

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF MENTAL HEALTH
AND ADDICTION SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
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March 1, 2002

**AUDITORS' REPORT
DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES
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We have examined the financial records of the Department of Mental Health and Addiction Services for the fiscal years ended June 30, 1999 and 2000. This report on our examination consists of the Comments, Recommendations and Certification which follow.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all agencies including the Department of Mental Health and Addiction Services. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating internal control structure policies and procedures to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Mental Health and Addiction Services (DMHAS) operates under Title 17a, Chapters 319i and 319j and Sections 17a-450 through 17a-713 of the General Statutes. It describes its mission as improving the quality of life of the people of Connecticut by providing an integrated network of comprehensive, effective and efficient mental health and addiction services that foster self-sufficiency, dignity and respect.

During the audited period, the Department maintained a Central Office, which includes the Office of Behavioral Health (OBH). The OBH oversees all State-operated and DMHAS funded mental health and addiction services. Under OBH, the State is divided into 23 catchment areas for the purposes of administering mental health services. Each catchment area is assigned a "Local Mental Health Authority" (LMHA) with some LMHAs assigned to more than one catchment area. As of June 30, 1998, there were 15 LMHAs in effect, six are State operated (SLMHAs) and nine are operated by private non-profit organizations. The six SLMHAs listed below act as both a manager and funding source for the network of non-profit agencies in its geographic region and a provider of mental health services as well.

Capitol Region Mental Health Center (Hartford)- Serves six towns in the Hartford area.

Connecticut Mental Health Center (New Haven)- Serves four towns in the New Haven area.

River Valley Services (Middletown)- Serves towns in Middlesex County.

Southwest Connecticut Mental Health System (Bridgeport)- Serves lower Fairfield County, includes the Greater Bridgeport Community Mental Health Center and the Franklin S. DuBois Center in Stamford.

Southeastern Mental Health Authority (Norwich)- Serves New London County.

Western Connecticut Mental Health Network (Waterbury)- Serves Litchfield County and towns in northern New Haven and Fairfield counties.

The nine LMHAs operated by private, non-profit organizations are funded through grants from DMHAS. They maintain community based network systems to provide mental health and addiction services to areas not covered by State operated facilities.

DMHAS also operates two hospitals for inpatient psychiatric and substance abuse treatment services, Connecticut Valley Hospital (CVH) in Middletown and Cedarcrest Hospital in Newington.

Albert J. Solnit, M.D., served as Commissioner of DHMAS during the audited period until his retirement on May 1, 2000 when he was replaced by Thomas A. Kirk, Jr., Ph.D. Under the provisions of Sections 17a-456 and 17a-457 of the General Statutes, a 19 member Board of Mental Health assists the Commissioner by reviewing and advising on DMHAS programs, policies and plans. The number of board members was increased from 15 to 19 through Public Act 00-101, effective October 1, 2000.

RÉSUMÉ OF OPERATIONS:

General Fund Revenues and Receipts:

A summary of General Fund revenues and receipts for the fiscal years ended June 30, 1999 and 2000 follows:

	<u>1998-99</u>	<u>1999-00</u>
Restricted contributions, Federal	\$31,060,970	\$37,100,358
Restricted contributions, other than Federal	1,948,140	2,983,263
Refunds of prior years' expenditures	1,017,307	503,096
Refunds of current year expenditures	768,284	654,207
All other revenue	<u>547,472</u>	<u>601,717</u>
Total	35,342,173	41,842,641
Disproportionate Share	<u>191,000,000</u>	<u>191,000,000</u>
Total General Fund Revenues and Receipts	<u><u>\$226,342,173</u></u>	<u><u>\$232,842,641</u></u>

For comparative purposes, total General Fund revenues and receipts for the 1997-98 fiscal year, including \$191,000,000 for disproportionate share, were \$225,544,806. General Fund receipts consisted primarily of refunds of expenditures for workers' compensation, Federal and private grants, and Federal disproportionate share hospital payment adjustments. The approximate \$6,000,000 increase in Federal restricted contributions for the 1999-00 fiscal year relates to the timing of awards for the Substance Abuse and Treatment Program (SAPT) Block

Grant (CDFA # 93.959). A delay in the SAPT Block Grant application resulted in funds that would have normally been received during the 1998-99 fiscal year being received early in the 1999-00 fiscal year.

Medicaid disproportionate share hospital payment adjustments were received from the State Department of Social Services and made up the majority of General Fund receipts. Disproportionate share payment adjustments were permitted by an approved amendment to the State's Medicaid Plan under Section 1923 (c)(3) of the Social Security Act. That amendment provided payment adjustments to hospitals for services provided to uninsured low income persons who were not eligible for either Medicaid or Medicare coverage of inpatient psychiatric hospital services. These payments received from the Department of Social Services were subsequently included in billings to the Federal Government. Disproportionate share was used to reduce General Fund budgeted expenditures by assuming costs previously budgeted and for fringe benefit cost reimbursement to the State Comptroller's Office.

