

Audit Report

Gratiot County Community Mental Health Authority

October 1, 2005 – September 30, 2006



Office of Audit
March 2011



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

RICK SNYDER
GOVERNOR

OLGA DAZZO
DIRECTOR

March 7, 2011

Irene O'Boyle, Chairperson
Gratiot County Community Mental Health Authority
608 Wright Avenue
Alma, Michigan 48801

Carolyn Hilley, Executive Director
Gratiot County Community Mental Health Authority
608 Wright Avenue
Alma, Michigan 48801

Olga Dazzo, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, Michigan 48913

Dear Ms. O'Boyle, Ms. Hilley and Ms. Dazzo:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the Gratiot County Community Mental Health Authority for the period October 1, 2005 through September 30, 2006.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; adjusted financial status report; 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.

If the agency disagrees with the MDCH audit findings, the agency must use the appeal process specified in the agency's contract with MDCH. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If disputing the adverse action, the agency must submit a request for the Medicaid Provider Reviews and Hearings Process pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. within 30 days of the receipt of this letter. Requests must identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The request must also include any substantive documentary evidence to support the position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or

Ms. O'Boyle, Ms. Hilley and Ms. Dazzo
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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, and MDCH will implement the audit adjustments.

A request for the Medicaid Provider Reviews and Hearings Process 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

Thank you for the cooperation extended throughout this audit process.

Sincerely,



Debra S. Hallenbeck, Manager
Quality Assurance and Review Section
Office of Audit

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DESCRIPTION OF AGENCY

The Gratiot County Community Mental Health Board was established in 1966. In 1998, the Gratiot County Community Mental Health Board became the Gratiot County Community Mental Health Authority (Gratiot CCMHA). The Gratiot CCMHA operates under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. The Gratiot CCMHA is subject to oversight by the Michigan Department of Community Health (MDCH).

The Gratiot CCMHA provides services to three population groups within Gratiot County: children and adolescents with emotional disturbances, adults with mental illnesses, and children and adolescents with developmental disabilities. In addition, Gratiot CCMHA subcontracts services for persons with substance use disorders.

Gratiot CCMHA's administrative office is located in the City of Alma. The Gratiot CCMHA Board is comprised of 12 members who reside in Gratiot County and are appointed according to the bylaws.

FUNDING METHODOLOGY

Gratiot CCMHA contracted with MDCH under a Managed Mental Health Supports and Services Contract (MMHSSC) for fiscal year end (FYE) 2006. This provided State General Funds (GF) for mental health and developmental disability supports and services to individuals with serious mental illness, serious emotional disturbances, or developmental disabilities as described in Section 208 of the Mental Health Code. Gratiot CCMHA received approximately \$1.2 million of GF funding in FYE 2006. Gratiot CCMHA reported their GF expenditures to MDCH on a Financial Status Report (FSR) at the end of FYE 2006, and a settlement occurred between MDCH and Gratiot CCMHA.

Gratiot CCMHA received special and/or designated funds, fee for services funds, and MICHild funds under separate contractual arrangements with MDCH. Each agreement specifies the

funding methodologies. MICHild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. The Adult Benefit Waiver (ABW) Program is a plan that provides basic medical care to low income childless adults who do not qualify for Medicaid. MDCH provided the funding for the MICHild and ABW Programs by capitated payments based on a Per Eligible Per Month methodology for covered services. Children's Waiver is a community living supports services program reimbursed by MDCH through a fee-for-service (FFS) payment system.

Gratiot CCMHA received their Medicaid dollars through the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (CEI). CEI contracted with MDCH for Medicaid funding under a Medicaid Managed Specialty Supports and Services Contract (MMSSSC) for FYE 2006. MDCH provided both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology to CEI. CEI then passed the Medicaid funds on to Gratiot CCMHA based on their individual PEPM determination under the terms of the Medicaid Subcontracting Agreement (MSA). Under the MSA, Gratiot CCMHA is subject to the terms and conditions of the MMSSSC, Mental Health Code, and applicable state and federal laws. Gratiot CCMHA received approximately \$7.6 million of Medicaid funding from CEI in FYE 2006. Gratiot CCMHA reported their Medicaid expenditures related to the MSA to CEI and a settlement occurred between Gratiot CCMHA and CEI. Gratiot CCMHA also reported their Medicaid expenditures related to the MSA as an Earned Contract on their FSR with MDCH for information purposes only as no settlement occurred between Gratiot CCMHA and MDCH relating to the Medicaid funds.

