Audit Report

Van Buren Community Mental Health Authority

October 1, 2001 – September 30, 2002

Office of Audit
Grand Rapids Regional Office
February 2007

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT – GRAND RAPIDS REGIONAL OFFICE
350 OTTAWA AVENUE, N.W.; GRAND RAPIDS, MI 49503-2343

JANET OLSZEWSKI
DIRECTOR

February 21, 2007

Mr. Chuck Randall, Board Chair
Van Buren Community Mental Health Authority
801 Hazen Street, Suite C – PO Box 249
Paw Paw, MI 49079

CERTIFIED MAIL
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and

Mr. John Clement, Chief Executive Officer
Van Buren Community Mental Health Authority
801 Hazen Street, Suite C – PO Box 249
Paw Paw, MI 49079

and

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, MI 48913

Dear Mr. Randall, Mr. Clement & Ms. Olszewski:

Enclosed is our report on the audit of Van Buren Community Mental Health Authority, an agency under contract with the Department of Community Health.

Sincerely,

Mr. Gerald C. Szczepaniuk, Regional Manager
Department of Community Health
Office of Audit - Grand Rapids Regional Office

Enclosure

cc:	Dave McLaury	Irene Kazieczko	Mark Kielhorn
	Nick Lyon	John Duvendeck	Jim Hennessey
	Patrick Barrie	Teresa Simon	Richard Stafford

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DESCRIPTION OF AGENCY

The Van Buren Community Mental Health Program (VBCMHP) was established in 1963 as an agency of the Van Buren County Government (County). VBCMHP became a community mental health authority in 1999 under the provisions of the Mental Health Code, Section 330.1205 of the Michigan Compiled Laws. The Van Buren Community Mental Health Authority (VBCMHA) operates under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws and is subject to oversight by the Michigan Department of Community Health (MDCH).

VBCMHA provides outpatient, partial day, residential care, case management, prevention and Omnibus Budget Reconciliation Act (OBRA) services to consumers within Van Buren County.The VBCMHA administrative office is located in the city of Paw Paw. The VBCMHA board is comprised of 12 members who reside in Van Buren County and are appointed for three-year terms.

VBCMHA was an affiliate member of Venture Behavioral Health (Venture) along with the following four other community mental health organizations: Barry County Community Mental Health Services Board, Berrien Mental Health Authority (doing business as Riverwood Center), Branch County Mental Health Services Board (doing business as Pines Behavioral Health Services), and the Community Mental Health Authority of Calhoun County (doing business as Summit Pointe). Venture was created pursuant to Public Act No. 8 of the Public Acts of 1967 for the purpose of contractually joining together the entities to transfer certain functions and responsibilities among and between each other. Pursuant to this contractual agreement the member boards transferred certain functions and responsibilities to Summit Point, which is also referred to as the "Host Board." Employees of Summit Pointe performed the responsibilities under this agreement and those functions were conducted under the operational name of Venture Behavioral Health. An administrative board consisting of the chairperson of each member board and the chief executive officer of each member board was established to supervise the execution of the agreement. Services provided by Venture included Managed Care Administration; Financial, Information and Utilization Management; Performance Improvement; and Member Services.

FUNDING METHODOLOGY

On October 1, 2001 VBCMHA contracted with MDCH under a Managed Specialty Supports and Services Contract (MSSSC). For the twelve-month period ended September 30, 2002, VBCMHA reported expenditures of $13.3 million. MDCH provided VBCMHA with both the State and Federal share of Medicaid funds as a capitated payment based on a Per Eligible Per Month (PEPM) methodology. The specific rates paid on the PEPM methodology are listed in an attachment to the contract. As a result of policy changes at MDCH subsequent to the audit period, Medicaid funds now flow through Venture or Summit Pointe. 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. The special and/or designated funds were provided under special contractual arrangements between VBCMHA and MDCH. The funding methodologies for these arrangements are specified in each agreement. 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 this review was to determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to assess the agency's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. Following are the objectives:

1. To assess VBCMHA's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.

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

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

SCOPE AND METHODOLOGY

We examined VBCMHA's records and activities for the period October 1, 2001 through September 30, 2002 and performed limited testing for the previous fiscal year. We completed an internal control questionnaire with the VBCMHA finance officer. The purpose was to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. Discussions were held throughout the audit with VBCMHA's finance officer and other VBCMHA management personnel. Discussions were also held with representatives of Venture. A review of VBCMHA's policies and procedures was performed. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status reports (FSRs) in compliance with the MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from May 2003 through August 2003.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess VBCMHA's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.

Conclusion: VBCMHA was generally effective and efficient in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. However, our assessment disclosed exceptions with respect to payments and financial reporting (Findings 1 - 6). All exceptions are addressed in detail under Financial Reporting (Objective 2).

