Audit Report

LifeWays
Community Mental Health Authority

October 1, 2000 – September 30, 2002

Office of Audit
Fenton Regional Office
December 2010

JENNIFER M. GRANHOLM
GOVERNOR

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

JANET OLSZEWSKI
DIRECTOR

December 27, 2010

Mr. Robert McNitt, Chairperson
Ms. Joanne Sheldon, Chief Executive Officer
Lifeways Community Mental Health Authority
1200 N. West Avenue
Jackson, Michigan 49202

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
201 Townsend Street
Lansing, Michigan 48933

Dear Mr. McNitt, Ms. Sheldon and Ms. Olszewski:

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

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; financial status reports; explanations of audit adjustments; contract reconciliation and cash settlement summaries; 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 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 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

For any audit finding and adjustment not in dispute, the agency must submit any resulting amounts due to MDCH within 30 days of receipt of this letter to:

Lisa Halverson, Manager
Revenue Operations Section
Bureau of Finance (Accounting Division)
Michigan Department of Community Health
P.O. Box 30437
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Pamela A. Myers

Pamela A. Myers, Director
Office of Audit

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DESCRIPTION OF AGENCY

The LifeWays Community Mental Health Services Program (LifeWays), established in 1966, operates under the provisions of Act 258 of 1974, the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. LifeWays became a Community Mental Health Authority in 1997 as provided in the Mental Health Code, Section 205. LifeWays is a multi-county public governmental entity serving Jackson and Hillsdale Counties and subject to oversight by the Michigan Department of Community Health (MDCH).

LifeWays provides outpatient, partial day, residential, case management, prevention, and Omnibus Budget Reconciliation Act (OBRA) services to residents within Jackson and Hillsdale Counties.

LifeWays' administrative office is located in the City of Jackson. LifeWays' board consists of twelve (12) members appointed for three-year terms by the County Boards of Commissioners. The board members reside in Jackson and Hillsdale Counties.

FUNDING METHODOLOGY

LifeWays contracted with the Michigan Department of Community Health (MDCH) under a Managed Specialty Supports and Services Contract (MSSSC) for both FYE 2001 and FYE 2002. LifeWays reported gross total expenditures of $34.2 million in FYE 2001 and $32.5 million in FYE 2002. MDCH provided the funding under this contract to LifeWays 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 the 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 a separate formula included as an attachment to the contract.

Other funding received separately outside of the MSSSC included special and/or designated funds, fee for services funds, and MIChild capitated funds. MDCH provided the special and/or designated funds under separate contractual arrangements with LifeWays. Each agreement specifies the funding methodologies for these arrangements. MIChild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

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

Objectives

1. **CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE**

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

2. **FINANCIAL REPORTING**

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

3. **DETERMINING MDCH'S SHARE OF COSTS AND BALANCE DUE**

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

SCOPE AND METHODOLOGY

We examined LifeWays' records and activities for the period October 1, 2000 through September 30, 2002. We also reviewed the Internal Service Fund for risk reserve in prior and subsequent periods, the purchase of capital assets in prior and subsequent periods and LifeWays' affiliation with other organizations. We completed an internal control questionnaire and reviewed internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed LifeWays' executive, financial, and administrative staff. We reviewed LifeWays' policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the Financial Status Report (FSR) in compliance with the MSSSC reporting requirements and applicable accounting standards.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess LifeWays' effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practice guidelines.

Conclusion: LifeWays 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 regard to internal control (finding 1), contract monitoring (finding 2), accounting for resident funds (finding 3), and financial reporting (findings 4-12).

Finding

1. Internal Control Weaknesses

LifeWays did not have adequate internal control procedures in place to safeguard its assets and ensure accurate financial reporting in compliance with the MSSSC and OMB Circular A-87 requirements.

Our audit revealed several areas where internal control was weak and, in some cases, compromised the ability of LifeWays to protect its assets. The areas consist of the reported costs not agreeing with the general ledger, lack of segregation of duties, insufficient numbering of payroll checks, missing documentation, inadequate handling of inventories and failing to get approval from MDCH for certain expenditures.

The expenses reported by LifeWays on its final FSR submitted to MDCH were not accurate and did not agree with the expenditures recorded in the agency's general ledger. Our audit found inadequacies in LifeWays' reporting of cost allocations, reclassifications, adjustments, and expenditures. We reconciled the FSR to the general ledger and made the necessary adjustments to bring the amounts into agreement. To ensure that all revenues and expenses are reported accurately to MDCH, LifeWays should review their reconciliation from the general ledger to the FSR and verify that the FSR reflects the general ledger. This financial reporting issue is addressed in greater detail in finding #5.

In the area of segregation of duties, LifeWays responded to MDCH's Internal Control Questionnaire that the same person reconciles the bank accounts and approves the reconciliations. In addition, the same employee that reconciles the bank accounts is also responsible for making deposits. Good internal control over bank accounts requires that there be a separation of these duties. The person who reconciles the bank accounts should not approve those reconciliations and should not be responsible for making deposits also. Failure to separate these duties can adversely affect LifeWays' ability to protect its assets.

LifeWays responded to MDCH's Internal Control Questionnaire that payroll checks are not pre-numbered. Failure to use pre-numbered checks greatly increases the possibility of errors and/or irregularities.

LifeWays was unable to locate several records supporting allocations of expenditures and invoices supporting expenses. It is the responsibility of LifeWays to maintain a system that retains and safeguards all records supporting financial and provision of services activities for at least seven years as required by the MSSSC. Failure to do this could result in significant payments due back to MDCH or other entities. These financial reporting issues are addressed in greater detail in findings #4 and #12.

The MSSSC, Section 4.11, Examination, Maintenance and Retention of Records, states, in part,

> *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….*

LifeWays did not maintain an adequate equipment list and did not perform equipment inventories as required by OMB Circular A-87. As evidence for the existence and use of assets depreciated and claimed on the FSR, LifeWays should maintain an asset list and perform periodic inventories. The MSSSC, Section 8.6, states that Office of Management and Budget (OMB) Circular A-87 shall guide program activities. OMB Circular A-87, Attachment B, Item 15. h., states, in part, *"…Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use…."* LifeWays did not maintain adequate property records and perform physical inventories at least once every two years as required by OMB Circular A-87. The financial reporting issue is addressed in greater detail in finding #6.

LifeWays did not obtain prior approval from MDCH before joining the country club. LifeWays paid $1,058 in membership dues. OMB Circular A-87, Attachment B, Section 30, Paragraph d, states, in part, *"Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency."* In this case, MDCH would be the entity to give approval for these costs. The financial reporting issue is addressed in greater detail in finding #11.

Recommendation

We recommend that LifeWays adopt policies and procedures to strengthen its internal control by ensuring that costs reported on the FSR are supported by the general ledger, implementing segregation of duties, pre-numbering payroll checks, maintaining control over supporting documentation, maintaining an asset list and performing periodic inventories, and getting proper expense approvals in compliance with contract and OMB Circular A-87 requirements.

Finding

2. Contract Monitoring Weaknesses

LifeWays did not apply proper procedures and policies to monitor subcontractors for compliance with contract and Federal regulation requirements.

We noted several instances where payments or collections were not made in accordance with the provisions of the contracts with providers and vendors. Contracts noted in this finding included sublease agreements, a consulting agreement, the contract with the Financial Intermediary providing services under the Self-Determination Program, and an inpatient psychiatric service contract.

LifeWays failed to comply with its collection procedures dealing with certain sub-leases with providers. The collection procedures required LifeWays to collect the rent revenue by deducting the rent from next month's payment for services if the monthly rent payment was not received. By not following its procedures, LifeWays incurred past-due receivables. LifeWays should ensure that procedures to monitor these sub-leases and collection procedures are in place.

LifeWays contracted with various physicians at a set per diem rate per contractor. The contracts stated, *"LifeWays shall reimburse the Contractor at $xx.xx per hour for pre-authorized services only."* However, the contractors were also paid for travel time in addition to direct service time. There was no indication in the contracts that compensation for travel time would be allowable. LifeWays should clearly state in its contracts all the items that would be reimbursable under those contracts.

MSSSC, Section 4.7.6.2, Subcontracting, states, in part,

> *The CMHSP may subcontract for the provision of any services specified in this Contract. The CMHSP shall be held solely and fully responsible to execute all provisions of this Contract…As related to the requirement of the Medicaid Waiver approved by the Health Care Financing Administration (HCFA), subcontracts entered into by the CMHSP shall consider the following:…2. Prior authorization requirements;… 7. Payment arrangements (including coordination of benefits) and solvency requirements….*

LifeWays did not monitor the contract with the Financial Intermediary (FI) providing services for the Self-Determination Program adequately.

According to the MSSSC, self-determination is addressed in section 4.8 VOUCHERS, which states, in part,

> *1. Vouchers issued to consumers for the purchase of services provided by professionals may be utilized in non-contract agencies that have a written referral network agreement with the CMHSP that specifies credentialing and utilization review requirements. Voucher rates for such services shall be predetermined by the CMHSP using actual cost history for each service category and average local provider rates for like services.*

MDCH also issued a Self-Determination Technical Advisory Choice Voucher System addressing vital aspects of the program.

Additionally, the contract between LifeWays and the FI states that

> *The Contractor agrees to the following:…To maintain complete and current financial records, and supporting documentation verifying expenditures paid by the Contractor and a chart of accounts.*

The FI did not have documentation to support various non-payroll expenses. In addition, several of the FI's staff members did not have employment agreements and, in some cases, staff members that did have employment agreements were paid at hourly rates that were different from the compensation noted in the employment agreements. Furthermore, the Self-Determination Program did not establish agreements in accordance with 42 CFR 431.107 as suggested in the Technical Advisory. LifeWays should develop procedures to better monitor its contracts and ensure that agreements comply with state and federal guidelines. This Self Determination issue is addressed in greater detail in Finding #12.

42 CFR 431.107 states, in pertinent part,

> *(b) Agreements. A state plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to: (1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients; (2) on request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit…, any information maintained under paragraph (b) (1) of this section and any information regarding payments claimed by the provider for furnishing services under the plan.*

LifeWays contracted with Foote Hospital to provide inpatient psychiatric services, but paid them less than the contracted amount. The original contract between LifeWays and Foote Hospital reflected a per diem rate of $550.80. On 07/06/2001, an amendment was issued to increase the per diem rate to $578.34 for services performed from 01/01/2001 through 04/30/2001, and $594.86 for services performed from 05/01/2001 through 09/30/2001. Our review of Foote Hospital's invoices revealed that, in most cases, LifeWays paid Foote Hospital at the old rate. LifeWays settled the July underpayment; however, the remainder of the FYE 2001 remained underpaid.

