula Funding A. GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense
1 State Managed Services	$647,770	$769,608
2 MDCH Risk Authorization - MDCH Approved for Use	-	-
3 Community Managed Services	3,869,391	4,066,229
4 Total State and Community Programs - GF/Formula Funding	$4,517,161	$4,835,837
B. Maintenance of Effort - Summary	$173,269	$173,269
C. Categorical, Special And Designated Funds		
1 Respite Grant (Tobacco Tax)	$83,000	$83,000
2 Other	336,034	336,034
3 Total Categorical, Special and Designated Funds	$419,034	$419,034
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$3,924,858	$4,243,534

Schedule C
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/01

	Specialized Managed Care	Formula Funds
IV. Shared Risk Arrangement		
A. Operating Budget - Exclude MOE and Categorical Funding	$9,070,611	$3,924,858
B. MDCH Share - Exclude MOE and Categorical Funding	10,237,470	4,243,534
D. Surplus (Deficit)	($1,166,859)	($318,676)
E. Risk Band		
1 Shared Risk - CMH Portion		
Risk Band #1 Liability - CMH Portion	$453,531	$196,243
Risk Band #2 Liability - CMH Portion	226,765	61,216
Total Risk - CMH Portion	$680,296	$257,459
2 Shared Risk - MDCH Portion		
Risk Band #2 Liability - MDCH Portion	$226,765	$61,216
Risk Band #3 Liability - MDCH Portion	259,798	-
Total Risk - MDCH Portion	$486,563	$61,216

V. Cash Settlement	MDCH Share	Approved Savings or Carryforward	MDCH Risk	Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	$10,237,470	($1,166,859)	$486,563	$9,557,174	
2 GF/Formula Funding (Net of Categorical and MOE)	4,243,534	(318,676)	61,216	3,986,074	
3 MOE Specialty Managed Care MDCH Obligation	1,112,247	-	-	1,112,247	
4 MOE GF/Formula Funding MDCH Obligation	173,269	-	-	173,269	
5 Categorical - MDCH Obligation	419,034	-	-	419,034	
6 Total - MDCH Obligation					$15,247,799
B. Advances - Prepayments					
1 Specialized Managed Care				$10,182,858	
2 GF/Formula Funding - (Include MDCH Risk Authorization)				3,463,423	
3 Purchase of Services				647,770	
4 Categorical Funding				419,034	
5 Total Prepayments					$14,713,085
C. Balance Due MDCH					(534,714)
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				$769,608	
Actual Payments to MDCH				769,608	
Balance Due MDCH					-
E. Net Balance Due MDCH					($534,714)
Prior Settlement					725,168
Balance Due to MDCH					$190,454

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$1,595,944	$44,343	$1,640,287
B.	Substance Abuse Total	$0	-	$0
C.	Earned Contracts (non DCH) Total	$297,736	$0	$297,736
1	CMH to CMH	208,406	-	208,406
2	Other	89,330	-	89,330
D.	MI Child - Mental Health	$7,103	-	$7,103
E.	Local Funding Total	$1,336,355	($44,343)	$1,292,012
1	Special Fund Account (226(a))	270,169	-	270,169
2	Title XX Replacement	3,565	-	3,565
3	All Other	1,062,621	(44,343)	1,018,278
F.	Reserve Balances - Planned for use	$371,652	$121,582	$493,234
1	Carryforward -Section 226(2)(b)(c)	121,652	121,582	243,234
2	Internal Service Fund	250,000	-	250,000
G.	DCH Earned Contracts Total	$394,748	$0	$394,748
1	PASARR	324,795	-	324,795
2	Block Grant for CMH Services	48,995	-	48,995
3	Prevention	15,000	-	15,000
4	HUD Shelter Plus Care	5,958	-	5,958
H.	Gross Medicaid Total	$10,680,827	$0	$10,680,827
1	Medicaid - Specialty Managed Care	10,500,683	-	10,500,683
2	Children's Waiver	180,144	-	180,144
I.	Reimbursements Total	$187,311	$0	$187,311
1	1st and 3rd Party	186,438	-	186,438
2	SSI	873	-	873
J.	State General Funds Total	$4,486,015	$8,309	$4,494,324
1	Formula Funding	3,773,121	8,309	3,781,430
2	Categorical Funding	419,034	-	419,034
3	State Services Base	289,103	-	289,103
4	DCH Risk Authorization	4,757	-	4,757
K.	Grand Total Revenues	$19,357,691	$129,891	$19,487,582
L.	Estimated MDCH Obligation (G+H+J)	$15,561,590	$8,309	$15,569,899