FINANCIAL REPORTING

Objective 2: To assess VBCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: VBCMHA did not accurately report its financial activity to MDCH on the FYE 9/30/2002 Financial Status Report (FSR). We found exceptions in the following areas: failure to follow the payment policy for their own services contracts (Findings 1-3) that resulted in the improper reporting of consumer operated drop-in center expenses (Finding 1), improper reporting of non-plan support expenses (Finding 2), and improper reporting of payments in excess of the maximum contract expenditures (Findings 3); duplicate reporting of Venture year-end cost-settled expenditures (Finding 4); non-allowable cost for fixed assets acquired by Venture and included in the year-end cost-settled expenditures (Finding 5); and computer software that was never installed by the software vendor and the related monthly usage charges included in the Venture year-end cost-settled expenditures (Finding 6).

Finding 1. Improper Reporting of Consumer Operated Drop-In Center Expenditures

VBCMHA did not properly reimburse their consumer operated drop-in center resulting in expenditures related to the drop-in center being overstated on the FSR in violation of the MSSSC and Office of Management and Budget (OMB) Circular A-87.

VBCMHA had not implemented effective oversight procedures to detect and prevent it from making duplicate payments to the drop-in center. VBCMHA reimburses the drop-in center based on a monthly expenditure report. The monthly expenditure report is a copy of the drop-in center's checkbook, which, in one case, included checks that had been included in the previous month's payment. Additionally, we found where VBCMHA reported and claimed more than twelve months' expenses on the current fiscal year's FSR.

Also, VBCMHA provided the drop-in center with an advance for expenses. However, the advance was not taken into account when reimbursing the drop-in center, and *all* expenditures were reimbursed based upon the monthly expenditure report. While this did not result in inaccurate reporting of expenditures on the FSR, VBCMHA had overpaid the drop in center and should take appropriate measures to recover the overpayment.

The MSSSC, Attachment 8.9.1, Section 1.3, states, in pertinent part, "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 period." Additionally, the MSSSC, Section 8.6, requires compliance with OMB Circular A-87. OMB Circular A-87, Attachment A, Section C. 1., states, in pertinent part, "…To be allowable under Federal awards, costs must meet the following criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards…j. Be adequately documented."

Audit adjustments removing $7,154 from allowable Medicaid expenditures are shown on Schedules A and B.

Recommendation

We recommend VBCMHA adopt policies and procedures to ensure proper payments are made for the drop-in center, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Finding 2. Improper Reporting of Expenditures for Non-Plan Supports

VBCMHA improperly reported non-covered Medicaid supports expenditures in violation of the MSSSC and OMB Circular A-87. In addition, VBCMHA did not initiate collection efforts to recover these expenditures, which required repayment.

VBCMHA Case Managers approved advance payments to the parents/guardians of enrolled children for car repairs for transporting the enrolled child and payment of back rent. Neither type of expenditure qualifies as a covered service pursuant to the contractual requirements. While certain alternative services may be covered if included and incorporated in an individual's person centered plan of care, the services provided must be medically necessary and appropriate, and they must conform to professionally accepted standards of care. In both instances, the agreement between VBCMHA and the parent/guardian was to repay all or part of the advance, as these were not supports that were included in the individuals' person-centered plans and were not to be paid by VBCMHA. There also was no evidence to demonstrate that such expenditures represented payment for medically necessary services that conform to any professionally accepted standard of care.

In addition, during the fiscal year, VBCMHA did not recover any of the advances made for the car repairs and only received partial repayment for the rent. The outstanding balances were inappropriately charged to Expenditures Not Otherwise Reported and Medicaid Services on VBCMHA's FSR.

The MSSSC, Attachment 8.9.1, Section 2.4.3 Row Instructions, Row K: Specialty Managed Care Services, states, "Row K is the sum of all specialty managed care expenditures. 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." (emphasis added) The MSSSC, Section 4.4, states, in pertinent part, "…for consumers to be supported and/or served under the mental health component, the following apply to the CMHSP: 1. All supports and services described in the MDCH Medical Services Policy for CMHSP's, or an acceptable alternative, **shall be provided when included in an individual's person-centered plan**." (emphasis added) Additionally, OMB Circular A-87, Attachment A, Section C. 1., states, in pertinent part, "…To be allowable under Federal awards, costs must meet the following criteria: d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items." Therefore, only plan services provided that are included in an individual's person-centered plan may be reported as matchable Specialty Managed Care Services.

Audit adjustments removing $915 from allowable Medicaid expenditures are shown on Schedules A and B.

Recommendation

We recommend VBCMHA adopt policies and procedures to ensure compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

We also recommend VBCMHA initiate appropriate steps to recover the outstanding amounts owed to it by the parents/guardians.

Finding 3. Improper Reporting of Payments in Excess of Maximum Contract Total

VBCMHA paid for contracted professional services in excess of the maximum amount stated in the contract and reported them on the FSR in violation of the MSSSC and OMB Circular A-87.

Venture invoiced VBCMHA for the services of an independent contractor. The total of the invoices billed by Venture to VBCMHA exceeded the contract maximum resulting in the overpayment. The contract is for financial consulting services performed at the offices of Van Buren CMH, or on behalf of the members of Venture. Section VI, subsection B of the contract states, "Summit Pointe shall then be reimbursed by the CMHSP of Van Buren County for its portion of actual incurred independent contractor. Total payments by the CMHSP of Van Buren County for contractual services shall not exceed **FOUR THOUSAND and TWELVE DOLLARS ($4,012)** (emphasis included in original contract language) for the term of this Agreement." The total payments made for these services exceed the contract maximum.

