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GOVERNOR

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

JANET OLSZEWSKI  
DIRECTOR

April 17, 2007

Mr. Michael Moody, Director  
DMB Office of Financial Management  
Romney Building - Seventh Floor  
111 South Capitol  
Lansing, Michigan 48933

RE: Performance Audit of the Caro Center, Bureau of Hospitals, Centers, and Forensic  
Mental Health Services, Department of Community Health

Dear Mr. Moody:

In accordance with the Department of Management and Budget's Administrative Manual,  
Section 1280.02, enclosed is the Department's final response for the above referenced audit.

Please contact me at 373-1508 if you have any questions.

Sincerely,

Signature Redacted

Pam Myers, Manager  
Special Audits, Review and Compliance Section  
Office of Audit

PM:kk

Enclosure

cc: Office of the Auditor General	House Appropriations Committee
House Fiscal Agency	House Standing Committee
Senate Fiscal Agency	Senate Appropriations Committee
Executive Office	Senate Standing Committee
DCH, Janet Olszewski	DCH, David McLaury
DMB, Bob Emerson, State Budget Director	DCH, Nick Lyon

PERFORMANCE AUDIT OF

CARO CENTER

BUREAU OF HOSPITALS, CENTERS, AND FORENSIC  
MENTAL HEALTH SERVICES

DEPARTMENT OF COMMUNITY HEALTH

October 1, 2003 through October 31, 2005

AUDIT RESPONSE

Approved: Signature Redacted  
Janet Olszewski, Director  
Department of Community Health

Date: March 16, 2007



## AUDIT REPORT SUMMARY

DEPARTMENT: Community Health  
AUDIT PERIOD: October 1, 2003 through October 31, 2005  
REPORT DATED: November 2006

### DISPOSITION OF AUDIT RECOMMENDATIONS

<u>CITATIONS COMPLIED WITH</u>	<u>CITATIONS TO BE COMPLIED WITH</u>	<u>CITATIONS NOT COMPLIED WITH</u>
1.		
	2.(a)	
	3. (10/1/07)	
	4.(b)	
5.		
6.		
7.		
8.		
	9.(c)	
	10. (d)	
11.		
12.		
13.		

- (a) Compliance with this recommendation involves resolution of pending issues with unions, Office of the State Employer, and the Attorney General; therefore, no specific date can be provided.
- (b) This is dependent upon funding. With the current budget situation we can't determine a date for compliance.
- (c) The laundry should be taken care of by 6/30/07, the x-ray by 8/31/07, and they hope to have the kitchen demolished by 10/1/08.
- (d) Completed except for the inventory system, see item (b) above.

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Recommendation 1:      Critical Incidents

We recommend that the Center perform ongoing reviews of its patient monitoring and security procedures to help ensure the safety of patients, staff, and other individuals.

Response:

It is the Center's practice to constantly review its patient monitoring and security procedures to ensure that services are provided in a safe and secure environment, for both patients and staff. However, these reviews cannot be expected to anticipate and result in procedures that would prevent every conceivable type of adverse incident that may occur.

The Center continues its current practice of performing ongoing reviews of its patient monitoring and security procedures to help ensure the safety of patients, staff, and other individuals.

- Several mechanisms are in place to document, investigate, and evaluate the need to develop and/or revise policies and procedures that will enhance the clinical services delivery system, improve safety and security measures, and support other hospital-wide operations.
- Strategic changes for performance improvement are communicated to appropriate staff in writing and through ongoing training.

Recommendation 2:      Criminal History Background Checks

We recommend that the Center periodically update criminal history background checks of employees who have direct contact with patients.

We also recommend that the Center ensure that criminal history background checks are completed on contract providers who have direct patient contact.

Response:

The Center agreed that it did not periodically update criminal history background checks of employees or complete criminal history background checks on contract providers. The Center completed criminal history background checks on all prospective employees; and was in compliance with all statutory requirements regarding this issue during the period covered by the audit. The Center has implemented a process to require criminal history background checks on all new employees and contracted providers who have direct patient contact, as required through recently enacted legislation. The Center, in conjunction with DCH, will develop a standard policy to address criminal history background checks that comply with statutory, regulatory, and/or official DCH policy.

