

PERFORMANCE AND FINANCIAL RELATED AUDIT
OF THE

HOSPITAL PATIENTS' TRUST FUND

DEPARTMENT OF COMMUNITY HEALTH

December 1998

EXECUTIVE DIGEST

HOSPITAL PATIENTS' TRUST FUND

INTRODUCTION

This report, issued in December 1998, contains the results of our performance* and financial related audit* of the Hospital Patients' Trust Fund (HPTF), Department of Community Health* (DCH). The financial related portion of our audit covered the period October 1, 1995 through December 31, 1997.

AUDIT PURPOSE

This performance and financial related audit was conducted in response to a legislative request and as part of the constitutional responsibility of the Office of the Auditor General. In addition, the DCH Single Audit* for the two fiscal years ended September 30, 1997 relied on this audit's tests of HPTF transactions and internal controls. Those tests serve as the basis for the independent auditor's reports included in the DCH Single Audit as they relate to the HPTF. Accordingly, the Single Audit makes reference to the findings included in this audit.

Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* . Financial related audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

* See glossary on page 28 for definition.

BACKGROUND

The State established HPTF pursuant to Act 258, P.A. 1974, to account for the funds of patients receiving services in State hospitals. DCH, in conjunction with the State Treasurer, acts as trustee for HPTF. HPTF is separate from the State's General Fund to comply with generally accepted accounting principles, which require a separate accounting of the patients' funds held in trust by the State. HPTF earns interest quarterly from its equity stake in the State Treasurer's Common Cash pool. In turn, DCH distributes interest on a monthly basis to patients who meet minimum balance requirements.

Regular trust accounting summary reports, including assets, liabilities, expenditures, and revenues, are maintained on the Michigan Administrative Information Network* (MAIN) and serve as the basis for the HPTF financial statements. The State discloses the financial activity of HPTF in the *State of Michigan Comprehensive Annual Financial Report* as one of several miscellaneous trust funds. Separate HPTF financial statements are included in the DCH Single Audit report. DCH records detailed accounting information for each patient account in its Patient Accounting System (PAS) at each facility. As of October 1, 1995, 11 DCH facilities held patient funds. As of September 30, 1997, 9 DCH facilities held patient funds.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the adequacy of DCH's internal control structure* as it relates to PAS and HPTF.

* See glossary on page 28 for definition.

Conclusion: Our assessment disclosed a material weakness* in the internal control structure over PAS and HPTF:

- DCH did not reconcile the balances recorded in PAS with MAIN from October 1, 1995 through March 31, 1998 (Finding 1). We included this material weakness in our independent auditor's report on the internal control structure in the DCH Single Audit for the two fiscal years ended September 30, 1997.

DCH agreed with the finding and the 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.

In addition, our assessment noted a reportable condition* regarding PAS controls (Finding 2).

Noteworthy Accomplishments: DCH completed the necessary coding changes in MAIN for the reconciliation of PAS with MAIN effective April 1, 1998. We consider these changes and the subsequent reconciliation of PAS with MAIN to be noteworthy accomplishments, which enhance DCH's ability to control and monitor HPTF.

* See glossary on page 28 for definition.

Audit Objective: To assess DCH's effectiveness in administering and safeguarding patient funds and personal property.

Conclusion: Generally, DCH was effective in administering and safeguarding patient funds and not effective in administering and safeguarding patient personal property. Our assessment disclosed two material weaknesses in DCH's administration and safeguarding of patient funds and personal property:

- DCH did not ensure that the HPTF fund balance, revenues, expenditures, and operating transfers were correctly accounted for on MAIN (Finding 3). 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. These material misstatements resulted in a qualified opinion* in the independent auditor's report on the HPTF financial statements for the fiscal year ended September 30, 1997 and an adverse opinion* in the independent auditor's report on the HPTF financial statements for the fiscal year ended September 30, 1996. Both of these independent auditor's reports are included in the DCH Single Audit report for the two fiscal years ended September 30, 1997.