PURPOSE AND OBJECTIVES

The purpose of the limited review was to assess the agency's performance relative to certain requirements and best practice guidelines set forth in the contracts; to determine whether the agency properly reported certain revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to determine MDCH's and CEI's shares of cost in accordance with applicable requirements and agreements as a result of

any financial adjustments related to this limited review. Following are the specific objectives of this review:

Objectives

1. CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

To assess Gratiot CCMHA's effectiveness and efficiency in establishing and implementing select policies and procedures in compliance with the MSA, MMHSSC, and MMSSSC requirements and best practice guidelines.

2. FINANCIAL REPORTING

To assess Gratiot CCMHA's effectiveness and efficiency in reporting select revenues and expenditures in accordance with the MSA, MMHSSC, and MMSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

3. MDCH'S AND CEI'S SHARES OF COST AND BALANCE DUE

To determine MDCH's and CEI's shares of cost in accordance with applicable requirements and agreements, and to identify any balance due to or from Gratiot CCMHA as a result of any financial adjustments related to this limited review.

SCOPE AND METHODOLOGY

We examined a portion of Gratiot CCMHA's records and activities for the period October 1, 2005 through September 30, 2006. We completed an Internal Control Questionnaire and reviewed various internal controls relating to accounting for revenues and expenditures, procurement, reporting, claims management, and risk financing. We interviewed Gratiot CCMHA's executive, financial, and administrative staff. We reviewed Gratiot CCMHA's policies, procedures, and board minutes. We summarized and analyzed various revenue and expenditure account balances to determine if they were properly reported on the FSR in compliance with the MSA, MMHSSC, and MMSSSC reporting requirements and applicable accounting standards.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess Gratiot CCMHA’s effectiveness and efficiency in establishing and implementing select policies and procedures in compliance with the MSA, MMHSSC, and MMSSSC requirements and best practice guidelines.

Conclusion: Gratiot CCMHA was generally effective and efficient in establishing and implementing the select policies and procedures in compliance with the MSA, MMHSSC, and MMSSSC requirements and best practice guidelines. However, our assessment disclosed an internal control weakness within the purchasing department (finding 1), and financial reporting exceptions (findings 2 and 3).

Finding

1. Purchasing Department Internal Control Weakness

Gratiot CCMHA does not consistently utilize purchase orders for the purchase of supplies and services, which represents an internal control weakness.

Gratiot CCMHA issues purchase orders only when the vendor agreement requires one or when a non-finance department employee is making a purchase. However, purchase orders should be used consistently by all employees for all purchases over a specified threshold for proper internal control over purchasing. Purchase orders should detail the merchandise or service, specify terms and conditions, and provide evidence of purchase authorization. Furthermore, purchase orders should be used to monitor delivery, and ensure suppliers deliver what was requested and billed for.

The MMSSSC, Part II, Section 6.6.1 states, in pertinent part, “*The PHIP shall maintain adequate internal control systems.*”

The MMHSSC, Part II, Section 6.6.1 states, in pertinent part, “*The CMHSP shall maintain adequate internal control systems.*”

Recommendation

We recommend that Gratiot CCMHA revise policies and procedures for purchasing goods and services by incorporating a purchase order system that is consistent and reasonable, and ensures an adequate internal control system as required by the MMHSSC, and MMSSSC.

FINANCIAL REPORTING

Objective 2: To assess Gratiot CCMHA’s effectiveness and efficiency in reporting select revenues and expenditures in accordance with the MSA, MMHSSC, and MMSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: Gratiot CCMHA was generally effective and efficient in reporting the select revenues and expenditures in accordance with the MSA, MMHSSC, and MMSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards. However, our assessment disclosed revenues and expenditures that were not reported (finding 2), and assets not properly capitalized and depreciated (finding 3).

