Audit Report

Bay-Arenac Behavioral Health

October 1, 2000 – September 30, 2002

Office of Audit
Fenton Regional Office
October 2007

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

October 18,2007

William L. Powell, Chairman
Bay Arenac Behavioral Health, Board of Directors
201 Mulholland
Bay City, MI 48708
and
Robert L. Blackford, Chief Executive Director
Bay Arenac Behavioral Health, Board of Directors
201 Mulholland
Bay City, MI 48708
and
Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building - 7'' Floor
Lansing, MI 48913

CERTIFIED MAIL

Dear Mr. Powell, Mr. Blackford, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the Bay Arenac Behavioral Health Community Mental Health, for the period October 1, 2000 through September 30,2002.

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

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

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

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

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

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

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

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Hemachandran Krishnan, Regional Manager
Fenton Regional Office
Office of Audit

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DESCRIPTION OF AGENCY

Bay-Arenac Community Mental Health Services Board was established in 1971 by consolidating Bay County and Arenac County Community Mental Health Boards. Effective October 1, 2001, Bay-Arenac Community Mental Health Services Board became a mental health authority. The Board was then renamed as Bay-Arenac Behavioral Health (BABH). BABH operates under the provisions of Act 258 of 1974, the Mental Heath Code, and Sections 330.1001 – 330.2106.

BABH provides outpatient, residential, partial day, case management, prevention, emergency, and Omnibus Budget Reconciliation Act (OBRA) services to residents within Bay and Arenac Counties. BABH's administrative offices are located in the City of Bay City. During the fiscal years audited, BABH's board consisted of 12 members appointed for three-year terms by the county boards of commissioners. The board members reside within the two counties served by BABH.

BABH serves as the lead Community Mental Health (CMH) board for Access Alliance of Michigan (AAM), a partnership of several CMH boards. AAM contracts with service providers on behalf of the participating boards with the costs shared according to the amount of revenue (Medicaid and General Fund) each CMH board receives. BABH bills the CMH boards during the year based on the prior year's revenues and makes a settlement after the end of the year. AAM's employees are on BABH's payroll.

FUNDING METHODOLOGY

BABH contracted with the Michigan Department of Community Health (MDCH) under a Managed Specialty Supports and Services Contract (MSSSC) for both FY 2000-2001 and FY 2001-2002. BABH reported expenditures of about $29.7 million in FY 2000-2001 and about $31.0 million in FY 2001-2002. MDCH provided the funding under these contracts to BABH with both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology. An attachment to each contract includes the specific rates paid on the PEPM basis. MDCH also distributed the non-Medicaid full-year State Mental Health General Funds (GF) based on separate formulas attached to the contracts. BABH also received special and/or designated funds, fee for services funds, and MIChild capitated funds under special contractual arrangements with the MDCH. Each agreement specifies the funding methodologies. MIChild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for the program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

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

Audit Objectives

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

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

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

SCOPE AND METHODOLOGY

We examined the records and activities for the period October 1, 2000 through September 30, 2002. We also reviewed prior periods pertaining to less-than-arms-length leases and a sale and leaseback arrangement. We completed an internal control questionnaire to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed BABH's finance director and other accounting and administrative personnel. We reviewed and evaluated BABH's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status report in compliance with the MSSSC reporting requirements and applicable accounting standards. We also reviewed the accounting records of AAM. We performed our audit procedures from January 2004 through April 2004.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

FINANCIAL REPORTING

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

Conclusion: BABH was not effective and efficient in reporting their financial activity to MDCH as required by the MSSSC, applicable statutory requirements, Medicaid regulations, and applicable accounting standards. We identified numerous financial reporting exceptions related to the improper reporting of nonexistent expenditures and nonexistent local revenue (finding 1), overcharges for less-than-arms-length leases (finding 2), unallowable lease costs from a sale and leaseback arrangement (finding 3), unallowable bond principal payments recorded as rent expense (finding 4), improper Internal Service Fund contributions (finding 5), improper allocation of Internal Service Fund abatement and contributions (finding 6), improper recording of expense reimbursements (finding 7), improper accounting of fixed asset purchases (finding 8), misclassification of costs (finding 9), misreported Access Alliance of Michigan expenditures (finding 10), misreported SSI revenue and other reimbursements (finding 11), improper adjustments to 100% MDCH matchable services (finding 12), improper distribution of administrative costs (finding 13), improper recording of bond interest income (finding 14), misstatement of Children's Waiver revenues and expenditures (finding 15), improper recording of contribution income (finding 16), payroll allocation not being based on actual time (finding 17), and inaccurate OBRA/PASARR billings (finding 18).

Finding

1. Improper Reporting of Nonexistent Expenditures and Nonexistent Local Revenue

BABH inappropriately inflated, by identical amounts, both its matchable expenditures and local revenue that it reported on the FSRs in the amounts of $636,067 and $417,339 in FY 2001 and 2002, respectively, in violation of the Mental Health Code, OMB Circular A-87, and the MSSSC. BABH posted journal entries recording expenditures it did not incur and for which it was not legally obligated, made payment to certain agencies for these amounts, and then required that the amounts be returned in their entirety immediately by separate check. BABH overcharged MDCH for these expenditures by reporting these amounts as matchable expenditures on the FSR and also inappropriately reported the refunded amounts as local revenue on the FSR, which overstated the amount used to satisfy BABH's local match obligation.

Consumers pay BABH's residential providers for rent based on their SSA income. Additionally, BABH pays the residential providers a fee for residential services in accordance with Attachment A of the contract between BABH and the residential service providers. The amount that BABH pays the residential providers supplements the rent paid by the consumers as stated in Attachment A of the contract between BABH and the residential service providers as follows:

"This agreement represents a legal agreement between the CMH Board and a residential provider designed to supplement the consumer's existing resources, i.e., SSI/SSD, Title XIX, applicable commercial insurance or ability to pay."

BABH correctly recorded their fee for service payments to the residential providers as matchable expenditures on their FSRs. However, BABH also paid residential providers for costs it did not incur and had no obligation to pay, received payments back from residential providers for the same amount and recorded the revenue as local, recorded the payments to the residential providers as matchable expenditures on the FY 2001 and 2002 FSRs, and received reimbursements from MDCH for costs that did not exist.

BABH records monthly revenue and expenditure journal entries based on their calculation of the amount of rent collected by the residential providers from the consumers. At year-end, BABH records a journal entry to zero out these revenue and expenditure accounts. Then, at year-end, BABH wrote checks to five residential providers involving sixteen homes for the amount of rent collected by the residential providers from the consumers, and recorded the amount as a matchable expenditure ($636,067 in FY 2001 and $417,339 in FY 2002) eligible for 100% state funding. The residential providers then wrote checks back to BABH for the same amount (based on written letters of instruction from BABH) and BABH recorded the revenue as local revenue ("Special Fund Account (226 (a))" in FY 2001 and "All Other" in FY 2002).

The Mental Health Code, Section 330.1242, requires an expenditure to be real or actual to be eligible for state financial support as follows:

"The following expenditures by a community mental health services program are not eligible for state financial support except as permitted under Section 241 or by the department:…(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program except to expend from a reserve account established by the board, as provided in Section 205."

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, requires the following for a cost to be allowable under Federal awards:

> *"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…*
> *c. Be authorized or not prohibited under State or local laws or regulations…*
> *i. Be the net of all applicable credits…*
> *j. Be adequately documented…*
> *4. Applicable credits.*
> *a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate."*

The MSSSC, Attachment 8.9.1, Section 2.4, only allows the reporting of expenditures eligible for 100% state funding on lines K1 and L1 as follows:

> *"**Row K-1** 100% MDCH Matchable Amount – All expenditures eligible for 100% state funding…*
> ***Row L-1** 100% MDCH Matchable Amount – All expenditures eligible for 100% state funding…"*

BABH had no obligation, contractual or otherwise, to pay the residential contractors for amounts beyond the fee for service contract amount for rent already paid to the residential contractors by the consumers. Furthermore, BABH incurred a net cost of zero for these transactions since the residential providers paid BABH back for the amounts BABH paid them. Payments for which there is essentially a refund and zero net cost do not represent or constitute real or actual expenditures by BABH and are unallowable expenditures under the Mental Health Code. Since the expenditures are unallowable under State law, they are also unallowable under OMB Circular A-87. Additionally, payments for which there is no contractual obligation for amounts already paid by another source (by the consumer) are neither necessary nor reasonable and are unallowable expenditures under the OMB Circular A-87 provisions. Also, to be allowable under

OMB Circular A-87, the costs must be the net of all applicable credits. When netting all applicable credits, a net amount of zero is allowable under OMB Circular A-87. Finally, since the expenditures were not eligible for 100% state funding as explained above, they may not be reported as 100% MDCH Matchable according to the FSR reporting instructions included in the MSSSC.

The Mental Health Code, Section 330.1226a, Board; Special Fund Account, states:

> *"A community mental health services program board may create a special fund account to receive recipient fees and third-party reimbursements for services rendered…Receipts into the fund shall be recorded by source of payment and by type of service rendered…Money in the special fund account shall be used only for matching state funds or for the provision of community mental health services."*

The funds paid to BABH by the residential providers do not represent recipient fees or third-party reimbursements for services rendered, and are, therefore, ineligible to be recorded as Special Fund Account (local) revenue. BABH did not render services to receive these payments. The payments were merely a payback of funds BABH paid the residential providers to artificially inflate matchable expenditures and receive payments from MDCH for non-existent expenditures.

The funds paid to BABH by the residential providers do not represent a revenue source for local obligation as described in Section 8.3 of the MSSSC. A payback of the state and federal funds that BABH had paid the residential providers is clearly not a source of local revenue.

Adjustments to reduce local revenue and matchable costs by $636,067 in FY 2001 are shown on Schedules D and E.

Adjustments to reduce local revenue and matchable costs by $417,339 are shown on Schedules A and B.

Recommendation:

We recommend that BABH discontinue the practice of writing checks to residential providers for the amount of rent collected by the residential providers and recording the amounts as matchable expenditures, and receiving payments from the residential providers for the same amount and recording it as local revenue. We also recommend BABH implement policies and procedures to ensure that expenditures recorded on FSRs represent real and actual expenditures as required by the Mental Health Code, and comply with OMB Circular A-87 provisions. Finally, we also recommend BABH amend subsequent year FSRs to reduce matchable expenditures and local revenues by amounts paid to residential providers and subsequently returned by residential providers.

Finding

2. Overcharges for Less-Than-Arms-Length Leases

BABH reported rent paid under less-than-arms-length leases that exceeded underlying cost on the FSR, which is not in compliance with OMB Circular A-87.

OMB Circular A-87, Attachment B, Section 38c., Rental Costs, states, in part:

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

Bay County rented nine group homes to BABH for $268,800 per year. The leases between BABH and Bay County are less-than-arms-length leases. One party to the lease is able to control or substantially influence the actions of the other since the Bay County commissioners appoint eleven of the twelve members of BABH's board. Additionally, both parties were part of the same governmental unit when the group home leases were signed. Even though BABH became an authority effective 10/1/2001, the leases for the group homes were signed before that date when BABH was truly part of Bay County.

Since the leases between BABH and Bay County are less-than-arms-length, allowable costs for BABH are limited to the amount that would be allowed had the title to the property vested in BABH. We reviewed the fixed asset ledger cards of Bay County to determine the cost of the buildings. We also reviewed the budget status report of the Bay County Building Authority Debt Service fund to determine the principal and interest payments. We determined that the allowable interest payments were $102,482 in FY 2001 and $96,270 in FY 2002. We determined that the total cost of the buildings less amounts previously charged to MDCH (excluding the interest portion) is $1,651,662. Considering the remaining useful lives, we determined that the allowable depreciation is $46,136 per year. Therefore, allowable costs are $148,618 in FY 2001 and $142,406 in FY 2002. Since $268,800 was reported as an expenditure each year, $120,182 is unallowable for FY 2001 and $126,394 is unallowable for FY 2002. These adjustments are on Schedules A, B, D and E of this report.

Recommendation:

We recommend that BABH implement policies and procedures to ensure that rental expenses under less-than-arms-length leases are reported at amounts that would be allowed under OMB Circular A-87 had title to the property vested in BABH. We also recommend that BABH amend subsequent year FSRs to reduce matchable expenditures by the amount of rent paid under less-than-arms-length leases that exceeded underlying cost.

Finding

3. Unallowable Lease Costs from Sale and Leaseback Arrangement

BABH reported lease payments on the FY 2001 and 2002 FSRs for a sale and leaseback arrangement that exceeded the allowable amount under the provisions of OMB Circular A-87. Additionally, BABH reported lease payments to MDCH in FYs 1995 through 2000 that exceeded allowable amounts.

In 1985, the Bay-Arenac Community Mental Health Services Board (BACMHSB) purchased the Brissette School from the Township of Kawkawlin for $75,000. BACMHSB paid an additional $144,502 in renovations and improvements. From 1985 through 1989, BACMHSB charged the State $99,117 for purchase and improvement costs, which was equal to the fair market rental value. Accordingly, over the 4-year period, BACMHSB spent $120,385 in local funds for the purchase and improvements (costs that were not reimbursed by the State).

At the end of 1989, BACMHSB sold the Brissette School to the Bay County Building Authority (BCBA) for $300,000. BACMHSB had a gain of $179,615 on the sale since the school was sold for $300,000 and BACMHSB had $120,385 in unreimbursed costs. BCBA was to pay BACMHSB $30,000 a year for ten years commencing 1/1/1990 for the purchase. BCBA leased the building back to BACMHSB for $30,000 a year at $2,500 a month. Therefore, for the period 1/1/1990 through 12/31/1999 no money changed hands; instead, journal entries were made. BACMHSB began charging the State $30,000 per year ($2,500 per month) for lease payments in 1/1/1990 and has continued to do so to date.

An MDCH FY 1993/1994 audit concluded that the contract that BACMHSB had with the State required that the gain on the sale must be treated as revenue and used to offset gross costs to determine the net costs charged to the State. The audit concluded that a monthly gain of $1,496.79 had to be recognized over a ten-year period, and that the gain had to be used to offset the $2,500 monthly rental expense. Essentially, $1,496.79 per month for a ten-year period was unallowable. Accordingly, from 1/1/1990 through 9/30/1994 (57 months), $85,315 was determined unallowable and adjusted through the FY 1993-1994 audit.

