

## EXECUTIVE DIGEST

### DEPARTMENT OF MENTAL HEALTH

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#### **INTRODUCTION**

This report contains the results of our financial audit\*, including the provisions of the Single Audit Act, of the Department of Mental Health (Department\*) for the period October 1, 1993 through September 30, 1995.

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#### **AUDIT PURPOSE**

This financial audit of the Department 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*.

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#### **BACKGROUND**

The Department's mission\* was to administer and coordinate the mental health services provided by the State of Michigan. The purpose 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, 1995, the Department had 5,947 full-time equated employees, including 307 in the central office. Also as of September 30, 1995, the Department had 1,298 adults and 117 children in State psychiatric hospitals, 392 residents in centers for developmental disabilities, and 485 patients at specialized facilities for a combined total of 2,292 patients and residents. There was a combined total of 2,551 patients and residents as of September 30, 1994.

Total Department expenditures for the fiscal years ended September 30, 1995 and September 30, 1994 were \$1.480 billion and \$1.437 billion, respectively.

During fiscal year 1995-96, the Governor issued Executive Order 96-1. Under this order, the Department was renamed the Department of Community Health. Medical Services Administration, under the Family Independence Agency, and certain commissions, centers, offices, bureaus, divisions, programs, an institute, a committee, and a council within the former Department of Public Health were transferred to the Department of Community Health. The order became effective April 1, 1996.

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**AUDIT  
OBJECTIVES  
AND  
CONCLUSIONS**

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

**Conclusion:** Our assessment of the Department's internal control structure disclosed seven material weaknesses\*:

- The Department did not review agency operations to ensure that all user class\* assignments were proper. In addition, the Department did not eliminate all incompatible user classes from the Relational Standard Accounting and Reporting System\* (R\*STARS) in a timely manner (Finding 1).

The Department agrees with the recommendations related to this finding and has taken action to correct the problems noted. A major factor contributing to the finding noted in the previous paragraph was the aggressive implementation of the Michigan Administrative Information Network\* (MAIN) during fiscal year 1994-95.

As indicated in the Office of the Auditor General's (OAG's) audit of MAIN, Department of Management and Budget (DMB): "DMB's internal control structure over MAIN had limited effectiveness in providing reliable and secure information in its first year of operation."

- The Department did not review agency operations to ensure that approval paths\* were proper. As a result, the Department could not ensure that it minimized the risk that expenditure payments were processed without having received appropriate review and approval (Finding 2).

The Department agrees with the related recommendation and has taken action to correct the problems noted. A major factor contributing to this

finding was the aggressive implementation of MAIN during fiscal year 1994-95. As indicated in the OAG's audit of MAIN: "DMB's internal control structure over MAIN had limited effectiveness in providing reliable and secure information in its first year of operation."

- The Department did not effectively restrict access to R\*STARS (Finding 3).

The Department agrees with the related recommendation and has corrected the problems noted.

- The Department did not utilize its internal auditor to perform financial audits and to identify weaknesses in its internal control structure (Finding 4).

The Department agrees with the related recommendation and will initiate compliance by July 1, 1997. With the reorganization of the Department, the duties and responsibilities will change. In implementing recent Executive Orders, the Department will appoint a single internal auditor and comply with Section 18.1486(4) of the *Michigan Compiled Laws*.

- The Department needs to improve its central office oversight and guidance of the facilities in the areas of internal accounting and administrative controls to ensure compliance with prescribed policies and procedures (Finding 5).

The Department agrees with the related recommendation and is taking action to improve its central office oversight and guidance of the facilities. Corrective actions will include increased reviews/audits of the facilities.

- The Department did not establish appropriate internal controls over the Patient Accounting System, which is used to manage and account for patient funds. As a result, management's ability to account for financial transactions related to patient funds was significantly diminished (Finding 9).

The Department agrees with the related recommendations and will comply on an ongoing basis.

The Department intends to address this issue by establishing a "sub-fund" system similar to the one utilized by the Department of Corrections.

- The Department did not ensure that patient fund reconciliations were completed as appropriate. Also, the Department could not develop appropriate account coding to facilitate facility level reconciliations of the Patient Accounting System with the Hospital Patients' Trust Fund recorded on the State's accounting system\*. As a result, the Department could not ensure that it properly accounted for patient funds held in trust (Finding 10).

The Department agrees with the related recommendations and will perform the patient fund reconciliations by September 30, 1997. The

Department has requested DMB's Office of Financial Management to establish agency general ledgers to facilitate the performance of future reconciliations.

In addition, because of the material internal auditor exception, our assessment indicated that the Department 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 the Department's internal control structure in the areas of processing personnel and payroll transactions, representations made to DMB, and timeliness of billings for services provided (Findings 6 through 8).

Our recommendations are directed toward weaknesses in the Department's internal control structure as it related to the accounting systems utilized during our audit period. During fiscal year 1993-94, the Department utilized 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). MAIN uses two component systems to account for purchasing and accounting. These component systems are the Advanced Purchasing and Inventory Control System\* (ADPICS) and the Relational Standard Accounting and Reporting System (R\*STARS). The Department will need to address its corrective action in relation to MAIN.

**Audit Objective:** To assess the Department's compliance with both State and federal laws and regulations that could have a material effect on either the Department'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 the Department's financial schedules and financial statements or any of its major federal financial assistance programs. Also, our assessment of compliance with laws and regulations did not disclose any questioned costs.

**Audit Objective:** To audit the Department's financial schedules and its Hospital Patients' Trust Fund financial statements as of and for the fiscal years ended September 30, 1995 and September 30, 1994.

**Conclusion:** We expressed an unqualified opinion on the financial schedules for the fiscal years ended September 30, 1995 and September 30, 1994. However, our audit disclosed a reportable condition regarding general purpose appropriations\* (Finding 11).

We expressed an adverse opinion on the Department's Hospital Patients' Trust Fund financial statements as of and for the fiscal years ended September 30,

1995 and September 30, 1994. Our audit disclosed the following material weakness:

- The Department did not ensure that all patient fund balances, revenues, and expenditures were correctly accounted for on the State's accounting system (Finding 12). Consequently, the Trust Fund's balance sheet and statement of revenues, expenditures, and changes in fund balance were materially misstated for both fiscal years of our audit period.

The Department agrees with the related recommendations and will request entries to correct differences in closing Trust Fund balances and overstated cash and liabilities balances. The Department has recorded all Patient Trust Fund transactions since the inception of MAIN; however, it will correct Patient Accounting System procedural errors to ensure that it retains all records of those transactions. The Department had not properly recorded interest because the Department of Treasury was late in reporting the amount of interest earned by the Department.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Mental Health for the period October 1, 1993 through September 30, 1995. 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*.

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

Our audit report contains 12 findings and 16 corresponding recommendations. The agency's preliminary response indicated that the Department has complied or will comply with 15 of the recommendations. The Department disagreed with 1 recommendation.

The Department complied with 5 of the 12 prior audit recommendations included within the scope of our current audit. Of the 7 recommendations that the Department did not comply with, 3 are repeated in this report. We also repeated a recommendation from our audit of the Department's Itemized Billing System.