

STATE OF CONNECTICUT



***AUDITORS' REPORT
DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006***

AUDITORS OF PUBLIC ACCOUNTS

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August 1, 2008

AUDITORS' REPORT
DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006

We have examined the financial records of the Department of Mental Health and Addiction Services for the fiscal years ended June 30, 2005 and 2006. 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, 2006, 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:

A summary of General Fund revenues and receipts for the fiscal years ended June 30, 2005 and 2006 follows:

| | <u>2004 – 2005</u> | <u>2005 – 2006</u> |
|---|---------------------------|---------------------------|
| Rental of cottages or residences | \$ 197,738 | \$ 139,941 |
| Refunds of prior years' expenditures | 1,034,990 | 881,966 |
| All other revenue | <u>17,063</u> | <u>26,819</u> |
| Total General Fund Revenue and Receipts | <u>\$1,249,791</u> | <u>\$1,048,726</u> |

During the audited period, General Fund receipts consisted primarily of fees for the rental of cottages or residences to employees and refunds of expenditures for workers' compensation.

A summary of General Fund expenditures for the fiscal years ended June 30, 2005 and 2006 follows:

| | 2004 – 2005 | 2005 – 2006 |
|---|----------------------|----------------------|
| Personal services | \$242,056,898 | \$255,381,157 |
| Contractual services | 33,627,922 | 31,261,949 |
| Yale University – CMHC staffing | 10,509,152 | 12,433,312 |
| Commodities | 14,414,300 | 16,469,161 |
| General Assistance Managed Care | 66,572,322 | 71,897,494 |
| Workers’ compensation | 8,684,805 | 9,414,076 |
| Sundry | 342,526 | 511,250 |
| State-aid-grants | 154,788,559 | 168,309,934 |
| Equipment and buildings | <u>240,902</u> | <u>130,362</u> |
| Total | 531,237,386 | 565,808,695 |
| Disproportionate share – budgeted costs | <u>(77,640,000)</u> | <u>(77,640,000)</u> |
| Total Budgeted Accounts | <u>\$453,597,386</u> | <u>\$488,168,695</u> |

General Fund budgeted expenditures, prior to Medicaid disproportionate share hospital adjustments, totaled \$531,237,386 and \$565,808,695 for the fiscal years ended June 30, 2005 and 2006, respectively. 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. DMHAS received payments of \$105,935,000 in each of the fiscal years audited from the Department of Social Services which were subsequently included in billings to the Federal Government. In both of the fiscal years, disproportionate share adjustments deposits of \$77,640,000 were applied as reductions to DMHAS General Fund budgeted expenditures and \$28,295,000 was credited directly to State Comptroller’s Office accounts for fringe benefit cost recovery on these reimbursements.

During the audited period, the majority of General Fund budgeted funds were used for personal services, State-aid grants primarily used to fund a community-based network of services, and General Assistance medical payments. There were 3,254 and 3,237 full-time positions funded by budgeted accounts at June 30, 2005 and 2006, respectively.

Special Revenue Fund – Federal and Other Restricted Accounts:

Federal and other restricted account receipts for the fiscal years ended June 30, 2005 and 2006 were as follows:

| | 2004 – 2005 | 2005 – 2006 |
|--------------------|---------------------|---------------------|
| Federal | 37,349,084 | 60,572,322 |
| Other than Federal | <u>19,545,320</u> | <u>18,928,050</u> |
| Total Receipts | <u>\$56,894,404</u> | <u>\$79,500,372</u> |

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Expenditures from Federal and other restricted accounts for the fiscal years ended June 30, 2005 and 2006 follows:

| | 2004 – 2005 | | | 2005 – 2006 | | |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Total | Federal | Other | Total | Federal | Other |
| Personal services | \$ 2,160,485 | \$ 978,392 | \$ 1,182,093 | \$ 2,739,616 | \$ 1,731,025 | \$ 1,008,591 |
| Contractual services | 10,649,673 | 8,601,220 | 2,048,453 | 24,888,322 | 21,737,230 | 3,151,092 |
| Commodities | 121,993 | 49,167 | 72,826 | 89,017 | 29,855 | 59,162 |
| Sundry | 84,360 | 64,320 | 20,040 | 217,618 | 212,058 | 5,560 |
| Grants | 44,922,220 | 29,770,200 | 15,152,020 | 41,576,288 | 28,184,338 | 13,391,950 |
| Equipment | 20,593 | 2,189 | 18,404 | 20,032 | 13,514 | 6,518 |
| Total | \$57,959,324 | \$39,465,488 | \$18,493,836 | \$69,530,893 | \$51,908,020 | \$17,622,873 |

The increase of \$11,571,569 in expenditures during the 2005-2006 fiscal year was primarily the result of receiving new Federal funding for the Substance Abuse and Mental Health Service Access to Recovery grant program.