OMB Circular A-87, Attachment A, Section C., states, in pertinent part, "1. …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…2. Reasonable cost. 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…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. b. The restraints or requirements imposed by such factors as: sound business practices…d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government. e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federals award's cost." The payment for contractual services in excess of contractual limits represents costs that are unnecessary and unreasonable for the proper and efficient performance and administration of the Federal award. Therefore, the payments in excess of contractual limits are not allowable.

Audit adjustments removing $1,188 from allowable Medicaid expenditures are shown on Schedules A and B.

Recommendation

We recommend VBCMHA adopt policies and procedures to ensure payments for services do not exceed contractual maximums, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Finding 4. Duplicate Reporting of Affiliate Expenditures

VBCMHA incorrectly included duplicate charges for Provider Networking services for Venture affiliates in the FSRs for FYE 9/30/2001 and 9/30/2002 in violation of the MSSSC and OMB Circular A-87.

VBCMHA performed the Provider Networking services for all of the Venture affiliates for the current and prior fiscal years. Under VBCMHA's agreement with Venture, VBCMHA would bill all Provider Networking related expenses to Venture on a monthly basis. Venture would in turn reimburse VBCMHA 83% of the billed expenses. The remaining 17%, VBCMHA's percentage of all Venture expenses, would be in the general ledger of VBCMHA. However, in the Venture year-end cost-settlement, 100% of the Provider Networking services were included as Venture costs and 17% was allocated to VBCMHA and paid by VBCMHA. As a result, the Provider Networking services allocable to VBCMHA (17%) were reported twice in VBCMHA's year-end FSR. Upon further analysis, it was determined that the duplicate expense was also present in the FSR for FYE 9/30/2001. In the FSRs for the fiscal years prior to 9/30/2001, it was determined that there was no duplicate expense because the payment methodology had changed.

OMB Circular A-87, Attachment A, Section C., states, in pertinent part, "1. …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…j. Be adequately documented. 2. Reasonable cost. 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…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. b. The restraints or requirements imposed by such factors as: sound business practices…d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government. e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federals award's cost." The duplicate charge for Provider Networking services represents costs that are unnecessary and unreasonable for the proper and efficient performance and administration of the Federal award. Therefore, the duplicate charges are not allowable.

Discussions were held with two management representatives of Venture, both of whom are employed by the Calhoun County CMH (Summit Pointe), informing them of this overcharge to VBCMHA. The Venture representatives were informed that the overcharge was the sole responsibility of Summit Pointe because it had acted as the lead board of the Venture affiliation, and as such had received the funds in question. They were reminded that the refund to VBCMHA must not be included in any future FSR of Summit Pointe or in any year-end cost settlement of Venture. We were informed that the other Venture affiliated boards had been properly charged for their applicable percentage of expenses.

Audit adjustments removing $34,872 from allowable Medicaid expenditures are shown on Schedules A and B. In addition, a reduction of $17,212 from allowable expenditures is required for FYE 9/30/2001. A $17,212 disallowance of Medicaid costs in FYE 9/30/2001 would increase the Medicaid Savings by $17,212. Including the disallowance in the current year's cost settlement would also increase the Medicaid Savings by $17,212. Since the impact is the same, the prior year adjustment will be included in the calculation of allowable expenses for the current year.

Recommendation

We recommend VBCMHA adopt policies and procedures to ensure payments to Venture are limited to eligible costs that are the responsibility of VBCMHA, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding expenditure reporting.

Finding 5. Improper Reporting of Capital Asset Purchases

VBCMHA did not properly report Venture purchases of computer hardware, software and a new telephone system on the FYE 9/30/2002 FSR in compliance with the MSSSC and OMB Circular A-87.

Summit Pointe, acting as the lead board for the Venture affiliation, contracted for the installation of a new telephone system that was intended for the sole use of the Venture affiliates. Summit Pointe also purchased in excess of $450,000 in computer software and hardware for use in the Venture affiliation. The full cost of these purchases was allocated to the Venture affiliates in the year of purchase based upon the agreed upon allocation percentages.

Prior to FY 1998-1999, community mental services providers' (CMHSPs) contracts with MDCH allowed the full purchase prices of capital equipment asset purchases to be expensed in the year of purchase. CMHSPs believed this practice could continue when they signed the new contract in FY 1998-1999. However, the MSSSC clearly states that the "contractual agreement represents a departure from the contractual agreement between the MDCH and CMHSP that expired on September 30, 1998."

Section 8.6 of the MSSSC states, "The following documents shall guide program accounting procedures: ...3. OMB A-87 (current standards)." OMB Circular A-87, Attachment B, Section 15, states, "Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances." OMB Circular A-87, Attachment B, Section

19, Sub-section a. (2), states, " "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) $5,000." OMB Circular A-87, Attachment B, Section 19, Sub-sections b. and c. state: "…b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation on buildings, capital improvements, and equipment…c. Capital expenditures for equipment, including replacement equipment or other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency." Approval to charge capital expenditures as a direct cost was not granted by the awarding agency. Therefore, OMB Circular A-87 allows for the recovery of capital expenditure costs through use allowances or depreciation.

