

Audit Report

Kent County Community Mental Health Services

October 1, 2001 – September 30, 2002



Office of Audit
Grand Rapids Regional Office
July 2007



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT – GRAND RAPIDS REGIONAL OFFICE
350 OTTAWA AVENUE, N.W.; GRAND RAPIDS, MI 49503-2343

JANET OLSZEWSKI
DIRECTOR

July 9, 2007

Mr. Paul Ippel, Executive Director
network180
(Kent County Community Mental Health Services)
728 Fuller Avenue, N.E.
Grand Rapids, MI 49503

CERTIFIED MAIL
7006 0100 0002 1050 3898

and

Commissioner Nadine Klein, Board Chair
network180
(Kent County Community Mental Health Services)
728 Fuller Avenue, N.E.
Grand Rapids, MI 49503

and

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, MI 48913

Dear Mr. Ippel, Ms. Klein, & Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of network180 (Kent County Community Mental Health Services) for the period October 1, 2001 through September 30, 2002.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; financial status report; explanation of audit adjustments; contract reconciliation and cash settlement summary; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis and the Office of Audit's response to those comments where necessary.

If the agency disagrees with the MDCH audit findings, the agency may use the dispute resolution process as specified in Section 3.16 of the Managed Specialty Supports and Services Contract (MSSSC), and/or the Medicaid Provider Reviews and Hearings. Both administrative remedies are described below.

If the agency chooses to engage Section 3.16 of the MSSSC (dispute resolution process), the agency must provide written notification to the MDCH of their intent within 30 days of receipt of this notice. The written notification must include the nature of, and any proposed resolution to, the dispute; and copies of all relevant documentation. The final decision authority regarding disputes arising out of MDCH financial reviews and/or audits has been delegated to the MDCH Administrative Tribunal.

If the agency chooses to use the Medicaid Provider Reviews and Hearings, the agency must request a conference or hearing within 30 days of receipt of this notice. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If the agency disagrees with this adverse action, the agency has a right to request a preliminary conference, bureau conference or an administrative hearing pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. The request should identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The agency should also include any substantive documentary evidence to support their position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405.

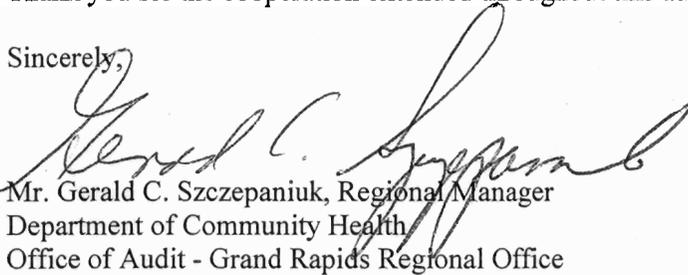
If the agency chooses to request a dispute resolution process; and/or a preliminary conference, bureau conference, or administrative hearing, the request(s) must be sent within 30 days of receipt of this letter to:

Administrative Tribunal & Appeals Division
Michigan Department of Community Health
1033 S. Washington
P.O. Box 30763
Lansing, Michigan 48909

If MDCH does not receive a request for a preliminary conference, bureau conference, administrative hearing, or dispute resolution process within 30 days of receipt of this notice, MDCH will implement the adjustments as outlined in this final report.

Thank you for the cooperation extended throughout this audit process.

Sincerely,



Mr. Gerald C. Szczepaniuk, Regional Manager
Department of Community Health
Office of Audit - Grand Rapids Regional Office

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DESCRIPTION OF AGENCY

The Kent County Community Mental Health (KCCMH) was established in 1963 and operates under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. KCCMH is a department of the Kent County Government (County) and is subject to oversight by the Michigan Department of Community Health (MDCH). The Community Mental Health & Substance Abuse Network of West Michigan (CMHSANWM) was established in 2003, subsequent to the audit period, and operates under the provisions of the Mental Health Code as amended by Public Act 290 of 1995, Section 205, of the Michigan Compiled Law 330.1205. In June 2005, CMHSANWM became Network180.

The KCCMH provides outpatient, partial day, residential care, case management, substance abuse, prevention and Omnibus Budget Reconciliation Act (OBRA) services to consumers within Kent County.

The KCCMH administrative office is located in the city of Grand Rapids. The KCCMH board is comprised of 12 members who reside in Kent County and are appointed for three-year terms.

FUNDING METHODOLOGY

On October 1, 2001, the KCCMH contracted with MDCH under a Managed Specialty Supports and Services Contract (MSSSC). For the twelve-month period ended September 30, 2002, KCCMH reported expenditures of \$90.9 million. MDCH provided KCCMH with both the Federal and State share of Medicaid funds as a capitated payment based on a Per Eligible Per Month (PEPM) methodology. The specific rates paid on the PEPM methodology are listed in an attachment to the contract. MDCH also distributed the non-Medicaid full-year State Mental Health General Funds (GF) based on a separate formula included as an attachment to the contract. Other funding received separately outside of the MSSSC included special and/or designated funds, fee for service funds, and MICHild capitated funds. The special and/or designated funds were provided under special contractual arrangements between KCCMH and MDCH. The funding methodologies for these arrangements are specified in each agreement. 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. Additionally, MDCH provided funding to KCCMH for the Montcalm/Ionia/Newaygo/Kent (M/I/N/K) Substance Abuse Coordinating Agency for substance abuse services.

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 effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.

Audit Objectives:

1. To assess KCCMH's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.
2. To assess KCCMH'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.
3. To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from KCCMH.