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

* See glossary on page 28 for definition.

visit the facility noted specifically in the audit to verify and monitor compliance with these procedures.

- DCH did not maintain proper security controls over patient personal property at four DCH facilities. Also, upon the patients' discharge, DCH did not return property to the patients at three facilities and money to the patients at one facility (Finding 4). Together, we consider these conditions to be a material weakness in DCH's administration and safeguarding of patient funds and personal property.

DCH agreed with the finding and both corresponding recommendations. DCH will reiterate its existing procedure on controls over patient personal property and revise the procedure as appropriate, incorporating a periodic update to the initial inventory of patient belongings. DCH will also conduct future periodic reviews, as part of its audit function, to monitor compliance.

Our assessment also disclosed three reportable conditions involving patient interest rate adjustments (Finding 5), interest payment methodology (Finding 6), and patient loans (Finding 7).

Audit Objective: To assess DCH's compliance with applicable statutes, State policies and procedures, and DCH policies and procedures that could have a material effect on the HPTF financial statements.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the HPTF financial statements.

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Hospital Patients' Trust Fund. Also, our scope was to examine the financial records of the Hospital Patients' Trust Fund for the period October 1, 1995 through December 31, 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 methodology included examinations of DCH records and activities covering the period October 1, 1995 through March 31, 1998. We selected a sample of HPTF expenditures from MAIN for the period October 1, 1995 through September 30, 1997 to serve as a basis for our independent auditor's report on the HPTF financial statements. We reviewed additional revenue and expenditure transactions recorded on PAS from January 1997 through December 1997 to evaluate the internal controls over deposits and withdrawals from patient accounts.

During March and April 1998, we visited the following DCH facilities to review their effectiveness in safeguarding patient assets: Walter Reuther Psychiatric Hospital, Caro Center, Mt. Pleasant Center, and Northville Psychiatric Hospital. We interviewed housekeeping or security staff, as applicable, at the four facilities to evaluate the controls over patient personal property upon admission and during treatment at the facility.

We interviewed DCH Management Information System Division personnel to identify and review PAS controls.

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

Our audit includes 7 findings and 8 corresponding recommendations. DCH agreed with all of the findings and all but 1 of the recommendations in its preliminary response. DCH stated that it has taken or will take steps to implement the agreed upon recommendations.

DCH complied with 1 of the 6 audit recommendations from the Department of Mental Health Single Audit report for the two fiscal years ended September 30, 1995. Of the 5 recommendations that DCH did not comply with, 2 are repeated in this report and 3 were rewritten.

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Mr. James K. Haveman, Jr., Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Mr. Haveman:

This is our report on the performance and financial related audit of the Hospital Patients' Trust Fund, Department of Community Health. The financial related portion of our audit covered the period October 1, 1995 through December 31, 1997.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. 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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Description of Agency

The State established the Hospital Patients' Trust Fund (HPTF) pursuant to Act 258, P.A. 1974, to account for the funds of patients receiving services in State hospitals. Department of Community Health (DCH), in conjunction with the State Treasurer, acts as trustee for HPTF. HPTF is separate from the State's General Fund to comply with generally accepted accounting principles, which require a separate accounting of the patients' funds held in trust by the State. HPTF earns interest quarterly from its equity stake in the State Treasurer's Common Cash pool. In turn, DCH distributes interest on a monthly basis to patients who meet minimum balance requirements.

