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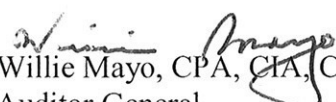
September 26, 2011

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Operational Assessment Review Report for the Jail Medical Health Services Program – Department of Health and Human Services. Our report is dated July 19, 2011; DAP No. 2011-57-852. The report was accepted by the Audit Committee September 13, 2011, and formally received by the Wayne County Commission on September 22, 2011.

We are pleased to inform you officials from Jail Medical Health Services Program and the Department of Health and Human Services provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: <http://www.waynecounty.com/commission/lagreports.htm>


Willie Mayo, CPA, CIA, CGAP, CICA
Auditor General

REPORT DISTRIBUTION

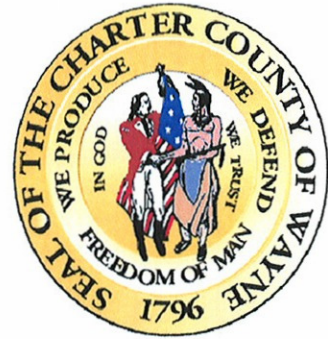
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Wayne County Executive





County of Wayne, Michigan Office of Legislative Auditor General Operational Assessment Review

Department of Health and Human Services
Jail Health Services Division
Jail Medical Health Services Program

DAP NO. 2011-57-852

July 19, 2011

Executive Summary

Type of Engagement, Scope, and Methodology

This is an operational assessment review to identify key risks to the Jail Medical Health Services Program and assess whether management has appropriate internal controls and processes in place to sufficiently manage or mitigate risks. The fieldwork was completed on July 19, 2011 and the scope of our work was for the period October 1, 2009 – January 31, 2011. The methodology used for this engagement was primarily limited to inquiry, review of documents, and walkthroughs of key business processes.

Introduction

The purpose of the Jail Medical Health Services Program (Jail Medical Program) is to provide examination, treatment, referral and education services to Jail inmates so they can be as healthy as possible during the term of their incarceration.

Summary of Issues

We determined there are six (6) areas of concerns and recommendations related to the Jail Medical Program. We have outlined the significant areas in the executive summary while others can be found in the detail section of the report.

Risk Management and Controls Activities

Jail Medical Program did not maintain inventory records in a readily retrievable manner for at least two years for review and inspection.

Financial Activity

- The amount charged to the Federal U.S. Marshalls for medical services for federal inmates is not being allocated to the Jail Medical business unit; it is being recorded in a separate Sheriff's Office revenue account.
- In FY 2010, parking tax revenue was budgeted at \$4.3 million and management submitted \$1.5 million less than actually budgeted or \$2.8 million. In addition, management has budgeted, parking tax revenue at \$7 million for FY 2011. We weren't able to determine how much was actually received for FY 2011 because the revenue is not allocated until September 30th. However, based on the amount actually received in FY 2010, this amount could be considerably less. Also, per our review of the financial data over the last two years, there appears to be a continuous decline in the cost of medical services being budgeted for prisoners incarcerated by the county.

Objectives, Scope and Methodology

Objectives

The Office of Legislative Auditor General has performed an Operational Assessment Review of the ***Jail Medical Health Services Program, Wayne County Health Services Division, Department of Health and Human Services***. The purpose of our review was to identify key risks to this program and assess whether management has adequate internal controls and processes in place to sufficiently manage or mitigate such risk(s). Our specific objectives for the engagement were to identify and assess key risks in the following areas:

- I. Governance;
- II. Risk Management and Control Activities;
- III. Compliance with Laws, Regulations and Ordinances; and
- IV. Financial Activity

Scope

The primary period of review for this engagement was October 1, 2009 – January 31, 2011 and the fieldwork for this engagement was performed at Jail Medical Health Services Program (Jail Medical Program) offices and completed on July 19, 2011.

The procedures performed for this engagement were limited and were not sufficient to constitute an audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

IIA Consulting Standards

This engagement was performed in accordance with Consulting Standards defined by the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). The IIA defines consulting engagements as advisory and related service activities, the nature and scope of which is to add value.

Methodology

The procedures performed were primarily limited to inquiry of appropriate personnel and officials of the Jail Medical Program and others, review of certain documents to corroborate assertions, and walkthroughs of key strategic and business processes.

