

**NORTHERN MICHIGAN REGIONAL ENTITY
BOARD EXECUTIVE COMMITTEE MEETING
10:00AM – JANUARY 3, 2025
GAYLORD CONFERENCE ROOM**

ATTENDEES:	Gary Klacking, Ruth Pilon, Karla Sherman, Don Tanner
VIRTUAL ATTENDEES:	Eric Lawson
STAFF:	Eric Kurtz, Brian Martinus, Sonya Russell, Deanna Yockey, Carol Balousek
INVITED GUESTS:	Laura Argyle, Avi Beliak, Steve Burnham, Richard Carpenter, Bill Edwards, 1 Anonymous

The meeting of the NMRE Executive Committee was called on this date to review the **Rehmann Corporate Investigative Services Forensic Accounting Report** of Northern Lakes Community Mental Health Authority.

COST MISALLOCATION

The State of Michigan began requiring Community Mental health Services Programs (CMHSPs) to abide by the Standard Cost Allocation (SCA) methodology in FY22. Prior to that time, allocation methodologies and costing were required to adhere to the Code of Federal Regulations, Chapter 2, Part 200 (2 CFR 200).

A review of FY23 expense allocations by the new Deputy CFO for the cost allocations made by the former CFO revealed that expenses were being misallocated and that neither the SCA methodology nor 2 CFR 200 were being properly applied. Expenses related to payroll were not accumulated in a way to match the expense with the specific consumer service activities to be reported under the SCA.

The Q1 FY23 Board Budget report covering the first four months of the fiscal year submitted to the State had a final expense variance of \$1,944,584. The most significant difference was due to accruals being computed by applying $\frac{1}{3}$ of the annual budget amount less the year-to-date expenses as opposed to using actual results.

Another variance was related to the billing of services provided in a jail setting. Use of the "QJ" modifier was not consistently used resulting in services likely being billed to Medicaid, rather than general funds, totaling \$200K - \$300K.

Additionally, there is no evidence that any administrative overhead was charged to State of Michigan grants, except for OBRA.

The method for calculating the MI Choice Waiver and the related Nursing Facility Transition Grant expenses cannot be determined. Based on a review of the formulas, it appears that the expenses were based on actual capitated revenues received, less approximately 10%. It is unclear whether the former CFO allocated administrative costs to the MI Choice program. Required administration not properly charged to the MI Choice program would have overstated Medicaid and Healthy Michigan Plan (HMP) expenses.

The former CFO submitted documents to MDHHS certifying the use of the SCA methodology. However, the Deputy CFO identified numerous discrepancies, indicating that the former CFO's practices were inconsistent with the SCA methodology and federal cost principles.

It is estimated that, without correction, the final FY23 administrative allocation methodology would have resulted in an overstatement of just under \$2.2M to Medicaid/HMP with the resulting understatement to the General Fund, MI Choice Waiver, and Grant programs. The Deputy CFO adjusted journal entries to ensure that no misallocation will be reported for this fiscal year.

It is likely that expense misallocation errors occurred in previous years.

Mr. Kurtz clarified that the MI Choice Waiver is a 100% risk program for Northern Lakes; Northern Lakes' arrangement with NMRE is one of shared risk.

(Mr. Carpenter exited the meeting)

LEASED PROPERTIES

Northern Lakes CMHA operates 19 facilities, 13 of which are owned by NLCMHA and 6 of which are leased. The leased properties were investigated to ensure that there were no conflicts of interest between NLCMHA and current or former employees. Based on the research conducted, no evidence of a conflict of interest with respect to the ownership of the six leased properties was found.

INTERIM CEO OVERTIME

The former Interim CEO of Northern Lakes CMHA claimed overtime hours during the time she was acting in the position of Interim CEO. No evidence was found to indicate that overtime compensation was authorized.

During her time as Interim CEO, the individual volunteered to perform services at the NLCMHA Welcoming Center (CWC) as well as working on cases in the Intellectual/Developmental Disabilities (I/DD) program.