Regular trust accounting summary reports, including assets, liabilities, expenditures, and revenues, are maintained on the Michigan Administrative Information Network and serve as the basis for the HPTF financial statements. The State discloses the financial activity of HPTF in the *State of Michigan Comprehensive Annual Financial Report* as one of several miscellaneous trust funds. Separate HPTF financial statements are included in the DCH Single Audit report. DCH records detailed accounting information for each patient account in its Patient Accounting System at each facility. As of October 1, 1995, 11 DCH facilities held patient funds. As of September 30, 1997, 9 DCH facilities held patient funds.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance and financial related audit of the Hospital Patients' Trust Fund (HPTF), Department of Community Health (DCH), had the following objectives:

1. To assess the adequacy of DCH's internal control structure as it relates to the Patient Accounting System (PAS) and HPTF.
2. To assess DCH's effectiveness in administering and safeguarding patient funds and personal property.
3. To assess DCH's compliance with applicable statutes, State policies and procedures, and DCH policies and procedures that could have a material effect on the HPTF financial statements.

Audit Scope

Our audit scope was to examine the program and other records of the Hospital Patients' Trust Fund. Also, our scope was to examine the financial records of the Hospital Patients' Trust Fund for the period October 1, 1995 through December 31, 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.

Audit Methodology

We conducted our audit procedures during the months of January through April 1998 and included examinations of DCH records and activities covering the period October 1, 1995 through March 31, 1998. We selected a sample of HPTF expenditures from the Michigan Administrative Information Network (MAIN) for the period October 1, 1995 through September 30, 1997 to serve as a basis for our independent auditor's report on the HPTF financial statements. We reviewed additional revenue and expenditure transactions recorded on PAS from January 1997 through December 1997 to evaluate the internal controls over deposits and withdrawals from patient accounts.

During March and April 1998, we visited the following DCH facilities to review their effectiveness in safeguarding patient assets: Walter Reuther Psychiatric Hospital (WRPH), Caro Center (CC), Mt. Pleasant Center (MPC), and Northville Psychiatric Hospital (NPH). We interviewed housekeeping or security staff, as applicable, at the four facilities to evaluate the controls over patient personal property upon admission and during treatment at the facility.

We interviewed DCH Management Information System Division personnel to identify and review PAS controls.

Agency Responses and Prior Audit Follow-Up

Our audit includes 7 findings and 8 corresponding recommendations. DCH agreed with all of the findings and all but 1 of the recommendations in its preliminary response. DCH stated that it has taken or will take steps to implement the agreed upon recommendations.

DCH complied with 1 of the 6 audit recommendations from the Department of Mental Health Single Audit report for the two fiscal years ended September 30, 1995. Of the 5 recommendations that DCH did not comply with, 2 are repeated in this report and 3 were rewritten.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Department of Community Health's (DCH's) internal control structure as it relates to the Patient Accounting System (PAS) and the Hospital Patients' Trust Fund (HPTF).

Conclusion: Our assessment disclosed a material weakness in the internal control structure over PAS and HPTF. DCH did not reconcile the balances recorded in PAS with the Michigan Administrative Information Network (MAIN) from October 1, 1995 through March 31, 1998. We included this material weakness in our independent auditor's report on the internal control structure in the DCH Single Audit for the two fiscal years ended September 30, 1997. In addition, our assessment noted a reportable condition regarding PAS controls.

Noteworthy Accomplishments: DCH completed the necessary coding changes in MAIN for the reconciliation of PAS with MAIN effective April 1, 1998. We consider these changes and the subsequent reconciliation of PAS with MAIN to be noteworthy accomplishments, which enhance DCH's ability to control and monitor HPTF.

FINDING

1. Reconciliation of PAS With MAIN

DCH did not reconcile the balances recorded in PAS with MAIN from October 1, 1995 through March 31, 1998. As a result, DCH could not ensure that it properly accounted for patient funds held in trust.

The Institutional General Ledger Accounting Manual section 1.3 requires the facilities to reconcile PAS with HPTF, as it is recorded on MAIN. Prior to April 1, 1998, the coding structure within MAIN did not identify the portion of HPTF related to an individual facility. Attempts to reconcile one facility's balance on PAS to the entire HPTF balance on MAIN did not provide assurance that all facility entries

were included on MAIN. DCH established the necessary account coding on MAIN to facilitate facility level reconciliation of PAS balances with MAIN effective April 1, 1998. However, one of the four facilities we visited (Northville Psychiatric Hospital [NPH]) did not attempt to reconcile PAS with MAIN from October 1, 1995 through March 31, 1998. Also, DCH did not reconcile PAS with MAIN on a centralized basis until April 1, 1998.