Recommendation

We recommend that LifeWays adopt policies and procedures to monitor subcontracts in regard to collection procedures, physician and hospital contracts' per diem payments, and the self determination program to ensure compliance with contract and Code of Federal Regulation requirements.

Finding

3. Resident Fund Accounting Weaknesses

LifeWays did not implement and monitor effective accounting policies to properly account for resident funds at the residential providers under contract in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services (Licensing Rules).

LifeWays contracted with several Specialized Residential Homes. The homes were required to manage resident allowances for the consumers served under the contract. Our audit of selected resident funds revealed that the resident funds are not being monitored properly at three homes under contract with LifeWays. For instance, Clark Home did not use a Resident Fund Report to monitor the consumers' funds while Cash on Hand at the Range Home did not always trace to the Resident Fund Report. Sheffield Home used a pooled savings account for the residents, but no individual ledgers were maintained for proper controls. In addition, Clark Home did not require the residents to sign for any withdrawals made from the Cash on Hand and the residents' savings were not deposited in a financial institution.

The Licensing Rules for Adult Foster Care Small Group Homes, Section 400.14315, Handling of Resident Funds and Valuables, states, in part,

> *(13) A licensee shall provide a complete accounting, on an annual basis and upon request, of all resident funds and valuables which are held in trust and in bank accounts or which are paid to the home, to the resident, or to his or her designated representative.*

Recommendation

We recommend that LifeWays implement policies and procedures to ensure that the homes maintain individual resident ledgers (current Resident Fund Reports) for Cash on Hand, the individual ledgers are reconciled monthly to the Cash on Hand, the residents or an authorized person sign for all withdrawals, and any savings accounted for in the name of a resident are deposited in a financial institution.

FINANCIAL REPORTING

Objective 2: To assess LifeWays' 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: LifeWays was not effective and efficient 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. We found exceptions related to: expense allocations (finding 4), reported costs not supported by the general ledger or other documentation (finding 5), the reporting of assets no longer in service (finding 6), expenditures claimed in the wrong year (finding 7), over reported Grants and Children's Waiver Program Expenditures (finding 8), double reported property expenses and related revenue misclassified as local (finding 9), unallowable investment and contribution (finding 10), unallowable country club expenses (finding 11), and undocumented Self-Determination costs (finding 12).

Finding

4. Inappropriate Allocation of Expenses

LifeWays did not properly allocate various expenses and adequately document the method used to allocate the costs between various programs in compliance with the MSSSC and OMB Circular A-87 requirements.

LifeWays did not allocate costs as required by the MSSSC and OMB Circular A-87. In certain cases, LifeWays' cost allocations were based on estimates, and essentially unsupported. LifeWays allocated OBRA Reclass (Account Number 7212) and Access Cost (Account Number 7224) using unsupported estimates each month that were not changed during the year. In addition, telephone costs, cleaning services, office supplies and building maintenance expenses were allocated based on estimated Full Time Equivalent positions (FTE). LifeWays, also allocated health insurance into two cost centers for an employee whose wages were all charged to one cost center.

LifeWays did not document the allocation basis in writing or retain any documentation describing the allocation process. Section 4.11 of the MSSSC states,

> *The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this Contract in accordance with generally accepted principles of accounting and other procedures specified by the State of Michigan.*

The MSSSC, Attachment 8.9.1, Section 1.0, states, in part,

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

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

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…j. Be adequately documented.*

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

> *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.*

The use of estimates to allocate cost does not satisfy OMB Circular A-87 requirements, and the allocation of the employees' health insurance to cost centers not receiving the related salary cost is a violation of this requirement. Failure to properly allocate costs between cost centers and programs could affect the agency's ability to satisfy the terms of the MSSSC and affect future funding from MDCH. The financial impact of this finding was not calculated due to the lack of documentation, and the time and cost involved in determining a proper allocation would exceed the benefit.

<u>Recommendation</u>

We recommend that LifeWays implement policies and procedures to ensure that methods used in allocating various expenses are in compliance with contract and OMB Circular A-87 requirements. We also recommend that LifeWays retain documentation supporting the methods of allocating various expenses in compliance with contract requirements.

<u>Finding</u>

5. <u>Reported Costs Not Supported by the General Ledger or Other Documentation</u>

LifeWays reported costs on the FSR that did not agree with the general ledger and lacked supporting documentation in violation of the Mental Health Code, MSSSC and OMB Circular A-87 requirements.

LifeWays' reported costs did not fully represent real or actual expenditures based on the general ledger. Additionally, LifeWays' reported costs were not adequately documented, not determined in accordance with generally accepted accounting principles, and not allocated according to benefits received nor based on population served.

The general ledger did not reconcile to the FSR. These differences involved inappropriate allocations based on revenue, unsupported adjustments to expenses, arbitrary allocations with no support, reclassifications that had no support, certain expense accounts charged twice on the FSR, and expense accounts reported on the FSR that were not supported by the general ledger.

In the FYE 2001 FSR, the net effect on gross total expenditures was an understatement of $1,020, with a much more substantial effect on the different funding sources. The break down for the $1,020 understatement relates to overstatements of $82 for Earned Contracts Total, $329,786 for GF Categorical and Formula Services Total, and $914 for Children's Waiver Net State Share; and understatements of $40,906 for Expenditures Not Otherwise Reported, $289,982 for Specialty Managed Care Services Total, and $914 for Children's Waiver Medicaid Federal Share.

The Mental Health Code, Section 330.1242, states, in pertinent part,

> *The following expenditures by a community mental health services program are not eligible for state financial support…(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program….*

Reported costs that have no supporting documentation cannot be claimed as real or actual expenditures by the community mental health services program.

The MSSSC, Section 8.6 OPERATING PRACTICES, states, in pertinent part,

> *The CMHSP shall adhere to Generally Accepted Accounting Principles…The following documents shall guide program accounting procedures: 1. Generally Accepted Accounting Principles for Governmental Units…3. OMB 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:…b. Be allocable to Federal awards under the provisions of this Circular…g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles…j. Be adequately documented…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.*

The MSSSC, Attachment 8.9.1, clearly requires the allocation of expenditures to programs based on services provided to the various program populations. The MSSSC, Attachment 8.9.1, Section 2.4.3, states, in pertinent part,

> *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 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).*

Audit adjustments increasing total expenditures by $1,020 and reclassifying expenditures for FYE 2001 are shown on Schedules A and B of this report.

The two most recent Compliance Examinations for LifeWays show that improper FSR reporting has continued. The FYE 2008 Compliance Examination included a finding related to misclassifying costs citing underreported Medicaid costs of nearly $2 million and over reported General Fund costs of $1.2 million. The FYE 2009 Compliance Examination states,

> *Through the combination of inaccurate eligibility data and incorrect administrative allocation, Lifeways initially understated Medicaid, MIChild, ABW and Children's Waiver expenditures by approximately $700,000 and overstated a combination of General Fund expenditures and Expenditures Not Otherwise Reported by a similar amount.*

Management's most recent response indicates that internal control measures have been and continue to be developed with the balance of the processes to be completed by December 2010.

Recommendation

We recommend that LifeWays implement policies and procedures to ensure that the amount reported on the FSR is supported by the General Ledger and that all costs are documented and supported as required by the Mental Health Code, contract and OMB Circular A-87 requirements.

Finding

6. Improper Reporting of Assets No Longer in Service

LifeWays did not properly record and report the write-off of software and computers no longer in service in violation of the MSSSC and OMB Circular A-87 requirements.

Lifeways discontinued using Info McBilling software in FYE 2002, and various computers in FYE 2002 and other unknown dates, but rather than writing off the net book value of the disposed assets at the time of disposal, Lifeways continued to record depreciation expense.

The MSSSC, Section 8.6 OPERATING PRACTICES, states, in pertinent part, *"The CMHSP shall adhere to Generally Accepted Accounting Principles…The following documents shall guide program accounting procedures: …3.OMB A-87."*

OMB Circular A-87, Attachment B, Section 15 a, states, in part, *"Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use…."*

OMB Circular A-87, Attachment B, Section 22. a. (1), states, in part

> *Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was*

included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

Since LifeWays continued to depreciate these assets in years subsequent to the disposal dates and has thus recovered the full net book value of the software and computer expenses, we do not propose any financial adjustments for this issue.

Recommendation

We recommend that LifeWays implement policies and procedures to ensure that all financial transactions are recorded and reported in compliance with contract and OMB Circular A-87 requirements. We also recommend that LifeWays implement policies and procedures to develop an inventory system that properly accounts for the net book values, dates of purchase, yearly depreciation, accumulated depreciation, and disposal dates for all its assets in compliance with the contract and OMB Circular A-87 requirements.

Finding

7. Expenditures Claimed in Wrong Year

LifeWays did not comply with the accrual basis of accounting for expenses reported on the FSR in violation of the MSSSC requirements.

The MSSSC, Attachment 8.9.1, Section 1.3, states, in part,

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

Included below are six examples of where LifeWays reported expenditures in the wrong year. Financial adjustments are included for FYE 2001 expenditures that were improperly reported in FYE 2002. However, financial adjustments are not included in situations where FYE 2000 or FYE 2003 would be impacted as these years are not included in this audit and the amounts are deemed immaterial to re-open those years.

a. LifeWays expensed three payments totaling $31,718 related to the Wraparound program in FYE 2002 that should have been expensed in FYE 2001. Invoices pertaining to these payments clearly showed that these expenditures were incurred during FYE 2001, and not in FYE 2002.

   Audit adjustments removing $31,718 from the reported expenditures for FYE 2002 are reflected on Schedules D and E, and increasing reported expenditures by $31,718 for FYE 2001 are shown on Schedules A and B.

b. LifeWays made a $2,704 rent payment on February 15, 2002 and recorded the expense in FYE 2002, but it should have been expensed in FYE 2001. Our review and reconciliation of the lease agreement and the vendor check register indicated that this payment applies to FYE 2001 and should not have been booked in FYE 2002.

   Audit adjustments removing $2,704 from the reported expenditures for FYE 2002 are shown on Schedules D and E, and increasing reported expenditures by $2,704 for FYE 2001 are shown on Schedules A and B.

c. LifeWays expensed a $3,000 payment to Herringshausen & Associates for the month of September 2001 in March 2002.

