



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
BUREAU OF AUDIT
P.O. Box 30815; LANSING, MICHIGAN 48909

NICK LYON
DIRECTOR

October 4, 2018

Ms. Kathy-Sue Vette, Board Chair
Summit Pointe Community Mental Health Authority
140 West Michigan Avenue
Battle Creek, MI 49017

Ms. Jeannie Goodrich, CEO
Summit Pointe Community Mental Health Authority
140 West Michigan Avenue
Battle Creek, MI 49017

Mr. Nick Lyon, Director
Department of Health and Human Services
333 South Grand Avenue
Lansing, Michigan 48909

Dear Ms. Vette, Ms. Goodrich, and Mr. Lyon:

Enclosed is our final report from the Michigan Department of Health and Human Services (MDHHS) audit of the Summit Pointe Community Mental Health Authority for the period October 1, 2007 through September 30, 2014.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions; Findings and Recommendations; Adjustments and Financial Impact Schedule; and Corrective Action Plans. The Corrective Action Plans include the agency's paraphrased response to the Preliminary Analysis, and the Bureau of Audit's response to those comments where necessary.

Please note that the Corrective Action Plans for Findings 4 and 22 located at pages 63-67 and 112-115, respectively, require further action. Summit Pointe must provide the referenced legal justification for the cited activities for further analysis by MDHHS's Behavioral Health & Developmental Disabilities Administration.

As a result of the audit findings, over \$19 million in costs reported to MDHHS over a seven-year period (FYE 2008 through 2014) have been determined to be unallowable. A removal of the unallowed costs and revised contract reconciliations and cash settlements revealed a required total lapse amount of \$17,937,107 as shown on the Adjustments and Financial Impact Schedule displayed on Page 49 of the report.

If the agency disagrees with the MDHHS audit findings, the agency must use the appeal process specified in Attachment C9.3.2.1 of the agency's contract with MDHHS. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If disputing the adverse action, the agency must submit a request for the Medicaid Provider Reviews and Hearings Process pursuant to MCL 400.1 et seq. and MAC R 400.3402, et seq. within 30 days of the receipt of this letter. Requests must 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 request must also include any substantive documentary evidence to support the position. Requests must specifically identify whether the agency is seeking an internal 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 MDHHS's Final Determination Notice according to MAC R 400.3404, and MDHHS will implement the audit adjustments.

A request for an internal conference must be sent within 30 days of receipt of this letter to:

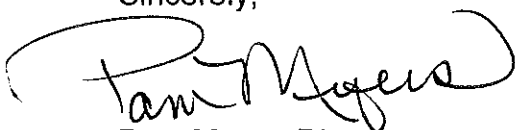
MDHHS Appeals Section
P.O. Box 30807
Lansing, Michigan 48909

A request for an administrative hearing must be sent within 30 days of receipt of this letter to:

Michigan Administrative Hearing Systems
Michigan Licensing and Regulatory Affairs
P.O. Box 30763
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,



Pam Myers, Director
Bureau of Audit

e-copy:

Nancy Vreibel, Senior Chief Deputy Director, MDHHS

Farah Hanley, Senior Deputy Director, Financial Operations Administration, MDHHS

Dr. George Mellos, Senior Deputy Director, Behavioral Health & Developmental
Disabilities Administration, MDHHS

Jeffery Wierich, Acting Director, Bureau of Community Based Services, MDHHS

John Duvendeck, Director, Division of Program Development, Consultation & Contracts, MDHHS

Kidada Smith, Manager, Contracts Payable Section, MDHHS

Deb Hallenbeck, Director, Audit Division, Bureau of Audit, MDHHS

Audit Report

Summit Pointe Community Mental Health Authority

Limited Scope Fiscal Review

October 1, 2007 - September 30, 2014



Bureau of Audit
Audit Division

October 2018

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives	2
Scope and Methodology.....	3
<u>Conclusions, Findings, and Recommendations</u>	
<u>Defined Benefit Pension Plan Funding Allowability</u>	4
1. Unallowable Defined Benefit Pension Plan Funding.....	4
2. Actuary Valuation Reports Based on Inaccurate Information	12
<u>Select Cost Allowability</u>	13
3. Unallowed Expense Items	13
4. Unallowed Business Activities Funded with MDHHS Funds.....	17
5. Lack of Receipts and Lack of Detail to Determine Valid CMH Cost.....	19
6. Double Reporting of Children’s Waiver Program Expenditures	21
7. Administration Costs Not Properly Allocated to All Benefitting Cost Centers	21
8. Unallowed Payments To/Contract With Board Member	22
9. Unallowed Software Creation	23
10. Unallowed Information Technology Equipment and Supplies.....	25
11. Improper Cost Accounting Methodology	26
<u>Compensation Reasonableness</u>	27
12. Unreasonable Compensation Paid to CEO, COO, and CFO.....	27
<u>Procurement Policies and Procedures</u>	30
13. Non-Compliant Procurement Policy and Procedures	30
14. Non-Compliant Procurements	32
15. Subcontracts Lack Required Language.....	34

Other Findings and Recommendations

16. CEO Violated Michigan’s Standards of Conduct for Public Employees..... 35

17. CEO Violated Summit Pointe’s Contract Procurement Policy..... 35

18. Annual Affiliated Organizational Disclosure Statements and
Conflict of Interest Statements Not Completed 36

19. Lack of Specific Merit Pay Policy for Non-Union Employees and
Excessive Amounts Paid Without Documented Support..... 37

20. Medical Retirement Contributions Exceed Plan Provisions and
Plan Contribution Amount Appears Unreasonable..... 38

21. Agency Funds Used to Operate Golf Course 41

22. Questionable Property Management Business..... 42

23. Unauthorized and Unjustified Condominium Purchase 43

24. Subcontracts Not Executed Prior to Commencement of Services and Prior to
Payments to Contractors, and Subcontract List Not Submitted to MDHHS 44

25. Lack of Approval for Payments..... 45

26. Unreasonable Food Expenses for Meetings and Lack of Adequate Support 46

27. Service Awards with No Written Policy..... 46

28. Lack of Effective Monitoring of Wireless Phone Expenditures..... 47

29. Capital Asset Policy Does Not Address Physical Inventory Requirement 48

Adjustments and Financial Impact Schedule..... 49

Corrective Action Plans..... 50

DESCRIPTION OF AGENCY

The Calhoun County Community Mental Health Authority (doing business as “Summit Pointe”) arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. The supports and services are made available to residents of Calhoun County who meet eligibility and other criteria.

Summit Pointe is governed under the provisions of the Mental Health Code (the “Code”), Act 258 of the Public Acts of Michigan of 1974. Under the Code, Summit Pointe is a community mental health authority, a public governmental entity separate from Calhoun County. Summit Pointe’s contracts with the Michigan Department of Health and Human Services (“MDHHS”), formerly the Michigan Department of Community Health, require Summit Pointe to use the principles and standards of OMB Circular A-87 (located at 2 CFR Part 225) for determining all costs related to the management and provision of services reported on the Financial Status Report (“FSR”). Procedures and policies for a community mental health authority are set by the Board of Directors of the community mental health authority. The Summit Pointe Board of Directors consists of 12 members elected by a majority vote of the Calhoun County Board of Commissioners.

Any reference herein to CEO, COO, and CFO relate to the former employees of Summit Pointe who served in those positions, all of whom separated from Summit Pointe in 2015.

FUNDING METHODOLOGY

Summit Pointe’s primary sources of revenue are Medicaid and State General Fund dollars received from MDHHS through two separate contracts. Summit Pointe also contracts for other funding from MDHHS including, but not limited to, the Michigan ABW Non-Pregnant Childless Adults Waiver Section 1115 Demonstration Program (“ABW Program”). Summit Pointe’s other sources of revenue include first and third party payors, and other non-MDHHS contractual agreements for behavioral health and other services. Calhoun County also provides local match funding as required by the Code. The various contracts and funding arrangements are described below.

Beginning October 1, 2002, Summit Pointe entered into annual contracts with MDHHS to administer the Medicaid funds for behavioral health services for not only Calhoun County, but also Barry, Berrien, Branch, and VanBuren counties as a Prepaid Inpatient Health Plan (“PIHP”). The Venture Administrative Board, consisting of two voting members from each of the five member counties, managed the regional Medicaid contract on behalf of the Summit Pointe Board, and operated under the terms of intergovernmental agreements. Summit Pointe continued to operate as a PIHP through December 31, 2013. On January 1, 2014, Summit Pointe relinquished its role as the PIHP for the five counties, including Calhoun County, to Southwest Michigan Behavioral Health (SWMBH).

Under the Medicaid Managed Specialty Supports and Service Concurrent 1915(b)/(c) Waiver Program Contract (the “Medicaid Contract”), MDHHS provided Summit Pointe with both the State and Federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (“PEPM”) methodology. The Medicaid Contract represents a shared risk arrangement with MDHHS whereby some unexpended funds may be retained by Summit Pointe to use in the subsequent period and the rest needs to be returned to MDHHS, and some expenditures above the authorization are the responsibility of Summit Pointe and some are the responsibility of MDHHS.

Under the Managed Mental Health Supports and Services Contract (the “GF Contract”), MDHHS provided Summit Pointe with State General Funds for mental health and developmental disability supports and services to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in Section 208 of the Code. The funds were distributed based upon a formula. Up to 5% of unexpended funds may be carried forward and spent in the subsequent year, and the rest needs to be returned to MDHHS. The GF Contract is not a shared risk arrangement, so any expenditures above the authorization are the responsibility of Summit Pointe.

Under the ABW Program, MDHHS provided Summit Pointe with ABW Program funds as capitated payments based on a PEPM methodology for ABW-covered mental health and substance abuse services. The ABW Program represents a full risk arrangement with MDHHS whereby any unexpended funds may be retained by Summit Pointe, but Summit Pointe bears the risk that the actual PEPM payments will not cover the expenses for covered services and the risk cannot be covered with the Medicaid Contract funds.

As required by the MDHHS contracts, Summit Pointe reports their various revenues and expenditures to MDHHS on a Financial Status Report (the “FSR”) and completes a Contract Reconciliation and Cash Settlement (the “CRCS”) showing the dispositions of any surpluses (unexpended funds) or any deficits (expenditures above the authorization). MDHHS reviews the FSR and CRCS, and determines a cash settlement. However, MDHHS reserves the right to audit the amounts of revenues and expenditures reported and make necessary revisions and cash settlement adjustments.

PURPOSE AND OBJECTIVES

In 2014, Summit Pointe’s Board of Directors became aware of certain discrepancies at Summit Pointe and hired a law firm to investigate those discrepancies and certain suspicious actions of its CEO. That investigation discovered conflicts of interest, and possible fraud and wrongdoings committed by Summit Pointe’s CEO, which Summit Pointe and the law firm voluntarily brought to the MDHHS and the Michigan Office of Attorney General (“AG Office”). This led to an investigation by the AG Office related to one matter that resulted in the former CEO of Summit Pointe pleading guilty to two counts of Medicaid Fraud conspiracy under the Medicaid Fraud Act and one count of Embezzlement by a Public Officer for which he was fined and sentenced to prison. The

law firm identified multiple other questionable activities including, but not limited to, an unauthorized establishment of a pension plan, potential conflicts of interest in contracting, and excessive compensation paid to officers. When becoming aware of these questionable activities, MDHHS initiated this limited scope fiscal review of various components of Summit Pointe's operations.

The following were the specific objectives of the limited scope fiscal review:

1. To determine if funding contributions for the defined benefit pension plan for FYE 2008 through FYE 2014 complied with applicable regulations, and MDHHS requirements and agreements.
2. To determine if select costs reported by Summit Pointe to MDHHS for the fiscal year ends 2012, 2013, and 2014 complied with applicable requirements and agreements.
3. To determine if compensation paid to Summit Pointe's chief officers (CEO, COO, and CFO) for fiscal year ends 2012, 2013, and 2014 was reasonable for the services rendered and conformed to the established policy of the governmental unit as required by Federal cost principles.
4. To determine if Summit Pointe's procurement policies and procedures in place for fiscal year ends 2012, 2013, and 2014 conformed to the Uniform Administrative Requirements located at 45 CFR Part 92.36.

Each objective of the review is included below under a descriptive heading with the conclusion for each followed by applicable findings and recommendations.

During our review, we noted additional violations and areas of concern that did not necessarily pertain to an objective of our review. These are included in the Other Findings and Recommendations Section.

SCOPE AND METHODOLOGY

We examined select records and activities for the fiscal periods October 1, 2007 to September 30, 2014. Items related to the defined benefit pension plan were reviewed for the entire seven-year period. Other items were generally limited to FYEs 2012, 2013, and 2014. Our review procedures included the following:

- Reviewed Board of Director and other meeting minutes.
- Reviewed various policies and procedures, the Employee Handbook, and the Personnel Manual for Administrative Employees.
- Reviewed audited financial statements for entries and disclosures related to the defined benefit pension plan.
- Reviewed the CAP (Cost Allocation Plan) Model, and reconciled the CAP Model to the FSR.
- Reviewed the Summit Pointe Defined Benefit Pension Plan, subsequent amendments, and the restatement.

- Reviewed e-mail correspondence related to the establishment and amendments of the defined benefit pension plan, and other activities.
- Completed a survey of all community mental health service providers (“CMHSPs”) in the State of Michigan (which represents the labor market in which Summit Pointe competes for the kind of employees involved) to identify defined benefit pension plans offered to employees of CMHSPs and various details of such, and compensation paid to officers of CMHSPs.
- Interviewed three members of the Board of Directors that had been members since at least 2008 and remained as members at the time of the interview.
- Reviewed the actuary valuation reports and investment statements related to the defined benefit pension plan.
- Reviewed compensation paid to the CEO, COO, and CFO.
- Reviewed various subcontracts, attachments and amendments; and invoices and accounting records related to the various contracts.
- Reviewed select expenditure items for allowability.
- Reviewed credit card statements and receipts for each employees’ credit cards.
- Reviewed inventory information related to information technology equipment.
- Reviewed real property for proper depreciation charges.
- Reviewed to identify non-CMH activities/businesses and how they were funded.
- Reviewed administrative cost allocations for the proper distribution to all benefitting programs.

Our review did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

Defined Benefit Pension Plan Funding Allowability

Objective 1: To determine if funding contributions for the defined benefit pension plan for FYE 2008 through FYE 2014 complied with applicable regulations, and MDHHS requirements and agreements.

Conclusion: Summit Pointe’s funding contributions for the defined benefit pension plan for FYE 2008 through FYE 2014 did not comply with applicable regulations, and MDHHS requirements and agreements. Reported contributions totaling \$13,307,747 are disallowed; the impact on MDHHS funds is shown on the attached Adjustments and Financial Impact Schedule. Summit Pointe’s contributions for the defined benefit pension plan did not comply with applicable OMB Circular A-87 cost principles (Finding 1). Additionally, Summit Pointe’s actuary valuation reports related to the defined benefit pension plan were based on inaccurate information (Finding 2).

Finding

1. Unallowable Defined Benefit Pension Plan Funding

Summit Pointe’s chief officers (CEO, COO and CFO) created, amended, and funded a defined benefit pension plan for themselves and other non-union employees over a seven-year period (2008 through 2014) at amounts determined unreasonable and

unallowable under applicable Federal cost principles, all without specific Board of Director approval.

According to OMB Circular A-87, costs must be necessary and reasonable for the proper and efficient performance and administration of the program, and conform to any other limitations set forth in OMB Circular A-87 to be allowable. The following are relevant excerpts from OMB Circular A-87 that address allowability of costs, and define reasonableness with factors to consider in determining reasonableness:

Appendix A, Section C. Basic Guidelines

1. *Factors affecting allowability of costs. 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...*
 - d. *Conform to any limitations or exclusions set forth in these principles...*
2. *Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. 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...*
 - 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.*

Appendix B, Section 8. Compensation for Personal Services

- a. *General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:*
 - (1) *Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities...*
- b. *Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of*

employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness...

d. Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit...

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies.

In early 2008, the CEO, COO and CFO began discussions about defined benefit pension plan options, and an "idea" for a defined benefit pension plan was presented in an email by the COO to the CEO and CFO that eventually materialized. The COO sought guidance from an outside attorney, specifically asking in an email "do we need a Board resolution?" The attorney responded in an email with several required steps that specifically included Board approval. After receiving the response, the COO again asked in an email, "We want to know if a Board approval is required." The attorney responded with several scenarios, again indicating Board approval may be required. However, the COO and the CEO's assistant then reviewed the enabling resolution of Summit Pointe and wrongly concluded that there is "no legal requirement for us to require board approval for the pension" per an email from the COO to the CEO and CFO. They neglected to consider the general policy guidelines established by the Board, as advised by the attorney, when determining if Board approval was required. Section 226 of the Mental Health Code (Act 258 of 1974, MCL 330.1226) requires the Board of Directors to establish general policy guidelines within which the executive director shall execute the community mental health service program. The Board of Directors adopted an Executive Limitations Policy #01-008 in 1996 relating to compensation and benefits that prohibit the CEO from:

- Changing his own benefits;
- Establishing benefits which deviate materially from the geographic or professional market for the skills employed;
- Establishing benefits which create obligations over a longer term than revenues can be safely projected and in no event longer than one year;
- Establishing or changing benefits so the pension provisions commit the organization to benefits which incur unpredictable future costs; and
- Establishing or changing benefits so the pension provisions are instituted without prior monitoring of these provisions.

The CEO had no delegated authority to create a defined benefit pension plan for himself and other employees without Board of Director approval. However, the CEO, in direct violation of Policy #01-008, created a defined benefit pension plan for himself and other employees effective September 30, 2008 by signing the Defined Benefit Pension Plan (hereinafter referred to as “DB Pension Plan”). The CEO’s creation of the defined benefit pension plan was a direct violation of Policy #01-008 because he changed his own benefits, established pension benefits committing the organization to benefits which incur unpredictable future costs, and established pension benefits so the pension provisions were instituted without prior monitoring. Furthermore, the DB Pension Plan allowed unilateral amendments by the CEO or COO. The Board of Directors did not approve the establishment of the DB Pension Plan and did not authorize these designated officers to amend the DB Pension Plan.

The DB Pension Plan, as originally adopted, provided for an immediate benefit accrual for the previous eight years (2000 – 2007) for non-union employees (12 employees at the time of inception), immediate vesting for those with eight years of service, and a benefit credit of 1.75% of the participant’s compensation for each year of service. As a result, the CEO received immediate vesting and an immediate accrual at the Plan’s inception of an annual benefit commencing at age 65 and payable for the duration of his life in the amount of \$28,000.

The CEO and COO made numerous amendments to the DB Pension Plan over the next several years, further enriching their benefits and the benefits of non-union employees, and providing additional benefits to employees for periods of time when they served as independent contractors; none of which had Board of Director involvement. Less than two years after the DB Pension Plan’s inception, the COO’s stated goal in email conversations was to provide 60% of income replacement at retirement in the next few years (effectively, a 60% income replacement benefit for select employees to be accomplished and funded within a five-year period). This goal was aggressively pursued as evidenced by email communications among the CEO, COO, CFO, actuary, and attorney; and the resulting amendments to the DB Pension Plan.

The following summarizes the most significant amendments and actions related to the DB Pension Plan that resulted in further enrichments, none of which had Board of Director involvement:

- The first amendment (9/28/2009) granted compensation amounts, benefit years, and vesting service to two individuals for years in which they served as independent contractors, even though the contracts with the individuals stated that they are not entitled to participate in any of Summit Pointe’s employee benefit programs, the employee definition in the DB Pension Plan excludes independent contractors, and compensation in the DB Pension Plan only includes wages paid by the employer to the employee. The COO even stated in an email to the CEO and CFO, “wow, I can’t believe we pulled this off.” (Note: One of these two former contractors has since voluntarily waived all benefit years and compensation that were granted under this amendment, and the other has entered into a settlement agreement with Summit Pointe in which he waived approximately 70% of his DB Pension Plan benefit.)

- The second amendment (9/30/2009) increased the benefit credit multiplier to 2.5%. The multiplier applied to all benefit years, so the effect of the change was to increase the value of the participants' benefits by 43%.
- The third amendment (9/28/2010) increased the benefit credit multiplier to 7.0%. The multiplier applied to all benefit years, so the effect of the change was to quadruple the original multiplier of 1.75% to 7.0% within two years of the DB Pension Plan's inception. This required Summit Pointe to contribute \$6.3 million in 2010 alone, which equated to an average contribution of over \$370,000 per employee participant.
- The fourth amendment (10/5/2010) provided survivor benefits to those other than spouses and increased the death benefit to the actuarial equivalent of the participant's accrued benefit from the previous 50% survivor annuity for a spouse.
- The sixth amendment (12/29/2011) reduced the early retirement age from 62 to 60.