Purpose and Organizational Structure

The purpose of the Jail Health Services Division is to provide physical health, mental health and support services to jail inmates so they can achieve an optimal level of health during incarceration and be linked to appropriate health services after release from jail.

The Division of Jail Health Services has five program. The programs are: Jail Medical Health Services Program, Jail Health Promotion and Disease Prevention Program Services, Jail Mental Health Program Services, Inmate Support and Liaison Program Services, and Health Information Management Program Services. The scope of this engagement was limited to assessing and reviewing the Jail Medical Health Services Program (Jail Medical).

The purpose of the Jail Medical Program is to provide examination, treatment, referral and education services to jail inmates so they can be as healthy as possible during the term of their incarceration and subsequent release.

Jail Medical Program is primarily funded by the general fund with 85 percent of the funding coming from the general fund in FY 2010 and the remaining 15 percent i derived from Parking Tax Revenue, U.S. Marshall payments to the Sheriff, and a grant received for HIV Testing of all inmates. The financial activity is recorded in fund 101, business unit 32610. In FY 2010, there were 132.5 full-time equivalents (FTE) is assigned to the program.

I. Governance

The governance process is considered one of the most important elements of internal controls. According to auditing/accounting literature, governance (also known as the control environment) is the foundation for all other components of internal controls. The control environment sets the tone for an organization, program, or activity, providing discipline and structure influencing the control consciousness of its employees. Control environment factors include: integrity, ethical values and competency of the organization's employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees.

The absence of a sound governance structure and lack of adherence to basic governance or management principles increases the risk of: loss, fraudulent financial reporting, misappropriation of assets and resources, and, the inability to achieve organizational goals and objectives. Good governance is one of the key controls to reduce the risk of management overrides.

Conclusion

Based on our inquiries, discussions, documentation review and observations, we generally concluded that the overall governance process including control environment, organizational structure, philosophy and ethical values and governance of the Jail Medical Program appears to be adequate to achieve the unit's mission, goals, and objectives.

We believe the Jail Medical Program's governance processes are working well considering the reduction in resources and manpower. The services provided by the Jail Medical Program are mandated. The Jail Medical Program is not budgeted for overtime although the program incurred over \$500,000 in FY 2010 and will incur at least a similar amount in FY 2011.

Management states the collective bargaining agreement (CBA) is causing an excessive amount of overtime for Jail Medical that could be alleviated if the CBA would remove a clause stating the employees are designated to a specific division. Although the CBA does not restrict the Jail Medical Program from being able to utilize personnel assigned to the other divisions, the CBA allows personnel the right to refuse to move between divisions.

Moreover, Jail Medical has lost a majority of staff and CBA restricts the Jail Medical Program from being able to utilize employees from one of the other programs. In most instances, allowing the flexibility of using employees from other divisions could ensure the mandated functions would be performed within the allotted time without the need of overtime.

Management is strategic planning is primarily accomplished by holding monthly leadership meetings in which they discuss issues impacting staff responsibilities and strategies to implement in order to achieve their purpose and goals.

Although Jail Medical governance is sufficient to meet the goals and objectives for the Jail Medical Program, we did note areas to strengthen management's oversight.

Specifically, there is a weakness in the control of inventory items being received at the dock facility shared with the Sheriff's Office. Jail Medical staff voiced concern that they do not always receive all of the inventory items ordered.

Therefore, we suggested the Jail Medical Program consider creating a computerized central database system for receipt of inventory. Jail Medical Program is currently consulting with the Wayne County Department of Technology for assistance in the identification of inventory software that will provide economic benefits and efficiencies needed to enhance management oversight of inventory received.

Since this was not a part of our engagement scope, we did not review the issue of inventory oversight; however, the OAG may possibly perform a more in-depth assessment of the Sheriff's Office control over inventory in the very near future.

II. Risk Management and Control Activities

Risk Management

Risk Management is another critical internal control component. Every organization faces a variety of risks from external and internal sources that must be identified, and assessed with appropriate mechanisms in place to minimize high-risk activity. Risk Management is the identification and analysis of relevant risk, which exists within the organization as a whole, as well as within its individual components (departments, divisions, programs, etc.) regarding the achievement of the organization's objectives. After an assessment is formalized, a basis for determining how the risks should be managed and mitigated to a reasonable level of acceptance should be established.

The identification of risk is a necessary component to installing appropriate and sufficient compensating controls where required, to enhance the probability of achieving the organization's objectives and protecting the interest of all stakeholders.