   Audit adjustments removing $3,000 from the reported expenditures for FYE 2002 are shown on Schedules D and E, and increasing reported expenditures by $3,000 for FYE 2001 are shown on Schedules A and B.

d. LifeWays erroneously expensed $3,466 in FYE 2002 equipment maintenance cost in FYE 2003. As previously stated, an adjustment will not be made to increase expenditures in FYE 2002 and decrease expenditures in FYE 2003 since FYE 2003 is not included in this audit and the amount is deemed immaterial to re-open FYE 2003.

e. LifeWays expensed a FYE 2000 plan cost of $2,321 for Estate & Pension Plans, Inc. In FYE 2002. As previously stated, an adjustment will not be made to increase expenditures in FYE 2000 and decrease expenditures in FYE 2002 since FYE 2000 is not included in this audit and the amount is deemed immaterial to re-open FYE 2000.

f. LifeWays expensed a $4,752 payment to Christ Centered Homes, Inc. in FYE 2002 that should have been partially expensed in FYE 2001 ($1,508) and partially expensed in FYE 2000 ($2,237). The $4,752 payment consisted of the following:
   - $2,515 – FYE 2001 Summer Tax Bill
   - $1,953 – FYE 2000 Taxes
   - $284 – FYE 2000 Property Insurance

   The FYE 2001 summer tax bill pertained to the months of July through November, with three (3) months (July, August, and September) in FYE 2001 and two (2) months (October and November) in FYE 2002. Therefore, $1,508 should have been removed from FYE 2002 and charged to FYE 2001.

   Audit adjustments removing $1,508 from the reported expenditures for FYE 2002 are shown on Schedules D and E, and increasing reported expenditures by $1,508 for FYE 2001 are shown on Schedules A and B.

   The FYE 2000 taxes of $1,953 and property insurance of $284 that were paid in FYE 2002 should have been expensed in FYE 2000. As previously stated, an adjustment will not be made to increase expenditures in FYE 2000 and decrease expenditures in FYE 2002 since FYE 2000 is not included in this audit and the amount is deemed immaterial to re-open FYE 2000.

Recommendation

We recommend that LifeWays implement policies and procedures to ensure that all financial transactions are recorded based on the accrual basis of accounting in compliance with contract requirements.

Finding

8. Over Reported Grants and Children's Waiver Program Expenditures

LifeWays over reported expenditures for the Path Homeless Grant, Home Life Grant, and Children's Waiver program in violation of the Mental Health Code, MSSSC and OMB Circular A-87 requirements.

In FYE 2002, LifeWays overstated reported expenditures to match revenue authorizations for the Path Homeless Grant, the Home Life Grant and the Children's Waiver Program. With respect to the Path Homeless Grant and the Children's Waiver Program, LifeWays overstated the Earned Contracts and Children's Waiver amounts (lines H4 and M), but understated Medicaid and General Fund expenditures (lines K and L) by the same amount. However, for the Home Life Grant, the overstated portion could not be supported. Reported costs that have no supporting documentation or are only supported by a budget adjustment cannot be claimed as real or actual expenditures by the community mental health services program, and are unallowable under the Mental Health Code, OMB Circular A-87, and the MSSSC.

The Mental Health Code, Section 330.1242, states, in part,

> *…the following expenditures by a community mental health services program are not eligible for state financial support…(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program….*

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:…c. Be authorized or not prohibited under State or Local laws or regulations…j. Be adequately documented.*

The MSSSC, Attachment 8.9.1, Section 2.4.3, Row H, MDCH Earned Contracts states, in part,

> *Enter the sum of H1 through H8 on this line. Expenditures entered in this section should include those made by the CMHSP for services or goods or the provision of services as stated in the applicable contractual agreement.*

The MSSSC, Attachment 8.9.1, Section 2.4.3, Row M, Children's Waiver states, in part, *"Enter total expenditures for the Children's Waiver Services on this line."*

LifeWays did not incur real or actual expenditures to justify the payments received from MDCH for the Home Life Grant. Any unobligated balance of funds held by the contractor at the end of the agreement period should be returned to the Department or handled in accordance with the guidance provided by the Department. At the end of the agreements, LifeWays had the following unobligated balances:

Path Homeless Grant - $23,652
Home Life Grant - $32,525
Children's Waiver Program - $55,451

The following details LifeWays' misreporting of grant and Children's Waiver costs on the FSR:

a. In FYE 2002, LifeWays incurred expenditures of $28,601 for the Path Homeless grant, but reported expenditures of $52,253.

   Audit adjustments removing the over reported expenditures on line H4 of Schedule D of the FSR in the amount of $23,652 and adding that amount to lines K and L are shown on Schedules D and E. Additionally, a required recovery of MDCH's overpayment due to Lifeways' over reported expenditures is shown on Schedule F.

b. In FYE 2002, LifeWays incurred expenditures of $1,197,733 for the Home Life Grant with a risk sharing adjustment of $34,810, but reported expenditures of $1,265,068 in the Medicaid 100% costs. This resulted in overstated costs of $32,525.

   Audit adjustments removing the over reported expenditures of $32,525 are shown on Schedules D and E.

c. LifeWays did not accurately report the Children's Waiver cost on the FSR.

In FYE 2002, LifeWays incurred expenses of $21,389 for the Children's Waiver Program, but reported expenditures of $76,840.

Audit adjustments removing the over reported expenditures of $55,451 from line M of Schedule D of the FSR and adding that amount to lines K and L are shown on Schedules D and E.

Recommendation

We recommend that LifeWays implement policies and procedures to properly account for expenditures and revenues pertaining to grants and Children's Waiver costs, and make timely settlements with the grantor in compliance with the Mental Health Code, contract and OMB Circular A-87 requirements.

Finding

9. Double Reported Property Expenses and Related Revenue Misclassified as Local

LifeWays double reported expenditures related to leased property and misreported related lease payments from providers as local revenue in violation of the MSSSC and OMB Circular A-87 requirements.

LifeWays rented the building on 1200 N. West Avenue and reported the full rental cost as a matchable expenditure on the FSRs. Lifeways also owned residential properties and reported the full cost of these properties as a matchable expenditure on the FSR. Lifeways leased the residential properties and a portion of the West Avenue property to providers under contract with LifeWays. LifeWays recorded the lease payments from the providers as local revenue and made no reduction to Lifeways' reported matchable expenditures for the revenue received. LifeWays paid the providers for their costs, including the cost of the providers' lease payments. LifeWays also reported these payments as matchable expenditures on the FSR. Consequently, LifeWays included in the FSR as matchable expenditures both their total costs for these properties, and the payments to the providers for the providers' lease payments causing the property expense to be double reported.

The following summarizes the cost of the properties and lease payments:

a. West Avenue Building: LifeWays rented the building on 1200 N. West Avenue and incurred total costs of $394,470 in FYE 2001 and $916,839 in FYE 2002. LifeWays used only 61% of the space in FYE 2001, and 53% of the space in FYE 2002. Lifeways' allocable cost of the building was $238,689 in FYE 2001 and $484,763 in FYE 2002. The remaining space was used by the providers under contract with LifeWays. The cost of the building used by the providers was $155,781 in FYE 2001 and $432,076 in FYE 2002. The providers' lease payments were $170,671 in FYE 2001 and $407,599 in FYE 2002.

b. Residential Properties: The cost of the residential properties leased by the providers was $28,464 in FYE 2001 and $282,141 in FYE 2002. The providers' lease payments were $36,385 in FYE 2001 and $276,863 in FYE 2002.

The following contract and OMB Circular A-87 provisions support that both Lifeways' total costs for these properties and the payments to the providers for the providers' lease payments should not be reported as matchable expenditures, and the lease payments from the providers to LifeWays should not be reported as local revenue.

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

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:…a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. b. Be allocable to Federal awards under the provisions of this Circular.*

OMB Circular A-87, Attachment A, Section C.2, states, in part,

> *Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to: a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award….*

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

> *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.*

The MSSSC, Section 8.3.7, states, in part,

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

Lifeways' cost of the properties that are used by providers and also paid by LifeWays through contractual payments with the providers are not allowable costs under OMB Circular A-87, as they are not reasonable and necessary for proper and efficient performance and administration of Federal awards, and they are not allocable to Federal awards under the provisions of OMB Circular A-87. The double reported expenditures are certainly not reasonable and necessary. Additionally, the cost of the properties used by other entities is not an allocable cost to LifeWays under the OMB Circular A-87 provisions. Finally, since the rent revenue was generated by payments from LifeWays to the various providers giving services to LifeWays' consumers, the rent revenue source would be federal and/or state monies and therefore cannot be used for Local Match.

Audit adjustments reclassifying $184,245 from matchable expenditures to Expenditures Not Otherwise Reported, and reclassifying $207,056 from Local Revenue to Revenues Not Otherwise Reported for FYE 2001 are shown on Schedules A and B.

Audit adjustments reclassifying $714,217 from matchable expenditures to Expenditures Not Otherwise Reported, and reclassifying $684,462 from Local Revenue to Revenues Not Otherwise Reported for FYE 2002 are shown on Schedules D and E.

Recommendation

We recommend that LifeWays implement policies and procedures to identify and report property costs and lease rental revenues appropriately, and ensure that expenditures and revenue are reported properly on the FSR in compliance with the contract and OMB Circular A-87 requirements.

Finding

10. Unallowable Investment and Contribution

LifeWays reported an investment and a contribution as expenditures on the FSR in violation of OMB Circular A-87 and the Mental Health Code.

LifeWays included the following costs on the FSRs:

Kings Trust Fund - $5,000 Investment - FYE 2001

Spring Arbor College - $10,000 Contribution - FYE 2002

LifeWays placed $5,000 in a trust fund for the purpose of generating perpetual earnings from which to fund consumer education expenses. The funds have not yet been used for allowable community mental health purposes. Since this does not represent or constitute a real or actual expenditure by LifeWays, the expenditure into the trust fund is not eligible for state financial support according to Section 242 of the Mental Health Code.

LifeWays made a $10,000 gift to the Spring Arbor College Corporate Partners Program. OMB Circular A-87, Attachment B, Section 13, states, in part, "*Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable.*"

Audit adjustments removing $5,000 from the reported expenditures for FYE 2001 are shown on Schedules A and B, and $10,000 from the reported expenditures for FYE 2002 are shown on Schedules D and E.

Recommendation

We recommend that LifeWays implement policies and procedures that identify unallowable expenses recorded on the general ledger and ensure that those costs are not included as matchable costs in compliance with OMB Circular A-87 and the Mental Health Code. We also recommend that LifeWays create a policy that will not permit any unallowable contribution expenses.

Finding

11. Unallowable Country Club Expenses

LifeWays reported country club expenses on the FSR in violation of OMB Circular A-87.

In FYE 2002, LifeWays incurred $4,009 of country club expenses. These expenses were payments to the Country Club of Jackson for the following:

Dinner & Gratuity	$2,267
Beverages (alcoholic)	291
Dues	1,058
Assessment	245
Caddy Scholarship	20
Other Miscellaneous	128

A portion of the above expenses was deemed allowable because it pertained to activities for the benefit of the company and its employees, such as the Employee Holiday Party. These activities contributed to the morale of the staff and therefore would be allowable. These expenses included payments of $1,108 and $854 for dinners and gratuity.