SCOPE AND METHODOLOGY

We examined KCCMH's records and activities for the period October 1, 2001 through September 30, 2002. We reviewed and discussed the internal control questionnaire, completed by KCCMH's finance officer, to analyze the strength of the controls for the proper accounting of revenues and expenditures, procurement and other contracting procedures, reporting, claims management and risk financing. Discussions were held throughout the audit to update KCCMH's finance officer and other management personnel on the progress of the audit. KCCMH's policies and procedures were also reviewed. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the Financial Status Reports (FSRs) in compliance with the MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from January 2004 through July 2004.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess KCCMH's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.

Conclusion: KCCMH was not always effective and efficient in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. Our assessment disclosed exceptions with respect to the proper handling of Resident Funds (Finding 1) and financial reporting (Findings 2-8).

Finding

1. Resident Funds

KCCMH did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services (Licensing Rules).

The review of resident funds held in trust yielded an audit recommendation for improvements in the internal control procedures of the individual homes and their corporate operators. Several homes failed to follow the procedures for forwarding resident monies in excess of \$200 to the corporate resident savings account. During the field visit, it was noted that resident cash on hand did not always equal the amount shown on the resident's ledger sheet. On two occasions, the home manager used personal funds to eliminate the resident's shortfall. It was also noted that the BRS-2319's were not always current. The BRS-2319 is a State of Michigan, Department of Human Services, Bureau of Regulatory Services form that summarizes the activity of a resident's fund account.

Licensing Rule 400.14315, Handling of Resident Funds and Valuables, sub-section (1) states in pertinent part, "...Upon a request from a resident or the resident's designated representative, a licensee may accept a resident's funds and valuables to be held in trust with the licensee..." Sub-section (2) states, "...The care of any resident funds and valuables that have been accepted by a licensee for safekeeping shall be treated by the licensee as a trust obligation..."

The residents' funds should be safeguarded to ensure that all funds are accounted for and available for patients' use. The resident funds are for those KCCMH clients for whom KCCMH is the representative payee for Social Security or SSI.

Recommendation

We recommend KCCMH adopt proper internal control policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

FINANCIAL REPORTING

Objective 2: To assess KCCMH'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: KCCMH did not accurately report its financial activity to MDCH on the FYE 9/30/2002 Financial Status Report (FSR). We found exceptions in the following areas: improper inclusion of expenses not incurred to equal revenue received (Finding 2), inclusion of excess prepaid expenditures (Finding 3), inclusion of duplicate expenditures (Finding 4), inclusion of non-allowable cost for fixed assets acquired (Finding 5), improper inclusion of excess State facility expenses (Finding 6), improper allocation of administrative overhead expenses (Finding 7) and the inclusion of revenues never received and expenditures never paid (Finding 8).

Finding

2. Improper Inclusion of Expenses Not Incurred to Equal Revenue Received

KCCMH improperly increased expenses to equal the revenue received for MI Child Substance Abuse services rendered.

In the year-end reconciliation of revenues and expenditures used in the preparation of the FSR, expenses were increased to equal the revenue received for MI Child Substance Abuse services rendered. This has a net effect of increasing reimbursement for expenses not incurred.

The MSSSC Attachment 8.9.1 Section 1.3 states in pertinent part: "...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..."

OMB Circular A-87 Attachment A, Section B and Sub-Section 9 states in pertinent part, "...“Cost” means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund..."

OMB Circular A-87 Attachment A, Section C and Sub-Section 1 states in pertinent part: "...To be allowable under Federal awards, costs must meet the following criteria: ... j.) Be adequately documented..."

Audit adjustments removing \$1,523 from allowable expenditures are shown on Schedules A and B.

Recommendation

We recommend KCCMH implement policies and procedures to ensure that reported expenses are properly accrued and recorded in compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Finding

3. Improper Inclusion of Prepaid Expenditures

During the FYE 9/30/2002, KCCMH incorrectly included payments to the Newaygo Community Mental Health Services for outpatient outreach substance abuse services for the 15 month period from 10/1/2001 - 12/31/2002.

During fiscal year 10/1/2001 - 9/30/2002, payments were made to the Newaygo Community Mental Health Services for outpatient outreach substance abuse services. The CMH incorrectly reported 15 months of services rendered (10/2001 to 12/2002) in the FYE 9/30/2002 FSR. **Due to the immateriality of the amount involved (\$9,150) and the impact upon the cost reimbursement, no cost will be removed from the current year's operating expenses reported on the FSR. These expenses, not previously included in the FYE 9/30/2003 FSR, would be allowable for inclusion in the FSR for FYE 9/30/2003. The FYE 9/30/2003 FSR has been filed and settled subsequent to the audit report and would have to be re-filed for reporting purposes only.**

The MSSSC Attachment 8.9.1 Section 1.3 states in pertinent part: "...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..."

OMB Circular A-87 Attachment A, Section B and Sub-Section 9 states: "...“Cost” means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund..."

OMB Circular A-87 Attachment A, Section C and Sub-Section 1 states in pertinent part: "...To be allowable under Federal awards, costs must meet the following criteria: j.) Be adequately documented..."

Recommendation

We recommend KCCMH implement policies and procedures to ensure that accrued expenses are reported at current obligations, in compliance with the MSSSC and OMB Circular A-87.

Finding

4. Improper Inclusion of Duplicate Expenses

Expenses were incorrectly included twice in the FSR expenditures for the Child, Family, Adult and Outpatient services.

In the year-end reconciliation of revenues and expenditures used in the preparation of the FSR, expenses were incorrectly included twice for Child, Family, Adult and Outpatient services. The additional expenses (\$51,856) will be removed from the reimbursable expenses in accordance with the CMH's original distribution between Managed Care and General Fund services.