Based on our inquiries, discussions, documentation review and observations, we generally concluded that the overall risk management process including fraud awareness within the Jail Medical Program appears to be adequate to achieve the unit's mission, goals, and objectives.

Control Activities

Control activities are policies, procedures, practices, techniques, and mechanisms that help ensure that management's directives are carried out. They help ensure that necessary actions are taken to address risks that may affect the achievement of the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and reviews of operations and performance, security of assets and segregation of duties.

Control activities can be preventive or detective. Preventive activities are designed to deter the occurrence of an undesirable event, while detective activities are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.

Conclusion

Based on our review, we believe the risk management and control activities within the Jail Medical Health Services Program are adequate. In order to achieve its program objectives, Jail Medical appears to be identifying risk and establishing necessary controls over key processes to mitigate those risks in most instances. The program has a comprehensive policies and procedures manual in place which is updated on an annual basis or as needed. In addition, management has an ongoing evaluation of the effectiveness of the operations as part of adequately meeting the mandated services.

However, we did note areas where we believe risk management and control activity processes could be strengthened.

| Area of Concern | Observation(s) |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Lack of an Inventory Tracking System | <p>Jail Medical Program did not fully comply with the United States Department of Justice - Drug Enforcement Administration – Office of Diversion Control, for which the Controlled Substances Act (CSA) requires that all inventory records be maintained at the registered location in a readily retrievable manner for at least two years for copying and inspection. In addition, every two years a physical count of the inventory is required by federal regulations.</p> |
| | <p>Management indicated they are aware of the law and associated risk, and therefore, have attempted to place mitigating controls to safeguard the controlled substances by placing them in a locked cabinet within a secured room. In addition, only the pharmacist has possession of the key and actually issues the medication. This process does not allow for a proper segregation of functions which increases the risk of medication fraud and errors. However, prior to completion of our engagement and issuance of the report, management has begun implementing a perpetual inventory record system.</p> |
| | <p><u>Impact</u> Failing to maintain a record of inventory of controlled substance medication, places the Jail Medical Program in non-compliance with the Controlled Substances Act. Moreover, it also increases the risk of fraud and abuse.</p> |
| | <p>Recommendation(s)</p> |
| | <p><u>2011-01</u> We recommend management of the Jail Medical Program maintain an on-going log of all controlled substance drugs received and disbursed as well as the implementation of an electronic perpetual inventory database of all controlled substances and reconcile those records to a physical count on a biennial basis.</p> |
| | <p>Management's Response:</p> |
| | <p>Management agrees and has implemented the recommendation.</p> |

| Area of Concern | Observation(s) |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Key Processes Lack Effective Cross-training | <p>Jail Medical currently has three key processes with only one (1) person performing the functions; moreover, a back-up/supporting person is not in place to carry-out the task if the designated person is unavailable.</p> <p>The first process is maintaining a second pharmacist to work and/or relieve the pharmacist in unexpected emergencies or absences. While Jail Medical has</p> |

contracted with a company that will supply a pharmacist or technician if a scheduled absence or emergency takes place, the firm cannot supply a person for unscheduled absences without lead time being provided, which is at a minimum one (1) day.

The second key process is the internal accounts payable function which is to “open window of time” within the Blue Cross and Blue Shield (BCBS) database system to ensure patients are seen and the bills are paid through BCBS at a discounted rate of 60 percent. Currently, there is no back-up person to perform this function.

The third key process is the time reporting function. At present, only one individual inputs payroll and there is no designated person to perform the function in the event the timekeeper is absent.

Impact

Failing to cross-train personnel or hire a second pharmacist for critical functions could result in a halt or bottleneck in the program’s operations or the risk of the pharmacy being closed for one (1) day. Moreover, it places the program at a great risk of not being able to provide critical medication when needed unexpectedly.

In addition, not having a back-up person to perform the accounts payable function related to payment of inmate’s medical bills could result in the county having to pay for services that should not have been billed to the county. Finally, not having a back up person available to perform the time reporting function could result in payroll not being processed timely.

Recommendation(s)

2011-02

We recommend management of the Jail Medical Program evaluate the identified key functions within the program and establish a cross-training system and/or hire support staff for the key functions to ensure the goals and objectives for the program are met.

Management’s Response:

Management agrees and has implemented our recommendation in cross-training staff members in key functions.

