

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF MENTAL HEALTH
AND ADDICTION SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

**AUDITORS OF PUBLIC ACCOUNTS
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March 2, 2006

AUDITORS' REPORT
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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, 2003 and 2004. This report on our examination consists of the Comments, Condition of Records, 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 policies and procedures established 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-715 of the General Statutes. DMHAS' mission is to improve 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 Health Care Systems Division (HCSD). The HCSD oversees all State-operated and DMHAS funded mental health and addiction services. Under HCSD, the State is divided into 23 catchment areas for the purpose of administering mental health services. Each catchment area is assigned a Local Mental Health Authority with some Local Mental Health Authorities assigned more than one catchment area. As of June 30, 2004, there were 15 Local Mental Health Authorities in effect; six are State-operated Local Mental Health

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Authorities and nine are operated by private non-profit organizations. The six State-operated Local Mental Health Authorities listed below provide mental health services as well as manage and fund a network of non-profit agencies in their geographic region.

Capitol Region Mental Health Center (Hartford) – Serves the Hartford area.

Connecticut Mental Health Center (New Haven) – Serves the New Haven area.

River Valley Services (Middletown) – Serves Middlesex County.

Southwest Connecticut Mental Health System (Bridgeport) – Serves lower Fairfield County.

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

Western Connecticut Mental Health Network (Waterbury) – Serves Litchfield County and northern New Haven and Fairfield Counties.

The nine Local Mental Health Authorities operated by private, non-profit organizations are funded through grants from DMHAS. They maintain community-based network systems for mental health and addiction services in areas not covered by State-operated facilities.

DMHAS also operates the following four facilities, which provide inpatient psychiatric and substance abuse treatment services:

1. Connecticut Valley Hospital in Middletown
2. Connecticut Mental Health Center in New Haven
3. Greater Bridgeport Community Mental Health Center in Bridgeport
4. Cedarcrest Hospital in Newington

Thomas A Kirk, Jr., Ph.D. continued to serve as Commissioner of DHMAS during the audited period. Under the provisions of Sections 17a-456 and 17a-457 of the General Statutes, a Board of Mental Health and Addiction Services assists the Commissioner by reviewing and advising on DMHAS programs, policies and plans.

RÉSUMÉ OF OPERATIONS:

General Fund:

Effective July 1, 2003, the new Core-CT State accounting system was implemented, which changed the accounting for Federal and other restricted monies from restricted accounts within the General Fund to a newly established Special Revenue Fund entitled “Federal and Other Restricted Accounts.” As a result, Federal and other restricted account activity for the 2003-2004 fiscal year are included as part of the new “Federal and Other Restricted Accounts” Special Revenue Fund discussed under a separate caption.

A summary of General Fund revenues and receipts for the fiscal years ended June 30, 2003 and 2004 follows:

	2002 – 2003	2003 – 2004
Restricted contributions, Federal	\$ 40,047,031	\$
Restricted contributions, other than Federal	9,565,490	
Refunds of prior years' expenditures	450,994	624,545
Refunds of current year expenditures	1,033,746	
All other revenue	142,751	203,966
Total	51,240,012	828,511
Disproportionate Share	105,935,000	
Total General Fund Revenues and Receipts	\$157,175,012	\$ 828,511

During the 2002-2003 fiscal year, General Fund receipts consisted primarily of Federal and private grants, refunds of expenditures for workers' compensation, and Federal Medicaid disproportionate share hospital payment adjustments. As previously discussed, effective July 1, 2003, the activities of Federal and other restricted accounts were accounted for within a new Special Revenue Fund and are no longer included as part of the General Fund.

Medicaid disproportionate share hospital payment adjustments were received from the State Department of Social Services and made up the majority of General Fund receipts in the 2002-2003 fiscal year. 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. In the 2002-2003 fiscal year, disproportionate share was accounted for within a General Fund private restricted account and was used to reduce General Fund budgeted expenditures by assuming \$77,640,000 in operating costs for the payment of \$28,295,000 in fringe benefit cost reimbursement to the State Comptroller's Office.

A summary of General Fund expenditures for the fiscal years ended June 30, 2003 and 2004 follows:

	2002 – 2003	2003 – 2004
Personal services	\$237,149,630	\$224,732,071
Contractual services	30,257,522	34,970,130
Yale University – CMHC staffing	9,256,907	9,639,723
Commodities	16,176,723	17,011,548
Sundry charges:		
General Assistance Managed Care	59,500,594	58,744,717
Workers' compensation	7,246,269	7,455,345
Other Grants	34,110,972	41,844,701
Other Sundry	510,001	497,165
Fringe benefits – disproportionate share		28,295,000
State-aid-grants	106,720,867	103,293,871
Equipment and buildings	12,965	37,412
Total	500,942,450	526,521,683

