

PERFORMANCE AUDIT  
OF  
NORTHVILLE PSYCHIATRIC HOSPITAL  
AND RELATED CLOSURE ACTIVITIES

BUREAU OF HOSPITALS, CENTERS,  
AND FORENSIC MENTAL HEALTH SERVICES  
DEPARTMENT OF COMMUNITY HEALTH

February 2005

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

*Northville Psychiatric Hospital (NPH) and  
Related Closure Activities  
Bureau of Hospitals, Centers, and Forensic  
Mental Health Services  
Department of Community Health (DCH)*

Report Number:  
39-240-03

Released:  
February 2005

*NPH was established in 1952. Its mission was to provide a comprehensive array of high-quality inpatient psychiatric services to adult persons with mental illness. On November 18, 2002, DCH announced that it would close NPH. As of May 16, 2003, NPH had placed all of its patients in a community setting or transferred them to other State-run psychiatric facilities. As of December 2003, NPH closing staff were still in the process of disposing of NPH's equipment, furnishings, and supplies and securing patient, administrative, and accounting records.*

***Audit Objective:***

To assess the effectiveness and efficiency of DCH's and NPH's oversight of selected NPH operational and closure activities.

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***Audit Conclusion:***

We determined that DCH's oversight and NPH's oversight of selected NPH operational activities were not effective. Also, we determined that DCH's oversight and NPH's oversight of selected NPH closure activities were somewhat effective and efficient.

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***Material Conditions:***

DCH did not ensure that NPH established effective controls over its purchasing, receiving, and payment processes. The material weaknesses in NPH's controls unnecessarily elevated NPH's risk for fraud and abuse, permitted unauthorized expenditures, allowed NPH to overpay for

some of the goods and services that it purchased, and resulted in inefficient transaction processing. (Finding 1)

DCH did not ensure that NPH effectively utilized, accounted for, and controlled its equipment and furnishings. As a result, a large quantity of NPH's unused equipment and furnishings became worthless while in storage. In addition, the lack of effective controls increased the risk that misappropriation of State-owned property occurred and was not detected. (Finding 2)

DCH did not ensure that NPH had established effective controls over its medication supplies. As a result, NPH could not account for the receipt and disposition of the medications it purchased. (Finding 3)

DCH did not ensure that NPH obtained required inspections for its high-pressure, high-temperature boilers or periodically

tested the reliability of its backup system for fueling these boilers. These shortcomings may have jeopardized the safety and well-being of NPH and Hawthorn Center (HC) patients and staff. (Finding 4)

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**Reportable Conditions:**

DCH did not ensure that NPH complied with various Department of Management and Budget and DCH policies, procedures, and directives governing the use of State procurement cards (Finding 5).

DCH's closing procedure did not provide adequate direction to NPH closing staff for the effective and efficient inventory and subsequent transfer or disposal of NPH's equipment and furnishings (Finding 6).

DCH did not ensure that NPH appropriately accounted for the unused medications that it returned for refund upon its closure (Finding 7).

DCH did not ensure that HC paid NPH for the cost of the electricity, water and sewer service, and steam that NPH provided to it (Finding 8).

DCH did not ensure that NPH established effective controls over its supplies inventory (Finding 9).

DCH did not ensure that NPH effectively controlled access to and accounted for usage of its gasoline and diesel fuel (Finding 10).

DCH did not ensure that NPH appropriately accounted for its Gifts, Bequests, and Donations Fund (Finding 11).

DCH did not ensure that NPH created and retained documentation to support its release of personal property belonging to some patients discharged during the closing process. In addition, DCH did not ensure that NPH promptly released personal property belonging to patients discharged prior to the closing process. (Finding 12)

DCH did not ensure that NPH executed contracts with some of the vendors from which it procured services (Finding 13).

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**Agency Response:**

Our audit report contains 13 findings and 23 corresponding recommendations. DCH's preliminary response indicated that it agreed with all of our findings and agreed wholly or in principle with all of our recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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AUDITOR GENERAL

February 18, 2005

Ms. Janet Olszewski, Director  
Department of Community Health  
Lewis Cass Building  
Lansing, Michigan

Dear Ms. Olszewski:

This is our report on the performance audit of Northville Psychiatric Hospital and Related Closure Activities, Bureau of Hospitals, Centers, and Forensic Mental Health Services, Department of Community Health.

The report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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BUREAU OF HOSPITALS, CENTERS,  
AND FORENSIC MENTAL HEALTH SERVICES  
DEPARTMENT OF COMMUNITY HEALTH**

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## Description of Agency

Northville Psychiatric Hospital (NPH) was established in 1952. Its mission\* was to provide a comprehensive array of high-quality inpatient psychiatric services to adult persons with mental illness\* residing in its catchment area\*. NPH was accredited by the Joint Commission on Accreditation of Healthcare Organizations and was certified as a Medicaid\* and Medicare\* provider.

On November 18, 2002, the Department of Community Health (DCH) announced that it would close NPH because of the declining number of patients in the Statewide mental health system, the reduction in work force resulting from early retirements, community service options available to patients, and NPH's poor physical plant. On that date, NPH had 536 employees and 239 patients. As of May 16, 2003, NPH had placed all of its patients in a community setting or transferred them to other State-run psychiatric facilities. As of December 2003, NPH closing staff were still in the process of disposing of NPH's equipment, furnishings, and supplies and securing patient, administrative, and accounting records. Also, NPH closing staff continued to maintain an imprest cash account, utilize a State procurement card, purchase necessary services, and pursue outstanding reimbursements. It will be necessary for DCH to ensure the final disposition, closure, and cancellation of these items.

NPH had expenditures totaling \$58.1 million for fiscal year 2001-02.

\* See glossary at end of report for definition.

## Audit Objective, Scope, and Methodology and Agency Responses

### Audit Objective

The objective of our performance audit\* of Northville Psychiatric Hospital (NPH) and Related Closure Activities, Bureau of Hospitals, Centers, and Forensic Mental Health Services, Department of Community Health (DCH), was to assess the effectiveness\* and efficiency\* of DCH's and NPH's oversight of selected NPH operational and closure activities.

### Audit Scope

Our audit scope was to examine the program and other records related to selected operational activities at Northville Psychiatric Hospital prior to its closure and its closure activities. Our audit was conducted in accordance with *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.

### Audit Methodology

Our audit procedures, conducted from June through November 2003, included an examination of NPH's records and activities primarily for the period October 1, 2000 through December 12, 2003.

To help plan the audit, we conducted a preliminary review to obtain an understanding of NPH's control environment over selected operational activities prior to and during the closure process. As part of our preliminary review, we interviewed DCH and NPH management, staff, and contractors; reviewed applicable laws, rules, regulations, policies and procedures, and other information; and conducted limited testing of financial and other transactions.

