

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.

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.

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.

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

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.