The MSSSC Attachment 8.9.1 Section 1.3 states in pertinent part: "...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..."

OMB Circular A-87 Attachment A, Section B and Sub-Section 9 states: "...“Cost” means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund..."

OMB Circular A-87 Attachment A, Section C and Sub-Section 1 states in pertinent part: "...To be allowable under Federal awards, costs must meet the following criteria: j.) Be adequately documented..."

Audit adjustments removing \$51,856 from allowable expenditures are shown on Schedules A and B.

Recommendation

We recommend KCCMH implement policies and procedures to ensure that expenses are properly accrued and recorded in compliance with the MSSSC and OMB Circular A-87.

Finding

5. Improper Accounting and Reporting Method for Equipment Purchases

KCCMH did not report the purchases of computer hardware and software in compliance with the MSSSC and OMB Circular A-87.

Several expenditures included in the current year expenses were determined to be for the purchase of capital asset additions that should have been capitalized and depreciated over their estimated useful life. The cost of these capital assets (\$291,398) will be removed from current operating expenses reported on the FSR. Allowable depreciation expense (\$36,487) was calculated based upon the assigned useful lives reported in the Estimated Useful Lives of Depreciable Hospital Assets, Revised 1998 Edition from the American Hospital Association. The net adjustment will be allocated in accordance with the original FSR allocation.

Prior to FY 1998-1999, Community Mental Health Services Providers' (CMHSP's) General Fund contracts with MDCH allowed the full purchase prices of capital asset purchases to be expensed in the year of purchase. CMHSP's believed this practice could continue when they signed the new contract in FY 1998-1999. However, Section 8.0 of the MSSSC clearly states "...Both the MDCH and CMHSP recognize that this 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.

Section 8.6 of the MSSSC states in pertinent part, "...The following documents shall guide program accounting procedures: ...3. OMB A-87 (current standards). ..."

OMB Circular A-87, Attachment B, Section 15 states in pertinent part, "...Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances..."

OMB Circular A-87, Attachment B, Section 19, Sub-section a. (2) states in pertinent part, "...“Equipment” means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5,000. ..."

OMB Circular A-87, Attachment B, Section 19, Sub-sections b. and c. states in pertinent part: "b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation on buildings, capital improvements, and equipment...c. Capital expenditures for equipment, including replacement equipment or 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..."

Audit adjustments reflecting a reduction of \$291,398 for capital purchases and an increase of \$36,487 for allowable depreciation are shown on Schedule A and B. A net audit adjustment of (\$254,911) which consists of the (\$291,398) disallowance for capital purchases and the \$36,487 of allowable depreciation expense is shown on Schedules A and B.

Recommendation

We recommend KCCMH implement policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with the MSSSC and OMB Circular A-87.

Finding

6. Improper Inclusion of Excess State Facility Expenses

KCCMH included excess State Facility Services expenses in error on the FSR.

The State Facility Services expense reported in the FSR was overstated. The claimed expense exceeding the Department of Community Health's State Facility Services year-end summary (\$1,824) will be disallowed.

The MSSSC Attachment 8.9.1 Section 1.3 states in pertinent part: "...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..."

OMB Circular A-87 Attachment A, Section B and Sub-Section 9 states in pertinent part: "...“Cost” means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund..."

OMB Circular A-87 Attachment A, Section C and Sub-Section 1 states in pertinent part: "...To be allowable under Federal awards, costs must meet the following criteria... j.) Be adequately documented..."

Audit adjustments reflecting a reduction of \$1,824 in the State Facility Services expense are shown on Schedules A and B.

Recommendation

We recommend KCCMH implement policies and procedures to ensure that expenses and revenue are properly accrued and recorded in compliance with the MSSSC and OMB Circular A-87.

Finding

7. Improper Inclusion of Revenues Never Received and Expenditures Never Paid

KCCMH improperly included revenue not received and expenditures not incurred on their FSR, which is in violation of the Mental Health Code, the MSSSC, OMB Circular A-87, and Generally Accepted Accounting Principles (GAAP).

KCCMH improperly included in the FSR both revenues and expenditures belonging to the contracted agencies for SSI/SSA and other services. The contracted agencies did not forward these funds to KCCMH and KCCMH did not incur the expenditures. KCCMH established a net rate for contracted services with these agencies. There was an understanding that the agencies would be responsible for collecting the additional funds (SSI/SSA and other reimbursements) owed. These funds would be retained by the agencies and not forwarded to KCCMH. KCCMH's inclusion of the SSI/SSA revenue and expenditures had no financial impact since an equal amount of reimbursements was recorded in the expenditure section of the FSR. However, KCCMH included \$202,035 in "PA 423 Services" and \$15,439 in Substance Abuse Services Expenditures that they did not incur with no offsetting reimbursement recorded in the expenditure section, and this incorrectly increased the calculated MDCH obligation. Furthermore, if the funds were not collected and expended by KCCMH, recording them as revenues and expenditures would be contrary to the provisions of the Mental Health Code and OMB Circular A-87 as well as the Generally Accepted Accounting Principles regarding the recognition of revenues and expenses.

The Mental Health Code, Section 330.1242 states in pertinent part: "...The following expenditures by a Community Mental Health Services Program are not eligible for state financial support except as permitted under section 241 or by the department: ... (c) Any cost item that does not represent or constitute a real or actual expenditure by the Community Mental Health Services Program except to expend from a reserve account established by the board, as provided in section 205..."