Additionally, Attachment 8.9.1 of the MSSSC, Section 1.3 – Financial Status Report, 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." The accrual basis of accounting requires capital asset purchases to be capitalized and depreciated over their useful lives.

Rather than using accrual accounting and reporting depreciation for the cost of fixed assets, Venture reported the full cost of equipment and fixtures in the year of acquisition in the FYE 9/30/2001 and FYE 9/30/2002 year-end cost-settlements, which were both included in the FYE 9/30/2002 FSR for VBCMHA. Audit adjustments decreasing allowable Medicaid expenditures by $83,022 for the capital purchases and increasing the allowable Medicaid expenditures by $24,624 for allowable depreciation are shown on Schedules A and B.

In addition, audit adjustments reflecting a total reduction of $405,342 for capital purchases and an additional $120,206 for allowable depreciation is required for the four remaining affiliates of Venture. We will pursue the necessary audit adjustments through the MDCH program office.

Recommendation

We recommend VBCMHA adopt policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with the MSSSC and OMB Circular A-87.

Finding 6. Unallowable Charges for Computer Software Never Installed

VBCMHA improperly reported costs related to computer software never installed in the FYE 9/30/2002 FSR in violation of the MSSSC and OMB Circular A-87.

At the time of the computer software purchase, Venture and Information Technology Partners, Inc. (ITP) representatives agreed that due to the extensive amount of software being installed and put into use, installation of two of the software programs would be delayed until the rest of the software was operating properly. However, due to a billing error at ITP, Venture was charged, and routinely paid, for the cost of the software and the related monthly usage charge. These costs were included in Venture's year-end cost settlements for FYE 9/30/2001 and 9/30/2002, which were both included in VBCMHA's FSR for FYE 9/30/2002.

OMB Circular A-87, Attachment A, Section C., states, in pertinent part, "1. …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…g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles...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." Charges for software and monthly usage for software that has not been installed are not costs that are "necessary and reasonable for proper and efficient performance and administration of Federal awards." Additionally, generally accepted accounting principles would not allow the allocation of fixed asset costs until the items are put in service. Further, the costs for software and a monthly usage charge for software not installed are not allocable to VBCMHA as no benefits were received. Additionally, the

MSSSC, Attachment 8.9.1, Section 1.3, states, in pertinent part, "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 period." Again, expenditures related to software not installed should not be charged in the reporting period since no benefit was received.

Audit adjustments removing $12,738 of improperly reported expenditures are shown on Schedules A and B.

In addition, audit adjustments reflecting a total reduction of $62,194 for the improperly reported expenditures is required for the four remaining affiliates of Venture. We will pursue the necessary audit adjustments through the MDCH program office.

Recommendation

We recommend VBCMHA adopt policies and procedures to ensure payments to Venture are limited to eligible costs that are the responsibility of VBCMHA, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding expenditure reporting.

MDCH'S SHARE OF COSTS AND BALANCE DUE MDCH

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

Conclusion: MDCH's obligation for FYE 9/30/2002 (excluding the MIChild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments is $11,619,599. The audit adjustments resulted in additional Medicaid savings of $132,477. However, VBCMHA's (their current affiliate Prepaid Inpatient Health Plan) retention of this savings is contingent on inclusion in an approved Medicaid Savings Plan as required by Section 8.8.2 of the MSSSC. If not approved, VBCMHA must return the $132,477 to MDCH.

Van Buren Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

	REVENUES		Reported Amount		Audit Adjustments		Adjusted Amount
A.	Revenues Not Otherwise Reported	$	245,431	$	-	$	245,431
B.	Substance Abuse Total	$	-	$	-	$	-
1	Medicaid Pass Through	$	-	$	-	$	-
2	Other	$	-	$	-	$	-
C.	Earned Contracts (non DCH) Total	$	661,654	$	-	$	661,654
1	CMH to CMH	$	70,308	$	-	$	70,308
2	Other	$	591,346	$	-	$	591,364
D.	MI Child - Mental Health	$	10,110	$	-	$	10,110
E.	Local Funding Total	$	549,366	$	-	$	549,366
1	Special Fund Account (226(a))	$	119,630	$	-	$	119,630
2	Title XX Replacement	$	13,017	$	-	$	13,017
3	All Other	$	416,719	$	-	$	416,719
F.	Reserve Balances - Planned for use	$	-	$	-	$	-
1	Carryforward –Section 226(2)(b)(c)	$	-	$	-	$	-
2	Internal Service Fund	$	-	$	-	$	-
3	Other (205(4)(h)	$	-	$	-	$	-
4	Stop/loss Insurance	$	-	$	-	$	-
G.	DCH Earned Contracts Total	$	149,399	$	-	$	149,399
1	PASARR	$	33,212	$	-	$	33,212
2	Block Grant for CMH Services	$	102,669	$	-	$	102,669
3	DD Council Grants	$	4,509	$	-	$	4,509
4	PATH/Homeless	$	-	$	-	$	-
5	Prevention	$	-	$	-	$	-
6	Aging	$	9,009	$	-	$	9,009
7	HUD Shelter Plus Care	$	-	$	-	$	-
8	Other DCH Earned Contracts	$	-	$	-	$	-