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	<u>2002 – 2003</u>	<u>2003 – 2004</u>
Disproportionate share – budgeted costs	(77,640,000)	(77,640,000)
Disproportionate share – fringe benefits		(28,295,000)
Indirect costs–CMHC	<u>(459,724)</u>	<u>(380,732)</u>
Total Budgeted Accounts	422,842,726	420,205,951
Restricted Contribution Accounts:		
Disproportionate share – budgeted costs	77,640,000	
Disproportionate share – fringe benefits	28,295,000	
Private accounts	17,858,499	
Federal accounts	<u>40,964,629</u>	
Total General Fund Expenditures	<u>\$587,600,854</u>	<u>\$420,205,951</u>

General Fund budgeted expenditures, prior to disproportionate share adjustments, totaled \$500,942,450 and \$526,521,683 for the fiscal years ended June 30, 2003 and 2004, respectively. The majority of these costs were for personal services, State-aid grants primarily used to fund a community-based network of services, and General Assistance medical payments. There were 3,100 and 3,177 full-time positions funded by budgeted accounts at June 30, 2003 and 2004, respectively. The increase of \$25,579,233 in 2003-2004 fiscal year expenditures, included an accounting change where disproportionate share adjustment fringe benefit costs of \$28,295,00 were initially charged to the General Fund and subsequently reimbursed by disproportionate share cost recoveries processed as refunds of expenditures. In previous years, such fringe benefit costs were paid directly to the State Comptroller through a General Fund private restricted account used to account for disproportionate share adjustments.

Special Revenue Fund – Federal and Other Restricted Accounts:

As previously explained, beginning with the 2003-2004 fiscal year, Federal and other restricted funds are accounted for within a newly established Special Revenue Fund. Federal and other restricted account receipts for the fiscal year ended June 30, 2004 were as follows:

	<u>2003 – 2004</u>
Disproportionate Share	\$105,935,000
Federal	30,403,411
Other than Federal	<u>10,727,475</u>
Total Receipts	<u>\$147,065,886</u>

Expenditures from Federal and other restricted accounts for the fiscal year ended June 30, 2004 totaled \$160,382,735 as follows:

	2003 – 2004		
	<u>Total</u>	<u>Federal</u>	<u>Other</u>
Personal services	\$ 1,604,223	\$ 381,921	\$1,222,302
Contractual services	3,992,615	2,833,731	1,158,884
Commodities	46,621	17,766	28,855
Sundry:			
Fringe benefits	641,703	176,693	465,010
Other	212,362	109,371	102,991
Grants	47,889,983	35,926,027	11,963,956
Equipment	60,228	60,228	
Disproportionate Share	<u>105,935,000</u>		<u>105,935,000</u>
Total	<u>\$160,382,735</u>	<u>\$39,505,737</u>	<u>\$120,876,998</u>

Special Revenue Funds Expenditures:

Special Revenue Fund expenditures, excluding “Federal and other restricted accounts,” totaled \$4,854,155 and \$5,039,687 for the 2002-2003 and 2003-2004 fiscal years, respectively. This includes expenditures totaling \$1,649,005 and \$655,212 for renovation projects at Connecticut Valley Hospital and \$2,451,160 and \$3,508,860 for grants to the Department’s private providers for acquisition and improvement of facilities during the respective audited years. The Department also purchased equipment through the Capital Equipment Purchases Fund totaling \$762,990 and \$875,615 during the respective audited years.

Per Capita Costs:

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. The cost for in-residence population remained the same during the fiscal years under review as follows:

	<u>Per Capita Costs – In-Residence</u>			
	<u>2002 - 2003</u>		<u>2003 - 2004</u>	
	<u>Daily</u>	<u>Annual</u>	<u>Daily</u>	<u>Annual</u>
	\$	\$	\$	\$
Connecticut Valley Hospital	889	324,485	889	324,485
Connecticut Mental Health Center	1,291	471,215	1,291	471,215
Southwest Connecticut Mental Health System	1,189	433,985	1,189	433,985
Cedarcrest Hospital	901	328,865	901	328,865

CONDITION OF RECORDS

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

Cash Receipts:

- Criteria:* Section 4-32 of the General Statutes requires that each State department account for and deposit within 24 hours, any receipts totaling \$500 or more. The Comptroller's State Accounting Manual requires agencies to maintain a receipts journal that indicates the date of receipt.
- Conditions:*
1. Office of the Commissioner – Testing of General Fund cash receipt transactions disclosed three untimely deposits. Cash receipts of \$1,567 and \$1,286 were both deposited one day late and a third receipt for \$414 was deposited two days late.
 2. River Valley Services – Testing of Clients' Funds disclosed two late deposits. Cash receipts of \$1,125 and \$150 were deposited one and two days late, respectively.
 3. Cedarcrest Hospital – Testing of 48 meal ticket sales totaling \$735 noted that all receipts were deposited from three to 43 days late.
 4. Southeastern Mental Health Authority – Testing of General Fund cash receipts disclosed two untimely deposits. One deposit of \$832 was made 22 days late and a second deposit of \$8,565 was made 17 days late.
 5. A cash receipt journals to record the initial date of receipts was not maintained by Cedarcrest Hospital.
- Effect:* Agency receipts were not deposited in a timely manner as required by Section 4-32 of the General Statutes.
- Cause:* Late deposits were the result of the Agency not following proper operating procedures for the handling of cash receipts.
- Recommendation:* The Department of Mental Health and Addiction Services should improve controls over cash receipts and ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. (See Recommendation 1.)

Agency Response: “Office of the Commissioner: Cash receipts are normally deposited the same day as they are received. Staff responsible for making the deposits are now familiar with the time requirements outlined in the State Accounting Manual. These two deposits noted in this finding were isolated exceptions.

River Valley Services: Controls and procedures were put in place and strengthened. Money Managers have been instructed on the requirements noted in the State Accounting Manual for proper cash handling procedures.

Southeastern Mental Health Authority: All funds are now deposited and processed within the time frames stipulated by the Comptroller’s office. The deposits noted in the findings were one time isolated exceptions.

Cedarcrest Hospital: Procedures have been put in place to ensure compliance with timely deposit requirements. In addition, a cash receipts journal is now being used.”

Cash Management – Federal Shelter Plus Care Program:

Criteria: Sound cash management policies require that Federal funds from grantors be drawn down in a timely and effective manner to avoid or minimize grant program costs being temporarily funded by the State.

Condition: During the audited period, large grant receivable balances were maintained for the Federal Shelter Plus Care Program. During the 2002-2003 fiscal year, grant receivable balances generally exceeded \$1,500,000 and increased to over \$2,000,000 during the 2003-2004 fiscal year. As of June 30, 2004, the Federal Shelter Plus Care program had a grant receivable balance of \$3,482,440.

Effect: Drawdown inefficiencies resulted in significant Federal program costs being temporarily financed with State funds, which could have otherwise been invested and earning income for the State.

Cause: Reporting errors for program components in past drawdowns resulted in a large portion of cash management activity being devoted to correcting drawdown reporting errors. In addition, delays were also experienced due to implementation of the new Core-CT accounting system on July 1, 2003.

Recommendation: The Department of Mental Health and Addiction Services should improve cash management operations for the Federal Shelter Plus Care Program. (See Recommendation 2.)

Agency Response: “The Department’s Fiscal and Housing units are continuing their ongoing efforts to assure increased accuracy and timely reporting of the cash management activities relating to the Shelter Plus Care Program.

While our internal reporting activities are now timely, DMHAS continues to experience issues with the Federal funds drawdown system wherein the Department is not always allowed immediate access to these funds. As noted in this comment it results in, on occasion, large receivable balances. The Department will continue to coordinate its’ efforts with the Federal government to reduce or eliminate these drawdown inefficiencies.”

Payroll Timesheets:

Criteria: Agency procedures require timesheets, leave time requests and change forms to be signed by the employee and approved by a supervisor having first hand knowledge of work performed by employees.

Conditions: A test check of 42 payroll transactions disclosed:

1. 17 timesheets, 14 from Connecticut Valley Hospital and three from Cedarcrest Hospital, were not signed by the employee. Based on our review, supervisory approval for the majority of Connecticut Valley Hospital employees’ timesheets, for employees working in various treatment programs and at many locations, was based on a preprinted name of a particular supervisor without requiring an actual signature.
2. Leave time authorization forms were not found in eleven instances.
3. There were a number of instances where timesheets were signed by supervisors prior to the end of the pay period. These include seven signed one day, five signed two days and three that were signed three days before the end of the pay period.

- Effect:* The lack of properly signed attendance records lessens the assurance that personal services were actually received.
- Cause:* Due to time constraints, the Centralized Payroll Processing Unit processed transactions even though attendance records may not have been properly signed. Adequate follow-up on these exceptions was generally not conducted.
- Recommendation:* Controls should be strengthened to ensure that attendance records are signed by employees and approved by supervisors. (See Recommendation 3.)
- Agency Response:* “Connecticut Valley Hospital: Timesheet copies are now kept in a central location for signature by employees and/or supervisors when it is not possible for the original timesheet to be signed and submitted timely for initial processing.
- Cedarcrest Hospital: Supervisors have been notified that all timesheets should be signed by employees when available. In absence of employee signature, supervisors will document on the timesheet that the employee was not available to sign. ”

Part-Time Employee Benefits:

- Criteria:* Per the Professional Health Care Employees’ Bargaining Unit Contract (P-1):
1. Article 20 does not provide for personal leave days for employees who work less than 20 hours per week.
 2. Article 27 provides that, for employees hired after February 13, 1985, eligibility for health insurance shall be limited to those individuals who are regularly scheduled to work at least 17½ hours per week.
- Condition:* Our review of payroll records disclosed a situation where a part-time psychiatrist was scheduled to work 40 hours bi-weekly but rarely worked all scheduled hours. During the 24 bi-weekly pay periods between January 9, 2004 and December 23, 2004, this individual was paid for 35 hours or more only three times. Though this individual was scheduled to work 20 hours per week, based on actual hours paid, it would appear that this individual would not be eligible for the health insurance benefits and personal leave time provided.

- Effect:* Health insurance benefits and personal leave time were granted to an employee who was generally paid for hours that were below the minimum requirements for receiving such benefits.
- Cause:* Actual hours paid to this employee generally did not meet the 20 hour work week established for the part-time psychiatrist position.
- Recommendation:* Cedarcrest Hospital should review the propriety of providing fringe benefits to a part-time employee who consistently worked below the minimum work level for receiving such benefits. (See Recommendation 4.)
- Agency Response:* “Cedarcrest Hospital: Personal Leave Days are no longer granted to employees who work less than 20 hours per week. In addition, all part-time employees’ work schedules are now reviewed to determine their eligibility for health insurance.”

Facility Repairs, Improvements and Renovations:

- Criteria:* The DMHAS Engineering Department is responsible for overseeing agency administered construction projects for repairs, alterations or additions costing \$2,500 or greater. The Department of Public Works and the Department of Administrative Services have established guidelines applicable to DMHAS that require:
1. Permission to be obtained from the Department of Public Works for projects costing up to \$500,000.
 2. Vendor purchases costing \$2,500 up to \$10,000 require, when possible, at least three quotations or bids from responsible and qualified sources.
 3. Vendor purchases costing over \$10,000 but less than \$50,000 require at least three written quotes and use of the bidder notification system on the Department of Administrative Services’ website.
- Conditions:* Review of financial records disclosed that some of DMHAS’ constituent units made facility renovations and improvements without informing or obtaining permission from the Engineering Department. Some of the larger of such instances include:

1. Capitol Region Mental Health Center:
 - a. Parking lot extension at a cost of \$23,500
 - b. Painting of hallways costing \$27,904
 - c. Room renovations costing \$14,973
 - d. Removal of security screens at a cost of \$9,393

2. Cedarcrest Hospital:
 - a. Installation of dietary doorway costing \$12,609
 - b. Painting of facilities at cost of \$14,431

3. Southwest Connecticut Mental Health System:
 - a. Parking garage emergency alarm costing \$5,410

Effect: Since the Engineering Department is the Agency's sole point of contact with the Department of Public Works, projects being carried out by DMHAS constituent units diminish oversight responsibility and increase the risk that competitive bidding requirements and other standards are not met.

Cause: DMHAS' constituent units did not notify the Engineering Department of repairs and improvements being undertaken.

Recommendation: The Engineering Department should be notified of all facility improvements and repairs that are expected to exceed \$2,500 so they can be reviewed and approved as required by Agency policy. (See Recommendation 5.)

Agency Response: "Capitol Region Mental Health Center: Capitol Region Mental Health Center will only proceed with renovations and improvements costing \$2,500 or greater after receiving formal approval from Engineering Services.

Cedarcrest Hospital: The Hospital has been complying with this recommendation. Engineering Services will be notified of all improvements and repairs that are expected to exceed \$2,500. Guidelines were re-issued by Engineering Services on July 29, 2005.

Southwest Connecticut Mental Health System: SWCMHS now requires all requests for repairs, improvements and renovations be submitted through the office of the Plant Facilities Engineer. Any project costing more than \$1,000 will have the approval of the SWCMHS Director of Administrative Services, who will coordinate through the DMHAS Engineering Department to seek their review and approval if it is believed that the project will meet the \$2,500 threshold."

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 existence of assets. Annual property reports are required to be filed on or before October 1st of each year for reporting inventory balances as of June 30th.

Conditions:

1. Office of the Commissioner:
 - a. Electronic data processing equipment costing \$57,553 was valued at \$15,000 on inventory records, an understatement of \$42,553.
 - b. Eleven network servers purchased for \$56,507 were posted to inventory records at \$67,584, an overstatement of \$11,077.
 - c. A central computer software inventory was not maintained.
 - d. Many older and out dated items were being stockpiled and not disposed of in a timely manner.
2. Connecticut Valley Hospital:
 - a. Records had not been established to account for inventory being retained because of their historical value, which included older equipment items, books, pictures and records.
 - b. Obsolete medical supplies were given to a non-profit organization without authorization from the Department of Administrative Services.
3. Cedarcrest Hospital:
 - a. A physical test check of 21 items disclosed that a floor scrubbing machine costing \$3,898 could not be located.
 - b. Out of seven items arbitrarily selected through an on-site inspection, we could not find four items listed on inventory records. These four items included a floor polisher, two portable generators and a backhoe machine.
 - c. We observed that many obsolete and broken equipment items that should have been surplus or destroyed were being stored in three rented storage trailers without any record of the contents being stored.