The Mental Health Code, Section 330.1226a states in pertinent part: "...A community mental health services program board may create a special fund account to *receive* recipient fees and third-party reimbursements for services rendered... *Receipts* into the fund shall be recorded by source of payment and by type of service rendered, and a report regarding this information shall be submitted

on a quarterly basis to the department. Money in the special fund account shall be used only for matching state funds or for the provision of community mental health services..." (emphasis added). The expenses recorded to offset the reported revenue that was not received are not real or actual expenditures of KCCMH, and are, therefore, ineligible for state financial support. Therefore, the expenses would not be recorded under Matchable Services on the FSR.

GAAP Chapter 42 states in pertinent part: "...The realization principle requires that revenue be earned before it is recognized. Revenue usually is recognized when the earning process is complete and an exchange has taken place. The earning process is not complete until collection of the sales price is assured reasonably..."

Since the revenue was not earned and collection was not assured, no revenue can be recognized. Likewise, since no payment occurred for the expenses recorded to offset the revenue, no expense can be recognized. To comply with GAAP, as required by the MSSSC, KCCMH must not record revenue that was not earned and must not record expenses not incurred.

OMB Circular A-87, Attachment A, C. Basic Guidelines, states in pertinent part,

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria... c. Be authorized or not prohibited under State or local laws or regulations... g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles... i. Be the net of all applicable credits..."

The recorded costs were not authorized under State law, and were not determined in accordance with generally accepted accounting principles. The costs are, therefore, not allowable under Federal awards. Had the costs been authorized under State law and determined in accordance with generally accepted accounting principles, only the amount net of applicable credits would be allowable under Federal awards.

Audit adjustments removing \$15,439 Other Substance Abuse revenue and \$619,616 of SSI/SSA revenue are shown on Schedules A and B. In addition, audit adjustments removing \$15,439 of

Substance Abuse Services expenses, \$619,618 of SSI/SSA expenses and \$202,035 of PA 423 services expenses are shown on Schedules A and B.

Recommendation

We recommend KCCMH discontinue reporting revenues that they do not receive and expenses that they do not incur in compliance with GAAP, the MSSSC and OMB Circular A-87.

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 any balance due to or due from KCCMH.

Conclusion: MDCH's obligations for FYE 9/30/2002 (excluding the Substance Abuse, MICHild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments is \$74,683,853. After considering advances and the prior settlement, there is no additional liability incurred by either MDCH or KCCMHS. The net result of the audit adjustments is an increase in the calculated Medicaid Savings of \$380,079 and a decrease in the required Internal Service Fund payment for Risk Corridor expenditures of \$121,261.

The reduction in the required ISF payment requires that the ISF fund be replenished. Since \$121,261 in ISF funds were used for General Fund expenditures that have been disallowed by audit adjustments, local funds in the amount of \$121,261 must be used to replenish the ISF account. The use of Medicaid or General Fund monies to replenish ISF funds that were used for unallowable expenditures is prohibited. If the ISF is not replenished with local funds, the \$121,261 must be returned to MDCH.

MDCH's obligation for FYE 9/30/2002 Substance Abuse after audit adjustments is \$1,629,803. After considering advances and prior settlements and the audit adjustments directly related to substance abuse expenditures, we identified a reduction of \$6,118 in allowable Medicaid expenses. The financial impact on KCCMHS is a reduction of prior year Medicaid Savings claimed to cover current year expenditures in excess of current Medicaid funding. The \$6,118 must be carried forward and utilized in a subsequent fiscal year.

Retention of the additional Managed Care Medicaid Savings of \$380,079 and the Substance Abuse Medicaid Savings of \$6,118 resulting from the audit adjustments is contingent on inclusion in an approved Medicaid Savings Plan as required by Section 8.8.2.2 of the MSSSC.

Kent County Community Mental Health Services
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A Revenues Not Otherwise Reported	\$ -	\$ -	\$ -
B Substance Abuse Total	\$ 8,554,063	\$ (15,439)	\$ 8,538,624
1 Medicaid Pass Through	\$ 1,622,376	\$ -	\$ 1,622,376
2 Other	\$ 6,931,687	\$ (15,439)	\$ 6,916,248
C Earned Contracts (non DCH) Total	\$ 1,070,228	\$ -	\$ 1,070,228
1 CMH to CMH	\$ 184,198	\$ -	\$ 184,198
2 Other	\$ 886,030	\$ -	\$ 886,030
D MI Child - Mental Health	\$ 63,262	\$ -	\$ 63,262
E Local Funding Total	\$ 2,696,108	\$ -	\$ 2,696,108
1 Special Fund Account (226(a))	\$ 167,813	\$ -	\$ 167,813
2 Title XX Replacement	\$ 47,047	\$ -	\$ 47,047
3 All Other	\$ 2,481,248	\$ -	\$ 2,481,248
F Reserve Balances - Planned for use	\$ 353,240	\$ -	\$ 353,240
1 Carryforward – Section 226(2)(b)(c)	\$ -	\$ -	\$ -
2 Medicaid Savings	\$ -	\$ -	\$ -
3 Internal Service Fund – Abatement	\$ -	\$ -	\$ -
4 Internal Service Fund – Risk Corridor	\$ 353,240	\$ -	\$ 353,240
5 Other (205(4)(h))	\$ -	\$ -	\$ -
6 Stop/loss Insurance	\$ -	\$ -	\$ -
G DCH Earned Contracts Total	\$ 1,189,679	\$ -	\$ 1,189,679
1 PASARR	\$ 717,059	\$ -	\$ 717,059
2 Block Grant for CMH Services	\$ 397,305	\$ -	\$ 397,305
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 75,315	\$ -	\$ 75,315