For the balance of the ten-year period (10/1/1994 through 12/31/1999), BACMHSB failed to recognize the $1,496.79 monthly gains in their reports to the State. BACMHSB continued to charge the State the $2,500 per month gross lease charge. Thus, the State was overcharged a total of $94,300 for this period.

At the end of the 10-year installment sale and lease period, and after the above audit adjustments (through 12/31/1999), BACMHSB had fully recovered their underlying costs from the State.

Additional charges to the State became unallowable after 12/31/1999, as there is no remaining underlying cost to BACMHSB.

Effective with the signing of the MSSSC on October 1, 1998, BACMHSB was obligated to comply with OMB Circular A-87 according to Section 8.6 of the MSSSC. OMB Circular A-87, Attachment B, Section 38, states, in part:

> "*b. Rental cost under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.*"

The transactions between BACMHSB and BCBA clearly represent a sale and leaseback arrangement. Accordingly, the rental costs for the Brissette School are allowable only up to the amount that would be allowed had BACMHSB continued to own the property. OMB Circular A-87 allows a depreciation allowance for the cost of fixed assets based on the acquisition cost net of any portion of the cost previously paid by State or Federal funds. Effective 12/31/1999, BACMHSB had no remaining underlying costs as all costs were reimbursed by the State. Accordingly, no rental charges are allowable beginning 1/1/2000.

In summary, the following lease costs charged to the State are unallowable:

FY 1994/1995	$17,962
FY 1995/1996	17,962
FY 1996/1997	17,962
FY 1997/1998	17,962
FY 1998/1999	17,962
10/1/1999 – 12/31/1999	4,490
1/1/2000 – 9/30/2000	22,500
FY 2000/2001	30,000
FY 2001/2002	30,000

Adjustments to disallow $30,000 per year in lease payments for the FYs 2000/2001 and 2001/2002 are shown on Schedules A, B, D, and E of this report.

Recommendation:

We recommend that BABH adopt policies and procedures to ensure that lease costs under sale and leaseback arrangements are reported to MDCH in accordance with OMB Circular A-87 provisions. We recommend that BABH repay MDCH for the net result of the $105,120 (90% of $116,800) in lease overcharges for the FYs 10/1/1994 through 9/30/2000. We recommend that BABH amend the FY 2002/2003 through FY 2005/2006 FSRs to remove unallowable lease costs for the Brissette School building, and take action to ensure that subsequent FSRs contain no lease costs relating to the Brissette School building.

Finding

4. Unallowable Bond Principal Payments Recorded as Rent Expense

BABH reported bond payments for the Brissette School renovations as rental expense on the FY 2000/2001 FSR that exceeded the allowable amount under the provisions of OMB Circular A-87.

In 1992, the Bay-Arenac Community Mental Health Services Board (BACMHSB) issued bonds in the amount of $500,000 to finance renovations to the Brissette School. In 1995, BACMHSB issued additional bonds in the amount of $200,000. The renovations were completed in 1995 at a total cost of $744,957. From FY 1992/1993 through FY 1999/2000, BACMHSB recorded a total of $474,200 of principal payments as rental expense on the FSRs. In FY 2000/2001, BABH recorded a total of $175,001 of bond payments as rental expense on the FSR. In FY 2001/2002, BABH did not record any bond principal or interest payments on the FSR.

As previously stated, in 1989 BACMHSB sold the Brissette School to BCBA. BCBA leased the building back to BACMHSB. Effective with the signing of the MSSSC on October 1, 1998, BACMHSB was obligated to comply with OMB Circular A-87 according to Section 8.6 of the MSSSC. OMB Circular A-87, Attachment B, Section 38, states, in part:

> "*b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.*"

The transactions between BACMHSB and BCBA clearly represent a sale and leaseback arrangement. Accordingly, the rental costs for the Brissette School are allowable only up to the amount that would be allowed had BACMHSB continued to own the property. OMB Circular A-87 allows a depreciation allowance for the cost of fixed assets based on the acquisition cost net of any portion of the cost previously paid by State or Federal funds. OMB Circular also allows interest expense. Effective 10/1/2000, BACMHSB had a depreciable value of $270,757. With a remaining useful life of 25 years, allowable depreciation expense is $10,830 per year.

We determined allowable costs to be depreciation of $10,830 and interest of $8,075 in FY 2000/2001. An adjustment of $156,095 appears on Schedules D and E of this report.

We determined allowable costs to be depreciation of $10,830 and interest of $2,796 in FY 2001/2002. Since BABH did not record any bond principal or interest payments on their FY 2001/2002 FSR, adjustments to increase costs by $13,626 appear on Schedules A and B of this report.

Recommendation:

We recommend that BABH implement policies and procedures to ensure that expenditures related to renovation projects on sale and leaseback properties are properly recorded on FSRs in compliance with OMB Circular A-87 provisions. We also recommend that BABH record $10,830 per year on FSRs filed with MDCH for depreciation expense for the remaining useful lives of the renovations. We also recommend that BABH amend the FY 2002/2003 through FY 2005/2006 FSRs to add depreciation expense for the renovations to the Brissette School building.

Finding

5. Improper Internal Service Fund Contributions

BABH improperly reported a $1,311,019 contribution to the ISF in FY 2002 while also purchasing insurance to cover the same risk in FY 2002 in violation of OMB Circular A-87 and MSSSC provisions.

BABH's actuarially determined risk was $1,678,431 in FY 2002 excluding any insurance coverage. As of 9/30/2001, BABH had an ISF balance of $313,644. In FY 2002, BABH purchased insurance to cover 85% of the risk and reported premium payments for the insurance as expenditures related to the ISF. Since 85% of the risk was covered by insurance, the uninsured risk was 15% of the actuarially determined risk of $1,678,431, or $251,764. At the end of FY 2002, BABH also made a contribution of $1,311,019 to the ISF resulting in a balance of $1,624,663 in the ISF at 9/30/2002. This contribution was made because the risk insurance was not going to be available in FY 2003, and BABH wanted to build up their ISF to cover the risk in FY 2003.

The MSSSC, Attachment 8.8.4.1, General Provisions, paragraph C, states:

> *"When establishing an ISF, the CMHSP may apply any method it considers appropriate to determine the amount to be charged to the various funds covered by the ISF provided that: 1. The total amount charged to the various funds does not exceed the amount of the estimated liability determined pursuant to Governmental Accounting Standards Board (GASB) Statement No. 10, General Principles of Liability Recognition, or such other authoritative guidance as issued by the American Institute of Certified Public Accountants (AICPA)."*

After considering the insurance coverage, the estimated liability is limited to $251,764 in FY 2002. Therefore, any charges to fund an ISF above a balance of $251,764 in FY 2002 are not allowable under the MSSSC, or the provisions of OMB Circular A-87 as it is not necessary or reasonable for BABH to fund an ISF for amounts beyond their risk exposure or estimated liability.

OMB Circular A-87, Attachment A, Section C., 1., Basic Guidelines, states:

> *"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."*

The MSSSC, Attachment 8.8.4.1, General Provisions, paragraph N, states:

> *"If the ISF becomes over funded, it shall be reduced within one fiscal year through the abatement of current charges, or, if such abatements are inadequate to reduce the ISF to the appropriate level, it shall be reduced through refunds in accordance with OMB Circular A-87, Attachment B, paragraph 25(d)(5)."*

OMB Circular A-87, Attachment B, paragraph 25(d)(5), states:

> *"Whenever funds are transferred from a self-insurance reserve to other accounts (e. g., general fund) refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer."*

Adjustments to abate the FY 2002 charges for $1,311,019 and refund $61,880 of the ISF are on Schedules A and B of this report.

Recommendation:

We recommend that BABH establish policies and procedures to ensure that there is no duplication of risk protection with both risk reserves and insurance covering the same risk resulting in duplicate charges to the state. We also recommend that BABH amend the FY 2002-2003 FSR to add expenditures for the funding of an ISF that complies with contract provisions given the discontinuance of insurance protection in FY 2002-2003 and the unallowed contributions in FY 2001-2002.

Finding

6. Improper Allocation of Internal Service Fund Abatement and Contributions

BABH did not properly allocate the abatement of and contributions to the Internal Service Fund in FY 2001 in violation of the MSSSC.

In FY 2001, BABH reduced the ISF by $1,611,078 through the abatement of current charges. The ISF was reduced because BABH decided to purchase insurance to cover 85% of its risk obligation. This amount was properly reported on line G2 of the expenditure section of the FSR, thus reducing matchable costs. However, in applying the reduction to matchable costs, BABH only reduced 90/10 costs. In FY 2001, BABH also paid $133,925 into the Internal Service Fund. This amount was included in only 90/10 costs. Since 100% costs are also subject to the risk corridor, these costs should be charged and/or reduced appropriately.

The MSSSC, Attachment 8.8.4.1, General Provisions, paragraph N, states:

> *"If the ISF becomes over funded, it shall be reduced within one fiscal year through the abatement of current charges or, if such abatements are inadequate to reduce the ISF to the appropriate level, it shall be reduced through refunds in accordance with OMB Circular A-87, Attachment B, paragraph 25(d)(5)."*

OMB Circular A-87, Attachment B, paragraph 25(d)(5), states:

> *"Whenever funds are transferred from a self-insurance reserve to other accounts (e. g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer."*

The MSSSC, Attachment 8.8.4.1, General Provisions, paragraph F, states:

> *"All programs exposed to the risk corridor shall be charged their proper share of the ISF charges to the extent that those programs are covered for the risk of financial loss. Such charges must be allocated to the various programs/cost categories based on the relative proportion of the total contractual obligation, actual historical cost experience, or reasonable historical cost assumptions."*

Since 100% costs are exposed to the risk corridor, BABH must charge costs to and/or record the abatement against 100% costs as well as 90/10 costs.

We determined that as a result of only applying the abatement of $1,611,078 and the payment of $133,925 (for a net reduction of $1,477,153) to 90/10 costs, BABH overstated the Medicaid 100% costs by $557,554, understated to Medicaid 90/10 costs by $480,342, overstated the General Fund 100% costs by $35,461, and understated the General Fund 90/10 costs by $112,673. Adjustments are on Schedules D and E of this report.

Recommendation:

We recommend that BABH establish policies and procedures to ensure that any future charges for ISF funding and any future abatements to reduce the ISF are properly allocated among all applicable funding sources.

Finding

7. Improper Recording of Expense Reimbursements

BABH did not properly reduce matchable costs by expense reimbursements and improperly included the reimbursements as local revenue in FY 2002 in violation of the MSSSC and OMB Circular A-87.

In FY 2001, BABH had $54,438 of miscellaneous revenue that they reported on line B of the expenditure section of the FSR, thus reducing matchable expenses. However, in FY 2002, BABH had miscellaneous revenue in the amount of $96,772 that they reported as local revenue on the FSR. We reviewed the general ledger and original source documents, such as the receipt from the payer or invoice from BABH, to determine the nature of the revenue and if it was properly classified as local revenue. We determined that this was not local revenue under the provisions of Section 8.3 of the MSSSC, but reimbursement of expenses. Examples of this reimbursement included employee group insurance reimbursement ($30,103), restitution payments ($19,704), payment for IT services rendered to a sub-contractor ($5,000), and reimbursement of COBRA expenses ($3,271).

OMB Circular A-87, Attachment A, Section C., 1., Basic Guidelines, states:

> *"Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: ...i. Be the net of all applicable credits."*

OMB Circular A-87, Attachment A, Section C., 4a. states:

> *"Applicable credits refer to those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as*

direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate."

Accordingly, the reimbursements that BABH reported as local revenue must be used to reduce allowable costs. An additional $2,039 must be used to reduce allowable costs since the billed IT services for Michigan Psychiatric & Behavioral Associates, PC, a sub-contractor, was $7,039, not $5,000 that BABH recorded.

Adjustments of $98,811 to expenditures and $96,772 to revenues are on Schedules A and B of this report.

Recommendation:

We recommend that BABH establish policies and procedures that will enable them to distinguish between local revenues and expense reimbursements according to MSSSC and OMB Circular A-87 provisions, and to properly reduce allowable costs by expense reimbursements.

Finding

8. Improper Accounting of Fixed Asset Purchases

BABH did not report purchases of fixed assets on the FSRs in compliance with OMB Circular A-87 and the terms of the MSSSC.

BABH included full purchase prices of equipment, software, and vehicles totaling $24,060 in FY 2001 and $37,562 in FY 2002 on the FSRs, even though they should have been capitalized and depreciated.

Prior to FY 1998-1999, BABH's general fund contract with MDCH allowed the full purchase prices of capital assets to be expensed in the year of purchase. But, Section 8.0 of the MSSSC clearly states that the "contractual agreement represents a departure from the contractual agreement between the MDCH and CMHSP that expired on September 30, 1998." Also, the MSSSC requires compliance with OMB Circular A-87 and the accrual basis of accounting.

The MSSSC, Attachment 8.9.1, paragraph 1.3, Financial Status Report, states:

> *"With the exception of P.A. 423 Grant Funds, all reported revenue and expenditure information is required to be provided on an accrual basis of accounting."*

The MSSSC, Section 8.6, states that OMB Circular A-87 shall guide program accounting procedures. OMB Circular A-87, Attachment B, Section 15, Depreciation and Use Allowances, states, in part:

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

OMB Circular A-87, Attachment B, Section 19, Equipment and Other Capital Expenditures, states, in part:

> *"b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation on buildings, capital improvements, and equipment…*
>
> *c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency…*
>
> *d. Items of equipment with an acquisition cost of less than $5,000 are considered to be supplies and are allowable as direct costs."*

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

Applying the useful lives as published by the American Hospital Association and using the straight-line depreciation method and allowing for a partial year's life in the year of acquisition based on the month of acquisition, the allowable depreciation is $2,812 in FY 2001 and $3,130 in FY 2002. In addition, there is $7,087 of allowable depreciation in FY 2002 for assets capitalized in FY 2001. Therefore, the net overstatement is $21,248 in FY 2001 and $27,345 in FY 2002. Audit adjustments are on Schedules A, B, D and E of this report.