To accomplish our objective, we interviewed DCH and NPH staff and contractors; reviewed and tested compliance with applicable policies and procedures; and reviewed related audit and other reports. Also, we obtained an understanding of and tested selected controls over NPH's purchasing and related payment functions; assessed the appropriateness of NPH's contracting and contract cancellation processes; evaluated

\* See glossary at end of report for definition.

NPH's controls over its equipment, furnishings, and supplies and their related disposition; reviewed and assessed NPH's accounting for and disposition of the Gifts, Bequests, and Donations Fund; and examined NPH's telephone usage and service cancellation. In addition, we evaluated NPH's controls over patient funds and property and their subsequent disposition; assessed the appropriateness of NPH's utility allocations; evaluated selected aspects of NPH's emergency preparedness procedures; assessed DCH's compliance with legislative reporting requirements; examined NPH's return of leased vehicles; verified the disposition of cash, State warrants, and official receipts; and tested selected payroll, personnel, and termination settlement transactions.

### Agency Responses

Our audit report contains 13 findings and 23 corresponding recommendations. DCH's preliminary response indicated that it agreed with all of our findings and agreed wholly or in principle with all of our recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DCH to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENT, FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

# EFFECTIVENESS AND EFFICIENCY OF OVERSIGHT OF OPERATIONAL AND CLOSURE ACTIVITIES

## COMMENT

**Audit Objective:** To assess the effectiveness and efficiency of the Department of Community Health's (DCH's) and Northville Psychiatric Hospital's (NPH's) oversight of selected NPH operational and closure activities.

**Conclusion:** We determined that DCH's oversight and NPH's oversight of selected NPH operational activities were not effective. Also, we determined that DCH's oversight and NPH's oversight of selected NPH closure activities were somewhat effective and efficient. Our audit disclosed four material conditions\*. DCH did not ensure that NPH established effective controls over its purchasing, receiving, and payment processes (Finding 1). Also, DCH did not ensure that NPH effectively utilized, accounted for, and controlled its equipment and furnishings (Finding 2). In addition, DCH did not ensure that NPH had established effective controls over its medication supplies (Finding 3). Further, DCH did not ensure that NPH obtained required inspections for its high-pressure, high-temperature boilers or periodically tested the reliability of its backup system for fueling these boilers (Finding 4). Our audit also disclosed reportable conditions\* related to the procurement card program; transfer or disposal of equipment and furnishings; return of unused medications; utility costs; controls over supplies inventory; gasoline and diesel fuel; Gifts, Bequests, and Donations Fund; patient property; and contracts (Findings 5 through 13).

## FINDING

### 1. Controls Over Purchasing

DCH did not ensure that NPH established effective controls over its purchasing, receiving, and payment processes. The material weaknesses in NPH's controls unnecessarily elevated NPH's risk for fraud and abuse, permitted unauthorized expenditures, allowed NPH to overpay for some of the goods and services that it purchased, and resulted in inefficient transaction processing.

In April 1994, the Department of Management and Budget (DMB) contracted with a vendor on behalf of NPH to install a telephone and voice mail system at NPH with an estimated cost of \$482,234. NPH then greatly expanded the scope of the original project with the vendor to include, among other things, the wiring/rewiring

\* See glossary at end of report for definition.

of data and voice lines and the installation of paging and weather alarms systems at a total cost through fiscal year 2002-03 of \$1.86 million. NPH's purchasing department made the additional purchases without appropriate oversight by NPH management.

We reviewed 84 expenditure transactions totaling \$600,776 from the \$1.86 million in purchases and noted:

- a. NPH did not seek competitive bids for work that the vendor completed that was beyond the scope of the work included in the original contract. NPH informed us that it did not seek competitive bids for any of the \$1.38 million in additional work because it trusted the original vendor and thought that the vendor's prices were competitive. Failure to seek competitive bids may have resulted in NPH overpaying for these goods and services.

NPH circumvented DMB's bidding process by inappropriately using a large number of locally issued purchase orders and direct vouchers.

- b. NPH overpaid the vendor approximately \$16,446 for hourly labor billed at rates that exceeded the agreed upon rates. In one instance, NPH established hourly rates in its purchase order that were above the hourly rates that it had orally agreed to with the vendor.
- c. NPH paid the vendor at least \$114,430 for hourly labor charges without documentation, such as approved employee labor tickets, to support the accuracy and validity of the vendor's charges.
- d. NPH paid the vendor \$308 for work done by the vendor for another of the vendor's customers.
- e. NPH's accounting department paid the vendor \$18,725 without obtaining certification from NPH staff that NPH had received the goods and services.
- f. NPH did not complete and/or retain a request to purchase form for any of the expenditure transactions that we reviewed. A request to purchase form should have been completed by the individual requesting the desired items and approved by the appropriate supervisory and/or administrative personnel. Failure to obtain required approvals weakened NPH's system of control and

increased the risk that inappropriate purchases could be made and not detected by NPH management.

- g. NPH received some or all of the goods and services related to at least 48 (57.1%) of the 84 expenditures before it issued the related purchase orders or without issuing a purchase order.

Except in emergencies, the issuance of a purchase order should precede the receipt of goods and services. Purchase orders are needed to formalize the product or service specifications, price, quantity, delivery method, and payment terms and should serve as a point of control in the receiving and payment processes.

Because of the preceding conditions and the potential for fraud and abuse, DCH should consider conducting a complete review of the purchase of NPH's telephone, voice mail, and other systems.

In addition to our review of the aforementioned purchases, we also reviewed other selected transactions and noted:

- (a) NPH's accounting department did not have documentation that NPH had received the goods and services for 28 (49.1%) of the 57 payments that we reviewed totaling \$690,140. (Included within the 28 payments are the 8 payments discussed in Finding 5, item b.)
- (b) NPH did not complete or retain a completed request to purchase form for 31 (58.5%) of the 53 purchases that we reviewed totaling \$166,566. In addition, 8 (36.4%) of the 22 request to purchase forms that were completed and retained totaling \$388,908 did not contain required supervisory and/or administrative approvals. Further, 14 (63.6%) of 22 completed request to purchase forms were not forwarded to NPH's accounting department for it to ensure that the purchases were appropriate before initiating payment.
- (c) NPH did not issue 26 (54.2%) of the 48 purchase orders that we reviewed totaling \$585,059 until after it had received some or all of the purchased goods and services. Many of the 26 purchases were for food and medication that were ordered and received by NPH's food service and pharmacy departments, respectively. Generally, after the food service and pharmacy departments

received deliveries, they would forward the invoice and/or packing slip to the purchasing department for completion of the purchase order. In some instances, they also completed a request to purchase form based upon the vendor invoice. This process was very inefficient. Instead, NPH should have completed a single requisition and blanket purchase order\* (BPO) for each vendor at the beginning of each fiscal year and posted subsequent invoices against those BPOs. If NPH had used this process during fiscal years 2000-01 and 2001-02 with its primary food and medication vendors, it could have eliminated 291 purchase orders and their related processing costs.