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$19,190,092	($267,210)	$18,922,882
B.	Expenditures Not Otherwise Reported	$1,525,158	$0	$1,525,158
C.	Substance Abuse Total	$0	$0	$0
D.	Earned Contracts (Non MDCH) Total	$297,736	$0	$297,736
	1 CMH to CMH	208,406	-	208,406
	2 Other Earned Contracts	89,330	-	89,330
E.	MI Child - Mental Health	$7,103	$0	$7,103
F.	Local Total	$46,788	$0	$46,788
	1 Local Cost for State Provided Services	46,788		46,788
G.	Expenditures From Reserve Balances	$371,652	$121,582	$493,234
	1 Carryforward - Sec 226(2)(b)(c)	121,652	121,582	243,234
	2 Internal Service Fund	250,000		250,000
H.	MDCH Earned Contracts Total	$394,748	$0	$394,748
	1 PASARR	324,795	-	324,795
	2 Block Grant for CMH Services	48,995	-	48,995
	3 Prevention	15,000	-	15,000
	4 HUD Shelter Plus Care	5,958	-	5,958
I.	Matchable Services (A-(B through H))	$16,546,907	($388,792)	$16,158,115
J.	Payments to MDCH for State Services	$641,496	-	$641,496

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K.	Specialty Managed Care Service Total	$11,882,337	($230,956)	$11,651,381
1	100% MDCH Matchable Services	4,333,812	315,981	4,649,793
2	All SSI and Other Reimbursements	170,004	-	170,004
3	Net MDCH Share for 100 % Services (K1-K2)	4,163,808	315,981	4,479,789
4	90/10 Matchable Services	7,548,525	(546,937)	7,001,588
5	Medicaid Federal Share	4,076,633	(301,417)	3,775,216
6	Other Reimbursements	151,260	-	151,260
7	10% Local Match Funds	332,063	(24,552)	307,511
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	2,988,569	(220,968)	2,767,601
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	11,229,010	(206,404)	11,022,606
L.	GF Categorical and Formula Services Total	$3,780,134	($157,836)	$3,622,298
1	100% MDCH Matchable Services	359,630	273,997	633,627
2	All SSI and Other Reimbursements	16,434	-	16,434
3	Net GF and Formula for 100% Services (L1-L2)	343,196	273,997	617,193
4	90/10 Matchable Services	3,420,504	(431,833)	2,988,671
5	Reimbursements	48,120	8,074	56,194
6	10% Local Match Funds	337,238	(43,991)	293,248
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	3,035,146	(395,916)	2,639,230
8	Total MDCH GF and Formula (L3+L7)	3,378,342	(121,919)	3,256,423
M.	Children's Waiver - Total	$242,940	$0	$242,940
N.	Unobligated Spending Authority Total	$0	$0	$0
O.	Total Local Match Funds (K7+L6)	$669,301	($68,543)	$600,759
P.	Total MDCH Share of Expenditures (J+K9+L8+M4)	$15,491,788	($328,323)	$15,163,465

Schedule E

Explanation of Audit Adjustments

October 1, 1999 through September 30, 2000

Revenues

Revenues Not Otherwise Reported	**$44,343**
$8,074 to increase by clubhouse program receipts. (finding 9)	
$36,269 to reclassify ISF for risk reserve investment revenue. (finding 10)	
Local Funding Total	**(44,343)**
($8,074) to decrease by clubhouse program receipts. (finding 9)	
($36,269) to reclassify ISF for risk reserve investment revenue. (finding 10)	
Reserve Balances – Planned for Use	**121,582**
To increase by the change in FY 1998-1999 General Fund Carryforward after audit adjustments.	
State General Funds Total	**8,309**
To increase by the amount State General Fund Authorizations were overpaid.	

Expenditures

Gross Total Expenditures	**(267,210)**
($131,998) to remove unallowable retirement pension expense related to early retirement enhanced benefit package. (finding 2)	
($186,024) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)	

Schedule E – FY 1999-2000 (continued)

$126,077 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($39,735) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($35,530) to remove payments for transportation services in excess of contract maximum. (finding 7b)

Expenditures From Reserve Balances	**121,582**

To increase by the change in FY 1998-1999 General Fund Carryforward after audit adjustments.

Matchable Services	**(388,792)**

($131,998) to remove unallowable retirement pension expense related to early retirement enhanced benefit package. (finding 2)

($121,582) to decrease by the change in FY 1998-1999 General Fund Carryforward after audit adjustments.

($186,024) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$126,077 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($39,735) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($35,530) to remove payments for transportation services in excess of contract maximum. (finding 7b)

Specialty Managed Care Service Total **(230,956)**

($21,246) to adjust to provider's supporting documentation. (finding 1)

($99,962) to remove unallowable retirement pension expense related to early retirement enhanced benefit package. (finding 2)

($140,875) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$95,477 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($39,735) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($24,615) to remove payments for transportation services in excess of contract maximum. (finding 7b)

GF Categorical and Formula Services Total **(157,836)**

($121,582) to decrease by the change in FY 1998-1999 General Fund Carryforward after audit adjustments.