Recommendation:

We recommend that BABH adopt policies and procedures to ensure compliance with the requirements of OMB Circular A-87 in reporting purchases of capital assets.

Finding

9. Misclassification of Costs

BABH incorrectly reported costs to be reimbursed 100% by MDCH and costs that required a 10% local match, and incorrectly reported Medicaid and GF costs, which is not in compliance with the MSSSC, the Mental Health Code, and OMB Circular A-87.

The MSSSC, Attachment 8.9.1, Section 2.4.3, states,

> *"The next three sections are divided into Specialty Managed Care Service, Formula Funding, and Children's Waiver. The expenditures remaining from row I minus J will need to be allocated between these programs. The CMHSP method of allocation must be based on direct services provided to consumers and allocated administration costs.*
>
> ***Row K: Specialty Managed Care Services.*** *Row K is the sum of all specialty managed care expenditures (K1+K4). This section applies to specialty managed care services within the waiver, regardless of funding source and represents plan services provided to the Medicaid recipient population.*
>
> ***Row K-1*** *100% MDCH Matchable Amount – All expenditures eligible for 100% state funding including the total in-home cost for specialized residential services started and/or transferred to CMHSP operations after March 30, 1981. Also, any other expenditures for services authorized at 100% state match must be reported here. This includes Medicaid community inpatient services.*
>
> ***Row L: State GF Categorical and Formula Funding.*** *This row includes all expenditures for mental health services provided to the population supported*

through formula and categorical funding (L1+L4). Expenditures for this section must also be reported on the basis of the matchable nature of the service--e.g., 90/10 or 100% state funding and must work down to a state share amount.

Row L-1 *100% MDCH Matchable Services – All expenditures eligible for 100% state funding including the total in-home cost for specialized residential services started and/or transferred to CMHSP operations after March 30, 1981. Also, any other expenditures for services authorized at 100% state match must be reported here."*

The Mental Health Code, Section 330.1309 states:

"Except as otherwise provided in this chapter, and subject to the constraint of funds actually appropriated by the legislature, the state shall pay all of the costs of a specialized residential service that are eligible for state financial support and approved by the department and that are not otherwise paid for by federal funds, state funds, or reimbursements from persons and insurers who are financially liable for the cost of services."

OMB Circular A-87, Attachment A, Section C.3, Allocable costs, states:

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

We noted the following three issues with the allocation of costs:

a) BABH did not report costs in agreement with their trial balance. For FY 2001 we reconciled BABH's trial balance by program to the FSR. We identified those costs that were charged 100% to the MDCH (inpatient residential and associated costs) and those costs that were charged 90% to the MDCH that required a 10% local match. When adding all costs by program, we determined that BABH understated the costs subject to 100% reimbursement by the MDCH by $15,053 and overstated the costs subject to 90% reimbursement by the MDCH by the same amount. Also, BABH understated Medicaid costs and overstated GF costs by $1,956. Adjustments are included on Schedules D and E of this report

   For FY 2002, we reconciled BABH's trial balance by program to the FSR. We determined BABH overstated Medicaid costs eligible for 100% reimbursement by the MDCH by $8,366 and understated General Fund costs eligible for 90% reimbursement by the MDCH by the same amount. Adjustments are included on Schedules A and B of this report.

b) BABH misreported residential services as 90/10 costs. BABH contracted with Saginaw Bay Human Services, a residential provider, to render services to the Crisis Stabilization Center. In FY 2002, BABH incorrectly reported the cost of the crisis stabilization unit as 90/10 costs on the FSR. Since the crisis stabilization unit costs are for residential services, they should be reported as 100% costs. As a result of the misclassification, BABH understated GF 100% costs by $12,417, overstated GF 90/10 costs by $49,568, and understated Medicaid 100% costs by $37,151. Adjustments are included on Schedules A and B of this report.

c) BABH pooled all of their 100% costs and all of their 90/10 costs and did a blanket allocation for each based on their total revenues in the 100% cost centers and their total revenues in the 90/10 cost centers, instead of doing an allocation for each individual cost center. Since the overall percentages were proper and the misclassifications tended to cancel each other out, thus making the financial impact minimal, and an adjustment would require individually adjusted costs in hundreds of reporting units, we did not determine the financial impact of the finding.

Recommendation:

We recommend that BABH implement policies and procedures that will enable them to identify costs that are to be 100% reimbursed by the MDCH and those costs that are to be 90% reimbursed by the MDCH and report them appropriately on the FSR. We recommend that BABH implement a system that will enable them to identify the number of consumers served in each reporting unit and to apply that data when allocating costs per reporting unit to the various programs on the FSR.

Finding

10. Misreported Access Alliance of Michigan Expenditures

BABH did not properly report expenditures related to the Access Alliance of Michigan (AAM) partnership in compliance with MSSSC provisions and generally accepted accounting principles.

AAM's expenditures are included in BABH's gross total expenditures. Payments from the participating boards for AAM expenditures are recorded in earned contracts on BABH's FSR with an equal reduction in BABH's matchable expenditures. The remaining AAM expenditures are recorded as BABH matchable expenditures. However, an error was made in the FY 2001 settlement with the participating boards, and errors were made in the FY 2002 attempts at correcting FY 2001 over billings of participating boards resulting in the misreporting of BABH's matchable expenditures. The following summarizes the errors made:

a. BABH overstated earned contracts and understated matchable expenditures by $1,075 on the FY 2001 FSR as a result of an error in the FY 2001 settlement with AAM participating boards. When settling the FY 2001 AAM costs with participating boards, BABH used an incorrect payment total for the year. Actual participating board payments exceeded those used in the settlement calculations. Therefore, the earned contracts total (derived from payments made) exceeded AAM costs. Consequently, the earned contracts line was overstated, and matchable expenditures were understated. The earned contracts line did not include an accurate total expense amount as required by the MSSSC, Attachment 8.9.1, Section 2.4.3, Row D-1, which states, "…The CMHSP which provides the service under contract and receives funding for this purpose from another CMHSP, must report the total expenses in row D-1."

   Adjustments increasing matchable expenditures and decreasing earned contracts by $1,075 are included on Schedules D and E.

b. BABH overstated gross total expenditures and matchable expenditures by $33,611 on the FY 2002 FSR in attempting to correct a FY 2001 over billing. BABH over billed the AAM participating boards by $33,611 in FY 2001. BABH made a correction to the

FY 2001 FSR, but did not correct their accounting records. In FY 2002, BABH reported the $33,611 repayment to the participating boards as a prior year adjustment and included the amount in gross total expenditures and matchable expenditures. A repayment of unearned revenue does not qualify as a reportable expenditure under the MSSSC provisions, which requires compliance with generally accepted accounting principles and accrual accounting.

Adjustments decreasing gross total expenditures and decreasing matchable expenditures by $33,611 are included on Schedules A and B.

c. BABH understated earned contracts and overstated matchable expenditures by $290 on the FY 2002 FSR in attempting to correct a FY 2001 over billing. BABH over billed one participating board for IT services by $290 in FY 2001. BABH made a correction to the FY 2001 FSR. However, in FY 2002 BABH tried to correct it with the participating board by under billing them. Consequently, BABH understated earned contracts and overstated matchable expenditures in FY 2002. The earned contracts line did not include an accurate total expense amount as required by the MSSSC.

   Adjustments increasing earned contracts and decreasing matchable expenditures by $290 are included on Schedules A and B.

Recommendation:

We recommend that BABH implement policies and procedures to ensure accurate and timely calculations of billings and settlements related to AAM expenditures, and properly record earned contract amounts related to AAM expenditures on FSRs.

Finding

11. Misreported SSI Revenue and Other Reimbursements

BABH did not properly report SSI revenue and other reimbursements in compliance with MSSSC provisions.

The MSSSC, Attachment 8.9.1, Section 2.3, Revenues, states:

> *"**Row I-2** SSI – The amount of revenue received by the CMHSP from client supplemental security income benefits for the cost of the recipient's daily care and allowances."*

The MSSSC, Attachment 8.9.1, Section 2.4, Expenditures, states:

> *"**Row K-2** SSI and Reimbursements – Identify the portion of these expenditures supported by SSI and other reimbursements."*

The following three errors were noted in BABH's reporting of SSI revenue and other reimbursements:

a. BABH reported $6,100 in miscellaneous income as both Expenditures Not Otherwise Reported on line B and as SSI and Other Reimbursements on line K2 of the expenditure section of the FSR for FY 2001. This resulted in an understatement of MDCH's share of the costs.

   Adjustments reducing SSI and Other Reimbursements by $6,100 are shown on Schedules D and E.

b. BABH erroneously placed $80 in third party reimbursement that qualified as local revenue on the SSI and Other Reimbursements line of the expenditure section of the FSR for FY 2001. This resulted in an understatement of MDCH's share of the costs.

   Adjustments reducing SSI and Other Reimbursements by $80 on line K2 are shown on Schedules D and E.

c. BABH reported the SSI revenue of $26,664 as local funding rather than Reimbursements-SSI as required.

Adjustments decreasing local funding and increasing SSI Reimbursements by $26,664 are shown on Scheduled D and E.

Recommendation:

We recommend that BABH implement policies and procedures to ensure accurate reporting of SSI revenue and other reimbursements in compliance with MSSSC provisions.

Finding

12. Improper Adjustments to 100% MDCH Matchable Services

BABH improperly increased the 100% MDCH Matchable Services reported amounts by the amounts of SSI revenue, other contract revenue and Medicaid savings in violation of the Mental Health Code and MSSSC provisions.

The Mental Health Code, Section 330.1309, provides that the state will pay 100% of specialized residential services that are not paid by other sources, as follows:

> *"Except as otherwise provided in this chapter, and subject to the constraints of funds actually appropriated by the legislature, the state shall pay all of the costs of a specialized residential service that are eligible for state financial support and approved by the department and that are not otherwise paid for by federal funds, state funds, or reimbursements from persons and insurers, who are financially liable for the cost of services."*

The MSSSC, Attachment 8.9.1, Section 2.4, financial reporting instructions require reporting of expenditures eligible for 100% state funding, the portion of the expenditures supported by other reimbursements, and a net amount applicable to MDCH as follows:

> *"**Row K-I** 100% MDCH Matchable Amount – All expenditures eligible for 100% state funding including the total in-home cost for specialized residential services started and/or transferred to CMHSP operations after March 30, 1981. Also, any other expenditures for services authorized at 100% state match must be reported here. This includes Medicaid community inpatient services.*

> ***Row K-2*** *SSI and Reimbursements – Identify the portion of these expenditures supported by SSI and other reimbursements.*
>
> ***Row K-3*** *Net MDCH Share of 100% Services – K1 minus K2."*

Rather than reporting actual expenditures eligible for 100% state funding on line K1, BABH *added* SSI revenue, other contract revenue and Medicaid Savings amounts to the total reported on line K1. Consequently, line K3 shows the gross amount of expenditures eligible for 100% state funding rather than the net amount. BABH made offsetting adjustments to the 90/10 reported costs so total expenditures were not overstated as a result of this improper adjustment. However, expenditures eligible for 100% state funding were overstated by $32,844 in FY 2001 and $164,399 in FY 2002.

Adjustments decreasing Medicaid 100% costs by $32,844, and increasing Medicaid 90/10 costs by $26,604 and GF 90/10 costs by $6,240 for FY 2001 are shown on Schedules D and E.

Adjustments decreasing Medicaid 100% costs by $146,179 and GF 100% costs by $18,220, and increasing GF 90/10 costs by $164,399 for FY 2002 are shown on Schedules A and B.

Recommendation:

We recommend that BABH implement policies and procedures to ensure accurate reporting of services eligible for 100% reimbursement.

Finding

13. Improper Distribution of Administrative Costs

BABH did not properly distribute administrative costs on the FY 2001-2002 FSR, which is not in compliance with OMB Circular A-87 requirements.

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

> *"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:…b. Be allocable to Federal awards under the provisions of this Circular…*
> *3. Allocable costs. 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, Attachment A, Section F. Indirect Costs, states, in part:

> *"…Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived."*

BABH incurred $7,466,319 of gross administrative costs in FY 2002. BABH incurred $2,201,393 of costs applicable to other CMH boards and local costs not used as local match. BABH properly reported this amount on lines D1 and F2 of the expenditure section of the FSR. Therefore, the net administrative costs to be distributed to other programs should be $5,264,926. However, BABH distributed $5,830,979 to other programs. Total costs were not overstated as the $566,053 excess administration cost allocation was offset with reduced reporting to Medicaid ($453,069) and GF ($112,984). As a result, however, there was a misallocation of costs between Medicaid and GF.

BABH overstated Medicaid 100% costs (line K1) by $36,552, overstated GF 100% costs (line L1) by $12,217, and understated GF 90/10 costs by $48,769. Adjustments are on Schedules A and B of this report.

Recommendation:

We recommend that BABH implement policies and procedures to ensure accurate cost allocations in compliance with OMB Circular A-87 requirements.

Finding

14. Improper Recording of Bond Interest Income

BABH improperly recorded bond interest income (local) earned in FY 2001 and in prior years on the FY 2002 FSR in violation of the MSSSC. BABH also understated the amount due from Bay County.

BABH earned $48,045 of interest from their bond proceeds from 1992 to 2001. This amount was offset by $3,767 to be retained by Bay County for administrative services. Of this net amount of $44,278, $4,135 was earned in FY 2001 and the remaining $40,143 was earned in prior years. The net amount of $44,278, along with a bond prepayment of $69,500, was to be applied to the final two bond payments of $96,643 leaving $17,135 due from Bay County to BABH. However, Bay County only paid BABH $8,185 on the final payment, or $8,950 less than the amount due them.

BABH did not record any interest income from 1992 forward until the final payment was due on 11/1/2001. Then, BABH only recorded $19,857 of interest income from bond proceeds. BABH understated interest income by $40,143 prior to FY 2001 and $4,135 in FY 2001, and overstated interest income by $19,857 in FY 2002.