The expenses disallowed include dinners at a cost of $305, beverages (alcoholic) at a cost of $291, dues and assessments of $1,303, caddy scholarship of $20, and other miscellaneous items of $128. These costs were eliminated for a variety of reasons. The country club dues, unspent minimums and delinquent charges are costs of membership. OMB Circular A-87, Attachment B, Section 30, Paragraph d, states that *"Costs of memberships in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency."* In this case, MDCH would be the entity to give approval for these costs and LifeWays did not request an approval.

The Caddy Scholarship was a donation, and as stated in OMB Circular A-87, Attachment B, Section 13, *"Contributions and donations including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable."*

Alcoholic Beverages are disallowed under OMB Circular A-87, Attachment B, Section 4, which states, *"Costs of alcoholic beverage are unallowable."*

The dinners and pool snack bar cost were disallowed because, as noted under OMB Circular A-87, Attachment A, Section C,

> *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….*

These costs did not relate to the nature of the business that LifeWays conducts, and therefore is not allowable.

Audit adjustments removing $2,047 from the reported expenditures for FYE 2002 are shown on Schedules D and E.

Recommendation

We recommend that LifeWays implement policies and procedures that identify unallowable expenses recorded on the general ledger and ensure that those costs are not included as matchable costs in compliance with OMB Circular A-87.

Finding

12. Undocumented Self-Determination Costs

LifeWays reported self-determination expenditures that had no support in violation of the MSSSC and OMB Circular A-87 requirements.

LifeWays contracted with MDCH for an array of specialty mental health services, including the Self-Determination Program. LifeWays subcontracted with the Financial Intermediary (FI) to provide the self-determination services. The contract between LifeWays and the FI states:

> *The Contractor agrees to the following:…To maintain complete and current financial records, and supporting documentation verifying expenditures paid by the Contractor and a chart of accounts.*

The FI did not have documentation to support various expenses and, therefore, did not comply with the contract terms.

LifeWays paid the FI for services related to Self-Determination without proper documentation. The undocumented costs disallowed are $15,172 in FYE 2001 and $3,060 in FYE 2002.

The MSSSC, Section 8.6 OPERATING PRACTICES, states, in pertinent part,

> *The CMHSP shall adhere to Generally Accepted Accounting Principles…The following documents shall guide program accounting procedures: 1. Generally Accepted Accounting Principles for Governmental Units…3. OMB A-87.*

OMB Circular A-87, Attachment A, Section C, states, in part, *"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: …j. Be adequately documented."*

Audit adjustments removing $15,172 from the reported expenditures for FYE 2001 are shown on Schedules A and B, and $3,060 from the reported expenditures for FYE 2002 are shown on Schedules D and E.

Recommendation

We recommend that LifeWays implement policies and procedures to monitor the contract with the Financial Intermediary and ensure that all terms of the contract are met including the documentation of all expenditures in compliance with the contract and OMB Circular A-87 requirements.

MDCH'S SHARE OF COSTS AND BALANCE DUE

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

Conclusion: MDCH's obligation (excluding the MIChild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) is $27,917,785 in FYE 2001 and $29,180,178 in FYE 2002. LifeWays owes MDCH a balance of $147,789, after considering advances, prior settlements, and the overpayment of a grant as shown on Schedules C and F. The FYE 2002 audit adjustments created $622,505 in additional Medicaid Savings and $254,191 in additional General Fund Carryforward. Local funds were used to fund more than $254,191 in General Fund services, and $111,455 in Medicaid services in FYE's 2007 and 2008. Consequently, the remaining $511,050 in Medicaid Savings created as a result of the audit adjustments must be expended within one year of this final report.

Schedule A

Financial Status Report

October 1, 2000 through September 30, 2001

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$2,702,024	$207,056	$2,909,080
B.	Substance Abuse Total	$ -	$ -	$ -
1	Medicaid Pass Through	-	-	-
2	Other	-	-	-
C.	Earned Contracts (non DCH) Total	$20,772	$ -	$20,772
1	CMH to CMH	8,288	-	8,288
2	Other	12,484	-	12,484
D.	MI Child – Mental Health	$17,684	$ -	$17,684
E.	Local Funding Total	$2,568,454	$(207,056)	$2,361,398
1	Special Fund Account (226(a))	643,186	-	643,186
2	Title XX Replacement	4,340	-	4,340
3	All Other	1,920,928	(207,056)	1,713,872
F.	Reserve Balances - Planned for Use	$233,217	-	$233,217
1	Carryforward -Section 226(2)(b)(c)	233,217	-	233,217
2	Internal Service Fund	-	-	-
3	Other (205(4)(h)	-	-	-
4	Stop/loss Insurance	-	-	-
G.	DCH Earned Contracts Total	$635,261	$ -	$635,261
1	PASARR	227,178	-	227,178
2	Block Grant for CMH Services	186,756	-	186,756
3	DD Council Grants	-	-	-
4	PATH/Homeless	53,836	-	53,836
5	Prevention	-	-	-
6	Aging	161,449	-	161,449
7	HUD Shelter Plus Care	-	-	-
8	Other DCH Earned Contracts	6,042	-	6,042

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

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
H.	Gross Medicaid Total	$22,265,829	$ -	$22,265,829
1	Medicaid – Specialty Managed Care	22,180,417	-	22,180,417
2	Medicaid - Children's Waiver Total	85,412	-	85,412
I.	Reimbursements Total	$ -	$ -	$ -
1	1st and 3rd Party	-	-	-
2	SSI	-	-	-
J.	State General Funds Total	$5,796,023	$ -	$5,796,023
1	Formula Funding	5,702,055	-	5,702,055
2	Categorical Funding	40,000	-	40,000
3	State Services Base	72,960	-	72,960
4	DCH Risk Authorization	(18,992)	-	(18,992)
5	Residential D.C.W.	-	-	-
K.	Grand Total Revenues	$34,239,264	-	$34,239,264
L.	Estimated MDCH Obligation (H+J)	$28,061,852	$ -	$28,061,852

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

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$34,238,553	$19,778	$34,258,331
B.	Expenditures Not Otherwise Reported	$2,536,405	$225,151	$2,761,556
C.	Substance Abuse Total	$ -	$ -	$ -
1	Medicaid Pass Through	-	-	-
2	Other	-	-	-
D.	Earned Contracts (Non MDCH) Total	$20,772	$(82)	$20,690
1	CMH to CMH	8,288	-	8,288
2	Other Earned Contracts	12,484	(82)	12,402
E.	MI Child – Mental Health	$17,684	$ -	$17,684
F.	Local Total	$1,883,597	$ -	$1,883,597
1	Local Cost for State Provided Services	53,929	-	53,929
2	Other Not Used as Local Match	647,526	-	647,526
3	Local Fund Medicaid	1,182,142	-	1,182,142
G.	Expenditures From Reserve Balances	$233,217	-	$233,217
1	Carryforward - Sec 226(2)(b)(c)	233,217	-	233,217
2	Internal Service Fund	-	-	-
3	Other (205(4)(h))	-	-	-
4	Stop/Loss Ins.	-	-	-

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

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
H.	MDCH Earned Contracts Total	$635,261	$ -	$635,261
1	PASARR	227,178	-	227,178
2	Block Grant for CMH Services	186,756	-	186,756
3	DD Council Grants	-	-	-
4	PATH/Homeless	53,836	-	53,836
5	Prevention	-	-	-
6	Aging	161,449	-	161,449
7	HUD Shelter Plus Care	-	-	-
8	Other MDCH Earned Contracts	6,042	-	6,042
I.	Matchable Services (A-(B through H))	$28,911,617	$(205,291)	$28,706,326
J.	Payments to MDCH for State Services	$103,056	$ -	$103,056
K.	Specialty Managed Care Service Total	$22,586,658	$170,331	$22,756,989
1	100% MDCH Matchable Services	13,315,982	3,966	13,319,948
2	All SSI and Other Reimbursements	-	-	-
3	Net MDCH Share for 100 % Services (K1-K2)	13,315,982	3,966	13,319,948
4	90/10 Matchable Services	9,270,676	166,365	9,437,041
5	Medicaid Federal Share	5,208,266	93,464	5,301,730
6	Other Reimbursements	-	-	-
7	10% Local Match Funds	406,241	7,290	413,531
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	3,656,169	65,611	3,721,780
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	22,180,417	163,041	22,343,458

Schedule A

Financial Status Report

October 1, 2000 through September 30, 2001

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
L.	GF Categorical and Formula Services Total	$6,136,490	$(375,622)	$5,760,868
1	100% MDCH Matchable Services	1,701,257	(1,325,995)	375,262
2	All SSI and Other Reimbursements	-	-	-
3	Net GF and Formula for 100% Services (L1-L2)	1,701,257	(1,325,995)	375,262
4	90/10 Matchable Services	4,435,233	950,373	5,385,606
5	Reimbursements	-	-	-
6	10% Local Match Funds	443,523	95,037	538,560
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	3,991,710	855,336	4,847,046
8	Total MDCH GF and Formula (L3+L7)	5,692,967	(470,659)	5,222,308
M.	Children's Waiver – Total	$85,413	$ -	$85,413
1	Medicaid – Federal Share	47,071	914	47,985
2	Other Reimbursements	-	-	-
3	Net State Share (M-M1-M2)	38,342	(914)	37,428
4	Total MDCH Share Children's Waiver (M1+M3)	85,413	-	85,413
N.	Unobligated Spending Authority Total	$ -	$ -	$ -
1	DCH Risk Authorization	-	-	-
2	All Other	-	-	-
O.	Total Local Match Funds (F+K7+L6)	$2,733,361	$102,327	$2,835,688
P.	Total MDCH Share of Expenditures (J+K9+L8+M4)	$28,061,853	$(307,618)	$27,754,235

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

Revenues Not Otherwise Reported **$207,056**
$207,056 to reclassify the rent revenues from local match to revenues not otherwise reported (finding 9)

Local Funding Total Revenues **($207,056)**
($207,056) to reclassify the rent revenues from local match to revenues not otherwise reported (finding 9)

Gross Total Expenditures **$19,778**
$1,020 to adjust the reported costs to the General Ledger amount (finding 5)

$31,718 to allow the Wraparound payments expensed improperly (finding 7a)

$2,704 to allow the building rent expense claimed in incorrect year (finding 7b)

$3,000 to allow purchase services expense claimed in incorrect year (finding 7c)

$1,508 to allow residential property taxes and insurance cost expensed in incorrect years (finding 7f)

($5,000) to disallow unallowable investment (finding 10)

($15,172) to disallow undocumented self-determination costs (finding 12)

Expenditures Not Otherwise Reported **$225,151**
$40,906 to adjust the reported costs to the General Ledger amounts (finding 5)