- (d) Three NPH purchasing department employees had access to and could generate receiving reports in the Advanced Purchasing and Inventory Control System\* (ADPICS). For a proper separation of duties, purchasing department employees should not have the ability to generate receiving reports. We could not determine if these individuals had generated any receiving reports because ADPICS does not record who initiates them.

Despite the seriousness and prevalence of the cited control weaknesses, DCH did not identify any of them in its biennial internal control assessment for the two-year period ended September 30, 2002.

## **RECOMMENDATIONS**

We recommend that DCH ensure that its remaining hospitals and centers have established effective controls over their purchasing, receiving, and payment processes.

We also recommend that DCH's internal audit unit conduct a complete review of the purchase of NPH's telephone, voice mail, and other systems.

We further recommend that DCH pursue collection of the amounts it overpaid for the goods and services it purchased.

## **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and the first recommendation and agrees in principle with the second and third recommendations. DCH will require its hospitals and centers to address their purchasing activities on the next biennial assessment of

\* See glossary at end of report for definition.

DCH's internal control, which is due May 1, 2005. Any control weaknesses identified through the assessment will be immediately addressed.

Also, DCH's internal audit unit will consider conducting a complete review of the purchase of NPH's telephone, voice mail, and other systems if it can be determined that the potential benefit to be derived warrants the time and cost of conducting a more comprehensive review. In addition, DCH will explore the feasibility of pursuing collection for the amounts it overpaid; however, based on the type of examples and weaknesses described in the findings, DCH may find that it lacks legal recourse to pursue recovery from the vendor.

## **FINDING**

### **2. Accountability for Equipment and Furnishings**

DCH did not ensure that NPH effectively utilized, accounted for, and controlled its equipment and furnishings. As a result, a large quantity of NPH's unused equipment and furnishings became worthless while in storage. In addition, the lack of effective controls increased the risk that misappropriation of State-owned property occurred and was not detected.

Our review disclosed:

- a. NPH stored a large quantity of unneeded equipment and furnishings in various buildings throughout its campus. Our observations disclosed that many of these items appear to have become obsolete, experienced irreparable water damage, or were exposed to asbestos while in storage. DMB Administrative Guide procedure 340.05 requires State agencies to notify DMB's State Surplus Property Program (SSPP) of equipment and furnishings that they no longer need. If NPH had declared the property surplus, SSPP could have authorized its transfer to other State facilities or sold it at an auction.
- b. From March 1992 through April 2003, NPH's administrative officer approved and notified SSPP of the disposition of only nine property items. In addition, NPH staff informed us that it was common practice to dispose of property without notifying NPH's administrative officer. DMB Administrative Guide procedure 340.05 requires the administrative officer or designee to approve the disposition of worthless property on form DMB-269 and to submit the completed form to SSPP. Failure to follow prescribed disposal procedures

circumvented controls designed to prevent the misappropriation of State property.

- c. NPH did not capitalize equipment in accordance with the DMB Office of Financial Management's (OFM's) capitalization requirements. As a result, NPH understated its equipment valuations reported to OFM for inclusion in the *State of Michigan Comprehensive Annual Financial Report*.

OFM requires agencies to capitalize equipment having an acquisition cost of \$5,000 or more and a useful life of more than one year.

To ensure the accuracy of reported inventory valuations, OFM requires agencies to physically inventory capital equipment on an annual basis. Although, NPH's purchasing department conducted physical inventories in September 2001 and 2002, the inventories were inaccurate. Our limited testing and observation disclosed 12 items at NPH with an estimated acquisition cost of \$5,000 or more that NPH did not include on its inventory listings. Also, NPH had traded in 1 of the 23 items included on the listings and had not taken delivery of another item.

NPH informed us that because of NPH's large physical plant and volume of equipment and furnishings, it was not able to keep accurate inventory records.

- d. NPH did not properly separate its purchasing, recordkeeping, and physical inventory functions. As a result, misappropriation of equipment and furnishings could have occurred and gone unnoticed by NPH management. The same individual who was responsible for purchasing equipment also created and maintained the inventory database and participated in and reconciled the annual physical inventory. Sound internal control requires that different individuals complete these functions.
- e. NPH did not have documentation to support a negative adjustment of approximately \$1.96 million to its September 30, 2001 equipment valuation reported to DMB. Although NPH staff informed us that it adjusted its inventory valuation because it no longer accounted for equipment costing less than \$5,000, it could not provide us with documentation to support the adjustment.

Collectively, the aforementioned conditions represent a material weakness in control over NPH's equipment and furnishings. However, DCH did not identify any of these weaknesses in its biennial internal control assessment for the two-year period ended September 30, 2002.

### **RECOMMENDATION**

We recommend that DCH ensure that its remaining hospitals and centers are effectively utilizing, accounting for, and controlling their equipment and furnishings.

### **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendation. DCH will require its remaining hospitals and centers to assess their controls and practices regarding equipment and furnishings on the next biennial assessment of DCH's internal control, which is due May 1, 2005. The assessment will address their procedures for the treatment of unneeded or obsolete equipment, disposition of worthless equipment, identification and capitalization of equipment with an acquisition cost of \$5,000 or more, inventory practices, and whether there is a proper separation of duties. Any control weaknesses identified through the assessment will be immediately addressed.

### **FINDING**

#### **3. Controls Over Medication Supplies**

DCH did not ensure that NPH had established effective controls over its medication supplies. As a result, NPH could not account for the receipt and disposition of the medications it purchased.

To accommodate its patients' medication needs in a timely manner, NPH operated an on-site pharmacy that ordered, received, and stocked hundreds of different prescription and over-the-counter medications. During fiscal years 2000-01 and 2001-02, NPH's medication purchases totaled approximately \$2.7 million and \$2.4 million, respectively. Our review of NPH's controls over the purchase and disposition of these medications disclosed:

- a. NPH pharmacy staff did not verify and/or document that they received the medications that NPH purchased.

DMB Administrative Guide procedure 510.05 requires agencies to visually inspect purchased commodities for weight, measure, or count according to the unit of issue stated on the order. We reviewed NPH's supporting documentation (i.e., packing slips and invoices) for 8 medication-related expenditures from fiscal years 2000-01, 2001-02, and 2002-03, totaling approximately \$605,200. There was no documentation that pharmacy staff had inspected the deliveries and attested to the accuracy of the related packing slips and/or invoices.