Attachment 8.9.1, part 1.3, Financial Status Report, of the MSSSC states:

> *"All reported revenue and expenditure information is required to be provided on an accrual basis of accounting. This accrual basis is expected to recognize all revenues and expenditures through the reporting periods."*

The accrual basis of accounting would require recognition of revenue in the amount of $40,143 prior to FY 2001, $4,135 in FY 2001, and $0 in FY 2002.

The MSSSC, Section 8.3.5, Revenue Sources for Local Obligation, Investment Interest, lists investment income as local revenue and defines investment income as:

> *"Interest earned on funds deposited or invested by or on behalf of the CMHSP."*

Accordingly, interest income should be reported as local revenue.

Attachment 8.9.1, Section 2.3.2, Row Instructions, states:

> *"**Row E-3** Other – All other local funding planned for expenditure regardless of the planned use of this revenue."*

Therefore, interest income qualifies as local revenue even if it was restricted for payment of bond principal and interest. An adjustment to increase local revenue by $4,135 appears on Schedules D and E of this report. An adjustment decreasing local revenue by $19,857 appears on Schedules A and B of this report.

Recommendation:

We recommend that BABH implement policies and procedures to ensure that revenues are properly recorded on the FSR in accordance with contract provisions. We also recommend that BABH pursue collection of the amount due from Bay County.

Finding

15. Misstatement of Children's Waiver Revenues and Expenditures

BABH recorded FY 2001 Children's Waiver revenue and expenditures in FY 2002 resulting in misstatements of revenue and matchable expenditures in both fiscal years in violation of the MSSSC.

BABH made two entries to record FY 2001 Children's Waiver revenue in October 2001 totaling $9,004. This resulted in an understatement of revenue in FY 2001 and an overstatement by the same amount in FY 2002. Since this revenue was reported as the amount of expense, the Children's Waiver program expenses are understated by $9,004 in FY 2001 and overstated by the same amount in FY 2002. This then resulted in an overstatement of Medicaid and GF costs by $9,004 for FY 2001 and an understatement of costs charged to Medicaid and GF in FY 2002.

Attachment 8.9.1, part 1.3, Financial Status Report, of the MSSSC states:

> *"All reported revenue and expenditure information is required to be provided on an accrual basis of accounting. The accrual basis is expected to recognize all revenues and expenditures through the reporting periods."*

Accordingly, the $9,004 revenue should be reported in the proper fiscal year. Adjustments are included on Schedules A, B, D and E of this report.

Recommendation:

We recommend that BABH implement policies and procedures to ensure that all revenues are recorded in the proper fiscal year.

Finding

16. Improper Recording of Contribution Income

BABH did not properly record contribution income as local revenue, and improperly offset contribution income against matchable expenditures in FY 2001 in violation of the MSSSC.

In FY 2001, BABH had $1,094 in donations that were reported as Revenues and Not Otherwise Reported. BABH reported the same amount as Expenditures Not Otherwise Reported. Consequently, matchable expenditures were understated. The MSSSC, Section 8.3.3 lists gifts and contributions as local revenue:

> *"Grants, bequests, donations, gifts from local non-governmental sources, charitable institutions or individuals."*

Therefore, income from donations should be reported as local revenue, and not reported as Revenues and Expenditures Not Otherwise Reported. Adjustments reclassifying the revenue as local, reducing Expenditures Not Otherwise Reported, and increasing Matchable Expenditures are on Schedules D and E of this report.

Recommendation:

We recommend BABH establish policies and procedures to ensure that donation income is properly recorded as local revenue and matchable expenditures are not improperly reduced.

Finding

17. Payroll Allocation Not Based on Actual Time

BABH did not properly report wages in compliance with the requirements of the MSSSC and OMB Circular A-87.

BABH's payroll allocation was completed in accordance with a manning table, which BABH maintains by reporting unit. This manning table lists each employee, their annual wage, and the percent of payroll to be allocated to each reporting unit. There were no changes made in allocations unless the employees changed their functions. When employees worked between two administrative reporting units, their payrolls were split equally between the two units and BABH maintained no documentation of actual time by reporting unit. Activities of employees working with consumers were recorded in event summaries. However, these event summaries did not always match with the payroll charged to those programs.

The MSSSC, Section 4.11, states,

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

OMB Circular 87, Attachment B, Section 11, Compensation for Personnel Services, Section h. sets forth standards regarding time distribution that are in addition to the standards for payroll documentation. Section h. (3) states:

"Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

Section h. (4) states:

"Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on: (a) more than one Federal award, (b) a Federal award and a non-Federal award, (c) an indirect cost activity and a direct cost activity, (d) two or more indirect cost activities which are allocated using different allocation bases, or (e) an unallowable activity and a direct or indirect cost activity."

Section h. (5) states:

"Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee. (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes."

Although our review did not identify a material misclassification of costs, which would warrant a financial adjustment, BABH must adhere to the above requirements to ensure that costs are being properly identified and charged to the proper program. Failure to properly identify and allocate costs appropriately between programs could affect the agency's ability to satisfy the terms of the MSSSC and affect future funding from the MDCH.

Recommendation:

We recommend that BABH establish policies and procedures to use proper methods in allocating wages to different programs consistent with the requirements of OMB Circular A-87 and to use these methods when actual payroll allocations are made. We also recommend that BABH retain documentation supporting their method of allocating wages to different cost departments in compliance with the contract requirements of Section 4.11 of the MSSSC.

Finding

18. Inaccurate OBRA/PASARR Billings

BABH did not bill the proper amount of leave time and direct administrative expense for the OBRA/PASARR program.

BABH incurred costs for OBRA/PASARR program in the amounts of $203,220 in FY 2001 and $178,642 in FY 2002. However, BABH billed the MDCH for only $138,077 in FY 2001 and $111,198 in FY 2002. The remaining $65,143 for FY 2001 and $67,444 for FY 2002 were charged to Medicaid and General Fund.

BABH billed MDCH monthly for the OBRA/PASARR program. The billings included wages based on actual time spent on the OBRA/PASARR program. BABH also billed for 71% of the leave time for employees that worked in the OBRA/PASARR program. BABH also added costs for supplies/materials, travel, equipment, telephone, office space, etc., which was billed at 71%.

The 71% was based on a five-month study conducted by BABH between October 1998 and February 1999. Based on our review of the event summaries for FY 2001 and FY 2002, we determined that the percent of time spent on the OBRA/PASSAR program on billable hours was 88% in FY 2001 and 78% in FY 2002.

Attachment 4.6.7.1 of the MSSSC, paragraph III.B, states:

> *"The BOARD will submit monthly billings to the DEPARTMENT for services provided based on an actual cost basis as defined in "Revised Billing Procedures for OBRA Pre-Admission Screening, Initial and Annual Resident Review for Nursing Home Clients" DCH Memorandum, William J. Allen, February 20, 1996, which is attached to this Agreement."*

Rather than using an outdated percent allocation, BABH must bill for actual costs according to the above contract provisions. A financial adjustment was not made since collection of any added expenditures for the OBRA/PASARR contracts from FYs 2001 and 2002 would not be possible at this time.

Recommendation:

We recommend that BABH establish policies and procedures to ensure that grant billings comply with contract requirements.

CONTRACT AND BEST PRACTICE GUIDELINES

Objective: To access BABH's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC and best practice guidelines.

Conclusion: BABH was generally not effective and efficient in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practice guidelines. Our assessment disclosed exceptions with lack of controls over personal care documentation (finding 19), the lack of a policy on the write-off of uncollectible accounts (finding 20), and numerous financial reporting exceptions (findings 1-18).

Finding

19. Lack of Controls over Personal Care Documentation

BABH lacked controls to ensure adult foster care (AFC) facilities maintained required documentation with respect to personal care.

We tested nine consumers' records in seven adult foster care (AFC) facilities to determine the adequacy of documentation and monitoring activities. There were no personal care service logs for three of the consumers. There were no medical assistance provider enrollment forms for any of the consumers. There were no model payment enrollment forms for two of the consumers. There were no CMH/AFC provider agreements for five of the consumers. No case manager at BABH initialed any of the personal care service logs.

The MSSSC, Attachment 3.11.4, Part V., E., states,

> *"Provider of service must maintain a service log that documents specific days on which personal care services were delivered consistent with the recipient's individual plan of service."*

The MSSSC, Attachment 3.11.4, Part V., F., Standards, states:

> *"Compliance with the Personal Care/Model Payments standards of MDCH."*

The Personal Care/Model Payments Manual states:

> *"The process of producing payment(s) involves eight separate activities...*
> *5. Provider agreement*
> *6. Provider enrollment"*

By not requiring a service log for consumers receiving personal care for their AFC homes, or by not maintaining the forms required by the Personal Care/Model Payments Manual, BABH is not in compliance with the MSSSC.

<u>Recommendation</u>:

We recommend that BABH implement policies and procedures that will ensure the AFC facilities comply with Attachment 3.11.4 of the MSSSC and the Personal Care/Model Payments Manual, and that will ensure BABH conducts effective monitoring of the AFC facilities.

Finding

20. Lack of Policy on Writing off Uncollectible Accounts

BABH did not have a policy or any formal procedures on the writing off of uncollectible accounts receivables.

GAAP Chapter 3, Sec.08, Accounts Receivable, states:

> *"Accounts receivable are reported in the financial statements at net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for uncollectible accounts."*

Excluding the amounts due from MDCH, BABH had an accounts receivable balance of $148,096 as of September 30, 2002. Of this amount, $77,339 or 52% was over 90 days old. We reviewed BABH's procedures on recording and writing off accounts receivable. BABH had no formal procedures to write off uncollectible accounts receivable. Without the timely recognition of uncollectible accounts receivable, the accounts receivable balance may be overstated.

Recommendation:

We recommend that BABH establish and implement formal policies and procedures on the writing off of uncollectible accounts receivable.

MDCH's SHARE OF COSTS AND BALANCE DUE MDCH

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

Conclusion: MDCH's obligations for FY 2001 and FY 2002 (excluding the MIChild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments are $23,552,005 and $24,142,971, respectively. BABH owes MDCH a balance of $3,244,323 after considering advances, prior settlements, a prior period adjustment, and the local match shortages as summarized below:

FY 2002 MDCH Advances in Excess of MDCH Obligation (Schedule C) *	$2,103,435
FY 2002 Prior Settlement (Schedule C)	(29,055)
FY 2001 MDCH Advances in Excess of MDCH Obligation (Schedule F)	1,274,635
FY 2001 Prior Settlement (Schedule F)	(288,776)
Prior Period Adjustment for Lease Overcharges (See Finding #3)	105,120
FY 2001 Local Match Shortage **	5,989
FY 2002 Local Match Shortage **	72,975
Total Balance Due to MDCH *	$3,244,323

* Balance due may be reduced by $787,341 if BABH submits and receives approval from MDCH for spending this amount of Medicaid Savings created as a result of audit adjustments.

**	FY 2001	FY 2002
Local Obligation	$857,693	$930,824
Local Revenue (after audit adjustments)	851,704	857,849
Local Match Shortage	$ 5,989	$ 72,975

Additionally, BABH must amend their fiscal year 2002/2003 through 2005/2006 FSRs to:

a. reduce matchable expenditures and local revenues by amounts paid to residential providers and subsequently returned by residential providers (finding #1);
b. reduce matchable expenditures by the amount of rent paid under less-than-arms-length leases that exceeded underlying cost (finding #2);
c. remove unallowable lease costs for the Brissette School building (finding #3);
d. add depreciation expense for the renovations to the Brissette School building (finding #4); and
e. add expenditures for the funding of an ISF that complies with contract provisions given the discontinuance of insurance protection in FY 2002-2003 and the unallowed contributions in FY 2001-2002 (finding #5).

After amending the fiscal year 2002/2003 through 2005/2006 FSRs, BABH must resettle those contract years with MDCH and repay any amounts due.

Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	$ -	$ 96,772	$ 96,772
B. Substance Abuse Total	$ -	$ -	$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
C. Earned Contracts (non DCH) Total	$ 1,860,011	$ -	$ 1,860,011
1 CMH to CMH	1,657,127	-	1,657,127
2 Other	202,884	-	202,884
D. MI Child - Mental Health	$ 17,885	$ -	$ 17,885
E. Local Funding Total	$ 1,391,817	$ (533,968)	$ 857,849
1 Special Fund Account (226(a))	59,849	-	59,849
2 Title XX Replacement	21,320	-	21,320
3 All Other	1,310,648	(533,968)	776,680
F. Reserve Balances - Planned for use	$ 1,910,262	$ -	$ 1,910,262
1 Carryforward -Section 226(2)(b)(c)	224,276	-	224,276
2 Medicaid Savings	1,685,986		1,685,986
3 Internal Service Fund	-	-	-
4 Other (205(4)(h)	-	-	-
5 Stop/loss Insurance	-	-	-
G. DCH Earned Contracts Total	$ 231,793	$ -	$ 231,793
1 PASARR	111,198		111,198
2 Block Grant for CMH Services	-		-
3 DD Council Grants	-		-
4 PATH/Homeless	36,825		36,825
5 Prevention	6,983		6,983
6 Aging	-		-
7 HUD Shelter Plus Care	-		-
8 Other DCH Earned Contracts	76,787		76,787
H. Gross Medicaid Total	$21,793,435	$ (9,004)	$21,784,431
1 Medicaid - Specialty Managed Care	21,564,271	-	21,564,271
2 Medicaid - Children's Waiver Total	229,164	(9,004)	220,160

Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

I.	Reimbursements Total	$ 41,898	-	$ 41,898
1	1st and 3rd Party	41,898	-	41,898
2	SSI	-	-	-
J.	State General Funds Total	$ 4,682,135	$ -	$ 4,682,135
1	Formula Funding	3,161,664	-	3,161,664
2	Categorical Funding	100,800	-	100,800
3	State Services Base	1,390,651	-	1,390,651
4	DCH Risk Authorization	29,020	-	29,020
5	Residential D.C.W.	-		-
K.	Grand Total Revenues	$31,929,236	$ (446,200)	$31,483,036
L.	Estimated MDCH Obligation (G+H+J)	$26,707,363	$ (9,004)	$26,698,359

Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	$31,024,407	$ (2,092,772)	$ 28,931,635
B. Expenditures Not Otherwise Reported	$ -	$ -	$ -
C. Substance Abuse Total	$ -	$ -	$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
D. Earned Contracts (Non MDCH) Total	$ 1,860,011	$ 290	$ 1,860,301
1 CMH to CMH	1,657,127	290	1,657,417
2 Other Earned Contracts	202,884	-	202,884
E. MI Child - Mental Health	$ 17,885	$ -	$ 17,885
F. Local Total	$ 680,358	$ -	$ 680,358
1 Local Cost for State Provided Services	110,280		110,280
2 Other Not Used as Local Match	545,158		545,158
3 Local Match	24,920		24,920
G. Expenditures From Reserve Balances	$ 1,910,262	$ -	$ 1,910,262
1 Carry forward - Sec 226(2)(b)(c)	224,276	-	224,276
2 Medicaid Savings	1,685,986	-	1,685,986
3 Internal Service Fund	-	-	-
4 Other (205(4)(h))	-	-	-
5 Stop/Loss Ins.	-	-	-
H. MDCH Earned Contracts Total	$ 231,793	$ -	$ 231,793
1 PASARR	111,198		111,198
2 Block Grant for CMH Services	-		-
3 DD Council Grants	-		-
4 PATH/Homeless	36,825		36,825
5 Prevention	6,983		6,983
6 Aging	-		-
7 HUD Shelter Plus Care	-		-
8 Other MDCH Earned Contracts	76,787		76,787
I. Matchable Services (A-(B through H))	$26,324,098	$ (2,093,062)	$ 24,231,036
J. Payments to MDCH for State Services	$ 1,049,611	$ (74,506)	$ 975,105

Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

K. Specialty Managed Care Service Total	$21,403,361	$ (1,812,965)	$19,590,396
1 100% MDCH Matchable Services	21,403,361	(1,812,965)	19,590,396
2 All SSI and Other Reimbursements	41,898	-	41,898
3 Net MDCH Share for 100 % Services (K1-K2)	21,361,463	(1,812,965)	19,548,498
4 90/10 Matchable Services	-	-	-
5 Medicaid Federal Share	-	-	-
6 Other Reimbursements	-	-	-
7 10% Local Match Funds	-	-	-
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	-	-	-
9 Total MDCH Share, Spec. Managed Care (K3+K5+K8)	21,361,463	(1,812,965)	19,548,498
L. GF Categorical and Formula Services Total	$ 3,641,962	$ (196,587)	$ 3,445,375
1 100% MDCH Matchable Services	1,040,531	(99,808)	940,723
2 All SSI and Other Reimbursements	-	-	-
3 Net GF and Formula for 100% Services (L1-L2)	1,040,531	(99,808)	940,723
4 90/10 Matchable Services	2,601,431	(96,779)	2,504,652
5 Reimbursements	-	-	-
6 10% Local Match Funds	260,143	(9,678)	250,465
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	2,341,288	(87,101)	2,254,187
8 Total MDCH GF and Formula (L3+L7)	3,381,819	(186,909)	3,194,910
M. Children's Waiver – Total	$ 229,164	$ (9,004)	$ 220,160
1 Medicaid - Federal Share	-	-	-
2 Other Reimbursements	-	-	-
3 Net State Share (M-M1-M2)	229,164	(9,004)	220,160
4 Total MDCH Share Children's Waiver (M1+M3)	229,164	(9,004)	220,160
N. Unobligated Spending Authority Total	$ -	$ -	$ -
1 DCH Risk Authorization	-	-	-
2 All Other	-	-	-
O. Total Local Match Funds (K7+L6)	$ 940,501	$ (9,678)	$ 930,824
P. Total MDCH Share of Expenditures (J+K9+L8+M4)	$26,022,057	$ (2,83,384)	$23,938,673

Schedule B

Explanation of Audit Adjustments

October 1, 2001 through September 30, 2002

Revenues Not Otherwise Reported	**$96,772**
To report expense reimbursement reported as local (finding 7)	
Local Funding Total	**($533,968)**
($417,339) to remove pay backs from residential providers (finding 1)	
($96,772) to remove revenue that does not qualify as "local" (finding 7)	
($19,857) to remove interest income not earned in FY 2002 (finding 14)	
Gross Medicaid Total	**($9,004)**
To reduce Children's Waiver by amount applicable to FY 2001 (finding 15)	
Gross Expenditures Total	**($2,092,772)**
($417,339) to remove inappropriate payments to residential providers that were refunded (finding 1)	
($268,800) to disallow rent on group homes paid to related party (finding 2)	
$142,406 to allow underlying depreciation and interest of group homes (finding 2)	
($30,000) to disallow rent for Brissette School (finding 3)	

Schedule B (continued)

$13,627 to allow interest on bond and depreciation on renovations on Brissette School (finding 4)

($1,311,019) to disallow ISF costs for FY 2002 as BABH had insurance for FY 2002 (finding 5)

($61,880) to reduce the ISF amount to 15% of recommended amount as BABH had insurance for FY 2002 (finding 5)

($98,811) to offset reimbursement of costs (finding 7)

($37,562) to remove the cost of fixed assets (finding 8)

$3,130 to allow depreciation on capitalized fixed assets (finding 8)

$7,087 to allow depreciation on assets capitalized in FY 2001 (finding 8)

($33,611) to remove the repayment of unearned revenue applicable to AAM (finding 10b)

Earned Contracts (Non DCH) Total **$290**

To adjust the earned contract amount relating to AAM expenditures (finding 10c)

Matchable Services **($2,093,062)**

($417,339) to remove inappropriate payments to providers that were refunded (finding 1)

Schedule B (continued)

($268,800) to disallow rent on group homes paid to related party (finding 2)

$142,406 to allow underlying depreciation and interest of group homes (finding 2)

($30,000) to disallow rent for Brissette School (finding 3)

$13,627 to allow interest on bond and depreciation on renovations on Brissette School (finding 4)

($1,311,019) to disallow ISF costs for FY 2002 as BABH had insurance for FY 2002 (finding 5)

($61,880) to reduce the ISF amount to 15% of recommended amount as BABH had insurance for FY 2002 (finding 5)

($98,811) to offset reimbursement of costs (finding 7)

($37,562) to remove the cost of fixed assets (finding 8)

$3,130 to allow depreciation on capitalized fixed assets (finding 8)

$7,087 to allow depreciation on assets capitalized in FY 2001 (finding 8)

($33,611) to remove the repayment of unearned revenue applicable to AAM (finding 10b)

Schedule B (continued)

($290) to adjust the earned contract amount relating to AAM expenditures (finding 10c)

Payments to MDCH for State Services **($74,506)**

To disallow ISF costs for FY 2002 as BABH had insurance for FY 2002 (finding 5)

Specialty Managed Care Services Total – 100% Matchable Services **($1,812,965)**

($396,472) to remove inappropriate payments to providers that were refunded (finding 1)

($255,360) to disallow rent on group homes paid to related party (finding 2)

$135,286 to allow underlying depreciation and interest of group homes (finding 2)

($24,012) to disallow rent for Brissette School (finding 3)

$10,907 to allow interest on bond and depreciation on renovations on Brissette School (finding 4)

($949,564) to disallow ISF costs for FY 2002 as BABH had insurance for FY 2002 (finding 5)

($53,095) to reduce the ISF amount to 15% of recommended amount as BABH had insurance for FY 2002 (finding 5)

($84,894) to offset reimbursement of costs (finding 7)

Schedule B (continued)

($30,065) to remove the cost of fixed assets (finding 8)

$2,505 to allow depreciation on capitalized fixed assets (finding 8)

$5,672 to allow depreciation on assets capitalized in FY 2001 (finding 8)

($8,366) to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

$37,151 to adjust Crisis Stabilization cost to 100% costs (finding 9b)

($26,902) to remove the repayment of unearned revenue applicable to AAM (finding 10b)

($232) to adjust the earned contract amount relating to AAM expenditures (finding 10c)

($146,179) to reverse the improper adjustment to 100% costs (finding 12)

($36,552) to properly allocate administrative and other costs (finding 13)

$7,207 to reclassify Children's Waiver by amount applicable to FY 2001 (finding 15)

Schedule B (continued)

GF Categorical and Formula Services Total	**($196,587)**

($20,867) to remove inappropriate payments to providers that were refunded (finding 1)

($13,440) to disallow rent on group homes paid to related party (finding 2)

$7,120 to allow underlying depreciation and interest of group homes (finding 2)

($5,988) to disallow rent for Brissette School (finding 3)

$2,720 to allow interest on bond and depreciation on renovations on Brissette School (finding 4)

($286,949) to disallow ISF costs for FY 2002 as BABH had insurance for FY 2002 (finding 5)

($8,785) to reduce the ISF amount to 15% of recommended amount as BABH had insurance for FY 2002 (finding 5)

($13,917) to offset reimbursement of costs (finding 7)

($7,497) to remove the cost of fixed assets (finding 8)

$625 to allow depreciation on capitalized fixed assets (finding 8)

$1,415 to allow depreciation on assets capitalized in FY 2001 (finding 8)

Schedule B (continued)

$8,366 to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

($37,151) to adjust Crises Stabilization cost to 100% costs (finding 9b)

($6,709) to remove the repayment of unearned revenue applicable to AAM (finding 10b)

($58) to adjust the earned contract amount relating to AAM expenditures (finding 10c)

$146,179 to reverse the improper adjustment to 100% costs (finding 12)

$36,552 to properly allocate administrative and other costs (finding 13)

$1,797 to reclassify Children's Waiver by amount applicable to FY 2001 (finding 15)

100% Matchable Services **($99,808)**

($20,867) to remove inappropriate payments to providers that were refunded (finding 1)

($13,440) to disallow rent on group homes paid to related party (finding 2)

$7,120 to allow underlying depreciation and interest of group homes (finding 2)

Schedule B (continued)

($50,151) to disallow ISF costs for FY 2002 as BABH had insurance for FY 2002 (finding 5)

($2,510) to reduce the ISF amount to 15% of recommended amount as BABH had insurance for FY 2002 (finding 5)

($1,940) to offset reimbursement of costs (finding 7)

$12,417 to adjust Crisis Stabilization cost to 100% costs (finding 9b)

($18,220) to reverse the improper adjustment to 100% costs (finding 12)

($12,217) to properly allocate administrative and other costs (finding 13)

90/10 Matchable Services **($96,779)**

($5,988) to disallow rent for Brissette School (finding 3)

$2,720 to allow interest on bond and depreciation on renovations on Brissette School (finding 4)

($236,798) to disallow ISF costs for FY 2002 as BABH had insurance for FY 2002 (finding 5)

($6,275) to reduce the ISF amount to 15% of recommended amount as BABH had insurance for FY 2002 (finding 5)

($11,977) to offset reimbursement of costs (finding 7)

($7,497) to remove the cost of fixed assets (finding 8)

$625 to allow depreciation on capitalized fixed assets (finding 8)

Schedule B (continued)

$1,415 to allow depreciation on assets capitalized in FY 2001 (finding 8)

$8,366 to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

($49,568) to adjust Crisis Stabilization cost to 100% costs (finding 9b)

($6,709) to remove the repayment of unearned revenue applicable to AAM (finding 10b)

($58) to adjust the earned contract amount relating to AAM expenditures (finding 10c)

$164,399 to reverse the improper adjustment to 100% costs (finding 12)

$48,769 to properly allocate administrative and other costs (finding 13)

$1,797 to reclassify Children's Waiver by amount applicable to FY 2001 (finding 15)

Children's Waiver Total	**($9,004)**

To reclassify Children's Waiver by amount applicable to FY 2001 (finding 15)

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

		Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
I.	Maintenance of Effort (MOE)					
A.	Maintenance of Effort – Expenditures					
1	Ethnic Population	$ 69,144	$ 56,007	$ 13,137		$ 69,144
2	OBRA Active Treatment	111,519	90,330	21,189	-	111,519
3	OBRA Residential	1,336,813	1,269,972	66,841	-	1,336,813
4	Residential Direct Care Wage Increase #1 - 100% MOE	-	-	-	-	-
5	Residential Direct Care Wage Increase #2 - 100% MOE	363,146	344,989	18,157	-	363,146
6	Total	$ 1,880,622	$ 1,761,298	$ 119,324	-	$ 1,880,622
7	Maintenance of Effort – Lapse					-

		MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
B.	Reallocation of MOE Authorization					
1	Ethnic Population	$ 69,144	81.00%	19.00%	$ 56,007	$ 13,137
2	OBRA Active Treatment	111,519	81.00%	19.00%	90,330	21,189
3	OBRA Residential	1,336,813	95.00%	5.00%	1,269,972	66,841
4	Residential Direct Care Wage Increase #1 - 100% MOE	-	0.00%	0.00%	-	-
5	Residential Direct Care Wage Increase #2 - 100% MOE	363,146	95.00%	5.00%	344,989	18,157
6	Total	$ 1,880,622			$1,761,298	$ 119,324

		MDCH Revenue	MDCH Expense
II.	Specialized Managed Care (Includes both state and federal share)		
A.	Total - Specialized Managed Care	$21,564,271	$19,548,498
B.	Maintenance of Effort – Summary	1,761,298	1,761,298
C.	Net Specialized Managed Care (A-B)	$19,802,973	$17,787,200

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

		Authorization	MDCH Expense
III.	State/General Fund Formula Funding		
A.	GF/Formula - State and Community Managed Programs		
1	State Managed Services	$ 1,390,651	$ 975,105
2	Community Managed Services	3,262,464	3,194,910
3	Total State and Community Programs - GF/Formula Funding	$ 4,653,115	$ 4,170,015
B.	Maintenance of Effort – Summary	$ 119,324	$ 119,324
C.	Categorical, Special And Designated Funds		
1	Respite Grant (Tobacco Tax)	$ 100,800	$100,800
2	Permanency Planning Grant	$ -	$ -
3	Total Categorical, Special and Designated Funds	$ 100,800	$ 100,800
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$ 4,432,991	$ 3,949,891

		Specialized Managed Care	Formula Funds
IV.	Shared Risk Arrangement		
A.	Operating Budget - Exclude MOE and Categorical Funding	$19,802,973	$ 4,432,991
B.	MDCH Share – Exclude MOE and Categorical Funding	17,787,200	3,949,891
C.	Surplus (Deficit)	$ 2,015,773	$ 483,100
D.	Redirect Freed Up Medicaid Funds	-	-
E.	Shared Risk - Surplus (Deficit)	$ 2,015,773	$ 483,100
F.	Risk Band - 5% of Operating Budget (A x 5%)	$ 990,149	$ 221,650

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

V. Cash Settlement	MDCH Share	Savings or Carryforward	Redirected Savings	Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	$17,787,200	$ 202,808*	$ -	$17,990,008	
2 GF/Formula Funding (Net of Categorical and MOE)	3,949,891	221,650		4,171,541	
3 MOE Specialty Managed Care MDCH Obligation	1,761,298	-		1,761,298	
4 MOE GF/Formula Funding MDCH Obligation	119,324	-		119,324	
5 Categorical - MDCH Obligation	100,800	-		100,800	
6 Total MDCH Obligation					$24,142,971
B. Advances – Prepayments					
1 Specialized Managed Care – Prepayments Through 9/30/02			$21,564,271		
2 Specialized Managed Care – FY 99 Prepayments after 9/30/02			-		
3 Subtotal - Specialized Managed Care				$21,564,271	
4 GF/Formula Funding - (Include MDCH Risk Authorization)				3,190,684	
5 Purchase of Services				1,390,651	
6 Categorical Funding				100,800	
7 Total Prepayments					$26,246,406
C. Balance Due MDCH					$ 2,103,435
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				$ 975,105	
Actual Payments to MDCH				975,105	
Balance Due MDCH					$ -
E. Net Balance Due MDCH					$ 2,103,435
Prior Settlement					(29,055)
Balance Due to MDCH					$ 2,074,380

*Retention of additional Medicaid Savings of $787,341 as a result of audit adjustments contingent on inclusion in an approved Medicaid Savings Plan as required by Section 8.8.2.2 of the MSSSC.