Van Buren Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

REVENUES		Reported Amount		Audit Adjustments		Adjusted Amount
H. Gross Medicaid Total	$	9,648,576	$	-	$	9,648,576
1 Medicaid - Specialty Managed Care	$	9,514,845	$	-	$	9,514,845
2 Medicaid - Children's Waiver Total	$	133,731	$	-	$	133,731
I. Reimbursements Total	$	92,953	$	-	$	92,953
1 1st and 3rd Party	$	-	$	-	$	-
2 SSI	$	92,953	$	-	$	92,953
J. State General Funds Total	$	2,237,231	$	-	$	2,237,231
1 Formula Funding	$	1,861,387	$	-	$	1,861,387
2 Categorical Funding	$	64,000	$	-	$	64,000
3 State Services Base	$	311,844	$	-	$	311,844
4 DCH Risk Authorization	$	-	$	-	$	-
5 Residential D.C.W.	$	-	$	-	$	-
K. Grand Total Revenues	$	13,594,720	$	-	$	13,594,720
L. Estimated MDCH Obligation (G+H+J)	$	11,885,807	$	-	$	11,885,807

Van Buren Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	$ 13,315,250	$ (132,477)	$ 13,182,773
B. Expenditures Not Otherwise Reported	$ 245,431	$ -	$ 245,431
C. Substance Abuse Total	$ -	$ -	$ -
1 Medicaid Pass Through	$ -	$ -	$ -
2 Other	$ -	$ -	$ -
D. Earned Contracts (Non MDCH) Total	$ 661,654	$ -	$ 661,654
1 CMH to CMH	$ 70,308	$ -	$ 70,308
2 Other Earned Contracts	$ 591,346	$ -	$ 591,346
E. MI Child - Mental Health	$ 10,110	$ -	$ 10,110
F. Local Total	$ 253,558	$ -	$ 253,558
1 Local Cost for State Provided Services	$ 33,222	$ -	$ 33,222
2 Other Not Used as Local Match	$ 220,336	$ -	$ 220,336
G. Expenditures From Reserve Balances	$ -	$ -	$ -
1 Carryforward - Sec 226(2)(b)(c)	$ -	$ -	$ -
2 Internal Service Fund	$ -	$ -	$ -
3 Other (205(4)(h))	$ -	$ -	$ -
4 Stop/Loss Ins.	$ -	$ -	$ -

Van Buren Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
H.	MDCH Earned Contracts Total	$ 152,402	$ -	$ 152,402
1	PASARR	$ 33,212	$ -	$ 33,212
2	Block Grant for CMH Services	$ 102,669	$ -	$ 102,669
3	DD Council Grants	$ 4,509	$ -	$ 4,509
4	PATH/Homeless	$ -	$ -	$ -
5	Prevention	$ -	$ -	$ -
6	Aging	$ 12,012	$ -	$ 12,012
7	HUD Shelter Plus Care	$ -	$ -	$ -
8	Other MDCH Earned Contracts	$ -	$ -	$ -
I.	Matchable Services (A-(B through H))	$ 11,992,095	$ (132,477)	$ 11,859,618
J.	Payments to MDCH for State Services	$ 396,253	$ -	$ 396,253
K.	Specialty Managed Care Service Total	$ 9,438,597	$ (132,477)	$ 9,306,120
1	100% MDCH Matchable Services	$ 9,438,597	$ (132,477)	$ 9,306,120
2	All SSI and Other Reimbursements	$ 92,953	$ -	$ 92,953
3	Net MDCH Share for 100 % Services	$ 9,345,644	$ (132,477)	$ 9,213,167
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	$ -	$ -	$ -
9	Total MDCH Share, Spec. Mgd Care	$ 9,345,644	$ (132,477)	$ 9,213,167

Van Buren Community Mental Health Authority

Schedule A

Financial Status Report

October 1, 2001 through September 30, 2002

L.	GF Categorical and Formula Services Total	$	2,023,514	$	-	$	2,023,514
1	100% MDCH Matchable Services	$	198,151	$	-	$	198,151
2	All SSI and Other Reimbursements	$	-	$	-	$	-
3	Net GF and Formula for 100% Services	$	198,151	$	-	$	198,151
4	90/10 Matchable Services	$	1,825,363	$	-	$	1,825,363
5	Reimbursements	$	-	$	-	$	-
6	10% Local Match Funds	$	182,536	$	-	$	182,536
7	Net GF and Formula for 90/10 Services	$	1,642,827	$	-	$	1,642,827
8	Total MDCH GF and Formula	$	1,840,978	$	-	$	1,840,978
M.	Children's Waiver – Total	$	133,731	$	-	$	133,731
1	Medicaid - Federal Share	$	75,371	$	-	$	75,371
2	Other Reimbursements	$	-	$	-	$	-
3	Net State Share (M-M1-M2)	$	58,360	$	-	$	58,360
4	Total MDCH Share Children's Waiver	$	133,731	$	-	$	133,731
N.	Unobligated Spending Authority Total	$	-	$	-	$	-
1	DCH Risk Authorization	$	-	$	-	$	-
2	All Other	$	-	$	-	$	-
O.	Total Local Match Funds	$	436,094	$	-	$	436,094
P.	Total MDCH Share of Expenditures	$	11,716,606	$	(132,477)	$	11,584,129