- b. NPH did not maintain an inventory control program for its non-controlled substances, even though these medications accounted for most of its annual medication expenditures. Without such a program, NPH could not account for the proper disposition of the non-controlled substances it purchased. During fiscal year 2001-02, NPH expended approximately \$2.3 million on non-controlled substances.

DMB Administrative Guide procedure 1270.04 requires agencies maintaining warehouses or stock centers to establish and maintain an inventory control program that is verified at least annually by a physical inventory count.

- c. NPH did not maintain an appropriate separation of duties for ensuring effective control over its controlled substances.

The same individual who ordered and received controlled substances for NPH also maintained the perpetual inventory records for NPH's controlled substances, physically inventoried the controlled substances, and reconciled the physical inventory records to the perpetual inventory records. At a minimum, the ordering and receiving functions should have been separated from the recordkeeping and physical inventory functions. Without a proper separation of duties, the inventory records could have been altered to conceal the misappropriation of controlled substances.

### **RECOMMENDATION**

We recommend that DCH ensure that its remaining hospitals and centers have established effective controls over their medication supplies.

### **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendation. DCH informed us that its internal audit unit has initiated a review of the controls over all medication supplies

at DCH's remaining hospitals and centers. The internal audit unit expects to complete the review by April 30, 2005. DCH will immediately initiate corrective action in response to any deficiencies identified as a result of this review. In addition to the review, DCH will require its remaining hospitals and centers to assess the controls over their medication supplies on the next biennial assessment of DCH's internal control, which is due May 1, 2005.

## **FINDING**

### **4. Boiler Inspections and Backup Testing**

DCH did not ensure that NPH obtained required inspections for its high-pressure, high-temperature boilers or periodically tested the reliability of its backup system for fueling these boilers. These shortcomings may have jeopardized the safety and well-being of NPH and Hawthorn Center (HC) patients and staff.

NPH used four high-pressure, high-temperature boilers to generate steam for heating and cooling its facilities and those of HC, a DCH psychiatric hospital located adjacent to NPH. To help minimize the dangers inherent with this type of boiler, Section 408.769 of the *Michigan Compiled Laws* requires that such boilers be inspected annually. However, as of October 2003, between 22 and 37 months had passed since the boilers' last inspection. Timely inspection of the boilers and mitigation of any noted problems would help ensure the safety and welfare of those individuals working on or near the boilers.

In compliance with Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) standards, NPH developed a backup system for fueling its boilers. Its backup system consisted of approximately 125,000 gallons of fuel oil and related delivery equipment. However, NPH did not periodically test the reliability of this system to ensure its continued functionality. NPH informed us that it last tested the backup system in 1999 and that, during this test, it experienced difficulty igniting the fuel oil and keeping it ignited. NPH concluded that these difficulties were the result of the poor condition of the fuel oil, which at the time of the test was up to 13 years old. Despite these difficulties, NPH did not replace the aging fuel oil or perform any subsequent tests of the system.

Because four years have passed since the last test, NPH is unsure if its backup system is still functional and, therefore, it may not be in compliance with applicable JCAHO standards. More importantly, NPH cannot ensure that it can timely

generate steam for heating or cooling in the event that its primary fuel supply is lost. Although NPH closed effective July 16, 2003, DCH plans to continue using its steam generation system for heating and cooling HC. Consequently, it is imperative that DCH ensure that the boilers are inspected annually and periodically test the backup system.

## **RECOMMENDATIONS**

We recommend that DCH obtain required inspections for NPH's high-pressure, high-temperature boilers and periodically test the reliability of the backup system for fueling these boilers.

We also recommend that DCH ensure that its remaining hospitals and centers have obtained required inspections for their boilers and have periodically tested the reliability of the backup system for fueling these boilers.

## **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendations. DCH informed us that it is likely that the inspections were not completed because of a communication breakdown between NPH staff and the company responsible for the inspections. DCH maintained that early retirements, layoffs, and transfers of power plant supervisory employees would have all contributed to the communication breakdown. DCH informed us that two of the four boilers have now been inspected and approved for operation. One is currently being used and the other is available as a backup. DCH also informed us that a third boiler has been scheduled for inspection and will not be used as a backup until it has passed an inspection and that the fourth boiler has been taken out of operation. In addition, DCH informed us that it is currently in the process of separating HC's dependence on utilities generated by NPH's power plant. This project should be completed by summer 2006 and will result in NPH's power plant being shut down. Regular inspections of NPH's boilers will be performed until the power plant is closed. As for testing the backup system, DCH informed us that it is in the process of having the aged fuel oil examined and, if necessary, the aged fuel removed and replaced, and will then conduct a thorough test of its backup system and will periodically conduct these tests until the power plant is shut down.

In addition, DCH informed us that it is in the process of verifying that the boilers at all of its other remaining hospitals and centers have been inspected and approved.

DCH will also follow up with each hospital and center to ensure that backup systems have been, and are being, tested periodically.

## **FINDING**

### **5. Procurement Card Program**

DCH did not ensure that NPH complied with various DMB and DCH policies, procedures, and directives governing the use of State procurement cards. As a result, there was a heightened risk that inappropriate purchases were made and not detected by NPH. Also, we could not assess the appropriateness of many of NPH's procurement card transactions.

NPH used State procurement cards to make purchases totaling \$1.02 million during the two-year period ended September 30, 2002. Our audit noted exceptions to one or more governing policies, procedures, and directives for 73 (100.0%) of the 73 procurement card purchase transactions that we tested, totaling \$57,204. Specifically, we noted:

- a. NPH did not have documentation of supervisory postapproval for 71 (97.3%) of the purchases as required by the DCH Procedures and Administrator Responsibilities Manual. The approval is needed to ensure that the purchase is made in accordance with policies, procedures, and directives and is necessary for the conduct of official NPH business.
- b. NPH's accounting department did not have supporting documentation (e.g., approvals, invoices, and receipts) for 8 (11.0%) purchases totaling \$5,547. Because our review disclosed that one cardholder had made 7 of the 8 purchases, we conducted a complete review of the cardholder's purchases from October 1, 2000 through May 8, 2003. Our review disclosed that NPH did not have supporting documentation for \$23,006 (16.5%) of the \$139,257 in purchases that the individual made during this time period.

The DCH Procedures and Administrator Responsibilities Manual requires procurement cardholders to provide supporting documentation (e.g., packing slips, invoices, and receipts) to their supervisors, who are required to review the documentation and, if appropriate, authorize payment and forward the documentation to the accounting department for payment processing.