Special Revenue Funds Expenditures:

Special Revenue Fund expenditures, excluding “Federal and other restricted accounts,” totaled \$3,314,107 and \$3,401,060 for the 2004-2005 and 2005-2006 fiscal years, respectively. This includes expenditures totaling \$286,915 and \$267,317 for renovation projects at Connecticut Valley Hospital and \$2,210,853 and \$1,889,247 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 \$813,316 and \$1,244,496 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 costs for the in-residence population during the fiscal years under review were as follows:

| | Per Capita Costs – In-Residence | | | |
|--|--|---------------|--------------------|---------------|
| | 2004 - 2005 | | 2005 - 2006 | |
| | Daily | Annual | Daily | Annual |
| | \$ | \$ | \$ | \$ |
| Connecticut Valley Hospital | 896 | 327,040 | 1,125 | 410,625 |
| Connecticut Mental Health Center | 1,488 | 543,120 | 1,339 | 488,735 |
| Southwest Connecticut Mental Health System | 1,271 | 463,915 | 1,499 | 547,135 |
| Cedarcrest Hospital | 925 | 337,625 | 1,179 | 430,335 |

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. Daily cash receipts of less than five hundred dollars may be held until total receipts to date amount to \$500, but not for a period of more than seven calendar days.
- Conditions:*
1. Office of the Commissioner – Testing of deposits to Funds Awaiting Distribution disclosed ten cash receipts totaling \$8,342 were deposited from four to eight days late.
 2. Capital Region Mental Health Center – Testing of General Fund receipts disclosed that five cash receipts for meal tickets totaling \$100 were deposited between two and 14 days late.
 3. Southwest Connecticut Mental Health System – Testing of cash receipts for the Activity/Welfare Fund disclosed one deposit for \$25 was made 20 days late.
 4. Southeastern Mental Health Authority – Testing of General Fund cash receipts disclosed a deposit for \$55 was made two days late.
- Effect:* Agency receipts were not always deposited in a timely manner as required by Section 4-32 of the General Statutes.
- Cause:* Late deposits at the Office of the Commissioner were caused by payroll reimbursements being handled at the centralized payroll office in Middletown and then being forwarded to the Office of the Commissioner in Hartford for deposit. In December 2005, procedures were changed by having the Fiscal Services Bureau in Middletown process bank deposits directly for payroll deposit transactions, thereby eliminating untimely deposits. The other 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 to 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: Controls have been improved. All deposits are now made within 24 hours of receipt.

Capitol Region Mental Health Center: In order to comply with State deposit requirements, effective immediately, the Business Office will make deposits within one day of receipt.

Southwest Connecticut Mental Health System: Corrective measures have been put in place to ensure that no such lapses will occur again.

Southeastern Mental Health Authority: SMHA will distribute in January and on July 1st of each year its policy for the “Handling of Cash” stating that any employee receiving funds must deliver the funds to the fiscal office the day the funds are received so the fiscal office can adhere to the guidelines set forth by the Comptroller regarding the deposit requirements. Also, the General Fund deposits will now be the responsibility of the Fiscal Administrative Officer and the Activity Fund deposits will be the responsibility of an Administrative Assistant. The Fiscal Director will be the designated backup for both funds, but will no longer be the sole responsible staff person for making deposits.”

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. Program expenditures totaled \$5,938,941 and \$6,350,744 during the respective audited years. Grants receivable balances in excess of \$2,000,000 were being maintained for this program and at fiscal year end, receivable balances were \$4,807,683 and \$2,576,515 at June 30, 2005 and 2006, respectively.

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

Cause: The Department continued to experience delays in drawing down funds due to accountability issues on how past drawdowns were charged to the various operating components included in this program. Delays were also experienced by staff in learning how to use the new State Core-CT accounting system.

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: “Office of the Commissioner: The Department continues to work directly with the local Department of Housing and Urban Development (HUD) office to assure the timely, accurate accounting and drawdown of Federal funds. The Department continues to experience delays in drawing down funds through the Federal drawdown system due to unanticipated inaccuracies within that system. In addition, the Department retains copies of all correspondence related to this drawdown issue and any problems the Department has incurred in accessing the HUD funds.”