The April 1, 1998 central reconciliation of PAS balances with MAIN identified \$323,786 that was not associated with any facility. We estimate that approximately \$107,000 of this balance resulted from HPTF paying interest to patients at a rate lower than what HPTF earned on its investments (see Finding 5).

Monthly reconciliations between PAS and MAIN on both a facility and Statewide basis would enhance DCH's control over patient funds to detect material errors or irregularities. We consider the lack of such monthly reconciliations to be a material control weakness.

We noted a similar finding in the Department of Mental Health (DMH) Single Audit for the two fiscal years ended September 30, 1995. DCH stated that it would perform the reconciliations by September 1997; however, it did not.

RECOMMENDATION

We recommend that DCH reconcile each facility's PAS balance with its MAIN balance on a monthly basis and continue monthly Statewide reconciliations.

AGENCY PRELIMINARY RESPONSE

DCH agreed with the finding and recommendation. Effective April 1, 1998, DCH revised the coding structure within MAIN to split HPTF into subfunds corresponding to each facility. Prior to April 1, 1998, the HPTF amounts for all facilities were combined and recorded in a single account. This revision allows each hospital and center to reconcile the amounts recorded on PAS to those recorded on MAIN. As of June 30, 1998, DCH formally implemented policies and procedures to aid the hospitals and centers in properly accounting for patient funds. Monthly reconciliations for all nine hospitals and centers have been completed from April through August 1998 and sent to central office accounting. Reconciliations will continue to be performed on a monthly basis.

FINDING

2. PAS Controls

DCH did not establish appropriate internal controls over PAS, which is used to manage and account for patient funds. As a result, management's ability to account for financial transactions and safeguard patient assets is diminished.

PAS users had the ability to delete patient accounts and all prior transactions processed for those accounts. PAS allowed users to delete an account if the patient did not have a current balance and had no transactions during the current calendar year. PAS users would routinely delete patient accounts because of patients' discharges, deaths, or account inactivity. Since PAS users also have the ability to process deposit and withdrawal transactions, allowing users to delete patient accounts reduced DCH's ability to ensure that the results of PAS transactions were properly reported and that DCH safeguarded patient funds.

Deleting the patient from PAS resulted in the elimination of the detailed transactions recorded on PAS during our audit period for those patients. DCH did not maintain an electronic backup for those transactions for reconciliation or audit purposes.

We noted a similar finding in the DMH Single Audit for the two fiscal years ended September 30, 1995. DCH stated that it would comply on an ongoing basis; however, no changes had been made.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DCH ESTABLISH APPROPRIATE INTERNAL CONTROLS OVER PAS.

AGENCY PRELIMINARY RESPONSE

DCH agreed with the finding and recommendation. Within the next 30 days, the DCH Accounting Division will formally request the DCH Management Information System Division to make the necessary internal control and security changes to the system to eliminate the ability of PAS users to delete patient accounts and all prior transactions processed for those accounts. In addition, the security and

procedural changes will require DCH to maintain electronic backups of these transactions for reconciliation or audit purposes.

ADMINISTRATION AND SAFEGUARDING OF PATIENT FUNDS AND PERSONAL PROPERTY

COMMENT

Audit Objective: To assess DCH's effectiveness in administering and safeguarding patient funds and personal property.

Conclusion: Generally, DCH was effective in administering and safeguarding patient funds and not effective in administering and safeguarding patient personal property. Our assessment disclosed two material weaknesses in DCH's administration and safeguarding of patient funds and personal property.

