

STATE OF CONNECTICUT

FEBRUARY 26, 2002

**PERFORMANCE AUDIT
MONITORING OF STATE FINANCIAL ASSISTANCE
STATE SINGLE AUDIT
DEPARTMENT OF MENTAL HEALTH AND
ADDICTION SERVICES**

AUDITORS OF PUBLIC ACCOUNTS

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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have conducted a performance audit of certain aspects of the requirements of the State Single Audit Act, pertaining to the Department of Mental Health and Addiction Services (DMHAS.) Conditions disclosed as a result of our review and our recommendations are summarized below. Our findings are discussed in further detail in the “Results of Review” section of this report.

Late Submittal of State Single Audit Reports

The Department of Mental Health and Addiction Services should implement procedures to ensure that all State Single Audit reports are received in a timely manner. (See Item No. 1)

The Department cannot ensure that all State Single Audit reports are received by the required deadline.

Section 4-232, subsection (b)(1) of the Connecticut General Statutes [State Single Audit Act] states that “copies of the report shall be filed...not later than six months after the end of the audit period. The cognizant agency may grant an extension...” In addition, Section 4-235, subsection (b)(1) of the Connecticut General Statutes requires that the cognizant agency shall ensure through the coordination with the State agency, that audits are made in a timely manner.

Our testing disclosed that 66 of the 147 providers, or 45 percent, required to submit a State Single Audit report did not submit their reports by the required deadline. On average, these reports were submitted 44 days late, ranging from one to 141 days. In a sample of ten cases we selected to review further, six were an average of 42.7 days late.

Missing Reports

The Department should establish and implement procedures to monitor entities that receive in excess of \$100,000 for State Single Audit requirements, to ensure that all required audit reports are received and reviewed. Efforts to review and identify the individual non-profit agencies that expend less than \$100,000 of DMHAS funds, but more than \$100,000 in total State financial assistance, will be necessary until a system is implemented by the Office of Policy and Management to identify that information. (See Item No. 2)

The Department of Mental Health and Addiction Services does not receive and review reports for all Agency funded entities that meet the State Single Audit \$100,000 threshold for total State expenditures.

Per Section 4-231, subsection (a)(1) of the Connecticut General Statutes, “each nonstate entity which expends a total amount of State financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year...shall have...a single audit or program specific audit made for such fiscal year.” For audit findings relating to a specific program, Section 4-236-29, subsection (a) of the State Regulations states that the “resolution of findings that relate to the programs of a single State agency shall be the responsibility of the recipient and the agency.” Therefore, all audit reports for all entities that meet the State Single Audit requirements, should be received by all grantor Agencies.

Our review of six entities that expended less than \$100,000 in Department funding, but more than \$100,000 in total State funding disclosed that the Department of Mental Health and Addiction Services did not receive audit reports for those entities.

**“Site Visits” of
Providers**

The Department of Mental Health and Addiction Services should increase the number of on-site financial monitoring visits it conducts. (See Item No. 3)

Reports issued for “Site Visits” performed on three entities for the 1998-1999 fiscal year noted exceptions that appear to have an effect on DMHAS funding.

Pursuant to Section 4-236-21, subsection (b)(6) of the State Regulations, a State agency that provides financial assistance shall “follow up on audit findings affecting a state agency’s programs and ensure that the auditee takes appropriate and timely corrective action.” One of the tools used by DMHAS to accomplish these follow-ups has been to visit the providers’ premises to examine the financial operations as related to the DMHAS contract. These inspection-type examinations are called “site visits” that also serve as monitoring tools.

During our review of the State Single Audit function at the Department, we were informed that due to time and resource constraints only three fiscal “site visits” were performed and related reports issued for the 1998-1999 fiscal year. In two of the three reports issued, exceptions were noted that appear to have an effect on DMHAS funding. If DMHAS had not performed these “site visits,” the exceptions may not have been noted otherwise.