Kent County Community Mental Health Services
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other DCH Earned Contracts	\$ -	\$ -	\$ -
H Gross Medicaid Total	\$ 58,696,777	\$ -	\$ 58,696,777
1 Medicaid - Specialty Managed Care	\$ 57,409,492	\$ -	\$ 57,409,492
2 Medicaid - Children's Waiver Total	\$ 1,287,285	\$ -	\$ 1,287,285
I Reimbursements Total	\$ 619,616	\$ (619,616)	\$ -
1 1st and 3 rd Party	\$ -	\$ -	\$ -
2 SSI	\$ 619,616	\$ (619,616)	\$ -
J State General Funds Total	\$ 17,654,440	\$ -	\$ 17,654,440
1 Formula Funding	\$ 13,212,521	\$ -	\$ 13,212,521
2 Categorical Funding	\$ 282,300	\$ -	\$ 282,300
3 State Services Base	\$ 4,159,619	\$ -	\$ 4,159,619
4 DCH Risk Authorization	\$ -	\$ -	\$ -
5 Residential D.C.W.	\$ -	\$ -	\$ -
K Grand Total Revenues	\$ 90,897,413	\$ (635,055)	\$ 90,262,358
L Estimated MDCH Obligation (H+J)	\$ 76,351,217	\$ -	\$ 76,351,217

Kent County Community Mental Health Services
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A Gross Total Expenditures	\$ 90,897,413	\$ (1,147,206)	\$ 89,750,207
B Expenditures Not Otherwise Reported	\$ -	\$ -	\$ -
C Substance Abuse Total	\$ 8,554,063	\$ (16,962)	\$ 8,537,101
1 Medicaid Pass Through	\$ 1,635,921	\$ (4,408)	\$ 1,631,513
2 Other	\$ 6,918,142	\$ (12,554)	\$ 6,905,588
D Earned Contracts (Non MDCH) Total	\$ 1,070,228	\$ -	\$ 1,070,228
1 CMH to CMH	\$ 184,198	\$ -	\$ 184,198
2 Other Earned Contracts	\$ 886,030	\$ -	\$ 886,030
E MI Child - Mental Health	\$ 83,609	\$ -	\$ 83,609
F Local Total	\$ 1,622,449	\$ -	\$ 1,622,449
1 Local Cost for State Provided Services	\$ 539,528	\$ -	\$ 539,528
2 Other Not Used as Local Match	\$ 1,082,921	\$ -	\$ 1,082,921
G Expenditures From Reserve Balances	\$ -	\$ -	\$ -
1 Carryforward - Sec 226(2)(b)(c)	\$ -	\$ -	\$ -
2 Internal Service Fund	\$ -	\$ -	\$ -
3 Other (205(4)(h))	\$ -	\$ -	\$ -
4 Stop/Loss Ins.	\$ -	\$ -	\$ -

Kent County Community Mental Health Services
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
H MDCH Earned Contracts Total	\$ 1,189,676	\$ -	\$ 1,189,676
1 PASARR	\$ 717,059	\$ -	\$ 717,059
2 Block Grant for CMH Services	\$ 397,302	\$ -	\$ 397,302
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 75,315	\$ -	\$ 75,315
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other MDCH Earned Contracts	\$ -	\$ -	\$ -
I Matchable Services (A - (B through H))	\$ 78,377,388	\$ (1,130,244)	\$ 77,247,144
J Payments to MDCH for State Services	\$ 4,650,580	\$ (1,824)	\$ 4,648,756
K Specialty Managed Care Service Total	\$ 57,276,158	\$ (611,667)	\$ 56,664,491
1 100% MDCH Matchable Services	\$ 57,276,158	\$ (611,667)	\$ 56,664,491
2 All SSI and Other Reimbursements	\$ 231,588	\$ (231,588)	\$ -
3 Net MDCH Share for 100 % Services	\$ 57,044,570	\$ (380,079)	\$ 56,664,491
4 90/10 Matchable Services	\$ -	\$ -	\$ -
5 Medicaid Federal Share	\$ -	\$ -	\$ -
6 Other Reimbursements	\$ -	\$ -	\$ -
7 10% Local Match Funds	\$ -	\$ -	\$ -
8 Net State Share for 90/10 Services	\$ -	\$ -	\$ -
9 Total MDCH Share, Spec. Mgd Care	\$ 57,044,570	\$ (380,079)	\$ 56,664,491

Kent County Community Mental Health Services
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

L	GF Categorical and Formula Services Total	\$ 14,750,483	\$ (516,573)	\$ 14,233,730
1	100% MDCH Matchable Services	\$ 4,334,546	\$ (61,481)	\$ 4,273,065
2	All SSI and Other Reimbursements	\$ 25,621	\$ (25,621)	\$ -
3	Net GF and Formula for 100% Services	\$ 4,308,925	\$ (35,860)	\$ 4,273,065
4	90/10 Matchable Services	\$ 10,415,937	\$ (455,272)	\$ 9,960,665
5	Reimbursements	\$ 362,409	\$ (362,409)	\$ -
6	10% Local Match Funds	\$ 1,005,353	\$ (9,286)	\$ 996,067
7	Net GF and Formula for 90/10 Services	\$ 9,048,175	\$ (83,577)	\$ 8,964,598
8	Total MDCH GF and Formula	\$ 13,357,100	\$ (119,437)	\$ 13,237,663
M	Children's Waiver – Total	\$ 1,287,285	\$ -	\$ 1,287,285
1	Medicaid - Federal Share	\$ 725,514	\$ -	\$ 725,514
2	Other Reimbursements	\$ -	\$ -	\$ -
3	Net State Share (M-M1-M2)	\$ 561,771	\$ -	\$ 561,771
4	Total MDCH Share Children's Waiver	\$ 1,287,285	\$ -	\$ 1,287,285
N	Unobligated Spending Authority Total	\$ 412,882	\$ -	\$ 412,882
1	DCH Risk Authorization	\$ -	\$ -	\$ -
2	All Other	\$ 412,882	\$ -	\$ 412,882
O	Total Local Match Funds	\$ 2,627,802	\$ (9,286)	\$ 2,618,516
P	Total MDCH Share of Expenditures	\$ 76,339,535	\$ (501,340)	\$ 75,838,195