Finding

2. Failure to Report all Revenues and Expenditures on the FSR

Gratiot CCMHA failed to report various revenues and expenditures on the FSR as required by the MMHSSC and MMSSSC.

Gratiot CCMHA failed to report \$100,698 each in revenues and expenditures on the FSR. The revenues and expenditures relate to miscellaneous reimbursements and expenditures, and had no impact on MDCH funding. However, all revenues and all expenditures must be reported according to contract provisions.

The MMSSSC, Attachment P 7.8.1, and MMHSSC, Attachment C 7.8.1, Section 2.2, states, in pertinent part, *“The submission is intended to build to a CMHSP gross program total inclusive of all the revenues and expenditures of the CMHSP, including non-mental health programs....”* Additionally, the FSR contains rows for revenues or expenditures not reported in other rows called “Revenues Not Otherwise Reported” and “Expenditures Not Otherwise Reported.”

Recommendation

We recommend that Gratiot CCMHA implement policies and procedures to ensure all revenues and all expenditures are reported on the FSR.

Finding

3. Capital Assets Improperly Expensed

Gratiot CCMHA improperly expensed capital assets that should have been capitalized and depreciated as required by contract provisions and OMB Circular A-87.

The contracts require compliance with OMB Circular A-87, which allows the cost of repairs and maintenance to be expensed in the year incurred, but requires the capitalization and depreciation of costs that add to the permanent value of property or appreciably prolong its intended life.

The MMSSSC and MMHSSC, Part II, Section 6.6.1, states, in pertinent part, *“The PIHP/CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report....”*

OMB Circular A-87 (located at 2 CFR Part 225), Appendix B, Section 25, Maintenance, operations and repairs, states,

Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they: keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, do not add to the permanent value of property or appreciably prolong its intended life, and are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures.

OMB Circular A-87, Appendix B, states the following with respect to capital expenditures and depreciation:

- 15.a.(1) 'Capital Expenditures' means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life.*
- 15.a.(2) 'Equipment' means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000....*
- 15.b.(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.*
- 15.(b)(5) Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of this appendix, Depreciation and use allowance, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment.*
- 11.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.*

Gratiot CCMHA improperly expensed \$38,866 for roofing and insulation costs for the main building that should have been capitalized.

After allowing an appropriate amount for depreciation, an adjustment to decrease expenses by \$34,980 was made on Schedule A.

Recommendation

We recommend that Gratiot CCMHA implement policies and procedures to ensure that capital expenditures are properly capitalized and depreciated as required by contract provisions and OMB Circular A-87.

MDCH'S AND CEI'S SHARES OF COST AND BALANCE DUE

Objective 3: To determine MDCH's and CEI's shares of cost in accordance with applicable requirements and agreements, and to identify any balance due to or from Gratiot CCMHA as a result of any financial adjustments related to this limited review.

Conclusion: For FYE 2006, MDCH's obligation (excluding the MICHild capitated funds, ABW funds, MDCH Earned Contracts, and Children's Waiver funds) is \$1,239,919. The impact of the audit adjustment decreases Gratiot CCMHA's general fund expenditures in the amount of \$4,032 and increases the general fund carry forward in the amount of \$4,032 as shown on Schedules A and B. Additionally, Gratiot CCMHA must re-settle with CEI since allowable Medicaid costs declined \$30,948 as shown on Schedule A, Expenditures, Section D.3.