$184,245 to reclassify the cost of rental office space and specialized residential homes (finding 9)

Earned Contracts (Non MDCH) Total **($82)**
($82) to adjust the reported costs to the General Ledger amounts (finding 5)

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

Matchable Services **($205,291)**

($39,804) to adjust the reported costs to the General Ledger amounts (finding 5)

$31,718 to allow the Wraparound payments expensed improperly (finding 7a)

$2,704 to allow the building rent expense claimed in incorrect year (finding 7b)

($184,245) to reclassify the cost of rental office space and specialized residential homes (finding 9)

$3,000 to allow purchase services expense claimed in incorrect year (finding 7c)

$1,508 to allow residential property taxes and insurance cost expensed in incorrect year (finding 7f)

($5,000) to disallow unallowable investment (finding 10)

($15,172) to disallow undocumented self-determination costs (finding 12)

Specialty Managed Care Services Total **$170,331**

$289,982 to adjust the reported costs to the General Ledger amounts (finding 5)

$15,860 to allow the Wraparound payments expensed improperly (finding 7a)

$1,893 to allow the building rent expense claimed in incorrect year (finding 7b)

($137,512) to reclassify the cost of rental office space and specialized residential homes (finding 9)

$2,100 to allow purchase services expense claimed in incorrect year (finding 7c)

$1,508 to allow residential property taxes and insurance cost expensed in incorrect year (finding 7f)

($3,500) to disallow unallowable investment (finding 10)

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

100% Matchable Services **$3,966**

$3,966 to allow the Wraparound payments expensed improperly (finding 7a)

90/10 Matchable Services **$166,365**

$289,982 to adjust the reported costs to the General Ledger amounts (finding 5)

$11,894 to allow the Wraparound payments expensed improperly (finding 7a)

$1,893 to allow the building rent expense claimed in incorrect year (finding 7b)

($137,512) to reclassify the cost of rental office space and specialized residential homes (finding 9)

$2,100 to allow purchase services expense claimed in incorrect year (finding 7c)

$1,508 to allow residential property taxes and insurance cost expensed in incorrect year (finding 7f)

($3,500) to disallow unallowable investment (finding 10)

GF Categorical and Formula Services Total **($375,622)**

($329,786) to adjust the reported costs to the General Ledger amounts (finding 5)

$15,858 to allow the Wraparound payments expensed improperly (finding 7a)

$811 to allow the building rent expense claimed in incorrect year (finding 7b)

($46,733) to reclassify the cost of rental office space and specialized residential homes (finding 9)

$900 to allow purchase services expense claimed in incorrect year (finding 7c)

($1,500) to disallow unallowable investment (finding 10)

($15,172) to disallow undocumented self-determination costs (finding 12)

100% Matchable Services **($1,325,995)**

($1,329,959) to adjust the reported costs to the General Ledger amounts (finding 5)

$3,964 to allow the Wraparound payments expensed improperly (finding 7a)

90/10 Matchable Services **$950,373**

$1,000,173 to adjust the reported costs to the General Ledger amounts (finding 5)

$11,894 to allow the Wraparound payments expensed improperly (finding 7a)

$811 to allow the building rent expense claimed in incorrect year (finding 7b)

($46,733) to reclassify the cost of rental office space and specialized residential homes (finding 9)

$900 to allow purchase services expense claimed in incorrect year (finding 7c)

($1,500) to disallow unallowable investment (finding 10)

($15,172) to disallow undocumented self-determination costs (finding 12)

Children's Waiver Total **$0**

Medicaid Federal Share **$914**

$914 to adjust the reported costs to the General Ledger amounts (finding 5)

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

Net State Share **($914)**

($914) to adjust the reported costs to the General Ledger amounts (finding 5)

Schedule C

Contract Reconciliation and Cash Settlement Summary

October 1, 2000 through September 30, 2001

		Total Authorization	Medicaid Expenditures	General Fund Expenditures		Total MDCH Share
I.	Maintenance of Effort (MOE)					
A.	Maintenance of Effort – Expenditures					
1	Ethnic Population	$ -	$ -	$ -	$ -	$ -
2	OBRA Active Treatment	176,046	44,200	131,846	-	176,046
3	OBRA Residential	1,699,592	1,150,052	549,542	-	1,699,594
4	Residential Direct Care Wage Increase #1 – 100% MOE	-	-	-	-	-
5	Residential Direct Care Wage Increase #2 – 100% MOE	350,192	255,818	94,374	-	350,192
6	Total	$2,225,830	$1,450,070	$775,762	$ -	$2,225,832
7	Maintenance of Effort – Lapse					$(2)

		MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
B.	Reallocation of MOE Authorization					
1	Ethnic population	$ -	0.00%	0.00%	$ -	$ -
2	OBRA Active Treatment	176,046	25.11%	74.89%	44,200	131,846
3	OBRA Residential	1,699,592	67.67%	32.33%	1,150,051	549,541
4	Residential Direct Care Wage Increase #1 – 100% MOE	-	0.00%	0.00%	-	-
5	Residential Direct Care Wage Increase #2 – 100% MOE	350,192	73.05%	26.95%	255,818	94,374
6	Total	$2,225,830			$1,450,069	$775,761

Schedule C

Contract Reconciliation and Cash Settlement Summary

October 1, 2000 through September 30, 2001

II.	Specialized Managed Care	MDCH	MDCH
	(Includes both state and federal share)	Revenue	Expense
A.	Total - Specialized Managed Care	$22,180,417	$22,343,458
B.	Maintenance of Effort – Summary	1,450,069	1,450,070
C.	Net Specialized Managed Care (A-B)	$20,730,348	$20,893,388

III.	State/General Fund Formula Funding		MDCH
A.	GF/Formula - State and Community Managed Programs	Authorization	Expense
1	State Managed Services	$72,960	$103,056
2	MDCH Risk Authorization - MDCH Approved for Use	(18,992)	(18,992)
3	Community Managed Services	5,742,055	5,241,300
4	Total State and Community Programs - GF/Formula Funding	$5,796,023	$5,325,364
B.	Maintenance of Effort – Summary	$775,761	$775,762
C.	Categorical, Special And Designated Funds		
1	Respite Grant (Tobacco Tax)	$40,000	$40,000
2	Multicultural Services	-	-
3	Permanency Planning Grant	-	-
4	Total Categorical, Special and Designated Funds	$40,000	$40,000
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$4,980,262	$4,509,602

Schedule C

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	$20,730,348	$4,980,262
B.	MDCH Share - Exclude MOE and Categorical Funding	20,893,338	4,509,602
C.	Surplus (Deficit)	$(162,990)	$470,660
D.	Redirect Freed Up General Funds	$162,990	$(162,990)
E.	Shared Risk - Surplus (Deficit)	-	307,670
F.	Risk Band – 5% of Operating Budget (A x 5%)	$1,036,517	$249,013

Schedule C

Contract Reconciliation and Cash Settlement Summary

October 1, 2000 through September 30, 2001

		MDCH Share	GF Carry Forward	Redirected Savings	Total	Grand Total
V.	Cash Settlement					
A.	MDCH Obligation					
1	Specialty Managed Care (Net of MOE)	$20,730,348	$ -	$ -	$20,730,348	
2	GF/Formula Funding (Net of Categorical and MOE)	4,509,602	249,013	162,990	4,921,605	
3	MOE Specialty Managed Care MDCH Obligation	1,450,070	-	-	1,450,070	
4	MOE GF/Formula Funding MDCH Obligation	775,762	-	-	775,762	
5	Categorical - MDCH Obligation	40,000	-	-	40,000	
6	Total - MDCH Obligation					$27,917,785
B.	Advances – Prepayments					
1	Specialized Managed Care - Prepayments Through 9/30/01			$22,180,417		
2	Specialized Managed Care - FY 99 Prepayments after 9/30/01			-		
3	Subtotal - Specialized Managed Care				$22,180,417	
4	GF/Formula Funding - (Include MDCH Risk Authorization)				5,702,055	
5	Purchase of Services				72,960	
6	Categorical Funding				40,000	
7	Total Prepayments					$27,995,432

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

		MDCH Share	GF Carry Forward	Redirected Savings	Total	Grand Total
C.	Balance Due MDCH					$77,647
D.	Balance Due to MDCH for Unpaid State Service Costs					
	State Facility Costs				$103,056	
	Actual Payments to MDCH				103,056	
	Balance Due MDCH					$ -
E.	Net Balance Due MDCH					$77,647
	Prior Settlement					(18,992)
	Balance Due to MDCH					$58,655

Schedule D

Financial Status Report

October 1, 2001 through September 30, 2002

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$1,332,284	$684,462	$2,016,746
B.	Substance Abuse Total	$ -	$ -	$ -
1	Medicaid Pass Through	-	-	-
2	Other	-	-	-
C.	Earned Contracts (non DCH) Total	$228,319	$ -	$228,319
1	CMH to CMH	-	-	-
2	Other	228,319	-	228,319
D.	MI Child - Mental Health	$24,696	$ -	$24,696
E.	Local Funding Total	$1,379,894	$(684,462)	$695,432
1	Special Fund Account (226(a))	390,913	-	390,913
2	Title XX Replacement	4,340	-	4,340
3	All Other	984,641	(684,462)	300,179
F.	Reserve Balances - Planned for use	$37,174	$249,013	$286,187
1	Carryforward -Section 226(2)(b)(c)	-	249,013	249,013
2	Internal Service Fund	37,174	-	37,174
3	Other (205(4)(h)	-	-	-
4	Stop/loss Insurance	-	-	-
G.	DCH Earned Contracts Total	$739,865	$ -	$739,865
1	PASARR	215,810	-	215,810
2	Block Grant for CMH Services	359,249	-	359,249
3	DD Council Grants	-	-	-
4	PATH/Homeless	52,253	-	52,253
5	Prevention	-	-	-
6	Aging	112,553	-	112,553
7	HUD Shelter Plus Care	-	-	-
8	Other DCH Earned Contracts	-	-	-

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

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
H.	Gross Medicaid Total	$23,274,635	$ -	$23,274,635
1	Medicaid – Specialty Managed Care	23,197,795	-	23,197,795
2	Medicaid - Children's Waiver Total	76,840	-	76,840
I.	Reimbursements Total	$ -	$ -	$ -
1	1st and 3rd Party	-	-	-
2	SSI	-	-	-
J.	State General Funds Total	$6,066,585	$ -	$6,066,585
1	Formula Funding	5,923,755	-	5,923,755
2	Categorical Funding	40,000	-	40,000
3	State Services Base	102,830	-	102,830
4	DCH Risk Authorization	-	-	-
5	Residential D.C.W.	-	-	-
K.	Grand Total Revenues	$33,083,452	$249,013	$33,332,465
L.	Estimated MDCH Obligation (H+J)	$29,341,220	$ -	$29,341,220