($32,036) to remove unallowable retirement pension expense related to early retirement enhanced benefit package. (finding 2)

$21,246 to adjust to provider's supporting documentation. (finding 1)

Schedule E – FY 1999-2000 (continued)

($45,149) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$30,600 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($10,915) to remove payments for transportation services in excess of contract maximum. (finding 7b)

GF Categorical and Formula Services – Reimbursements **8,074**

To offset by clubhouse program receipts. (finding 9)

Schedule F
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/00

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A. Maintenance of Effort - Expenditures					
1 OBRA Active Treatment	$140,194	$98,290	$41,904	$0	$140,194
2 OBRA Residential	975,604	975,604	-	-	975,604
3 Residential Direct Care Wage Increase #1 - 100% MOE	182,970	182,970	-	-	182,970
4 Residential Direct Care Wage Increase #2 - 100% MOE	169,718	169,718	-	-	169,718
5 Total	$1,468,486	$1,426,582	$41,904	$0	$1,468,486
6 Maintenance of Effort - Lapse					$0

B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 OBRA Active Treatment	$140,194	70.11%	29.89%	$98,290	$41,904
2 OBRA Residential	975,604	100.00%	0.00%	975,604	-
3 Residential Direct Care Wage Increase #1 - 100% MOE	182,970	100.00%	0.00%	182,970	-
4 Residential Direct Care Wage Increase #2 - 100% MOE	169,718	100.00%	0.00%	169,718	-
5 Total	$1,468,486			$1,426,582	$41,904

II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense
A. Total - Specialized Managed Care	$10,500,683	$11,022,606
B. Maintenance of Effort - Summary	1,426,582	1,426,582
C. Net Specialized Managed Care (A-B)	$9,074,101	$9,596,024

III. State/General Fund Formula Funding		
A. GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense
1 State Managed Services	$289,103	$641,496
2 MDCH Risk Authorization - MDCH Approved for Use	4,757	4,757
3 Community Managed Services	4,192,155	3,251,666
4 Total State and Community Programs - GF/Formula Funding	$4,486,015	$3,897,919
B. Maintenance of Effort - Summary	$41,904	$41,904
C. Categorical, Special And Designated Funds		
1 Respite Grant (Tobacco Tax)	$83,000	$83,000
2 Other	336,034	336,034
3 Total Categorical, Special and Designated Funds	$419,034	$419,034
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$4,025,077	$3,436,981

Schedule F
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/00

	Specialized Managed Care	Formula Funds
IV. Shared Risk Arrangement		
A. Operating Budget - Exclude MOE and Categorical Funding	$9,074,101	$4,025,077
B. MDCH Share - Exclude MOE and Categorical Funding	9,596,024	3,436,981
C. Redirect General Fund	386,842	(386,842)
D. Surplus (Deficit)	($135,081)	$201,254
E. Risk Band - 5% of Operating Budget (A x 5%)	$453,705	$201,254

V. Cash Settlement	MDCH Share	Approved Savings or Carryforward	Redirected Savings	Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	$9,596,024	($135,081)	($386,842)	$9,074,101	
2 GF/Formula Funding (Net of Categorical and MOE)	3,436,981	201,254	386,842	4,025,077	
3 MOE Specialty Managed Care MDCH Obligation	1,426,582	-	-	1,426,582	
4 MOE GF/Formula Funding MDCH Obligation	41,904	-	-	41,904	
5 Categorical - MDCH Obligation	419,034	-	-	419,034	
6 Total - MDCH Obligation					$14,986,698
B. Advances - Prepayments					
1 Specialized Managed Care				$10,500,683	
2 GF/Formula Funding - (Include MDCH Risk Authorization)				3,786,187	
3 Purchase of Services				289,103	
4 Categorical Funding				419,034	
5 Total Prepayments					$14,995,007
C. Balance Due MDCH					8,309
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				$641,496	
Actual Payments to MDCH				641,496	
Balance Due MDCH					-
E. Net Balance Due MDCH					$8,309
Prior Settlement					(3,458)
Balance Due to MDCH					$4,851