Gratiot County Community Mental Health Authority
Schedule A
Adjusted Financial Status Report
October 1, 2005 through September 30, 2006

| <u>Revenues</u> | <u>Reported Amount</u> | <u>Finding 3</u> | <u>Adjusted Amount</u> |
|---|----------------------------|------------------|----------------------------|
| A. Revenues Not Otherwise Reported | \$63,866 | \$ - | \$63,866 |
| C. Earned Contracts -Non-DCH Total | \$7,656,443 | \$ - | \$7,656,443 |
| C.1. CMH to CMH | 1,054 | - | 1,054 |
| C.2. Other | 76,753 | - | 76,753 |
| C.3. Medicaid Managed Care | 7,578,636 | - | 7,578,636 |
| D. MI Child - Mental Health | \$7,419 | \$ - | \$7,419 |
| D.1. Adult Benefit Waiver | \$108,239 | \$ - | \$108,239 |
| E. Local Funding Total | \$204,147 | \$ - | \$204,147 |
| E.1. Special Fund Account (226(a)) | 50,897 | - | 50,987 |
| E.2. Title XX Replacement | 569 | - | 569 |
| E.3. All Other | 24,681 | - | 24,681 |
| E.4. Affiliate Local Contribution to State Medicaid Match Provided from CMHSP | 128,000 | - | 128,000 |
| F. Reserve Balance Planned for Use | \$59,901 | \$ - | \$59,901 |
| F.1. GF Carryforward - Sec 226(2)(b)© | 59,901 | - | 59,901 |
| F.2. Medicaid Savings | - | - | - |
| F.2a. Medicaid Savings - Substance Abuse | - | - | - |
| F.3. Internal Service Fund - Abatement | - | - | - |
| F.4. Internal Service Fund - Risk Corridor | - | - | - |
| F.5. Other (205(4)(h)) - Reserves - Vested Employee Benefit / Depreciation | - | - | - |
| F.6. Stop/Loss Ins | - | - | - |
| G. DCH Earned Contracts Total | \$142,039 | \$ - | \$142,039 |
| G.1. PASARR | 70,593 | - | 70,593 |
| G.2. Block Grants for CMH Services - Substance Abuse | 71,446 | - | 71,446 |
| G.3. DD Council Grants | - | - | - |
| G.4. PATH/Homeless | - | - | - |
| G.5. Prevention | - | - | - |
| G.6. Aging | - | - | - |
| G.7. HUD Shelter Plus Care | - | - | - |
| G.8. Other DCH Earned Contracts - SUBSTANCE ABUSE MI-CHILD | - | - | - |
| G.9. Other DCH Earned Contracts - ABW | - | - | - |
| G.10. Other MDCH Grants | - | - | - |
| H. GROSS MEDICAID TOTAL | \$57,892 | \$ - | \$57,892 |
| H.1. Medicaid Specialty Managed Care | - | - | - |
| H.2. Medicaid - Children's Waiver Total | 57,892 | - | 57,892 |
| I. REIMBURSEMENT TOTAL | \$ - | \$ - | \$ - |
| I.1. 1st and 3rd Party | - | - | - |
| I.2. SSI | - | - | - |
| J. State General Funds Total | \$1,239,919 | | \$1,239,919 |
| J.1. CMH Operations | 988,781 | | 988,781 |
| J.2. Categorical Funding | 9,101 | | 9,101 |
| J.3. State Services Base | 242,037 | | 242,037 |
| K. Grand Total Revenues | \$9,542,865 | | \$9,542,865 |
| L. Estimated MDCH Obligation including Federal | \$1,413,469 | | \$1,413,469 |

Gratiot County Community Mental Health Authority
Schedule A
Adjusted Financial Status Report
October 1, 2005 through September 30, 2006