The following components related to the DB Pension Plan resulted in costs that (1) are not generally recognized as ordinary and necessary, (2) are not comparable to that paid for similar work in the labor market, (3) exceed that which would be incurred by a prudent person, and (4) unjustifiably increased the cost of carrying out the Federal and State-funded programs:

- Benefit credit multiplier of 7% that is far in excess of any other multiplier used by the comparable labor market.
- Compensation amounts, benefit credits, and vesting service given to employees for periods of time acting as independent contractors for the agency.

The following **bolded** criteria are provided in the Federal cost principles for determining reasonableness. Comments are provided below each item to explain how each criterion was not met. As part of the review fieldwork, MDHHS completed a survey of all Community Mental Health Service Providers (CMHSPs) in the State of Michigan (which represents the labor market in which Summit Pointe competes for the kind of employees involved) to obtain compensation data representative of the labor market involved (referred to herein as the "Survey"), as this is an acceptable basis for evaluating reasonableness according to OMB Circular A-87, Appendix B, Section 8. b. The results are referenced below where applicable.

Ordinary and necessary (A-87, Appendix A, Section C. 1.a. and 2.a.):

Not ordinary nor necessary to increase the benefit credit multiplier from 1.75% to 2.5% in the first year, and from 2.5% to 7.0% in second year, and apply the increase to all past years. The benefit credit multiplier quadrupled within two years of the DB Pension Plan inception. Less than two years after the DB Pension Plan's inception, the COO's stated goal in email conversations was to provide 60% of income replacement at retirement in the next few years (effectively, a 60% income replacement benefit for select employees to be accomplished and funded within a five-year period). **Not ordinary** – The Survey results showed Summit Pointe's benefit credit multiplier of 7% was far above other CMHSPs in the State of Michigan with all others (except one "unknown" response) offering a multiplier for each year of

credited service in the 1.6% to 2.5% range. **Not necessary** - Employees had no expectation/agreement to receive an increase in benefit credit for past years and Summit Pointe had no obligation to provide the increased benefit credit to them.

Not ordinary nor necessary to grant compensation amounts, benefit credits, and vesting service to two participants for years in which they were providing services to Summit Pointe as independent contractors. **Not ordinary** – The Survey results showed no other CMHSP in the State of Michigan did this. Additionally, this was done in a “letter format so that it will not be included in the actual plan document” per COO email, and this provision is not in the 2013 Restatement of the DB Pension Plan. Finally, the COO could not even believe they pulled this off as stated in an email to the CEO and CFO, “...wow, I can’t believe we pulled this off...” **Not necessary** - Contractors had no expectation or agreement regarding this during their contract years and Summit Pointe had no obligation to provide the benefit to them. Also, the “employee” definition in the DB Pension Plan clearly excludes independent contractors.

Compensation (includes fringes) is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness (A-87, Appendix B, Section 8 b.):

Based on the Survey, Summit Pointe’s DB Pension Plan is NOT comparable to pension plans of those in the similar labor market as follows:

- 7% benefit credit multiplier used for each year of credited service when all other CMHSPs in the State of Michigan offering a defined benefit pension plan (except one “unknown” response) were in the 1.6% - 2.5% range. Based on the Survey and the fact that during all years related to the DB Pension Plan funding Summit Pointe also maintained the Retirement Savings Plan and provided match to employees, it is determined that a 2% benefit credit multiplier was reasonable under the DB Pension Plan. Accruals under the DB Pension Plan in excess of those based on a 2% benefit credit multiplier are not reasonable.
- Compensation amounts, benefit credits, and vesting service given to employees for periods of time acting as independent contractors for the agency when no other CMHSP in the State of Michigan has done this. None of the accruals under the DB Pension Plan related to such service are reasonable.

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 (A-87, Appendix A, Section C. 1.a. and 2.d.):

The CEO, COO, and CFO did not act with prudence in creating and amending the DB Pension Plan considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal government. According to the Mental Health Code, Public Act 258 of 1974, MCL 330.1230, the executive director (Summit Pointe’s CEO) shall execute and administer the program in accordance with the general policy guidelines established by the Board of Directors.

Additionally, the CEO's contract required him to perform his duties within the constraints in the Board policies. The Board of Directors of Summit Pointe did not approve the establishment or amendments to the DB Pension Plan prior to 2015, with the exception of the 10th Amendment creating a formal trust for the Plan. The Board of Directors of Summit Pointe did not authorize the CEO, COO, or CFO to establish or amend the DB Pension Plan. Board Policy #01-008 prohibited the CEO from changing his own benefits, establishing and changing pension benefits so the pension provisions commit the organization to benefits which incur unpredictable future costs, and establishing or changing pension benefits so the pension provisions are instituted without prior monitoring. The CEO violated the provisions of Board Policy #01-008 when he established and amended the DB Pension Plan. Furthermore, the CEO, COO, and CFO did not exercise good judgement when establishing and amending the DB Pension Plan considering the high cost, lack of necessity, and deviations from the norm as explained in other areas of this finding.

Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost (A-87, Appendix A, Section C. 1.a. and 2.e.):

In creating and amending the DB Pension Plan, the CEO and COO significantly deviated from the established practices of Summit Pointe and these actions unjustifiably increased costs. Summit Pointe's established practices with respect to pension benefits consisted of two plans – the Retirement Savings Plan and the Summit Pointe Pension Plan, also known as the Social Security Alternative. The Social Security Alternative is a replacement for Social Security benefits and, as such, it is not viewed as a separate pension benefit. All those eligible for the DB Pension Plan were also eligible for the Retirement Savings Plan, which provided for a 5% employer match. Accordingly, in addition to the available 5% employer match through the Retirement Savings Plan, the DB Pension Plan participants also received a very generous defined benefit pension plan due to the generous exploits of the creators. The reasons for the added DB Pension Plan and amendments, per email correspondence among the CEO, COO and CFO, were to “reward employees who have provided 8 – 10 years of service” and to put together a plan to get to the goal of providing 60% of income replacement at retirement, and to get to this target in the next few years (stated in 2010, only two years after the DB Pension Plan inception). These are not justifiable reasons to significantly increase the cost of Federal and State-funded programs by adding a DB Pension Plan.

The added DB Pension Plan unjustifiably increased the cost of the Federal and State-funded programs. A Summary of Costs in Comparison to Participants' Compensation is shown in the table on the following page. For seven years of funding (FYE 2008 through FYE 2014), it cost \$18,224,040, most of which was funded by State and Federal funds. These funds benefitted a mere 21 employees, which equates to an average contribution of **\$867,811 per employee** over a seven-year period. Summit Pointe's contributions to fund the DB Pension Plan for FYE 2009 through FYE 2014 were 102% of participants' compensation. In one year alone, the employer contribution to fund the DB Pension Plan was 2.6 times the participants' compensation, with an average contribution for each employee of \$370,529.

Summary of Costs in Comparison to Participants' Compensation

Year Funded	DB Pension Plan Funding	Participants' Compensation	# in Plan	Funding as % of Compensation	Avg. Contribution/ Participant
2008	\$975,000	Not readily available	12		\$81,250
2009	\$1,572,582	\$1,848,763	16	85.1%	\$98,286
2010	\$6,299,001	\$2,406,842	17	261.7%	\$370,529
2011	\$2,404,650	\$2,685,343	17	89.5%	\$141,450
2012	\$3,206,685	\$3,109,342	19	103.1%	\$168,773
2013	\$2,109,531	\$3,395,637	20	62.1%	\$105,477
2014	\$1,656,591	\$3,470,398	21	47.7%	\$78,885
Total	\$18,224,040				

As described above, the following components of the DB Pension Plan have been determined to NOT be reasonable, and the related costs are therefore unallowable:

- Benefit credit multiplier of 7% that is far in excess of any other multiplier used by the comparable labor market. A 2% benefit credit multiplier is determined to be reasonable.
- Compensation amounts, benefit credits, and vesting service given to employees for periods of time acting as independent contractors for the agency.

The following adjustments are included on the attached Adjustments and Financial Impact Schedule:

- \$1,034,207 disallowed for contributions made on behalf of independent contractors.
- \$12,273,540 disallowed for contributions made for a benefit credit multiplier that exceeded 2%.

Subsequent Events

Subsequent to the identification of the improperly established and funded DB Pension Plan by Summit Pointe's hired law firm, Summit Pointe terminated its prior retirement plan counsel who had worked with the CEO, COO and CFO in establishing and amending the DB Pension Plan, and has since worked with the investigating law firm on retirement plan matters. The following has taken place:

1. The DB Pension Plan was amended to require Summit Pointe Board of Director action for any benefit applications and any substantive DB Pension Plan amendments.
2. The DB Pension Plan was amended to allow voluntary, irrevocable waivers of benefits. Voluntary waivers were given by the CEO (waived entire DB Pension Plan benefit), the COO, the CFO, the CEO's assistant and the two participants who received accruals for periods in which they were independent contractors.
3. The DB Pension Plan was amended to remove the lump sum form of payment to prevent bad actors from cashing out.

4. Participants in the DB Pension Plan were advised that, notwithstanding the information set forth on the benefits statements they received showing an accrual for the 2013 plan year based on a 7% multiplier, the DB Pension Plan was not formally amended by the former CEO or COO to provide such an accrual and no such accrual will be recognized.
5. The DB Pension Plan was amended to credit benefit years for 2013 and 2014 using a reduced benefit credit multiplier of 1.6% for each of those years. The former CEO, COO, CFO and CEO's assistant were specifically excluded from receiving the added benefit years 2013 and 2014. No years of benefit service were given for years subsequent to 2014.
6. The investment of the DB Pension Plan's assets was moved to the Michigan Employees Retirement System.
7. The Summit Pointe Board terminated the DB Pension Plan effective September 1, 2018 allowing for a reversion of funds to the funding source after satisfaction of liabilities.

Recommendation

We recommend that Summit Pointe adopt appropriate internal controls that will ensure the proper use of government funds, the proper establishment of employee benefits, and the prevention of the types of non-compliance issues and abuses identified herein.

Finding

2. Actuary Valuation Reports Based on Inaccurate Information

Summit Pointe's staff that administered the DB Pension Plan (CEO, COO and CFO) provided the outside actuary inaccurate plan provisions and inaccurate participant data that was used in the actuarial valuations to determine funding requirements for the DB Pension Plan, which resulted in overstated liabilities and overstated funding costs for FYE 2008 through FYE 2014, and overstated benefits for the participants.

According to OMB Circular A-87, Appendix B., Section 8.e., "Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method." Summit Pointe used an actuarial cost-based method as certified by a contracted actuary, which relied on data submitted by Summit Pointe. The following inaccurate plan provisions and inaccurate participant data was provided to the outside actuary:

- a. The actuarial valuation for the 2010 DB Pension Plan year and funded in FYE 2011 included the 2010 benefit year that had not been amended into the DB Pension Plan. (The 2010 benefit year was amended into the DB Pension Plan on December 29, 2011.)
- b. The actuarial valuation for the 2013 DB Pension Plan year and funded in FYE 2014 included the 2013 benefit year that had not been amended into the DB Pension Plan. (The 2013 benefit year was amended into the DB Pension Plan on August 4, 2015, but at a 1.6% benefit credit rather than a 7% benefit credit as noted in Finding 1 above.)
- c. The actuarial valuations for all DB Pension Plan years under review inappropriately included group term life insurance in the amount of compensation reported for accrual purposes.

- d. The actuarial valuations included wages paid to the CFO by Manpower for the amount of compensation reported for accrual purposes, but Manpower is not a participating employer in the DB Pension Plan, and wages by Manpower cannot be treated as compensation under the DB Pension Plan.

The above inaccurate plan provisions and inaccurate participant data that was provided to the outside actuary and used in the actuarial valuations resulted in overstated benefits for the participants, and overstated funding requirements. The financial impact of the above could not be determined without amended actuarial valuations. Financial adjustments are not proposed related to this finding.

Recommendation

We recommend that Summit Pointe take action to ensure accurate plan provisions and accurate participant data is provided to the outside actuary for any future actuarial valuations and participants' projected benefit calculations. We also recommend Summit Pointe complete benefit recalculations based on accurate plan provisions and accurate participant data, correct benefit payments, recoup overpayments, and provide recalculations to participants as deemed necessary.

Select Cost Allowability

Objective 2: To determine if select costs reported by Summit Pointe to MDHHS for the fiscal year ends 2012, 2013, and 2014 complied with applicable requirements and agreements.

Conclusion: Summit Pointe reported costs to MDHHS during fiscal year ends 2012, 2013, and 2014 that did not comply with applicable requirements and agreements. We noted the reporting of multiple unallowed expense items (Finding 3), unallowed business activities funded with MDHHS funds (Finding 4), a lack of documentation to determine if costs were valid CMH costs (Finding 5), double reporting of Children's Waiver expenditures (Finding 6), administration costs not properly allocated to all benefitting programs (Finding 7), unallowed payments to and a contract with a Summit Pointe Board member (Finding 8), an unallowed software creation expense (Finding 9), unallowed information technology equipment and supplies expenses (Finding 10), and an improper cost accounting methodology (Finding 11). For these findings, we identified total reported costs of \$5,119,973 that did not comply with applicable requirements and agreements. The adjustments and impact on MDHHS funds are shown on the attached Adjustments and Financial Impact Schedule.

Finding

3. Unallowed Expense Items

Summit Pointe reported multiple expenditures as MDHHS program costs on the FYEs 2012, 2013 and 2014 FSRs, but the expenditures were not allowed under the MDHHS programs.

The following summarizes the unallowed expenditure items identified for the FYEs 2012, 2013, and 2014 based on our sample testing, and the amounts related to each:

<p>Psychic Services for CEO (Payments related to a sham consulting contract to pay for the CEO's personal psychic as identified by Summit Pointe's hired law firm. The Michigan Office of Attorney General's investigation ultimately led to the former CEO of Summit Pointe pleading guilty to two counts of Medicaid Fraud Conspiracy under the Medicaid Fraud Act and one count of Embezzlement by a Public Officer for which he was fined and sentenced to prison.)</p>	<p>* \$510,000 *includes \$245,000 from FYE 2011</p>
<p>Travel (CEO's personal airplane expense, meals over policy limit, local meals, alcohol, meals for additional people with no documented business purpose, snacks, mileage not related to the provision of covered services, gas and other miscellaneous vehicle expenses for undeterminable vehicle or purpose.)</p>	<p>86,734</p>
<p>Gifts and Gift Cards (Appears to have been provided to employees, Board members, contractors, and volunteers, but no record of who received them.)</p>	<p>65,281</p>
<p>Sponsorships, Donations and Contributions to Community Organizations</p>	<p>61,597</p>
<p>Memberships in Community Organizations</p>	<p>60,974</p>
<p>Biofeedback & EPTX Equipment and Training (Non-evidence based/non-covered services.)</p>	<p>56,666</p>
<p>Consultation to Other States (Provided consultation services to other states regarding Medicaid.)</p>	<p>35,040</p>
<p>Incentive Payments to Contractor (Payments of \$20,000 and \$15,000 for FYEs 2012 & 2013 "upon verification of successful completion of performance improvement responsibilities as identified by the CEO" according to the contracts, but nothing provided to document justification for payments to the now ex-spouse of the former Summit Pointe Board Chair.)</p>	<p>35,000</p>
<p>Attorney Fees Not Related to Provision of Covered Services (Consultation and research on activities not related to the provision of covered services.)</p>	<p>28,668</p>
<p>Joint Venture Exploration (Joined three other entities in a joint venture agreement, each paying \$25,000, for the purpose of exploring opportunities for new business. Of the \$100,000 collected, one third remained unspent and retained at one of the other entities at the time of our review.)</p>	<p>25,000</p>
<p>Web Site Development for Contractor (Development of a web site for a contractor of Summit Pointe in the business of professional and personal wellness, and the web site was not related to the provision of covered services.)</p>	<p>25,000</p>
<p>Party/Entertainment (Symphony tickets; and holiday, graduation, retirement, and birthday parties, one of which was a surprise party for someone that was not even employed by or on the Board of Summit Pointe.)</p>	<p>23,625</p>
<p>Book Club (Contractor operated a book club; the participant group is unknown.)</p>	<p>22,112</p>
<p>Business Growth Research (Contractors hired to research potential business growth opportunities which included fuel cell companies, and utility bill auditing.)</p>	<p>19,101</p>

Boutique Hotel (Employee travel and contractor costs for researching how to operate a boutique hotel. There was a building in downtown Battle Creek that Summit Pointe was considering purchasing and turning into a boutique hotel.)	15,357
Golf Membership and Country Club Expenditures for CEO	12,111
Investment Club (Contractor operated an investment club for some employees.)	9,320
Vitamins and Health Food/Drinks (CEO and staff charged purchases of vitamins and health food/drinks to Summit Pointe credit cards.)	8,035
Burial/Funeral Expenses (Burial, funeral meals, and donation for funerals related to former employees.)	7,639
Historic Preservation (Contractor hired to research historic preservation.)	5,080
Costume (Bobcat costume purchased for an unknown reason.)	838
Board Member's Personal Business Lunch	320
TOTAL	\$1,113,498

The following represents the relevant criteria in determining the allowability of the reported expenditures in question:

OMB Circular A-87, Appendix A, states that for costs to be allowable, they must meet the following general criteria:

- C.1.a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- C.1.b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
- C.1.d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- C.1.j. Be adequately documented.

OMB Circular A-87, Appendix A, defines **reasonable costs** as follows:

- C.2. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. 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.
 - 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.

OMB Circular A-87, Appendix A, defines **allocable costs** as follows:

- C.3.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.

OMB Circular A-87, Appendix B, states the following with respect to selected items of cost:

- 3. Costs of **alcoholic beverages** are unallowable.
- 12.a. **Contributions or donations**, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable.
- 14. Costs of **entertainment**, including amusement, diversion, and social activities and any costs directly associated with such costs are unallowable.
- 28.c. Costs of **membership in civic and community, social organizations** are allowable as a direct cost with the approval of the Federal awarding agency.

The Medicaid Contract allows for the provision of covered services as described in the Michigan Medicaid Provider Manual; and the services must be medically necessary and appropriate, and conform to accepted standards of care. The General Fund Contract states that the CMHSP shall make available the array of supports and services designated in section 206(1) of the Mental Health Code, and that the CMHSP must limit services to those that are medically necessary and appropriate, and that conform to professionally accepted standards of care. According to the Medicaid Provider Manual, covered services are those that are evidence based and promising practices that are provided by staff who have been appropriately trained in the models and provided to the population for which the model was intended.

The Medicaid Provider Manual, Section 8.3 Noncovered Services of the General Information for Providers Chapter, lists biofeedback and experimental/investigational devices and equipment as not covered by the Medicaid program.

Adjustments for each of the above unallowed costs are included on the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe:

- a. Amend the Procurement Policy to ensure proper procurements occur; and implementation of the standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.
- b. Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contracts as required by 2 CFR 200.302(b)(7).
- c. Adopt policies and procedures to ensure only allowable costs related to covered services are reported for funding by MDHHS contracts.
- d. Establish and maintain effective internal control that provides reasonable assurance that Summit Pointe is managing the contracts in compliance with statutes, regulations, and the terms and conditions of the award.

- e. Review employee benefit policies and contracts, and amend as needed to ensure employee benefit policies and contracts include only allowable costs.
- f. Develop and implement a policy on professional and community memberships relating to employees and the agency, and ensure necessary approvals are obtained for cost allowability.
- g. Develop and implement a travel policy that addresses all reimbursable travel costs with reasonable limitations and documentation requirements. Implement a supervisory review and approval process to ensure compliance with the approved travel policy.
- h. Develop a policy related to gift giving that ensures compliance with applicable Federal cost principles.
- i. Implement the necessary controls to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.
- j. Include specific, measurable activities and products with specific payment terms for the performance of such in each contract. Discontinue including incentive payments in contracts, and only pay specific amounts for the specific products and services agreed upon in contracts.

Finding

4. Unallowed Business Activities Funded with MDHHS Funds

Summit Pointe engaged in numerous business activities that were not related to the provision of covered services under the Medicaid Contract or General Fund Contract, and inappropriately reported costs related to these activities that were not offset by revenue earned from these activities to MDHHS and received Medicaid and General Fund monies to help fund these business activities.

The Medicaid Contract allows for the provision of covered services as described in the Michigan Medicaid Provider Manual. Also, the services must be medically necessary and appropriate, and conform to accepted standards of care. The General Fund Contract states that the CMHSP shall make available the array of supports and services designated in section 206(1) of the Mental Health Code, and that the CMHSP must limit services to those that are medically necessary and appropriate, and that conform to professionally accepted standards of care. Furthermore, Summit Pointe's Enabling Resolution includes the purpose and the power to be exercised by the Authority, which is to comply with and carry out the provisions of Public Act No. 258 of 1974 (the Mental Health Code). The purpose of a community mental health services program, according to Section 206 of the Mental Health Code, shall be to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area.