- c. NPH split 2 (2.7%) purchases into 11 separate transactions totaling \$23,314 to avoid exceeding DMB's \$2,500 individual transaction limit. DMB Administrative Guide procedure 510.03 and the DCH Procedures and Administrator Responsibilities Manual restrict the use of a State procurement card to purchases of \$2,500 or less.
- d. In 7 (9.6%) instances, NPH employees inappropriately used procurement cards belonging to other NPH employees to make purchases totaling \$5,054. DMB Administrative Guide procedure 510.03 strictly prohibits the use of a State procurement card by anyone other than the authorized cardholder. Sharing of procurement cards weakens NPH's system of internal control and heightens the risk for unauthorized purchases.
- e. NPH's accounting department did not perform periodic audits of procurement card purchases as required by the DCH Procedures and Administrator Responsibilities Manual. Periodic audits may have disclosed some of the conditions cited in items a. through e. and provided NPH management with the opportunity to rectify them.

### **RECOMMENDATION**

We recommend that DCH ensure that its remaining hospitals and centers are complying with DMB and DCH policies, procedures, and directives governing the use of State procurement cards.

### **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendation. DCH will require its remaining hospitals and centers to assess their controls over the utilization of procurement cards on the next biennial assessment of DCH's internal control, which is due May 1, 2005. Any control weaknesses identified through the assessment will be immediately addressed. DCH central office staff charged with general oversight responsibilities for the utilization of procurement cards will also periodically review the hospitals' and centers' procurement card activities to ensure compliance with applicable policies and procedures.

## **FINDING**

### **6. Transfer or Disposal of Equipment and Furnishings**

DCH's closing procedure did not provide adequate direction to NPH closing staff for the effective and efficient inventory and subsequent transfer or disposal of NPH's equipment and furnishings. As a result, the process was overly labor intensive and did not ensure the appropriate transfer or disposal of these items.

DCH hospital/center closing procedure 01 C1112 GL04 requires a closing facility to inventory its equipment items costing \$5,000 or more as soon as the closing is announced. A January 2003 report by DCH's internal audit unit recommended that DCH amend this procedure to include the inventory of items such as equipment, furniture, appliances, and tools valued at less than \$5,000 that may be subject to misappropriation or improper disposal. The inventory records are needed to establish accountability for State-owned assets and to help ensure their appropriate transfer or disposal.

In an effort to comply with the closing procedure and audit recommendation, NPH closing staff began tagging and inventorying NPH's equipment and furnishings on March 3, 2003 (approximately 3.5 months after NPH's announced closure). After spending approximately 6 months tagging and inventorying more than 12,500 items, NPH discontinued the inventory process without inventorying the equipment and furnishings located in several areas, including the large maintenance shop.

Shortly after terminating the inventory process, staff from DMB's SSPP visited NPH and observed NPH's remaining equipment and furnishings. SSPP then informed NPH that NPH's maintenance shop contained many items with good salvage value that needed to be tightly controlled throughout the closing process.

Despite receiving this instruction, NPH did not resume and complete the inventory process. Because NPH did not create an accurate and complete inventory record immediately upon its announced closure and before it began to physically transfer or dispose of its equipment and furnishings (the transfer or disposal process began June 4, 2003), it will not be possible to determine if NPH appropriately transferred or disposed of its equipment and furnishings.

In addition, our review disclosed that many of the equipment and furnishings that were inventoried by NPH closing staff were damaged, broken, obsolete, and/or possessed little or no salvage value and, therefore, should not have been

inventoried. Instead, NPH staff should have separated these items out and reported them to DMB in aggregate as worthless property. This would have significantly reduced the amount of staff time required to tag the equipment and furnishings, create the inventory record, and track and report the transfer or disposal of the individual items to DMB. Also, it may have allowed NPH closing staff sufficient time to complete the inventory of those items that should have been inventoried but were not.

### **RECOMMENDATION**

We recommend that DCH amend its closing procedure to provide adequate direction to closing staff for the effective and efficient inventory and subsequent transfer or disposal of equipment and furnishings during future closings.

### **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and agrees in principle with the recommendation; however, DCH does not agree with the inference in the recommendation that the problems identified in the finding could have been prevented simply through better procedures. DCH informed us that, while better procedures may have provided guidance and made the process more efficient in terms of identifying items that could have been excluded, the process of conducting a complete and accurate inventory at NPH within a short period of time was extremely difficult because of staffing shortages and the sheer size of the facility. DCH maintained that over 200 staff left NPH at the end of October 2002 because of the early retirement program and many others left for positions at other facilities. While DCH does not expect any future closings to produce the challenges presented at NPH, it will amend its procedures to better define the types of equipment and furnishings that need to be inventoried.

### **FINDING**

#### **7. Return of Unused Medications**

DCH did not ensure that NPH appropriately accounted for the unused medications that it returned for refund upon its closure. As a result, we could not determine if NPH appropriately returned all of its unused medications or received a complete refund for them.

DMB contracted with a vendor to coordinate the return of expired, recalled, damaged, and unneeded medications belonging to DCH hospitals and centers.

Upon its closure, NPH contacted the vendor, who subsequently visited NPH and inventoried and took possession of NPH's medications classified as controlled substances. NPH then packaged and shipped its medications classified as non-controlled substances to the vendor, who then provided NPH with an official manifest listing the quantity of each returned controlled and non-controlled substance that it acknowledged receiving and the expected refund amount related to each. Our review of this process and NPH's related follow-up disclosed:

- a. NPH did not create an inventory record of the non-controlled substances that it shipped to the vendor for return and refund. During fiscal year 2001-02, NPH expended approximately \$2.3 million on non-controlled substances. However, without an inventory record, NPH's accounting department could not assess the accuracy of the vendor's related manifest and ultimately determine if it was fully refunded for all of the non-controlled substances that it returned.
- b. NPH's accounting department did not compare the inventory record of controlled substances that was prepared by the vendor and verified by NPH's pharmacist with the vendor's manifest to ensure that all medications taken by the vendor were appropriately included on the manifest.

We compared NPH's inventory records with the vendor's manifest and noted that 22 (51.2%) of the 43 controlled substances listed on the inventory record did not appear on the manifest. In addition, for 5 (11.6%) controlled substances, the quantity on NPH's inventory record was less than the quantity listed on the manifest by an average of 133 tablets. Given these discrepancies, it is unlikely that NPH was refunded for all of the controlled substances that it returned.

- c. NPH's accounting department did not compare the vendor's manifests of returned medications with the refunds that it received to ensure that it was fully refunded for all medications listed on the manifests.

At the time of our fieldwork, NPH had received refunds for returned medications totaling approximately \$74,100. However, based on our review of the vendor's manifests, NPH was still owed up to approximately \$7,900. Because NPH was unaware of this difference, it had not initiated any related collection efforts.

NPH's preclosure plan, developed and overseen by DCH's closing coordinator, required NPH's pharmacist to inventory all unused medications to be returned to the vendor for refund and to provide the related documentation to NPH's accounting department to ensure that NPH received the proper refund amount. The preclosure plan indicated that these functions had been completed as of May 16, 2003; however, as previously indicated, the majority of this plan was not carried out.