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. These material misstatements resulted in a qualified opinion in the independent auditor's report on the HPTF financial statements for the fiscal year ended September 30, 1997 and an adverse opinion in the independent auditor's report on the HPTF financial statements for the fiscal year ended September 30, 1996. Both of these independent auditor's reports are included in the DCH Single Audit report for the two fiscal years ended September 30, 1997.

DCH did not maintain proper security controls over patient personal property at four DCH facilities. Also, upon the patients' discharge, DCH did not return property to patients at three facilities and money to patients at one facility. Together, we consider these conditions to be a material weakness in DCH's administration and safeguarding of patient funds and personal property.

Our assessment also disclosed three reportable conditions involving patient interest rate adjustments, interest payment methodology, and patient loans.

FINDING

3. HPTF Accounting

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.

Our examination of HPTF transactions disclosed:

- a. DCH did not ensure that certain patient revenues and expenditures were recorded in HPTF for fiscal years 1996-97 and 1995-96.

One facility (NPH) recorded a portion of the government benefit payments received on behalf of clients as direct revenue to the General Fund, rather than recording the entire amount received as revenue to HPTF. Upon receipt of the government award, the facility prepared two accounting receipts, one for the General Fund and another for HPTF. The revenue recorded in the General Fund was for the cost of care that the State collects from patients. The facility then recorded the remaining portion of the government award as revenue to HPTF, without recording an expenditure in HPTF for the cost of care. As a result, DCH did not record revenue and expenditures in HPTF totaling \$541,185 and \$515,025 in fiscal years 1996-97 and 1995-96, respectively.

Sections 1100.108c and 1300.102 of the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), published by the Governmental Accounting Standards Board, requires HPTF to recognize sources and uses of financial resources as part of its statement of revenues, expenditures, and changes in fund balance.

- b. DCH did not record the proper accounting entry to correct an error noted in a prior period. The prior Single Audit noted that several facilities incorrectly recorded cash receipts totaling \$414,866 as equity in the State Treasurer's Common Cash pool and liabilities in HPTF during fiscal year 1994-95. DCH did not process a correcting entry in fiscal year 1995-96, which resulted in an

overstatement of liabilities and an understatement of fund balance by \$414,866. DCH processed an entry in fiscal year 1996-97; however, this resulted in the overstatement of revenues in fiscal year 1996-97 by \$414,866.

- c. DCH did not record amounts escheated to the Department of Treasury as operating transfers out as required by accounting standards. In fiscal year 1996-97, DCH escheated \$11,573 of patient funds to the Department of Treasury and recorded the transaction as an expenditure to HPTF. Governmental Accounting Standards Board Codification Section 1800.106(b)(6) requires that transfers of escheat assets from an expendable trust fund to the ultimate fund be recorded as an operating transfer.

The errors noted in items a. and b. resulted in the material misstatement of the HPTF financial statements. The material misstatements resulted in our qualified opinion on the HPTF financial statements for the fiscal year ended September 30, 1997 and our adverse opinion on the HPTF financial statements for the fiscal year ended September 30, 1996.

We reported a similar finding in the DMH Single Audit for the two fiscal years ended September 30, 1995. DCH agreed with the recommendation; however, no corrective action was taken.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DCH ENSURE THAT THE HPTF FUND BALANCE, REVENUES, EXPENDITURES, AND OPERATING TRANSFERS ARE CORRECTLY ACCOUNTED FOR ON MAIN.

AGENCY PRELIMINARY RESPONSE

DCH agreed with the finding and recommendation. Written policies and procedures covering daily transactions processing have been distributed to all of the hospitals and centers. The Audit Division of the Budget and Finance Administration will schedule a site visit to the one facility noted specifically in the audit within the next 30 days to verify and monitor compliance with these procedures. If the facility has not complied with these procedures, the Accounting Division will schedule and conduct a formal training session with appropriate facility

staff prior to the end of the calendar year to ensure correct accounting for the HPTF fund balance, revenues, expenditures, and operating transfers.