| <u>Expenditures</u> | <u>Reported Amount</u> | <u>Finding 3</u> | <u>Adjusted Amount</u> |
|--|----------------------------|------------------|----------------------------|
| A. Gross Total Expenditures | \$9,506,655 | \$(34,980) | \$9,471,675 |
| B. Expenditures Not Otherwise Reported | \$66,866 | - | \$66,866 |
| D. Earned Contracts (non MDCH) Total | \$7,656,443 | \$(30,948) | \$7,625,495 |
| D.1. CMH to CMH | 1,054 | - | 1,054 |
| D.2. Other Earned Contracts | 76,753 | - | 76,753 |
| D.3. Medicaid Managed Care - Affiliate | 7,578,636 | (30,948) | 7,547,688 |
| F. Local Total | \$167,849 | \$ - | \$167,849 |
| F.1. Local Costs for State Provided Services | 33,193 | - | 33,193 |
| F.2. Other Not Used as Local Match | - | - | - |
| F.3. Affiliate Local Contribution to State Medicaid Match Provided to PIHP | 128,000 | - | 128,000 |
| F.4. PIHP contribution to State Medicaid Match Provided to DCH | - | - | - |
| F.5. Prior Year Carry-Forward | 6,656 | - | 6,656 |
| G. Expenditures From Reserve Balances | \$59,901 | - | \$59,901 |
| G.1. Carryforward - Sec (226(2)(b)(c) | 59,901 | - | 59,901 |
| G.2. Medicaid Savings | - | - | - |
| G.2.a. Medicaid Savings - Substance Abuse | - | - | - |
| G.3. Internal Service Fund - Abatement | - | - | - |
| G.4. Other (205(4)(h)) - Reserves - Vested Employee Benefits/Depreciation | - | - | - |
| G.5. Stop/Loss Ins | - | - | - |
| H. MDCH Earned Contracts Total | \$142,039 | - | \$142,039 |
| H.1. PASARR | 70,593 | - | 70,593 |
| H.2. Block Grant for CMH Services | 71,446 | - | 71,446 |
| H.3. DD Council Grants | - | - | - |
| H.4. PATH/Homeless | - | - | - |
| H.5. Prevention | - | - | - |
| H.6. Aging | - | - | - |
| H.7. HUD Shelter Plus Care | - | - | - |
| H.8. Other MDCH Earned Contracts - Substance Abuse - MI Child | - | - | - |
| H.9. Other MDCH Earned Contracts - ABW | - | - | - |
| H.10. Other MDCH Contracts | - | - | - |
| I. Matchable Services (A-(B through H)) | \$1,413,557 | \$(4,032) | \$1,409,525 |
| J. Payments to MDCH for State Services | \$241,834 | \$ - | \$241,834 |
| K. Specialty Managed Care Service Total | \$ - | \$ - | \$ - |
| K.1. 100% MDCH Matchable Services | - | - | - |
| K.2. All SSI and Other Reimbursements | - | - | - |
| K.3. Net MDCH Share for 100% Services (K1-K2) | - | - | - |
| K.4. QAAP Expenditures | - | - | - |
| K.5. Total MDCH (K3 +K4) | - | - | - |
| L. GF Categorical and Formula Services Total | \$987,425 | \$(4,032) | \$983,393 |
| L.1. 100% MDCH Matchable Services | 9,101 | - | 9,101 |
| L.2. All SSI and Other Reimbursements | - | - | - |
| L.3. Net GF and Formula for 100% Services (L1+L2) | 9,101 | - | 9,101 |
| L.4. 90/10 Matchable Services | 978,324 | (4,032) - | 974,292 |
| L.5. Reimbursements | - | - | - |
| L.6. 10% Local Match Funds | \$41,458 | - | 41,458 |
| L.7. Net GF and Formula for 90/10 Services (L4-L5-L6) | 936,866 | (4,032) | 932,834 |
| L.8. Total MDCH GF and Formula (L3+L7) | 945,967 | (4,032) | 941,935 |

Gratiot County Community Mental Health Authority
Schedule A
Adjusted Financial Status Report
October 1, 2005 through September 30, 2006