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

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$32,471,302	$(87,106)	$32,384,196
B.	Expenditures Not Otherwise Reported	$1,437,106	$714,217	$2,151,323
C.	Substance Abuse Total	$ -	$ -	$ -
1	Medicaid Pass Through	-	-	-
2	Other	-	-	-
D.	Earned Contracts (Non MDCH) Total	$265,493	$ -	$265,493
1	CMH to CMH	-	-	-
2	Other Earned Contracts	265,493	-	265,493
E.	MI Child - Mental Health	$24,696	$ -	$24,696
F.	Local Total	$667,260	$ -	$667,260
1	Local Cost for State Provided Services	56,755	-	56,755
2	Other Not Used as Local Match	610,505	-	610,505
G.	Expenditures From Reserve Balances	$ -	$249,013	$249,013
1	Carryforward – Sec 226(2)(b)(c)	-	249,013	249,013
2	Internal Service Fund	-	-	-
3	Other (205(4)(h))	-	-	-
4	Stop/Loss Ins.	-	-	-

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

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
H.	MDCH Earned Contracts Total	$739,865	$(23,652)	$716,213
1	PASARR	215,810	-	215,810
2	Block Grant for CMH Services	359,249	-	359,249
3	DD Council Grants	-	-	-
4	PATH/Homeless	52,253	(23,652)	28,601
5	Prevention	-	-	-
6	Aging	112,553	-	112,553
7	HUD Shelter Plus Care	-	-	-
8	Other MDCH Earned Contracts	-	-	-
I.	Matchable Services (A-(B through H))	$29,336,882	$(1,026,684)	$28,310,198
J.	Payments to MDCH for State Services	$39,674	$(544)	$39,130
K.	Specialty Managed Care Service Total	$22,732,914	$(630,880)	$22,102,034
1	100% MDCH Matchable Services	22,732,914	(630,880)	22,102,034
2	All SSI and Other Reimbursements	-	-	-
3	Net MDCH Share for 100 % Services (K1-K2)	22,732,914	(630,880)	22,102,034
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. Mgd Care (K3+K5+K8)	22,732,914	(630,880)	22,102,034

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

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
L.	GF Categorical and Formula Services Total	$6,487,454	$(339,809)	$6,147,645
1	100% MDCH Matchable Services	1,803,963	(241,894)	1,562,069
2	All SSI and Other Reimbursements	-	-	-
3	Net GF and Formula for 100% Services (L1-L2)	1,803,963	(241,894)	1,562,069
4	90/10 Matchable Services	4,683,491	(97,915)	4,585,576
5	Reimbursements	-	-	-
6	10% Local Match Funds	468,349	(9,791)	458,558
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	4,215,142	(88,124)	4,127,018
8	Total MDCH GF and Formula (L3+L7)	6,019,105	(330,018)	5,689,087
M.	Children's Waiver – Total	$76,840	$(55,451)	$21,389
1	Medicaid - Federal Share	43,132	(31,126)	12,006
2	Other Reimbursements	-	-	-
3	Net State Share (M-M1-M2)	33,708	(24,325)	9,383
4	Total MDCH Share Children's Waiver (M1+M3)	76,840	(55,451)	21,389
N.	Unobligated Spending Authority Total	$ -	$ -	$ -
1	DCH Risk Authorization	-	-	-
2	All Other	-	-	-
O.	Total Local Match Funds (F+K7+L6)	$1,135,609	$(9,791)	$1,125,818
P.	Total MDCH Share of Expenditures (J+K9+L8+M4)	$28,868,533	$(1,016,893)	$27,851,640

Schedule E
Explanation of Audit Adjustments
October 1, 2001 through September 30, 2002

Revenues Not Otherwise Reported **$684,462**
$684,462 to reclassify the rent revenues from local match to revenues not otherwise reported (finding 9)

Local Funding Total Revenues **($684,462)**
($684,462) to reclassify the rent revenues from local match to revenues not otherwise reported (finding 9)

Carryforward – Section (226(a)) **$249,013**
$249,013 to adjust the carryforward as a result of audit findings in FYE 2001 (Schedule C)

Gross Total Expenditures **($87,106)**
($31,718) to disallow the Wraparound payments expensed improperly (finding 7a)

($32,525) to adjust the over reported expenditures for the Home Life Grant (finding 8b)

($2,704) to disallow the building rent expense claimed in incorrect year (finding 7b)

($3,000) to disallow purchase services expense claimed in incorrect year (finding 7c)

($1,508) to disallow residential property taxes and insurance cost expensed in incorrect years (finding 7f)

($10,000) to disallow unallowable contribution (finding 10)

($2,047) to disallow unallowable country club expenses (finding 11)

($3,060) to disallow undocumented self-determination costs (finding 12)

($544) to adjust to the correct state services amount

Schedule E
Explanation of Audit Adjustments
October 1, 2001 through September 30, 2002

Expenditures Not Otherwise Reported $714,217 to reclassify the cost of rental office space and specialized residential homes (finding 9)	**$714,217**
Carryforward – Section (226(a)) $249,013 to adjust the carryforward as a result of audit findings in FYE 2001 (Schedule C)	**$249,013**
MDCH Earned Contracts Total ($23,652) to adjust the over reported expenditures for the Path Homeless Grant (finding 8a)	**($23,652)**
Matchable Services ($31,718) to disallow the Wraparound payments expensed improperly (finding 7a)	**($1,026,684)**

($2,704) to disallow the building rent expense claimed in incorrect year (finding 7b)

$23,652 to adjust the over reported expenditures for the Path Homeless Grant (finding 8a)

($32,525) to adjust the over reported expenditures for the Home Life Grant (finding 8b)

($714,217) to reclassify the cost of rental office space and specialized residential homes (finding 9)

($3,000) to disallow purchase services expense claimed in incorrect year (finding 7c)

($1,508) to disallow residential property taxes and insurance cost expensed in incorrect years (finding 7f)

($10,000) to disallow unallowable contribution (finding 10)

($2,047) to disallow unallowable country club expenses (finding 11)

($3,060) to disallow undocumented self-determination costs (finding 12)

Schedule E
Explanation of Audit Adjustment
October 1, 2001 through September 30, 2002

($544) to adjust to the correct state services amount

($249,013) to adjust the carryforward as a result of audit findings in FYE 2001 (Schedule C)

Payments to MDCH for State Services **($544)**
($544) to adjust to the correct state services amount

Specialty Managed Care Services Total **($630,880)**

100% Matchable Services **($630,880)**
($23,468) to disallow the Wraparound payments expensed improperly (finding 7a)

$18,401 to adjust the over reported expenditures for the Path Homeless Grant (finding 8a)

($32,525) to adjust the over reported expenditures for the Home Life Grant (finding 8b)

$31,126 to adjust the over reported expenditures for the Children's Waiver (finding 8c)

($2,055) to disallow the building rent expense claimed in incorrect year (finding 7b)

($607,085) to reclassify the cost of rental office space and specialized residential homes (finding 9)

($2,280) to disallow purchase services expense claimed in incorrect year (finding 7c)

($1,508) to disallow residential property taxes and insurance cost expensed in incorrect years (finding 7f)

($7,600) to disallow unallowable contribution (finding 10)

($1,561) to disallow unallowable country club expenses (finding 11)

($2,325) to disallow undocumented self-determination costs (finding 12)

Schedule E
Explanation of Audit Adjustments
October 1, 2001 through September 30, 2002

GF Categorical and Formula Services Total **($339,809)**

($8,250) to disallow the Wraparound payments expensed improperly (finding 7a)

($649) to disallow the building rent expense claimed in incorrect year (finding 7b)

$5,251 to adjust the over reported expenditures for the Path Homeless Grant (finding 8a)

$24,325 to adjust the over reported expenditures for the Children's Waiver (finding 8c)

($107,132) to reclassify the cost of rental office space and specialized residential homes (finding 9)

($720) to disallow purchase services expense claimed in incorrect year (finding 7c)

($2,400) to disallow unallowable contribution (finding 10)

($486) to disallow unallowable country club expenses (finding 11)

($735) to disallow undocumented self-determination costs (finding 12)

($249,013) to adjust the carryforward as a result of audit findings in FYE 2001 (Schedule C)

100% Matchable Services **($241,894)**

($1,105) to disallow the Wraparound payments expensed improperly (finding 7a)

$1,460 to adjust the over reported expenditures for the Path Homeless Grant (finding 8a)

$6,764 to adjust the over reported expenditures for the Children's Waiver (finding 8c)

($249,013) to adjust the carryforward as a result of audit findings in FYE 2001 (Schedule C)

Schedule E
Explanation of Audit Adjustments
October 1, 2001 through September 30, 2002

90/10 Matchable Services **($97,915)**

($7,145) to disallow the Wraparound payments expensed improperly (finding 7a)

($649) to disallow the building rent expense claimed in incorrect year (finding 7b)

$3,791 to adjust the over reported expenditures for the Path Homeless Grant (finding 8a)

$17,561 to adjust the over reported expenditures for the Children's Waiver (finding 8c)

($107,132) to reclassify the cost of rental office space and specialized residential homes (finding 9)

($720) to disallow purchase services expense claimed in incorrect year (finding 7c)

($2,400) to disallow unallowable contribution (finding 10)

($486) to disallow unallowable country club expenses (finding 11)

($735) to disallow undocumented self-determination costs (finding 12)

Children's Waiver Total **($55,451)**

($55,451) to adjust the over reported expenditures for the Children's Waiver (finding 8c)

Schedule F

Contract Reconciliation and Cash Settlement Summary

October 1, 2001 through September 30, 2002

		Total	Medicaid	General Fund		Total
I.	Maintenance of Effort (MOE)	Authorization	Expenditures	Expenditures		MDCH Share
A.	Maintenance of Effort - Expenditures					
1	Ethnic Population	$ -	$ -	$ -	$ -	$ -
2	OBRA Active Treatment	176,046	44,203	131,843	-	176,046
3	OBRA Residential	1,699,592	1,150,049	549,543	-	1,699,592
4	Residential Direct Care Wage Increase #1 - 100% MOE	-	-	-	-	-
5	Residential Direct Care Wage Increase #2 - 100% MOE	350,192	255,816	94,376	-	350,192
6	Total	$2,225,830	$1,450,068	$775,762	$ -	$2,225,830
7	Maintenance of Effort – Lapse					$ -