FINDING

4. Patient Personal Property

DCH did not maintain proper security controls over patient personal property at four DCH facilities (Walter Reuther Psychiatric Hospital [WRPH], Caro Center [CC], Mt. Pleasant Center [MPC], and NPH). Also, upon the patients' discharge, DCH did not return property to the patients at three facilities (WRPH, CC, NPH) and money to the patients at one facility (NPH). As a result, patient property was at increased risk of misappropriation and DCH escheated patient money totaling \$11,573 to the State.

Our visit to the four DCH facilities disclosed the following conditions:

- a. Two facilities (MPC and NPH) did not prepare an adequate inventory of property for 14 patients at the time of admission. We reviewed property records for 76 patients in 4 facilities to evaluate the controls over patient property upon admission to the facility. Two of the 14 patients did not have any inventory records. Inventory records for 4 of the 14 patients identified patient property upon admission as being a certain number of bags or boxes without identifying the contents. Upon inspection of the bags and boxes, we identified items such as prepaid phone cards, radios, wallets, cosmetics, and clothing. Six of the 14 patients were transferred from other DCH facilities, and the admitting DCH facility partially completed an inventory record and attached a copy of the referring facility's inventory. Inventory records for 2 of the 14 patients were copies of inventory records from a referring DCH facility with no documentation from the admitting facility.

DMH Public Mental Health Manual procedure 07-C-1728 GL 00 requires each facility to inventory and account for patient personal property when a patient is admitted into a facility.

- b. Twenty-one of the 76 patients were missing a total of 35 items included on their inventory records. Missing items included things such as personal

radios, compact disc players, electric razors, and a reclining chair. We reviewed the property records for 76 patients to determine if the patients still had custody of the property recorded on their inventory records. Facility staff noted that, in 4 of the 35 instances, the property was released to an outside party or taken out of the facility by the patient. However, staff could not provide us with a patient property release authorization form as required by DMH Public Mental Health Manual procedure 07-C-1728 GL 00. We also identified 29 similar items belonging to 20 of the 21 patients that DCH did not include on the patients' inventory records. Staff noted that patients' relatives bring things to the facility without noting them on the patients' inventory and often take home small items without notifying the facility. Staff also stated that patients sometimes trade belongings. Both practices result in the inaccuracy of the initial inventory.

DCH does not require facilities to periodically update the initial inventory of patient belongings; however, one facility (MPC) established a procedure to update patient inventories every four months for items valued at \$100 or more. Section 330.1728(1) of the *Michigan Compiled Laws* entitles a resident to receive, possess, and use all personal property, with the exception of particular items that may be excluded by the governing body of a facility.

- c. At one facility (CC), DCH did not ensure that patients' property was properly identified to the extent possible with the patients' last names or identification numbers. We identified six items (radios, alarm clocks, and audio headphones) capable of being inscribed with the patients' information, yet none of the items were labeled with the owners' identification. DMH Public Mental Health Manual procedure 07-C-1728 GL 00 requires that each item of personal property capable of being so marked shall have the patient's name, social security, or facility number appropriately inscribed on the item with an electric engraver.
- d. In fiscal year 1996-97, one DCH facility (NPH) identified 250 patient accounts totaling \$11,573 for patients who no longer resided at the facility. DCH escheated the funds to the Department of Treasury. Twenty of the 250 accounts had balances greater than \$100, while 85 accounts had balances less than \$10. The facility explained that the accounting office was not

routinely notified of patient releases and relied on the patients to request their funds and personal property upon discharge.

In addition to depositing funds at the facilities, patients may store items deemed valuable in the facility's accounting office for safekeeping. Three of the 4 facilities we visited (WRPH, CC, and NPH) held patient property in their accounting office. We compared the names of patients with property held in the accounting office to the facilities' current patient listing and identified 70 persons with property on hand who no longer resided at the respective facility. Among the items held were a savings bond, blank personal checks, copies of birth certificates, and food stamps. We also noted that one patient's television continued to be used in a ward, yet staff informed us that the patient had been discharged months earlier.