General Fund Expenditures:

A summary of General Fund expenditures for the fiscal years ended June 30, 1999 and 2000 follows:

	<u>1998-1999</u>	<u>1999-2000</u>
Personal services	\$186,746,332	\$208,659,401
Contractual services	30,279,686	33,690,954
Yale University- CMHC staffing	7,172,564	7,512,906
Commodities	13,482,294	14,704,286
Grant funds returned		2,705
Sundry charges	49,421,204	63,684,778
Workers' compensation	5,728,588	6,268,353
State-aid-grants	100,273,924	101,228,057
Equipment and buildings	800,199	601,125
Total	<u>393,904,791</u>	<u>436,352,565</u>
Disproportionate share	<u>(138,000,000)</u>	<u>(138,000,000)</u>
Total Budgeted	255,904,791	298,352,565
Restricted Contribution Accounts:		
Disproportionate share - budgeted	138,000,000	138,000,000
Disproportionate share - fringe benefits	53,000,000	53,000,000
Private accounts	2,165,780	3,582,261
Federal accounts	<u>31,696,464</u>	<u>30,901,088</u>
Total Expenditures	<u>\$480,767,035</u>	<u>\$523,835,914</u>

For comparative purposes, total expenditures for the 1997-98 fiscal year were \$438,180,085, of which, \$171,780,424 was for personal services. The increases of approximately \$42,500,000 and \$43,000,000 in Agency expenditures for the 1998-99 and 1999-00 fiscal years, respectively, can be attributed to increases in the areas of personal services and sundry charges.

Expenditures for personal services increased by approximately 12 and 11 percent (or \$14,965,908 and \$21,913,069) for the 1998-99 and 1999-00 fiscal years, respectively. This was

mainly due to collective bargaining increases and increases in staffing. Full-time employees increased from 2,918, as of June 30, 1998, to 3,385, as of June 30, 2000.

Expenditures for sundry charges increased by approximately 25 and 28 percent (or \$10,134,720 and \$14,263,574) for the 1998-99 and 1999-00 fiscal years, respectively. The increases can be attributed to the full implementation of the behavioral health managed care program which began during the 1997-98 fiscal year. The program provides behavioral health services for individuals eligible for general assistance.

Special Revenue Funds Expenditures:

Special Revenue Funds expenditures totaled \$4,786,393 and \$4,313,840 for the 1998-99 and 1999-00 fiscal years, respectively. This includes expenditures totaling \$3,638,197 and \$2,007,369 for renovation projects at Connecticut Valley Hospital and \$1,324,815 and \$1,932,305 for grants to the Department's private providers for acquisition and improvement of facilities during the respective audited years.

The Department purchased equipment through the Capital Equipment Purchases (1872) Fund totaling \$623,167 and \$374,167 for the 1998-99 and 1999-00 fiscal years, respectively.

Per Capita Costs and Bureau of Collection Services Receipts:

Under the provisions of Section 17b-223 of the General Statutes, the State Comptroller is required to determine annually the per capita costs for the care of all persons housed in State humane institutions. Costs for in-residence population for the fiscal years under review follows:

	<u>Per Capita Costs - In-Residence</u>			
	<u>1998-1999</u>		<u>1999-2000</u>	
	<u>Daily</u>	<u>Annual</u>	<u>Daily</u>	<u>Annual</u>
	\$	\$	\$	\$
Connecticut Valley Hospital	699	255,007	780	284,747
Connecticut Mental Health Center	1,304	475,814	1,297	473,555
Southwest Connecticut Mental Health System	802	276,816	842	307,512
Cedarcrest Hospital	758	292,886	907	330,909

The average daily number of DMHAS inpatients for the above facilities were 726 and 751 for the 1998-99 and 1999-00 fiscal years, respectively.

Recoveries initiated by the Bureau of Collection Services for outpatient and inpatient services of Department facilities follows:

	<u>1998-1999</u>	<u>1999-2000</u>
Cash Receipts	\$ 8,321,759	\$9,410,445
Title XIX Billings	<u>11,474,294</u>	<u>5,118,160</u>
Totals	<u>\$19,796,053</u>	<u>\$14,528,605</u>

The cash receipts shown above consisted of the Bureau's collection from legally liable relatives or third parties. The Title XIX billings represent the Bureau's billings to the Department

of Social Services for the value of services provided to patients under the Medicaid program of the Social Security Act and only one-half of it represents potential reimbursement from the Federal government. (The Bureau "bills" the Department of Social Services monthly for the value of such services. Upon receipt of such "bills", that Department recovers approximately 50 percent of the amount from its appropriate Federal account and credits it to the State's General Fund as revenue).

As previously noted, the Federal Government also reimburses the Department of Social Services for one-half of the allowable service costs permitted by the State's Medicaid Plan for disproportionate share hospital payment adjustments.

Program Evaluation:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. Under Section 17a-453a of the General Statutes, DMHAS operates a behavioral health managed care program that began as of July 1997. The program provides behavioral health services and basic needs support, as determined by DMHAS, to individuals eligible for general assistance. Program expenditures were approximately \$59,000,000 for the 1999-00 fiscal year.

Under Section 17a-453a, subsection (a), DMHAS "shall be responsible for all services and payments related to the provision of the behavioral services for eligible recipients and may conduct an audit of all aspects of the program establishing ... including, but not limited to, services provided, prior authorizations, payments for services and medical records." Our program evaluation reviewed the extent of the Agency's audit of the behavioral health managed care program in the area of payment for services.

DMHAS contracts with a vendor to accept, adjudicate and pay claims provided to eligible general assistance participants. Payments are made to providers that have contracts with the DMHAS Managed Care Unit. The Managed Care Unit and other DMHAS program staff conduct program and performance monitoring of the provider. The Managed Care Unit monitors the vendor through reviewing required reports and regular meetings.

The Department has an Audit Unit whose main function is to conduct field reviews of behavioral health provider claims. The Unit also performs reviews of various DMHAS internal operations to a lesser extent. For provider claim payment reviews, the Audit Unit will conduct a field review of the provider. A sample of claims paid is obtained from the Agency's Health Care Finance Unit, which monitors and approves all claims authorized for payment by the vendor. The objective of the Audit Unit reviews of the behavioral health providers is to verify that there is sufficient documentation of services that clients are eligible for and that the provider adheres to DMHAS policies. The Audit Unit also uses clinicians from the Managed Care Unit to review clinical files.