Schedule B
Explanation of Audit Adjustments
October 1, 2001 to September 30, 2002

Gross Total Revenues **(\$635,055)**

(\$15,439) to reduce the amount reported for Other Substance Abuse Revenues that were not received by the CMH. (See Finding 7)

(\$619,616) to reduce the amount reported for SSI/SSA Revenues that were not received by the CMH. (See Finding 7)

Gross Total Expenditures **(\$1,147,206)**

(\$1,523) to reduce the amount included to equal the MICHild revenue received. (See Finding 2)

(\$51,856) to remove expenses included twice in error. (See Finding 4)

(\$254,911) to remove the net total of capital assets expensed in error and the inclusion of the allowable depreciation expense on the removed capital assets. (See Finding 5)

(\$1,824) to reduce State Facility services to MDCH summary. (See Finding 6)

(\$15,439) to reduce the amount reported for Other Substance Abuse expenses that were not paid by the CMH. (See Finding 7)

(\$202,035) to reduce the amount reported for the Special Fund Account (226(a)) expenses that were not paid by the CMH. (See Finding 7)

(\$619,618) to reduce the amount reported for SSI/SSA expenses that were not paid by the CMH. (See Finding 7)

Substance Abuse Total **(\$16,962)**

(\$1,523) to reduce the amount included to equal the MICHild revenue received. (See Finding 2)

(\$15,439) to reduce the amount reported for Other Substance Abuse expenses that were not paid by the CMH. (See Finding 7)

State Facility Total **(\$1,824)**

(\$1,824) to reduce State Facility services to MDCH summary. (See Finding 6)

Specialty Managed Care Service Total **(\$611,667)**

(\$27,554) to remove expenses included twice in error. (See Finding 4)

(\$202,639) to remove the net total of capital assets expensed in error and the inclusion of the allowable depreciation expense on the removed capital assets. (See Finding 5)

(\$149,886) to reduce the amount reported for the Special Fund Account (226(a)) expenses that were not paid by the CMH. (See Finding 7)

Specialty Managed Care Service - SSI/SSA Revenue Offset Total **(\$231,588)**

(\$231,588) to reduce the amount reported as SSI/SSA revenue that was not received by the CMH. (See Finding 7)

GF Categorical and Formula Services Total **(\$516,753)**

(\$24,302) to remove expenses included twice in error. (See Finding 4)

(\$52,272) to remove the net total of capital assets expensed in error and the inclusion of the allowable depreciation expense on the removed capital assets. (See Finding 5)

(\$52,149) to reduce the amount reported for the Special Fund Account (226(a)) expenses that were not paid by the CMH. (See Finding 7)

(\$388,030) to reduce the amount reported for the SSI/SSA expenses that were not paid by the CMH. (See Finding 7)

GF Categorical and Formula Services - SSI/SSA Revenue Offset Total **(\$388,030)**

(\$388,030) to reduce the amount reported as SSI/SSA revenue that was not received by the CMH. (See Finding 8)

Local Funding

(\$9,286)

To reduce the Local Match Funds required based upon the audit findings in the Specialty Managed Care Services and the GF Categorical and Formula Services calculations.

Kent County Community Mental Health Services
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A MOE – Expenditures					
1 Ethnic Population	\$ 80,130	\$ 35,201	\$ 44,929	\$ -	\$ 80,130
2 OBRA Active Treatment	\$ 447,940		\$ 447,940	\$ -	\$ 447,940
3 OBRA Residential	\$ 3,529,258	\$ 3,035,162	\$ 494,096	\$ -	\$ 3,529,258
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ -	\$ -	\$ -	\$ -	\$ -
5 Residential Direct Care Wage Increase #2 - 100% MOE	\$ 1,145,318	\$ 826,738	\$ 318,580	\$ -	\$ 1,145,318
6 Total	<u>\$ 5,202,646</u>	<u>\$ 3,897,101</u>	<u>\$ 1,305,545</u>	<u>\$ -</u>	<u>\$ 5,202,646</u>
7 Maintenance of Effort - Lapse					<u>\$ -</u>
B Reallocation of MOE					
Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 Ethnic Population	\$ 80,130	43.93%	56.07%	\$ 35,201	\$ 44,929
2 OBRA Active Treatment	\$ 447,940	0.00%	100.00%		\$ 447,940
3 OBRA Residential	\$ 3,529,258	86.00%	14.00%	\$ 3,035,162	\$ 494,096
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ -	%	%	\$ -	\$ -
5 Residential Direct Care Wage Increase #2 - 100% MOE	<u>\$ 1,145,318</u>	72.18%	27.82%	<u>\$ 826,738</u>	<u>\$ 318,580</u>
6 Total	<u>\$ 5,202,646</u>			<u>\$ 3,897,101</u>	<u>\$ 1,305,545</u>

Kent County Community Mental Health Services
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