Section 330.1730(5) of the *Michigan Compiled Laws* requires DCH to deliver all money to the patient upon his/her release from the facility. Also, Section 330.1728 of the *Michigan Compiled Laws* requires DCH to return to the patient any personal property in the possession of the facility at the time the patient is released. DMH Public Mental Health Manual procedure 07-C-1728 GL 00 requires that a patient's personal property accompany him/her when that patient leaves a facility.

Overall, we consider these conditions to be a material weakness in DCH's administration and safeguarding of patient personal property.

RECOMMENDATIONS

We recommend that DCH maintain proper security controls over patient personal property.

We also recommend that, upon the patients' discharge from DCH facilities, DCH return property and money to the patients.

AGENCY PRELIMINARY RESPONSE

DCH agreed with the finding and both recommendations. DCH will reiterate procedure 07-C-1728 GL 00 to hospital and center operations. DCH will review and revise this procedure as appropriate, incorporating a periodic update to the

initial inventory of patient belongings, with an estimated date of completion of December 1998. DCH will also conduct future periodic reviews, as part of its audit function, to monitor compliance.

FINDING

5. Patient Interest Rate Adjustments

DCH did not adjust the interest rate on patients' accounts in accordance with DCH policy. As a result, DCH had not distributed approximately \$107,000 of HPTF interest earnings for fiscal years 1994-95, 1995-96, and 1996-97 to patient accounts.

DMH Public Mental Health Manual procedure III-F-012-0002 requires DCH to compute an interest rate payable on patients' deposits quarterly and apply that interest rate to patient accounts on a monthly basis. Procedure III-F-012-0002 also requires DCH to calculate the patients' interest rate based upon the amount of interest earned by HPTF during the prior quarter less an appropriate reserve.

DCH's interest rate calculation is dependent upon the receipt of the Department of Treasury's notification of the interest earned by HPTF during the previous quarter. DCH was not notified of the fiscal year 1995-96 interest earnings until the end of that fiscal year. Upon receipt of the notification, DCH did adjust the interest rate effective October 1, 1996. However, this adjustment did not adequately reflect the amount of interest earned by HPTF during fiscal year 1995-96. DCH did not adjust the interest rate in fiscal year 1996-97 upon the Department of Treasury's quarterly notification of interest earned. The interest paid to patients in fiscal year 1996-97 again did not adequately reflect the interest earned by HPTF.

We noted a similar finding in the DMH Single Audit report for the two fiscal years ended September 30, 1995. However, DCH did not adjust the interest rate payable to patients for fiscal year 1996-97 until May 1998.

RECOMMENDATION

We recommend that DCH adjust the interest rate on patients' accounts in accordance with DCH policy.

AGENCY PRELIMINARY RESPONSE

DCH agreed with the finding and recommendation. The DCH Accounting Division adjusted the interest rate applied to patients' accounts effective May 1, 1998 and again effective August 1, 1998. DCH will continue to make the necessary adjustments in accordance with DCH policy.

FINDING

6. Interest Payment Methodology

DCH's interest distribution to patients did not correlate to the patients' contribution to interest earned by HPTF. This difference in interest payment methodologies resulted in an inequitable distribution of interest to patients.

DMH Public Mental Health Manual procedure III-F-012-0002 states that DCH will distribute interest to only those patients who have at least a \$50 balance on the last business day of the month. DCH uses this month-end balance to calculate the patients' monthly interest earnings. HPTF earns interest on its equity in the State Treasurer's Common Cash pool based upon HPTF's average daily balance during the quarter.

Patients who allowed their balances to fall below \$50 on the last business day of the month received no interest, even though HPTF earned interest on its holdings during the month. Also, any patient admitted at the end of a month received a full month's interest, even though the patient may have had the money on deposit for only one day.

RECOMMENDATION

We recommend that DCH distribute interest to patients in correlation to the patients' contribution to interest earned by HPTF.