		MOE	Medicaid	General Fund		
B.	Reallocation of MOE Authorization	Authorization	Percentage	Percentage	Medicaid	General Fund
1	Ethnic Population	$ -	0.00%	0.00%	$ -	$ -
2	OBRA Active Treatment	176,046	25.11%	74.89%	44,203	131,843
3	OBRA Residential	1,699,592	67.67%	32.33%	1,150,049	549,543
4	Residential Direct Care Wage Increase #1 - 100% MOE	-	0.00%	0.00%	-	-
5	Residential Direct Care Wage Increase #2 - 100% MOE	350,192	73.05%	26.95%	255,816	94,376
6	Total	$2,225,830			$1,450,068	$775,762

Schedule F

Contract Reconciliation and Cash Settlement Summary

October 1, 2001 through September 30, 2002

II.	Specialized Managed Care	MDCH	MDCH
	(Includes both state and federal share)	Revenue	Expense
A.	Total - Specialized Managed Care	$23,197,795	$22,102,034
B.	Maintenance of Effort – Summary	1,450,068	1,450,068
C.	Net Specialized Managed Care (A-B)	$21,747,727	$20,651,966

III.	State/General Fund Formula Funding		MDCH
A.	GF/Formula – State and Community Managed Programs	Authorization	Expense
1	State Managed Services	$102,830	$39,130
2	MDCH Risk Authorization - MDCH Approved for Use	-	-
3	Community Managed Services	5,963,755	5,689,087
4	Total State and Community Programs - GF/Formula Funding	$6,066,585	$5,728,217
B.	Maintenance of Effort – Summary	$775,762	$775,762
C.	Categorical, Special And Designated Funds		
1	Respite Grant (Tobacco Tax)	$40,000	$40,000
2	Multicultural Services	-	-
3	Permanency Planning Grant	-	-
4	Total Categorical, Special and Designated Funds	$40,000	$40,000
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$5,250,823	$4,912,455

Schedule F

Contract Reconciliation and Cash Settlement Summary

October 1, 2001 through September 30, 2002

		Specialized Managed Care	Formula Funds
IV.	Shared Risk Arrangement		
A.	Operating Budget - Exclude MOE and Categorical Funding	$21,747,727	$5,250,823
B.	MDCH Share - Exclude MOE and Categorical Funding	20,651,966	4,912,455
C.	Surplus (Deficit)	$1,095,761	$338,368
D.	Redirect Freed Up General Funds		-
E.	Shared Risk – Surplus (Deficit)	$1,095,761	$338,368
F.	Risk Band - 5% of Operating Budget (A x 5%)	$1,087,386	$262,541

Schedule F

Contract Reconciliation and Cash Settlement Summary

October 1, 2001 through September 30, 2002

		MDCH Share	GF Carry Forward	Medicaid Savings	Total	Grand Total
V.	Cash Settlement					
A.	MDCH Obligation					
1	Specialty Managed Care (Net of MOE)	$20,651,966	$ -	$1,087,386	$21,739,352	
2	GF/Formula Funding (Net of Categorical and MOE)	4,912,455	262,541	-	5,174,996	
3	MOE Specialty Managed Care MDCH Obligation	1,450,068	-	-	1,450,068	
4	MOE GF/Formula Funding MDCH Obligation	775,762	-	-	775,762	
5	Categorical - MDCH Obligation	40,000	-	-	40,000	
6	Total - MDCH Obligation					$29,180,178
B.	Advances – Prepayments					
1	Specialized Managed Care - Prepayments Through 9/30/02			$23,197,795		
2	Specialized Managed Care - FY 99 Prepayments after 9/30/02			-		
3	Subtotal - Specialized Managed Care				$23,197,795	
4	GF/Formula Funding - (Include MDCH Risk Authorization)				5,923,755	
5	Purchase of Services				102,830	
6	Categorical Funding				40,000	
7	Total Prepayments					$29,264,380

Schedule F

Contract Reconciliation and Cash Settlement Summary

October 1, 2001 through September 30, 2002

		MDCH Share	GF Carry Forward	Medicaid Savings	Total	Grand Total
C.	Balance Due MDCH					$84,202
D.	Balance Due to MDCH for Unpaid State Service Costs					
	State Facility Costs				$39,130	
	Actual Payments to MDCH				39,216	
	Balance Due MDCH					$(86)
E.	Net Balance Due MDCH					$84,116
	Prior Settlement					(18,634)
	Overpayment of Grant:					
	Path Homeless					$23,652
	(Finding 8a)					
	Balance Due to MDCH					$89,134

CORRECTIVE ACTION PLAN

Finding No. 1

Reference: Page 4

Finding: **Internal Control Weaknesses**

LifeWays did not have adequate internal control procedures in place to safeguard its assets and ensure accurate financial reporting in compliance with the MSSSC and OMB Circular A-87 requirements.

Recommendation: Adopt policies and procedures to strengthen its internal control by ensuring that costs reported on the FSR are supported by the general ledger, implementing segregation of duties, pre-numbering payroll checks, maintaining control over supporting documentation, maintaining an asset list and performing periodic inventories, and getting proper expense approvals in compliance with the contract and OMB Circular A-87 requirements.

LifeWays Comments: We do not disagree with the finding.

Corrective Action: We are currently on a path of continuous improvement with respect to internal controls, contract compliance and adherence to A-87 requirements. The most recent compliance examination (FYE 9/30/09) showed further opportunities for improvement (much of which is rooted in the management of encounter data) that LifeWays has taken quite seriously and expects to demonstrate as such with significant progress for the FYE 9/30/10 compliance examination.

Anticipated Completion Date: Completed. With this being such a broad finding this is a process of continuous improvement. We expect there will be ongoing progress over the long term. We also expect that with the performance of the fiscal 2010 audit and compliance examination (and the issuance of those reports between February and April 2011) there will not be additional citations for any material weaknesses, and the nature and extent of any other findings/comments will be discernibly fewer than the prior year.

MDCH Response: MDCH recognizes the need for continuous evaluation and enhancement of internal controls over the long term; however, MDCH encourages LifeWays to implement policies and procedures in the short term to strengthen internal controls to correct the items specifically noted in the audit report.

CORRECTIVE ACTION PLAN

Finding No. 2

Reference: Page 6

Finding: **Contract Monitoring Weaknesses**

LifeWays did not apply proper procedures and policies to monitor subcontractors for compliance with contract and Federal regulation requirements.

Recommendation: Adopt policies and procedures to monitor subcontracts in regard to collection procedures, physician and hospital contracts' per diem payments, and the self determination program to ensure compliance with the contract and Code of Federal Regulation requirements.

LifeWays Comments: We do not disagree with the finding.

Corrective Action: Between 2002 and the present, processes have been implemented to monitor sub-contracts, including the FIs, to ensure compliance with the contract and the Code of Federal Regulation requirements. LifeWays also requires doctors to sign affidavits regarding travel time and reimbursements are paid only when physicians travel to the Hillsdale office, or more than 30 miles.

Anticipated Completion Date: Completed. Improvement will continue, as this is an ongoing process that is monitored through LifeWays' Quality Improvement and Network Performance Teams.

MDCH Response: None

CORRECTIVE ACTION PLAN

Finding No.	3
Reference:	Page 9
Finding:	**Resident Fund Accounting Weaknesses** LifeWays did not implement and monitor effective accounting policies to properly account for resident funds at the residential providers under contract in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services (Licensing Rules).
Recommendation:	Implement policies and procedures to ensure that the homes maintain individual resident ledgers (current Resident Fund Reports) for Cash on Hand, the individual ledgers are reconciled monthly to the Cash on Hand, the residents or an authorized person sign for all withdrawals, and any savings accounted for in the name of a resident are deposited in a financial institution.
LifeWays Comments:	We do not disagree with the finding.
Corrective Action:	LifeWays reviews the importance of correctly completing consumer fund records at its monthly Provider Network meetings, and will continue to look for completeness of records during annual reviews.
Anticipated Completion Date:	Completed. There will be continued improvement, as this is an ongoing process that is monitored through Quality Improvement and Network Performance teams.
MDCH Response:	None

CORRECTIVE ACTION PLAN

Finding No. 4

Reference: Page 11

Finding: **Inappropriate Allocation of Expenses**

LifeWays did not properly allocate various expenses and adequately document the method used to allocate the costs between various programs in compliance with the MSSSC and OMB Circular A-87 requirements.

Recommendation: Implement policies and procedures to ensure that methods used in allocating various expenses are in compliance with the contract and OMB Circular A-87 requirements. Also, retain documentation supporting the methods of allocating various expenses in compliance with the contract requirements.

LifeWays Comments: We do not disagree with the finding.

Corrective Action: Between 2000 and the present date, LifeWays has progressed along a path of continuous improvement with respect to internal controls, contract compliance, and adherence to A-87 requirements.

Anticipated Completion Date: Completed. Improvement will continue, as this is an ongoing process. We do expect, however, that with the performance of the fiscal 2010 audit and compliance examination (and the issuance of those reports between February and April 2011) that we will not be cited for any material weaknesses and the nature and extent of any other findings/comments will be discernibly less than the prior year.

MDCH Response: None

CORRECTIVE ACTION PLAN

Finding No. 5

Reference: Page 12

Finding: **Reported Costs Not Supported by the General Ledger or Other Documentation**

LifeWays reported costs on the FSR that did not agree with the general ledger and lacked supporting documentation in violation of the Mental Health Code, MSSSC and OMB Circular A-87 requirements.

Recommendation: Implement policies and procedures to ensure that the amount reported on the FSR is supported by the General Ledger and that all costs are documented and supported as required by the Mental Health Code, contract and OMB Circular A-87 requirements.

LifeWays Comments: We do not disagree with the finding.

Corrective Action: Through the use of technology, processes have been implemented that will ensure all information contained in the general ledger is transferred and reconciled to the FSR.

Anticipated Completion Date: Completed. The Corrective Action that was taken following this audit has resulted in this not being a finding in subsequent audits.

MDCH Response: Lifeways' response indicates that corrective action has been completed and that this has not been a finding in subsequent audits. However, the two most recent Compliance Examinations (2008 and 2009) do in fact include significant findings related to the misclassification of costs on the FSR. According to Lifeways' response to the 2009 Compliance Examination, internal control measures continue to be developed with the balance of the processes to be completed by December 2010.

MDCH will look to the 2010 Compliance Examination for compliance and resolution of this issue.

CORRECTIVE ACTION PLAN

Finding No. 6

Reference: Page 15

Finding: **Improper Reporting of Assets No Longer in Service**

LifeWays did not properly record and report the write-off of software and computers no longer in service in violation of the MSSSC and OMB Circular A-87 requirements.

Recommendation: Implement policies and procedures to ensure that all financial transactions are recorded and reported in compliance with the contract and OMB Circular A-87 requirements. Also, implement policies and procedures to develop an inventory system that properly accounts for the net book values, dates of purchase, yearly depreciation, accumulated depreciation, and disposal dates for all its assets in compliance with the contract and OMB Circular A-87 requirements.