Since the Unit began conducting field audits during the 1999 calendar year, the Audit Unit is still in a developmental stage. The Unit's current work plan is to review the larger providers with focus on particular levels of care.

It appears from our review and discussions with the DMHAS Audit Director that Agency internal control procedures and its Audit Unit provide for sufficient monitoring of behavioral health provider claim payments. However, we note one significant finding regarding the independence of the Audit Unit:

- Criteria:* The Institute of Internal Auditors' standards regarding organizational independence requires that the chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. In addition, the internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.
- Condition:* The DMHAS Audit Unit directly reports to the Chief Fiscal Officer within the Administrative and Financial Division. The same official oversees all Agency business operations.
- Effect:* The DMHAS Audit Unit lacks independence under the current organizational structure since it directly reports to the same official responsible for overseeing the financial operations it reviews.
- Cause:* The cause for having the Audit Unit report to the Chief Fiscal Officer was not determined.
- Recommendation:* The DHMAS Audit Unit should be independent from Agency officials responsible for managing Agency financial operations. (See Recommendation 1.)
- Agency Response:* "To strengthen the Audit Unit's independence, an Audit Committee has been created. The members of this committee are the Agency's Commissioner, Deputy Commissioner, Chief Financial Officer and the Director of Community Services & Hospitals. The Audit Director will meet with the committee on, at least, a quarterly basis. The committee's function will include: 1) Approve or revise the Annual Audit Plan; 2) Comment or suggest changes in the focus of the review on audit assignments; 3) Be proactive in the implementation of corrective actions as agreed and committed by Agency management; 4) Support the Audit function within the Agency in ensuring the units' independence from day-to-day operational activities and 5) Approve issuance of all reports."

CONDITION OF RECORDS

Our examination of the records of the Department disclosed the following matters of concern requiring disclosure and Agency attention.

Property Control:

Criteria: The State of Connecticut's Property Control Manual and good business practice require that equipment purchases be immediately recorded and tagged; that deletions and other adjustments be properly authorized; and that periodic physical inventories be performed to verify the presence of assets.

Conditions: 1. Office of the Commissioner - Our initial review during January 2001 revealed that the Agency had not reported 845 missing inventory items valued at \$1,197,461 as required by Section 4-33a of the General Statutes. The items have been missing since the June 30, 1999 physical inventory. At that time, the Agency decided to continue searching for missing items and not report the loss. The loss was subsequently reported by the Agency.

We reported the loss to the Governor and other State Officials on March 30, 2001.

Our testing also showed numerous instances where the inventory records did not accurately show an item's location. We also continued to find that the Agency does not maintain a central computer software inventory.

2. Southwest Connecticut Mental Health System (SWCMHS)- As noted in our previous audit report, logs maintained for recording property control information continued to be inadequate; omitting item cost, date acquired, expenditure coding and location. Also, there was no complete inventory listing.

3. Connecticut Valley Hospital (CVH)- We continued to find property control records to be incomplete. A physical inventory was not performed for June 30, 2000 and the physical inventory for June 30, 1999 did not record any cost items for items inventoried. As reported in previous reports, equipment transferred from Fairfield Hills Hospital and Norwich Hospital several years ago still has not been added to inventory records.

Our previous audit noted kitchen equipment, costing \$86,252 and purchased during September 1996 through January 1997, remained unused in its original boxes kept in a supplies warehouse. As of July 2001, the equipment remained unused as CVH was still

waiting for bonding to begin construction on the new kitchen.

4. Connecticut Mental Health Center (CMHC)- Our last report noted that, as of August 1999, the last complete physical inventory was conducted during calendar year 1991. A physical inventory was subsequently conducted for the fiscal year ended June 30, 2000. However, most of the items inventoried were listed as having zero value on the inventory record. Thus, nearly \$700,000 reported as the value of furnishings and equipment on the Center's Annual Property Report to the Comptroller for June 30, 2000 could not be documented.

Effect: There was a lack of compliance with the State Comptroller's guidelines to ensure the proper recording and safekeeping of the State's assets.

Cause: An overall lack of oversight to ensure that records are properly maintained contributed to this condition.

Recommendation: Controls over equipment inventory and reporting should be improved. (See Recommendation 2.)

Agency Response: "Office Of the Commissioner (OOC)- During the 2001-02 fiscal year, DMHAS will take inventory of Department assets which will also include documenting the physical location of all items. OOC was hindered in complying with inventory requirements by the Department of Administrative Services' (DAS) decision to withdraw from supporting State agency needs through its inventory tagging and recording services.

In addition, the Department's Information Systems Division (ISD) has obtained software to track purchases of all operating, application and utility programs. This software will be rolled out and utilized during the 2001-02 fiscal year.

Connecticut Valley Hospital- CVH is now in the process of completing an inventory utilizing a new software system. Two main campus buildings are complete and the other is three-quarters complete. All inventories will be finished by March 30, 2002.

The \$86,252 worth of kitchen equipment is still in storage...final plans for kitchen have been approved and project is going to bid and awaiting bonding.

Connecticut Mental Health Center- In the 1999-00 fiscal year, CMHC contracted with the DAS to conduct a complete physical inventory of equipment and to maintain the CMHC inventory

records. DAS filed the required end of the fiscal year Inventory Forms with the State Comptroller correctly. However, DAS did not record financial data for many of the items noted on the inventory backup records.

