

EXECUTIVE DIGEST

DEPARTMENT OF COMMUNITY HEALTH

INTRODUCTION

This report contains the results of our financial audit* , including provisions of the Single Audit Act, of the Department of Community Health (DCH) for the period October 1, 1997 through September 30, 1999.

AUDIT PURPOSE

This financial audit of DCH was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

The Department of Mental Health was created by the Executive Organization Act of 1965. Effective April 1, 1996, the former Department of Mental Health was renamed the Department of Community Health. DCH is generally comprised of the former Departments of Mental Health and Public Health, the Medical Services Administration (transferred from the Family Independence Agency), and several programs transferred from the Department of Management and Budget (DMB). DCH's mission* is to provide for the general supervision of the health and physical well-being of Michigan citizens.

This audit includes both the Office of Services to the Aging and the Crime Victims Compensation Commission. These programs were transferred from DMB to DCH by Executive Orders 1997-5 and 1997-10, respectively, during fiscal year 1996-97.

The Budget and Finance Administration is responsible for budget, accounting, and financial and grant reporting. Primary responsibility for grant management is with the various units carrying out the grant activities.

For fiscal year 1998-99, DCH averaged 5,810 full-time equated employees, including 4,318 employees in mental health facilities. DCH had 1,211 adults and 112 children in State psychiatric hospitals, 275 residents in centers for developmental disabilities, and 252 patients at specialized facilities for a combined total of 1,850 patients and residents as of September 30, 1999.

DCH financial transactions were accounted for principally in the General Fund. DCH net expenditures and operating transfers out for the fiscal years ended September 30, 1999 and September 30, 1998 were \$7.1 billion and \$6.8 billion, respectively.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit DCH's financial schedules, including the schedule of expenditures of federal awards, and the Hospital Patients' Trust Fund financial statements as of and for the fiscal years ended September 30, 1999 and September 30, 1998.

Conclusion: We expressed an unqualified opinion* on DCH's financial schedules and financial statements. In

addition, we expressed an unqualified opinion on DCH's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on DCH's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules or financial statements, and on its internal control* over financial reporting, based on our audit of the financial schedules and financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules or financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses* . However, we identified reportable conditions* related to the recording of revenues, the Medicaid accrual, cash management, use of State funds, personnel and payroll internal control, encumbrances, the schedule of expenditures of federal awards, and internal auditor functions (Findings 1 through 8).

In addition, our assessment indicated that DCH was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified a reportable condition related to internal auditor functions (Finding 8). Also, the internal auditor did not report to the DCH director. DCH reorganized subsequent

to the audit period so that the internal auditor reported to the DCH director.

Audit Objective: To assess and report on DCH's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These related to School Based Outreach Services, home health care, personnel-payroll cost distributions, special adjustor payments, the Medicaid Management Information System (MMIS), and the Maternal and Child Health Services Block Grant to the States (MCH) (Findings 9 through 14). **However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to home health care, personnel-payroll cost distributions, special adjustor payments, MMIS, and MCH (Findings 10 through 14).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Community Health for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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

Our audit report includes 12 findings (Findings 1 through 9, 11, 12, and 14) with 14 corresponding recommendations. DCH's corrective action plan indicates that it generally agrees with the findings and recommendations. The plan also indicates that DCH has initiated corrective action for the recommendations. In addition, our report contains 2 findings (Findings 10 and 13) that refer to findings in other reports that have reported questioned costs. DCH agreed with these findings.

As disclosed in DCH's summary schedule of prior audit findings, DCH fully corrected 2 of the 7 prior Single Audit* findings and did not correct or partially corrected 5 of the findings. One prior audit recommendation is repeated in this audit report (see Finding 11).