Program Reports

Procedures should be implemented to ensure timely receipt of the quarterly programmatic reports, to utilize the data in the most efficient manner possible and to require that these reports be reviewed on a periodic basis to ensure contractor compliance with program measures. (See Item No. 4)

Program staff at the Department of Mental Health and Addiction Services does not consistently obtain contractors' programmatic data.

Good business practice dictates that program data supplied by contractors are reviewed periodically to ensure contractor compliance with performance measures. Per the State of Connecticut's standard Human Service Contract, "required reports will be used for purposes including, but not limited to, determination of the contractor's compliance with program performance standards, provision of cumulative reports and statistical information pursuant to [Connecticut General Statutes Section] 17a-451(n), and such other routine information as may be required by the department."

Quarterly Fiscal Reporting

The Purchased Services Unit should implement procedures to ensure that the State-operated Local Mental Health Authorities receive all quarterly reports. (See Item No. 5)

The Purchased Services Unit (PSU) staff relies on the State-operated Local Mental Health Authorities to review the contractor's quarterly fiscal data. The Unit has no process in place to ensure that the Authorities actually received the data.

Pursuant to the Human Service Contract issued by DMHAS, quarterly fiscal reports, in addition to the program reports discussed in Item No. 4, for mental health programs should be submitted within 30 days after the end of each quarter. The purpose of the fiscal reports is to provide the Department a means to monitor throughout the fiscal year the degree to which the actual income and expenses for each program are consistent with the provider's budget. The quarterly fiscal report indicates income and expenditures by program per quarter. The PSU developed this report, which is completed by the provider and in many cases submitted electronically. Some providers without online capabilities send their fiscal reports to the State-operated Local Mental Health Authorities. The provider is required to submit a consolidated and a separate report for each program. The quarterly fiscal reports for the first three quarters went directly to the State-operated Local Mental Health Authority. Only the

fourth quarter's fiscal reports, which are cumulative, were sent to the Purchased Services Unit (PSU) at DMHAS for review. The PSU reviewed the providers' fourth quarter fiscal reports to ascertain if there were budget overruns or unexpended funds for the program for the fiscal year.

The PSU does not verify with the State-operated Local Mental Health Authority that the quarterly reports have been received.

**Review of
Mental Health
Providers**

Department staff should perform interim reviews of each provider's mental health programs to ensure compliance with program measures. (See Item No. 6)

Examinations of the Regional Mental Health Boards, which would ensure that the mental health providers are completely reviewed, are not performed.

Section 17a-480 of the General Statutes states that "the Department of Mental Health and Addiction Services, in consultation with regional mental health boards...shall evaluate mental health service delivery and monitor such services to insure that they are in conformity with the plans and policies of the state Department of Mental Health and Addiction Services."

Mental Health programs are not reviewed on an annual basis. The Regional Mental Health Boards review the mental health providers on a two to three year cycle; no interim reviews are performed unless a problem is indicated during the review of reports, and discussions with the State-operated Local Mental Health Authority and the provider.

INTRODUCTION

The State of Connecticut provides funding to a wide array of private providers to administer certain State established programs. Prior to 1991, a separate audit of each agency's financial assistance award(s) was required to assure that State funding was being spent appropriately. Consequently, several different State agencies were often conducting audits of the same recipient's financial records. To reduce the duplication of effort and to establish uniform standards for financial audits, the Legislature passed the State Single Audit Act (the Act). Municipalities and municipal agencies were to comply with this Statute beginning July 1, 1992. Non-profit entities had until July 1, 1994, before they were expected to comply with the Act.

The Act set a minimum dollar receipt requirement of \$100,000 in combined Federal and State funding before an audit was required. The passage of Public Act 98-143 changed the basis that determines when an audit pursuant to the Act has to be performed. For fiscal years beginning on or after July 1, 1998, the requirement was changed from the receipt of \$100,000, of combined Federal and State funding, to expenditures totaling \$100,000 or more of State funding. Audits are not required by the Act if the total State funding expended is less than \$100,000.