## **RECOMMENDATIONS**

We recommend that the DCH ensure that its remaining hospitals and centers are properly accounting for unused medications returned for refund in the event of their closure.

We also recommend that DCH pursue the collection of all amounts still due to it for returned medications.

## **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendations. DCH will require its remaining hospitals and centers to assess their current activities for the return of all unused medications on the next biennial assessment of DCH's internal control, which is due May 1, 2005. Any control weaknesses identified through the assessment will be immediately addressed. DCH will also initiate measures to ensure that its remaining hospitals and centers properly account for unused medications returned for refunds in the event of future closures.

DCH informed us that it has collected all outstanding amounts that were due to it for returned medications.

## **FINDING**

### **8. Utility Costs**

DCH did not ensure that HC paid NPH for the cost of the electricity, water and sewer service, and steam that NPH provided to it. This caused HC's and NPH's costs for fiscal year 2002-03 to be misstated, which will likely result in the State receiving less federal Medicaid revenue than it is otherwise entitled to receive.

Medicaid, a State and federally funded health insurance program, reimburses HC and NPH for the services that they deliver to Medicaid beneficiaries. The amount

of Medicaid reimbursement paid to HC and NPH is based, in part, on their documented costs to provide services, subject to Medicaid limitations. At the time of our audit, HC paid NPH for one third of NPH's total electrical costs but for none of its water and sewer service, natural gas, or other steam generation costs. Preliminarily, it appears that NPH's and HC's total operating costs for fiscal year 2002-03 were above and below Medicaid's cost limitations, respectively. As a result, we estimated that if HC had also paid NPH for one third of NPH's water and sewer service and natural gas costs during fiscal year 2002-03, HC's increased costs would have generated additional federal Medicaid revenues to the State of up to \$320,000.

NPH received its electricity, water, and natural gas through direct feeds from local utility suppliers. Through secondary feeds, NPH supplied electricity and water to HC. In addition, NPH provided HC with steam for hot water, cooking, heating, and cooling. NPH generated this steam in natural gas fired boilers located in its powerhouse. For fiscal year 2002-03, NPH's electricity, water and sewer service, and natural gas expenditures were \$484,216, \$523,949, and \$1,181,982, respectively. In addition to these expenditures, NPH incurred other utility related expenditures for, among other things, powerhouse staffing and maintenance and water treatment supplies.

We requested documentation to support the accuracy of the electrical costs charged to HC; however, DCH staff informed us that the documentation did not exist or could not be located and suggested that the charges may have resulted from an informal agreement. Subsequent to our fieldwork, DCH closing staff provided us with an analysis that estimated that HC utilized 29.0% and 42.9% of the electricity that NPH purchased during November 2002 and January 2004, respectively. In addition, closing staff provided us with an analysis that estimated that HC utilized 33.7% of the steam produced by NPH during September 2003.

Although NPH ceased general operations effective July 16, 2003, its physical plant continued to provide HC with electricity, water, and steam. Because HC continued to provide and bill Medicaid for inpatient services, it is important that all applicable utility expenditures be reflected in its costs to maximize its reimbursements.

## **RECOMMENDATION**

We recommend that DCH ensure that HC pays NPH for the cost of the electricity, water and sewer service, and steam that NPH provides to it.

## **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and agrees in principle with the recommendation. DCH will explore the feasibility of determining and paying NPH for HC's appropriate share of utility costs and amending the fiscal year 2002-03 cost report accordingly. The arrangement between HC and NPH was made several years ago, and DCH agrees that it simply lacks documentation to support how this agreement was determined.

DCH informed us that it is coordinating with DMB for the separation of HC's utilities from the NPH power plant. Construction began on November 23, 2004, with a substantial completion date of December 17, 2005. Also, DCH informed us that once the utilities for HC are separated, the costs will be known. At that time, the cost of utilities will be appropriately reflected in HC's costs. Because this is not an ongoing long-term issue, DCH will weigh the potential benefit against the additional time and effort that would be required to determine the appropriate amount of costs for a time period that is not expected to cover more than two fiscal years.

## **FINDING**

### **9. Controls Over Supplies Inventory**

DCH did not ensure that NPH established effective controls over its supplies inventory. The lack of effective controls could have allowed for the undetected misappropriation of NPH supplies and resulted in the inefficient use of State resources.

NPH operated a central warehouse that, as of September 30, 2002, stocked approximately 500 different commodities (excluding forms), including small electronics and furnishings; patient clothing and toiletries; and cleaning, maintenance, medical, and office supplies. During the three-year period ended September 30, 2002, NPH purchased (exclusive of procurement card purchases) approximately \$2.3 million in supplies. Our review of NPH's controls over its supplies inventories disclosed:

- a. NPH did not maintain an appropriate separation of duties for effectively controlling its supplies. The individual who was responsible for purchasing supplies was also responsible for developing and maintaining NPH's automated supply inventory system; approving some supply requisitions; supervising the annual physical inventory of supplies; and initiating, approving,

and posting inventory adjustments to the automated supply inventory system. This individual also had physical access to the supplies. Compounding the risks associated with the poor separation of duties was a lack of accounting and/or administrative oversight or review of the supplies inventory system.

- b. NPH warehouse staff did not ensure that supply requisitions were properly completed prior to distributing the requested supplies. Our review of 161 supply requisitions disclosed that 81 (50.3%) had not been signed and dated by the person who initiated the requisition. Also, the applicable department head or the assistant director of nursing did not approve 143 (88.8%) of the requisitions. In addition, NPH staff did not cross out unused lines or initial and date changes on the supply requisitions to help prevent unauthorized additions.
- c. NPH did not maintain its inventory balance for some commodities within their established maximum balances. To help ensure that it maintained sufficient but not excessive inventory balances, NPH established a minimum and maximum inventory balance for each of its stocked commodities. However, as of September 30, 2002, the inventory balance for 199 (39.8%) of the 500 stocked commodities exceeded the established maximum inventory balance and, in many instances, exceeded the maximum by a substantial amount. Maintaining excessive inventory balances was an inefficient use of State resources.

Although our review did not disclose any misappropriation of supplies, our testing was limited because we could not rely on the integrity of the data in the automated supply inventory system. Further, NPH closing staff had not been provided with training to operate the automated supply inventory system and there were no written operating procedures explaining how to do so.

### **RECOMMENDATION**

We recommend that DCH ensure that its remaining hospitals and centers have established effective controls over their supplies inventories.

### **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendation and notes that no misappropriation of supplies was found at NPH. DCH will require its remaining hospitals and centers to address their activities and controls over their supplies

inventories on the next biennial assessment of DCH's internal control, which is due May 1, 2005. Any control weaknesses identified through the assessment will be immediately addressed.

