

## EXECUTIVE DIGEST

# DEPARTMENT OF COMMUNITY 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 Community Health (DCH) for the period October 1, 1995 through September 30, 1997.

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### AUDIT PURPOSE

This financial audit of DCH 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 federal Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*.

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### BACKGROUND

The Department of Mental Health (DMH) was created by the Executive Organization Act of 1965. Effective April 1, 1996, DMH was renamed the Department of Community Health. DCH's mission\* is to provide for the general supervision of the health and physical well-being of Michigan citizens.

During our audit period, the Governor issued several executive orders that resulted in significant changes to DCH's organizational structure. The Biologic Products Division was transferred from the Department of Public

Health (DPH) to the Michigan Biologic Products Institute. Effective April 1, 1996, the Medical Services Administration under the Family Independence Agency (FIA) and DPH were transferred to DCH. DPH included health programs in the areas of substance abuse services, infectious disease control, environmental quality, health statistics, health facilities, maternal and child health, and environmental and occupational health.

The licensing, monitoring, and accreditation programs, including the Bureau of Health Systems; the Bureau of Environmental and Occupational Health; the Sheltered Environment Program; and food service and processing regulation were transferred from DCH to other State departments. Also, the Office of Drug Control Policy, Office of Services to the Aging, and Crime Victims Services Commission were transferred from the Department of Management and Budget (DMB) to DCH, and the Adult Home Help Services programs and the Physical Disability Services programs were transferred from FIA to DCH. Further, the authority for several advisory councils, boards, and commissions and a center was transferred to the DCH director, and a 15-member Community Health Advisory Council, appointed by the Governor, was created.

The Budget and Finance Administration is responsible for budget, accounting, and financial reporting, including reimbursement to 49 local health departments.

As of September 30, 1997, DCH had 5,949 full-time equated employees, including a total of 4,722 employees working in mental health facilities. DCH had 896 adults and 93 children in State psychiatric hospitals, 297 residents in centers for developmental disabilities, and

1,072 patients at specialized facilities for a combined total of 2,358 patients and residents as of September 30, 1997.

DCH financial transactions were accounted for principally in the General Fund. DCH expenditures for the fiscal years ended September 30, 1997 and September 30, 1996 were \$6.98 billion and \$2.49 billion, respectively.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

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

**Conclusion:** Our assessment of DCH's internal control structure disclosed 6 material weaknesses\* , 4 related to DCH's General Fund activity and 2 related to Hospital Patients' Trust Fund activity:

- DCH's internal control structure related to the Community Mental Health Services (CMHS) Program was inadequate. The internal control structure did not ensure the correct coding of the CMHS appropriations financed with local revenue as general purpose appropriations or the recording of all accounts payable for the CMHS Program. (Finding 1)

DCH agreed with the corresponding recommendation but not necessarily with the finding that an adequate internal control structure would have prevented the error identified in item a. of the finding from occurring. DCH acknowledged that the control structure in place failed to detect the error. However, the fact remains

that, since fiscal year 1994-95, DCH was specifically instructed by DMB to code the CMHS appropriations as general purpose and not as financed by local revenue. General purpose appropriations were overstated because of these specific instructions. However, to prevent a similar overstatement of general purpose appropriations from reoccurring in fiscal years 1997-98 and 1998-99, DCH has implemented procedures to ensure that CMHS appropriations will be correctly coded as financed by local revenue. DCH also agreed with item b. of the finding that not all of the accounts payable for the CMHS Program were recorded in the accounting records. Through its own internal procedures, DCH discovered the error in November 1998 and immediately initiated steps to correct the problem.

- DCH's internal control procedures were not effectively used to ensure accurate preparation of the schedule of federal financial assistance (SFFA) (Finding 2).

DCH agreed with the finding and corresponding recommendation and informed us that it has updated or corrected its procedures to ensure the accurate preparation of the SFFA. The error on the original report pertained only to the Medicaid Program for fiscal year 1996-97, which was the first year that the SFFA was prepared for all of DCH.

- DCH did not maintain effective internal control procedures over the time and attendance process (Finding 3).