| <u>Expenditures</u> | | <u>Reported Amount</u> | <u>Finding 3</u> | <u>Adjusted Amount</u> |
|---------------------|--|----------------------------|------------------|----------------------------|
| L.a. | MI Child Mental Health | \$15,825 | \$ - | \$15,825 |
| L.a.1. | MI Child Mental Health - Capitation - Medicaid Only | 7,419 | - | 7,419 |
| L.a.2. | MI Child Mental Health - MDCH GF Operations Base | 8,406 | - | 8,406 |
| L.b. | Adult Benefit Waiver | \$86,774 | \$ - | \$86,774 |
| L.b.1. | ABW - Capitation - Medicaid and State Match | 86,774 | - | 86,774 |
| L.b.2. | ABW - MDCH GF Operation Base | - | - | - |
| M. | Children's Waiver - Total | \$81,699 | \$ - | \$81,699 |
| M.1 | Medicaid | 57,892 | - | 57,892 |
| M.2. | Other Reimbursements | - | - | - |
| M.3. | MDCH GF Operation Base | 23,807 | - | 23,807 |
| N. | Unobligated Spending Authority Total | \$ - | \$ - | \$ - |
| N.1. | DCH Risk Authorization | - | - | - |
| N.2. | All Other | - | - | - |
| O. | Total Local Funds (F+L6) | \$209,307 | \$ - | \$209,182 |
| P. | Total MDCH Share of Expenditures (J+K5+L8+La+Lb+M1+M3) | \$1,372,099 | \$(4,032) | \$1,368,067 |

Gratiot County Community Mental Health Authority
Schedule B
Contract Reconciliation and Cash Settlement Summary
October 1, 2005 through September 30, 2006

| | | | |
|----|--|----------------------|----------------------|
| I | State/General Fund Formula Funding | | |
| A. | GF/Formula - State and Community Managed Programs | <u>Authorization</u> | <u>MDCH Expense</u> |
| 1 | State Managed Services | \$242,037 | \$241,834 |
| 2 | MDCH Risk Authorization - MDCH Approved for Use | - | - |
| 3 | Community Managed Services | <u>997,882</u> | <u>974,148</u> |
| 4 | Total State and Community Programs - GF/Formula Funding | \$1,239,919 | \$1,215,982 |
| B. | Maintenance of Effort – Summary | \$ - | \$ - |
| C. | Categorical, Special And Designated Funds | | |
| 1 | Respite Grant (Tobacco Tax) | \$9,101 | \$9,101 |
| 2 | Multicultural Services | - | - |
| 3 | Permanency Planning Grant | <u>-</u> | <u>-</u> |
| 4 | Total Categorical, Special and Designated Funds | \$9,101 | \$9,101 |
| D. | Subtotal - GF/Formula Community and State Managed Programs (A-B-C) | \$1,230,818 | \$1,206,881 |
| | | | <u>Formula Funds</u> |
| II | Shared Risk Arrangement | | |
| A. | Operating Budget - Exclude MOE and Categorical Funding | | \$1,230,818 |
| B. | MDCH Share - Exclude MOE and Categorical Funding | | \$1,206,881 |
| C. | Surplus (Deficit) | | <u>-</u> \$23,937 |
| D. | Redirect Freed Up General Funds | | \$ - |
| E. | Shared Risk - Surplus (Deficit) | | \$23,937 |
| F. | Risk Band - 5% of Operating Budget (A x 5%) | | \$61,541 |

Gratiot County Community Mental Health Authority
Schedule B
Contract Reconciliation and Cash Settlement Summary
October 1, 2005 through September 30, 2006

| III | Cash Settlement | <u>MDCH Share</u> | <u>GF Carry Forward</u> | <u>Redirected Savings</u> | <u>Total</u> | <u>Grand Total</u> |
|-----|--|-------------------|-------------------------|---------------------------|------------------|--------------------|
| A. | MDCH Obligation | | | | | |
| 1 | Specialty Managed Care (Net of MOE) | \$ - | \$ - | \$ - | \$ - | |
| 2 | GF/Formula Funding (Net of Categorical and MOE) | 1,206,881 | 23,937 | - | 1,230,818 | |
| 3 | MOE Specialty Managed Care MDCH Obligation | - | - | - | - | |
| 4 | MOE GF/Formula Funding MDCH Obligation | - | - | - | - | |
| 5 | Categorical - MDCH Obligation | 9,101 | - | - | <u>9,101</u> | |
| 6 | Total - MDCH Obligation | | | | | \$1,239,919 |
| B. | Advances - Prepayments | | | | | |
| 1 | Specialized Managed Care - Prepayments Through 9/30/03 | | | \$ - | | |
| 2 | Specialized Managed Care - FY 99 Prepayments after 9/30/03 | | | <u>-</u> | | |
| 3 | Subtotal - Specialized Managed Care | | | | \$ - | |
| 4 | GF/Formula Funding - (Include MDCH Risk Authorization) | | | | 988,781 | |
| 5 | Purchase of Services | | | | 242,037 | |
| 6 | Categorical Funding | | | | <u>9,101</u> | |
| 7 | Total Prepayments | | | | | \$1,239,919 |
| C. | Balance Due MDCH | | | | | \$0 |
| D. | Balance Due to MDCH for Unpaid State Service Costs | | | | | |
| | State Facility Costs | | | | \$241,834 | |
| | Actual Payments to MDCH | | | | <u>\$241,834</u> | |
| | Balance Due MDCH | | | | | <u>\$ -</u> |
| E. | Net Balance Due MDCH | | | | | \$ 0 |
| | Prior Settlement | | | | | <u>0</u> |
| | Balance Due to MDCH | | | | | <u>\$ 0</u> |