Schedule G
Financial Status Report
October 1, 1998 through September 30, 1999

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$261,952	$8,192	$270,144
B.	Substance Abuse Total	$0	$0	$0
C.	Earned Contracts (non DCH) Total	$152,167	$0	$152,167
1	CMH to CMH	132,830	-	132,830
2	Other	19,337	-	19,337
D.	MI Child - Mental Health	$3,390	$0	$3,390
E.	Local Funding Total	$1,303,532	($8,192)	$1,295,340
1	Special Fund Account (226(a))	300,545	-	300,545
2	Title XX Replacement	7,130	-	7,130
3	All Other	995,857	(8,192)	987,665
F.	Reserve Balances - Planned for use	$187,970	$0	$187,970
1	Carryforward -Section 226(2)(b)(c)	187,970	-	187,970
G.	DCH Earned Contracts Total	$332,519	($7,085)	$325,434
1	PASARR	279,222	-	279,222
2	Block Grant for CMH Services	42,155	(7,085)	35,070
3	Prevention	11,142	-	11,142
H.	Gross Medicaid Total	$10,362,702	$0	$10,362,702
1	Medicaid - Specialty Managed Care	10,196,150	-	10,196,150
2	Children's Waiver	166,552	-	166,552
I.	Reimbursements Total	190,550	-	190,550
1	SSI	190,550	-	190,550
J.	State General Funds Total	$4,379,673	($4,678)	$4,374,995
1	Formula Funding	3,721,128	(4,678)	3,716,450
2	Categorical Funding	419,034	-	419,034
3	State Services Base	227,378	-	227,378
4	DCH Risk Authorization	12,133	-	12,133
K.	Grand Total Revenues	$17,174,455	($11,763)	$17,162,692
L.	Estimated MDCH Obligation (G+H+J)	$15,074,894	($11,763)	$15,063,131

Schedule G
Financial Status Report
October 1, 1998 through September 30, 1999

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$16,847,693	($384,584)	$16,463,109
B.	Expenditures Not Otherwise Reported	$454,774	($7,686)	$447,088
C.	Substance Abuse Total	$0	$0	$0
D.	Earned Contracts (Non MDCH) Total	$152,167	$0	$152,167
1	CMH to CMH	132,830	-	132,830
2	Other Earned Contracts	19,337	-	19,337
E.	MI Child - Mental Health	$3,390	$0	$3,390
F.	Local Total	$19,700	$0	$19,700
1	Local Cost for State Provided Services	19,700		19,700
G.	Expenditures From Reserve Balances	$185,976	$0	$185,976
1	Carryforward - Sec 226(2)(b)(c)	185,976	-	185,976
2	Other	-		-
H.	MDCH Earned Contracts Total	$332,519	($7,085)	$325,434
1	PASARR	279,222	-	279,222
2	Block Grant for CMH Services	42,155	(7,085)	35,070
3	Prevention	11,142	-	11,142
I.	Matchable Services (A-(B through H))	$15,699,167	($369,813)	$15,329,354
J.	Payments to MDCH for State Services	$213,864	-	$213,864

Schedule G
Financial Status Report
October 1, 1998 through September 30, 1999

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K.	Specialty Managed Care Service Total	$10,771,571	($48,308)	$10,723,263
1	100% MDCH Matchable Services	4,233,721	286,668	4,520,389
2	All SSI and Other Reimbursements	182,110	-	182,110
3	Net MDCH Share for 100 % Services (K1-K2)	4,051,611	286,668	4,338,279
4	90/10 Matchable Services	6,537,850	(334,976)	6,202,874
5	Medicaid Federal Share	3,446,755	(176,599)	3,270,156
6	Other Reimbursements	69,181	(75,267)	(6,086)
7	10% Local Match Funds	302,191	(8,311)	293,880
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	2,719,723	(74,799)	2,644,924
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	10,218,089	35,270	10,253,359
L.	GF Categorical and Formula Services Total	$4,464,241	($321,505)	$4,142,736
1	100% MDCH Matchable Services	435,871	14,810	450,681
2	All SSI and Other Reimbursements	17,604	-	17,604
3	Net GF and Formula for 100% Services (L1-L2)	418,267	14,810	433,077
4	90/10 Matchable Services	4,028,370	(336,315)	3,692,055
5	Reimbursements	48,040	(31,328)	16,712
6	10% Local Match Funds	398,033	(30,499)	367,534
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	3,582,297	(274,488)	3,307,809
8	Total MDCH GF and Formula (L3+L7)	4,000,564	(259,678)	3,740,886
M.	Children's Waiver - Total	$249,491	$0	$249,491
N.	Unobligated Spending Authority Total	$12,133	$0	$12,133
O.	Total Local Match Funds (K7+L6)	$700,224	($38,810)	$661,414
P.	Total MDCH Share of Expenditures (J+K9+L8+M4)	$14,682,008	($224,408)	$14,457,600

Schedule H

Explanation of Audit Adjustments

October 1, 1998 through September 30, 1999

Revenues	
Revenues Not Otherwise Reported	**$8,192**
To reclassify clubhouse program receipts. (finding 9)	
Local Funding Total	**(8,192)**
To reclassify by clubhouse program receipts. (finding 9)	
DCH Earned Contracts	**(7,085)**
To remove unearned Wraparound grant revenue. (finding 8)	
State General Funds Total	**(4,678)**
To decrease by the amount State General Fund Authorizations were underpaid.	
Expenditures	
Gross Total Expenditures	**(384,584)**
($403,665) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)	
$66,756 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)	
($32,695) to disallow overpayment for community psychiatric inpatient services. (finding 7a)	
($3,699) to remove payments for transportation services in excess of the contract maximum. (finding 7b)	