Summit Pointe incurred expenses for things such as personnel, customer wages, equipment, materials, management, facilities, property rental, maintenance, and vehicles related to the various business activities listed below. If revenues from the various business activities were not sufficient to cover the expenses, the differences were reported as Medicaid or General Fund expenses and funded with MDHHS funds. However, the expenses were not related to the provision of covered services under the

Medicaid Contract or General Fund Contract, and should therefore not be reported as Medicaid or General Fund expenses. It should be noted, however, if revenues from the business activities exceeded expenses, Medicaid and General Fund received “credits” and total reported expenses to MDHHS were reduced. However, in all three years combined, this only occurred for one of the business activities, with all others incurring losses which were reported as Medicaid and General Fund expenses.

The following summarizes the business activities identified that were not related to the provision of covered services under the Medicaid Contract or General Fund Contract, and the total amounts reported as Medicaid and General Fund expenses for the three years under review (FYE 2012 – 2014) (if revenues exceeded expenses, the amounts are in parentheses):

Connections – Federal Center Janitorial (Contract with Federal government to provide janitorial services at the Hart-Dole-Inouye Federal Center in Battle Creek.)	\$(6,204)
Connections – Outside Custodial Services (Contracts with outside parties to provide custodial services to the outside parties.) *Amount undeterminable. Since three programs’ costs were accumulated in cost center #2314 (supported employment, internal housekeeping, and outside custodial services), it could not be easily determined which costs related to the outside custodial services, and if all costs were covered by contract revenue.	* Unknown
Connections – Lawn and Snow Removal (Contracts with outside parties for Summit Pointe staff and “customers” to provide lawn and snow removal services to the outside parties.)	228,047
Connections – Veterans Administration Laundry (Contract with Federal government to provide laundry services for VA Centers in Michigan and Indiana.)	149,485
Virtual School (Contract to provide a satellite school site and staffing for an alternative education program for youth that were not able to fit into traditional high schools.)	294,494
Skate Park (Entered into a “private venture” to provide a skate park that was open to the public.)	110,073
Maternal Infant Health Commission (Research program relating to child mortality, and work groups for preventing child deaths.)	33,032
School Self-Confidence and Self-Help Group Activities (Provided group activities in area schools that focused on self-confidence and self-help, but the activities did not meet the definition of prevention per the Medicaid Provider Manual.)	283,954
Michigan Works (Contracts with the Calhoun Intermediate School District and the W.E. Upjohn Institute for Employment Research to be the Program Operator for Employment Service, Profiling and Trade Programs, and Workforce Investment Act Core Services to serve Branch and Calhoun Counties and partner with other organizations in the operation of the Battle Creek Michigan Works! One-Stop Service Center.)	109,731
Coordinating Council of Calhoun County (Council created to put funds and fiscal decisions in the hands of the local community. Summit Pointe was responsible for developing a community report card. Costs for this business activity were generally put in a cost center funded with local resources. These costs, however, were charged to administration and spread to MDHHS-funded programs.)	21,238
TOTAL	\$1,223,850

Besides inappropriately using MDHHS funds for these activities, it is questionable whether Summit Pointe should be involved in these activities as they are not connected to fulfilling the purpose of the community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.

Adjustments for each of the above unallowed activities are included on the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe:

- a. Amend the CAP Model (Allocation Model) to ensure only the expenses for activities that are related to the provision of covered services under the Medicaid Contract or General Fund Contract are reported to MDHHS, and any unallowed activities are funded by local funds only.
- b. Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contract as required by 2 CFR 200.302(b)(7).
- c. Obtain a legal opinion on the permissibility of Summit Pointe's involvement in future business activities that are not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.
- d. If the activities are deemed permissible, evaluate the risk/benefit of involvement in all "non-CMH" business activities to determine if the activities should be continued or discontinued in the best interest of the agency.

Finding

5. Lack of Receipts and Lack of Detail to Determine Valid CMH Cost

Summit Pointe accounting staff paid for expenditures without obtaining and/or maintaining adequate supporting documentation. Receipts or invoices were entirely missing in some cases. In other cases, documentation was not sufficient to show what was purchased and that it had a purpose related to providing CMH services.

The Medicaid and General Fund Contracts (Part II, Section 6.6.1) require the maintenance of all pertinent financial and accounting records and evidence pertaining to the contracts based on financial and statistical records that can be verified; and an adequate internal control system.

The Medicaid Contract allows for the provision of covered services as described in the Michigan Medicaid Provider Manual; and the services must be medically necessary and appropriate, and conform to accepted standards of care. The General Fund Contract states that the CMHSP shall make available the array of supports and services designated in section 206(1) of the Mental Health Code, and that the CMHSP must limit

services to those that are medically necessary and appropriate, and that conform to professionally accepted standards of care.

OMB Circular A-87, Appendix A, states that for costs to be allowable, they must meet the following general criteria:

- C.1.a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- C.1.d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- C.1.j. Be adequately documented.

OMB Circular A-87, Appendix A, defines reasonable costs as follows:

- C.2. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. 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.

In our sample testing of expenditures for FYEs 2012, 2013 and 2014, we identified \$2,541,204 in expenditures that were not supported by an invoice/receipt, or not supported with sufficient documentation to show what was purchased and that it had a purpose related to providing CMH services. Expenditures must be adequately documented, and relate to the provision of CMH services to be allowable.

For some of the expenditures, other information allowed us to conclude they were likely allowable so no adjustment was made, or they were disallowed in other areas of this report. The remaining expenditures of \$922,476 are included as adjustments on the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe implement an adequate internal control system over financial reporting that provides reasonable assurance that financial reports are supported by underlying accounting records including detailed supporting documentation, and are fairly presented in accordance with program requirements.

Finding

6. Double Reporting of Children's Waiver Program Expenditures

Summit Pointe reported Children's Waiver Program Expenditures as both Children's Waiver Program Expenditures, and Medicaid and General Fund Expenditures for FYEs 2013 and 2014.

Children's Waiver Program Expenditures are accumulated in the "Youth and Family" cost center #2406, among other expenditures. The Children's Waiver Program Expenditures were reported on the Non-Medicaid FSR as Children's Waiver Program Expenditures. However, the full amount of expenditures in cost center #2406 were also reported as Medicaid and General Fund expenditures, resulting in a double reporting of the same expenditures. The amounts of Children's Waiver Program Expenditures for FYEs 2013 and 2014 were \$210,786 and \$270,422, respectively.

OMB Circular A-87, Appendix A, Section C. 1 h. states that for costs to be allowable, they must not be included as a cost of any other Federal award, in other words, costs cannot be double reported.

Adjustments for the double reported expenditures are included on the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe adopt policies and procedures to ensure costs are not double reported, which would include a review by an independent individual knowledgeable of the CAP Model and FSR reporting requirements, to ensure reporting complies with contract requirements.

Finding

7. Administration Costs Not Properly Allocated to All Benefitting Cost Centers

Summit Pointe pooled together general and board administration costs and allocated them to programs/cost centers based on accumulated cost in the program/cost center, but certain programs/cost centers were excluded from the allocation for FYEs 2012, 2013, and 2014 that appear to have received at least some benefit from the cost centers included in the cost pool, resulting in a disproportionate share of administration costs being allocated to MDHHS programs.

The MDHHS contracts (Section 6.6.1) require the proper allocation of costs to funding sources. OMB Circular A-87, Appendix A, Section F requires that indirect cost pools be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. Each project should receive a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

General and board administration costs (cc#8374 Administration, cc#8170 Finance, cc#8400 Performance Improvement, cc#8500 Community Education, and cc#8976 Research and Development) were pooled together and allocated to programs/cost centers based on accumulated cost in the program/cost center, but the Coordinating

Council, Girls on the Run, Residential Housing Units, and Pooled Funding cost centers were excluded from the allocation for FYEs 2012, 2013, and 2014 that appear to have received at least some benefit from the administration cost pool. When including these cost centers in the distribution base, we determined that the following amounts of general and board administration costs should have been allocated to these cost centers rather than being allocated to other cost centers: \$232,960 for FYE 2012, \$518,561 for FYE 2013, and \$343,177 for FYE 2014.

Adjustments that ensure the proper distribution of administration costs to all benefitting programs are factored into the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe revise the cost allocation methodology to ensure all benefitting programs receive a fair share of indirect costs in reasonable relation to the benefits received from the costs.

Finding

8. Unallowed Payments To/Contract With Board Member

Summit Pointe contracted with and paid one of its Board Members to provide workshops for parents of at-risk youth to teach the parents how to support their children in the successful completion of high school, which is not related to the provision of mental health services under the MDHHS contracts. Additionally, individuals cannot serve on a Community Mental Health Services Provider Board if they are a party to a contract with the community mental health services program.

A Board Member provided parenting workshops (sessions to teach parents how to support their at-risk children in successful completion of high school) under a contract with Summit Pointe and was paid \$17,000 during FYE 2013. There is nothing to indicate that the workshops related to the provision of mental health services under the contracts with MDHHS. Additionally, an individual that is a party to a contract with Summit Pointe is not allowed to serve on the board according to the Mental Health Code.

When a Summit Pointe staff member was presented with an outline for the agreement with the Board Member, she stated in an e-mail to the CEO that she understood that Summit Pointe could not contract with someone on the Board, and that Summit Pointe had "used [unnamed entity] as a 'go between' for lack of a better term" and inquired if something had changed. The CEO's response was that the Board member would work through another entity. However, the contract was made directly with the Board member. Payments to the 'go between' for FYE 2012 (related to the audit period) have been disallowed in another finding due to the lack of detail to determine a valid CMH cost. An analysis was completed of payments to the 'go between' for FYEs 2009, 2010, and 2011. Total payments of \$113,000 were made to the 'go between' during FYEs 2009, 2010, and 2011 for at-risk youth programs (Neighborhood Academy and Youth Program), which are believed to have been provided by the Board member. One invoice for \$3,000 specifically referenced an organization of the Board member.

The Mental Health Code 330.1222, part 4 (b) states, “An individual shall not be appointed to and shall not serve on a board if he or she is 1 or more of the following:...(b) A party to a contract with the community mental health services program, except for a party to a contract between a community mental health services program and a regional entity or a separate legal or an administrative entity created by 2 or more community mental health services programs under the urban cooperation act of 1967.”

The Medicaid Contract allows for the provision of covered services as described in the Michigan Medicaid Provider Manual; and the services must be medically necessary and appropriate, and conform to accepted standards of care. The General Fund Contract states that the CMHSP shall make available the array of supports and services designated in section 206(1) of the Mental Health Code, and that the CMHSP must limit services to those that are medically necessary and appropriate, and that conform to professionally accepted standards of care.

OMB Circular A-87, Appendix A, Section C, Part 1.a states that for costs to be allowable, they must “Be necessary and reasonable for proper and efficient performance and administration of Federal Awards.” OMB Circular A-87, Appendix A, Section C. 2., states, “A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. 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.”

Adjustments for the unallowed costs are included on the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe:

- a. Amend the Procurement Policy to ensure proper procurements occur; and implementation of the standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.
- b. Adopt policies and procedures to ensure contracts are not awarded to board members, or on behalf of board members through other organizations.
- c. Amend the Payment Policy and Procedures as necessary to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.

Finding

9. Unallowed Software Creation

Summit Pointe paid an entity under contract to develop a software program to address depression and reported the expenditure as MDHHS program costs, but the item was not an allowed expenditure under the MDHHS programs. Additionally, two employees

of Summit Pointe were each a party (at least indirectly) to the contract between themselves and Summit Pointe and were involved in the solicitation of the contract between Summit Pointe and the private corporation in which they were either a director, officer, or employee, which are both violations of MCL 15.322.

The Medicaid Contract allows for the provision of covered services as described in the Michigan Medicaid Provider Manual; and the services must be medically necessary and appropriate, and conform to accepted standards of care. The General Fund Contract states that the CMHSP shall make available the array of supports and services designated in section 206(1) of the Mental Health Code, and that the CMHSP must limit services to those that are medically necessary and appropriate, and that conform to professionally accepted standards of care. According to the Medicaid Provider Manual, covered services are those that are evidence based and promising practices that are provided by staff who have been appropriately trained in the models and provided to the population for which the model was intended.

OMB Circular A-87, Appendix A, states that for costs to be allowable, they must meet the following general criteria:

C.1.a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

MCL 15.322 (Public servant; soliciting, negotiating, renegotiating, approving, or representing a party to a contract with public entity prohibited) does not allow a public servant to be a party, directly or indirectly, to any contract between himself or herself and the public entity of which he or she is an officer or employee; and does not allow a public servant to directly or indirectly solicit any contract between the public entity of which he or she is an officer or employee and any private corporation in which he or she is a director, officer, or employee.

Summit Pointe paid an \$80,000 retainer fee to an agency under contract to develop a software program to address depression (cloud version of the interactive multimedia program BAML - Building A Meaningful Life through Behavioral Activation), which is not an allowed cost according to the contract and Federal cost principles. The use of the software is not considered a covered service, is not medically necessary, and does not conform to accepted standards of care or evidence based promising practices provided by staff who have been appropriately trained. The software was eventually sold on the open market. The Chief Medical Officer and Marketing Director of the contracted agency were also employees of Summit Pointe. The Clinical Director of Summit Pointe (also the Marketing Director of the contracted agency) expressed a conflict of interest concern regarding his working at Summit Pointe and "ultimately benefitting from the contribution to [unnamed agency] from Summit Pointe" in an e-mail to the CEO of Summit Pointe, but the response from the CEO was that they could "structure it to minimize any conflicts."

Adjustments for the unallowed costs are included on the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe:

- a. Amend the Procurement Policy to ensure proper procurements occur; and implementation of the standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.
- b. Amend the Payment Policy and Procedures as necessary to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.
- c. Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contract as required by 2 CFR 200.302(b)(7).

Finding

10. Unallowed Information Technology Equipment and Supplies

Summit Pointe paid for information technology equipment and supplies and reported the expenditures as MDHHS program costs, but some of the items could not be located, and some of the items were identified as "spare" and located in storage rather than being used for the MDHHS programs.

OMB Circular A-87, Appendix A, states that for costs to be allowable, they must meet the following general criteria:

- C.1.a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- C.1.b. Be allocable to Federal awards under the provisions of 2 CFR part 225.

OMB Circular A-87, Appendix A, defines allocable costs as follows:

- C.3.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.

Over \$1.4 million in information technology equipment and supplies were purchased from one vendor over the three-year review period (FYE 2012, 2013, and 2014). Summit Pointe had no established written policy or procedures for technology asset monitoring, tracking, and disposal. Summit Pointe did not record any of the equipment on an inventory list and did not perform periodic inventories. During the review, Summit Pointe staff attempted to locate the information technology equipment that had been purchased. Items such as printers, laptops, and software could not be located, and many items were identified as "spare" and held in storage. These items cost \$7,893 and \$179,350, respectively. The cost of spare items and items that cannot be located are not allowed costs under the Federal cost principles. It is not necessary nor reasonable to pay for lost or unused items. Also, the cost of lost and spare items are not allocable to the awards as there is no benefit received.

Adjustments for the unallowed costs are included on the attached Adjustments and Financial Impact Schedule.

Recommendation

We recommend that Summit Pointe:

- a. Ensure adequate mechanisms are put in place for technology equipment and asset monitoring, tracking, and disposal to ensure only required technology is purchased, purchased items are properly tracked and safeguarded, and proper disposal.
- b. Ensure implementation of the "Technology Inventory Controls" Procedure that became effective 6/26/2017.
- c. Monitor adherence to the policy by the CFO as required by the "Technology Inventory Controls" Procedure.

Finding

11. Improper Cost Accounting Methodology

Summit Pointe's cost accounting methodology did not assure the proper allocation of costs to the appropriate source.

The MDHHS Contracts, Section 6.6.1 - Financial Management System - require that the cost accounting methodology used by the agency must ensure consistent treatment of costs across different funding sources and assure proper allocation of costs to the appropriate source.

Summit Pointe accumulated costs for multiple programs in single cost centers and reported the costs, net of revenue, as MDHHS-program costs, but not all of the programs' costs accumulated in the cost centers were MDHHS-program costs.

Three programs' costs, as follows, were accumulated in cost center #2314:

- a. Supported Employment: Salaries, wages, fringes, and overhead allocations for job coaches and job developer staff. Some of the costs are offset by the Michigan Rehabilitation Services (MRS) contract revenue (revenue and an equal amount of costs are reported as earned contracts and NOT reported as MDHHS costs);
- b. Housekeeping: Connections customer wages and personnel contract wages to clean Summit Pointe facilities and run the mail rooms, etc.; and
- c. Outside Custodial Services: Connections customer wages and personnel contract wages related to providing custodial services to outside entities. Some of the costs for outside custodial services are offset by contract revenue related to the outside custodial services (revenue and an equal amount of costs are reported as earned contracts and NOT reported as MDHHS costs).

As noted above, contract revenue is received related to some of the above activities, and that revenue and an equal amount of costs are reported as earned contracts and NOT reported as MDHHS costs. However, the net cost amount in cost center #2314 is reported as MDHHS costs and there is no way to determine if the portion reported as

MDHHS costs is eligible for MDHHS reimbursement. Costs related to providing outside custodial services, if not fully covered by the revenue generated from this activity, would be reported as an MDHHS cost, but these would not be allowable MDHHS costs.

Additionally, cost center #2406 contains costs for multiple programs and activities, many of which are not MDHHS reimbursable (e.g. virtual school, skate park, child mortality reviews, and school self-confidence/self-help programs). The costs for all of the programs/activities (allowed and unallowed activities), net of some income, are reported as MDHHS costs. Accordingly, the costs of providing the unallowed activities are being inappropriately charged to MDHHS, and the unallowed activities cannot be easily distinguished from the allowed activities.

Recommendation

We recommend that Summit Pointe separate different activities into separate cost centers and ensure only allowable MDHHS costs are reported to MDHHS. Also, ensure costs placed in the supported employment cost center qualify as supported employment under the MDHHS requirements.

Compensation Reasonableness

Objective 3: To determine if compensation paid to Summit Pointe's chief officers (CEO, COO, and CFO) for fiscal year ends 2012, 2013, and 2014 was reasonable for the services rendered and conformed to the established policy of the governmental unit as required by Federal cost principles.

Conclusion: Compensation paid to Summit Pointe's chief officers (CEO, COO, and CFO) for fiscal year ends 2012, 2013, and 2014 was not reasonable and did not conform to the established policy of the governmental unit as required by Federal cost principles. Compensation arrangements did not appear to be the result of an objective review as required by Summit Pointe's established policy, and far exceeded amounts paid for similar work in the labor market as described in Finding 12. In total, \$1,643,183 is disallowed for FYEs 2012 through 2014.

Finding

12. Unreasonable Compensation Paid to CEO, COO, and CFO

Summit Pointe paid their CEO, COO and CFO compensation amounts far above amounts paid for similar work in the labor market; amounts in excess of those determined reasonable are unallowable.

OMB Circular A-87, located at 2 CFR 225, Appendix B, states the following with respect to the allowability of compensation:

- 8.a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages,

salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities...

- 8.b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

As part of our audit, we completed a survey of ALL Community Mental Health Service Providers (CMHSPs) in the State of Michigan to identify compensation paid in 2013 for similar work in the labor market in which Summit Pointe competes for the kind of employees involved. Summit Pointe paid their CEO, CFO and COO the highest annual compensation amounts of any other CMHSP in the State of Michigan for FYE 2013. While Summit Pointe's Medicaid and General Fund Expenditures were less than one-fifth of the largest CMHSP in the State of Michigan, Summit Pointe paid their CEO 136% more, their CFO 71% more, and their COO 61% more than the largest CMHSP paid theirs.

Summit Pointe paid their CEO \$531,591 in FYE 2013. This was:

- a.) More than four times the average compensation paid to ALL CMHSP CEOs;
- b.) 3.8 times the average amount paid to CEOs with the same experience level;
- c.) 3.75 times the average amount paid to CEOs of CMHSPs with expenditures between \$100 and \$300 million (Summit Pointe had \$110 million in expenditures); and
- d.) 2.84 times the average amount paid to the CEOs of the two largest CMHSPs in the State of Michigan with expenditures of nearly triple and more than five times that of Summit Pointe.

Summit Pointe paid their COO \$266,212 in FYE 2013. This was:

- a.) 2.42 times the average amount paid to COOs of CMHSPs with expenditures between \$100 and \$300 million (Summit Pointe had \$110 million in expenditures); and
- b.) 1.99 times the average amount paid to COOs of the two largest CMHSPs in the State of Michigan with expenditures of nearly triple and more than five times that of Summit Pointe.

Summit Pointe paid their CFO \$239,254 in FYE 2013. This was:

- a.) 2.56 times the average amount paid to CFOs of CMHSPs with expenditures between \$100 and \$300 million (Summit Pointe had \$110 million in expenditures); and
- b.) 1.76 times the average amount paid to CFOs of the two largest CMHSPs in the State of Michigan with expenditures of nearly triple and more than five times that of Summit Pointe.

The Michigan Association of Community Mental Health Boards completes a salary survey every odd year and the results are forwarded to the CEOs of member organizations. For 2013, Summit Pointe's CEO was paid nearly four times the average of CMHSPs with greater than \$50 million budgets; Summit Pointe's COO was paid nearly three times the average; and SP's CFO was paid nearly three times the average. Summit Pointe's CEO received these survey results as evidenced by email communications, but did not share them with the Board for consideration according to our interviews with three Board members.