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 biweekly payroll timesheets for 30 employees disclosed the following exceptions:

1. Nine timesheets were not signed by employees as follows:
 - a. Four from Connecticut Valley Hospital.
 - b. Three from Southeastern Mental Health Authority.
 - c. One from the Office of the Commissioner.
 - d. One from Cedarcrest Hospital.
2. Four timesheets were stamped with a supervisor’s signature which included three from Connecticut Valley Hospital and one from Southwest Connecticut Mental Health System. 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.
3. Eleven timesheets were signed by supervisors prior to the end of the pay period as follows:
 - a. Five timesheets from Southeastern Mental Health Authority. Of these timesheets, four were signed two days early and one was signed one day early.
 - b. Two timesheets from Connecticut Valley Hospital, one signed one day early the other two days early.

- c. Two timesheets from Southwest Connecticut Mental Health Network, both of which were signed two days early.
- d. One timesheet from the Office of the Commissioner signed one day in advance.
- e. One timesheet from Western Connecticut Mental Health Network signed one day in advance.

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.

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: Due to the very large number of time and attendance reports, covering three shifts and non-standard workweeks, the payroll for ward staff is generated by computer for submission to payroll. A copy of the timesheet is signed by the employee and supervisor, and maintained at the facilities. There is a new scheduling/time and attendance system in the process of being instituted that will have electronic approval of time entered by a supervisor with security controls. Final implementation is due in the fall of 2008.

Southeastern Mental Health Authority: Supervisors have been advised not to the use signature stamps or to sign timesheets early.

Office of the Commissioner: Timesheets are normally signed by employees and supervisors at the end of the payroll period. The finding noted was an isolated exception.

Cedarcrest Hospital: All staff are notified annually by the Human Resources office regarding required signatures on timesheets.”

Employee Medical Certificates:

Criteria: State policy and most union agreements require employees to submit a medical certificate when absent on sick leave for more than five consecutive work days. The 1199 union contract requires medical certificate documentation when employees are absent on sick leave

for 35 consecutive work hours or greater. State policy and most union agreements also require a medical certificate to document charging of sick leave time in cases when employees become sick while out on vacation leave.

Conditions: A test check of 15 employee time records selected for the review of compliance with medical certificate requirements disclosed that six did not have required medical certificates on file. These exceptions included three from the Connecticut Mental Health Center, two from Connecticut Valley Hospital and one from the Office of the Commissioner.

Effect: Without medical certificates as required by State and union policies, the Department increases the risk that employees may abuse their use of sick time leave.

Cause: The Department did not adequately monitor employees for compliance with medical certificate requirements.

Recommendation: The Department of Mental Health and Addiction Services should improve controls to ensure that medical certificates are obtained from employees when required by State policy. (See Recommendation 4.)

Agency Response: “Connecticut Mental Health Center: The Connecticut Mental Health Center (CMHC) requires supervisors to notify the CMHC Human Resource Department whenever a staff member is absent for five or more consecutive days. The Human Resource Department forwards a letter to the employee notifying them of their obligation to complete and submit a State Medical Certificate. A copy of the medical certificate with instructions and an application for FMLA (Family Medical Leave) is included in the mailing. The Human Resource Department follows up with the employee to ensure that the Medical Certificate is submitted. The item noted appears to be an infrequent oversight.

Connecticut Valley Hospital: The Agency will establish a procedure, by June 30, 2008, to insure that supervisors follow the medical certificate requirements and facilitate with the Human Resource Department on submission of medical certificates as required by collective bargaining agreement(s). In addition, a report will be generated on a biweekly basis to ensure medical certificates have been received from the supervisors for employees.

Office of the Commissioner: The Department normally follows established protocols for extended sick leave requests and will continue to do so. For the finding reported the Department deems this an isolated, one time occurrence.”