Van Buren Community Mental Health Authority
Schedule B
Explanation of Audit Adjustments
October 1, 2001 to September 30, 2002

Gross Total Expenditures	**($132,477)**

($7,154) to reduce the amounts reported for the Consumer Operated Drop-In Center as a result of duplicate payments for current year expenses and expenses related to the prior fiscal year. (See Finding 1)

($915) to reduce the amount reported for advances to the parents and/or guardians of enrolled children not repaid per their original agreements. (See Finding 2)

($1,188) to remove payments in excess of the stated contract maximum. (See Finding 3)

($34,872) to remove excess payments made to Venture. (See Finding 4)

($17,212) to remove excess payments made to Venture during FYE 9/30/2001. (See Finding 4)

($58,398) to remove capital assets purchased and add allowable depreciation expense on the removed capital assets. (See Finding 5)

($12,738) to remove the total cost of software never installed and the related monthly usage charge. (See Finding 6)

Van Buren Community Mental Health Authority
Schedule B
Explanation of Audit Adjustments
October 1, 2001 to September 30, 2002

Specialty Managed Care Service Total **($132,477)**

($7,154) to reduce the amounts reported for the Consumer Operated Drop-In Center as a result of duplicate payments for current year expenses, and expenses related to the prior fiscal year. (See Finding 1)

($915) to reduce the amount reported for advances to the parents and/or guardians of enrolled children not repaid per their original agreements. (See Finding 2)

($1,188) to remove payments in excess of the stated contract maximum. (See Finding 3)

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($17,212) to remove excess payments made to Venture during FYE 9/30/2001. (See Finding 4)

($58,398) to remove capital assets purchased and add allowable depreciation expense on the removed capital assets. (See Finding 5)

($12,738) to remove the total cost of software never installed and the related monthly usage charge. (See Finding 6)

Van Buren Community Mental Health Authority

Schedule C

Contract Reconciliation and Cash Settlement Summary

October 1, 2001 through September 30, 2002

I.	Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A.	MOE – Expenditures					
1	Ethnic Population	$ -	$ -	$ -	$ -	$ -
2	OBRA Active Treatment	$ 85,953	$ 52,431	$ 33,522	$ -	$ 85,953
3	OBRA Residential	$ -	$ -	$ -	$ -	$ -
4	Residential Direct Care Wage Increase #1 - 100% MOE	$ -	$ -	$ -	$ -	$ -
5	Residential Direct Care Wage Increase #2 - 100% MOE	$ 64,662	$ 53,669	$ 10,993	$ -	$ 64,662
6	Total	$ 150,615	$ 106,100	$ 44,515	$ -	$ 150,615
7	Maintenance of Effort - Lapse					$ -

B.	Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1	Ethnic Population	$ -	%	%	$ -	$ -
2	OBRA Active Treatment	$ 85,953	61.00%	39.00%	$ 52,431	$ 33,522
3	OBRA Residential	$ -	%	%	$ -	$ -
4	Residential Direct Care Wage Increase #1 - 100% MOE	$ -	%	%	$ -	$ -
5	Residential Direct Care Wage Increase #2 - 100% MOE	$ 64,662	83.00%	17.00%	$ 53,669	$ 10,993
6	Total	$ 150,615			$ 106,100	$ 44,515

Van Buren Community Mental Health Authority

Schedule C

Contract Reconciliation and Cash Settlement Summary

October 1, 2001 through September 30, 2002

		MDCH Revenue	MDCH Expense
II.	Specialized Managed Care (Includes State and Federal Share)		
A.	Total - Specialized Managed Care	$ 9,514,845	$ 9,213,167
B.	Maintenance of Effort – Summary	$ 106,100	$ 106,100
C.	Net Specialized Managed Care (A-B)	$ 9,408,745	$ 9,107,067

		Authorization	MDCH Expense
III.	State/General Fund Formula Funding		
A.	GF/Formula - State and Community Managed Programs		
1	State Managed Services	$ 311,844	$ 396,253
2	MDCH Risk Authorization - MDCH Approved for Use	$ -	$ -
3	Community Managed Services	$ 1,925,387	$ 1,840,978
4	Total State and Community Programs - GF/Formula Funding	$ 2,237,231	$ 2,237,231
B.	Maintenance of Effort – Summary	$ 44,515	$ 44,515
C.	Categorical, Special and Designated Funds		
1	Respite Grant (Tobacco Tax)	$ 44,000	$ 44,000
2	Grant Pickup – Prevention	$ 20,000	$ 20,000
3	Total Categorical, Special and Designated Funds	$ 64,000	$ 64,000
D.	Subtotal-GF/Formula Community and State Managed Programs	$ 2,128,716	$ 2,128,716