CMHC is no longer contracting with the DAS for taking inventory. However, DAS agreed to insert financial data on the back up inventory records. This project is nearly complete. Effective immediately, the CMHC inventory officer will maintain back up inventory records that includes all applicable financial data.

Southwest Connecticut Mental Health System- Logs maintained for recording property transactions have been improved and now include all required property control information including item cost, acquisition date, expenditure coding and physical location. Property control records will be reviewed for accuracy and completeness by management on a quarterly basis.”

Fiduciary Funds:

Criteria:

Fiduciary funds are established under various sections of the General Statutes which also direct compliance with the State Comptroller's procedures. State procedures require appropriate controls to be in place for safeguarding assets and assisting agencies in fulfilling custodial responsibilities for administering fiduciary funds.

Conditions:

1. Connecticut Valley Hospital– The CVH Activity Fund operates a Greenhouse that sells plants to staff and the public. Sales for the Greenhouse totaled over \$26,000 for the 1999-00 fiscal year. As noted in the prior audit, our current review continued to show poor internal control over Greenhouse sales in that one individual was responsible for all aspects of Greenhouse operations.

2. SWCMHS- During our prior review, we reported several conditions to the Governor and other State Officials in a letter dated September 15, 1999. These conditions were the continuing lack of monthly bank reconciliations for Greater Bridgeport Community Mental Health Center (GBCMHC) Clients’ Fund; the lack of retained bank reconciliations prepared for the Dubois Center’s Client/Welfare Fund; and an unexplained shortage of \$3,895 in the DuBois Center Welfare Fund.

As of April 2001, bank reconciliations for the GBCMHC Clients’ Fund were prepared through December 1999. However, management had not reviewed the reconciliations for accuracy or appropriate resolution of any unexplained differences.

We noted improvement in the retention of reconciliation documentation for the Dubois Center's Client/Welfare Fund; however, several reconciliations were unavailable and could not be accurately reproduced by the available accounting software. Also, no further action had been taken to resolve the \$3,895 unexplained shortage in the Dubois Center Welfare Fund records.

As also noted in the prior audit report, there continues to be a lack of financial statements prepared for the Welfare and Clients' Funds; client loan receivable balances for both the GBCMHC and DuBois Welfare Funds were not kept up to date; and a test of GBCMHC Clients' Fund disbursements showed a lack of either a client or supervisor's signature to authorize 15 of the 35 transactions tested.

There is a general weakness in the safeguarding of clients' funds at SWCMHS. In the 2000 calendar year, there were six incidents reported by the Agency of stolen money from the Clients' Fund totaling \$2,229. One instance involved \$704 belonging to two clients that was stolen from a business office desk while awaiting deposit. The money has never been credited to the clients' individual account balances. In March 2000, a cash box and individual client cash envelopes containing \$1,200 were stolen from the business office safe. Existing Agency records were not sufficient to determine which clients were involved. As of March 2001, the funds had not been recovered and no steps were taken to restore the funds to ensure that available fund balances would cover individual account balances.

Effect: The lack of adequate controls over fiduciary funds can result in the theft of such funds.

Cause: There appears to be a lack of fiscal management oversight to ensure internal controls are established and followed.

Recommendation: Fiduciary fund operations should be improved. (See Recommendation 3.)

Agency Response: "Connecticut Valley Hospital- Additional business procedures for the purchasing, cash, and inventory functions for the greenhouse operations have been implemented and are being monitored by the business office management with acceptable compliance.

Southwest Connecticut Mental Health System- All bank reconciliations have been prepared currently with managerial review and approval. Reconciling differences have been identified

and are in the process of being resolved with assistance from the State Comptroller's Office. The unexplained shortages in the Dubois Welfare and GBCMHC Clients' Funds accounts were a result of extensive backlogs in preparing the bank reconciliations. We have submitted a request to and are waiting approval from the Comptroller's Office to identify losses from the General Fund. In addition, Client loan receivable balances are being reconciled to date.

Financial statements using the format recommended in the Activity and Welfare Manual will be prepared for calendar and fiscal year ends. Client loan receivable balances in the Welfare Funds are being reconciled to date.

Through consultation and review of our business practices with DMHAS's Audit Unit, we are working on strengthening controls over obtaining the required signatures for disbursement of client funds. In addition, we have significantly reduced the amount of cash that is kept on hand and disbursed to clients by requiring all but a limited number of clients to get their disbursements by check. (Even if requested on a daily basis.)"

Petty Cash Funds- SWCMHS and Travel Advances

Background: The SWCMHS includes the Greater Bridgeport Community Mental Health Center (GBCMHC) and the Dubois Center. Each has a petty cash fund with authorized totals of \$4,700 and \$1,300, respectively.

Criteria: The Comptroller's State Accounting Manual (SAM) guidelines for operating and maintaining petty cash funds states that the petty cash custodian should have no other cash handling responsibilities. In addition, employees receiving cash advances for travel expenses must submit an employee payroll reimbursement form (known as Form CO17XP) within five working days after returning from travel.

Condition:

1. SWCMHS- Our current review noted improvement in controls and record keeping for the SWCMHS petty cash funds. However, we continued to find that the petty cash custodian's duties were not properly segregated to prevent the custodian from having other cash handling duties for other funds.
2. Travel advances- Our review of petty cash travel advances for the Office of the Commissioner and CVH showed a lack of timely submission of employee payroll reimbursement forms. For the Office of the Commissioner, the forms were a few days to a month

late while the forms at CVH ranged from one to four months late.