The overtime hours claimed by and paid to the former Interim CEO in FY23 totaled 562 hours and \$47,732.29. The overtime claimed could not be reconciled to the CWC schedules and no

documentation was available regarding I/DD scheduling, reports, or logbooks which could capture hours worked in the I/DD program other than 42.2 hours of face-to-face service to one individual. It appears that the former Interim CEO was able to claim overtime over and above the face-to-face time spent with I/DD patients. Therefore, the total overtime claimed in the I/DD program could not be reconciled.

INTERIM CEO STIPEND

The former Interim CEO of Northern Lakes CMHA was granted a \$1,100 weekly stipend upon the retirement of the previous CEO, which was to continue until a new CEO was put in place. The former Interim CEO, however, continued to receive the \$1,100 stipend after the current Interim CEO was placed in the position. An additional stipend of \$7,200 was also paid in July 2023 with no documentation or notation to explain the payment. The total of the stipend overpayment was calculated at \$56,700.00.

PROCUREMENT

Northern Lakes CMHA staff expressed concerns regarding whether the Maintenance Supervisor had followed NLCMHA's procurement policies, namely, soliciting multiple bids and selecting the lowest. The investigation confirmed that in many instances no bids were submitted with purchase orders for payment. Purchase orders that did include three bids either had bids that were undated or bids that were dated after the purchase date. In only two instances did purchase orders exist that included bids dated prior to the purchase.

Since the Maintenance Supervisor developed a pattern of not obtaining the required 3 bids for purchase orders exceeding \$600, there are concerns of a conflict of interest on the part of the Maintenance Supervisor.

Mr. Burnham noted that there are times under exigent circumstances where exceptions to the 3-bid requirement can be made (like a boiler). Mr. Beliak confirmed that the cases in question were not emergency situations.

CREDIT CARDS

According to Northern Lakes CMHA policy, "no more than five (5) general purpose credit cards may be issued for the Chief Executive Office and designee(s) to use." It was observed, however, that credit card purchases were made by six staff members who had each been issued credit cards.

A JP Morgan Chase credit card was opened by the former CFO during FY23. The account earned reward points for purchases made with the card that could be redeemed for goods or cash. As of August 2023, the points had a cash value of \$14,918. The points were not recovered by the former CFO when the account was closed.

(Mr. Beliak and Mr. Edwards exited the meeting.)

RECOMMENDATIONS

Mr. Kurtz stressed that the role of the NMRE is to ensure Medicaid funds were used appropriately. Any personnel issues identified in the report should be taken up by the Northern Lakes CMHA Board of Directors.

Mr. Kurtz indicated that a decision is needed regarding the need to go back additional years for the Cost Allocation portion. Mr. Kurtz recommended looking back an additional 5-7 years. There is the potential for Medicaid recoupment and/or movement from Medicaid to a different funding source (local funds) at NLCMHA depending on the results. An overallocation of administration to Medicaid/NMRE was likely made in past years. The \$2.2M observed in FY23 has been cleaned up.

MOTION BY KARLA SHERMAN TO RECOMMEND THAT REHMANN BE AUTHORIZED TO GO BACK AN ADDITIONAL FIVE TO SEVEN YEARS FOR THE COST ALLOCATION PORTION OF THE FORENSIC INVESTIGATION; SECOND BY DON TANNER. MOTION CARRIED.

The preceding recommendation will be presented to the full NMRE Board of Directors during the meeting on January 22, 2025. Mr. Kurtz will obtain costs from Rehmann in the interim.

Future questions related to the report may be directed to Mr. Beliak avi.beliak@rehmann.com or Mr. Edwards Bill.Edwards@rehmann.com.

DISSEMINATION OF THE REPORT

The report will be shared with the full NMRE Board of Directors on this date.

ADJOURNMENT

Mr. Klacking adjourned the meeting at 11:11AM.