4. Southwest Connecticut Mental Health System:
As of August 1, 2005, inventory subsidiary records had not been updated since about June 30, 2002. In addition, inventory addition and deletion transactions were not documented well and will require extensive reviews to update subsidiary records to a current status.
5. Late filing of annual property reports included:
 - a. Office of the Commissioner – The June 30, 2003 report was filed over seven months late.
 - b. Connecticut Valley Hospital – The June 30, 2003 and June 30, 2004 reports were filed over four and two months late, respectively.
 - c. Southeastern Mental Health Authority – The June 30, 2003 report was filed over five months late.
 - d. Connecticut Mental Health Center – The June 30, 2004 report was filed 18 days late.
 - e. Cedarcrest Hospital – The June 30, 2003 report was filed 26 day late.
 - f. Southwest Connecticut Mental Health System – The June 30, 2003 report was filed 23 days late and the June 30, 2004 report was filed over two months late.
 - g. Psychiatric Security Review Board – The June 30, 2003 report was filed over seven months late.

Effect: There was a lack of compliance with the State Comptroller’s guidelines to ensure the proper recording, safeguarding and reporting of the State’s assets. Stockpiling of obsolete equipment can contribute to loss and theft as well as create a fire hazard.

Cause: Changes in personnel, lack of training and management oversight contributed to property control weaknesses.

Recommendation: Controls over equipment inventory and reporting should be improved. (See Recommendation 6.)

Agency Response: “Office of the Commissioner: The values of the electronic data processing equipment and network servers will be corrected in the Department’s inventory records. A central software inventory is expected to be operational by the end of the 2006 fiscal year. The older and out dated stock-piled items were properly disposed of in accordance with State policies.

Connecticut Valley Hospital: There are some old items that are to be part of Connecticut Valley Hospital's "Living History Initiative" that were stored in the hospital's old library. We have contacted the State Library for assistance in determining the age and value of these items. Once completed values will be assigned and, if necessary, added to our inventory records. In the future before any obsolete medical supplies are donated we will request authorization from the Department of Administrative Services. In addition, the CO-59 reports will be filed timely as per the Comptroller's guidelines.

Cedarcrest Hospital:

- a. For the floor-scrubbing machine a Loss Report will be filed and its value removed from the inventory records.
- b. The four items (floor polisher, two portable generators and backhoe machine) will be tagged and entered into the inventory records.
- c. The contents of the three (3) storage containers were identified and surplused accordingly. Two containers have been removed from the premises and the third is in the process of being removed.
- d. Cedarcrest Hospital will comply with annual reporting dates.

Southwest Connecticut Mental Health System: Local property control responsibility has now been assigned to the SWCMHS Safety Program Officer, who will report directly to the SWCMHS Director of Administrative Services and act as liaison with the DMHAS Fiscal Services Bureau, Asset Management Coordinator. A workgroup has been formed to review and reconcile all old records. The Department's Fiscal Services Bureau has assumed responsibility for Asset Management at all DMHAS sites. SWCMHS is now coordinating all additions and deletions with the DMHAS Asset Management Coordinator for the purpose of updating property records.

Due to changes in personnel, responsibility for filing the 2004 annual property reports was assigned to the SWCMHS Director of Administrative Services and was filed within one week of this assignment. The 2005 annual property report was filed prior to the October 1st due date.

Connecticut Mental Health Center: Due to staff reassignments to the Fiscal Services Bureau, timely filings of required reports were delayed. New personnel attained for the fiscal unit has now strengthened operations and going forward all required reports will be filed timely.

Southeastern Mental Health Authority: Due to previous years layoffs and early retirements, personnel familiar with the filing requirements were not on-site. A fiscal officer has been hired and trained on the requirements on timely filings required by the Comptroller's Office.