Effect: There was a lack of compliance with the Comptroller's SAM Manual concerning petty cash policies and procedures.

Cause: The cause was not determined.

Recommendation: DHMAS should conform with the Comptroller's State Accounting Manual guidelines by improving control over petty cash. (See Recommendation 4.)

Agency Response: "Office Of the Commissioner- OOC employees are required to submit payroll reimbursement forms within five working days after returning from State business travel. However, on occasion, employees do not submit the required form within these guidelines. In such cases, the Department Petty Cash custodian contacts these employees, as a reminder, to submit the form to the Business Office timely. As needed, individual employees who are tardy will be reminded to follow Department protocols in the timely filing of required paperwork.

Connecticut Valley Hospital- The hospital has established a shared travel database that allows closer monitoring of reimbursement forms. The CVH Fiscal Director will establish a monthly monitoring report that captures any reimbursement forms outstanding beyond 30 days after the travel date. Follow-up will be done to request submission of travel forms if not filed timely."

SWCMHS- Petty cash fund custodian duties have not been separated from other cash handling functions due to limited staffing. However, managerial oversight has been increased to compensate for this, including random reviews by a supervisor encompassing spot counting the petty cash box as well as reviewing a select number of cash transactions for appropriateness. Infrequent activities, such as voiding checks now require supervisory approval and are monitored by the fiscal director."

Purchasing:

Criteria: Sound business practices include proper managerial review and approval of orders for goods/services prior to making a purchase and reviewing outstanding accounts payable to ensure the availability of funds to meet all obligations. Standard State purchasing procedures and sound business practice require competitive bidding whenever possible or documentation that the vendor selected is the sole source for the goods/services purchased. Also, proper internal control would include reviewing all invoices for accuracy before payment.

Condition:

1. Office of the Commissioner- Our review showed several instances where purchase requisitions and purchase orders were dated after the goods/services were received. This indicates purchases made by staff were not reviewed and approved by management. There were three instances, totaling \$11,813, in our sample of 50 expenditures where there was no supporting documentation of competitive bidding nor an indication that the vendor was the “sole source” for the items ordered. In addition, we noted several instances of late invoices indicating that outstanding purchase orders and/or requisitions were not reviewed on a timely basis.

2. Cedarcrest Hospital- During March 2000, four defibrillators and associated supplies were purchased at a cost of \$13,358. Such equipment is used in emergencies involving cardiac arrest. We noted that the Agency also previously purchased and received two defibrillators at a cost of \$7,107 during July 1998. Our current review found two of the above defibrillators and associated supplies, costing \$6,679 still in their packing box unused as of February 2001. We were informed that the equipment remained unused due to a lack of formal Hospital policies and procedures to provide for safe and effective use of the available defibrillators.

This matter was reported to the Governor and other State Officials on June 25, 2001.

3. CMHC- Our test check revealed an incorrect payment to an employment agency for temporary services. The total hours for a particular temporary employee were added incorrectly on their timesheet. Expanding the review of such payments for a six-month period showed continuing errors in calculating total weekly hours according to the timesheet. This resulted in a cumulative overpayment of \$471 to the temporary employee. The Agency business office was not verifying that the invoices were correct. Instead, they relied on staff signing off on the timesheets to review their accuracy.

Effect:

The lack of properly approved purchase requisitions/orders may result in unauthorized purchases. Without documentation of competitive bidding, there is no assurance that goods and/or services are being purchased at the most optimal rate. The lack of timely review of accounts payable could result in a shortfall in available funding.

For Cedarcrest Hospital, emergency treatment may be unavailable to clients because of a lack of policies and procedures over the use

of available defibrillators.

At CMHC, the lack of review of vendor billings resulted in undetected payment errors.

Cause: In general, the above conditions appear to be the result of a lack of management oversight over controls and planning. The lack of approval of Cedarcrest Hospital policies and procedures to allow for the use of defibrillators was apparently due to other matters receiving priority.

Recommendation: DMHAS should improve its controls and oversight over expenditures and use competitive bidding whenever possible. (See Recommendation 5.)

Agency Response: “Office of the Commissioner - OOC purchasing policies and procedures require staff to submit purchase requisition forms to the Business Operations Unit for review and approval prior to purchases being made. In July 2000, a standardized 3-part purchase requisition form and revised procedures were implemented. Purchasing staff conducted formalized training on the new requisition and revised procedures for OOC staff and emphasized the importance of following proper purchasing procedures. However, non-fiscal staff occasionally makes unauthorized purchases (purchases without a properly executed or approved requisition). These staff will be reminded to follow Department protocols when purchasing items for OOC.

Cedarcrest Hospital – Effective May 2001, all emergency medical equipment was distributed to strategic locations within the hospital. In addition, policies and procedures regarding the training of clinical staff in the proper use of this equipment were developed and distributed. Moreover, inventory records were updated to reflect the specific location of the equipment within the facility.

A decision was made not to unpack and utilize this equipment, upon initial receipt, until various renovation projects, personnel re-assignments and relocations were completed. Premature utilization of the defibrillators without proper staff training and procedure development could have negatively impacted any emergency response. The equipment is now in place; staff trained in its use and properly accounted for in the property control records

Connecticut Mental Health Center - The CMHC Business Office is now verifying all temporary employee timesheets for accuracy before issuing payment for employment services. If the daily and total weekly hours worked on temporary employee timesheets is

inconsistent, the supervising manager is contacted to research and reconcile timesheet differences. In June 2001...the overpayment of \$471...was received and deposited.”