The Secretary of the Office of Policy and Management is responsible for the administration of the Act. Certain responsibilities, assigned to the Secretary, are described in Chapter 55b of the General Statutes. Those duties include the adoption of State Regulations to implement provisions of the Act and the designation of cognizant agencies for audits filed under the Act. The Office of Policy and Management is the Cognizant Agency for municipalities, hospitals, private colleges and universities, and most other governmental and non-profit entities. The Department of Education is the Cognizant Agency for Regional School Districts and Regional Educational Service Centers; the Department of Transportation is the Cognizant Agency for transportation related councils and transit districts; and the Department of Economic and Community Development is the Cognizant Agency for Housing Authorities. The Municipal Finance Services Unit of Office of Policy and Management's Intergovernmental Policy Division has been assigned the responsibility for assisting those entities in carrying out the requirements of the Act in addition to its other duties. In addition, Public Act 98-143 gave the Secretary the power to assess a penalty if an entity fails to file an audit report within six months after the end of the entity's fiscal year.

In accordance with Section 4-236 of the General Statutes, the Secretary of the Office of Policy and Management has issued State Single Audit Regulations. The Regulations provide for State agencies to participate with their assigned cognizant agency in order to fulfill the cognizant agency's State Single Audit responsibilities. The Office of Policy and Management has issued a desk review checklist to assist State agencies in carrying out their duties under the Act. The responsibilities of the grantor agencies, such as the Department of Mental Health and Addiction Services (DMHAS), are outlined below:

- Ensure that its grantees are aware of and meet filing requirements mandated by the Act.
- Review the Schedule of State Financial Assistance or State Awards to determine that the agencies' grants are properly reported on the Schedule and if any of the agencies' grant programs are identified as major State programs under the provisions of Section 4-230 of the General Statutes.
- Review the Report on Compliance with Specific Requirements Applicable to Major State Programs and determine if the specific requirements of the Agency's major programs are listed.
- Review the Independent Auditor's Report on the Financial Statements and Notes to the Financial Statements to determine the existence of an explanatory paragraph or qualified opinion regarding the auditee's ability to continue as a going concern.
- Review the Cognizant Agency's Summary of Audit Findings for compliance findings, questioned costs, and internal control weaknesses for which the grantor agency is responsible, and evaluate their effect on the Agency's programs.
- Evaluate Corrective Action Plans and follow-up to ascertain that they have been implemented.
- Determine the need for the recovery of any grant funds.

There are a number of programs exempt from provisions of the Act. They are described in Section 4-230, subsection (20) of the General Statutes. Other State assistance that goes to for-profit companies is not subject to provisions of the Act. State assistance that is passed from non-profit companies to for-profit companies is not subject to those provisions. However, Section 4-235, subsection (c)(1)(C) of the General Statutes states that if a sub-recipient is not subject to an audit in accordance with the Act, the pass through recipient is to monitor the activities of the sub-recipient to ensure that the State financial assistance is used for authorized purposes in accordance with laws, regulations, and the provisions of contract or grant agreements.

REVIEW OF STATE SINGLE AUDIT REPORTS

The Office of Policy and Management, in conjunction with an outside contractor, reviews the State Single Audit reports for compliance with the Act. These reports are prepared by independent public auditors that are hired by the municipalities, non-profit organizations, governmental entities, and hospitals. In addition to the reviews performed by the Office of Policy and Management, the grantor agency is responsible for reviewing the State Single Audit reports for programs applicable to its agency.

Desk reviews, which entail a review of the completeness of the audit report itself, are performed to determine whether the report is in compliance with the terms outlined in Section 4-233 of the Connecticut General Statutes. If deficiencies are disclosed, the independent public accountant is contacted and corrections are made before the grantor is notified that the audit has been filed. Finding reviews, which consist of listing the discrepancies reported by the independent audit, are performed on all reports. If the findings affect more than one agency, the Office of Policy and Management becomes responsible for ensuring that the findings are resolved. If the findings affect only one

agency, the grantor and the affected agencies, if different, are notified. The Office of Policy and Management will then file the report and the grantor agencies are responsible for follow-up on the auditor's findings.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