Schedule H – FY 1998-1999 (continued)

($4,196) to remove payments for day treatment program services in excess of the contract maximum. (finding 7c)

($7,085) to remove unallowable Wraparound grant expenditures. (finding 8)

Expenditures Not Otherwise Reported	
To decrease by clubhouse program costs. (finding 9)	**(7,686)**
MDCH Earned Contracts & Designated Funds	**(7,085)**
To remove unallowable Wraparound grant expenditures. (finding 8)	
Matchable Services	**(369,813)**

($403,665) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$66,756 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($32,695) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($3,699) to remove payments for transportation services in excess of the contract maximum. (finding 7b)

($4,196) to remove payments for day treatment program services in excess of the contract maximum. (finding 7c)

$7,686 to include clubhouse program costs. (finding 9)

Specialty Managed Care Services **(48,308)**

$234,328 to adjust to provider's supporting documentation. (finding 1)

($291,596) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$48,223 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($32,695) to disallow overpayment for community psychiatric inpatient services. (finding 7a)

($2,594) to remove payments for transportation services in excess of the contract maximum. (finding 7b)

($3,974) to remove payments for day treatment program services in excess of the contract maximum. (finding 7c)

GF Categorical and Formula Services Total **(321,505)**

($234,328) to adjust to provider's supporting documentation. (finding 1)

($112,069) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 6)

$18,533 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 6)

($1,105) to remove payments for transportation services in excess of the contract maximum. (finding 7b)

Schedule H – FY 1998-1999 (continued)

($222) to remove payments for day treatment program services in excess of the contract maximum. (finding 7c)

$7,686 to include clubhouse program costs. (finding 9)

Specialty Managed Care Services – Other Reimbursements **(75,267)**
To reverse interest revenue offset. (finding 4)

GF Categorical and Formula Services – Other Reimbursements **(31,328)**
($39,520) to reverse interest revenue offset. (finding 4)

$8,192 to offset by clubhouse program revenue. (finding 9)

Schedule I
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/99

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A. Maintenance of Effort - Expenditures					
1 OBRA Active Treatment	$140,194	$68,631	$71,563	$0	$140,194
2 OBRA Residential	975,604	905,171	-	48,780	953,951
3 Residential Direct Care Wage Increase #1 - 100% MOE	182,970	182,970	-	-	182,970
4 Residential Direct Care Wage Increase #2 - 100% MOE	84,859	84,859	-	-	84,859
5 Total	$1,383,627	$1,241,631	$71,563	$48,780	$1,361,974
6 Maintenance of Effort - Lapse					$21,653

B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 OBRA Active Treatment	$140,194	48.95%	51.05%	$68,631	$71,563
2 OBRA Residential	975,604	100.00%	0.00%	975,604	-
3 Residential Direct Care Wage Increase #1 - 100% MOE	182,970	100.00%	0.00%	182,970	-
4 Residential Direct Care Wage Increase #2 - 100% MOE	84,859	100.00%	0.00%	84,859	-
5 Total	$1,383,627			$1,312,064	$71,563

II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense
A. Total - Specialized Managed Care	$10,196,150	$10,253,359
B. Maintenance of Effort - Summary	1,312,064	1,241,631
C. Net Specialized Managed Care (A-B)	$8,884,086	$9,011,728

III. State/General Fund Formula Funding		
A. GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense
1 State Managed Services	$227,378	$213,864
2 MDCH Risk Authorization - MDCH Approved for Use	12,133	12,133
3 Community Managed Services	4,140,162	3,728,753
4 Total State and Community Programs - GF/Formula Funding	$4,379,673	$3,954,750
B. Maintenance of Effort - Summary	$71,563	$71,563
C. Categorical, Special And Designated Funds		
1 Respite Grant (Tobacco Tax)	$83,000	$83,000
2 Other (Birchwood)	336,034	336,034
3 Total Categorical, Special and Designated Funds	$419,034	$419,034
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$3,889,076	$3,464,153

Schedule I
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/99

	Specialized Managed Care	Formula Funds
IV. Shared Risk Arrangement		
A. Operating Budget - Exclude MOE and Categorical Funding	$8,884,086	$3,889,076
B. MDCH Share - Exclude MOE and Categorical Funding	9,011,728	3,464,153
C. Redirect General Fund	127,642	(127,642)
D. Surplus (Deficit)	$0	$297,281
E. Risk Band - 5% of Operating Budget (A x 5%)	$444,204	$194,454