Summit Pointe's Compliance Conflict of Interest Procedures require periodic reviews to determine whether "compensation arrangements and benefits packages are reasonable and are the results of an objective review" but this appears to have not occurred. Summit Pointe's Board of Directors approved the use of HayGroup in August 2011 to perform a CEO Job Analysis. It is uncertain how actively involved the Board of Director's appointed task force was in determining the appropriate comparator markets as recommended by the HayGroup in their presentation: "Board needs to be actively involved in determining the appropriate comparator markets and establishing/monitoring compensation for executives." Available information only shows the COO as providing data to HayGroup, and inquiring of the status of their report. HayGroup interviewed the CEO and COO, reviewed job content, and compared the competitiveness of the CEO's compensation to *hospital* market base salary and total compensation data. HayGroup concluded that the CEO's total cash position of \$513,201 (base pay of \$238,500 & potential bonus of \$274,701) was around the 75th percentile for similar size positions in HayGroup's 2011 **Hospital** Compensation Survey.

The Board's apparent lack of involvement in determining the appropriate comparator markets related to the HayGroup's CEO Job Analysis resulted in a faulty analysis showing market rates of amounts paid to CEOs of hospitals, which Summit Pointe is not. This resulted in the Board's allowance of pay to the CEO that was far above market rates. Furthermore, the CEO's apparent disregard of the MACMHB's survey results, and failure to share this information with the Board resulted in the Board's allowance of pay to the CEO, COO and CFO that was far above market rates.

The highest paid salaries by CMHSPs in the \$100-\$300 million expenditure range (excluding the Summit Pointe outliers) will be the amounts considered as reasonable benchmarks. Amounts paid in excess of these benchmarks are considered unreasonable and unallowable, and adjustments are included on the attached Adjustments and Financial Impact Schedule. In total, \$1,643,183 is disallowed for FYEs 2012 through 2014.

Recommendation

We recommend that Summit Pointe adopt policies and procedures to ensure all compensation paid to all employees (including salaries, bonuses and fringe benefits) is reasonable for the services rendered and comparable to that paid for similar work in the labor market (other CMHSPs).

Recommendation to MDHHS Program Office

Consider adopting salary limitations for all CMHSPs state-wide to ensure excessive amounts are not paid, which limits resources available for needed supports and services.

Procurement Policies and Procedures

Objective 4: To determine if Summit Pointe's procurement policies and procedures in place for fiscal year ends 2012, 2013, and 2014 conformed to the Uniform Administrative Requirements located at 45 CFR Part 92.36.

Conclusion: Summit Pointe's procurement policies and procedures in place for fiscal year ends 2012, 2013, and 2014 did not conform to the Uniform Administrative Requirements located at 45 CFR Part 92.36. We noted that the written procurement policy and procedures did not comply with Federal requirements (Finding 13), procurements and related documentation did not comply with Federal and contractual requirements (Finding 14), and subcontracts did not include required language (Finding 15).

Finding

13. Non-Compliant Procurement Policy and Procedures

Summit Pointe's written procurement policy and procedures violate Federal requirements relating to noncompetitive procurements, and do not address multiple other required provisions.

Title 45 CFR 92.36 d.4.i. allows noncompetitive procurements under certain circumstances, but not for professional administrative services unless other specific circumstances exist. Title 45 CFR 92.36 also requires the following:

- b. 2. Maintenance of a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts.
- b. 4. Procedures that provide for a review of proposed procurements to avoid the purchase of unnecessary or duplicative items.
- b. 8. Procurement standards that include making awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement, considering contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

- b. 9. Procurement standards that include the maintenance of records sufficient to detail the significant history of a procurement including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- c. 3. Written selection procedures that ensure all solicitations incorporate a clear and accurate description of the technical requirements for the service to be procured.
- d.2./3. Specific requirements related to procurements by sealed bids and procurements by competitive proposals.
- f.1. Cost or price analysis in connection with every procurement action.

Summit Pointe's written contract procurement procedures allowed noncompetitive procurements for professional administrative services (except comprehensive management services or significant automated data processing services), but professional administrative services are not allowed to be procured noncompetitively unless other specific circumstances exist per 45 CFR 92.36d.4.i. The CEO had the sole authority to approve all contracts, procured noncompetitively or competitively. Also, the CEO had sole discretion on the procurement process related to any competitive procurements, with nothing detailed in the written contract procurement procedures. With the permissive noncompetitive policy, the authority granted to the CEO, and the lack of essential procurement requirements (identified below), the CEO could essentially procure anything desired with no documentation to justify the purchase or to support his decisions.

Summit Pointe's written contract procurement procedures did not include the following required items and did not require support to evidence they occurred:

- a. A review to avoid the purchase of unnecessary or duplicative items, and an analysis to determine the most economical approach (45 CFR 92.36 b.4.).
- b. Making awards only to responsible contractors possessing the ability to perform successfully with consideration given to contractor integrity, record of past performance, and finance and technical resources (45 CFR 92.36 b.8.).
- c. Requirements related to sealed bid procurement and competitive proposal procurement (45 CFR 92.36 d.2. & 3.).
- d. Requirement that all solicitations contain a clear and accurate description of the technical requirements of the material, product, or service to be procured; and all requirements that offerors must fulfill and all other factors to be used in evaluating bids or proposals (45 CFR 92.36 c.3.).
- e. Requirement of a cost or price analysis in connection with every procurement action (45 CFR 92.36 f.1.).
- f. Requirement to maintain records sufficient to detail the significant history of a procurement, including rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (45 CFR 92.36 b.9.).

Additionally, Summit Pointe did not maintain a contract administration system which ensured that contractors performed in accordance with the terms, conditions, and specifications of their contracts as required by Title 45 CFR 92.36 b. 2. This was not identified in the Contract Procurement Procedures and was not practiced.

The above deficiencies could result in the following:

- Fraudulent activity
- Unnecessary/duplicative items purchased
- Lack of full and open competition
- Not using the most economical approach
- Contracting with contractors that do not have the ability to perform successfully
- Contracting with related parties
- Noncompliance with the terms, conditions, and specifications in the contract

Recommendation

We recommend that Summit Pointe develop and implement a Procurement Policy and Procedures that comply with 2 CFR 200.318 through 200.326 (the Federal Regulation that has replaced 45 CFR 92.36 but primarily contains the same provisions). We also recommend that Summit Pointe develop a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

Finding

14. Non-Compliant Procurements

Summit Pointe's procurements and documentation supporting the procurements do not comply with Federal and contractual requirements.

Title 45 CFR 92.36 requires the following:

- b.4. A review of proposed procurements to avoid the purchase of unnecessary or duplicative items.
- b.8. Making awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement, considering contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.
- b.9. Maintaining records sufficient to detail the significant history of a procurement including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- c.1. Conducting all procurement transactions in a manner providing full and open competition.
- d.1.-.4. Using specific methods of procurement under specific circumstances.
- f.1. Performing a cost or price analysis in connection with every procurement action.

The MDHHS Contracts, Part I, Section 15.4, requires Summit Pointe to certify that subcontractors are not debarred or suspended or otherwise excluded from or ineligible for participation in Federal assistance programs. Attachment 7.6.1 of the MDHHS Contracts require Summit Pointe to ensure the organizations or individuals have not been debarred or suspended or otherwise excluded.

The Medicaid Contract, Part II, Section 6.4.1, requires Summit Pointe to ensure that it does not contract with providers excluded from participation in federal health care programs under either Section 1128 or Section 1128A of the Social Security Act.

In our review of 127 contracts, we found no documentation related to any of these contracts to:

- a. Evidence a review of the proposed procurement to avoid the purchase of unnecessary or duplicative items;
- b. Detail the significant history of the procurement (rationale for the method of procurement, selection of contract type, contractor selection, and basis for the contract price);
- c. Evidence full and open competition (or justification for not);
- d. Evidence compliance with the allowed methods of procurement; or
- e. Evidence a cost or price analysis.

In our review of 127 contracts, only 18 had evidence of a review to ensure the awards were made to responsible contractors possessing the ability to perform successfully with consideration given to such things as contractor integrity, record of past performance, and financial and technical resources (109, or 86%, non-compliance).

Summit Pointe did not ensure that organizations or individuals selected and offered contracts were not debarred or suspended or otherwise excluded from or ineligible for participation in Federal assistance programs in two (9%) of 22 contracts reviewed for this attribute.

Summit Pointe did not ensure that providers offered contracts were not excluded from participation in federal health care programs under either Section 1128 or Section 1128A of the Social Security Act in two (9%) of 23 contracts reviewed for this attribute.

Recommendation

We recommend that Summit Pointe develop and implement a Procurement Policy and Procedures that comply with 2 CFR 200.318 through 200.326 (the Federal Regulation that has replaced 45 CFR 92.36 but primarily contains the same provisions). Develop and implement a process to ensure organizations or individuals contracted with are not suspended, debarred, or otherwise excluded from participation in Federal assistance programs or Federal health care programs under the Social Security Act. Also, develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

Finding

15. Subcontracts Lack Required Language

Summit Pointe executed subcontracts that did not include required items, such as detail on services to be provided, required termination clauses, required access provisions, and required record retention provisions.

The Medicaid and General Fund Contracts, Section 6.4, require that subcontracts clearly specify the type of services being purchased.

Title 45 CFR 92.36 require that subcontracts contain the following:

- i.2. Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement for contracts in excess of \$10,000.
- i.10. Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- i.11. Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

We found the following in the subcontracts reviewed:

- a. Of the 127 subcontracts reviewed, there were 10 instances (7.9%) where the subcontract did not clearly specify the type of services being purchased.
- b. Of the 107 subcontracts reviewed that were over \$10,000, 14 (13%) did not contain termination for cause and for convenience by the subgrantee including the manner by which it will be affected and the basis for settlement.
- c. Of the 127 subcontracts reviewed, there were only nine that contained a provision allowing access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions (118, or 93%, non-compliance).
- d. Of the 127 subcontracts reviewed, there were only 26 that contained a provision for the retention of all required records for a minimum of three years after grantees or subgrantees make final payments and all other pending matters are closed (101, or 80%, non-compliance).

Recommendation

We recommend that Summit Pointe develop and implement a contract management system that ensures subcontracts contain required provisions, and the contract management system should include a review process of all executed subcontracts.

OTHER FINDINGS AND RECOMMENDATIONS

As stated in the Purpose and Objectives Section above, during our review we noted additional violations and areas of concern that did not necessarily pertain to an objective of our review. These additional violations and areas of concern are included in this section below.

Finding

16. CEO Violated Michigan's Standards of Conduct for Public Employees

Summit Pointe's CEO did not use funds under his official care judiciously and solely in accordance with prescribed regulatory procedures.

Act 196 of 1973 (MCL 15.342(3)) states, "A public officer or employee shall use...funds under the officer or employee's official care and control judiciously and solely in accordance with prescribed constitutional, statutory, and regulatory procedures..."

Of the 127 contracts reviewed over the three-year period (FYE 2012-2014), we identified 20 contracts where the entire contracts or components of the contracts did not have a business purpose related to the provision of CMH services. Accordingly, the CEO, having approved all such contracts for which payments were made, did not use funds under his care and control judiciously and solely in accordance with prescribed regulatory procedures.

Recommendation

We recommend that Summit Pointe develop and implement a Procurement Policy and Procedures that complies with 2 CFR 200.318 through 200.326. Develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

Finding

17. CEO Violated Summit Pointe's Contract Procurement Policy

Summit Pointe's CEO procured significant automated data processing services without either (1) a process to obtain best prices without selective contracting or (2) competitive procurement through selective contracting as required by Summit Pointe policy.

Summit Pointe's Contract Procurement Policy (Finance Management - 4013) does not allow noncompetitive procurement for "significant automated data processing services" and requires either a "procurement process to obtain best prices without selective contracting" or "competitive procurement through selective contracting."

The CEO contracted with an entity for information systems management services, at rates ranging from \$55 per hour to \$135 per hour during each of the fiscal years under review (FYE 2012 - 2014); and for equipment property subscriptions during FYE 2014 for a five-year term commencing December 1, 2013 through September 30, 2018.

Payment records show amounts of \$940,404, \$1,171,041, \$1,835,892 were paid for FYEs 2012, 2013, and 2014, respectively. Additionally, the CEO contracted with another entity for technology services and support services, at rates ranging from \$30 to \$115 per hour during each of the fiscal years under review (FYE 2012-2014). Payment records show amounts of \$1,112,895, \$1,546,369 and \$1,011,403 were paid for FYEs 2012, 2013, and 2014, respectively. No records exist to show the required method of procurement was followed, nor to justify a noncompetitive procurement. It appears that the CEO was the sole decision maker for these contracts and amendments, as no records exist to show otherwise.

Recommendation

We recommend that Summit Pointe develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

Finding

18. Annual Affiliated Organizational Disclosure Statements and Conflict of Interest Statements Not Completed

Summit Pointe's board members, corporate officers, leadership members and directors did not complete annual Affiliated Organization Disclosure Statements and/or Conflict of Interest Statements as required by policy and procedures.

Board Members Code of Conduct Policy (02-008) requires each board member to complete an annual Affiliated Organization Disclosure Statement.

The Compliance Conflict of Interest Procedures requires that each board member, corporate officer, leadership member, director, or individual duly authorized by the governing body to conduct business on behalf of Summit Pointe sign an annual statement which affirms the person has received a copy of the Conflict of Interest Policy, has read and understands the policy, and has agreed to comply with the policy.

Board members did not always comply with the Board Members Code of Conduct Policy 02-008. No Affiliated Organization Disclosure Statements were completed in 2014; only 62% were completed in 2013; and only 69% were completed in 2012. Additionally, no Conflict of Interest Statements were located for board members, corporate officers, leadership members, or directors as required by the Compliance Conflict of Interest Procedures.

Recommendation

We recommend that Summit Pointe develop and implement an effective internal control system that ensures required disclosures are completed, and appropriate actions are taken regarding affiliations and actions involving those affiliations.

Finding

19. Lack of Specific Merit Pay Policy for Non-Union Employees and Excessive Amounts Paid Without Documented Support

Summit Pointe does not have a specific policy for merit pay to non-union employees that includes the requirements, specific parameters that are tied to individual performance, and documentation requirements. Also, Summit Pointe's CEO approved excessive merit pay amounts to non-union employees (COO, CFO, and others) for FYEs 2012 through 2014 with no supporting evidence that the approved compensation did not "deviate materially from the geographic or professional market for the skill employed" as required by policy.

OMB Circular A-87, Appendix A. Section C. 1. requires that costs be necessary and reasonable for proper and efficient performance and administration of Federal awards to be allowable. Also, Appendix B, Section 8. Compensation for personal services, states the following with respect to the allowability of compensation (which includes merit pay):

- a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:
 - (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities.

The only policy at Summit Pointe related to setting compensation and benefits for non-union employees is the Executive Limitations - Compensation and Benefits Policy 01-008 that simply states, "With respect to...compensation and benefits to employees...the CEO may not cause or allow jeopardy to fiscal integrity or public image. Accordingly, he or she may not...Establish current compensation and benefits which deviate materially from the geographic or professional market for the skill employed." No policy exists that specifically references merit pay for non-union employees, parameters/limitations, required performance evaluations based on individual performance, and required documentation to support the merit pay (performance evaluations and/or surveys to establish market rates). The merit pay to non-union employees was at the CEO's discretion. Each "Employee Record Change" that authorized the merit pay for the non-union employees by the CEO for FYEs 2012 through 2014 simply stated an arbitrary dollar amount for each employee and "1x." Attached to the document were broad corporate goals (e.g. lower healthcare costs, improve physical health & quality of lives for customers, move all teams to the scorecard system, and all Boards Ends reporting accepted) with no goals related to specific employees as individuals. The CEO reported to the Board annually with respect to his compliance with Policy 01-008 that they utilized several compensation and benefits surveys to determine the market and establish compensation and benefit levels. No such evidence was provided to support that they used compensation and benefits surveys to determine the market and establish compensation and benefit levels for the non-union employees.

In total, \$632,000 in bonuses were paid over a three-year period (FYE 2012 through FYE 2014) to 14 non-union employees (exclusive of the CEO's bonus), which averaged more than \$45,000 per employee (average of \$15,000 per year per employee). The COO was paid \$103,000 and the CFO was paid \$90,000 in bonuses alone over the three-year period. In 2013 alone, three employees were each paid \$35,000 to \$38,000 in bonuses; and 10 employees were each paid \$11,000 to \$18,000. In 2013, merit pay, as a percent of annual salary, averaged 16.68%. For comparison, the State allows "performance pay," but it is generally limited to 5%, with 10% being the maximum for Senior Executives. Also, under the State's performance pay plan, employees must receive satisfactory performance ratings before receiving any performance-pay award.

Adjustments are not being made related to this finding. Reasonable compensation benchmarks are not available related to all non-union employees (besides the CEO, COO and CFO, in which total compensation is addressed in another finding).

Recommendation

We recommend that Summit Pointe adopt a specific Merit Pay Policy for non-union employees that includes parameters/limitations, required performance evaluations based on individual performance, and required documentation to support the merit pay. The established parameters/limitations must ensure merit pay and total compensation remains reasonable and consistent with the labor market. Additionally, incentive compensation must comply with the requirements of 2 CFR 200.430(f).

Finding

20. Medical Retirement Contributions Exceed Plan Provisions and Plan Contribution Amount Appears Unreasonable

SP contributed 50% more for each individual employee to the Retiree Health Care Expense Reimbursement Account Plan in each of the fiscal years under review (2012, 2013, and 2014) than was specified in the Health Care Reimbursement Account Plan without Board of Director approval as required. Additionally, the annual employer contribution specified in the Health Care Reimbursement Account Plan appears unreasonable with no support showing it is reasonable.

OMB Circular A-87, Appendix A. Section C. 1. requires that costs be necessary and reasonable for proper and efficient performance and administration of Federal awards to be allowable. Also, Appendix B, Section 8. Compensation for personal services, states the following with respect to the allowability of compensation (which includes employer contributions for retirement health plans):

- a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities.
- b. Reasonableness. Compensation...will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

The Health Care Reimbursement Account Plan (HCRA Plan) at Summit Pointe is a retiree health care expense reimbursement account plan intended to satisfy the requirements of sections 105 and 106 of the Internal Revenue Code of 1986 for tax-qualification as a health reimbursement arrangement. The HCRA Plan originated in 2005 and was drafted by an outside attorney at the direction of the COO. The fringe benefit provided by the HCRA Plan is not addressed in any personnel policies at Summit Pointe, nor mentioned in the union contract. Additionally, the HCRA Plan had no known Board of Director approval. The only mention of the HCRA Plan in Board minutes was eight years after its inception when a resolution was passed in 2013 to establish a separate trust for the assets. It is believed that the CEO approved the HCRA Plan as there is a signature line on the HCRA Plan document for the CEO (although a signed copy could not be produced). The CEO, through the Executive Limitations Policy, had the authority to set benefits for employees, but the CEO was not to "change his or her own compensation and benefits" and was not to "deviate materially from the geographic or professional market for the skills employed." The CEO changed his own benefits by adding the retiree health care expense reimbursement account plan in which he received a benefit, and the Board did not approve this.

No documentation was provided to support that the annual employer contribution amount stated in the HCRA Plan was reasonable, and it appears unreasonable. The HCRA Plan states at Section 4.2(b), "The employer shall contribute \$5,000 to the plan on behalf of each participant who is a full-time employee on the last day of the plan year, unless the board determines, in its discretion, that the contribution will be a higher or lower amount for the plan year. The employer shall also make a contribution to the plan on behalf of each participant who is a part-time employee and the last day of the plan year in an amount equal to forty percent of the contribution made for a participant who is a full-time employee." The CEO reported annually to the Board of Directors that they utilized several compensation and benefits surveys to determine the market and establish compensation and benefit levels. No such evidence was provided to support that they used benefits surveys to determine the market and establish benefit levels for the employees. A compensation survey providing data representative of the labor market involved that specifically addresses retiree medical is not available. In the absence of a compensation survey, reasonableness cannot be easily determined. However, a comparison to the State's contribution rate for the Personal Healthcare Fund (to help pay for medical expenses in retirement, which is the only health benefit provided for retirement for employees hired after 2011) shows that Summit Pointe's HCRA Plan employer contribution of 5% (based on a salary of \$100,000) is 2.5 times

the State's contribution rate of 2%. Accordingly, Summit Pointe's HCRA Plan contribution amount appears unreasonable.