The Department of Mental Health and Addiction Services' (DMHAS) mission is to promote and administer comprehensive, client-based services in the areas of mental health treatment and substance abuse prevention and treatment throughout Connecticut. During the 1998-1999 fiscal year, the year used for our field audit testing, DMHAS issued 119 mental health and 76 addiction service contracts, awarding State funding of \$86,604,499 and \$27,365,257 respectively. In addition, DMHAS was responsible for distributing an additional \$22,502,352 in Federal awards to mental health and addiction service providers in the State. The total State and Federal dollar amount awarded equals \$136,472,108. Funding agreements with each of the service providers are formalized each fiscal year through the use of standardized human service contracts.

The Department has divided the State into five mental health service regions to better serve mental health and addiction service clients in the State. Each region has State operated services as well as contracted services. State-operated and Private Non-Profit Local Mental Health Authorities (LMHAs) have been established in each region to assist DMHAS in the administration and oversight of the mental health services within the region. The State-operated LMHAs directly provide mental health services and manage contracts with private non-profits who also provide services. In addition, the State-operated and the Private LMHAs are responsible for the day-to-day fiscal and program monitoring of the mental health services. Additional program monitoring of the mental health providers is performed by Regional Mental Health Boards (Section 17a-484 of the General Statutes), which consist of advocates, consumers and family members from each specified region. These Boards provide monitoring, such as site visits, of mental health providers as well as desk audits of the entities' records. All addiction service providers are monitored directly by staff in the Purchased Services Unit (PSU) and the Office of Community Services & Hospitals (CSH), located in the DMHAS Central Office.

For the fiscal year ended June 30, 1999, the mental health providers' State Single Audit reports were submitted to the State-operated Local Mental Health Authorities and then forwarded to the PSU at the DMHAS Central Office. The reports for the privately operated Local Mental Health Authorities and for all of the addiction service providers went directly to the PSU. The PSU has three main functions: (1) receiving and reviewing the providers' State Single Audit reports, (2) developing spending plans for mental health and addiction service providers, and (3) processing funding applications and budgetary requests related to provider contracts. The PSU Audit Sub Unit completes desk reviews of the Single Audit reports and follows up on audit report deficiencies and audit findings. That Sub Unit, along with the PSU Contract Sub Unit, is responsible for on-site visits to providers. The PSU Fiscal Sub Unit prepares spending plans and payment warrants for mental health and addiction service providers. That Sub Unit is also responsible for monitoring the security deposit/rental assistance and housing subsidy programs.

All contracts are monitored in the Central Office by the Contracts Sub Unit of the PSU. This Sub Unit reviews the application materials, the contracts (including amendments and signatures), budgets (including revisions), the quarterly financial reports, and any bond fund contracting with an entity for capital improvements. In addition, the quarterly financial reports submitted by the mental health providers to the State-operated Local Mental Health Authorities are forwarded to the Contracts Sub Unit of PSU. All quarterly reports of the addiction service providers are also reviewed by this PSU Sub Unit.

The Office of Community Services & Hospitals (CSH) Division of DMHAS monitors the programmatic side of the human service contracts. This division reviews the programmatic quarterly reports submitted by the contractors, as well as being involved in the application and contract processes. Both this division and the PSU Contract Sub Unit, discussed above, are organized into the five service regions of the State for ease of coordination, because teams from each group work together monitoring the contracts and the providers.

The Directors of PSU and CSH approve provider applications before final review and authorization by the Commissioner of DMHAS. The Office of the Attorney General has issued a waiver allowing DMHAS to forego review and approval of each contract by the Office. The contract language was approved in the waiver so that the review and endorsement of each contract by the Office of Attorney General would not be necessary. The PSU maintains spending plans by contractor name, program type and special identification number.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

One of the functions of State government is to provide financial assistance, through State grants and loans, to entities that serve the needs of the State's citizens, either to improve the State's economy, to assist persons in need, to carry out specific programs mandated by the Legislature, or to assist municipalities and other municipal agencies. Our assignment was to review the systems used to monitor the State financial assistance programs. The review was to include the State Single Audit Program, as well as other monitoring tools at several agencies within the State system. As part of this overall review, a report was issued on August 2, 2000, on the Office of Policy and Management, as the oversight and primary cognizant agency for the State Single Audit Program.