Corrective Action Plan

Finding Number: 1

Page Reference: 4

Finding: Purchasing Department Internal Control Weakness

Gratiot CCMHA does not consistently utilize purchase orders for the purchase of supplies and services, which represents an internal control weakness.

Recommendation: Revise policies and procedures for purchasing goods and services by incorporating a purchase order system that is consistent and reasonable, and ensures an adequate internal control system as required by the MMHSSC and MMSSSC.

CMHSP

Comments:

We agree that we did not consistently utilize purchase orders for the purchase of supplies and services. Unless the vendor required a purchase order we did not believe it was reasonable to have a purchase order for every purchase. We have used purchase requisitions in our process to help with the tracking of purchases and the internal control process.

Corrective Action: Purchasing policy and procedure revised to include purchase orders as part of the purchasing process. Purchase orders are required for vendors listed in the policy. The purchase orders detail the merchandise or service, the terms of the purchase, and the proper purchase authorization. Purchase orders are used to monitor delivery from listed vendors and to ensure that suppliers deliver what was requested and billed for.

Anticipated

Completion Date: January 31, 2011

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 5

Finding: **Failure to Report all Revenues and Expenditures on the FSR**

Gratiot CCMHA failed to report various revenues and expenditures on the FSR as required by the MMHSSC and MMSSSC.

Recommendation: Implement policies and procedures to ensure all revenues and all expenditures are reported on the FSR.

CMHSP

Comments: We agree with the finding that we did not report all the revenues and expenditures on the FSR. The revenues and expenditures were miscellaneous reimbursements and expenditures and had no impact on MDCH funding. The revenues and expenditures were \$100,698 each and we agree according to contract provisions we should have reported them regardless of the impact on MDCH funding.

Corrective Action: Measures and policies were implemented to ensure reporting of all revenue and expenditures regardless of amount or impact on MDCH funding. Annual reconciliations are performed to ensure all revenue and expenditures will be accounted for and reported on the FSR.

Anticipated

Completion Date: January 31, 2011

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 6

Finding: Capital Assets Improperly Expensed
Gratiot CCMHA improperly expensed capital assets that should have been capitalized and depreciated as required by contract provisions and OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure that capital expenditures are properly capitalized and depreciated as required by contract provisions and OMB Circular A-87.

CMHSP Comments: It is Gratiot CCMHA's policy that all costs for repairs and maintenance that exceed our capitalization threshold of \$5,000 and that extend the life or increase the value of the facility are depreciated over the life of the asset. We mistakenly misclassified \$38,866 for a roofing and repair cost for the main building that should have been capitalized.

Corrective Action: Gratiot CCMHA is taking greater caution to ensure that all costs for repairs and maintenance that exceed \$5,000 are properly classified as a capital purchase that needs to be depreciated instead of expensed. Gratiot CCMHA is reviewing the repairs and maintenance expense account closely at year end to ensure that all the costs are accounted for correctly.

Anticipated Completion Date: January 31, 2011

MDCH Response: None