

# Audit Report

Newaygo County Mental Health Center

October 1, 2005 – September 30, 2006



Office of Audit  
March 2011



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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March 7, 2011

Adele Hansen, Chair  
Newaygo County Mental Health Center Board of Directors  
1049 Newell Street  
White Cloud, Michigan 49349

Greg Snyder, Executive Director  
Newaygo County Mental Health Center  
1049 Newell Street  
White Cloud, Michigan 49349

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

Dear Ms. Hansen, Mr. Snyder and Ms. Dazzo:

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

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; and corrective action plan. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis.

If the agency disagrees with the MDCH audit findings, the agency must use the appeal process specified in the agency's contract with MDCH and 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 finding(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.

Ms. Hansen, Mr. Snyder and Ms. Dazzo  
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If the agency does not appeal this audit report 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 any audit adjustments.

A request for the Medicaid Provider Reviews and Hearings Process must be sent within 30 days of receipt of this letter to:

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

Thank you for the cooperation extended throughout this audit process.

Sincerely,



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

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## **DESCRIPTION OF AGENCY**

The Newaygo County Community Mental Health Board was established in 1972. In 1999, the Newaygo County Community Mental Health Board became the Newaygo County Community Mental Health Authority (Newaygo CCMHA). Newaygo CCMHA operates under the provisions of the Mental Health Code, Sections 330.1001-330.2106 of the Michigan Compiled Laws. Newaygo CCMHA is subject to oversight by the Michigan Department of Community Health (MDCH).

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

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

## **FUNDING METHODOLOGY**

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

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

Newaygo CCMHA received their Medicaid dollars through the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (CEI). CEI contracted with MDCH for Medicaid funding under a Medicaid Managed Specialty Supports and Services Contract (MMSSSC). MDCH provided both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology to CEI. CEI then passed the Medicaid funds on to Newaygo CCMHA based on their individual PEPM determination under the terms of the Medicaid Subcontracting Agreement (MSA). Under the MSA, Newaygo CCMHA is subject to the terms and conditions of the MMSSSC, Mental Health Code, and applicable state and federal laws. Newaygo CCMHA received approximately \$5.8 million of Medicaid funding from CEI in FYE 2006. Newaygo CCMHA reported their Medicaid expenditures related to the MSA to CEI, and a settlement occurred between Newaygo CCMHA and CEI. Newaygo CCMHA also reported their Medicaid expenditures related to the MSA as an Earned Contract on their FSR with MDCH for information purposes only as no settlement occurred between Newaygo CCMHA and MDCH relating to the Medicaid funds.

## **PURPOSE AND OBJECTIVES**

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

CEI's shares of cost in accordance with applicable requirements and agreements as a result of any financial adjustments related to this limited review. Following are the specific objectives of this review:

### **Objectives**

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

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

#### **2. FINANCIAL REPORTING**

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

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

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

## **SCOPE AND METHODOLOGY**

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

compliance with the MSA, MMHSSC, and the MMSSSC reporting requirements and applicable accounting standards.

## **CONCLUSIONS, FINDINGS AND RECOMMENDATIONS**

### **CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE**

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

**Conclusion:** Newaygo CCMHA was generally effective and efficient in establishing and implementing the select policies and procedures in compliance with the MSA, MMHSSC, and the MMSSSC requirements and best practice guidelines. However, we noted an exception regarding capitalizing and depreciating capital assets which is addressed under the Financial Reporting Objective (finding #1).

### **FINANCIAL REPORTING**

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

**Conclusion:** Newaygo CCMHA was generally effective and efficient in reporting the select revenues and expenditures in accordance with the MSA, MMHSSC, and MMSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards. However, we found an exception relating to capital asset reporting (finding #1).

## **Finding**

### **1. Failure to Capitalize Vehicle Purchases and Report Depreciation on FSR**

Newaygo CCMHA did not capitalize vehicle purchases, and reported vehicle loan payments as expenditures on the FSR instead of allowable depreciation cost as required by contract provisions and Office of Management and Budget (OMB) Circular A-87.

Newaygo CCMHA financed the purchase of two vehicles. At the time of purchase, Newaygo CCMHA did not record a liability for the loan used to purchase the assets and also did not capitalize the assets purchased. As payments were made on the loans, Newaygo CCMHA recorded the loan payments as an expense in the trial balance and reported the expense on the FSR.

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

OMB Circular A-87 (located at 2 CFR Part 225), Appendix B states the following with respect to allowable costs for motor vehicles:

*15. a. (1) “Capital Expenditures” means expenditures for the acquisition cost of capital assets (equipment, buildings, land)...*

*15. a. (2) “Equipment” means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000.*

*15. a. (4) “General purpose equipment” means equipment, which is not limited to research, medical, scientific or other technical activities. Examples include...motor vehicles.*

*15. b. (1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.*

*15. b. (5) Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of this appendix, Depreciation and use allowance, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment.*

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

The financial impact to the FSR is immaterial because allowable depreciation costs approximately offset the amount of the loan payments. Accordingly, no financial adjustment is recommended.

### **Recommendation**

We recommend that Newaygo CCMHA implement policies and procedures to ensure capital expenditures are properly capitalized and the appropriate amount of depreciation expense is reported on the FSR as required by contract provisions and OMB Circular A-87.

## **MDCH'S AND PIHP'S SHARE OF COSTS AND BALANCE DUE**

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

**Conclusion:** For FYE 2006, MDCH's obligation (excluding the MIChild capitated funds, ABW funds, MDCH Earned Contracts, and Children's Waiver funds) is \$1,218,384. No funds are due to or from Newaygo CCMHA for FYE 2006 as a result of this limited review. Additionally, Newaygo CCMHA properly reported their Medicaid expenditures to CEI.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 5

**Finding:** **Failure to Capitalize Vehicle Purchases and Report Depreciation on FSR**

Newaygo CCMHA did not capitalize vehicle purchases, and reported vehicle loan payments as expenditures on the FSR instead of allowable depreciation cost as required by contract provisions and Office of Management and Budget (OMB) Circular A-87.

**Recommendation:** Implement policies and procedures to ensure capital expenditures are properly capitalized and the appropriate amount of depreciation expense is reported on the FSR as required by contract provisions and OMB Circular A-87.

**CMHSP Comments:** We do not disagree with this finding. It is the policy of Newaygo CCMHA to capitalize and depreciate purchases in excess of \$5,000 in accordance with Circular A-87. Failure to do so in this instance was an oversight, as it was the first time Newaygo CMH had borrowed funds for the purchase of vehicles.

**Corrective Action:** Follow Board policy and procedure in the future.

**Anticipated Completion Date:** Completed.

**MDCH Response:** None.