General Department comments regarding property control: DMHAS has centralized many of the inventory functions in concert with the implementation of the CORE-CT Asset Management Module. A plan to assure proper control of State property has been implemented by DMHAS. The key points of this plan include: an Asset Management Unit located at the DMHAS centralized Fiscal Services Bureau, development of standard policies, procedures and forms, monitoring of roles for audit compliance and separation of duties, a single liaison with the Comptroller and CORE-CT regarding DMHAS property control and one CO-59 submitted for the entire agency. Surplus property is being addressed as an on-going process to alleviate stockpiles of obsolete equipment. Also, surplus property are being identified and initialed for surplus processing throughout the physical inventory cycle. Surplus property is being properly processed through the State internet Property Distribution System (PDC). Asset additions, deletions, transfers and surplus transactions are being documented on the new agency standardized asset management forms to facilitate audit and Comptroller policy compliance addressing supervisory approvals and audit trail documentation. Each facility CEO has appointed a custodian of State property to work with the centralized Asset Management Unit. Training of facility staff in the new Asset Management policies, procedures, and forms will be ongoing and hands on assistance with the physical inventory will be provided by the new Asset Management Unit. Input of property control data including any surplus items will be centralized with the Asset Management Unit. The staff person chosen to head up the Asset Management Unit has extensive experience in another State agency with a centralized asset management process.”

Petty Cash Fund:

<i>Criteria:</i>	The Comptroller's State Accounting Manual (SAM) guidelines for petty cash funds provide that employees receiving cash advances for travel expenses must submit an employee travel reimbursement form within five working days after returning from travel.
<i>Condition:</i>	A test of ten travel advances totaling \$5,510 disclosed that reimbursement forms for six transactions totaling \$3,335 were submitted by employees from ten to 95 days late.
<i>Effect:</i>	The Agency was not in compliance with SAM requirements.
<i>Cause:</i>	There were weaknesses in oversight over petty cash travel advances.
<i>Recommendation:</i>	The Office of the Commissioner should strengthen controls over petty cash travel advances. (See Recommendation 7.)
<i>Agency Response:</i>	"The Department's policy regarding petty cash travel advances, which includes timely submission requirements of all required paperwork, has been re-issued to all OOC staff."

Fiduciary Fund Financial Record Maintenance:

<i>Criteria:</i>	Proper internal controls require prompt reconciliation of bank accounts and posting of accounting records to ensure that any discrepancies are detected and corrected on a timely basis.
<i>Conditions:</i>	<ol style="list-style-type: none">1. Southwest Connecticut Mental Health System – During the 2002-2003 fiscal year, bank reconciliations for the Bridgeport Clients' Fund account were generally completed from six to nine months late. The Agency achieved a current status for bank reconciliations in February 2004. Subsequent to the audited period, delays in performing bank reconciliations occurred for both the Bridgeport and the F.S. Dubois Clients' Fund accounts. As of August 1, 2005, the last bank reconciliations completed were July 2004 for the Bridgeport account and August 2004 for the F.S. Dubois account.2. The Office of the Commissioner – During the two year period audited, there were six instances that Petty Cash Fund bank reconciliations were completed from three to six months late.

3. Cedarcrest Hospital – Activity Fund transactions were not updated on their computerized accounting system after June 30, 2003. In February 2004, accounting for the Activity Fund cash box transactions was also discontinued.

Effect: The lack of prompt reconciliation and posting of accounting records can result in losses not being detected on a timely basis.

Cause: There appears to be a lack of management oversight to ensure that accounting records are properly maintained.

Recommendation: The Department of Mental Health and Addiction Services should ensure that bank reconciliations and financial records are maintained on a current basis. (See Recommendation 8.)

Agency Response: “Cedarcrest Hospital: Cedarcrest Hospital will comply with this Recommendation.

Office of the Commissioner: Petty Cash bank reconciliations have been brought current and will continue to be going forward.

Southwest Connecticut Mental Health System: Staff layoffs and transfers created a backlog for the two remaining employees. Steps are being taken to hire another employee to help clear the backlog to ensure that bank reconciliations and financial records are maintained on a current basis.”

Cedarcrest Hospital Activity/Welfare Fund:

Criteria: The State Comptroller’s Accounting Procedures Manual for Activity and Welfare Funds includes requirements that:

1. Prohibit the payments of gifts, services or donations to State employees.
2. The governing body determines the type and eligibility requirements to be used in rendering grant assistance.
3. Grants and other expenditures exceeding \$1,000 generally require prior approval from the State Comptroller’s Policy Services Division.

Conditions: A total of about \$33,000 was expended from the Cedarcrest Hospital's Activity/Welfare Fund during the fiscal years ended June 30, 2003 and 2004. A review of Activity Fund records disclosed the following:

1. Expenditures of \$2,907 were made on behalf of employees that included \$299 for plants and flowers, \$2,058 for plaques and certificates, and \$550 for savings bonds and gift certificate awards. In addition, a payment of \$1,417 for retirement plaques was made without obtaining the State Comptroller's approval, which is required for payments exceeding \$1,000.
2. Guidelines to determine the criteria for making client grants upon discharge had not been established. As a result, seven discharge grants made to clients totaling \$3,697 were made without documenting that need or other criteria was used as the basis for payment. In addition, a grant for \$1,100 was made without obtaining the State Comptroller's approval required for payments exceeding \$1,000.