## **FINDING**

### **10. Gasoline and Diesel Fuel**

DCH did not ensure that NPH effectively controlled access to and accounted for usage of its gasoline and diesel fuel. In addition, DCH did not ensure that NPH billed DMB's Vehicle Services (VS) for the gasoline and diesel fuel used in the vehicles it leased from VS.

As a result of these conditions, NPH could not ensure that the gasoline and diesel fuel it purchased and dispensed was used for official State business. In addition, NPH paid for gasoline and diesel fuel that were already included in the lease charges that NPH paid to VS. As a result, the State's General Fund was charged twice for the costs of this gasoline and diesel fuel, which for the two-year period ended September 30, 2002 totaled approximately \$49,000.

To fuel its leased vehicles, NPH purchased and stored bulk supplies of gasoline and diesel fuel. Our review of NPH's controls for accessing and controlling the fuel and for billing VS for the fuel disclosed:

- a. NPH did not appropriately restrict or monitor employee access to its fuel pumps. An NPH maintenance employee informed us that NPH and other State employees had unrestricted and unmonitored access to NPH's fuel pumps. NPH required individuals dispensing fuel to fill out and sign a usage log identifying the date, vehicle license number, vehicle odometer reading, and quantity of fuel dispensed. However, without adequate monitoring, NPH was unable to ensure that individuals completed the required usage logs or that the dispensed fuel was for official State business.
- b. NPH did not periodically reconcile its fuel inventories with its related purchasing records and usage logs to ensure that all fuel was appropriately accounted for. We attempted to reconcile NPH's gasoline inventory and related purchasing and usage logs for the 17-month period ended September 2003. However, NPH could not provide us with documentation to support the usage of at least 7,861 (30.5%) of the 25,768 gallons of gasoline that it had

purchased during this time. The undocumented usage may have resulted from employee theft or from employees' failure to complete the required usage logs.

- c. NPH did not bill VS for the gasoline and diesel fuel that NPH used in the vehicles it leased from VS. VS reimburses vehicle lessees for fuel and minor maintenance items purchased for leased vehicles when the lessees provide it with a bill accompanied by appropriate supporting documentation. For the two-year period ended September 30, 2002, NPH had expended approximately \$49,000 for 52,871 gallons of gasoline and diesel fuel. Based on our review of NPH's usage logs, the vast majority of this fuel was used in leased vehicles and, therefore, should have been billed to VS.

NPH informed us that it was not aware that VS lease charges included fuel and, as a result, it did not bill VS accordingly.

### **RECOMMENDATIONS**

We recommend that DCH ensure that its remaining hospitals and centers are effectively controlling access to and accounting for usage of their gasoline and diesel fuel.

We also recommend that DCH ensure that its remaining hospitals and centers are billing VS for the gasoline and diesel fuel used in their leased vehicles.

We further recommend that DCH bill VS for the gasoline and diesel fuel the NPH used in its leased vehicles.

### **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and with the first and second recommendations and agrees in principle with the third recommendation. DCH will require its remaining hospitals and centers to address their activities for controlling access, billing VS, and accounting for the use of gasoline and diesel fuel in their leased vehicles on the next biennial assessment of DCH's internal control, which is due May 1, 2005. Any control weaknesses identified through the assessment will be immediately addressed.

DCH does not believe that the amount that could be billed and recovered from VS for NPH's gasoline and diesel fuel warrants the time and effort required to complete such a project.

## **FINDING**

### **11. Gifts, Bequests, and Donations Fund (GBDF)**

DCH did not ensure that NPH appropriately accounted for its GBDF. In addition, DCH did not ensure that NPH transferred the revenue and related interest that it earned in its clinical rotation program from its GBDF to the State's General Fund.

As a result of these conditions, DCH could not ensure that NPH's GBDF funds were expended and will continue to be expended in accordance with donor wishes. Also, NPH inappropriately deposited approximately \$113,000 of General Fund revenue into GBDF.

DCH informed us that, as of June 27, 2003, NPH had approximately \$278,000 in its GBDF. We reviewed NPH's GBDF activities and noted:

- a. NPH did not maintain required subaccounts for its GBDF. *Michigan Administrative Code R 330.1005(2)* requires facilities to maintain subaccounts that detail the specific purpose for which gifts, grants, bequests, and other donations are made. Without these subaccounts, DCH cannot ensure that NPH's GBDF is expended in accordance with donor wishes, when applicable.

In our report on the closing of DCH's Clinton Valley Center (CVC), dated June 26, 1998, we reported that CVC also lacked adequate supporting documentation for its GBDF. Based upon our current finding at NPH, it does not appear that DCH sufficiently acted on the finding to ensure that its remaining hospitals and centers maintained appropriate supporting documentation for their GBDFs.

- b. NPH did not submit annual reports to DCH for its GBDF activities for fiscal years 1997-98 through 2001-02. *Michigan Administrative Code R 330.1005(6)* requires DCH facilities to annually report to DCH the gifts, grants, bequests, and other donations accepted during the year along with any GBDF-related expenditures.

In June 1999, DCH's internal audit unit issued a report on its review of selected NPH operations, including GBDF. The report stated that NPH had failed to submit its annual report detailing its GBDF activity for fiscal years 1990-91 through 1996-97. NPH submitted a plan of correction for some of the findings included in the report but did not address the GBDF reporting requirement. DCH did not review NPH's GBDF activities subsequent to this review.

- c. NPH did not retain supporting documentation for 3 (75.0%) of 4 purchases made from GBDF accounts during the period September 1999 through July 2002. The three purchases totaled \$2,195. As a result, we could not assess the appropriateness of these expenditures.
- d. NPH improperly deposited revenue received from its clinical rotation program into its GBDF. NPH deposited General Fund revenue totaling approximately \$113,000 from the program's inception in July 1996 through the program's suspension in March 1999. In the June 1999 report mentioned in item b., NPH was cited for improperly recording the revenue in its GBDF; however, NPH did not subsequently transfer the related funds from its GBDF to the General Fund. It is important that DCH appropriately transfer this revenue to the State's General Fund as it will distribute NPH's unexpended GBDF among its remaining hospitals and centers.

### **RECOMMENDATIONS**

We recommend that DCH ensure that its remaining hospitals and centers are appropriately accounting for their GBDFs.

We also recommend that DCH transfer revenue of approximately \$113,000 and related interest earned in NPH's clinical rotation program from NPH's GBDF to the State's General Fund.

### **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendations. DCH informed us that it has implemented procedures to appropriately account for the GBDF at each of its remaining hospitals and centers. In addition, DCH will transfer \$113,000 from NPH's GBDF to the State's General Fund.

## **FINDING**

### **12. Patient Property**

DCH did not ensure that NPH created and retained documentation to support its release of personal property belonging to some patients discharged during the closing process. In addition, DCH did not ensure that NPH promptly released personal property belonging to patients discharged prior to the closing process. As a result, NPH did not sufficiently limit its liability for lost or stolen patient property.