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- Since April 1, 2006, criminal history background checks and fingerprinting are being completed for all newly hired staff including contractual staff having direct patient contact.
- DCH is currently evaluating a multi-hospital/center project for the completion of criminal history background checks/fingerprinting for all staff hired before April 2006. Issues must be resolved concerning unions, the Office of the State Employer, and the Attorney General before this can take place.

Recommendation 3:      Controls Over Commodity Inventories

We recommend that the Center establish effective controls over its commodity inventories.

Response:

The Center agreed with the finding and the recommendation. The Center will develop an inventory system with random physical inventories of selected commodities, written inventory policies and procedures will be developed, food production work sheets will be completed, and requisition orders will be signed by staff at the time the food is delivered, procedures will be developed to document the distribution of items received from other facilities, and controls will be put in place to monitor supplies and materials used by maintenance staff. Controls to be implemented will weigh the potential benefit to be gained against the cost of implementing the control.

- The Center has established a process that inventories every food commodity as it is received and distributed from the warehouse to the residential buildings. Procedures are in place to account for all food distribution and production sheets are completed for the food being received on a daily basis.
- The Center has established inventory and control procedures for all tools used at the facility. All maintenance staff is assigned tools to complete their individual duties and responsibilities. All tools are listed on an inventory and signed out to the individual staff. Tools utilized on an intermittent basis are kept at the warehouse and signed in/out as needed.
- The Center is currently sorting plumbing supplies in preparation for development of an inventory system. This new inventory system will include a mechanism for procuring/releasing plumbing supplies.
- The Center is currently preparing household goods, electrical supplies, over-the-counter hospital/medical supplies, automotive supplies, and patient clothing commodities for development of a new inventory system to account for these items. For this system to be functional, additional resources will have to be allocated from existing hospital resources.

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- The Center has limited access to the warehouse through authorized entrances and exits in an effort to safeguard inventory. Gates on loading docks and a six foot fence with a two foot angle wire on top have been installed and surround the gas pump, water tower, warehouse, and maintenance buildings to provide additional access control. Access to the enclosed area is restricted during non-business hours.

Recommendation 4:      Controls Over Medications

We recommend that the Center establish effective controls over its medications, including maintaining an inventory control program for its noncontrolled substances, providing adequate safeguards over its controlled substances, and ensuring that its drug formulary identifies all medications used at the Center.

Response:

DCH agreed with the finding and recommendation. The findings essentially reiterated the results of a DCH internal audit that was conducted on pharmacy operations at all DCH hospitals/centers. As a result of that audit, DCH established a workgroup to review the issue and provide recommendations for implementing an effective inventory control program for all hospitals/centers. Steps have also been taken to ensure appropriate separation of duties with respect to the controlled substances. In addition to the licensed pharmacist, a second person is now required to initial and sign the invoices of all medications received from the distributor. The Medication Management Team has been directed to review and update the drug formulary and procedures will be developed to ensure that the drug formulary is kept current.

- The Center has taken steps to ensure appropriate separation of duties.
- The Center has updated the drug formulary. Additions and deletions are recommended during medical staff meetings and forwarded to the Medication Management Team for formulary revisions.
- The pharmacy workgroup has developed draft policies that are under review.
- While an inventory control system has been under discussion, in light of current budget problems, this system may not be easily obtained at this time. A joint effort between DCH, Department of Corrections, Military and Veteran Affairs, and Department of Information Technology involving an Electronic Medical Care System is currently under discussion. One component of this system would be for pharmacy services, including the capabilities for pharmacy inventory accounting and management.

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Recommendation 5:      Biennial Internal Control Assessment

We recommend that the Center effectively complete its biennial internal control assessment.

We also recommend that the Center complete all planned control activities and monitoring activities before submitting its biennial internal control assessment to DCH.