III. Compliance, Laws, Regulations and Ordinances

In general, compliance means conforming to a law, regulation, ordinance or contractual obligation. A compliance system is an organization-wide tool that links legislative and management rules to organizational policies and processes. The objective of such a system is to promote a self sustaining level of operations that minimizes the losses caused to the organization through breaches of laws, regulations, ordinances and contractual obligations.

Conclusion

Jail Medical provided reasonable assurance that the unit is achieving its goals and objectives through compliance with required regulations in the form of ongoing meetings, required training, and established adequate policies and procedures.

Based on our review, Jail Medical has established adequate controls, policies, and procedures to comply with mandated services. However, we did note some areas where we believe compliance-related issues with county policies could be strengthened.

| Area of Concern | Observation |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Lack of Uniformity of Controls in the Payroll Process | Management of the Jail Medical Program has not established a uniform internal control in place within their payroll process to accurately track employees' payroll time prior to the submission of timesheets from all units. Jail Medical operates with nine (9) units (Administration, Dental, Health Promotion, Medical Records, Mental Health, Nursing, Pharmacy, Physicians, and Social Services) Currently, six (6) units within Jail Medical are operating without an adequate uniform payroll reconciliation process in place to support the time input into the central payroll system (PeopleSoft). Specifically, employees are submitting time reports; however, there is no process in place to verify time reports to actual sign-in sheets for all units. |
| | <u>Impact</u> By not having a payroll reconciliation or validation process for all units which allows verification of time on a time report to an actual sign in sheet could result in employees being paid for time that was not worked. |
| | <u>Recommendation</u> |
| | <u>2011-03</u> We recommend management of the Jail Medical Program implement policies and procedures for all reporting units that will require a process for sign-ins and outs along with a reconciliation from the time report to the sign-in sheets prior to approval. |

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| | Management's Response: |
| | Management agrees with the recommendation, and is currently utilizing sign-in sheets within three (3) units; however, they are implementing our recommendation in the other six (6) units. |

| Area of Concern | Observation |
|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Insufficient Evidence that Annual County Disclosure Statements are Maintained as Required | Jail Medical is subject to this provision of the Procurement Ordinance. Jail Medical management indicated they filed the annual disclosure of potential conflicts of interest disclosure form. However, they were unable to provide us with copies of the filed forms. Prior to this report being issued, there was an amendment to the Procurement Ordinance requiring a copy of the annual disclosure form be maintained in the department files. |
| | <u>Impact</u> Possible non-compliance with a critical safeguard such as an annual conflict of interest disclosure form exposes Jail Medical and county officials to avoidable risk of entering into contracts with businesses where related-party transactions could exist and are not properly disclosed. Non-compliance could also expose the county to negative media reports if any related party contracts were awarded and appropriate safeguards were not adhered to. |
| | <u>Recommendation</u> |
| | <u>2011-04</u> We recommend Jail Medical establish procedures to retain copies of the county's annual disclosure form, along with the transmittal within the division in order to demonstrate compliance with this new provision of the Procurement Ordinance. |
| | Management's Response: Management agrees with the recommendation. |

IV. Financial Activity

The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an organization or segment that is useful for a wide range of users and in making economic decisions. Financial statements and related information are intended to be understandable, relevant, reliable and comparable to prior periods. Reported

assets, liabilities and equity are directly related to an organization's financial position; while, receipts and expenditures are directly related to an organization's financial performance over a specific period of time.

Conclusion

Jail Medical provides statutorily mandated medical, dental and mental health services to all inmates of the Wayne County Jails. Twenty-four hour on-site care is provided, as well as all required testing, medication and referrals to off-site specialty services.

We reviewed the unit's financial records activity for the period FY 2010 to February 2011 and noted that Jail Medical was over budget by \$660,000 in FY 2010 primarily as a result of overtime that was not included in the unit's budget. In addition, the unit received over \$3.1 million less than budgeted revenue for the same period. This is primarily the result of receiving less parking tax revenue and not receiving revenue related to health care costs provided to federal inmates. As a result, the unit required additional general fund support, resulting in a total of \$15.5 million.