II.	Specialized Managed Care (Includes State and Federal Share)	<u>MDCH Revenue</u>	<u>MDCH Expense</u>
A	Total - Specialized Managed Care	\$ 57,409,492	\$ 56,664,491
B	Maintenance of Effort – Summary	<u>\$ 3,897,101</u>	<u>\$ 3,897,101</u>
C	Net Specialized Managed Care (A-B)	<u>\$ 53,512,391</u>	<u>\$ 52,767,390</u>
III.	State/General Fund Formula Funding		
A	GF/Formula - State and Community Managed Programs	<u>Authorization</u>	<u>MDCH Expense</u>
1	State Managed Services	\$ 4,159,619	\$ 4,648,756
2	MDCH Risk Authorization - MDCH Approved for Use	\$ -	\$ -
3	Community Managed Services	<u>\$ 13,494,821</u>	<u>\$ 13,237,663</u>
4	Total State and Community Programs - GF/Formula Funding	\$ 17,654,440	\$ 17,886,419
B	Maintenance of Effort – Summary	\$ 1,305,545	\$ 1,305,545
C	Categorical, Special and Designated Funds		
1	Respite Grant (Tobacco Tax)	\$ 206,300	\$ 206,300
2	Grant Pickup – Prevention	<u>\$ 76,000</u>	<u>\$ 76,000</u>
3	Total Categorical, Special and Designated Funds	<u>\$ 282,300</u>	<u>\$ 282,300</u>
D	Subtotal-GF/Formula Community and State Managed Programs	<u>\$ 16,066,595</u>	<u>\$ 16,298,574</u>
		<u>Specialized Managed Care</u>	<u>Formula Funds</u>
IV.	Shared Risk Arrangement		
A	Operating Budget – Exclude MOE and Categorical Funding	\$ 53,512,391	\$ 16,066,595
B	MDCH Share - Exclude MOE and Categorical Funding	<u>\$ 52,767,390</u>	<u>\$ 16,298,574</u>
C	Surplus (Deficit)	<u>\$ 745,001</u>	<u>\$ (231,979)</u>
	Risk Band – 5% of Operating Budget (A*5%)	<u>\$ 2,675,620</u>	<u>\$ 803,330</u>

Kent County Community Mental Health Services
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

	MDCH Share	Approved Savings or Carryforward	Total	Grand Total
V. Cash Settlement				
A MDCH Obligation				
1 Specialty Managed Care (Net of MOE)	\$52,767,390	\$ 364,922	\$53,132,312	
2 GF/Formula Funding (Net of Categorical and MOE)	\$16,066,595	\$ -	\$16,066,595	
3 MOE Specialty Managed Care MDCH Obligation	\$ 3,897,101	\$ -	\$ 3,897,101	
4 MOE GF/Formula Funding MDCH Obligation	\$ 1,305,545	\$ -	\$ 1,305,545	
5 Categorical - MDCH Obligation	\$ 282,300	\$ -	\$ 282,300	
6 Total - MDCH Obligation				\$ 74,683,853
B Advances – Prepayments				
1 Specialized Managed Care - Prepayments Through 9/30/2002		\$ 57,409,492		
2 Specialized Managed Care - FY 02 Prepayments Received After 9/30/2002		\$		
3 Subtotal - Specialized Managed Care			\$57,409,492	
4 GF/Formula Funding - (Include MDCH Risk Authorization)			\$13,212,521	
5 Purchase of Services			\$ 4,159,619	
6 Categorical Funding			\$ 282,300	
7 Total Prepayments				\$ 75,063,932
C Balance Due MDCH				\$ 380,079
D Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			\$ 4,434,768	
Actual Payments to MDCH			\$ 4,434,768	
Balance Due MDCH				\$ -
E Net Balance Due MDCH				\$ 380,079
Prior Settlement **				\$ -
				\$ 380,079 *

* Retention of Medicaid Savings of additional \$380,079 as a result of audit adjustments is contingent on inclusion in an approved Medicaid Savings Plan as required by Section 8.8.2.2 of the MSSSC.

** Prior settlement amount reported as \$0 as a result of amended return filed 3/19/2004 used for audit purposes already included the amounts paid back in the net revenues shown above.

Corrective Action Plan

Finding Number: 1

Page Reference: 4

Finding: Resident Funds

KCCMH did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services (Licensing Rules).

Recommendation: Adopt proper internal control policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

Comments: KCCMH agrees with this finding.

KCCMH contracts with agencies to provide residential services. Our contracts require them to follow applicable licensing regulations. We also require them to follow our contracts policies, one of which is titled Consumer Personal Funds. This policy was originally developed 6/01/98 and has been reviewed, updated, and distributed to contracted providers of licensed group homes twice since MDCH was here to complete the FY 2002 audit.

Our policy requires contracted providers to audit consumer personal funds at least annually. All items noted in the MDCH finding are addressed in our policy, with the exception of staff balancing a consumer's fund by adding their own cash.

Corrective Action Plan

Finding Number: 1

Page Reference: 4

Comments: KCCMH audits samples of contracted providers resident personal funds about every other year for each provider, sometimes more often. Plans of correction are required from providers when findings warrant action. The State of Michigan Department of Consumer & Industry Services also periodically audits consumer personal funds of licensed providers.

Corrective Action: KCCMH will continue to audit resident personal funds during its scheduled audits of contracted residential providers and require plans of correction when appropriate.

In addition, KCCMH will notify contracted providers of the MDCH finding, and request that each provider review the Consumer Personal Funds policy with all applicable staff.

Anticipated

Completion Date: Notification to KCCMH contract providers will occur within 30 days of receiving the final MDCH 2002 audit report.