Attendance Records:

Criteria: Agency procedures require timesheets to be signed by the employee, verified, and approved by a supervisor.

Condition: Our test check of attendance records showed that timesheets for nursing employees at Connecticut Valley Hospital and Cedarcrest Hospital were not signed by a supervisor.

Effect: The lack of proper approval of attendance records lessens the assurance that personal services were received.

Cause: The cause was not determined.

Recommendation: DMHAS should ensure that attendance records are properly approved. (Recommendation 6.)

Agency Response: “Connecticut Valley Hospital- The hospital has initiated procedures for Program Managers to sign all timesheets for unit staff.

Cedarcrest Hospital- The hospital has recently hired two additional nursing supervisors. Part of their responsibilities will be to review all time sheets for employee and supervisory signatures prior to being submitting to the hospital’s personnel office.”

Late Deposits:

Criteria: Section 4-32 of the General Statutes requires the timely deposit of receipts within 24 hours. The Comptroller’s State Accounting Manual (SAM) requires agencies to keep a receipts journal that indicates the date of receipt.

Condition: 1. Office of the Commissioner- Our prior report disclosed a lack of a General Fund receipts journal. This condition continued through part of the current audited period but was corrected through the implementation of a receipts journal for the 1999-00 fiscal year.

2. Southeastern Mental Health Authority (SMHA)- Our test of receipts for the SMHA Activity Fund disclosed 10 receipts totaling \$233 that were from two to 17 days late.

3. SWCMHS- Our test of the SWCMHS Welfare Fund showed

\$16,970 in late deposits on five different dates. The deposits ranged from two to ten days late including \$11,482 that was two days late and a deposit of \$4,857 that was six days late.

Our test of the Greater Bridgeport Community Mental Health Center's Clients' Fund disclosed a lack of a receipts log making our review extremely difficult, however, for those receipts with available supporting documentation we noted three instances where receipts totaling \$3,308 were made between one and three days late and two instances where receipts totaling \$157 were between one and three weeks late.

The late deposits by the SMHA Activity Fund and the SWCMHS Welfare and Clients' Funds were reported to the Governor and other officials on September 26, 2001.

Effect: Agency receipts were not deposited in a timely manner in accordance with Section 4-32 of the General Statutes and complete receipts records were not maintained as required by the State Comptroller's instructions.

Cause: The causes for the late deposits were not determined.

Recommendation: DMHAS should ensure all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. (See Recommendation 7.)

Agency Response: "Southeastern Mental Health Authority- Upon review of the auditor's recommendations, it was discovered that staff were collecting and holding on to donations made to our restricted accounts. A directive, issued December 2001, was sent to all staff reminding them of the procedures for the proper handling and timely depositing of operating cash or cash donations.

Office of the Commissioner – DMHAS has undertaken additional steps during the 1999-00 and 2000-01 fiscal years to strengthen procedures in the timely processing of deposit transactions. These include utilizing a combination of electronic spreadsheets, receipt journals and Comptroller Office form "CO-99". In addition, business office staff responsible for processing deposit transactions have been given additional training to strengthen their familiarity with the Comptroller's State Accounting Manual concerning deposit transactions.

SWCMHS- A receipts journal for all cash and checks received in the business office was put in place November 15, 2001 to strengthen the controls regarding the timely deposit of receipts.

Receipt of payments against loans and deposits (other than checks from Social Security or the Department of Social Services) of clients' funds will be accompanied by a form that will be date stamped and used for entry in the receipts journal."

Agency Bank Accounts and Reconciliations:

Criteria: Proper internal control would require prompt reconciliation of bank accounts and accounting records to ensure that any discrepancies are detected and corrected on a timely basis. In addition, the number of bank accounts should be kept at a minimum and any accounts no longer in use should be promptly closed.

Condition: 1. Bank Accounts- During February and March 2000, the Agency opened two new accounts for the OCC Petty Cash and Activity/Welfare Funds. These were to replace the existing accounts for both funds. However, our review during February 2001 showed the existing accounts remained opened. One of the new accounts, the Activity/Welfare Fund, had remained inactive for nearly a year since its opening while the Agency continued to use the existing account for its transactions. Subsequent to our review, the Agency closed the two existing accounts.

2. Reconciliations- Our review during April 2001 showed that the OCC Petty Fund bank account had not been reconciled since July 2000. Also, the OCC did not have available all monthly expenditure reconciliations of its records to the State Comptroller during the audited period, including its year end reconciliation for June 30, 2000. In addition, we noted the lack of timely reconciliation of CVH General Fund expenditure records to the State Comptroller, CVH Activity and Clients' Funds bank accounts, and the River Valley Services Clients' Fund bank account. The reconciliation of CVH expenditures records is further discussed in the following section titled "Payroll Processing Error- Connecticut Valley Hospital and the County Sheriff".

Effect: The lack of prompt reconciliation of accounting records can result in losses not detected on a timely basis. The maintenance of two bank accounts for a single fund can increase the risk of fraud or error.

Cause: There appears to be a lack of management oversight to ensure the above conditions do not occur.

Recommendation: DMHAS should ensure that reconciliations of its records are

performed on a timely basis and documented. (See Recommendation 8.)

Agency Response:

“Office Of the Commissioner- In February and March 2000, the Agency opened two new accounts...for the OOC Petty Cash and Activity/Welfare Funds. These were to replace the existing accounts at a different bank. The Agency also planned to transition these accounts from a manual system to Quickbooks. This transition took place during FY 2001.