Based on our review, we have concluded that Jail Medical has reasonable financial management controls in place to adequately meet overall requirements. The program has a finance director assigned to them from the Department of Management & Budget. However, we did note areas where we believe processes can be strengthened within Management & Budget.

| Area of Concern | Observation(s) |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue for Services not Being Allocated | <p><u>Federal U.S. Marshal</u></p> <p>The Wayne County Sheriff's Office has an agreement (agreement #39-08-0029) with the Federal U.S. Marshall to house their inmates for a set fee of \$115 a day per inmate. However, this fee includes \$23.31 per day for the cost of mandated medical services, which Jail Medical provides to the inmates housed within the jail. The amount of revenue related to the medical services is not being allocated to the Jail Medical business unit; it is being recorded in the Sheriff's Office revenue account.</p> <p><u>Impact</u></p> <p>Not allocating the appropriate revenue received for performing the medical services exhibits non-compliance with the matching principle of revenue received for the services performed. It does not provide transparency of the activity of the Jail Medical Unit including payments for services performed which would provide a true financial picture of the program. Also, not allocating the revenue results in the need for more general fund dollars to the business unit.</p> |

| | |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Recommendation(s) |
| | <p><u>2010-05</u> We recommend the Jail Medical Unit meet with Sheriff Officials to ensure that revenue intended for medical services are allocated to Jail Medical Health Services Program.</p> |
| | Management's Response: |
| | Management agrees with this recommendation that the revenue for providing medical services to United States Marshal Service (USMS) inmates should be allocated to the Jail Medical Program. |
| Area of Concern | Observation(s) |
| Overstating Parking Tax Revenue | <p><u>Parking Tax Revenue</u> Wayne County receives revenues generated under authority of the Airport Parking Tax Act, Public Act 248 of 1987, (the Act) and is required to use the revenue to provide health care for the indigent citizens of Wayne County. In FY 2010, the Parking Tax Revenue allocated to Jail Medical was \$1.5 million less than budgeted. Further, in FY 2011, \$7 million has been budgeted for Jail Medical. Based on the amount received in the prior year, it appears that a significant reduced amount could actually be recorded.</p> |
| | <p><u>Impact</u> Not budgeting revenue accurately or amending the budget when the anticipated amount of revenue is reduced could be attributing to the cause of deficits in the County's general fund.</p> |
| | Recommendation(s) |
| | <p><u>2011-06</u> We recommend creating a control mechanism to enhance the budgeting process to accurately budget revenues from the Wayne County Airport Parking Tax or other revenue sources to more accurately reflect the amount to be received. When anticipated revenue will not be received, amend the budget appropriately.</p> |
| | Management's Response: |
| | Management officials indicated they are not aware of how parking funds or other revenue is projected, collected or recorded. |

Noteworthy Comments

Over the past three years the pharmacy has initiated steps to curb the rising cost of medication distribution to the inmate population despite the budget cuts and lack of manpower. Moreover, the pharmacy implemented additional measures this fiscal year, which will accumulate cost savings that will be realized within the 2011-2012 fiscal year.

- Drug formulary restrictions requiring maximum utilization of generic drugs;
- Expensive medication given in “unit of use” packaging to reduce waste/cost....facilitate re-dispensing of returned medication;
- Usage of inmate’s “private” medication brought into jail whenever feasible;
- Consolidating down to one pharmacy location for maximized productivity;
- Reduced inventory cost with one location and “just in time” ordering system;
- Staff reductions – four years ago three pharmacists with three pharmacy techs. Goal 2011-12 one pharmacist with relief help, one R.Ph., and two pharmacy techs;
- Reduced computer software maintenance cost with one centralized pharmacy;
- Increased access to pharmacy database to medical staff providing important medication history of inmates from previous incarcerations;
- With the “electronic medical record” implementation, pharmacy will be provided a mechanism to fill orders more expediently; and
- Propose formulary implementation at the Juvenile Detention Facility to reduce drug cost.

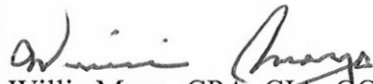
Conclusion

Overall conclusion - Based on our limited review, management appears to have identified key areas of risk within the program and established reasonable control activity to manage and mitigate such risk.

Corrective Action Plan (CAP) – A CAP will be requested approximately 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

This report is intended solely for the information and use of Jail Medical Health Services Program, Department of Health and Human Services, and the County Commission and should not be used for any other purpose. This restriction is not intended to limit distribution of the report which is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Willie Mayo", is written over the printed name.

Willie Mayo, CPA, CIA, CGAP, CICA
Auditor General