Response:

The Center agreed with the finding and both recommendations. The Center's assessment for the next reporting period will identify specific control activities, include a conclusion whether the control activities are adequate, and will include a plan of correction for any material weaknesses that may be identified. The Center will take steps to ensure that the control activities and monitoring activities identified in the assessment are actually being performed.

- The Center has addressed material conditions in the most recent BICE including: maintenance and improvement of the physical plant and campus; procurement of supplies, materials, services, and equipment in compliance with applicable requirements; establishment of effective controls over commodity inventories; proper handling of the return of unused medications; protection of patient property through proper inventory and secure storage.
- The Center is taking measures to develop, revise and improve hospital-wide systems and to ensure that they are properly implemented.

Recommendation 6:      Contract Management

We recommend that the Center ensure that contractors obtain required permits, sign working condition statements, and document that they have appropriate insurance coverage prior to beginning work at the Center.

Response:

The Center agreed with the finding and recommendation. The Center indicated that procedures have been implemented that require contractors to provide copies of all of the required documents when the purchase agreements are processed. A form letter will be sent to all current vendors requiring that they provide all of the required documents and a notation will be attached to each purchase as a reminder that all the vendors are to provide the Center with the required information.

- The Center has developed procedures requiring contractors to submit required documents.

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- The Center is sending a form letter outlining expectations to all vendors, along with the purchase order, prior to project implementation.

Recommendation 7:      Preventive Maintenance

We recommend that the Center conduct preventive maintenance inspections as required by its preventive maintenance plan.

We also recommend that the Center include all equipment and systems requiring routine maintenance in its preventive maintenance plan.

Response:

The Center agreed with the finding and both recommendations. The Center has indicated that the importance of completing all of the required inspections has been stressed to responsible individuals and an internal monitoring system will be developed to track these inspections. In addition, the Center has directed staff to evaluate all equipment and identify inactive equipment that does not need to be inspected and active equipment that has been erroneously identified as inactive that should be inspected.

- The Center has developed a monitoring system for tracking preventive maintenance activities scheduled each month. The preventive maintenance activities are adjusted on an ongoing basis as equipment and conditions change.
- On a monthly basis random samples of scheduled maintenance projects are reviewed by the maintenance supervisor.
- The Center's accountant regularly reviews the preventive maintenance schedule listing to assure timely completion.

Recommendation 8:      Procurement Cards

We recommend that the Center effectively monitor procurement card transactions to ensure that purchases are in compliance with applicable laws, regulations, and other requirements.

Response:

The Center agreed with the finding and recommendation. The Center indicated that a September 8, 2005 memorandum reminded all cardholders to obtain itemized receipts and additional instruction was given to cardholders not to do business with vendors that did not provide itemized receipts. Additional steps have been taken to ensure that transactions are

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properly recorded on card logs, reconciled with billing information, reviewed by supervision, and properly authorized.

- The Center revised their procurement card procedures in 2005.
- The Center provides cardholders with written a copy of instructions detailing steps required when making a purchase with the procurement card.
- Every purchase is reconciled by accounting staff.
- Supervisory oversight and signature review validations occur every two weeks.

Recommendation 9:      Disposal of Equipment and Inventories

We recommend that the Center dispose of all surplus equipment and inventories in accordance with State procedures.

Response:

The Center generally agreed with the finding and recommendation. The Center indicated that it recognized the need to increase efforts to dispose of surplus property.

- The Center has completed the disposal of property that had been stored in Building 18. All property in Building 18 has been sent to Lansing as surplus or disposed of as worthless per DMB guidelines.
- The laundry equipment has been inventoried and photographed. DMB has requested that the inventory and photos be sent to them for posting on the internet for the sealed bid process.
- Staff from Mt. Pleasant Center removed parts from the laundry equipment to use as replacements in March 2006. In addition, staff from the Department of Corrections from Jackson reviewed the equipment in 2006. They have since indicated that they are not interested in the equipment.
- The dental x-ray equipment is inventoried and will be dismantled for surplus. Plans to dismantle are being formulated.
- The incinerator at Central Kitchen, which has been permanently closed for several years, is built into the structure of the building. Requests to have Central Kitchen demolished have been submitted to DCH central office in 2005 and 2006.