The medical retirement employer contributions exceeded the HCRA Plan amount by 50% for each individual employee in each of the fiscal years under review (2012, 2013, and 2014). As stated above, the HCRA Plan states at Section 4.2(b), "The employer shall contribute \$5,000 to the plan on behalf of each participant who is a full-time employee on the last day of the plan year, unless the board determines, in its discretion, that the contribution will be a higher or lower amount for the plan year. The employer shall also make a contribution to the plan on behalf of each participant who is a part-time employee and the last day of the plan year in an amount equal to forty percent of the contribution made for a participant who is a full-time employee." Summit Pointe made contributions of \$7,500 each year for each full-time employee, and \$3,000 each year for each part time employee for at least the three years under review (FYE's 2012, 2013 & 2014). This exceeded the contribution amount of \$5,000 (\$2,000 for part-time employees) contained in the HCRA Plan, and there is no evidence of Board (governing Board of Calhoun County Community Mental Health Authority) approval as specifically required by the HCRA Plan. We inquired about Board approval, but nothing was found. The only things provided were "Leadership Minutes" (not Board Minutes) that state the funded amount, and an e-mail from the COO to staff announcing the funded amount.

The portions of the contributions that exceed the HCRA Plan amount, and the portion of the contributions made on behalf of the CEO are unallowable under the provisions of OMB Circular A-87 since they do not conform to the established policy of the governmental unit. Adjustments are included on the attached Adjustments and Financial Impact Schedule. In total, \$579,000 is disallowed for FYEs 2012 through 2014.

Recommendation

We recommend that Summit Pointe:

- a. Amend Board Policies to ensure the authority for establishing employee benefits is appropriately delegated, and to ensure the Board is appropriately involved with required approvals for significant expenses.
- b. Amend the HCRA Plan to ensure the stated annual contribution amount is reasonable and adequately supported.
- c. Ensure any increased contributions are approved as required and adequately documented as to reasonableness.
- d. Consider denying any claims for benefits from the CEO or terminating coverage for the CEO as he added this benefit for himself in direct violation of the Executive Limitations Policy #01-008 (he changed his benefits and there was no approval to do so from the Board).

Finding

21. Agency Funds Used to Operate Golf Course

Summit Pointe operated a golf course, which was not related to the purpose of the agency as described in the Enabling Resolution, and used \$225,534 of the agency's funds in this endeavor over the three-year review period of FYE 2012 through 2014.

Summit Pointe contracted with the Department of Veterans Affairs (VA) to lease property located at the Department of Veterans Affairs Medical Center to use the premises exclusively for golf. In lieu of monetary consideration, Summit Pointe was required to maintain, restore and protect the leased premises (and was required to make a minimum charitable contribution to the Community and Volunteer Services General Post Fund for Therapeutic Recreational Programs). Summit Pointe was responsible for any and all of the costs of operations of the golf course including staffing and maintenance. Summit Pointe had the right to charge, collect and retain greens fees and driving range fees. Summit Pointe incurred equipment, maintenance, utilities, custodial supplies, customer wages, vehicle gasoline, and office supplies expenses in operating the golf course. The amount collected from greens and driving range fees was reported as an earned contract revenue and an equal amount as earned contract expense (non-MDHHS funded). For each year of our review, the golf course operated at a loss (\$98,907 in 2012; \$68,522 in 2013; and \$58,105 in 2014). The amount of expenses that exceeded revenues was reported as a Local expense, so none of the expenses were reported to MDHHS programs (as they should not have been as the expenses were not for the provision of covered services as described in the Michigan Medicaid Provider Manual nor those described in the Mental Health Code).

Summit Pointe's Enabling Resolution includes the purpose and the power to be exercised by the Authority, which is to comply with and carry out the provisions of Public Act No. 258 of 1974 (the Mental Health Code). The purpose of a community mental health services program, according to Section 206 of the Mental Health Code, shall be to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area.

At best, it is questionable whether Summit Pointe should be involved in this activity as it is not connected to fulfilling the purpose of the community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code. Additionally, the activity LOST \$225,534 in just three years (does not even consider the five previous years of operation).

Recommendation

We recommend that Summit Pointe:

- a. Obtain a legal opinion on the permissibility of Summit Pointe's involvement in business activities that are not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located

within its geographic service area according to Section 206 of the Mental Health Code.

- b. If the activities are deemed permissible, evaluate the risk/benefit of involvement in all "non-CMH" business activities to determine if the activities should be continued or discontinued in the best interest of the agency.

Finding

22. Questionable Property Management Business

Summit Pointe's property management business of owning and renting housing units to customers of mental health services and the general public does not fulfill the purpose of the community mental health services program of providing mental health services appropriate to conditions of individuals located within its geographic service area, and presents a conflict of interest between Summit Pointe and the customers in which they provide mental health services to. In total, Summit Pointe lost \$324,980 in this property management business over a three-year period (2012, 2013, & 2014).

The Medicaid Contract allows for the provision of covered services as described in the Michigan Medicaid Provider Manual. Also, the services must be medically necessary and appropriate, and conform to accepted standards of care. The General Fund Contract states that the CMHSP shall make available the array of supports and services designated in section 206(1) of the Mental Health Code, and that the CMHSP must limit services to those that are medically necessary and appropriate, and that conform to professionally accepted standards of care. Furthermore, Summit Pointe's Enabling Resolution includes the purpose and the power to be exercised by the Authority, which is to comply with and carry out the provisions of Public Act No. 258 of 1974 (the Mental Health Code). The purpose of a community mental health services program, according to Section 206 of the Mental Health Code, shall be to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area.

Summit Pointe owns and operates seven housing properties with 96 units that they rent to both Summit Pointe customers and the general population, at about a 50/50 split (according to Summit Pointe personnel, but unconfirmed). Rental income is collected, but does not always cover the costs. The shortage is covered by local governmental funds. In the three years of 2012, 2013, and 2014, Summit Pointe lost \$324,980 in this property management business, so local governmental funds were used to cover the losses. Losses aside, it is questionable whether Summit Pointe should be involved in the property management business as it is not connected to fulfilling the purpose of the community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code. These are NOT "specialized residential services" as defined by the Mental Health Code as "a combination of residential care and mental health services that are expressly designed to provide rehabilitation and therapy to a recipient, that are provided in the residence of the recipient, and that are part of a comprehensive individual plan of services," which is an allowed service with MDHHS approval. Furthermore, SP's practice of acting as both landlord and mental health service provider to their tenants creates a conflict of interest.

Consumers may fear that any complaint could result in a loss of services on either the housing side or mental health services side. "Summit Pointe should not be in a position to have such complete control over the lives of their consumers" according to MDHHS Behavioral Health Administration management.

Recommendation

We recommend that Summit Pointe:

- a. Obtain a legal opinion on the permissibility of Summit Pointe's involvement in a property management business that is not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.
- b. If deemed impermissible, take action to divest of the properties ensuring no adverse impact on the consumers served.
- c. If deemed permissible, evaluate the risk/benefit of continuing a property management business to determine if the activity should be continued or discontinued in the best interest of the organization.
- d. If deemed permissible, take action to resolve conflict of interest situations.

Finding

23. Unauthorized and Unjustified Condominium Purchase

Summit Pointe's CEO approved the purchase of a condominium in violation of Summit Pointe policy and provided no support for intended use nor fiscal prudence.

Summit Pointe's Financial Condition Policy Number 01-005 states that the CEO "may not acquire, encumber, or dispose of real property in excess of \$100,000." Summit Pointe's Asset Protection Policy Number 01-007 states that the CEO "may not make any purchase of material value without having obtained comparative prices and quality."

On August 1, 2006, Summit Pointe's Board of Directors approved the purchase of two riverfront condominiums, one to be used for "long-term commitment" and the other to be used for "short-term assignments (on-call physicians, temporary physician placement, recruitment, etc.)," at prices of \$134,900 and \$119,900, respectively, as described by the CEO in a memo to the Board of Directors. These purchases did not occur, and no other Board of Director action took place in regard to a condominium purchase. Two years later, on August 15, 2008, the CEO approved the purchase of one riverfront condominium for the price of \$249,900. The CEO approved the check request for the purchase, in which "Purchase 2 Condo Units" was written as the "Reason for Expenditure." No information or documentation was available to show the specific intended use, to show comparative prices were obtained, or to support that the purchase was a prudent use of government funds. No cost/benefit analysis or documentation showing fiscal implications could be located. The cost of the condominium was being depreciated over a 30-year period at \$8,330 per year. Additional costs, such as taxes, insurance, utilities, and maintenance were also incurred. In total, the condominium was costing an average of nearly \$22,000 per year.

Since purchase, \$133,767 in total expenses were recorded through FYE 2014. None of the costs were reported to (paid by) MDHHS; all costs were covered by local governmental funds. No information or supporting documentation could be provided on the use of the condominium from 2008 through 2011. We were informed that an employee of Summit Pointe used the condominium from 2012 through 2014, and it was used around 200 days per year. Summit Pointe calculated the "nonemployee compensation" at around \$8,000 per year but did not appropriately report the value associated with that use on the employee's Form W-2.

We were informed by Summit Pointe's current CEO that the condominium was sold for \$78,000 on July 28, 2017 for a loss of \$94,318.

Recommendation

We recommend that Summit Pointe implement the proper controls and procedures to ensure real property purchases are adequately justified, obtained at comparable prices, and properly approved. We also recommend that Summit Pointe ensure necessary IRS Forms are filed related to the condominium use for years prior to 2014.

Finding

24. Subcontracts Not Executed Prior to Commencement of Services and Prior to Payments to Contractors, and Subcontract List Not Submitted to MDHHS

Summit Pointe did not execute subcontracts with contractors prior to contractors performing services and prior to payments to contractors, and did not submit a listing of subcontracts to MDHHS as required.

The Medicaid and General Fund Contracts (Part II, Section 6.6.1) require the maintenance of all pertinent financial and accounting records and evidence pertaining to the contracts based on financial and statistical records that can be verified; and an adequate internal control system. OMB Circular A-87, Appendix A, Section C. 1.j. requires costs to "be adequately documented" to be allowable. The Medicaid and General Fund Contracts (Part II, Section 6.4) require that subcontracts contain various provisions. An "adequate internal control system" and "adequate documentation" include the execution of subcontracts prior to any service being performed or payment made.

The Medicaid Contract, Part II, Section 6.4.2. required Summit Pointe to provide a listing of all subcontracts for administrative or financial management, or data processing services to MDHHS within 60 days of signing the Medicaid Contract. The listing is to include the name of the subcontractor, purpose, and amount of contract.

Of the 127 subcontracts reviewed that were executed in the FYEs 2012, 2013, and 2014, only four were executed prior to the commencement of services (97% of contracts were not executed prior to the commencement of services). Of the contractual payments we tested, we found that 31% were made prior to the execution of a contract. We also found that 30 payments to nine different individuals/entities were made with no

contract ever executed. Additionally, we found that the required subcontract listing was not provided to MDHHS as required.

No adjustments are proposed for the lack of timely execution of contracts.

Recommendation

We recommend that Summit Pointe implement policies and procedures to ensure that all subcontracts are properly executed before services are performed and payments are made. We also recommend that Summit Pointe implement an effective internal control system that ensures proper oversight, contract compliance, and timely submission of required documentation to MDHHS.

Finding

25. Lack of Approval for Payments

Summit Pointe accounting staff processed payments for items that did not have evidence of proper approval.

The Medicaid and General Fund Contracts (Part II, Section 6.6.1) require the maintenance of all pertinent financial and accounting records and evidence pertaining to the contracts based on financial and statistical records that can be verified; and an adequate internal control system. OMB Circular A-87, Appendix A, Section C. 1.j. requires costs to “be adequately documented” to be allowable. An “adequate internal control system” and “adequate documentation” include evidence of proper approval (approver is authorized and separate of person incurring the expense). Additionally, 2 CFR 200.302(b)(3) (applicable to awards after the review period and currently in effect) requires a financial management system that includes records that identify authorizations.

During our review of a sample of expenditures, we found that 36% did not contain evidence of proper approval.

No adjustments are proposed for the lack of proper approval.

Recommendation

We recommend that Summit Pointe implement an adequate internal control system over financial reporting that provides reasonable assurance that financial reports are supported by underlying accounting records including evidence of supervisory review and approval, and are fairly presented in accordance with program requirements.

Finding

26. Unreasonable Food Expenses for Meetings and Lack of Adequate Support

Summit Pointe paid for food expenses associated with numerous meetings that appeared unreasonable and lacked adequate supporting documentation.

In our sample of expenditures tested, we identified \$70,115 spent on food for meetings for FYEs 2012, 2013, and 2014, which represents nearly \$23,370 per year. (This is a total from our judgmental sample of expenditures, and does not represent a complete total spent for food for meetings for FYEs 2012, 2013, and 2014.) We saw at least 64 different types of meetings for which food was purchased and served, and the meetings were not limited to any certain aspect/area of the agency's operations. Food appears to have been served at most any meeting. Greater than \$100 was spent on more than 50% of the meetings for which food was provided, with 10 meetings having greater than \$1,000 of food provided. For the majority of food expenditures for meetings, there was a lack of documentation stating the purpose of the meeting, who attended, and numbers attended. Summit Pointe has no written policy that describes when food may be purchased related to meetings, reasonable limitations, documentation requirements, nor approval requirements.

OMB Circular A-87, Appendix B, Section 27. Meetings and Conferences, allows the cost (including meals) of meetings and conferences, the primary purpose of which is the dissemination of technical information. However, the basic criterion of reasonableness contained in Appendix A, Section C. 1.a. must be adhered to for costs to be allowable. According to Appendix A, Section C. 2., in determining reasonableness of costs, consideration must be given to: 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...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. Also, OMB Circular A-87, Appendix A, Section C. Part 1.j. requires costs to be adequately documented to be allowable.

Recommendation

We recommend that Summit Pointe develop and implement a policy on providing food at meetings that includes when it will be allowed, reasonable limitations, documentation requirements, and required approvals.

Finding

27. Service Awards with No Written Policy

Summit Pointe provided service awards to employees with no written policy identifying eligibility and dollar limitations.

In FYEs 2012, 2013, and 2014, Summit Pointe provided more than \$6,000 in service awards to employees, each ranging from \$90 to \$350 in value for items such as cutlery sets, stereos, watches, fishing kits, cookware, jewelry, and home theater systems, with no policy on eligibility and dollar limitations.

OMB Circular A-87, Appendix B, Section 13.a. Employee morale, health, and welfare costs, states, "The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable." While the service awards may have been customary and in accordance with Summit Pointe's established practice, a clearly defined policy regarding eligibility and dollar limitations is necessary to ensure reasonableness and equitable treatment of employees. Additionally, the current cost principles at 2 CFR 200.437 (effective with the FYE 2016 contract) specifically require "documented policies" relating to these costs for them to be allowable.

Recommendation

We recommend that Summit Pointe adopt written policies relating to employee health and welfare costs in accordance with 2 CFR 200.437 that ensures reasonable and equitable service awards if it is the desire of the Board of Directors to continue such awards.

Finding

28. Lack of Effective Monitoring of Wireless Phone Expenditures

Summit Pointe purchased multiple wireless devices and paid for access charges for lines that were not assigned to employees, and paid for unused plans and overage charges.

The Medicaid and General Fund Contracts (Part II, Section 6.6.1) require the maintenance of an adequate internal control system.

OMB Circular A-87, Appendix A, states that for costs to be allowable, they must meet the following general criteria:

- C.1.a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

OMB Circular A-87, Appendix A, defines reasonable costs as follows:

- C.2. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. 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.

We reviewed two monthly billing cycles (one in FYE 2012 and one in FYE 2013) and found that an excessive amount was paid for the purchase of new devices and access charges for lines that were either not assigned to any staff member, or for lines that were assigned but were not used by the staff member. In the January 2012 bill, we noted that 50 plans were not used in the billing cycle, and an additional 17 devices and plans were purchased but not assigned to any staff member. In total, \$5,529, or 31% of the bill, was paid for plans not used. In the January 2013 bill, we noted that 91 plans were not used in the billing cycle. In total, \$4,825, or 25% of the bill, was paid for plans not used. Additionally, voice/data/text overages of \$1,015 and \$820, respectively, for the January 2012 and January 2013 bills, were incurred with some individuals incurring over \$200 alone in overage charges.

Summit Pointe lacked an adequate internal control system that would include a policy on wireless devices (positions that should have them; reasonable allowances on voice, messaging, and data; and address unassigned lines), and effective monitoring.

Recommendation

We recommend that Summit Pointe implement an adequate internal control system that includes a policy on wireless devices and monitoring to ensure compliance with the policy and appropriate payments.

Finding

29. Capital Asset Policy Does Not Address Physical Inventory Requirement

Summit Pointe's Capital Asset Acquisition, Disposal and Tracking Procedure does not address the periodic physical inventory requirement.

OMB Circular A-87, Appendix B, Section 11. h. requires that "Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years to ensure that assets exist, and are in use."

Summit Pointe's Capital Asset Acquisition, Disposal and Tracking Procedure (revised effective June 26, 2017) states in the "Purpose Statement" that it is to establish a physical inventory frequency. However, nothing regarding physical inventories is included in the "Standards and Guidelines" section.

Recommendation

We recommend that Summit Pointe amend the Capital Asset Acquisition, Disposal and Tracking Procedure to ensure compliance with 2 CFR 200.436 (e) which requires physical inventories of capital assets at least once every two years.

Adjustments and Financial Impact Schedule

	ADJUSTMENTS						Q1	Q2, Q3, Q4	Total
	2008	2009	2010	2011	2012	2013	2014	2014	
Medicaid	(\$441,509)	(\$706,269)	(\$3,823,687)	(\$1,612,750)	(\$3,757,135)	(\$3,274,802)	(\$611,491)	(\$1,623,785)	(\$15,851,427)
General Fund	(200,525)	(353,915)	(765,385)	(207,489)	(482,385)	(619,685)	(122,762)	(305,936)	(\$3,058,082)
MIChild	(231)	(616)	(2,353)	(930)	(1,884)	(2,242)	(976)	(1,056)	(\$10,288)
ABW	(13,144)	(18,403)	(107,691)	(104,103)	(92,740)	(95,456)	(42,164)	4,566	(\$469,136)
Medicaid Autism Contract	0	0	0	0	0	(2,597)	(6,982)	(8,659)	(\$18,238)
MiChild Autism Contract	0	0	0	0	0	0	(1,411)	(1,058)	(\$2,469)
HMP MH Contract	0	0	0	0	0	0	0	(52,432)	(\$52,432)
HMP SUD Contract	0	0	0	0	0	0	0	(921)	(\$921)
Local	(40,741)	(43,622)	(94,155)	(36,648)	103,949	271,464	54,790	190,677	\$405,715
Total	(\$696,150)	(\$1,122,824)	(\$4,793,270)	(\$1,961,920)	(\$4,230,195)	(\$3,723,319)	(\$730,998)	(\$1,798,605)	(\$19,057,280)

	FINANCIAL IMPACT						Q1	Q2, Q3, Q4	Total
	2008	2009	2010	2011	2012	2013	2014	2014	
Medicaid/HMP Lapse Increase	\$0	\$0	\$1,731,569	\$2,192,780	\$3,976,982	\$1,471,206	\$5,180,846	\$222,531	\$14,775,914
Q2, Q3, Q4 2014 Medicaid Savings (Lapse per January 2017 MDHHS Directive)	0	0	0	0	0	0	0	1,454,607	\$1,454,607
General Fund Lapse Increase	0	310,379	475,774	513,061	0	386,665	0	0	\$1,685,879
Medicaid Autism Lapse	0	0	0	0	0	2,597	6,982	8,659	\$18,238
MiChild Autism Lapse	0	0	0	0	0	0	1,411	1,058	\$2,469
Total	\$0	\$310,379	\$2,207,343	\$2,705,841	\$3,976,982	\$1,860,468	\$5,189,239	\$1,686,855	\$17,937,107

The above represents the lapse impact as a result of audit adjustments only and does not reflect any pre-audit lapse amounts. Adjustments were made for each respective year with the impact carried forward.

Corrective Action Plan

Finding Number: 1

Page Reference: 4

Finding: **Unallowable Defined Benefit Pension Plan Funding**

Summit Pointe's chief officers (CEO, COO and CFO) created, amended, and funded a defined benefit pension plan for themselves and other non-union employees over a seven-year period (2008 through 2014) at amounts determined unreasonable and unallowable under applicable Federal cost principles, all without specific Board of Director approval.

Recommendation: Adopt appropriate internal controls that will ensure the proper use of government funds, the proper establishment of employee benefits, and the prevention of the types of non-compliance issues and abuses identified herein.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS. Summit Pointe does note, however, that the CEO, COO and CFO referenced above have not been employed by or associated with Summit Pointe since early 2015. Summit Pointe further states that by a Resolution adopted at a Special Meeting of its Board of Directors on July 17, 2018, the Summit Pointe DB Pension Plan was terminated effective September 1, 2018.

Corrective Action: **Adopt appropriate internal controls that will ensure the proper use of government funds.**

Internal controls within the Finance department have been strengthened to ensure expenditures are adequately documented and approved. The FY2017 financial statement

audit documented that a prior audit finding related to Accounts Payable (Lack of Support for Manual Journal Entries) is resolved. Also, Summit Pointe's Check Requests Policy specifies that all expenses must include appropriate supporting documentation and are subject to leadership review and approval.