Effect: Cedarcrest Hospital's Activity Fund operations were not in compliance with State Comptroller's guidelines.

Cause: Payments for employee related activities have been historically made and accepted as common practice. Guidelines were not established for making discharge grants to clients. The lack of approvals for expenditures exceeding \$1,000 was an oversight by Agency personnel.

Recommendation: Controls over Cedarcrest Hospital Activity/Welfare Fund operations should be strengthened to ensure compliance with State Comptroller's guidelines. (See Recommendation 9.)

Agency Response: "Systems have been put into place to ensure compliance to the State Comptroller's guidelines for Activity and Welfare Accounts. Discharge Grant policy/guidelines have been established.

No expenditure exceeding \$1,000 will be made without prior Comptroller approval."

Unreported Losses:

Criteria: Section 4-33a of the General Statutes requires State agencies to promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of State or quasi-public funds.

Conditions: The following losses were not reported:

1. Southwest Connecticut Mental Health System – Fraudulent checks totaling \$14,776 were charged to the Activity Fund checking account.
2. Southwest Connecticut Mental Health System – Fraudulent checks totaling \$1,258 were charged to the F.S. Dubois Center Clients’ Fund checking account.
3. Cedarcrest Hospital – There were meal ticket shortages as follows:
 - a. For the period December 19, 2003 through January 23, 2004, \$72 was deposited for \$88 in meal tickets sold, a shortage of \$15.
 - b. For the period March 4, 2004 through April 7, 2004, \$201 was deposited for \$220 in meal tickets sold, a shortage of \$19.
 - c. For the period April 16, 2004 through May 6, 2004, \$85 was deposited for \$100 in meal tickets sold, a shortage of \$15.

Effect: The Agency was not in compliance with loss reporting requirements.

- Cause:*
- 1, 2. Agency personnel had contacted and worked with the State Comptroller and Treasurer concerning these losses, that included the opening of new bank accounts, but due to oversight, never filed loss reports.
 3. Agency personnel was aware of only one of the losses and inadvertently did not report the loss or follow up on cash collection weaknesses over meal ticket sales.

Recommendation: The Department of Mental Health and Addiction Services should comply with loss reporting requirements of Section 4-33a of the General Statutes. (See Recommendation 10.)

Agency Response: “Cedarcrest Hospital: Cedarcrest Hospital is now complying with loss reporting requirements of Section 4-33a of the General Statutes.

Southwest Connecticut Mental Health System: On October 6, 2005 SWCMHS complied with the loss reporting requirements by filing a Loss Report with the Comptroller’s Office for the items noted in the report.”

Fiscal Year End Reporting:

Criteria: The State Comptroller requires State agencies to annually complete a fiscal year end Generally Accepted Accounting Principles (GAAP) closing package. The information provided on GAAP reporting forms assists the Comptroller in preparing the Comprehensive Annual Financial Report on State operations. GAAP reporting information was required to be filed by September 5, 2003 and September 3, 2004 for the respective audited years.

- Conditions:*
1. Cedarcrest Hospital – GAAP package forms for both fiscal years audited were filed late; sometime after December 1. In addition, Activity Fund financial statements were not submitted for the fiscal year ended June 30, 2004 operations.
 2. Southwest Connecticut Mental Health System – Activity Fund financial statements were not submitted with GAAP reports for either fiscal year audited.

Effect: Fiscal year end GAAP reporting requirements were not followed by two DMHAS constituent units.

Cause: Two DMHAS constituent units did not follow State Comptroller’s fiscal year end reporting requirements.

Recommendation: The Department of Mental Health and Addiction Services should comply with the State Comptroller’s fiscal year end Generally Accepted Accounting Principles reporting requirements. (See Recommendation 11.)

Agency Response: “Cedarcrest Hospital: Cedarcrest Hospital is now complying with this recommendation regarding the State Comptroller’s fiscal year end GAAP reporting requirements.

Southwest Connecticut Mental Health System: Activity financial statements are now being submitted timely to the Comptroller's Office.”

RECOMMENDATIONS

Our prior report on the Department of Mental Health and Addiction Services contained eight recommendations. Of the recommendations, three have been implemented or otherwise resolved and five are being repeated or restated herein. As a result of our current examination, we have included six new recommendations.

