

EXECUTIVE DIGEST

DEPARTMENT OF MENTAL HEALTH

INTRODUCTION

This report contains the results of our financial audit, including the provisions of the Single Audit Act, of the Department of Mental Health (DMH) for the period October 1, 1991 through September 30, 1993.

AUDIT PURPOSE

This financial audit of DMH was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

DMH's purpose is to administer and coordinate the mental health services provided by the State of Michigan. The mission of the mental health system is to restore, improve, enhance, develop, and maintain the abilities of people who are or who may become developmentally disabled, emotionally disturbed, or mentally ill and to ensure that they have the opportunity for maximum participation in the life and resources of the community.

As of September 30, 1993, DMH had 6,183 full-time equated employees, including 360 in the central office. Also, as of September 30, 1993, DMH served 1,801 adults and 247 children in State psychiatric hospitals, 481 residents in centers for developmental disabilities, and 237 patients at specialized facilities for a combined total of 2,766 patients and residents. There were combined totals of patients and residents of 3,088 and 3,602 as of September 30, 1992 and September 30, 1991, respectively.

Total DMH expenditures for the fiscal years ended September 30, 1993 and September 30, 1992 were \$1.377 billion and \$1.307 billion, respectively.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the adequacy of DMH's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of DMH's internal control structure disclosed three material weaknesses:

- DMH did not effectively restrict, control, or monitor access to the General Accounting/Financial Management Information System. Consequently, DMH could not detect unauthorized or improper transactions. (Finding 1)

DMH responded that it concurred with the finding and would comply on an ongoing basis.

- DMH had not provided for the organizational independence of the internal auditor. In addition, DMH had not effectively utilized its internal auditor to establish and improve DMH's internal control structure. (Finding 2)

DMH responded that it provided organizational independence for the internal auditor effective March 1995. In addition, DMH responded that it is DMH's intent that the internal auditor work on priorities established by the director to review weaknesses identified in DMH's internal control structure.

- DMH did not correct known weaknesses in the systems of internal accounting and administrative control in its facilities (Finding 3).

DMH responded that it concurred with the corresponding recommendations and would comply on an ongoing basis. Also, DMH informed us that it had started a monitoring process in June 1994, with periodic follow-up, for the facilities compliance with internal control structure standards.

Also, DMH was not in substantial compliance with Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Our assessment also disclosed other reportable conditions in DMH's internal control structure in the areas of expenditure processing, representations made to the

Department of Management and Budget, controls over equipment, and client funds (Findings 4 through 7).

Our recommendations are directed toward weaknesses in DMH's internal control structure as it relates to the General Accounting/Financial Management Information System. On October 1, 1994, the State of Michigan implemented a new Statewide accounting system as part of the Michigan Administrative Information Network (MAIN). Accordingly, DMH will need to address its corrective action in relation to MAIN.

Audit Objective: To assess DMH's compliance with both State and federal laws and regulations that could have a material effect on either DMH's financial schedules and financial statements or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DMH's financial schedules and financial statements or its major federal financial assistance programs.

Audit Objective: To audit DMH's financial schedules and its Hospital Patients' Trust Fund financial statements as of and for the fiscal years ended September 30, 1993 and September 30, 1992.

Conclusion: We expressed an unqualified opinion on DMH's financial schedules and on its Hospital Patients' Trust

Fund financial statements. However, our audit disclosed reportable conditions regarding cost settlements, accounts

payable, revenue classification, and Hospital Patients' Trust Fund accounting (Findings 8 through 11).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Mental Health for the period October 1, 1991 through September 30, 1993. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit objective for the assessment of the internal control structure included an evaluation of the department's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

**AGENCY
RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes 11 findings and 17 recommendations. The agency's preliminary response indicates concurrence and that it has complied or will comply with the recommendations.

DMH had complied with 19 of the 32 prior audit recommendations. Of the 13 recommendations that DMH did not comply with, we repeated 5 in this report. We did

not repeat the other 8 recommendations because DMH plans to implement 5 of the recommendations, 2 were referred to another audit, and 1 was not applicable to the current audit.