Section 330.1728(7) of the *Michigan Compiled Laws* requires mental health facilities to release patients' personal property to them or their designee upon discharge. Accordingly, when a patient was ready for discharge, NPH procedures provided that nursing staff create a comprehensive inventory record of the patient's personal property located at the facility. Also, NPH required nursing staff to sign the inventory record acknowledging the release of the personal property and to simultaneously obtain the signature of the person taking custody of the property. Generally, this was a staff member from another psychiatric facility, the patient, or the patient's parent or guardian.

We reviewed personal property records for a sample of 20 patients discharged during the closing process and noted:

- a. NPH nursing staff did not create and retain personal property inventory records for 5 (25.0%) patients. As a result, it could not be determined if NPH had appropriately released the personal property belonging to these individuals.
- b. NPH nursing staff did not require individuals receiving patient property to verify the accuracy of the property inventory record or acknowledge receipt of the patient property by signing the property inventory record before releasing the property to them. Instead, NPH nursing staff gave the inventory record to the individuals receiving the patient property and requested that they return it with their signature at a later date. In 5 (33.3%) of 15 applicable instances, the individual that received the patient property did not return the signed inventory record to NPH. Consequently, NPH did not have documentation that it had appropriately released these patients' personal property. Also, in 7 (70.0%) of the 10 instances when the individuals did return the signed inventory record, the individuals had noted inaccuracies with NPH's inventory record. Because these inaccuracies were not identified when the patient property changed

hands, it was not possible to place responsibility for any lost, stolen, or misplaced items.

In earlier review reports on facility closings, we recommended that DCH implement measures to ensure that its facilities create and retain documentation to support the release of patient personal property. DCH's closing coordinator informed us that he had developed a checklist for NPH nursing staff to use to ensure the appropriate release of patient personal property. However, for unknown reasons, NPH nursing staff did not use the checklist.

In addition to failing to appropriately document the disposition of patient personal property during the closing process, NPH also failed to release personal property belonging to at least 31 patients discharged prior to the closing process. DCH's closing coordinator informed us that NPH would attempt to return items with value to their original owner or escheat them as appropriate and destroy those items determined to be worthless.

## **RECOMMENDATIONS**

We recommend that DCH ensure that its remaining hospitals and centers create and retain documentation to support the release of patient personal property during future facility closings.

We also recommend that DCH ensure that its remaining hospitals and centers promptly release personal property belonging to patients discharged prior to any closing process.

We further recommend that DCH inventory and appropriately dispose of the NPH patient property that it still possesses.

## **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendations. DCH will ensure that its remaining hospitals and centers create and retain documentation to support the release of patient personal property for all patients who are discharged, including those during future facility closings. In addition, DCH will require its remaining hospitals and centers to address their patient property activities on the next biennial assessment of DCH's internal control, which is due May 1, 2005. Any control weaknesses identified through the assessment will be immediately addressed.

DCH informed us that the departure of a large number of NPH employees early in the closing process contributed to a communication breakdown and existing patient property procedures not always being followed. DCH feels that it will be better prepared to anticipate and prevent these same types of problems during future closings as a result of this experience.

DCH also informed us that NPH has disposed of all patient property belonging to the NPH patients who were discharged prior to the closing process. Although DCH did not know why the property was left behind, DCH believes that it is highly probable that the items had been in NPH's basement for many years and were left by patients who did not want the items or who went to unauthorized leave status and their whereabouts was never made known to NPH.

## **FINDING**

### 13. Contracts

DCH did not ensure that NPH executed contracts with some of the vendors from which it procured services. In addition, DCH did not ensure that NPH's contract language included provisions necessary to protect the interest of the State.

The lack of contracts and lack of standard DMB contract language limited NPH's leverage or recourse in resolving disputes over, among other things, the quantity, quality, price, and cancellation of services. Also, it may have unnecessarily increased the State's liability related to providing the purchased services.

NPH used purchase orders signed by NPH and the vendor as its contractual agreements. However, our limited testing disclosed instances in which NPH paid for services without the protection of a signed purchase order. For example, during fiscal year 2001-02, NPH paid a pharmacy employment services company approximately \$154,000 without a purchase order signed by both parties. In addition, although NPH and the pharmacy employment services company both signed a purchase order for services provided during fiscal years 2000-01 and 2002-03, the purchase orders did not contain many necessary provisions, including those related to indemnification, insurance, nondiscrimination, and termination/cancellation. NPH paid the vendor approximately \$116,000 and \$102,000 during each of these fiscal years, respectively.

## **RECOMMENDATIONS**

We recommend that DCH ensure that its remaining hospitals and centers have executed contracts with all vendors from which they procure services.

We also recommend that DCH ensure that the contract language used by its remaining hospitals and centers include provisions necessary to protect the interest of the State.

## **AGENCY PRELIMINARY RESPONSE**

DCH agrees with the finding and recommendations. DCH will require its remaining hospitals and centers to review their vendor transactions to ensure that contracts have been executed. In addition, existing contracts will be reviewed to ensure that language includes the necessary provisions to protect the interests of the State. The DCH central office contract management section will also work with DCH's remaining hospitals and centers in an attempt to adopt standard contract language that will offer the necessary protections.

# GLOSSARY

## Glossary of Acronyms and Terms

Advanced Purchasing and Inventory Control System (ADPICS)	The State's procurement and materials management system that is fully integrated with Relational Standard Accounting and Reporting System (R*STARS) in supporting the purchasing, receiving, payment process, and inventory management within State agencies.
blanket purchase order (BPO)	A contract between the State and a vendor for a commodity to be purchased on an as-needed basis for a specified period of time. BPOs can be created by DMB's Acquisition Services for Statewide use or by an agency for that agency's use only. Purchases are made by creating releases against the BPO. Releases are created by purchase orders or direct purchase orders.
catchment area	The geographical area from which a hospital obtains its patients.
CVC	Clinton Valley Center.
DCH	Department of Community Health.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
GBDF	Gifts, Bequests, and Donations Fund.
HC	Hawthorn Center.
JCAHO	Joint Commission on the Accreditation of Healthcare Organizations.

material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
Medicaid	A State government-operated health care program for the medically needy funded by State money and federal matching money.
Medicare	A federal government-operated health care program for the elderly funded by federal money.
mental illness	A substantial disorder of thought or mood that significantly impairs an individual's judgment, behavior, capacity to recognize reality, or ability to cope with the ordinary demands of life.
mission	The agency's main purpose or the reason that the agency was established.
NPH	Northville Psychiatric Hospital.
OFM	Office of Financial Management.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

SSPP

State Surplus Property Program.

VS

Vehicle Services.