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

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	$ 56,864	$ (1,094)	$ 55,770
B. Substance Abuse Total	$ -	$ -	$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
C. Earned Contracts (non DCH) Total	$ 1,642,177	$ (1,075)	$ 1,641,102
1 CMH to CMH	1,519,871	(1,075)	1,518,796
2 Other	122,306	-	122,306
D. MI Child - Mental Health	$ 11,390	$ -	$ 11,390
E. Local Funding Total	$ 1,509,206	$ (657,502)	$ 851,704
1 Special Fund Account (226(a))	719,337	(662,731)	56,606
2 Title XX Replacement	21,320	-	21,320
3 All Other	768,549	5,229	773,778
F. Reserve Balances - Planned for use	$ 2,852,514	$ -	$ 2,852,514
1 Carryforward -Section 226(2)(b)(c)	1,241,436	-	1,241,436
2 Internal Service Fund	1,611,078	-	1,611,078
3 Other (205(4)(h)	-	-	-
4 Stop/loss Insurance	-	-	-
G. DCH Earned Contracts Total	$ 277,340	$ -	$ 277,340
1 PASARR	138,077		138,077
2 Block Grant for CMH Services	-		-
3 DD Council Grants	-		-
4 PATH/Homeless	36,825		36,825
5 Prevention	33,500		33,500
6 Aging	-		-
7 HUD Shelter Plus Care	-		-
8 Other DCH Earned Contracts	68,938		68,938
H. Gross Medicaid Total	$20,732,557	$ 9,004	$20,741,561
1 Medicaid - Specialty Managed Care	20,131,232	-	20,131,232
2 Medicaid - Children's Waiver Total	601,325	9,004	610,329

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

I.	Reimbursements Total	$ -	$ 26,664	$ 26,664
1	1st and 3rd Party	-		-
2	SSI	-	26,664	26,664
J.	State General Funds Total	$ 4,695,409	$ -	$ 4,695,409
1	Formula Funding	3,495,217	-	3,495,217
2	Categorical Funding	100,800	-	100,800
3	State Services Base	1,070,372	-	1,070,372
4	DCH Risk Authorization	29,020	-	29,020
5	Residential D.C.W.	-		-
K.	Grand Total Revenues	$31,777,457	$ (624,003)	$31,153,454
L.	Estimated MDCH Obligation (G+H+J)	$25,705,306	$ 9,004	$25,714,310

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

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$29,704,131	$ (963,592)	$28,740,539
B.	Expenditures Not Otherwise Reported	$ 56,864	$ (1,094)	$ 55,770
C.	Substance Abuse Total	$ -	$ -	$ -
1	Medicaid Pass Through	-	-	-
2	Other	-	-	-
D.	Earned Contracts (Non MDCH) Total	$ 1,642,177	$ (1,075)	$ 1,641,102
1	CMH to CMH	1,519,871	(1,075)	1,518,796
2	Other Earned Contracts	122,306	-	122,306
E.	MI Child - Mental Health	$ 11,390	$ -	$ 11,390
F.	Local Total	$ 126,786	$ -	$ 126,786
1	Local Cost for State Provided Services	126,786		126,786
2	Other Not Used as Local Match			-
G.	Expenditures From Reserve Balances	$ 2,852,514	$ -	$ 2,852,514
1	Carryforward - Sec 226(2)(b)(c)	1,241,436	-	1,241,436
2	Internal Service Fund	1,611,078	-	1,611,078
3	Other (205(4)(h))	-	-	-
4	Stop/Loss Ins.	-	-	-
H.	MDCH Earned Contracts Total	$ 277,339	$ -	$ 277,339
1	PASARR	138,077		138,077
2	Block Grant for CMH Services	-		-
3	DD Council Grants	-		-
4	PATH/Homeless	36,825		36,825
5	Prevention	33,500		33,500
6	Aging	-		-
7	HUD Shelter Plus Care	-		-
8	Other MDCH Earned Contracts	68,937		68,937
I.	Matchable Services (A-(B through H))	$24,737,061	$ (961,423)	$23,775,638
J.	Payments to MDCH for State Services	$ 1,398,925	$ -	$ 1,398,925

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

K. Specialty Managed Care Service Total	$19,682,502	$(965,854)	$18,716,648
1 100% MDCH Matchable Services	9,139,603	(1,287,123)	7,852,480
2 All SSI and Other Reimbursements	32,844	(6,180)	26,664
3 Net MDCH Share for 100 % Services (K1-K2)	9,106,759	(1,280,943)	7,825,816
4 90/10 Matchable Services	10,542,899	321,269	10,864,609
5 Medicaid Federal Share	5,923,001	180,490	6,103,491
6 Other Reimbursements	-	-	-
7 10% Local Match Funds	461,990	14,078	476,068
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	4,157,908	126,701	4,284,609
9 Total MDCH Share, Spec. Managed Care (K3+K5+K8)	19,187,668	(973,752)	18,213,916
L. GF Categorical and Formula Services Total	$ 3,054,309	$ (4,573)	$ 3,049,735
1 100% MDCH Matchable Services	581,282	(79,932)	501,350
2 All SSI and Other Reimbursements	-	-	-
3 Net GF and Formula for 100% Services (L1-L2)	581,282	(79,932)	501,350
4 90/10 Matchable Services	2,473,027	75,359	2,548,386
5 Reimbursements	-	-	-
6 10% Local Match Funds	247,303	7,536	254,839
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	2,225,724	67,823	2,293,547
8 Total MDCH GF and Formula (L3+L7)	2,807,006	(12,109)	2,794,897
M. Children's Waiver – Total	$ 601,325	$ 9,004	$ 610,329
1 Medicaid - Federal Share	337,824	5,058	342,882
2 Other Reimbursements	-	-	-
3 Net State Share (M-M1-M2)	263,501	3,946	267,447
4 Total MDCH Share Children's Waiver (M1+M3)	601,325	9,004	610,329
N. Unobligated Spending Authority Total	$ 29,020	$ -	$ 29,020
1 DCH Risk Authorization	29,020		29,020
2 All Other	-	-	-
O. Total Local Match Funds (K7+L6)	$ 709,293	$ 21,614	$ 730,907
P. Total MDCH Share of Expenditures (J+K9+L8+M4)	$23,994,924	$ (976,857)	$23,018,067

Schedule E
Explanation of Audit Adjustments
October 1, 2000 through September 30, 2001

Revenues Not Otherwise Reported **($1,094)**

To reclassify income from donations (finding 16)

Earned Contracts (Non DCH) Total **($1,075)**

To adjust the earned contract amount relating to AAM expenditures (finding 10a)

Local Funding Total **($657,502)**

($636,067) to remove paybacks from residential providers (finding 1)

($26,664) to adjust SSI revenue (finding 11c)

$4,135 to record bond interest income (finding 14)

$1,094 to reclassify income from donations (finding 16)

Gross Medicaid Total **$9,004**

To record Children's Waiver income recorded in FY 2002 (finding 15)

Reimbursement Totals **$26,664**

To include SSI revenue (finding 11c)

Gross Expenditures Total **($963,592)**

($636,067) to remove inappropriate payments to providers that were refunded (finding 1)

Schedule E (continued)

($268,800) to disallow rent on group homes paid to related party (finding 2)

$148,618 to allow underlying depreciation and interest of group homes (finding 2)

($30,000) to disallow rent for Brissette School (finding 3)

($156,095) to disallow bond principal payments and to allow depreciation expense for renovations on Brissette School (finding 4)

($24,060) to remove the cost of fixed assets (finding 8)

$2,812 to allow depreciation on capitalized fixed assets (finding 8)

Expenditures Not Otherwise Reported	**($1,094)**

($1,094) to remove offset of donation income (finding 16)

Earned Contracts (Non DCH) Total	**($1,075)**

To adjust the earned contract amount relating to AAM expenditures (finding 10a)

Matchable Services	**($961,423)**

($636,067) to remove inappropriate payments to providers that were refunded (finding 1)

($268,800) to disallow rent on group homes paid to related party (finding 2)

Schedule E (continued)

$148,618 to allow underlying depreciation and interest of group homes (finding 2)

($30,000) to disallow rent for Brissette School (finding 3)

($156,095) to disallow bond principal payments and to allow depreciation expense for renovations on Brissette School (finding 4)

($24,060) to remove the cost of fixed assets (finding 8)

$2,812 to allow depreciation on capitalized fixed assets (finding 8)

$1,075 to adjust the earned contract amount relating to AAM expenditures (finding 10a)

$1,094 to remove offset of donation income (finding 16)

Specialty Managed Care Services Total **($965,854)**

($597,903) to remove inappropriate payments to providers that were refunded (finding 1)

($252,672) to disallow rent on group homes paid to related party (finding 2)

$139,701 to allow underlying depreciation and interest of group homes (finding 2)

($24,300) to disallow rent for Brissette School (finding 3)

Schedule E (continued)

($126,437) to disallow bond principal payments and to allow depreciation expense for renovations on Brissette School (finding 4)

($77,212) to adjust allocation of ISF abatement and contribution (finding 6)

($19,489) to remove the cost of fixed assets (finding 8)

$2,278 to allow depreciation on capitalized fixed assets (finding 8)

$1,956 to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

$871 to adjust the earned contract amount relating to AAM expenditures (finding 10a)

($6,240) to reverse the improper adjustment to 100% costs (finding 12)

($7,293) to reclassify Children's Waiver by amount recorded in FY 2002 (finding 15)

$886 to remove offset of donation income (finding 16)

100% MDCH Matchable Services **($1,287,123)**

($597,903) to remove inappropriate payments to providers that were refunded (finding 1)

Schedule E (continued)

($252,672) to disallow rent on group homes paid to related party (finding 2)

$139,701 to allow underlying depreciation and interest of group homes (finding 2)

($557,554) to adjust allocation of ISF abatement and contribution (finding 6)

$14,149 to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

($32,844) to reverse the improper adjustment to 100% costs (finding 12)

All SSI and Other Reimbursements **($6,180)**

To adjust SSI by amounts reported as both SSI reimbursement and expenses not otherwise reported (finding 11a)

To adjust SSI income to trial balance (finding 11b)

90/10 Matchable Services **$321,269**

($24,300) to disallow rent for Brissette School (finding 3)

($126,437) to disallow bond principal payments and to allow depreciation expense for renovations on Brissette School (finding 4)

Schedule E (continued)

$480,342 to adjust allocation of ISF abatement and contribution (finding 6)

($19,489) to remove the cost of fixed assets (finding 8)

$2,278 to allow depreciation on capitalized fixed assets (finding 8)

($12,193) to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

$871 to adjust the earned contract amount relating to AAM expenditures (finding 10a)

$26,604 to reverse the improper adjustment to 100% costs (finding 12)

($7,293) to reclassify Children's Waiver by amount recorded in FY 2002 (finding 15)

$886 to remove offset of donation income (finding 16)

GF Categorical and Formula Total **($4,573)**

($38,164) to remove inappropriate payments to providers that were refunded (finding 1)

($16,128) to disallow rent on group homes paid to related party (finding 2)

Schedule E (continued)

$8,917 to allow underlying depreciation and interest of group homes (finding 2)

($5,700) to disallow rent for Brissette School (finding 3)

($29,658) to disallow bond principal payments and to allow depreciation expense for renovations on Brissette School (finding 4)

$77,212 to adjust allocation of ISF abatement and contribution (finding 6)

($4,571) to remove the cost of fixed assets (finding 8)

$534 to allow depreciation on capitalized fixed assets (finding 8)

($1,956) to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

$204 to adjust the earned contract amount relating to AAM expenditures (finding 10a)

$6,240 to reverse the improper adjustment to 100% costs (finding 12)

($1,711) to reclassify Children's Waiver by amount recorded in FY 2002 (finding 15)

$208 to remove offset of donation income (finding 16)

Schedule E (continued)

100% MDCH Matchable Services	**($79,932)**

($38,164) to remove inappropriate payments to providers that were refunded (finding 1)

($16,128) to disallow rent on group homes paid to related party (finding 2)

$8,917 to allow underlying depreciation and interest of group homes (finding 2)

($35,461) to adjust allocation of ISF abatement and contribution (finding 6)