V. Cash Settlement	MDCH Share	Approved Savings or Carryforward	Redirected Savings	Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	$9,011,728	$0	($127,642)	$8,884,086	
2 GF/Formula Funding (Net of Categorical and MOE)	3,464,153	194,454	127,642	3,786,249	
3 MOE Specialty Managed Care MDCH Obligation	1,241,631	48,780	-	1,290,411	
4 MOE GF/Formula Funding MDCH Obligation	71,563	-	-	71,563	
5 Categorical - MDCH Obligation	419,034	-	-	419,034	
6 Total - MDCH Obligation					$14,451,343
B. Advances - Prepayments					
1 Specialized Managed Care				$10,196,150	
2 GF/Formula Funding - (Include MDCH Risk Authorization)				3,728,583	
3 Purchase of Services				227,378	
4 Categorical Funding				419,034	
5 Total Prepayments					$14,571,145
C. Balance Due MDCH					119,802
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				$213,864	
Actual Payments to MDCH				183,720	
Balance Due MDCH					30,144
E. Net Balance Due MDCH					$149,946
FY 97-98 GF Carryforward					1,994
Prior Settlement					(49,113)
Due to MDCH Wraparound Grant (Finding 8)					7,085
Balance Due to MDCH				(A)	$109,912

(A) Included in this balance is $102,827 in General Fund lapse. The MDCH program office must approve any redirection to create Medicaid savings. Further, retention of any Medicaid savings is contingent upon MDCH approval of a Medicaid Savings Reinvestment Plan.

Corrective Action Plan

Finding No. 1

Reference: Page 4

Finding: Errors in Reported Cost Allocation

GLCMHA did not correctly report the allocation of costs for Medicaid and General Fund services on their FY 2000-2001, FY 1999-2000, and FY 1998-1999 FSRs.

Recommendation: Implement policies and procedures to ensure accurate cost allocations in compliance with the MSSSC, applicable regulations, and sound business practices.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they refined their procedures for ensuring that costs are accurately allocated in compliance with the MSSSC, applicable regulations, and sound business practices. GLCMHA deployed a provider-based system in FY 2002/2003 for the entire PIHP operation, which is tested and adjusted semi-annually.

Anticipated Completion Date: GLCMHA stated that this is already completed.

MDCH Response: None.

Corrective Action Plan

Finding No. 2

Reference: Page 6

Finding: Unallowable Pension Expense

GLCMHA did not exercise sound business practice in compliance with Office of Management and Budget Circular A-87 (OMB Circular A-87) when they provided an enhanced early retirement benefits package in FY 1999-2000.

Recommendation: Implement policies and procedures to ensure all expenditures are in compliance with the MSSSC and applicable regulations, and the board and executive management act with prudence and sound business practices in exercising their fiduciary responsibilities.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that an individual who is an independent party from MERS will evaluate all expenditures regarding pension plans. This evaluation will be performed whenever requested by the union.

Anticipated Completion Date: GLCMHA stated that this is already completed.

MDCH Response: None.

Corrective Action Plan

Finding No. 3

Reference: Page 8

Finding: Unallowable Less-Than-Arms-Length Lease Payments

GLCMHA reported rent expense paid under a less-than-arms-length lease on the FY 2000-2001 FSR, which was not in compliance with OMB Circular A-87.

Recommendation: Include as rental expense on the FSR only the underlying costs of the Foundation for Mental Health Grand Traverse/Leelanau, instead of the rent paid, to comply with OMB Circular A-87 requirements.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they accept this finding and have refined their procedures for ensuring that they report only the underlying costs instead of rent on the less-than-arms-length lease. GLCMHA will be claiming depreciation and interest expense for Medicaid on the Traverse City building located at 105 Hall Street. They will also use a 40-year depreciation schedule beginning in January of 2001.

Anticipated Completion Date: GLCMHA stated that this was already completed.

MDCH Response: None.

Corrective Action Plan

Finding No. 4

Reference: Page 10

Finding: Interest Revenue Reporting Error

GLCMHA did not report interest revenue on the FSR for FY 1998-1999 in compliance with the MSSSC.

Recommendation: Implement policies and procedures to ensure interest revenue is reported in compliance with the MSSSC.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that interest revenue is reported as local revenue with each closeout. GLCMHA clarified their instructions and are consistently reporting interest revenue properly as local revenue.

Anticipated Completion Date: GLCMHA state that this was already completed on October 1, 2002.

MDCH Response: None.

Corrective Action Plan

Finding No. 5

Reference: Page 11

Finding: Improper Reporting of Red Mill Building Capital Purchases

GLCMHA did not report purchases of equipment, moving costs, and building improvements on the FY 2000-2001 FSR in compliance with the Mental Health Code, OMB Circular A-87, and the terms of the MSSSC.