		Specialized Managed Care	Formula Funds
IV.	Shared Risk Arrangement		
A.	Operating Budget – Exclude MOE and Categorical Funding	$ 9,408,745	$ 2,128,716
B.	MDCH Share - Exclude MOE and Categorical Funding	$ 9,107,067	$ 2,128,716
C.	Surplus (Deficit)	$ 301,678	$ -
	Risk Band – 5% of Operating Budget (A*5%)	$ 470,437	$ 106,436

Van Buren Community Mental Health Authority
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

V. Cash Settlement	MDCH Share	Approved Savings or Carryforward		Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	$ 9,107,067	$ 169,201		$ 9,276,268	
2 GF/Formula Funding (Net of Categorical and MOE)	$ 2,128,716	$ -		$ 2,128,716	
3 MOE Specialty Managed Care MDCH Obligation	$ 106,100	$ -		$ 106,100	
4 MOE GF/Formula Funding MDCH Obligation	$ 44,515	$ -		$ 44,515	
5 Categorical - MDCH Obligation	$ 64,000	$ -		$ 64,000	
6 Total - MDCH Obligation					$ 11,619,599
B. Advances – Prepayments					
1 Specialized Managed Care - Prepayments Through 9/30/2002			$ 9,158,791		
2 Specialized Managed Care - FY 02 Prepayments after 9/30/2002			$ 356,054		
3 Subtotal - Specialized Managed Care				$ 9,514,845	
4 GF/Formula Funding - (Include MDCH Risk Authorization)				$ 1,865,853	
5 Purchase of Services				$ 311,844	
6 Categorical Funding				$ 64,000	
7 Total Prepayments					$ 11,756,542
C. Balance Due MDCH					$ 136,943
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				$ 396,253	
Actual Payments to MDCH				$ 396,253	
Balance Due MDCH					$ -
E. Net Balance Due MDCH					$ 136,943
Prior Settlement					$ (4,466)
					$ -
Balance Due to MDCH					$ 132,477**

** Retention of Medicaid Savings of additional $132,477 as a result of audit adjustments contingent on inclusion in an approved Medicaid Saving Plan as required by Section 8.8.2.2 of the MSSSC.

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: **<u>Improper Reporting of Consumer Operated Drop-In Center Expenditures</u>**

VBCMHA did not properly reimburse their consumer operated drop-in center resulting in expenditures related to the drop-in center being overstated on the FSR in violation of the MSSSC and OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure proper payments are made for the drop-in center, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Comments: Per "Finding 1", the MDCH auditors assessed adjustments to remove $7,154 of expenditures for the 2001/02 FY because "VBCMHA did not properly reimburse their consumer operated drop-in center resulting in expenditures related to the drop-in center being overstated on the FSR in violation of the MSSSC and Office of Management and Budget (OMB) Circular A-87". VBCMHA does agree that $4,422 of the $7,154 constituted a FSR overstatement caused by a duplicate payment. However, $2,732 of the aforementioned $7,154, according to work papers of the MDCH auditors, constituted 2001/02 expenditures made by VBCMHA for 2000/01 prior period (contractor payroll and other) expenses. If MDCH disallows the $2,732 as 2001/02 expenditures in any Final Audit Report, MDCH auditors should include a statement acknowledging that VBCMHA has the right to reopen, as applicable, the prior and/or post fiscal year(s) contract reconciliation(s) with the MDCH (master contracts) <u>and</u> with Summit Pointe CMHA (PIHP/Affiliate CMHSP net cost Medicaid contract per fiscal year), in order to include Medicaid revenue/expenditures allowable but initially not reported appropriately and/or as the result therefrom.

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: **Improper Reporting of Consumer Operated Drop-In Center Expenditures**

Corrective Action: VBCMHA has refined its implementation of policies and procedures for ensuring proper payments are made to contractors and for ensuring compliance with the MSSSC and OMB Circular A-87.

Anticipated Completion Date: Already completed.

MDCH Response: Recognition of the $2,732 of FYE 9/30/2001 expenditures for the drop-in center will be reviewed for allowability in the final settlement.

Corrective Action Plan

Finding Number: 2

Page Reference: 6

Finding: **<u>Improper Reporting of Expenditures for Non-Plan Supports</u>**

VBCMHA improperly reported non-covered Medicaid supports expenditures in violation of the MSSSC and OMB Circular A-87. In addition, VBCMHA did not initiate collection efforts to recover these expenditures, which require repayment.

Recommendation: Adopt policies and procedures to ensure compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting. Also, initiate appropriate steps to recover the outstanding amounts owed by the parents/guardians.

Comments: The VBCMHA does not plan to contest this Finding.

Corrective Action: VBCMHA has refined its implementation of policies and procedures for ensuring compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting and timely collection efforts.