Coding of Expenditures:

- Criteria:* The Core-CT accounting system provides for a comprehensive chart of accounts for coding expenditure transactions. Proper coding of expenditures is essential in providing fiscal and budgetary accountability over costs.
- Condition:* A test check of expenditures disclosed the following miscoding of expenditure transactions:
1. 30 vouchers totaling \$16,835, coded as general office supplies, were for purchases that included 96 boxes of bandages, ambulance expenses and other medical supplies and services.
 2. Ten vouchers totaling \$4,151, coded as office equipment lease/rental expense, included cleaning services and postage expenses.
 3. 35 vouchers totaling \$19,835, coded as premises maintenance/repair services, included plastic cutlery, paper food service products and laundry detergent.
- Effect:* Improper coding of costs weakens fiscal and budgetary accountability over costs.
- Cause:* During the audited period, the Department had centralized accounts payable operations into a new unit called the Fiscal Services Bureau. Agency personnel attributed miscoding to unclearly defined guidelines of account usage, the Core-CT system automatically coding some items incorrectly and human error.
- Recommendation:* The Fiscal Services Bureau should improve the coding of expenditures to ensure that goods and services are recorded in proper expenditure accounts. (See Recommendation 5.)
- Agency Response:* “Fiscal Services Bureau: There are several reasons for the inaccurate account coding.
1. As noted, the audited period was at the beginning of the centralization of purchasing and accounts payable. Guidelines for quality control over coding were in process of being developed.

2. DMHAS uses the ePro Requisition module of Core-CT for the purchase of commodities. The coding of these expenditures is required when the Requisition is entered into Core-CT, and employees responsible for entering Requisitions are not necessarily financial staff who understand what the coding means. Budgetary approval of the Requisitions is the responsibility of the Facility Business Offices and should include a check of the account coding. Facility approvers have been reminded to check this.
3. Core-CT automatically assigns certain account codes based on other entries. This sometimes results in incorrect coding and must be checked and changed as appropriate. The FSB has communicated to state facility personnel, reviewing these transactions, to edit the transactions for appropriateness.”

Property Control:

Background:

During the 2005-2006 fiscal year, the Department consolidated inventory operations from its nine constituent units into one centralized Asset Management Unit. As part of this consolidation the Department took significant positive action that included development of standard policies, procedures and forms as well as the preparation of a single annual inventory report (CO-59) for the entire agency. These actions have helped to address many of the concerns expressed in past audits over property control weaknesses. This centralization process had occurred during the same time period that the State was implementing the new Core-CT Asset Management Module. The transition process of merging property control into one unit, along with the implementation of the Core-CT Asset Management module was a major undertaking that was still in progress at the end of the audited period. Although the Department had taken significant positive action to improve property control, the current review disclosed several exceptions as discussed below.

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. During the 2005-2006 fiscal year, the Department began using the new Core-CT Asset Management Module as its property control system. There were some weaknesses in documenting the transactions that were processed during the conversion to the

Core-CT Asset Management module including reporting adjustments that were made for the June 30, 2006 annual property report.

2. The annual property report for June 30, 2006, was filed on October 23, 2006, 22 days late.
3. Property reported at June 30, 2006, for Connecticut Valley Hospital was overstated by \$7,401, due to the reporting of a car that was disposed of and was understated by \$316,900, because unregistered vehicles were not reported.
4. Each facility forwarded its own calculations of stores and supplies balances and transactions to the central inventory unit to be included on the annual inventory report. Even though most property control functions had been centralized, there were no central policies and procedures in place to guide facilities in reporting these inventory transactions to ensure there was consistency in amounts being reporting.

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.

Cause: Transactions posted and adjustments made to Core-CT financial records used for the annual inventory report were not always documented. Some of these weaknesses can be attributed to the process of the implementation of a new centralized property control system.

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

Agency Response:

- “1. As part of the centralization of the DMHAS property control program, all equipment and controllable items were retagged with scanable tags using a sequential numbering system. Any problems in documenting equipment in the conversion process were thus cleaned up. Adjustments made to the June 30, 2006 annual property report were necessary to provide a clean base from which to start.
2. An email was sent to the Comptroller advising of the need for additional time to complete the consolidated CO-59 for fiscal year 2006. A copy of this communication could not be located.
3. The disposal of the car in the amount of \$7,401 was an oversight which was corrected in the following year's CO-59. In terms of the \$316,900 of additions, this was for “non-plated” vehicles. It was our understanding that because these are tagged assets, they were to be included in the Capitalized Furnishings and Equipment line, rather than the vehicles line on the CO-59. We

will do a comprehensive review to ensure that all non-plated vehicles are included in this year's CO-59.

4. A Committee will be formed to standardize the policies and procedures to guide facilities in reporting stores and supplies balances. This committee is scheduled to meet and commence its review in May 2008."