Recommendation: Adopt policies and procedures to ensure compliance with the requirements of the Mental Health Code, the MSSSC, and OMB Circular A-87 in reporting capital asset purchases.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that the Red Mill Building Capital Purchases are listed on their depreciation schedule and expensed as depreciation expense with a basic straight-line amortization.

Anticipated Completion Date: GLCMH stated that this was already completed on September 30, 2001.

MDCH Response: None.

Corrective Action Plan

Finding No. 6

Reference: Page 13

Finding: Improper Reporting of Capital Asset Purchases

GLCMHA did not report purchases of vehicles, computers, office equipment, and building improvements on the FY 2000-2001, FY 1999-2000, and FY 1998-1999 FSRs in compliance with OMB Circular A-87 and the terms of the MSSSC.

Recommendation: Adopt policies and procedures to ensure compliance with the requirements of the MSSSC, and OMB Circular A-87 in reporting capital asset purchases.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring compliance with the requirements of the MSSSC and OMB Circular A-87 in reporting capital asset purchases. GLCMHA accepts the MSSSC requirement to depreciate capital assets prior to the implementation of GASB 34. GLCMHA further agreed that they will depreciate all items addressed in the audit beginning in 2005.

Anticipated Completion Date: GLCMH stated that this was already completed on October 1, 2004.

MDCH Response: None.

Corrective Action Plan

Finding No. 7

Reference: Page 15

Finding: Overpayments to Subcontractors

GLCMHA overpaid contractors for community inpatient hospital psychiatric services (finding 7a), transportation services (finding 7b), and day treatment program services (finding 7c) in FY 1998-1999 through FY 2000-2001.

Recommendation: Implement policies and procedures to ensure that contracts are in compliance with the MSSSC and applicable regulations. Also, implement policies and procedures to ensure that payments made to subcontractors are in accordance with contract terms, and properly reported to MDCH.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that payments are made to subcontractors in accordance with contract terms. GLCMHA also stated that starting in FY 2001/2002, the Munson contracts use a consistent rate.

Anticipated Completion Date: GLCMHA stated that this is already completed.

MDCH Response: None.

Corrective Action Plan

Finding No. 8

Reference: Page 17

Finding: Unallowable Grant Program Expenditures

GLCMHA did not properly report Wraparound Block Grant expenditures in compliance with the Federal Block Grant Special Contract and the MSSSC for FY 1998-1999.

Recommendation: Implement policies and procedures to ensure that only allowable grant expenditures are reported in compliance with grant contract provisions and the MSSSC.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that the Wraparound Block Grant does not include personal expenses of families being served by the grant.

Anticipated Completion Date: GLCMHA state that this was already completed on October 1, 2003.

MDCH Response: None.

Corrective Action Plan

Finding No. 9

Reference: Page 18

Finding: Clubhouse Revenue and Expenditure Reporting Error

GLCMHA did not properly report clubhouse revenue and expenditures in FY 2000-2001, FY 1999-2000 and FY 1998-1999 in compliance with the MSSSC.

Recommendation: Implement policies and procedures to ensure that all revenues and expenditures are properly reported in compliance with the MSSSC.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA has refined its procedures in accounting to ensure that Clubhouse revenue is not reported as local match funds.

Anticipated Completion Date: GLCMHA stated that this was already completed on October 1, 2003.

MDCH Response: None.

Corrective Action Plan

Finding No. 10

Reference: Page 20

Finding: ISF Investment Revenue Reporting Error

GLCMHA did not report investment revenue earned from the Internal Service Fund (ISF) in FY 2000-2001 and FY 1999-2000 in compliance with the MSSSC and OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure that all revenues are properly reported in compliance with the MSSSC and OMB Circular A-87.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that investment revenue earned from the ISF is reported in compliance with the MSSSC and OMB Circular A-87. GLCMHA also stated that the Department (DCH) has modified the ISF reporting page, which ensures that ISF Investment revenue is reported properly and that they report interest income earned on the ISF consistent with the instructions on that page.

Anticipated Completion Date: GLCMHA stated that this was already completed on October 1, 2003.

MDCH Response: None.

Corrective Action Plan

Finding No. 11

Reference: Page 21

Finding: Improper Payroll Expense Allocation

GLCMHA did not properly allocate payroll costs in compliance with the requirements of OMB Circular A-87 and the MSSSC.

Recommendation: Implement policies and procedures to ensure personnel cost allocations are in compliance with OMB Circular A-87. Also, retain documentation supporting personnel cost allocations in compliance with the requirements in the MSSSC, Section 4.11.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH auditors.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that payroll costs are allocated in compliance with the requirements of OMB Circular A-87 and the MSSSC. GLCMHA also stated that in FY 2002/2003 and beyond, a system is in effect around direct provider costs that allocate non-direct costs that are in broad cost centers.