OOO decided to keep the old or existing accounts open during this time frame to ensure an accurate transition to the new computerized system. The old accounts have now been closed.

During the transition of the bank accounts from a manual system to a computerized system, business office staff conducted informal manual reviews/reconciliations of the Petty Cash bank account. Subsequent to the Auditors’ finding, formal computerized monthly reconciliations have been completed/up to date and have uncovered no irregularities and/or discrepancies within this account.

River Valley Services- The employee normally responsible for maintaining client account records and processing transactions was on maternity leave at the end of February 2001. We requested a durational position to replace this employee, but because of the State wide hiring freeze, we were unable to fill the position until June 2001.

The person who reconciled our bank statements took over the management of our client accounts, temporarily leaving us without anyone to timely reconcile the bank accounts. Some statements were held until the durational employee finally started in June 2001. The person’s first assignment was to reconcile the older bank statements which are now completed.

Connecticut Valley Hospital- Since May 2001, all reconciliations have been performed within 2 weeks of receiving the bank statements. This is now standard business policy.”

Payroll Processing Error- Connecticut Valley Hospital and the County Sheriffs:

Criteria:

The regular reconciliation of Agency expenditure records to the State Comptroller ensures that any incorrect payments are detected on a timely basis.

Condition:

A CVH employee that was also employed with another State

Agency, the County Sheriffs, terminated employment with CVH on August 5, 1999. Accordingly, CVH notified the County Sheriffs of the transfer. In such situations, the standard procedure is for the agency receiving the transferred employee to adjust the payroll master file record to stop any future payroll charges. However, the County Sheriffs erroneously failed to make any change in the master file. Thus, the employee continued to be paid for his normal salary at CVH. This continued until after a payroll check, dated December 30, 1999, was processed when the former employee called CVH to ask why they were still directly depositing paychecks to his account. It should be noted that prior to contacting CVH, the employee terminated his State employment with the County Sheriffs with the final paycheck dated November 19, 1999.

Effect: The employee was overpaid \$12,037 in gross wages.

Cause: The overpayment was due to the County Sheriffs' responsible staff lacking familiarity with the procedures for transferred employees and the capabilities of the State payroll system. The lack of detection of the overpayments at CVH was due to the lack of timely reconciliation of Agency payroll expenditure records to the Comptroller. We were informed that reconciliations for personal services expenditures for the overpayment period of August through December 1999 were not performed until the end of May 2000.

Conclusion: The above overpayment appears to be an isolated incident caused by another State agency, the County Sheriffs, which has since ceased operations. However, we note the need to ensure that collection efforts in this matter are followed to their conclusion and for timely reconciliation of expenditures records at CVH (See preceding "Condition of Records" comments concerning "Agency Bank Accounts and Reconciliations" and Recommendation 8.)

Agency Response: "The Agency's Payroll Processing Unit is developing a policy to immediately report, to the Payroll Processing Director, any overpayment caused by transfers to another State agency. The Payroll Processing Center will establish a process to review expenditure records for personal services in a timely fashion. On a monthly basis, all reported expenditures received from the Fiscal Office will be reviewed for compliance.

The Agency is researching its options to collect the overpayment."

Employee Use of Agency Cellular Telephones for Personal Calls:

Criteria: The Statewide Cellular Telephone Policy, set by the Office of Policy and Management, states that State-owned telephones are normally reserved for official State business. However, incoming calls, emergency notifications, and other calls of minimal duration and frequency, which cannot be made at another time, are permitted. Under any circumstance, costs that are incurred for any personal use are to be reimbursed to the State.

Condition: During the period from July 1999 through December 2000, 75 employees in the Office of the Commissioner reimbursed the State for \$3,419 out of a total of \$36,080 in Agency cellular telephone charges. Ten employees reimbursed the State for using an Agency cell phone for personal reasons for more than 20 percent of the total charges. The largest individual reimbursement was \$826, or approximately 30 percent, of a total of \$2,728 incurred on the employee's assigned cell phone for the above 18-month period. In another case, an employee reimbursed the State for 55 percent (\$181 out of \$329) of the total charges. Additionally, seven other employees reimbursed the State from between ten and 20 percent of the total charges occurring on the billing for their assigned cell phone from July 1999 through December 2000.

We were also informed that an employee at Connecticut Valley Hospital (CVH) incurred \$267 in personal calls on an Agency cell phone from May through October 2000. The employee left State service during October 2000 and had not reimbursed the State as of August 2001. Since the employee previously worked in the Commissioner's Office prior to his transfer to CVH, we reviewed cell phone billings for the Commissioner's Office related to the employee for the period May 1999 through April 2000. Our review found an additional \$1,294 in phone usage that appeared personal for that period.

We reported the above matter to the Governor and other State Officials on October 16, 2001.

Effect: The excessive use of State cell phones for personal calls violates the Statewide Cellular Telephone Policy. In addition, employees are conducting personal business on State time.

Cause: There appears to be a lack of oversight in enforcing State policy.

Recommendation: DMHAS should ensure that its employees adhere to the Statewide Cellular Telephone Policy by minimizing the personal use of State cellular phones. (See Recommendation 9.)

Agency Response: “Regarding the use of state cell phones, the Agency issued a directive, in August 2001, to all employees that if they consistently utilize cell phones more than 20% of total air-time for non-business use, the phone issued to them may be revoked. If employees choose to purchase a personal cell phone and use that phone for DMHAS business purposes, reimbursement will be limited to business-related airtime calls only.

For the former DMHAS employee assigned at CVH and OOC, a demand letter requesting reimbursement for all personal cell phone calls was issued. No response was received. On October 16, 2001, DMHAS referred this matter to the Department of Administrative Service’s Financial Services Center to obtain reimbursement.”