$904 to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

90/10 Matchable Services	**$75,359**

($5,700) to disallow rent for Brissette School (finding 3)

($29,658) to disallow bond principal payments and to allow depreciation expense for renovations on Brissette School (finding 4)

$112,673 to adjust allocation of ISF abatement and contribution (finding 6)

($4,571) to remove the cost of fixed assets (finding 8)

Schedule E (continued)

$534 to allow depreciation on capitalized fixed assets (finding 8)

($2,860) to adjust 100% costs and 90/10 costs to agree to trial balance (finding 9a)

$204 to adjust the earned contract amount relating to AAM expenditures (finding 10a)

$6,240 to reverse the improper adjustment to 100% costs (finding 12)

($1,711) to reclassify Children's Waiver by amount recorded in FY 2002 (finding 15)

$208 to remove offset of donation income (finding 16)

Children's Waiver Total **$9,004**

To reclassify Children's Waiver by amount recorded in FY 2002 (finding 15)

Schedule F
Contract Reconciliation and Cash Settlement Summary
October 1, 2000 through September 30, 2001

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A. Maintenance of Effort – Expenditures					
1 Ethnic Population	$ 74,144	$ 38,179	$ 8,955	$ 3,707	$ 50,841
2 OBRA Active Treatment	111,519	90,330	21,189	-	111,519
3 OBRA Residential	1,336,813	1,296,095	40,718	-	1,336,813
4 Residential Direct Care Wage Increase #1 - 100% MOE	-	-	-	-	-
5 Residential Direct Care Wage Increase #2 - 100% MOE	363,146	340,292	17,910	-	358,202
6 Total	$ 1,885,622	$ 1,764,896	$ 88,772	$ 3,707	$ 1,857,375
7 Maintenance of Effort – Lapse					$ 28,247

B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 Ethnic Population	$ 74,144	81.00%	19.00%	$ 60,057	$ 14,087
2 OBRA Active Treatment	111,519	81.00%	19.00%	$ 90,330	$ 21,189
3 OBRA Residential	1,336,813	96.95%	3.05%	1,296,095	40,718
4 Residential Direct Care Wage Increase #1 - 100% MOE	-	0.00%	0.00%	-	-
5 Residential Direct Care Wage Increase #2 - 100% MOE	363,146	95.00%	5.00%	344,989	18,157
6 Total	$ 1,885,622			$ 1,791,471	$ 94,151

II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense
A. Total - Specialized Managed Care	$20,131,232	$18,213,916
B. Maintenance of Effort – Summary	1,791,471	1,764,896
C. Net Specialized Managed Care (A-B)	$18,339,761	$16,449,020

Schedule F
Contract Reconciliation and Cash Settlement Summary
October 1, 2000 through September 30, 2001

		Authorization	MDCH Expense
III.	State/General Fund Formula Funding		
A.	GF/Formula - State and Community Managed Programs		
1	State Managed Services	$1,070,372	$1,398,925
2	Community Managed Services	3,596,017	2,794,897
3	Total State and Community Programs - GF/Formula Funding	$4,666,389	$4,193,822
B.	Maintenance of Effort – Summary	$94,151	$88,772
C.	Categorical, Special And Designated Funds		
1	Respite Grant (Tobacco Tax)	$100,800	$100,800
2	Permanency Planning Grant	-	-
3	Total Categorical, Special and Designated Funds	$100,800	$100,800
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$4,471,438	$4,004,250

Schedule F
Contract Reconciliation and Cash Settlement Summary
October 1, 2000 through September 30, 2001

		Specialized Managed Care	Formula Funds
IV.	Shared Risk Arrangement		
A.	Operating Budget – Exclude MOE and Categorical Funding	$ 18,339,761	$4,471,438
B.	MDCH Share - Exclude MOE and Categorical Funding	16,449,020	4,004,250
C.	Surplus (Deficit)	$1,890,741	$467,188
D.	Redirect Freed Up Medicaid Funds	-	-
E.	Shared Risk - Surplus (Deficit)	$1,890,741	$467,188
F.	Risk Band - 5% of Operating Budget (A x 5%)	$916,988	$223,572

Schedule F
Contract Reconciliation and Cash Settlement Summary
October 1, 2000 through September 30, 2001

V. Cash Settlement	MDCH Share	Savings or Carryforward	Redirected Savings	Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	$ 16,449,020	$ 916,988	$ -	$17,366,008	
2 GF/Formula Funding (Net of Categorical and MOE)	4,004,250	223,572		4,227,822	
3 MOE Specialty Managed Care MDCH Obligation	1,764,896	3,003		1,767,899	
4 MOE GF/Formula Funding MDCH Obligation	88,772	704		89,476	
5 Categorical - MDCH Obligation	100,800	-		100,800	
6 Total - MDCH Obligation					$23,552,005
B. Advances – Prepayments					
1 Specialized Managed Care - Prepayments Through 9/30/01			$20,131,231		
2 Specialized Managed Care – FY 99 Prepayments after 9/30/01			-		
3 Subtotal - Specialized Managed Care				$20,131,231	
4 GF/Formula Funding - (Include MDCH Risk Authorization)				3,524,237	
5 Purchase of Services				1,070,372	
6 Categorical Funding				100,800	
7 Total Prepayments					$24,826,640
C. Balance Due MDCH					$ 1,274,635
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				$ 1,398,925	
Actual Payments to MDCH				1,398,925	
Balance Due MDCH					$ -
E. Net Balance Due MDCH					$ 1,274,635
Prior Settlement					(288,776)
Balance Due to MDCH					$ 985,859

Corrective Action Plan

Finding Number: 1

Page Reference: 4

Finding Title: Improper Reporting of Nonexistent Expenditures and Nonexistent Local Revenue

BABH inappropriately inflated, by identical amounts, both its matchable expenditures and local revenue that it reported on the FSRs in the amounts of $636,067 and $417,339 in FY 2001 and 2002, respectively, in violation of the Mental Health Code, OMB Circular A-87, and the MSSSC.

Recommendation: Discontinue the practice of writing checks to residential providers for the amount of rent collected by the residential providers and recording the amounts as matchable expenditures, and receiving payments from the residential providers for the same amount and recording it as local revenue. Implement policies and procedures to ensure that expenditures recorded on FSRs represent real and actual expenditures as required by the Mental Health Code, and comply with OMB Circular A-87 provisions. Amend subsequent year FSRs to reduce matchable expenditures and local revenues by amounts paid to residential providers and subsequently returned by residential providers.

CMHSP Written Response To Preliminary Analysis: BABHA disagrees for the following reasons as well as those previously communicated to DCH auditors in writing or during various exit conferences. Bay Arenac Behavioral Health Authority believes that its position is consistent with section 226 of the Mental Health Code.

Reliance:

- ○ Letter of April 11, 1994 from W. McShane
- ○ Addition of prohibition to contract subsequent to audit period
- ○ Previous audit findings

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: The provisions of the MSSSC, the Mental Health Code, and OMB Circular A-87 clearly support that the reported expenditures at issue are unallowable, and the corresponding revenue does not qualify as local revenue regardless of any prior audit findings and related appeal decisions on the matter.

The Mental Health Code, Section 226a, states, "A community mental health services program board may create a special fund account to receive recipient fees and third-party reimbursements for services rendered." The funds paid to BABH by the residential providers do not represent recipient fees or third-party reimbursements for services rendered, and are, therefore, ineligible to be recorded as Special Fund Account (local) revenue. BABH did not render services to receive these payments. The payments to BABH were merely a payback of funds BABH paid the residential providers to artificially inflate matchable expenditures and receive payments from MDCH for non-existent expenditures.

BABH had no obligation, contractual or otherwise, to pay the residential contractors for amounts beyond the fee for service contract amount for rent already paid to the residential contractors by the consumers. Furthermore, BABH incurred a net cost of zero for these transactions since the residential providers paid BABH back for the amounts BABH paid them. Payments for which there is essentially a refund and zero net cost do not represent or constitute real or actual expenditures by BABH and are unallowable expenditures under the Mental Health Code. Since the expenditures are unallowable under State law, they are also unallowable under OMB Circular A-87. Additionally, payments for which there is no contractual obligation for amounts already paid by another source (by the consumer) are neither necessary nor reasonable and are unallowable expenditures under the OMB Circular A-87 provisions. Also, to be allowable under OMB Circular A-87, the costs must be the net of all applicable credits. When netting all applicable credits, a net amount of zero is allowable under OMB Circular A-87. Furthermore, since the expenditures were not eligible for 100% state funding as explained above, they may not be reported as 100% MDCH Matchable according to the FSR reporting instructions included in the MSSSC.

Finally, the addition of contract language that specifically prohibits SSA income from being recorded as recipient fees or third party reimbursements for purposes of Section 226a of the Mental Health Code is merely a clarification rather than a change. Prior to the clarification, not a single type of revenue was listed in the contract as being permissible or impermissible with respect to the "Special Fund Account." Rather, reference was made to Section 226a of the Mental Health Code. Due to identified misinterpretations, the clarification was added to the contract.

Corrective Action Plan

Finding Number: 2

Page Reference: 8

Finding Title: Overcharges for Less-than-Arms-Length Leases

BABH reported rent paid under less-than-arms-length leases that exceeded underlying cost on the FSR, which is not in compliance with OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure that rental expenses under less-than-arms-length leases are reported at amounts that would be allowed under OMB Circular A-87 had title to the property vested in BABH. Amend subsequent year FSRs to reduce matchable expenditures by the amount of rent paid under less-than-arms-length leases that exceeded underlying cost.

CMHSP Written Response To Preliminary Analysis: BABHA disagrees for the following reasons as well as those previously communicated to DCH auditors in writing or during various exit conferences. BABHA believes that its position is consistent with the Mental Health Code. It is Bay Arenac Behavioral Health Authority position that this was not a related party transaction.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: OMB Circular A-87 defines less-than-arms-length leases as "(1) One party to the lease is able to control or substantially influence the actions of the other; (2) Both parties are parts of the same governmental unit; or (3) The governmental unit creates an authority or similar entity to acquire and lease facilities to the governmental unit and other parties." Since 11 of BABH's 12 board members are appointed by the Bay County commissioners, Bay County is in a position to control or substantially influence the actions of BABH. Even though BABH became an authority on 10/1/2001, the transactions were entered into prior to that date when BABH was indeed part of Bay County. The circumstances noted above clearly demonstrate a less-than-arms-length lease situation.

Corrective Action Plan

Finding Number: 3

Page Reference: 9

Finding Title: Unallowable Lease Costs from Sale and Leaseback Arrangement

BABH reported lease payments on the FY 2001 and 2002 FSR's for a sale and leaseback arrangement that exceeded the allowable amount under the provisions of OMB Circular A-87. Additionally, BABH reported lease payments to MDCH in FY's 1995 through 2000 that exceeded allowable amounts.

Recommendation: Adopt policies and procedures to ensure that lease costs under sale and leaseback arrangements are reported to MDCH in accordance with OMB Circular A-87 provisions. Repay MDCH for the net result of the $105,120 (90% of $116,800) in lease overcharges for the FY's 10/1/1994 through 9/30/2000. Amend the FY 2002/2003 through FY 2005/2006 FSRs to remove unallowable lease costs for the Brissette School building, and take action to ensure that subsequent FSRs contain no lease costs relating to the Brissette School building.

CMHSP Written Response To Preliminary Analysis: BABHA disagrees for the following reasons as well as those previously communicated to DCH auditors in writing or during various exit conferences. BABHA believes that its position is consistent with section 226 of the Mental Health Code.

All funds used for purchase and improvements were local funds. DCH auditors have made no valid claim as to the gain on sale when there was no DCH investment. The fact that Fair Market Rental was charged does not equate to a change in ownership.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: MDCH auditors are not making a "claim" as to the gain on sale; MDCH auditors are simply establishing the underlying cost amount to determine what amount is allowable under the OMB Circular A-87 provisions regarding sale and leaseback arrangements. Although BABH paid a total of $219,502 of local money for the purchase and improvements of the Brissette School, they charged the State the fair market value of $99,117 from 1985 through 1989. Thus, the net amount paid from local funds was $120,285 as of the end of 1989. The Brissette School sold for $300,000 at the end of 1989 with a gain of $179,615. After the sale, BABH leased the property back from the purchaser (BCBA). The $30,000 per year lease payment was waived for a 10-year period and considered payment for the building. BABH charged MDCH $30,000 per year beginning in 1990 and continued to do so into at least fiscal year 2005/2006. Thus, BABH charged MDCH far in excess of their underlying cost of $120,285 that remained as of the end of 1989. The current audit is attempting to recover the excess charges. The FY 1993-1994 audit required the recognition of the gain on sale to essentially reduce allowable costs to underlying cost. BABH failed to demonstrate that this was contested or that the audit decision was reversed.

The fact that Fair Market Rental was charged may not equate to a change in ownership. Regardless, BABH's allowable cost is limited to underlying cost as owners of the property OR lessees of property they sold. However, sales documents confirm that there was a change in ownership as does the fact that rent payments are being paid to BCBA. This establishes a sale and leaseback arrangement. OMB Circular A-87 states that under a sale and leaseback arrangement, the lease payments would be allowed only up to the amount that would be allowed had the governmental unit continued to own the property.

Corrective Action Plan

Finding Number: 4

Page Reference: 12

Finding Title: Unallowable Bond Principal Payments Recorded as Rent Expense

BABH reported bond payments for the Brissette School renovations as rental expense on the FY 2000/2001 FSR that exceeded the allowable amount under the provisions of OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure that expenditures related to renovation projects on sale and leaseback properties are properly recorded on FSRs in compliance with OMB Circular A-87 provisions. Record $10,830 per year on FSRs filed with MDCH for depreciation expense for the remaining useful lives of the renovations. Amend the FY 2002/2003 through FY 2005/2006 FSRs to add depreciation expense for the renovations to the Brissette School building.