The Auditors of Public Accounts, in accordance with Section 2-90 of the Connecticut General Statutes, are responsible for examining the performance of State entities to determine their effectiveness in achieving expressed legislative purposes. This report, as part of the larger audit mentioned above, is limited to a review of the DMHAS and its role as a grantor agency of State financial assistance.

We conducted this performance audit of the DMHAS' monitoring of State financial assistance in accordance with Generally Accepted Government Auditing Standards. This

audit covered effectiveness issues, which is one type of performance audit. Our purpose was to determine if the level of monitoring for State financial assistance provided by the Agency is adequate to ensure that State funds are expended appropriately.

Our audit objectives were as follows:

- ◆ To determine if the goals of the Act, as applicable to the DMHAS, are being achieved.
- ◆ To determine if procedures, which have been instituted by the DMHAS as a State grantor agency to oversee the expending of the State financial assistance, are reasonable.
- ◆ To determine if the State Single Audit provides an adequate monitoring tool to assure that the program goals are being met.
- ◆ To determine if monitoring of State grantees and other State aid is sufficient to ensure that program goals are met.

To accomplish our objectives, we reviewed the Connecticut General Statutes and related regulations, Federal Office of Management and Budget circulars, various Office of Policy and Management and DMHAS policies and procedures, contract documents, and prior audit reports. We interviewed officials and other personnel of the Agency within the scope of our audit. We also tested the timeliness and completeness of the reviews by the DMHAS' staff.

The Legislature enacted the State Single Audit Act to provide the agencies with a more efficient and uniform means of monitoring the State's financial assistance. Our goal was to determine if and how the staff at the DMHAS used the State Single Audit reports as a monitoring tool. In addition, we tried to determine whether the staff could rely on the State Single Audit reports to provide assurance that the State's laws were followed and that resources were expended for the purpose for which they were intended.

Although we used some data that came from automated systems, computer processed data was not a significant or integral part of this audit. We did, however, confirm information that we used with other sources whenever possible. Nothing came to our attention to indicate that data produced from the automated systems was flawed.

The majority of the audit fieldwork was completed between December 2000 and March 2001, by Martha O'Leary, a member of the staff of the Auditors of Public Accounts. Field work was performed at the DMHAS central and regional offices.

NOTEWORTHY ACCOMPLISHMENTS

Since the provisions of the State Single Audit Act were put into effect, DMHAS has made many improvements in the performance of the State Single Audit function at the Agency. Listed below are some of the tasks accomplished by DMHAS:

- ◆ Developed and issued a unified contract for each provider, regardless of the types of services provided by the contractor.
- ◆ Eliminated 94 percent of the backlog of reviews performed of State Single Audit reports for the fiscal years 1994-1995 and 1997-1998.
- ◆ Established and instituted procedures to ensure that all contracts and related funding are accounted for.
- ◆ Developed instructions to assist the provider with the completion of the funding application, quarterly reports and budget revision requests.
- ◆ Divided the fiscal and program units into separate regional teams to allow for continuous interaction regarding provider related matters.

RESULTS OF REVIEW

Item No. 1 Late Submittal of State Single Audit Reports:

Criteria: Section 4-232, subsection (b)(1) of the Connecticut General Statutes [State Single Audit Act] states that “copies of the report shall be filed ...not later than six months after the end of the audit period. The cognizant agency may grant an extension.” In addition, Section 4-235, subsection (b)(1) of the Connecticut General Statutes indicates that the cognizant agency shall ensure through the coordination with the State agency, that audits are performed in a timely manner. DMHAS has established that its Purchased Service Unit has the responsibility to receive and account for the Single Audit reports.