LifeWays Comments: We do not disagree with this finding.

Corrective Action: For many years since MDCH's audit, we have maintained detailed capital asset records through a module in our accounting software system. This detail includes all of the items cited in MDCH's recommendation (and more). These detailed records are updated on an annual basis as part of the year-end closing and audit process. This update procedure includes a review of listed assets by finance department personnel to consider if there are any capital assets that should be removed, written off or otherwise adjusted.

Anticipated Completion Date: Completed

MDCH Response: None

CORRECTIVE ACTION PLAN

Finding No. 7

Reference: Page 16

Finding: **Expenditures Claimed in Wrong Year**

LifeWays did not comply with the accrual basis of accounting for expenses reported on the FSR in violation of the MSSSC requirements.

Recommendation: Implement policies and procedures to ensure that all financial transactions are recorded based on the accrual basis of accounting in compliance with contract requirements.

LifeWays Comments: We do not disagree with this finding.

Corrective Action: Processes have been implemented to ensure that all financial transactions are recorded based on the accrual basis of accounting.

Anticipated Completion Date: Completed. The Corrective Action that was taken following this audit has resulted in this not being a finding in subsequent audits.

MDCH Response: None

CORRECTIVE ACTION PLAN

Finding No. 8

Reference: Page 19

Finding: **Over Reported Grants and Children's Waiver Program Expenditures**

LifeWays over reported expenditures for the Path Homeless Grant, Home Life Grant, and Children's Waiver program in violation of the Mental Health Code, MSSSC and OMB Circular A-87 requirements.

Recommendation: Implement policies and procedures to properly account for expenditures and revenues pertaining to grants and Children's Waiver costs, and make timely settlements with the grantor in compliance with the Mental Health Code, contract and OMB Circular A-87 requirements.

LifeWays Comments: This finding has three components. As described below, we do not disagree with item (b); however, we disagree with items (a) and (c), and believe MDCH erred in citing these as findings.

Corrective Action: For both items (a) and (c), allowable program costs were recorded in multiple locations in LifeWays' general ledger. This fact is acknowledged in the MDCH auditor workpapers. More importantly, though, is that both the revenues and expenditures were properly reported in the FSR as separate programs excluded from matchable service costs. Thus, for example, for item (a), $28,601 of expense which correlated with the federal revenue was recorded in a separate activity (and was readily identifiable) whereas the balance of $23,652 was part of another account balance that correlated to the state revenue. The sum of the federal and state revenues/expenses ($52,253) was appropriately excluded from matchable service costs. In other words, the costs were allowable under the particular programs and there was no "double dip" in claiming the costs both under the specific programs and as matchable services.

If they were upheld to be disallowed costs under the specific programs (which is not the appropriate treatment in our opinion and that of our independent auditors), then they would have to be included as matchable service costs (which the MDCH audit did not consider). Since this could then have been covered by risk corridor monies, we would end up back at essentially the same "net" place.

Finally, with respect to item 8(b), our notes on this matter indicate that the amount at question ($32,525) was paid to MDCH as late as March 2005 but, with the age of applicable records, we have not been able to locate a payment in this amount to MDCH or the Home Life Program. At this point, we suspect that this amount was paid and was included but not specifically noted as part of a larger remittance for a combination of obligations, and we cannot readily discern this without an inordinate level of effort. This, along with the fact that management and finance personnel that would have had direct knowledge of this payment have long since departed LifeWays, means that we are unable to adequately defend our position with respect to item 8(b).

Anticipated Completion Date: Completed. See above.

MDCH Response: MDCH agrees to add the amounts disallowed for the Path Homeless Grant ($23,652) and Children's Waiver Program ($55,451) to Matchable Services, but the amount disallowed for the Home Life Grant ($32,525) will remain as an adjustment due to the lack of supporting documentation.

CORRECTIVE ACTION PLAN

Finding No. 9

Reference: Page 21

Finding: **Double Reported Property Expenses and Related Revenue Misclassified as Local**

LifeWays double reported expenditures related to leased property and misreported related lease payments from providers as local revenue in violation of the MSSSC and OMB Circular A-87 requirements.

Recommendation: Implement policies and procedures to identify and report property costs and lease rental revenues appropriately, and ensure that expenditures and revenue are reported properly on the FSR in compliance with the contract and OMB Circular A-87 requirements.

LifeWays Comments: We do not disagree with the finding. We would, however, ask for latitude in the final resolution of this matter. That is, based on our analysis of the FSR impact of this finding (which assumes our responses to the other findings, or at least the most significant of those in terms of dollar values, will be sufficient to resolve those matters), there would be a total of $284,051 of lapsed GF monies for the two years – i.e., $284,051 of unspent GF monies in excess of the risk corridor limits. There would also be another $17,777 of unspent Medicaid that could be contributed to the ISF (within the ISF limits). Naturally, if the result of finding #16 was unfavorable to LifeWays, then there would be lots of room under the ISF for both these amounts. (MDCH note: finding #16 was removed)

The latitude we are requesting is that since the $284,051 pertains to GF monies (and therefore not subject to federal scrutiny in the resolution process) that DCH not require repayment of these non-federal monies. As you know, LifeWays has experienced significant losses in the last two most fiscal years (in large part because of absorbing excess costs for the prisoner reentry program) and being given the latitude not to repay these monies from local fund balance would help stabilize our financial condition. Accordingly, we respectfully make this request.

Corrective Action: The corrective action that was taken following this audit has resulted in this not being a finding in subsequent audits.

Anticipated Completion Date: Not applicable (correction completed a number of years ago).

MDCH Response: LifeWays did not disagree with this finding and gave no valid justification for its removal. Accordingly, the finding remains.

CORRECTIVE ACTION PLAN

Finding No.	10
Reference:	Page 24
Finding:	**Unallowable Investment and Contribution**
	LifeWays reported a contribution and an investment as expenditures on the FSR in violation of OMB Circular A-87 and the Mental Health Code.
Recommendation:	Implement policies and procedures that identify unallowable expenses recorded on the general ledger and ensure that those costs are not included as matchable costs in compliance with OMB Circular A-87 and the Mental Health Code. Also, create a policy that will not permit any unallowable contribution expenses.
LifeWays Comments:	Most, if not all, of the transactions cited in this finding have been mischaracterized; accordingly, we disagree with the finding.
Corrective Action:	At the time of these transactions, MDCH encouraged, and LifeWays (and its' then CEO, Dr. Thompson) was a pioneer in and champion of, innovative community mental health programming. One of those *pilot* programs stemmed from the perception of a need for a mechanism through which the aging parents of a consumer could place money in trust with the confidence and comfort that their children/consumers would be properly cared for after the parents' death or incapacity. The idea was supported by MDCH at the time as a good one that met both the spirit and letter of the community mental health standards as allowable and appropriate.
	The next step, with the vision that this could grow to involve tens of millions of dollars, was to take the idea from the *drawing board* and begin implementation. In this case, since the LifeWays executives

were novices at best with the intricacies of trusts, it was determined that outside assistance was necessary. To this end, LifeWays engaged Kings Trust to provide training and technical assistance on the creation and maintenance of legal trusts for the long-term benefit of consumers. Subsequently, in light of the ten years retrospect, the $5,000 paid to Kings Trust was not for fund raising, either. It was actually put in a trust fund and, as disclosed every year in our audit report, is intact at Kings Trust with a balance of $7,238 as of 9/30/09. The purpose of the trust was/is to generate perpetual earnings from which to fund consumer education expenses (which has the obvious objective of encouraging and facilitating consumer self-sufficiency). We are currently working with Kings Trust to have those monies applied for allowable community mental health purposes. In doing so, we ask that MDCH accepts this as a valid expense and waive the disallowance (inasmuch as it clearly was not a fund raising expense and the monies were in essence deferred/invested and then eventually expended).

Finally, the $10,000 payment to Spring Arbor College was not a contribution, *per se*. It was actually a combination or cross between a membership and a sponsorship (which we could see being interpreted, in substance, as a contribution). As compared to the other payments in this finding, there is not as strong or compelling a reason as to why this should be allowable. The logic behind this item was to further the growing relationship with Spring Arbor College (including the services with Kings Trust, which has ties to the College through the Free Methodist church) for the ultimate benefit of the community mental health consumers, but there is not a direct cost/benefit relationship as with the other items. Accordingly, we do not disagree that this payment be disallowed.

Anticipated Completion Date: Completed. See above.

MDCH Response: LifeWays established the Kings Trust Fund to aid families of consumers in setting up trust funds and beginning the process of setting money aside for their children. The initial $5,000 was an investment and has, according to LifeWays, generated earnings of $2,238 through 9/30/2009. Since the funds have not yet been used for community mental health program services, they do not represent a real or actual expenditure and are unallowable under Section 242 of the Mental Health Code. The $5,000 clearly represents a capital investment and the subsequent use of the fund is not relevant. Accordingly, the finding remains.

LifeWays is in agreement with the finding with respect to the $10,000 to Spring Arbor College. Therefore, the finding remains.

CORRECTIVE ACTION PLAN

Finding No.	11
Reference:	Page 25
Finding:	**Unallowable Country Club Expenses** LifeWays reported country club expenses on the FSR in violation of OMB Circular A-87.
Recommendation:	Implement policies and procedures that identify unallowable expenses recorded on the general ledger and ensure that those costs are not included as matchable costs in compliance with OMB Circular A-87.
LifeWays Comments:	We do not disagree with this finding.
Corrective Action:	Policies and procedures have been implemented to ensure that all expenditures are in compliance with OMB Circular A-87.
Anticipated Completion Date:	Completed
MDCH Response:	None

CORRECTIVE ACTION PLAN

Finding No. 12

Reference: Page 27

Finding: **Undocumented Self-Determination Costs**

LifeWays reported self-determination expenditures that had no support in violation of the MSSSC and OMB Circular A-87 requirements.

Recommendation: Implement policies and procedures to monitor the contract with the Financial Intermediary and ensure that all terms of the contract are met including the documentation of all expenditures in compliance with the MDCH contract and OMB Circular A-87 requirements.

LifeWays Comments: We do not agree with this finding.

Corrective Action: Self Determination practice guidelines were first included in the 2003 contract; this was not a contractual requirement at the time of the audit and is therefore not relevant for the audit period.

Anticipated Completion Date: Completed

MDCH Response: The contract between LifeWays and Community Residential Corp was signed on 9/4/2001. Also, a contract between LifeWays and Community Residential Corp, requiring Community Residential Corp "*To make all books and records available to LifeWays and/or the Participant(s) as requested or necessary for the completion of compliance audits*" was signed on 2/24/2000. Accordingly, the contracts were in effect at the time of the audit and the finding remains.