In February 2018, Summit Pointe's Board also adopted an updated and revised Corporate Compliance Plan that specifically addresses the appropriate use of government funds and mechanisms for reporting any suspected abuse.

Adopt appropriate internal controls that will ensure the proper establishment of employee benefits.

Summit Pointe has taken certain actions that address this recommendation. For instance, on April 11, 2017, Summit Pointe's Board of Directors adopted and approved a new set of Board policies effective May 1, 2017. The following policies are relevant here:

- Policy No. 03-003, which provides that “[w]ith respect to employment, compensation, and benefits to employees, consultants, contract workers and volunteers, the Chief Executive Officer may not cause or allow jeopardy to fiscal integrity or public image.” The Policy further states that the CEO “shall not...[e]stablish current compensation and benefits that...[d]eviate materially from the geographic or professional market for the skills employed” or “[e]stablish and change pension benefits so the pension provisions...[c]ause unfunded liabilities to occur or in any way commit the organization to benefits which incur unpredictable future costs.”

- Policy No. 01-005 provides that “Board Committees shall be used to ensure that critical Governance activities are consistently addressed and given proper focus and attention in order to keep the organization on track with respect to compliance requirements and strategic goals.”
- Policy No. 01-006 establishes four (4) standing committees of the Board, including an Audit/Finance Committee and a Human Resources Committee. Among others, the Audit/Finance Committee reviews and recommends an annual budget to the Board, which would include a review of employee costs. It also has the authority to “inquire into any financial matters” of Summit Pointe, including, without limitation, the costs of employee compensation and benefits. The HR Committee has the responsibility to review, among other matters, “employee retirement plans” or “any other special compensation for employees” of Summit Pointe.
- Policy No. 01-011 states that “To ensure that Summit Pointe operates in a manner consistent with legal and ethical business practices and that it does not engage in activities that jeopardize its status as a federally exempt organization, periodic reviews shall be conducted,” including “[w]hether Summit Pointe’s compensation arrangements and benefits packages are reasonable and are the results of an objective review.”

Summit Pointe’s current CEO also requires members of the senior leadership and leadership teams to attend Board meetings. Summit Pointe’s General Counsel and Operations Director always attend board meetings. Summit Pointe’s Corporate Compliance Officer, Strategic Alliance Director, and Clinical Director also regularly attend board meetings and take

an active role in Board Meetings at the request of the CEO and the Summit Pointe Board. Pursuant to Board Policy No. 02-005, Summit Pointe's General Counsel and Corporate Compliance Officer, both added to the management team in 2016, have a direct reporting relationship with the Board of Directors separate and apart from their reporting relationship to the CEO.

Summit Pointe's pension and retirement plans are overseen and administered by three Plan Trustees who meet on a quarterly basis with General Counsel, Plan advisors, and when necessary, outside Employee Benefits counsel.

Finally, Summit Pointe proposes to amend its Board Policy No. 01-006 by adding that the HR Committee shall conduct an annual top-to-bottom review of compensation and benefits provided to employees, and report to the full Board by no later than September of each year as to whether such "compensation arrangements and benefits packages are reasonable and are the results of an objective review" as required under Board Policy No. 01-011.

**Anticipated
Completion Date:**

With the exception of the proposed amendment to Board Policy No. 01-006, which Summit Pointe anticipates completing by the end of the current fiscal year, Summit Pointe has completed the corrective action required with respect to this Finding.

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 12

Finding: **Actuary Valuation Reports Based on Inaccurate Information**

Summit Pointe's staff that administered the DB Pension Plan (CEO, COO and CFO) provided the outside actuary inaccurate plan provisions and inaccurate participant data that was used in the actuarial valuations to determine funding requirements for the DB Pension Plan, which resulted in overstated liabilities and overstated funding costs for FYE 2008 through FYE 2014, and overstated benefits for the participants.

Recommendation: (a) Take action to ensure accurate plan provisions and accurate participant data is provided to the outside actuary for any future actuarial valuations and participants' projected benefit calculations.

(b) Complete benefit recalculations based on accurate plan provisions and accurate participant data, correct benefit payments, recoup overpayments, and provide recalculations to participants as deemed necessary.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS. Summit Pointe does note, however, that the CEO, COO and CFO referenced above have not been employed by or associated with Summit Pointe since early 2015. Summit Pointe further states that by a Resolution adopted at a Special Meeting of its Board of Directors on July 17, 2018, the Summit Pointe DB Pension Plan was terminated effective September 1, 2018.

Corrective Action: (a) Take action to ensure accurate plan provisions and accurate participant data is provided to the outside actuary for any future actuarial valuations and participants' projected benefit calculations.

With the assistance of outside plan counsel and a plan actuary, accurate Plan information has been provided for actuarial valuations and projected benefit calculations since the Actuarial Valuation dated December 31, 2014. In addition, the staff referenced above who were in charge of administering the DB Pension Plan (i.e., CEO, COO, and CFO) have not been employed or affiliated with Summit Pointe since early 2015. Finally, the Plan has been frozen since FY 2015 and will be terminated effective September 1, 2018, with no intent to replace it with another defined-benefit pension plan.

(b) Complete benefit recalculations based on accurate plan provisions and accurate participant data, correct benefit payments, recoup overpayments, and provide recalculations to participants as deemed necessary.

The December 31, 2014 Actuarial Valuation reflects a correction to the Plan participants' projected benefit calculations. In addition, the former CEO, COO, CFO and other former employees of Summit Pointe have either waived in whole or a substantial portion of their projected benefits under the DB Plan.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 13

Finding: Unallowed Expense Items

Summit Pointe reported multiple expenditures as MDHHS program costs on the FYE 2012, 2013, and 2014 FSRs, but the expenditures were not allowed under the MDHHS programs.

- Recommendation:**
- (a) Amend the Procurement Policy to ensure proper procurements occur; and implementation of standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.
 - (b) Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contracts as required by 2 CFR 200.302(b)(7).
 - (c) Adopt policies and procedures to ensure only allowable costs related to covered services are reported for funding by MDHHS contracts.
 - (d) Establish and maintain effective internal control that provides reasonable assurance that Summit Pointe is managing the contracts in compliance with statutes, regulations, and the terms and conditions of the award.
 - (e) Review employee benefit policies and contracts, and amend as needed to ensure employee benefit policies and contracts include only allowable costs.
 - (f) Develop and implement a policy on professional and community memberships relating to employees and the agency, and ensure necessary approvals are obtained for cost allowability.

- (g) Develop and implement a travel policy that addresses all reimbursable travel costs with reasonable limitations and documentation requirements. Implement a supervisory review and approval process to ensure compliance with the approved travel policy.
- (h) Develop a policy related to gift giving that ensures compliance with applicable Federal cost principles.
- (i) Implement the necessary controls to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.
- (j) Include specific, measurable activities and products with specific payment terms for the performance of such in each contract. Discontinue including incentive payments in contracts, and only pay specific amounts for the specific products and services agreed upon in contracts.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendations by MDHHS.

Corrective Action: (a) **Amend the Procurement Policy to ensure proper procurements occur; and implementation of standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.**

Policy update was completed and approved by the Board on July 17, 2018. The Board Procurement Process Policy 03-009 was updated to include the Federal regulation requirements outlined in 2 CFR 200.318 through 2 CFR 200.326. Internal controls surrounding the procurement process have been strengthened to assure the policy is implemented as designed. This improvement is documented in the FY 2017 financial statement audit in which the prior year audit finding related to gaps in implementing the procurement policy are resolved.

Continued adherence with the procurement policy will be monitored through periodic internal audits performed by the internal Compliance team.

(b) Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contracts as required by 2 CFR 200.302(b)(7).

A new policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. In addition, Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. This review is completed by the CEO, CFO, Controller, Operations Director, Strategic Alliance Director and Clinical Director. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006.

(c) Adopt policies and procedures to ensure only allowable costs related to covered services are reported for funding by MDHHS contracts.

A new policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. In addition, Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. This review is completed by the CEO, CFO,

Controller, Operations Director, Strategic Alliance Director and Clinical Director. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006.

(d) Establish and maintain effective internal control that provides reasonable assurance that Summit Pointe is managing the contracts in compliance with statutes, regulations, and the terms and conditions of the award.

Summit Pointe will task its General Counsel with the responsibility to manage the entire contract lifecycle for all contracts within the organization. As part of that responsibility, Summit Pointe's General Counsel will also develop an internal contract management system or process with the following key elements:

- Contract Initiation – must be handled by a member of the senior leadership or leadership team.
- Drafting and Negotiation – handled by the member responsible or involved with contract initiation with the assistance of General Counsel.
- Contract Approval and Execution – pursuant to a draft Summit Pointe policy on contract execution, all contracts must be approved by its General Counsel and signed by the CEO. This is also the current process and practice employed by Summit Pointe.
- Contract Retention – all contracts will be retained in a central repository (paper copies and electronic copies) and in a single register on an Excel spreadsheet containing key terms.
- Contract Performance – a “contract owner” will be designated for each contract who will be responsible to track key deadlines and other performance requirements, along with a tickler system to flag key dates, such as

termination dates, notice to terminate dates, and key deliverable dates.

- Contract Amendment Process – all amendments will be handled by the contract owner with the assistance of General Counsel and subject to the above approval / signature requirements.
- Contract Renewal and Termination – will be reviewed by the CEO, General Counsel, the contract owner and other relevant stakeholders.

In 2017, Summit Pointe also acquired and implemented a requisition software management tool called ReQlogic, which assists with creating controls, proper documentation, and auditing trails associated with purchases.

(e) Review employee benefit policies and contracts, and amend as needed to ensure employee benefit policies and contracts include only allowable costs.

Summit Pointe does not believe it currently has any employee benefit policies or contracts that would include unallowable costs. Summit Pointe also proposes to amend its Board Policy No. 01-006 by adding that the HR Committee shall conduct an annual top-to-bottom review of compensation and benefits provided to employees, and report to the full Board by no later than September of each year as to whether such “compensation arrangements and benefits packages are reasonable and are the results of an objective review” as required under Board Policy No. 01-011. This policy will be updated by the end of the current fiscal year.

- (f) Develop and implement a policy on professional and community memberships relating to employees and the agency, and ensure necessary approvals are obtained for cost allowability.**

A policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. Specifically, “Memberships in civic, community, business, technical, and professional organizations are allowable...Memberships in a civic or community organization must be preapproved by the Michigan Department of Health and Human Services....Memberships in any country club or social or dining club or organization are not allowable.”

- (g) Develop and implement a travel policy that addresses all reimbursable travel costs with reasonable limitations and documentation requirements. Implement a supervisory review and approval process to ensure compliance with the approved travel policy.**

The existing travel policy was updated to clarify travel guidelines, including limitations on meal cost and mileage reporting. In addition, the allowable costs policy includes reasonable cost limitations on travel expense. All travel expenses are subject to leadership review and approval as outlined in the Check Requests policy, “staff will need to get an approved signature from the appropriate Team Leader/Leadership designee(s).”

- (h) Develop a policy related to gift giving that ensures compliance with applicable Federal cost principles.**

A new policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. Specifically, “goods or services for personal use of the entity's employees are not allowable regardless of whether the cost is reported as taxable income to the employees.”

- (i) Implement the necessary controls to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.**

The Check Requests Policy specifies that all expenses must include appropriate supporting documentation. Internal controls within the Finance department have been strengthened to ensure expenditures are adequately documented and approved. The FY2017 financial statement audit documented that a prior audit finding related to Accounts Payable (lack of support for manual journal entries) is resolved.

- (j) Include specific, measurable activities and products with specific payment terms for the performance of such in each contract. Discontinue including incentive payments in contracts, and only pay specific amounts for the specific products and services agreed upon in contracts.**

See response to (d) above whereby Summit Pointe's General Counsel will manage the entire contract lifecycle for all contracts within the organization, including assisting with drafting and negotiation of contract language. Summit Pointe agrees with the recommendation on incentive payments, and currently has no contracts with incentive payments.

**Anticipated
Completion Date:**

With the exception of the proposed contract management system and amendment to Board Policy No. 01-006, both of which Summit Pointe anticipates completing by the end of the current fiscal year, Summit Pointe has completed the corrective action required with respect to this Finding.

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 17

Finding: **Unallowed Business Activities Funded with MDHHS Funds**

Summit Pointe engaged in numerous business activities that were not related to the provision of covered services under the Medicaid contract or General Fund Contract, and inappropriately reported costs related to these activities that were not offset by revenue earned from these activities to MDHHS and received Medicaid and General Fund monies to help fund these business activities.

- Recommendation:** (a) Amend the CAP Model (Allocation Model) to ensure only the expenses for activities that are related to the provision of covered services under the Medicaid or General Fund Contract are reported to MDHHS, and any unallowed activities are funded by local funds only.
- (b) Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contract as required by 2 CFR 200.302(b)(7).
- (c) Obtain a legal opinion on the permissibility of Summit Pointe's involvement in future business activities that are not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.
- (d) If the activities are deemed permissible, evaluate the risk/benefit of involvement in all "non-CMH" business activities to determine

if the activities should be continued or discontinued in the best interest of the agency.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) Amend the CAP Model (Allocation Model) to ensure only the expenses for activities that are related to the provision of covered services under the Medicaid or General Fund Contract are reported to MDHHS, and any unallowed activities are funded by local funds only.

A new policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. In addition, Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006.

(b) Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contract as required by 2 CFR 200.302(b)(7).

A new policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. In addition, Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP

methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006.

- (c) Obtain a legal opinion on the permissibility of Summit Pointe's involvement in future business activities that are not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.**
- (d) If the activities are deemed permissible, evaluate the risk/benefit of involvement in all "non-CMH" business activities to determine if the activities should be continued or discontinued in the best interest of the agency.**

Except for the Connections Programs at the Federal Center and the Veterans Administration Laundry Facility, and the Coordinating Council of Calhoun County, Summit Pointe no longer engages in the programs or activities identified in Finding 4. Under the guidance of Summit Pointe's General Counsel and with the Board's knowledge of the remaining programs, Summit Pointe believes that a Community Mental Health Services Program may engage in these types of activities, and that the risks do not outweigh benefits to customers.

Summit Pointe has concluded that the risks are far outweighed by the benefits of these programs. The risks are simply those associated with a traditional employer-employee relationship, which are mitigated or eliminated by worker's compensation insurance, casualty and liability insurance, and governmental immunity. The contract risks are also minimal, as these are programs that involve long-standing arrangements (procured through SourceAmerica) with the Federal government to provide

regular and well-developed services. With respect to financial risk, the intention of the Board is to ensure that local programming has a positive margin after an appropriate allocation of administrative expenses. The Board Finance Committee performs a monthly financial review and analysis to monitor the financial outcomes of this program and implement any necessary changes to reduce/eliminate losses. The Connections Programs at the Federal Center and the Veterans Administration Laundry Facility have yielded net surpluses (after administration allocations) in each of the three years subsequent to the audit period (as reported by Summit Pointe).

The benefits, on the other hand, are immeasurable. The programs provide stable and meaningful employment for customers of Summit Pointe at prominent federal facilities with other co-workers (with and without disabilities) where they gain the dignity and confidence from being a successful member of the workforce.

In the future, for any activity that is desired by Summit Pointe that is outside of the typical CMH business, there will be proper review that will minimally include recommendation by the Senior Leadership Team and the CEO to the Finance and Audit Committee of the Board. The Finance and Audit Committee will take the information to the full Board for discussion and action. All decisions and discussions will be documented and maintained with Board minutes and action items.

**Anticipated
Completion Date:** Not Completed

MDHHS Response: No legal justification for these arrangements has been shared by Summit Pointe with MDHHS. Summit Pointe must provide the legal justification for further analysis by MDHHS's Behavioral Health & Developmental Disabilities Administration.

Corrective Action Plan

Finding Number: 5

Page Reference: 19

Finding: **Lack of Receipts and Lack of Detail to Determine Valid CMH Cost**

Summit Pointe accounting staff paid for expenditures without obtaining and/or maintaining adequate supporting documentation. Receipts or invoices were entirely missing in some cases. In other cases, documentation was not sufficient to show what was purchased and that it had a purpose related to providing CMH services.

Recommendation: Implement an adequate internal control system over financial reporting that provides reasonable assurance that financial reports are supported by underlying accounting records including detailed supporting documentation, and are fairly presented in accordance with program requirements.

Agency Comments: Without comment as to the fact or legal findings, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: The Check Requests Policy specifies that all expenses must include appropriate supporting documentation. Internal controls within the Finance department have been strengthened to ensure expenditures are adequately documented and approved. The FY 2017 financial statement audit documented that a prior audit finding related to Accounts Payable (Lack of Support for Manual Journal Entries) is resolved.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 6

Page Reference: 21

Finding: Double Reporting of Children's Waiver Program Expenditures

Summit Pointe reported Children's Waiver Program Expenditures as both Children's Waiver Program Expenditures, and Medicaid and General Fund Expenditures for FYEs 2013 and 2014.

Recommendation: Adopt policies and procedures to ensure costs are not double reported, which would include a review by an independent individual knowledgeable of the CAP Model and FSR reporting requirements, to ensure reporting complies with contract requirements.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: A new policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. In addition, Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006. The CAP Model is completed internally by the Summit Pointe CFO/Controller monthly with

verification by the SWMBH Finance Department. The FSR reporting requirements are completed in conjunction with SWMBH as appropriate and verified by Summit Pointe CFO/Controller for the CEO's signature.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 7

Page Reference: 21

Finding: Administration Costs Not Properly Allocated to All Benefitting Cost Centers

Summit Pointe pooled together general and board administration costs and allocated them to programs/cost centers based on accumulated cost in the program/cost center, but certain programs/cost centers were excluded from the allocation for FYEs 2012, 2013, and 2014 that appear to have received at least some benefit from the cost centers included in the cost pool, resulting in a disproportionate share of administrating costs being allocated to MDHHS programs.

Recommendation: Revise the cost allocation methodology to ensure all benefitting programs receive a fair share of indirect costs in reasonable relation to the benefits received from the costs.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006. Based on the activities above, adjustments have been made to the CAP and cost centers are receiving the appropriate apportionment of

general and board administration costs. External validation of the cost allocation methodologies is provided through the annual compliance audit.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 8

Page Reference: 22

Finding: **Unallowed Payments To/Contract With Board Member**

Summit Pointe contracted with and paid one of its Board Members to provide workshops for parents of at-risk youth to teach the parents how to support their children in the successful completion of high school, which is not related to the provision of mental health services under the MDHHS contracts. Additionally, individuals cannot serve on a Community Mental Health Services Provider Board if they are a party to a contract with the community mental health services program.

- Recommendation:** (a) Amend the Procurement Policy to ensure proper procurements occur; and implementation of the standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.
- (b) Adopt policies and procedures to ensure contracts are not awarded to board members, or on behalf of board members through other organizations.
- (c) Amend the Payment Policy and Procedures as necessary to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) **Amend the Procurement Policy to ensure proper procurements occur; and implementation of the standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.**

Policy update complete and approved by the Board on July 17, 2018. The Board Procurement Process Policy 03-009 was updated to include the Federal regulation requirements outlined in 2 CFR 200.318 through 2 CFR 200.326. Internal controls surrounding the procurement process have been strengthened to assure the policy is implemented as designed. This improvement is documented in the FY 2017 financial statement audit in which the prior year audit finding related to gaps in implementing the procurement policy are resolved. Continued adherence with the procurement policy will be monitored through periodic internal audits performed by the internal Compliance team.

(b) Adopt policies and procedures to ensure contracts are not awarded to board members, or on behalf of board members through other organizations.

On April 11, 2017, Summit Pointe's Board of Directors adopted and approved a new set of Board policies effective May 1, 2017. The following policies are relevant here:

- Policy No. 01-008, which states that the "Board commits itself and its members to ethical, business-like, and lawful conduct," and to that end will, among other things, "comply with the Board's Conflict of Interest Policy by making an annual Disclosure of Financial Interests." The policy further provides that "[e]xcept as otherwise permitted by the Conflict of Interest Policy, Board members must avoid any situation that conflicts or appears to conflict with the interests of Summit Pointe, such as potential improper personal benefits, financial interests in other organizations or entities, outside employment activities, kickbacks, or other related personal interests or benefits."

- The Conflict of Interest Policy, Board Policy No. 01-011, prohibits Board members, among others, from engaging “in any transaction, arrangement, proceeding, or other matter or undertake a position with any other organization that involves a Conflict of Interest without the required disclosure and approval of the Board of Directors.” It further requires that each Board member, and others, “annually complete a disclosure form identifying any relationships, positions, or circumstances in which the Responsible Person is involved that s/he believes could contribute to a Conflict of Interest. Such relationships, positions, or circumstances might include, but are not limited to, service as a director of or consultant to a not-for-profit organization, or ownership of a business that might provide goods or services to Summit Pointe.”
- The annual disclosure is due in June.