RECOMMENDATIONS

Our prior report on the Department of Mental Health and Addiction Services contained nine recommendations. Of the recommendations, three have been implemented or otherwise resolved and six are being repeated or restated herein. The status of the prior recommendations is presented below:

Status of Prior Audit Recommendations:

- Controls over equipment inventory and reporting should be improved. This recommendation is repeated. (See Recommendation 2.)
- Fiduciary fund operations should be improved. This recommendation is repeated. (See Recommendation 3.)
- The Southwest Connecticut Mental Health System needs to improve internal controls over its petty cash funds and follow the Comptroller's policies and procedures for such funds. Although improvement was noted over petty cash funds, there was still a lack of segregation of cash handling. Therefore, this recommendation has been modified and repeated. (See Recommendation 4.)
- DMHAS should require Yale University to use time and effort reporting to document salary allocations being made to the Yale staffing contract. Since Yale University's method of salary allocation appears to abide by current allowable standards for educational institutions, this recommendation is considered resolved.
- DMHAS should use competitive bidding whenever possible and retain supporting contract documentation. This recommendation was partially resolved regarding the retention of supporting contract documentation. However, we continued to find instances of a lack of competitive bidding at the Office of the Commissioner. (See Recommendation 5.)
- DMHAS should ensure that attendance records are properly signed and approved. This recommendation is repeated. (See Recommendation 6.)
- DMHAS should collect payroll overpayments on a timely basis. Our current review found improvement in the timely collection of overpayments and therefore, this recommendation has been resolved.
- DMHAS should maintain sufficient accounting records for receipts and ensure timely depositing. The recommendation is being repeated because of incidents of late deposits. (See Recommendation 7.)
- DMHAS should take steps to resolve the outstanding loan principal balances in the Substance Abuse Revolving Loan Fund. This recommendation has been resolved with the approval of the Office of Policy and Management to write off the outstanding loans.

Current Audit Recommendations:

1. The DHMAS Audit Unit should be independent from Agency officials responsible for managing Agency financial operations.

Comments:

The Institute of Internal Auditors' standards require independence. Under the Agency's current structure, the DMHAS Audit Unit lacks organizational independence since it reports directly to the Agency official responsible for overseeing all Agency business office operations.

2. Controls over equipment inventory and reporting should be improved.

Comments:

We encountered numerous exceptions in our reviews of property control and reporting at several DMHAS facilities and the Office of the Commissioner. These include the lack of timely reporting of losses and a lack of complete and up to date inventory records. The Agency should follow Section 4-36 of the General Statutes and the State of Connecticut's Property Control Manual for guidance for equipment control and reporting.

3. Fiduciary fund operations should be improved.

Comments:

Our examination noted poor accounting practices over some fiduciary fund operations, particularly within the SWCMHS, which have resulted in poor accountability.

4. DHMAS should conform with the Comptroller's State Accounting Manual guidelines by improving controls over petty cash.

Comments:

Our review continued to find that the petty cash custodian at the SWCMHS had other cash handling duties which violates the Comptroller's State Accounting Manual guidelines. In addition, employee payroll reimbursement forms were not submitted on a timely basis by employees returning from travel in the Office of the Commissioner and CVH.

5. DMHAS should improve its controls and oversight over expenditures and use competitive bidding whenever possible.

Comments:

Our review of expenditures for the Office of the Commissioner showed several deficiencies. We found instances where purchases were either made without review and approval by management or lacked bidding documentation. We also noted several late invoices indicating outstanding purchase orders and/or requisitions were not reviewed on a timely basis. At Cedarcrest Hospital, we noted emergency medical equipment, at a cost of \$6,679, still in its packing box unused apparently due to a lack of approved Hospital procedures to use such equipment. At CMHC, we found a lack of review of vendor billings resulting in an overpayment of \$471 for temporary employment services.

6. DMHAS should ensure that attendance records are properly approved.

Comments:

Our test check of attendance records showed timesheets for nursing employees at Connecticut Valley Hospital and Cedarcrest Hospital were not being approved by a supervisor.

7. DMHAS should ensure all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes.

Comments:

Our review found late deposits for the SWCMHS Welfare Fund and the SMHA Activity Fund.

8. DMHAS should ensure that reconciliations of its records are performed on a timely basis and documented.

Comments:

Our review found a lack of timely reconciliation for the Office of the Commissioner's Petty Cash Fund bank account, the CVH General Fund, and CVH and River Valley fiduciary funds. Also, the Office of the Commissioner did not have available all monthly reconciliations of its records to the Comptroller.

9. DMHAS should ensure that its employees adhere to the Statewide Cellular Telephone Policy by minimizing the personal use of State cellular phones.

Comments:

We noted numerous cases of excessive use of Agency cellular phones for personal calls.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Mental Health and Addiction Services for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Mental Health and Addiction Services for the fiscal years ended June 30, 1999 and 2000, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Mental Health and Addiction Services complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Mental Health and Addiction Services is the responsibility of the Department of Mental Health and Addiction Services' management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Mental Health and Addiction Services is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Mental Health and Addiction Services' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions:

- inadequate property control and reporting
- poor accountability over fiduciary funds at the SWCMHS

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe the following reportable conditions to be material or significant weaknesses:

- inadequate property control and reporting
- poor accountability over fiduciary funds at the SWCMHS

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the

Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the staff of the Department of Mental Health and Addiction Services during the course of our examination.

Donald Purchla
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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