Status of Prior Audit Recommendations:

- *The Department of Mental Health and Addiction Services should improve controls over cash receipts and ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes – Weaknesses in the handling of cash receipts were encountered in the current review, therefore, this recommendation is being repeated. (See Recommendation 1.)*
- *The Department of Mental Health and Addiction Services should improve cash management operations for the Federal Shelter Plus Care Program – Untimely drawdown activity continued to exist and this recommendation is being repeated. (See Recommendation 2.)*
- *Controls should be strengthened to ensure that attendance records are signed by employees and approved by supervisors – Payroll weaknesses were noted in the current examination and as a result, this recommendation is being repeated. (See Recommendation 3.)*
- *The Department of Mental Health and Addiction Services should establish policies and procedures addressing what social and work-related functions and events are appropriate to fund – Improvements in the oversight of social and work-related functions were made and as a result, this recommendation is not being repeating.*
- *The Office of the Commissioner should strengthen controls over petty cash funds – The current examination noted that travel advances were not being accounted for within five days of employees returning from travel. As a result, the recommendation is being repeated. (See Recommendation 7.)*
- *Controls should be strengthened over tobacco compliance petty cash funds to ensure that expenditure transactions are adequately documented – Controls over tobacco compliance petty cash funds were improved and as a result, this recommendation is not being repeated.*
- *The Department of Mental Health and Addiction Services should deposit indirect cost recoveries to the General Fund in accordance with State Procedures – Permission has been granted by the Office of Policy and Management and the State Comptroller’s Office for DMHAS to handle indirect cost recoveries received from Yale University as refunds of expenditures. As a result this recommendation is no longer applicable and is not being repeated.*

- *Controls over equipment inventory and reporting should be improved* – Property control weaknesses were encountered in the current review, therefore, this recommendation is being repeated. (See Recommendation 6.)

Current Audit Recommendations:

- 1. The Department of Mental Health and Addiction Services should improve controls over cash receipts and ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes.**

Comments:

Testing of cash receipts disclosed instances of untimely deposits and weaknesses in the initial recording of receipts.

- 2. The Department of Mental Health and Addiction Services should improve cash management operations for the Federal Shelter Plus Care Program.**

Comments:

During the audited period, grant receivable balances generally exceeded \$1,500,000 and had increased to over \$3,000, 000 as of June 30, 2004.

- 3. Controls should be strengthened to ensure that attendance records are signed by employees and approved by supervisors.**

Comments:

A review of payroll and personnel records noted numerous instances of timesheets and leave time authorization forms that were not properly signed by employees and/or supervisors.

- 4. Cedarcrest Hospital should review the propriety of providing fringe benefits to a part-time employee who consistently worked below the minimum work level for receiving such benefits.**

Comments:

Health insurance benefits and personal leave time was granted to an employee who was generally paid for hours below the minimum requirements for receiving such benefits.

- 5. The Engineering Department should be notified of all facility improvements and repairs that are expected to exceed \$2,500 so they can be reviewed and approved as required by Agency policy.**

Comments:

Our review noted instances where constituent units did not comply with Agency policy to notify the Engineering Department of repairs and improvement projects being undertaken.

- 6. Controls over equipment inventory and reporting should be improved.**

Comments:

We encountered numerous exceptions in the review of property control and reporting at several of the Department of Mental Health and Addiction Services' facilities and at the Office of the Commissioner that include equipment purchases not being properly recorded on inventory records and a lack of complete and up to date inventory records.

- 7. The Office of the Commissioner should strengthen controls over petty cash travel advances.**

Comments:

Our examination disclosed a number of instances of travel advance information being submitted from ten to 95 days late by employees.

- 8. The Department of Mental Health and Addiction Services should ensure that bank reconciliations and financial records are maintained on a current basis.**

Comments:

We encountered several situations where bank reconciliations and the posting of accounting records were not performed on a timely basis.

- 9. Controls over Cedarcrest Hospital Activity/Welfare Fund operations should be strengthened to ensure compliance with State Comptroller's guidelines.**

Comments:

Our review disclosed several instances of noncompliance with State Comptroller requirements, which included funding of employee awards and other activities,

payment of client discharge grants without the establishment of guidelines and that State Comptroller approval was not obtained for two payments exceeding \$1,000.

10. The Department of Mental Health and Addiction Services should comply with loss reporting requirements of Section 4-33a of the General Statutes.

Comments:

There were several instances of thefts or losses that were not reported as required by statutory requirements.

11. The Department of Mental Health and Addiction Services should comply with the State Comptroller's fiscal year end Generally Accepted Accounting Principles reporting requirements.

Comments:

Two DMHAS constituent units did not meet fiscal year end Generally Accepted Accounting Principles reporting requirements due to late filing and or missing financial statements.

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, 2003 and 2004. 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, 2003 and 2004, 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 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, 2003 and 2004, 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 controls 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:

- cash receipt weaknesses
- payroll and personnel weaknesses
- inadequate property control
- weaknesses in the maintenance of fiduciary fund records

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:

- payroll and personnel weaknesses
- inadequate property control
- weaknesses in the maintenance of fiduciary fund records

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.

Anthony Turko
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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