Any conflicts disclosed by a Board member or any Summit Pointe employee are reviewed by the Corporate Compliance Committee, which includes Summit Pointe’s Corporate Compliance Officer. The committee then brings a recommendation to the full Board to either waive, not waive, or waive with conditions the disclosed conflict. Only the Board may waive a disclosed conflict of interest, which would take place at a meeting subject to the Open Meetings Act. The Corporate Compliance Officer is also tasked with conducting an annual audit to ensure all Board members, and other employees of Summit Pointe, have completed the Disclosure of Financial Interests Form. This task is completed and monitored annually.

Finally, Summit Pointe's General Counsel, added to the organization in January 2016, is now available to and has advised the Board with respect to the legality of related contracts under the Mental Health Code and other relevant laws.

(c) Amend the Payment Policy and Procedures as necessary to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.

Summit Pointe's Check Requests Policy specifies that all expenses must include appropriate supporting documentation and are subject to leadership review and approval. Internal controls within the Finance department have been strengthened to ensure expenditures are adequately documented and approved. The FY 2017 financial statement audit documented that a prior audit finding related to Accounts Payable is resolved.

Anticipated Completion Date: Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 9

Page Reference: 23

Finding: **Unallowed Software Creation**

Summit Pointe paid an entity under contract to develop a software program to address depression and reported the expenditure as MDHHS program costs, but the item was not an allowed expenditure under the MDHHS programs. Additionally, two employees of Summit Pointe were each a party (at least indirectly) to the contract between themselves and Summit Pointe and were involved in the solicitation of the contract between Summit Pointe and the private corporation in which they were either a director, officer, or employee, which are both violations of MCL 15.322.

- Recommendation:** (a) Amend the Procurement Policy to ensure proper procurements occur; and implementation of the standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.
- (b) Amend the Payment Policy and Procedures as necessary to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.
- (c) Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contract as required by 2 CFR 200.302(b)(7).

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) Amend the Procurement Policy to ensure proper procurements occur; and implementation of the standards, competition and methods of procurement outlined in 2 CFR 200.318 through .320.

Policy update complete and approved by the Board on July 17, 2018. The Board Procurement Process Policy 03-009 was updated to include the Federal regulation requirements outlined in 2 CFR 200.318 through 2 CFR 200.326. Internal controls surrounding the procurement process have been strengthened to assure the policy is implemented as designed. This improvement is documented in the FY 2017 financial statement audit in which a prior year audit finding related to gaps in implementing the procurement policy are resolved. Continued adherence with the procurement policy will be monitored through periodic internal audits performed by the internal Compliance team.

(b) Amend the Payment Policy and Procedures as necessary to ensure all payments are supported by adequate documentation and all contractual payments comply with contract terms.

Summit Pointe's Check Requests policy specifies that all expenses must include appropriate supporting documentation and are subject to leadership review and approval. Internal controls within the Finance department have been strengthened to ensure expenditures are adequately documented and approved. The FY 2017 financial statement audit documented that a prior audit finding related to Accounts Payable is resolved.

(c) Develop written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the contract as required by 2 CFR 200.302(b)(7).

A new policy was created outlining allowable costs as defined in the Federal regulations at 2 CFR 200.400 through 2 CFR 200.475. In addition, Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. This review is completed by the CEO, CFO, Controller, Operations Director, Strategic Alliance Director and Clinical Director. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 10

Page Reference: 25

Finding: Unallowed Information Technology Equipment and Supplies

Summit Pointe paid for information technology equipment and supplies and reported the expenditures as MDHHS program costs, but some of the items could not be located, and some of the items were identified as “spare” and located in storage rather than being used for the MDHHS programs.

Recommendation: (a) Ensure adequate mechanisms are put in place for technology equipment and asset monitoring, tracking, and disposal to ensure only required technology is purchased, purchased items are properly tracked and safeguarded, and proper disposal.
(b) Ensure implementation of the “Technology Inventory Controls” Procedure that became effective 6/26/2017. Monitor adherence to the policy by the CFO as required by the “Technology Inventory Controls” Procedure.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) **Ensure adequate mechanisms are put in place for technology equipment and asset monitoring, tracking, and disposal to ensure only required technology is purchased, purchased items are properly tracked and safeguarded, and proper disposal.**

Technology purchases are subject to procurement and purchasing guidelines that require appropriate leadership authorization. In addition to these policy guidelines, technology purchases are initiated, approved, and tracked in the

organization's purchasing software, ReQlogic, which strengthens internal controls and increases the visibility of purchases. Technology purchases (hardware/software) are included in the annual budget and actual to budget variances are reviewed / discussed with the Board Finance Committee each month. In combination, these control points will prevent the purchase of unnecessary equipment.

(b) Ensure implementation of the “Technology Inventory Controls” Procedure that became effective 6/26/2017. Monitor adherence to the policy by the CFO as required by the “Technology Inventory Controls” Procedure.

This policy has been implemented. The last technology physical inventory occurred in November 2017 and the team is working to schedule the 2018 inventory. In addition to the periodic physical inventory, the technology team utilizes Lansweeper IT Asset Management software to perpetually monitor hardware and software.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 11

Page Reference: 26

Finding: Improper Cost Accounting Methodology

Summit Pointe's cost accounting methodology did not assure the proper allocation of costs to the appropriate source.

Recommendation: Separate different activities into separate cost centers and ensure only allowable MDHHS costs are reported to MDHHS. Also, ensure costs placed in the supported employment cost center qualify as supported employment under the MDHHS requirements.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe developed a policy outlining the preparation of the Cost Allocation Plan (CAP) to assure compliance with regulatory guidelines. Members of the Senior Leadership Team meet weekly to review the CAP methodologies and evaluate the appropriateness of cost assignment and cost allocations relative to the design of daily operations. Further, the Board Finance Committee meets monthly to provide oversight of financial performance as outlined in Board Policy 01-006.

Cost center 2314 has been separated into several cost centers to properly report activity: cost center 2314 is used only for supported employment (cost allocated to MDHHS based on units), cost center 2318 is used to report outside custodial services (no cost is allocated to MDHHS), and cost center 2319 is used to report internal custodial services (which is allocated to

other cost centers based on cost). Cost center 2406 is now used exclusively for youth services. Many of the programs/activities that were previously reported in cost center 2406 were terminated and no longer exist, including the virtual school and skate park.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 12

Page Reference: 27

Finding: **Unreasonable Compensation Paid to CEO, COO, and CFO**
Summit Pointe paid their CEO, COO, and CFO compensation amounts far above amounts paid for similar work in the labor market; amounts in excess of those determined reasonable are unallowable.

Recommendation: Adopt policies and procedures to ensure all compensation paid to all employees (including salaries, bonuses, and fringe benefits) is reasonable for the services rendered and comparable to that paid for similar work in the labor market (other CMHSPs).

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe's Board of Directors adopted and approved a new set of Board policies effective May 1, 2017. The following policies are relevant here:

- Policy No. 03-003, which provides that “[w]ith respect to employment, compensation, and benefits to employees, consultants, contract workers and volunteers, the Chief Executive Officer may not cause or allow jeopardy to fiscal integrity or public image.” The Policy further states that the CEO “shall not . . . [e]stablish current compensation and benefits that . . . [d]eviate materially from the geographic or professional market for the skills employed” or “[e]stablish and change pension benefits so

the pension provisions . . . [c]ause unfunded liabilities to occur or in any way commit the organization to benefits which incur unpredictable future costs.”

- Policy No. 01-005 provides that “Board Committees shall be used to ensure that critical Governance activities are consistently addressed and given proper focus and attention in order to keep the organization on track with respect to compliance requirements and strategic goals.”
- Policy No. 01-006 establishes four (4) standing committees of the Board, including an Audit/Finance Committee and a Human Resources Committee. Among others, the Audit/Finance Committee reviews and recommends an annual budget to the Board, which would include a review of employee costs. It also has the authority to “inquire into any financial matters” of Summit Pointe, including, without limitation, the costs of employee compensation and benefits. The HR Committee has the responsibility to review, among other matters, “employee retirement plans” or “any other special compensation for employees” of Summit Pointe.
- Policy No. 01-011 states that “To ensure that Summit Pointe operates in a manner consistent with legal and ethical business practices and that it does not engage in activities that jeopardize its status as a federally exempt organization, periodic reviews shall be conducted,” including “[w]hether Summit Pointe’s compensation arrangements and benefits packages are reasonable and are the results of an objective review.”

Summit Pointe's pension and retirement plans are also overseen and administered by three Plan Trustees who meet on a quarterly basis with General Counsel, Plan advisors, and when necessary, outside Employee Benefits counsel.

Finally, Summit Pointe proposes to amend its Board Policy No. 01-006 by adding that the HR Committee shall conduct an annual top-to-bottom review of compensation and benefits provided to employees, and report to the full Board by no later than September of each year as to whether such "compensation arrangements and benefits packages are reasonable and are the results of an objective review" as required under Board Policy No. 01-011.

**Anticipated
Completion Date:**

With the exception of the proposed amendment to Board Policy No. 01-006, which Summit Pointe anticipates completing by the end of the current fiscal year, Summit Pointe has completed the corrective action required with respect to this Finding.

MDHHS Response: None

Corrective Action Plan

Finding Number: 13

Page Reference: 30

Finding: **Non-Compliant Procurement Policy and Procedures**

Summit Pointe's written procurement policy and procedures violate Federal requirements relating to noncompetitive procurements, and do not address multiple other required provisions.

Recommendation: (a) Develop and implement a Procurement Policy and Procedures that comply with 2 CFR 200.318 through 200.326.

(b) Develop a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) **Develop and implement a Procurement Policy and Procedures that complies with 2 CFR 200.318 through 200.326.**

The Board Procurement Process Policy 03-009 was updated to include the Federal regulation requirements outlined in 2 CFR 200.318 through 2 CFR 200.326. Internal controls surrounding the procurement process have been strengthened to assure the policy is implemented as designed. This improvement is documented in the FY 2017 financial statement audit in which the prior year audit finding related to gaps in implementing the procurement policy is resolved. Continued adherence with the procurement policy will be monitored through periodic internal audits performed by the internal Compliance team.

(b) Develop a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

Summit Pointe will task its General Counsel with the responsibility to manage the entire contract lifecycle for all contracts within the organization. As part of that responsibility, Summit Pointe's General Counsel will also develop an internal contract management system or process with the following key elements:

- Contract Initiation – must be handled by a member of the senior leadership or leadership team.
- Drafting and Negotiation – handled by the member responsible or involved with contract initiation with the assistance of General Counsel.
- Contract Approval and Execution – pursuant to a draft Summit Pointe policy on contract execution, all contracts must be approved by its General Counsel and signed by the CEO. This is also the current process and practice employed by Summit Pointe.
- Contract Retention – all contracts will be retained in a central repository (paper copies and electronic copies) and in a single register on an Excel spreadsheet containing key terms.
- Contract Performance – a “contract owner” will be designated for each contract who will be responsible to track key deadlines and other performance requirements, along with a tickler system to flag key dates, such as termination dates, notice to terminate dates, and key deliverable dates.
- Contract Amendment Process – all amendments will be handled by the contract owner with the assistance of

General Counsel and subject to the above approval / signature requirements.

- Contract Renewal and Termination – will be reviewed by the CEO, General Counsel, the contract owner and other relevant stakeholders.

In 2017, Summit Pointe also acquired and implemented a requisition software management tool called ReQlogic, which assists with creating controls, proper documentation, and auditing trails associated with purchases.

**Anticipated
Completion Date:**

The revised Procurement Policy was approved on July 17, 2018. Summit Pointe anticipates completion of a Contract Management Process Guide that contains the above key elements before the start of its next fiscal year in October 2018.

MDHHS Response: None

Corrective Action Plan

Finding Number: 14

Page Reference: 32

Finding: **Non-Compliant Procurements**

Summit Pointe's procurements and documentation supporting the procurements do not comply with Federal and contractual requirements.

Recommendation: (a) Develop and implement a Procurement Policy and Procedures that comply with 2 CFR 200.318 through 200.326.

(b) Develop and implement a process to ensure organizations or individuals contracted with are not suspended, debarred, or otherwise excluded from participation in Federal assistance programs or Federal health care programs under the Social Security Act.

(c) Develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) **Develop and implement a Procurement Policy and Procedures that comply with 2 CFR 200.318 through 200.326.**

The Board Procurement Process Policy 03-009 was updated to include the Federal regulation requirements outlined in 2 CFR 200.318 through 2 CFR 200.326. Internal controls surrounding the procurement process have been strengthened to assure the policy is implemented as designed. This improvement is documented in the FY 2017 financial statement audit in which

the prior year audit finding related to gaps in implementing the procurement policy are resolved. Continued adherence with the procurement policy will be monitored through periodic internal audits performed by the internal Compliance team.

(b) Develop and implement a process to ensure organizations or individuals contracted with are not suspended, debarred, or otherwise excluded from participation in Federal assistance programs or Federal health care programs under the Social Security Act.

Summit Pointe has already taken several steps that address this recommendation, including the following:

- Since at least October 1, 2017, all of Summit Pointe's service provider subcontracts require providers to certify that "its principals, officers, employees and contractors":
 - (a) "Are not presently debarred, suspended, proposed for debarment, declared ineligible, or excluded from any state and/or federal healthcare program";
 - (b) "Have not been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (federal, State, or local) transaction or contract under a public transaction, violation of federal or State anti-trust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property";
 - (c) "Are not presently indicted for or otherwise criminally or civilly charged by a government entity (federal, State, or local) with commission of any of the offenses enumerated above";
 - (d) "Have not within a three (3) year period preceding the commencement of this Agreement had one (1) or more public (federal, State, or local) transactions

terminated for cause or default” and (e) “Are not currently excluded from participation in any federal or State health care program.”

- Summit Pointe checks the OIG exclusion list before seating a new Board member or hiring a new employee or contractor, including any “controlling” employees reported on a contractor’s ownership and disclosure form. After the initial check, Southwest Michigan Behavioral Health (SWMBH), as the Regional Entity with whom Summit Pointe contracts, runs a monthly exclusion check for all Summit Pointe employees, board members, contractors, and the contractor’s “controlling” employees, and then provides a monthly report to Summit Pointe.

Summit Pointe is also in the process of rewriting and updating, among others, all of its internal Corporate Compliance policies.

(c) Develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

All contracts will be reviewed by General Counsel for compliance with the Procurement Policy, and then signed by the CEO. Summit Pointe further notes that it is subjected to two compliance audits by independent accounting firms who, as part of those audits, test disbursements and procurements against the organization’s procurement process and policies.

**Anticipated
Completion Date:**

With the exception of the proposed Ineligible Persons Policy, which Summit Pointe anticipates completing and approving before the end of the current fiscal year, Summit Pointe has completed the corrective action required with respect to this Finding.

MDHHS Response: None

Corrective Action Plan

Finding Number: 15

Page Reference: 34

Finding: **Subcontracts Lack Required Language**

Summit Pointe executed subcontracts that did not include required items, such as detail on services to be provided, required termination clauses, required access provisions, and required record retention provisions.

Recommendation: Develop and implement a contract management system that ensures subcontracts contain required provisions, and the contract management system should include a review process of all executed subcontracts.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe will task its General Counsel with the responsibility to manage the entire contract lifecycle for all contracts within the organization. As part of that responsibility, Summit Pointe's General Counsel will also develop an internal contract management system or process with the following key elements:

- Contract Initiation – must be handled by a member of the senior leadership or leadership team.
- Drafting and Negotiation – handled by the member responsible or involved with contract initiation with the assistance of General Counsel.
- Contract Approval and Execution – pursuant to a draft Summit Pointe policy on contract execution, all contracts

must be approved by its General Counsel and signed by the CEO. This is also the current process and practice employed by Summit Pointe.

- Contract Retention – all contracts will be retained in a central repository (paper copies and electronic copies) and in a single register on an Excel spreadsheet containing key terms.
- Contract Performance – a “contract owner” will be designated for each contract who will be responsible to track key deadlines and other performance requirements, along with a tickler system to flag key dates, such as termination dates, notice to terminate dates, and key deliverable dates.
- Contract Amendment Process – all amendments will be handled by the contract owner with the assistance of General Counsel and subject to the above approval / signature requirements.
- Contract Renewal and Termination – will be reviewed by the CEO, General Counsel, the contract owner and other relevant stakeholders.

In further response, Summit Pointe notes that since the creation of Regional Entities to serve as the PIHPs for the CMHSPs in Michigan, Summit Pointe has used the template subcontract for providers drafted by SWMBH, which contains all terms and conditions required by MDHHS in Medicaid contracts and subcontracts.

**Anticipated
Completion Date:**

Summit Pointe anticipates completion of a Contract Management Process Guide that contains the above key elements before the start of its next fiscal year in October 2018.

MDHHS Response: None

Corrective Action Plan

Finding Number: 16

Page Reference: 35

Finding: **CEO Violated Michigan's Standards of Conduct for Public Employees**

Summit Pointe's CEO did not use funds under his official care judiciously and solely in accordance with prescribed regulatory procedures.

Recommendation: (a) Develop and implement a Procurement Policy and Procedures that comply with 2 CFR 200.318 through 200.326.

(b) Develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS. Summit Pointe does note, however, that the CEO at issue was placed on leave in December 2014 and has not been employed by or had any role with Summit Pointe since February 2015.

Corrective Action: (a) **Develop and implement a Procurement Policy and Procedures that comply with 2 CFR 200.318 through 200.326.**

The Board Procurement Process Policy 03-009 was updated to include the Federal regulation requirements outlined in 2 CFR 200.318 through 2 CFR 200.326. Internal controls surrounding the procurement process have been strengthened to assure the policy is implemented as designed. This improvement is documented in the FY 2017 financial statement audit in which the prior year audit finding related to gaps in implementing the

procurement policy are resolved. Continued adherence with the procurement policy will be monitored through periodic internal audits performed by the internal Compliance team.

(b) Develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

As part of the contract management system, all contracts will be reviewed by General Counsel for compliance with the Procurement Policy, and then signed by the CEO. Summit Pointe further notes that it is subjected to two compliance audits by independent accounting firms who, as part of those audits, test disbursements and procurements against the organization's procurement process and policies.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 17

Page Reference: 35

Finding: CEO Violated Summit Pointe's Contract Procurement Policy

Summit Pointe's CEO procured significant automated data processing services without either (1) a process to obtain best prices without selective contracting or (2) competitive procurement through selective contracting as required by Summit Pointe policy.

Recommendation: Develop and implement a review process to ensure all procurements comply with the Procurement Policy and Procedures, federal regulations, and contract provisions.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS. Summit Pointe does note, however, that the CEO at issue has not been employed by or had any role with Summit Pointe since February 2015.

Corrective Action: As part of the contract management system, all contracts will be reviewed by General Counsel for compliance with the Procurement Policy, and then signed by the CEO. Summit Pointe further notes that it is subjected to two compliance audits by independent accounting firms who, as part of those audits, test disbursements and procurements against the organization's procurement process and policies.

Anticipated Completion Date: Completed. Internal Compliance will review bi-annually.

MDHHS Response: None

Corrective Action Plan

Finding Number: 18

Page Reference: 36

Finding: **Annual Affiliated Organizational Disclosure Statements and Conflict of Interest Statements Not Completed**

Summit Pointe's board members, corporate officers, leadership members and directors did not complete annual Affiliated Organization Disclosure Statements and/or Conflict of Interest Statements as required by policy and procedures.

Recommendation: Develop and implement an effective internal control system that ensures required disclosures are completed, and appropriate actions are taken regarding affiliations and actions involving those affiliations.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe's Board of Directors adopted and approved a new set of Board policies effective May 1, 2017. The following policies are relevant here:

- Policy No. 01-008, which states that the "Board commits itself and its members to ethical, business-like, and lawful conduct," and to that end will, among other things, "comply with the Board's Conflicts of Interest Policy by making an annual Disclosure of Financial Interests." The policy further provides that "[e]xcept as otherwise permitted by the Conflict of Interest Policy, Board members must avoid any situation that conflicts or appears to conflict with the interests of Summit Pointe, such as potential improper personal benefits, financial

interests in other organizations or entities, outside employment activities, kickbacks, or other related personal interests or benefits.”

- The Conflict of Interest Policy, Board Policy No. 01-011, prohibits Board members, among others, from engaging “in any transaction, arrangement, proceeding, or other matter or undertake a position with any other organization that involves a Conflict of Interest without the required disclosure and approval of the Board of Directors.” It further requires that each Board member, and others, “annually complete a disclosure form identifying any relationships, positions, or circumstances in which the Responsible Person is involved that s/he believes could contribute to a Conflict of Interest. Such relationships, positions, or circumstances might include, but are not limited to, service as a director of or consultant to a not-for-profit organization, or ownership of a business that might provide goods or services to Summit Pointe.”
- The annual disclosure is due in June.