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Recommendation 10: Medication Refunds and Rebates

We recommend that the Center appropriately account for medications that it returns for refund and reconcile refunds with supporting documentation.

We also recommend that the Center reconcile vendor rebates with pharmaceutical sales totals.

Response:

The Center agreed with the finding and both recommendations. The Center indicated that they will maintain an inventory of non-controlled substances returned for a refund and reconcile it to the manifest from Guaranteed Returns. In addition they have registered for a software program that can be used to estimate the credit amount and will investigate any large discrepancies. Finally, they will use another software program to verify the rebate amounts versus purchase amounts to establish an accounts receivable for expected rebates and refunds.

- The Center pharmacy now maintains an inventory of pharmaceuticals returned for refunds.
- While the inventory is useful, the non-controlled pharmaceuticals inventory does not assist with the credit reconciliation. Guaranteed Returns determines what is credited for a refund. Those pharmaceuticals that are ineligible for credit are destroyed by the company. The Center has access to a website that provides credit amounts. This allows for a limited reconciliation based on the credited listing.
- The Center is maintaining accounts to recognize receivables for rebates and refunds.

Recommendation 11: Work Order Monitoring

We recommend that the Center improve its use and monitoring of work orders to ensure that repairs and other maintenance projects are properly completed on a timely basis.

Response:

The Center agreed with the finding and recommendation. The Center indicated that a system will be developed and monitored by their accountant to ensure that work orders are entered into the system accurately; they are completed on a priority basis, and are reasonable and necessary in light of budgetary and staffing resources. Procedures will be implemented to ensure that all work orders, including emergency repairs, are entered into the system and nonessential repairs are tracked and completed when resources become available.

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- In November 2005, the Center developed an internal system of managing work orders. Training was subsequently provided to staff to assure consistent implementation practices.
- In January 2007, the Center reevaluated the work order management system for effectiveness. Several areas of improvement were identified. The system for prioritizing, tracking, assigning, implementing and evaluation is currently being revised. The revised outcome is expected to have improved prioritization efficiency and auditing outcomes.
- Random monitoring of work orders is being completed by the maintenance supervisor.
- The Center's accountant has been involved in an ongoing process of monitoring the work order system. The accountant reviews work orders that are outstanding and makes recommendations for follow-up and prioritization.

Recommendation 12: Patients' Personal Property

We recommend that the Center improve its controls over patients' personal property.

We again recommend that the Center return all personal property, including money, to discharged patients.

Response:

The Center agreed with the finding and both recommendations. The Center indicated it has developed a new policy to address these issues. The new policy requires inventory of patient property and documentation on inventory sheets at the time of delivery. The Center's accountant will perform random inventories of patient property, patient property stored in the unit basements has been moved to a secure room in the warehouse, and guidelines have been developed for handling patient property at discharge. Efforts are being undertaken to return funds and property to patients that have been discharged.

- A performance improvement team at the Center developed and implemented a new policy on the management of patient property in March 2006. Center staff was trained prior to implementation of the new policy.
- A random inventory of patient property was completed by the Center accountant in June 2006. Problem areas were identified, which prompted a second hospital-wide audit of patient property in July 2006.
- The Center will continue to focus on patient property management monitoring and improvement.

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- Efforts to return patient property and funds following discharge is managed via inter-departmental mechanisms, such as the daily discharge report, which prompts accounting staff to review the patient's account and property inventory records.
- At this time there are no remaining balances for discharged patients.

Recommendation 13:    Complaints

We recommend that the Center, in conjunction with DCH, establish procedures to ensure that it properly records, prioritizes, investigates, and respond to complaints that it receives relating to Center operations.

Response:

DCH and the Center agreed in principle with the recommendation but not necessarily with all of the items listed as examples in support of the finding. In response to the recommendation DCH has developed and implemented a policy that provides guidance for handling various complaints. This includes the establishment of a committee that meets at least quarterly to track and monitor the appropriate handling of complaints with the director of the Bureau of Resource Services designated as the committee chair.

- A draft logging system has been developed for the hospitals and centers to track complaints.