Anticipated Completion Date: GLCMHA stated that this is already completed.

MDCH Response: None.

Corrective Action Plan

Finding No. 12

Reference: Page 24

Finding: Unsupported Internal Service Fund Assumptions

GLCMHA did not adequately support the assumptions included in the FY 1997-1998 through FY 2000-2001 analyses used to justify the Internal Service Fund (ISF) for risk reserve in violation of the MSSSC and OMB Circular A-87.

Recommendation: Perform a biennial analysis of any ISF balance as required by OMB Circular A-87, and ensure any ISF contributions and balance are based on sound actuarial principles using historical experience and reasonable assumptions. Also, retain documentation supporting the analysis of the ISF including the assumptions and supporting historical data, and evidence of a methodologically sound projection of risks as required by the Specialty Community Mental Health Services and Supports Plan Requirements and Technical Information.

CMHSP Comments: GLCMHA agreed, in part, with the recommendation of the MDCH auditors. GLCMHA stated that they believe that hiring an independent actuarial service is probably a waste of taxpayer and service dollars as changes are fairly demonstrable at this point in time.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that that any ISF contributions and balance are based on historical experience and reasonable assumptions. GLCMHA stated that the risks of changes in Inpatient, Residential and loss of available Medicaid capitation are fairly demonstrable at this point in time.

Anticipated
Completion Date: GLCMHA stated that this is an ongoing process.

MDCH Response: MDCH recommended that GLCMHA ensure that any ISF contributions and balance are based on sound actuarial principles using historical experience and reasonable assumptions. GLCMHA disagreed with purchasing the services of an independent actuary for future ISF analyses when they are now able to assess risk based on historical trends. GLCMHA's decision to forgo **purchasing** an independent actuarial service for future ISF analyses is acceptable. However, GLCMHA must retain documentation supporting the ISF analyses including the assumptions and supporting historical data, and evidence of a methodologically sound projection of risks.

Corrective Action Plan

Finding No. 13

Reference: Page 28

Finding: Contract Management Weaknesses

GLCMHA did not properly manage their contracts in compliance with sound business practices.

Recommendation: Implement a master control of contracts and implement policies and procedures to ensure contracts are executed timely for all contracted services. Also, review, update, and revise the language and provisions of contracts to ensure uniformity and completeness.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that contracts are executed timely for all contracted services and that they will review, update and revise the language and provisions of contracts to ensure uniformity and completeness. GLCMHA states that there is new language and evergreen clauses on most contracts that provide services to people. Several "Request for Proposals" and resulting contracts have been executed.

Anticipated Completion Date: GLCMHA stated that this is an ongoing process.

MDCH Response: In addition to the above stated corrective actions, GLCMHA should implement a master control of contracts as previously recommended.

Corrective Action Plan

Finding No. 14

Reference: Page 29

Finding: Improper Procurement Practices

GLCMHA's purchases of software and equipment were not in compliance with the MSSSC, their own procurement policies, and sound business practices.

Recommendation: Revise and implement policies and procedures to ensure that purchases are made in compliance with the MSSSC, established procurement policies, and sound business practices.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring that purchases are made in compliance with the MSSSC, established procurement policies and sound business practices. NLCMHA, who succeeded GLCMHA, requires bid documents for all purchases with a value of $600 or more along with an explanation of the selection process and statement of need prior to the transaction occurring. This documentation is maintained in the accounting records. GLCMHA acknowledged that there is a residual culture that exists from a few of the managers and staff that makes this much more difficult than it should be. Managers still occasionally enter into transactions without adequate documentation. GLCMHA believes that over time this is becoming less of an issue than previously was the case.

Anticipated

Completion Date: GLCMHA stated that this is an on-going effort to monitor compliance at this point in time, as it is acknowledged to be a serious issue that needs attention.

MDCH Response: None.

Corrective Action Plan

Finding No. 15

Reference: Page 30

Finding: Lacking Coordination Agreements

GLCMHA does not have documented coordination agreements with the area agencies as required by the MSSSC.

Recommendation: Obtain all coordination agreements as required by the MSSSC.

CMHSP Comments: GLCMHA agreed with the recommendation of the MDCH.

Corrective Action: GLCMHA stated that they have refined their procedures for ensuring improved performance in contract management and development of Coordination Agreements. GLCMHA has assigned one staff member to coordinate and monitor the Medicaid Health Plan agreements and continue to actively participate in the 5 Multipurpose Collaborative Bodies. Subsequent to the merger, GLCMHA has continued to revise and update other coordination agreements and their plan is to have them updated by the end of the FY 2004/2005.

Anticipated Completion Date: GLCMHA stated that this is already completed.

MDCH Response: None.