Any conflicts disclosed by a Board member or any Summit Pointe employee are reviewed by the Corporate Compliance Committee, which includes Summit Pointe’s Corporate Compliance Officer. The committee then brings a recommendation to the full Board to either waive, not waive, or waive with conditions the disclosed conflict. Only the Board may waive a disclosed conflict of interest (Board Policy No. 01-011), which would take place at a meeting subject to the Open Meetings Act. The Corporate Compliance Officer is also tasked with conducting an annual audit to ensure all Board members, and other employees of Summit Pointe, have completed the

Disclosure of Financial Interests Form. This task is completed and monitored annually.

Anticipated Completion Date: Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 19

Page Reference: 37

Finding: **Lack of Specific Merit Pay Policy for Non-Union Employees and Excessive Amounts Paid Without Documented Support**

Summit Pointe does not have a specific policy for merit pay to non-union employees that includes the requirements, specific parameters that are tied to individual performance, and documentation requirements. Also, Summit Pointe's CEO approved excessive merit pay amounts to non-union employees (COO, CFO, and others) for FYEs 2012 through 2014 with no supporting evidence that the approved compensation did not "deviate materially from the geographic or professional market for the skill employed" as required by policy.

Recommendation: Adopt a specific Merit Pay Policy for non-union employees that includes parameters/limitations, required performance evaluations based on individual performance, and required documentation to support the merit pay. Established parameters/limitations must ensure merit pay and total compensation remains reasonable and consistent with the labor market. Additionally, incentive compensation must comply with the requirements of 2 CFR 200.430(f).

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: The Summit Pointe Board establishes the language for contracting of non-union employees that includes the provision of performance incentive payments.

Since 2016, the Senior Leadership language is as follows: “The Executive may be eligible to earn a lump sum performance incentive payment. Performance incentive pay shall not be added to base pay. The performance incentive pay will be based on scorecard components, including Organization Goals (50%) and Individual Goals (50%). At the end of each fiscal year the Board will determine an amount of incentive pay that the CEO will allocate amongst the Executives. The Executive must have at least three (3) months of service by September 30th of the fiscal year to be eligible. Any performance incentive pay requires approval by the Summit Pointe Board.”

Since 2016, the Director language is as follows: “The Employee may be eligible to earn a lump sum performance incentive payment. Performance incentive pay shall not be added to base pay. The performance incentive pay will be based on a scorecard of components, including Organization goals (25%), Team Goals (25%) and Individual Goals (50%). At the end of each fiscal year the Board will determine an amount of incentive pay that the CEO will allocate amongst the Employees. The Employee must have at least three months of service by September 30th in a fiscal year to be eligible. Any performance incentive pay requires approval by the Summit Pointe Board.”

In addition, the Summit Pointe Board now approves a budgeted amount each year for year-end bonuses for non-union employees. Each non-union employee is also required to prepare a set of individual goals for the year. At the end of the year, the CEO reviews the employee’s performance and measures achievement of team goals, organizational goals, and individual goals, and records a percentage of goals completed

for the year. During the 2017 fiscal year, the average amount of merit pay for non-union employees was 4.4% of annual salary.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 20

Page Reference: 38

Finding: **Medical Retirement Contributions Exceed Plan Provisions and Plan Contribution Amount Appears Unreasonable**

Summit Pointe contributed 50% more for each individual employee to the Retiree Health Care Expense Reimbursement Account Plan in each of the fiscal years under review (2012, 2013, and 2014) than was specified in the Health Care Reimbursement Account Plan without Board of Director approval as required. Additionally, the annual employer contribution specified in the Health Care Reimbursement Account Plan appears unreasonable with no support showing it is reasonable.

Recommendation: (a) Amend Board Policies to ensure the authority for establishing employee benefits is appropriately delegated, and to ensure the Board is appropriately involved with required approvals for significant expenses.

(b) Amend the HRCA Plan to ensure the stated annual contribution amount is reasonable and adequately supported.

(c) Ensure any increased contributions are approved as required and adequately documented as to reasonableness.

(d) Consider denying any claims for benefits from the CEO or terminating coverage for the CEO as he added this benefit for himself in direct violation of the Executive Limitations Policy #01-008 (he changed his benefits and there was no approval to do so from the Board).

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) Amend Board Policies to ensure the authority for establishing employee benefits is appropriately delegated, and to ensure the Board is appropriately involved with required approvals for significant expenses.

Summit Pointe's Board of Directors adopted and approved a new set of Board policies effective May 1, 2017. The following policies are relevant here:

- Policy No. 03-003, which provides that “[w]ith respect to employment, compensation, and benefits to employees, consultants, contract workers and volunteers, the Chief Executive Officer may not cause or allow jeopardy to fiscal integrity or public image.” The Policy further states that the CEO “shall not . . . [e]stablish current compensation and benefits that . . . [d]eviate materially from the geographic or professional market for the skills employed” or “[e]stablish and change pension benefits so the pension provisions . . . [c]ause unfunded liabilities to occur or in any way commit the organization to benefits which incur unpredictable future costs.”
- Policy No. 01-005 provides that “Board Committees shall be used to ensure that critical Governance activities are consistently addressed and given proper focus and attention in order to keep the organization on track with respect to compliance requirements and strategic goals.”
- Policy No. 01-006 establishes four (4) standing committees of the Board, including an Audit/Finance Committee and a Human Resources Committee. Among others, the Audit/Finance Committee reviews and recommends an annual budget to the Board, which

would include a review of employee costs. It also has the authority to “inquire into any financial matters” of Summit Pointe, including, without limitation, the costs of employee compensation and benefits. The HR Committee has the responsibility to review, among other matters, “employee retirement plans” or “any other special compensation for employees” of Summit Pointe.

- Policy No. 01-011 states that “To ensure that Summit Pointe operates in a manner consistent with legal and ethical business practices and that it does not engage in activities that jeopardize its status as a federally exempt organization, periodic reviews shall be conducted,” including “[w]hether Summit Pointe’s compensation arrangements and benefits packages are reasonable and are the results of an objective review.”

Summit Pointe’s pension and retirement plans are also overseen and administered by three Plan Trustees who meet on a quarterly basis with General Counsel, Plan advisors, and when necessary, outside Employee Benefits counsel.

Finally, Summit Pointe proposes to amend its Board Policy No. 01-006 by adding that the HR Committee shall conduct an annual top-to-bottom review of compensation and benefits provided to employees, and report to the full Board by no later than September of each year as to whether such “compensation arrangements and benefits packages are reasonable and are the results of an objective review” as required under Board Policy No. 01-011.

- (b) Amend the HRCA Plan to ensure the stated annual contribution amount is reasonable and adequately supported.**
- (c) Ensure any increased contributions are approved as required and adequately documented as to reasonableness.**

In June 2017 (with an effective date of July 1, 2017), Summit Pointe executed a Health Reimbursement Account Employer Adoption Agreement through Educators Benefits Consultants, LLC (EBC) (herein “the Plan”) to replace its HRA Plan. Article VI, Section 6.1 of the Plan states that the Summit Pointe Board of Directors has the “sole discretion” as to whether to make a contribution to participant plans, including as to frequency and amount, and that no annual contribution will be made unless the Board takes “affirmative action to approve [contributions] at a duly convened meeting.” The Plan further limits annual contributions to a maximum of \$5,000 per full-time employee-participants, and forty percent (40%) of that amount to part-time employee-participants. EBC has administered and managed the Summit Pointe HRA Plan since July 1, 2017.

- (d) Consider denying any claims for benefits from the CEO or terminating coverage for the CEO as he added this benefit for himself in direct violation of the Executive Limitations Policy #01-008 (he changed his benefits and there was no approval to do so from the Board).**

Summit Pointe cannot legally deny claims for benefits by its former CEO or terminate his coverage under the HRA Plan absent a written voluntarily waiver from him as to any and all benefits under the Plan. Under the Michigan Constitution (Article IX, Section 24), the former CEO could claim that he has a constitutionally protected right to this retiree-health benefit. Accordingly, absent a voluntary waiver of this benefit by the former CEO, Summit Pointe would expose itself to the risk of

litigation by the former CEO over this matter and could be held directly liable if succeeding on such a claim, a risk not warranted in Summit Pointe's view for the relatively small amount at stake.

Anticipated

Completion Date: With the exception of the proposed amendment to Board Policy No. 01-006, which Summit Pointe anticipates completing by the end of the current fiscal year, Summit Pointe has completed the corrective action required with respect to this Finding.

MDHHS Response: None

Corrective Action Plan

Finding Number: 21

Page Reference: 41

Finding: Agency Funds Used to Operate Golf Course

Summit Pointe operated a golf course, which was not related to the purpose of the agency as described in the Enabling Resolution, and used \$225,534 of the agency's funds in this endeavor over the three-year review period of FYE 2012 through 2014.

Recommendation: (a) Obtain a legal opinion on the permissibility of Summit Pointe's involvement in business activities that are not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.

(b) If the activities are deemed permissible, evaluate the risk/benefit of involvement in all "non-CMH" business activities to determine if the activities should be continued or discontinued in the best interest of the agency.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe ended the relationship with the VA in operating the Golf Course in the summer of 2015. Summit Pointe also agrees that in the future for any activity that is desired by Summit Pointe that is outside of the typical CMH business, there will be proper review that will minimally include recommendation

by the Senior Leadership Team and the CEO to the Finance and Audit Committee of the Board. The Finance and Audit Committee will take the information to the full Board for discussion and action. All decisions and discussions will be documented and maintained with Board minutes and action items.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 22

Page Reference: 42

Finding: **Questionable Property Management Business**

Summit Pointe's property management business of owning and renting housing units to customers of mental health services and the general public does not fulfill the purpose of the community mental health services program of providing mental health services appropriate to conditions of individuals located within its geographic service area, and presents a conflict of interest between Summit Pointe and the customers in which they provide mental health services to. In total, Summit Pointe lost \$324,980 in this property management business over a three-year period (2012, 2013, & 2014).

- Recommendation:** (a) Obtain a legal opinion on the permissibility of Summit Pointe's involvement in business activities that are not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.
- (b) If the activities are deemed impermissible, take action to divest of the properties ensuring no adverse impact on the consumers served.
- (c) If the activities are deemed permissible, evaluate the risk/benefit of continuing a property management business to determine if the activity should be continued or discontinued in the best interest of the agency.
- (d) If deemed permissible, take action to resolve conflict of interest situations.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) Obtain a legal opinion on the permissibility of Summit Pointe's involvement in business activities that are not connected to fulfilling the purpose of a community mental health services program, which is to provide a comprehensive array of mental health services appropriate to conditions of individuals who are located within its geographic service area according to Section 206 of the Mental Health Code.

Under the guidance of Summit Pointe's General Counsel and with the Board's knowledge of the residential properties at issue here, Summit Pointe believes that a Community Mental Health Services Program may engage in this type of activity.

(b) If the activities are deemed impermissible, take action to divest of the properties ensuring no adverse impact on the consumers served.

Not applicable.

(c) If the activities are deemed permissible, evaluate the risk/benefit of continuing a property management business to determine if the activity should be continued or discontinued in the best interest of the agency.

With respect to financial risk, the intention of the Board is to ensure that local programming has a positive margin after an appropriate allocation of administrative expenses. The Board Finance Committee performs a monthly financial review and analysis to monitor the financial outcomes of this program and implement any necessary changes to reduce/eliminate losses. The local apartment units will be examined separately from the other building assets where specialized residential programming is provided. Summit Pointe will continue to examine these cost

centers for the elimination or reduction of expenses. Summit Pointe raised prices for the units, but left prices below low-income housing pricing to keep them affordable. Summit Pointe will continue to review rental amounts. HUD awarded permanent supportive housing grants in FY17 and FY18 to help offset financial risk. Financial (loss)/gains were as follows for the three fiscal years following the audit years: (\$112,213) in 2015, \$44,037 in 2016, and \$45,851 in 2017 (as reported by Summit Pointe).

(d) If deemed permissible, take action to resolve conflict of interest situations.

A fully documented policy and procedure will be developed to ensure necessary components for property management and to avoid any conflicts of interest. In the meantime, Summit Pointe has implemented a process to ensure that intake and eviction of tenants in Summit Pointe housing units has proper oversight by members of the senior leadership team. Summit Pointe plans to hire a third party to manage the apartment units, and has an RFP planned for this service.

**Anticipated
Completion Date:**

Not completed.

MDHHS Response:

MDHHS continues to be concerned both about the legality and ethical considerations surrounding these activities. No legal justification for these arrangements has been shared by Summit Pointe with MDHHS. Summit Pointe must provide the legal justification for further analysis by MDHHS's Behavioral Health & Developmental Disabilities Administration. If these activities are legally permissible and continued, Summit Pointe must develop and implement a fully documented policy and procedures to ensure necessary components for property management exist and to eliminate any potential conflicts of

interest. To eliminate potential conflicts of interest, any possible intervention by Summit Pointe related to independent consumers' housing must be eliminated.

Corrective Action Plan

Finding Number: 23

Page Reference: 43

Finding: **Unauthorized and Unjustified Condominium Purchase**

Summit Pointe CEO approved the purchase of a condominium in violation of Summit Pointe policy, and provided no support for intended use nor fiscal prudence.

Recommendation: (a) Implement the proper controls and procedures to ensure real property purchases are adequately justified, obtained at comparable prices, and properly approved.

(b) Ensure necessary IRS Forms are filed related to the condominium use for years prior to 2014.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS. Summit Pointe no longer owns the condominium at issue.

Corrective Action: (a) **Implement the proper controls and procedures to ensure real property purchases are adequately justified, obtained at comparable prices, and properly approved.**

Summit Pointe's Board of Directors adopted and approved a new set of Board policies effective May 1, 2017. The following policies are relevant here:

- Policy No. 03-003 directs the CEO to "take reasonable and diligent steps to" protect Summit Pointe assets and seek Board approval for any purchase in an amount of \$50,000 or more.

- Policy No. 03-004 expressly prohibits the CEO from acquiring or disposing any real property without Board approval.
- Policy No. 01-011 provides that “[t]o ensure that Summit Pointe operates in a manner consistent with legal and ethical business practices and that it does not engage in activities that jeopardize its status as a federally exempt organization, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include . . . [w]hether the acquisition of land, buildings, or other properties result in impermissible private benefit that violates the Corporate Compliance Plan, Code of Ethics, or Conflict of Interest Policy.” This review is conducted by the Board’s Corporate Compliance Committee.

In addition, the Board’s Audit/Finance Committee has oversight over all financial matters of the organization. See Board Policy No. 01-006.

(b) Ensure necessary IRS Forms are filed related to the condominium use for years prior to 2014.

This issue has been corrected through a Closing Agreement with the Internal Revenue Service. Corrected W-2s have been submitted to the IRS and the Social Security Administration for all years required by the IRS.

Anticipated Completion Date: Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 24

Page Reference: 44

Finding: **Subcontracts Not Executed Prior to Commencement of Services and Prior to Payments to Contractors, and Subcontract List Not Submitted to MDHHS**

Summit Pointe did not execute subcontracts with contractors prior to contractors performing services and prior to payments to contractors, and did not submit a listing of subcontracts to MDHHS as required.

Recommendation: (a) Implement policies and procedures to ensure that all subcontracts are properly executed before services are performed and payments are made.

(b) Implement an effective internal control system that ensures proper oversight, contract compliance, and timely submission of required documentation to MDHHS.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: (a) **Implement policies and procedures to ensure that all subcontracts are properly executed before services are performed and payments are made.**

Summit Pointe will task its General Counsel with the responsibility to manage the entire contract lifecycle for all contracts within the organization. As part of that responsibility, Summit Pointe's General Counsel will also develop an internal contract management system or process with the following key elements:

- Contract Initiation – must be handled by a member of the senior leadership or leadership team.
- Drafting and Negotiation – handled by the member responsible or involved with contract initiation with the assistance of General Counsel.
- Contract Approval and Execution – pursuant to a draft Summit Pointe policy on contract execution, all contracts must be approved by its General Counsel and signed by the CEO. This is also the current process and practice employed by Summit Pointe.
- Contract Retention – all contracts will be retained in a central repository (paper copies and electronic copies) and in a single register on an Excel spreadsheet containing key terms.
- Contract Performance – a “contract owner” will be designated for each contract who will be responsible to track key deadlines and other performance requirements, along with a tickler system to flag key dates, such as termination dates, notice to terminate dates, and key deliverable dates.
- Contract Amendment Process – all amendments will be handled by the contract owner with the assistance of General Counsel and subject to the above approval / signature requirements.
- Contract Renewal and Termination – will be reviewed by the CEO, General Counsel, the contract owner and other relevant stakeholders.

(b) Implement an effective internal control system that ensures proper oversight, contract compliance, and timely submission of required documentation to MDHHS.

Summit Pointe will assign its General Counsel with responsibility to ensure compliance with all MDHHS requirements, including reporting requirements.

**Anticipated
Completion Date:**

Summit Pointe anticipates completion of a Contract Management Process Guide that contains the above key elements before the start of its next fiscal year in October 2018.

MDHHS Response: None

Corrective Action Plan

Finding Number: 25

Page Reference: 45

Finding: Lack of Approval for Payments

Summit Pointe accounting staff processed payments for items that did not have evidence of proper approval.

Recommendation: Implement an adequate internal control system over financial reporting that provides reasonable assurance that financial reports are supported by underlying accounting records including evidence of supervisory review and approval, and are fairly presented in accordance with program requirements.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe's Check Requests Policy specifies that all expenses must include appropriate supporting documentation and are subject to leadership review and approval. Internal controls within the Finance department have been strengthened to ensure expenditures are adequately documented and approved. The FY 2017 financial statement audit documented that prior audit findings related to Accounts Payable are resolved.

Anticipated Completion Date: Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 26

Page Reference: 46

Finding: Unreasonable Food Expenses for Meetings and Lack of Adequate Support

Summit Pointe paid for food expenses associated with numerous meetings that appeared unreasonable and lacked adequate supporting documentation.

Recommendation: Develop and implement a policy on providing food at meetings that includes when it will be allowed, reasonable limitations, documentation requirements, and required approvals.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe created a Food & Beverage policy that provides limitations on catering and specifies that meals (when approved) will be provided “in a reasonable, cost-effective manner.” All catering requests require approval from a member of the senior leadership team and any request that exceeds \$150 must be approved by the CEO or CFO. Documentation outlining the rationale for the catering request is required, and the organization’s standard Check Requests Policy provides additional guidance on the documentation and approval requirements.

Anticipated Completion Date: Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 27

Page Reference: 46

Finding: Service Awards with No Written Policy

Summit Pointe provided service awards to employees with no written policy identifying eligibility and dollar limitations.

Recommendation: Adopt written policies relating to employee health and welfare costs in accordance with 2 CFR 200.437 that ensures reasonable and equitable service awards if it is the desire of the Board of Directors to continue such awards.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: On January 11, 2017, Summit Pointe adopted a new policy related to service awards and employee recognition that meets the requirements above. Summit Pointe also planned to bring this issue before its HR Committee for review at its August 3, 2018 meeting, and address with the full Board if recommended by that committee.

Anticipated Completion Date: With the exception of presenting this issue to its HR Committee, Summit Pointe has completed the corrective action required with respect to this Finding.

MDHHS Response: None

Corrective Action Plan

Finding Number: 28

Page Reference: 47

Finding: Lack of Effective Monitoring of Wireless Phone Expenditures

Summit Pointe purchased multiple wireless devices and paid for access charges for lines that were not assigned to employees, and paid for unused plans and overage charges.

Recommendation: Implement an adequate internal control system that includes a policy on wireless devices and monitoring to ensure compliance with the policy and appropriate payments.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS

Corrective Action: There are several actions that have reduced this unnecessary spending. From a broader perspective, Summit Pointe's Check Requests Policy specifies that all expenses must include appropriate supporting documentation and are subject to leadership review and approval. Specifically, the individual responsible for reviewing the cellular phone plan invoice reviews the list of individuals with an active plan and identifies any plans that need to be deactivated. In addition, Summit Pointe uses a departing employee checklist that includes collecting the employee's cell phone (if one is assigned) and deactivating the plan. Unlike during the years under audit, Summit Pointe presently only assigns cell phones to employees with a business need for a phone.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 29

Page Reference: 48

Finding: Capital Asset Policy Does Not Address Physical Inventory Requirement

Summit Pointe's Capital Asset Acquisition, Disposal and Tracking Procedure does not address the periodic physical inventory requirement.

Recommendation: Amend the Capital Asset Acquisition, Disposal, and Tracking Procedure to ensure compliance with 2 CFR 200.436(e) which requires physical inventories of capital assets at least once every two years.

Agency Comments: Without comment as to the fact or legal findings set forth, Summit Pointe accepts, for purposes of this response only, the recommendation by MDHHS.

Corrective Action: Summit Pointe has amended the Capital Asset Acquisition, Disposal, and Tracking Policy to appropriately reflect the Federal regulation requirements outlined in 2 CFR 200.436(e). A physical inventory of capital assets will be completed by December 31, 2018.

Anticipated Completion Date: With the above, Summit Pointe has completed the corrective action required with respect to this Finding. The physical inventory will be completed by December 31, 2018.

MDHHS Response: None