Condition: DMHAS records indicated that 147 providers should have submitted a State Single Audit report for fiscal year ended June 30, 1999. All reports for those entities should have been submitted by January 2000, unless one or more 30-day extensions had been granted. Our testing disclosed that 66 of the 147 providers, or 45 percent, did not submit their reports by the required deadline. On average, these reports were submitted 44 days late, ranging from one to 141 days. In a sample of ten cases we selected to review further, six were an average of 42.7 days late.

Effect: Compliance with statutory requirements to submit the reports within six months from the close of the fiscal year was not achieved. For maximum usefulness, audit reports need to be received as quickly as possible to allow the State agency to take expedient action, if needed, as regards the current fiscal year assistance agreements. Timely review also assures that corrective action plans have been put into place and that steps to recover any monies that might be due back to the State can be taken. Having almost half of the expected reports coming in late puts the Department at a disadvantage in dealing with any problems that might arise with the provider agencies.

Cause: DMHAS did not have procedures in place to ensure that all State Single Audit reports were received within six months after the end of the entity’s fiscal year or approved extension date. According to Agency staff, until recently the structure of the Agency called for the State Single Audit reports to be submitted directly to the appropriate State-operated Local Mental Health Authority, not to the Purchased Services Unit (PSU) within the Department. This might have been the cause of some of the delays in receipt. Agency staff indicated that the State-operated Local Mental Health

Authorities had retained the audit reports for extended periods of time to ensure consistency with the quarterly reports submitted by the Agency, even though they were informed that this issue was not their responsibility.

Agency personnel indicated that annually, in November, a letter is sent to every provider that was granted over \$100,000 for the previous fiscal year, as a reminder to submit a State Single Audit report by the required deadline. PSU staff indicated that if State Single Audit reports are not received by the deadline, penalties can be assessed.

Recommendation: DMHAS should continue to contact each provider as a reminder that the State Single Audit report is required and due. In addition, return correspondence should be required to ensure that the provider understands the State Single Audit requirement. DMHAS should seek to penalize an entity for not submitting a State Single Audit report and consider a policy in which future funding could be withheld until the State Single Audit requirement has been met. *(See Recommendation No. 1)*

Agency Response: “Prior to FY 2000, all Mental Health (MH) service providers filed their annual audit reports with DMHAS’s Local Mental Health Authorities (LMHA). In addition, all Addiction Service (AS) providers submitted their annual audit reports directly to DMHAS’s Purchased Services Unit (PSU). The PSU receives these reports to perform “desk review” analysis in compliance with the State Single Audit Act.

Changes to the process, described above, took place during FY00. The new initiatives were as follows:

- The audit report submittal process was communicated to all Providers and LMHAs through written correspondence. For FY 2000, all Providers funded by DMHAS were required to send their audit reports directly to the audit sub-unit at the PSU (and those reports are required to be filed within six months of the providers’ fiscal year end.)
- Also included in the correspondence were the following reminders:
 - All audit reports, forms, schedules, etc. submitted to the PSU must be in compliance with the State / Federal Single Audit Act.
 - Information on how to request extensions for filing the audit reports.
- Audit reports received from providers are checked for completeness and posted to an Audit Report Tracking Log. The

log is used as a monitoring tool to follow up with providers who have not timely filed their audit reports.

- Commencing with the FY01 audits, we will request return correspondence from the providers, which acknowledges their receipt and understanding of State Single Audit requirements.”

Auditor’s Concluding Comments:

We agree that it is the provider’s responsibility to comply with all applicable State and Federal Single Audit guidelines; however, DMHAS, as the grantor agency, should establish procedures to ensure the provider’s understanding and compliance with the Single Audit Act.

In addition, DMHAS has the ability to levy financial penalties; however, there have been no penalties assessed as of our audit period. Unless the assessment of penalties is enforced, the threat of penalties does not dissuade a provider from not submitting the State Single Audit report in a timely manner.