CMHSP Written Response To Preliminary Analysis: BABHA disagrees for the following reasons as well as those previously communicated to DCH auditors in writing and during the various exit conferences. BABHA believes that its position is consistent with the Mental Health Code. The amount expensed was equal to the fair rental value as required by the relevant finance guidelines.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: Regardless of whether or not the amount expensed was equal to the fair rental value, BABH's contract requires compliance with OMB Circular A-87. Under OMB Circular A-87 the rental costs are allowable only up to the amount that would be allowed had BACMHSB continued to own the property since this was clearly a sale and leaseback arrangement. OMB Circular A-87 allows a depreciation allowance and interest expense only. Furthermore, generally accepted accounting principles do not allow bond principal payments to be expensed.

Corrective Action Plan

Finding Number: 5

Page Reference: 13

Finding Title: Improper Internal Service Fund Contributions

BABH improperly reported a $1,311,019 contribution to the ISF in FY 2002 while also purchasing insurance to cover the same risk in FY 2002 in violation of OMB Circular A-87 and MSSSC provisions.

Recommendation: Establish policies and procedures to ensure that there is no duplication of risk protection with both risk reserves and insurance covering the same risk resulting in duplicate charges to the state. Amend the FY 2002-2003 FSR to add expenditures for the funding of an ISF that complies with contract provisions given the discontinuance of insurance protection in FY 2002-2003 and the unallowed contributions in FY 2001-2002.

CMHSP Written Response To Preliminary Analysis: BABH disagrees for the following reasons as well as those previously communicated to DCH auditors in writing or during various exit conferences. BABHA believes that its position is consistent with section 226 of the Mental Health Code.

Reliance upon Amendment 3 of the 1998 contract and Instructions for the final 1998 R & E report as issued by J. Brandell.

To have not funded the ISF would have put Bay Arenac Behavioral Health Authority in violation of the contact and Michigan Treasury. To fund as a prepaid expense would have been impossible since it was not insurance but a restriction on excess revenue.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: Amendment 3 of the 1998 contract was only applicable for FY 1997-1998 and does not apply to subsequent fiscal years. In FY 2001-2002 BABH had no risk, as their risk was covered by insurance. The contribution BABH made on 9/30/2002 was to cover any risks that were to occur in the following fiscal year, at which point it would be proper to record the expense, as required by the accrual basis. The contribution made on 9/30/2002 is indeed a prepaid expense for self insurance for FY 2002-2003, which was made in lieu of purchasing insurance as BABH did for FY 2001-2002.

Corrective Action Plan

Finding Number: 6

Page Reference: 15

Finding Title: Improper Allocation of Internal Service Fund Abatement and Contributions

BABH did not properly allocate the abatement of and contributions to the Internal Service Fund in FY 2001 in violation of the MSSSC.

Recommendation: Establish policies and procedures to ensure that any future charges for ISF funding and any future abatements to reduce the ISF are properly allocated among all applicable funding sources.

CMHSP Written Response To Preliminary Analysis: BABHA disagrees for the following reasons as well as those previously communicated to DCH auditors in writing or during various exit conferences. BABHA believes that its position is consistent with section 226 of the Mental Health Code.

After reviewing the workpapers it appears that BABH prepared the FSR according to the instructions known at the time and was not aware of anything that would indicate a need to re-include on Line I items properly deducted on Line G. Because of the layout of the FSR, expenditure page, the ISF expenditure/abatement (line G) is subtracted to get to Line I, matchable services. There were no instructions from DCH indicating that expenditure should be added back to line I. In fact, the MSSSC, Attachment 8.9.1, Finance Planning, Reporting, and Settlement states, "Row G-2: Enter the amount from the Internal Service Fund or reserve accounts established under 330.1205-Section 205(4) (h) of the Mental

Health Code. Internal Service Fund requirements are detailed in attachment 8.8.4.1 of the contract."

"Row I: Matchable Services: This is a calculation made by subtracting the amounts in B, C, D, E, F, G, and H from Row A, gross total expenditures." There is no instruction that the amount on line G should be added back in.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: BABH failed to address the finding. At no point did the finding state that BABH should add the amount removed on line G back to line I. Furthermore, Schedule E of this report shows that no changes were made to lines G or I relating to this finding. BABH properly reduced the ISF abatement from line I on line G. There are several components to Line I; specifically lines J, K1, K4, L1, L4, and M. When line I is reduced, as it was by BABH, one or more of the components must be reduced in order for the FSR to reconcile correctly. The problem was that BABH did not reduce the proper components. BABH only reduced lines K4 (Medicaid 90/10) and L4 (GF 90/10). The MSSSSC, Attachment 8.8.4.1 states that "All programs exposed to the risk corridor shall be charged their proper share of the ISF charges to the extent that those programs are covered for the risk of financial loss." Therefore, the reduction of costs should be applied to lines KI (Medicaid 100%) and L1 (GF 100%) as well as lines K4 and L4, since 100% costs are at risks as well as 90/10 costs. Indeed in FY 2001-2002 when BABH had an addition to their ISF, they allocated the cost of contribution to both 90/10 and 100% costs.

The reduction of costs resulting from ISF abatements should be allocated in a similar manner as additions to cost resulting from ISF contributions. In determining the allocation of the reduction, the audit used program costs per the FSR. Since the costs per the FSR were net of the abatement, it was necessary to add back the abatement in order to come up with the proper basis for the allocation.

Corrective Action Plan

Finding Number: 7

Page Reference: 17

Finding Title: Improper Recording of Expense Reimbursement

BABH did not properly reduce matchable costs by expense reimbursements and improperly included the reimbursements as local revenue in FY 2002 in violation of the MSSSC and OMB Circular A-87.

Recommendation: Establish policies and procedures that will enable them to distinguish between local revenues and expense reimbursements according to MSSSC and OMB Circular A-87 provisions, and to properly reduce allowable costs by expense reimbursements.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Bay Arenac Behavioral Health Authority has enacted policies and procedures to enable them to distinguish between local revenues and expense reimbursements.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 8

Page Reference: 18

Finding Title: Improper Accounting of Fixed Asset Purchases

BABH did not report the purchases of fixed assets on the FSRs in compliance with OMB Circular A-87 and the terms of the MSSSC.

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

CMHSP Written Response To Preliminary Analysis: BABHA disagrees for the following reasons as well as those previously communicated to DCH auditors in writing or during various exit conferences. BABHA believes that its position is consistent with the Mental Health Code.

Guidelines and testimony of DCH has upheld various CMH's positions that they are obligated to record expenses at full cost in the period incurred.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: The MSSSC states that OMB Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87 requires that depreciation or a use allowance be used to allocate cost over the useful life of a fixed asset. The MDCH's audit adjustment reflects the implementation of this provision.

The MSSSC specifically makes OMB Circular A-87 applicable. Also, OMB Circular A-87, Attachment A, states that it establishes principles for determining the allowable costs incurred under cost reimbursement contracts and "these principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards."

Furthermore, the MSSSC, Attachment 8.9.1, Section 1.3, Financial Status Report, requires the CMHSP to use the accrual basis of accounting. Under the accrual basis of accounting, property, plant, and equipment purchases are capitalized and depreciated over the economic life, which is consistent with OMB Circular A-87.

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states, in pertinent part, "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria…g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles." Therefore, BABH must adhere to OMB Circular A-87 with respect to depreciating capital expenditures for reimbursement purposes.

While expense of capital purchases may have been allowed in the past, the signed MSSSC requires compliance with accrual accounting and OMB Circular A-87.

Corrective Action Plan

Finding Number: 9

Page Reference: 20

Finding Title: Misclassification of Costs

BABH incorrectly reported costs to be reimbursed 100% by MDCH and costs that required a 10% local match, and incorrectly reported Medicaid and GF costs, which is not in compliance with the MSSSC, the Mental Health Code, and OMB Circular A-87.

Recommendation: Implement policies and procedures that will enable you to identify costs that are to be 100% reimbursed by the MDCH and those costs that are to be 90% reimbursed by the MDCH and report them appropriately on the FSR. Implement a system that will enable you to identify the number of consumers served in each reporting unit and to apply that data when allocating costs per reporting unit to the various programs on the FSR.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 10

Page Reference: 23

Finding Title: <u>Misreported Access Alliance of Michigan Expenditures</u>

BABH did not properly report expenditures related to the Access Alliance of Michigan (AAM) partnership in compliance with MSSSC provisions and generally accepted accounting principles.

Recommendation: Implement policies and procedures to ensure accurate and timely calculations of billings and settlements related to AAM expenditures, and properly record earned contract amounts related to AAM expenditures on FSRs.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 11

Page Reference: 24

Finding Title: Misreported SSI Revenue and Other Reimbursements

BABH did not properly report SSI revenue and other reimbursements in compliance with MSSSC provisions.

Recommendation: Implement policies and procedures to ensure accurate reporting of SSI revenue and other reimbursements in compliance with MSSSC provisions.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 12

Page Reference: 26

Finding Title: Improper Adjustments to 100% MDCH Matchable Services

BABH improperly increased the 100% MDCH Matchable Services reported amounts by the amounts of SSI revenue, other contract revenue and Medicaid savings in violation of the Mental Health Code and MSSSC provisions.

Recommendation: Implement policies and procedures to ensure accurate reporting of services eligible for 100% reimbursement.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 13

Page Reference: 27

Finding Title: Improper Distribution of Administrative Costs

BABH did not properly distribute administrative costs on the FY 2001-2002 FSR, which is not in compliance with OMB Circular A-87 requirements.

Recommendation: Implement policies and procedures to ensure accurate cost allocations in compliance with OMB Circular A-87 requirements.

CMHSP Written Response To Preliminary Analysis: BABHA disagrees for the following reasons as well as those previously communicated to DCH auditors in writing or during various exit conferences. BABHA believes that its position is consistent with section 226 of the Mental Health Code. $545,158 of this $566,053 adjustment is due to the creation of the local participation due to the State of Michigan for section 452, PA 530 of 2002, which was new in FY 01-02. Again, this amount was corrected on Line F-2 of the expenditure page of the FSR. Line F is subtracted to get to Line I (per DCH instructions). The allocation of administration to direct cost centers is irrelevant on this item.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: BABH had coded the $566,053 as administration in the general ledger. Part of this ($545,158) was reported on line F2 of the expenditure page of the FSR and the other part ($20,895) was reported on line D2 of the expenditure page of the FSR. BABH properly reduced line I by $566,053. However, the reduction to matchable expenditures was not allocated properly between funding sources, and 90/10 costs and 100% costs.

Corrective Action Plan

Finding Number: 14

Page Reference: 29

Finding Title: Improper Recording of Bond Interest Income

BABH improperly recorded bond interest income (local) earned in FY 2001 and in prior years on the FY 2002 FSR in violation of the MSSSC. BABH also understated the amount due from Bay County.

Recommendation: Implement policies and procedures to ensure that revenues are properly recorded on the FSR in accordance with contract provisions. Pursue collection of the amount due from Bay County.

CMHSP Written Response To Preliminary Analysis: BABH disagrees for the following reasons as well as those communicated to DCH auditors in writing or during various exit conferences. BABHA believes that its position is consistent with the Mental Health Code.

Bay County and Bay Arenac Behavioral Health Authority are not related entities. Bond debt service is the responsibility of the county and interest income is attributable only to the county. Arbitrage rules dictate the accounting and legal treatment of the interest earned by Bay County.

Corrective Action: None

Anticipated Correction Date: N/A

MDCH Response: The bond debt service is the responsibility of BABH. This is demonstrated by the fact that BABH made the principal and interest payments and charged MDCH. Also, interest income is attributable to BABH, since the final bond payment was reduced by interest income. Even though BABH did not receive the interest income until the FY2002, interest was earned from 1992 through 2001. The accrual basis of accounting requires that interest income be recognized in the year it was earned.

Corrective Action Plan

Finding Number: 15

Page Reference: 30

Finding Title: Misstatement of Children's Waiver Revenues and Expenditures

BABH recorded FY 2001 Children's Waiver revenue and expenditures in FY 2002 resulting in misstatements of revenue and matchable expenditures in both fiscal years in violation of the MSSSC.

Recommendation: Implement policies and procedures to ensure that all revenues are recorded in the proper fiscal year.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number:	16
Page Reference:	31
Finding Title:	Improper Recording of Contribution Income BABH did not properly record contribution income as local revenue, and improperly offset contribution income against matchable expenditures in FY 2001 in violation of the MSSSC.
Recommendation:	Establish policies and procedures to ensure that donation income is properly recorded as local revenue and matchable expenditures are not improperly reduced.
CMHSP Written Response To Preliminary Analysis:	Agreed
Corrective Action:	Policies and Procedures were established by Bay Arenac Behavioral Health Authority.
Anticipated Correction Date:	Completed
MDCH Response:	None

Corrective Action Plan

Finding Number: 17

Page Reference: 32

Finding Title: Payroll Allocation Not Based on Actual Time

BABH did not properly report wages in compliance with the requirements of the MSSSC and Circular A-87.

Recommendation: Establish policies and procedures to use proper methods in allocating wages to different programs consistent with the requirements of OMB Circular A-87 and to use these methods when actual payroll allocations are made. Retain documentation supporting their method of allocating wages to different cost departments in compliance with the contract requirements of Section 4.11 of the MSSSC.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 18

Page Reference: 34

Finding Title: Inaccurate OBRA/PASARR Billings

BABH did not bill the proper amount of leave time and direct administrative expense for the OBRA/PASARR program.

Recommendation: Establish policies and procedures to ensure that grant billings comply with contract requirements.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 19

Page Reference: 35

Finding Title: Lack of Controls over Personal Care Documentation

BABH lacked controls to ensure adult foster care (AFC) facilities maintained required documentation with respect to personal care.

Recommendation: Implement policies and procedures that will ensure the AFC facilities comply with Attachment 3.11.4 of the MSSSC and the Personal Care/Model Payments Manual, and that will ensure BABH conducts effective monitoring of the AFC facilities.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established be Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 20

Page Reference: 37

Finding Title: Lack of Policy on Writing off Uncollectible Accounts

BABH did not have a policy or formal procedures on writing off of uncollectible accounts receivables.

Recommendation: Establish and implement formal policies and procedures on the writing off of uncollectible accounts receivables.

CMHSP Written Response To Preliminary Analysis: Agreed

Corrective Action: Policies and Procedures were established by Bay Arenac Behavioral Health Authority.

Anticipated Correction Date: Completed

MDCH Response: None