MDCH Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 5

Finding: Improper Inclusion of Expenses Not Incurred to Equal Revenue Received
KCCMH improperly increased expenses to equal the revenue received for MI Child Substance Abuse services rendered.

Recommendation: Implement policies and procedures to ensure that reported expenses are properly accrued and recorded in compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Comments: KCCMH agrees with the finding.

Corrective Action: An accounting error resulted in this finding. A reconciliation worksheet was developed during this audit process. Use of the reconciliation worksheet will catch accounting errors during FSR preparation.

Anticipated

Completion Date: Use of the reconciliation worksheet was implemented with our preparation of the FY 02/03 Revised Final Financial Status Report submitted on May 28, 2004. It has been consistently used since that date.

MDCH Response: None.

Corrective Action Plan

Finding Number: 3

Page Reference: 6

Finding: Improper Inclusion Prepaid Expenditures

During the FYE 9/30/2002, KCCMH incorrectly included payments to the Newaygo Community Mental Health Services for outpatient outreach substance abuse services for the 15 month period from 10/1/2001 - 12/31/2002.

Recommendation: Implement policies and procedures to ensure that accrued expenses are reported at current obligations, in compliance with the MSSSC and OMB Circular A-87.

Comments: KCCMH agrees with the finding.

Corrective Action: KCCMH has automated the accounting procedure to assign expenses to the correct year based on service date.

Anticipated

Completion Date: 10/01/2004

MDCH Response: None.

Corrective Action Plan

Finding Number: 4

Page Reference: 7

Finding: Improper Inclusion of Duplicate Expenses
Expenses were incorrectly included twice in the FSR expenditures for the Child, Family, Adult and Outpatient services.

Recommendation: Implement policies and procedures to ensure that expenses are properly accrued and recorded in compliance with the MSSSC and OMB Circular A-87.

Comments: KCCMH agrees with the finding.

Corrective Action: An accounting error resulted in this finding. A reconciliation worksheet was developed during this audit process. Use of the reconciliation worksheet will catch accounting errors during FSR preparation.

Anticipated

Completion Date: Use of the reconciliation worksheet was implemented with our preparation of the FY 02/03 Revised Final Financial Status Report submitted on May 28, 2004. It has been consistently used since that date.

MDCH Response: None.

Corrective Action Plan

Finding Number: 5

Page Reference: 8

Finding: Improper Accounting and Reporting Method for Equipment Purchases
KCCMH did not report the purchases of computer hardware and software in compliance with the MSSSC and OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with the MSSSC and OMB Circular A-87.

Comments: KCCMH agrees with the finding.
This finding resulted from KCCMH applying the capitalization threshold at an individual asset level vs. grouping of assets.

Corrective Action: KCCMH prepared journal entries to capitalize and depreciate these assets. Some of the assets were capitalized during the FY 02/03 year end audit, with the balance capitalized during the FY 03/04 year end audit. KCCMH also developed procedures for capitalizing a group of assets.

Anticipated

Completion Date: 09/30/04

MDCH Response: None.

Corrective Action Plan

Finding Number: 6

Page Reference: 10

Finding: Improper Inclusion of Excess State Facility Expenses

KCCMH included excess State Facility Services expenses in error on the FSR.

Recommendation: Implement policies and procedures to ensure that expenses and revenue are properly accrued and recorded in compliance with the MSSSC and OMB Circular A-87.

Comments: KCCMH agrees with the finding.

Corrective Action: An accounting error resulted in this finding. A reconciliation worksheet was developed during this audit process. Use of the reconciliation worksheet will catch accounting errors during FSR preparation.

Anticipated

Completion Date: Use of the reconciliation worksheet was implemented with our preparation of the FY 02/03 Revised Final Financial Status Report submitted on May 28, 2004. It has been consistently used since that date.

MDCH Response: None.

Corrective Action Plan

Finding Number: 7

Page Reference: 11

Finding: Improper Inclusion of Revenues Never Received and Expenditures Never Paid
KCCMH improperly included revenue not received and expenditures not incurred on their FSR in violation of the Mental Health Code, the MSSSC, OMB Circular A-87, and Generally Accepted Accounting Principles (GAAP).

Recommendation: Discontinue reporting revenues not received and expenses not incurred in compliance with GAAP, the MSSSC and OMB Circular A-87.

Comments: KCCMH agrees with the findings related to SSI and Other Substance Abuse revenue and expenditures.

The \$202,035 of PA 423 revenue and expenditures reported is local revenue received by the agencies, such as United Way funding. These fees were received, retained, and reported to us by agencies under contract with us. However, there is no way to specifically tie these revenues to KCCMH programs. This amount was used to gross up expenditures

KCCMH agrees with the finding related to the \$202,035 of local revenue received by the agencies.

Corrective Action Plan

Finding Number: 7

Page Reference: 11

Comments:

Corrective Action: 1. KCCMH has already discontinued the practice of reporting agency SSI on the FSR reports as of the FY 03/04 FSR.

2. KCCMH has already discontinued the practice of reporting agency amounts as Other Substance Abuse revenue as of the FY 04/05 FSR.

3. For the most part, KCCMH has already discontinued the practice of reporting agency local on the FSR reports as of the FY 03/04 FSR. KCCMH will review and revise the FSR preparation procedures to completely discontinue this practice.

Anticipated

Completion Date: Corrective action 1 was completed with the FY 03/04 FSR.
Corrective action 2 was completed with the FY 04/05 FSR.
Corrective action 3 will be completed with the FY 05/06 FSR.

MDCH Response: None.