Anticipated
Completion Date: Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 3

Page Reference: 7

Finding: **Improper Reporting of Payments in Excess of Maximum Contract Total**

VBCMHA paid for contracted professional services in excess of the maximum amount stated in the contract and reported them on the FSR in violation of the MSSSC and OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure payments for services do not exceed contractual maximums, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Comments: The VBCMHA does not plan to contest this Finding.

Corrective Action: VBCMHA has refined its implementation of policies and procedures for ensuring compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Anticipated Completion Date: Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 4

Page Reference: 9

Finding: **<u>Duplicate Reporting of Affiliate Expenditures</u>**

VBCMHA incorrectly included duplicate charges for Provider Networking services for Venture affiliates in the FSR's for FYE 9/30/2001 and 9/30/2002 in violation of the MSSSC and OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure payments to Venture are limited to eligible costs that are the responsibility of VBCMHA, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding expenditure reporting.

Comments: The VBCMHA does not plan to contest this Finding. VBCMHA has not made such payments to Summit Pointe CMHA (a/k/a "Venture") since the 2001/02 fiscal year.

Corrective Action: VBCMHA has refined its implementation of policies and procedures for ensuring compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Anticipated Completion Date: Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 5

Page Reference: 11

Finding: **<u>Improper Reporting of Capital Asset Purchases</u>**

VBCMHA did not properly report Venture purchases of computer hardware, software and a new telephone system on the FYE 9/30/2002 FSR in compliance with the MSSSC and OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure that all capital asset purchases are properly capitalized and depreciated in compliance with the MSSSC and OMB Circular A-87.

Comments: Summit Pointe (a/k/a "Venture") made journal entries and compilations and therefrom fully reported expenditures for capital asset purchases in the FSRs and annual contract reconciliations which complied with provisions of its MDCH/CMHSP Managed Specialty Supports and Services Contract, Generally Accepted Accounting Principles (GAAP) for Governmental Units, and Local Governmental Audit Division of the Michigan Department of Treasury that depreciation of capital assets was not applicable to CMHSPs. However, given the terms and assurances from the MDCH Office of Audit as set forth in two subsequent letters (one dated December 7, 2006, and the other dated December 21, 2006) from its Regional Manager of its Grand Rapids Regional Office to the VBCMHA, the VBCMHA is not contesting this preliminary audit issue.

The VBCMHA agrees to the recommendation of the MDCH auditors.

Corrective Action Plan

Finding Number: 5

Page Reference: 11

Finding: **Improper Reporting of Capital Asset Purchases**

Corrective Action: Since October 1, 2002, the MDCH/PIHP Master Contract for Medicaid funds and the MDCH/CMHSP Master Contract for General Funds include contractual provisions specifically requiring depreciation of expenditures for purchases of capital assets. The VBCMHA's policies and procedures as to expenditures for capital outlays (equipment) are being implemented (depreciation as to any individual item more the $5,000) in keeping with provisions specified in the MDCH/PIHP Master Contract for Medicaid funds and MDCH/CMHSP Master Contract for General Funds since October 1, 2002.

Anticipated Completion Date: Already completed.

MDCH Response: The MSSSC, Section 3.6, states, "This Contract contains all the terms and conditions agreed upon by the parties. No other understanding, oral or otherwise, regarding the subject matter of this Contract shall be deemed to exist or to bind any of the parties hereto." Since the MSSSC was not amended regarding OMB Circular A-87 or accrual accounting, the terms contained in the MSSSC are binding.

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

Corrective Action Plan

Finding Number: 5

Page Reference: 11

Finding: **Improper Reporting of Capital Asset Purchases**

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

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

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

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

Corrective Action Plan

Finding Number: 5

Page Reference: 11

Finding: **<u>Improper Reporting of Capital Asset Purchases</u>**

MDCH Response: The “directions” of the (then) Director of the Local Government Audit Division of the Michigan Department of Treasury that depreciation of capital assets was not applicable to CMHSPs only relate to financial statement presentation, and NOT FSR reporting. The Michigan Department of Treasury has no authority to determine what is reported on FSRs for reimbursement of Medicaid and General Funds.

Corrective Action Plan

Finding Number: 6

Page Reference: 13

Finding: **<u>Unallowable Charges for Computer Software Never Installed</u>**

VBCMHA improperly reported costs related to computer software never installed in the FYE 9/30/2002 FSR in violation of the MSSSC and OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure payments to Venture are limited to eligible costs that are the responsibility of VBCMHA, and to ensure compliance with the MSSSC and OMB Circular A-87 regarding expenditure reporting.

Comments: The VBCMHA does not plan to contest this Finding. VBCMHA has not made such payments to Summit Pointe CMHA (a/k/a "Venture") for such costs since the 2001/02 fiscal year.

The VBCMHA agrees to the recommendation of the MDCH auditors.

Corrective Action: VBCMHA has refined its implementation of policies and procedures for ensuring compliance with the MSSSC and OMB Circular A-87 regarding proper expenditure reporting.

Anticipated Completion Date: Already completed.

MDCH Response: None.