AGENCY PRELIMINARY RESPONSE

DCH agreed with the finding but not necessarily with the recommendation. DCH stated that it is currently in compliance with its procedures but agrees that the method may result in an inequitable distribution of interest to patients. The DCH Accounting Division has formally requested the DCH Management Information

System Division to establish a workgroup to determine if it is administratively feasible to compute interest based upon an average daily balance method and to eliminate the current \$50 minimum balance requirement. Because individual account balances are routinely small, DCH will only proceed with changes if the potential benefits can be justified in terms of the time and cost needed to complete the project.

FINDING

7. Patient Loans

DCH inappropriately loaned patients' money from HPTF and had not sought collection on outstanding loans. DCH made the loans by allowing patients to withdraw funds in amounts exceeding their account balances, resulting in negative balances in the patients' accounts. We identified 34 patients with negative balances totaling \$491 as of March 31, 1998. The negative balances ranged from a maximum of \$100 to a minimum of \$.10.

There is no provision in the Mental Health Code to loan patients' money from HPTF. DCH did not classify the negative balances as accounts receivable to HPTF as required by generally accepted accounting principles.

One hospital informed us that the loans were an advance on income earned while working at the facility. However, upon receipt of the patients' payroll check, the facility did not collect the loan balance.

Negative balances adversely affect those patients with positive balances by reducing HPTF's equity in the State Treasurer's Common Cash pool, resulting in lower interest earnings to HPTF. There was no provision to collect interest on the loans to patients.

RECOMMENDATION

We recommend that DCH discontinue loaning patients' funds from HPTF and seek collection on all outstanding loans.

AGENCY PRELIMINARY RESPONSE

DCH agreed with the finding and recommendation. DCH recently distributed policies and procedures to hospitals and centers expressly prohibiting patient loans from HPTF. Every effort will be made to collect the amount due on all outstanding loans. The Audit Division of the Budget and Finance Administration will schedule a site visit to the one facility noted specifically in the audit within the next 30 days to verify and monitor compliance with these procedures. If the facility has not complied, the Accounting Division will schedule and conduct a formal training session with appropriate facility staff prior to the end of the calendar year to ensure that patients are not allowed to withdraw funds exceeding their account balances.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess DCH's compliance with applicable statutes, State policies and procedures, and DCH policies and procedures that could have a material effect on the HPTF financial statements.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the HPTF financial statements.

Glossary of Acronyms and Terms

adverse opinion	An auditor's opinion in which the auditor states that the financial statements are not fairly presented in conformity with generally accepted accounting principles.
CC	Caro Center.
Codification	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> , published by the Governmental Accounting Standards Board.
Department of Community Health (DCH)	Effective April 1, 1996, the former Department of Mental Health was renamed the Department of Community Health.
DMH	Department of Mental Health.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
financial related audit	An audit that includes determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.
HPTF	Hospital Patients' Trust Fund.

internal control structure	The management control environment, management information system, accounting system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are safeguarded; that resources are used in compliance with laws and regulations; that valid and reliable performance related information is obtained and reported; and that financial transactions are properly accounted for and reported.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements would not be prevented or detected.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.
mission	The agency's main purpose or the reason the agency was established.
MPC	Mt. Pleasant Center.
NPH	Northville Psychiatric Hospital.
PAS	Patient Accounting System.
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.

qualified opinion

An auditor's opinion in which the auditor expresses reservations about the fair presentation of the financial statements in conformity with generally accepted accounting principles.

reportable condition

A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure or in management's ability to operate a program in an effective and efficient manner.

Single Audit

A financial audit performed in accordance with the Single Audit Act of 1984 which is designed to meet the needs of all federal grantor agencies and other financial report users. A Single Audit is a financial audit which requires additional study and evaluation of the internal control structure and testing of compliance with laws and regulations relevant to federal assistance programs.

WRPH

Walter Reuther Psychiatric Hospital.