Petty Cash Fund:

- Criteria:* 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. State procedures for reimbursements of petty cash require expenditures to be documented and supported.
- Condition:* Our review of the Office of the Commissioner's Petty Cash Fund disclosed the following:
1. A test of 13 travel advances disclosed that reimbursement forms for five transactions totaling \$2,491 were submitted by employees from one to 191 days late.
 2. A review of four petty cash replenishments disclosed that backup documentation could not be found for a replenishment for \$2,381 and back up documentation could not be correlated to amounts that were reported for three replenishments totaling \$10,717.
- Effect:* The Agency was not in compliance with State Accounting Manual requirements.
- Cause:* There were weaknesses in maintaining documentation for petty cash replenishments and oversight over petty cash travel advances.
- Recommendation:* The Office of the Commissioner should strengthen controls over petty cash records and travel advances. (See Recommendation 7.)
- Agency Response:* "Office of the Commissioner: The Department has changed its procedures regarding the oversight of Petty Cash transactions. First, a tracking system is now used by the business office to monitor for the timely submission of employee travel documentation required to be filed within the 5 day filing requirement. In addition, the Department now utilizes "Quickbooks" to track and record petty cash transactions. Second, monies advanced to employees are immediately deducted from the employees travel reimbursement and expense checks. Third, the Department has significantly curtailed the use of travel advances and will issue them

if deemed absolutely necessary on a case by case basis. Finally, copies of backup documentation for petty cash replenishments are kept on file at the Office of the Commissioner with the originals sent to and retained by the Fiscal Services Bureau in Middletown.”

Fiduciary Fund Financial Record Maintenance:

Criteria: 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.

Conditions:

1. Southwest Connecticut Mental Health System – Three fiduciary funds were maintained at this location during the audited period. As of April 1, 2007, bank reconciliations for the Bridgeport Clients’ Fund account had not been performed since October 2005. For the other two accounts, the Activity/Welfare Fund and the F.S. Dubois Clients’ Fund, bank reconciliations were initially brought up to date in March 2006 by completing bank reconciliations for the period from May 2005 through October 2005. Subsequently, bank reconciliation delays reoccurred for these two funds. The Agency again brought these funds’ bank reconciliations on a current basis in March 2007 by completing bank reconciliations for November 2005 through December 2006.
2. Cedarcrest Hospital – In the current audit cycle, the same condition continued to exist, that Activity Fund transactions were not updated on the computerized accounting system since June 30, 2003. In February 2004, accounting for Activity Fund cash box transactions was also discontinued. In January 2006, it was discovered, after employment was terminated for the individual that had maintained the Client Fund, that the employee had allegedly stolen approximately \$21,383 over a six-year period by falsifying withdrawal documents
3. Connecticut Valley Hospital – A review of the General Fund Petty Cash Fund disclosed an outstanding receivable of \$1,223 in unreimbursed payroll transactions that has been outstanding for several years. This receivable is the result of transactions processed as part of accommodating the initial implementation of the Core-CT payroll system. There was also \$1,937 in undistributed Workers Compensation transactions which Agency personnel have been unable to identify and have been outstanding for over three years. A review of Client Funds disclosed client receipt signatures were not verified to disbursement records for checks drawn on client accounts as required by Agency procedures. The Agency also did not follow up on missing receipt forms for cash transactions which are to be

used by Agency procedures to document receipt by clients when funds are delivered to them by staff.

Effect: The lack of prompt reconciliation and posting of accounting records can result in losses not being detected on a timely basis. The matter of the alleged Cedarcrest Hospital theft was turned over to the Connecticut State Police and the Office of the Chief State's Attorney for further review.

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 improve controls over fiduciary funds to assure assets are safeguarded and that bank reconciliations and financial records are maintained on a current basis. (See Recommendation 8.)

Agency Response: "Southwest Connecticut Mental Health System: The Activity/Welfare and F.S. Dubois Clients Funds bank reconciliation are now up to date. The Bridgeport Clients Fund bank reconciliation is done up to March 2007 and we plan to reconcile it up to date by June 2008.

Cedarcrest Hospital: Prior to fiscal year 2007, Excel spreadsheets were being used to record transactions. Commencing with fiscal year 2007 records have been transferred to Quickbooks.

Connecticut Valley Hospital: The \$1,163.28 receivable is the result of money paid to DMHAS employees during the initial implementation of Core-CT when numerous employees were not receiving paychecks. The General Fund was reimbursed for 98 percent of all advances. Moreover, DMHAS Central Payroll is in process of attempting to recover the remaining balance. The Comptroller's Office has been contacted regarding the remaining unrecoverable amount for guidance. Since it is not possible, at this date, to determine to whom the \$1,937.05 for workers compensation should be distributed, CVH plans to escheat these funds to the State Treasurer's Office. Furthermore, an additional employee has been hired to improve the reconciliation of patient signatures to disbursement slips as well as follow up on missing receipt forms."