DCH agreed with the corresponding recommendation and informed us that it has taken steps to strengthen the internal control procedures over the time and

attendance process where administratively feasible. DCH also informed us that it has implemented control procedures over the preparation of time and attendance source documents.

- DCH's internal controls did not ensure that payroll costs met federal time distribution documentation standards for payroll charges to federal programs (Finding 4).

DCH agreed with the finding and corresponding recommendation and informed us that it has established a central unit within the Grants Management Section to oversee compliance with OMB Circular A-87. DCH also informed us that it has entered into a contract with DMG-Maximus to develop written procedures and instructions for DCH time reporting practices.

- DCH did not reconcile the balances recorded in the Patient Accounting System with the Michigan Administrative Information Network (MAIN) from October 1, 1995 through March 31, 1998 (as reported in Finding 1 in our concurrent performance and financial related audit of the Hospital Patients' Trust Fund (HPTF)).

DCH agreed with the finding and corresponding recommendation. DCH revised the coding structure within MAIN to split HPTF into subfunds corresponding to each facility. Also, DCH formally implemented policies and procedures to aid the hospitals and centers in properly accounting for patient funds. Monthly reconciliations for all hospitals and centers have been completed from April through

August 1998 and will continue to be performed on a monthly basis.

- DCH did not ensure that the HPTF fund balance, revenues, expenditures, and operating transfers were correctly accounted for on MAIN. Consequently, the HPTF balance sheet as of September 30, 1996 and the statement of revenues, expenditures, and changes in fund balance for the fiscal years ended September 30, 1997 and September 30, 1996 were materially misstated (as reported in Finding 3 in our concurrent performance and financial related audit of HPTF).

DCH agreed with the finding and corresponding recommendation. DCH distributed written policies and procedures covering daily transactions processing to all of the hospitals and centers and will visit the facility noted specifically in the audit to verify and monitor compliance with these procedures.

In addition, our assessment indicated that DCH was not in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its internal audit functions. DCH's internal auditor did not perform financial audits to identify weaknesses in DCH's internal control structure or develop a formal audit plan and have it approved by the DCH director (Finding 5).

Our assessment also disclosed other reportable conditions\* related to subrecipient\* monitoring and controls over Medicaid substance abuse payments (Findings 6 and 7).

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

**Conclusion:** Our assessment of compliance with laws and regulations disclosed an instance of material noncompliance. DCH's internal controls did not ensure that payroll costs met federal time distribution documentation standards for payroll charges to the State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs (Finding 4, included under our internal control structure objective).

In addition, DCH did not comply with Article 9, Section 17 of the State Constitution by overexpending its authorizations for the fiscal year ended September 30, 1997 by \$4.3 million (as reported on the schedule of General Fund sources and disposition of authorizations). Our assessment also disclosed other instances of noncompliance in the areas of internal auditor and subrecipient monitoring (Findings 5 and 6, included under our internal control structure objective).

Further, our audit disclosed questioned costs of \$23.8 million for the two-year period ended September 30, 1997, which are presented as supplemental information in the schedule of questioned costs.

**Audit Objective:** To audit DCH's financial schedules and its HPTF financial statements as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

**Conclusion:** We expressed an unqualified opinion on DCH's financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996. However, we expressed a qualified opinion on DCH's HPTF financial statements as of and for the fiscal year ended September 30, 1997 and an adverse opinion\* as of and for the fiscal year ended September 30, 1996. DCH did not ensure that HPTF fund balance, revenues, expenditures, and operating transfers were correctly accounted for on MAIN (as reported in Finding 3 in our concurrent performance and financial-related audit of HPTF and also included under our internal control objective). As a result, HPTF revenues, expenditures, liabilities, and fund balance were materially misstated for fiscal years 1996-97 and 1995-96.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Community Health for the period October 1, 1995 through September 30, 1997. 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 DCH'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 includes 7 findings and 8 corresponding recommendations. DCH's preliminary response indicated that it generally agreed with all of the findings and has complied or will comply with all of the recommendations.

DCH complied with 13 of the 27 prior audit recommendations from our audits of DMH and DPH. Of the 14 recommendations that DCH did not comply with, 3 are repeated in this report, 2 are repeated in our concurrent performance and financial related audit report of HPTF, and 9 were rewritten for inclusion in these reports.