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 2, 2005 and September 11, 2006 for the audited fiscal years.

Conditions:

1. Cedarcrest Hospital – Activity Fund financial statements were not submitted with GAAP reports for the fiscal years ended June 30, 2005 or 2006.
2. Southwest Connecticut Mental Health System – GAAP reports were not submitted for the fiscal years ended June 30, 2005 or 2006.

Effect:

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

Cause:

Two DMHAS constituent units did not follow the 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 9.)

Agency Response:

“Cedarcrest Hospital: Although GAAP reports were submitted, financial statements were, in error, not included. Going forward, we will comply and submit financial statements along with the GAAP reports.

“Southwest Connecticut Mental Health System: The reports mentioned above were filed with the Comptroller in March 2007. Additional staff capacity has been put into place so that reports will be filed timely in the future.”

RECOMMENDATIONS

Our prior report on the Department of Mental Health and Addiction Services contained eleven recommendations. Of the recommendations, four have been implemented or otherwise resolved and seven are being repeated or restated herein. As a result of our current examination, we have included two 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* – Attendance record weaknesses were noted in the current examination and as a result, this recommendation is being repeated. (See Recommendation 3.)
- *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* – Cedarcrest Hospital improved monitoring of this employee's work schedule to assure that compliance requirements were met for providing fringe benefits. As a result this recommendation is not being repeated.
- *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* – Oversight over facility improvements activity being reported to the Engineering Department were improved and as a result, this recommendation is not being repeated.
- *Controls over equipment inventory and reporting should be improved* – Weaknesses in property control were noted in the current review and this recommendation is being repeated. (See Recommendation 7.)
- *The Office of the Commissioner should strengthen controls over petty cash travel advances* – Weaknesses over travel advance were encountered in the current review and this recommendation is being repeated. (See Recommendation 8.)

- *The Department of Mental Health and Addiction Services should ensure that bank reconciliations and financial records are maintained on a current basis – Delays in bank reconciliations and maintaining financial records were encountered in the current review and this recommendation is being repeated. (See Recommendation 9.)*
- *Controls over Cedarcrest Hospital Activity/Welfare Fund operations should be strengthened to ensure compliance with State Comptroller’s guidelines – The Department improved controls over expenditures of the Activity/Welfare Fund and as a result, this recommendation is not being repeated.*
- *The Department of Mental Health and Addiction Services should comply with loss reporting requirements of Section 4-33a of the General Statutes – The Department filed appropriate loss reports and improved controls over loss reporting and as a result, this recommendation is not being repeated.*
- *The Department of Mental Health and Addiction Services should comply with the State Comptroller’s fiscal year end Generally Accepted Accounting Principles reporting requirements – Two constituent units did not meet fiscal year end Generally Accepted Accounting Principles reporting requirements and this recommendation is being repeated. (See Recommendation 10.)*

Current Audit Recommendations:

- 1. The Department of Mental Health and Addiction Services should improve controls over cash receipts to 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 for the Federal Shelter Plus Care Program generally exceeded \$2,000,000.

- 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 that were not properly signed by employees and/or supervisors.

- 4. The Department of Mental Health and Addiction Services should improve controls to ensure that medical certificates are obtained from employees when required by State policy.**

Comments:

A review of 15 employee time records for compliance with medical certificate requirements noted six did not have required medical certificates on file.

- 5. The Fiscal Services Bureau should improve the coding of expenditures to ensure that goods and services are recorded in proper expenditure accounts.**

Comments:

Testing of expenditures disclosed several miscoding of expenditures to incorrect expenditure accounts.

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

Comments:

Several exceptions in property control were encountered that included weaknesses in documenting transactions and adjustments, the late filing of the annual property report and other reporting weaknesses.

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

Comments:

A review of petty cash records disclosed that five out of 13 travel advances were submitted from one to 191 days late and that documentation for four replenishments had not been properly maintained.

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

Comments:

A review of fiduciary funds maintained by the Department disclosed a number of weaknesses including untimely bank reconciliations.

- 9. 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, 2005 and 2006. 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, 2005 and 2006, 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, 2005 and 2006, 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
- 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
- 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