Item No. 2 Missing Reports:

Background:

Prior to the beginning of each fiscal year, providers are required to submit a funding application, which includes program descriptions and outlines all funding sources and expense items for the entire fiscal year for DMHAS funded programs only. Page two (2) of the income schedule in the DMHAS funding application requires the provider to supply data regarding other funding it plans on receiving from other sources for each DMHAS funded program, including other State agencies.

Criteria:

Per Section 4-231, subsection (a)(1) of the Connecticut General Statutes, “each nonstate entity which expends a total amount of state financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year...shall have...a single audit or program specific audit made for such fiscal year...” The providers are required to file a copy of the State Single Audit with the grantor agencies, as well as the cognizant agency and any pass-through entities, per Section 4-232, subsection (b)(1) of the Connecticut General Statutes. According to staff responsible for the State Single Audit function at the Office of Policy and Management, grantor agencies should receive the State Single Audit report for all entities that meet the \$100,000 State Single Audit threshold for expenditures, regardless of the total dollar amount of grantor agency funds expended by the entity. For audit findings relating to a specific program, Section 4-236-29, subsection (a) of the State Regulations states that the “resolution of

findings that relate to the programs of a single state agency shall be the responsibility of the recipient and the agency.” Therefore, all audit reports for all entities that meet the State Single Audit requirements, should be received by all grantor agencies.

Condition: During our review, we compared DMHAS’s list of providers that met the State Single Audit Act’s requirement for filing a State Single Audit report to the Office of Policy and Management’s list of providers that expended over \$100,000 of total State funds that indicated DMHAS as one of the grantor agencies. The Office of Policy and Management’s list of providers included 148 entities that, per the Office’s records, had DMHAS as a grantor agency and were required to submit a State Single Audit report for the 1998-1999 fiscal year. Our review disclosed that DMHAS did not receive audit reports for six entities that expended less than \$100,000 in DMHAS funding, but more than \$100,000 in total State funding.

Effect: Without receipt of all State Single Audit packages, including financial statements and the Schedule of State Financial Assistance, from every entity that meets the \$100,000 threshold for total State expenditures, DMHAS would not be able to determine the overall financial condition of the entity and the presence of unexpended funds.

Cause: Currently, there is not a satisfactory system in place to inform State agencies of grantee “total” State financial assistance expenditures by fiscal year. We reported this issue in our August 2, 2000, audit report titled “Monitoring of State Financial Assistance – State Single Audit – Office of Policy and Management.” At that time we were informed that a system was being developed to capture the necessary data to identify grantees that exceed the expenditure threshold, in total. To date, this has not been accomplished.

Recommendation: DMHAS should establish and implement procedures to monitor entities that receive in excess of the \$100,000 threshold for State Single Audit requirements, to ensure that all required audit reports are received and reviewed. Efforts to review and identify the individual non-profit agencies that expend less than \$100,000 of DMHAS funds, but more than \$100,000 in total State financial assistance, will be necessary until a system is implemented by the Office of Policy and Management to identify that information. *(See Recommendation No. 2)*

Agency Response: “We do not agree with this recommendation. Overall monitoring of total state expenditures of individual grantees is the

responsibility of the state's cognizant agency. There does not appear to be state single audit requirements that grantor agencies, funding less than \$100,000, are required to obtain audit reports from the individual grantees.

Should the cognizant agency institute such a policy, DMHAS will enact procedures to ensure compliance. Moreover, DMHAS receives information from private non-profit providers on DMHAS funded programs only. Presently, there are no mechanisms available to identify funding streams from other state agencies that would quantify the minimum threshold of \$100,000.

However, until such time as a policy is implemented by the cognizant agency, we will contact our providers who receive less than \$100,000 in assistance from DMHAS and inquire if they receive state funds from other agencies in excess of \$100,000. If our providers do receive more than \$100,000 from other state agencies, we will request copies of their State Single Audit Reports.”

Auditor's Concluding Comments:

We remind the Agency that the Single Audit criteria is based on the expenditure of State funds, not the receipt of State funds.

Item No. 3 “Site Visits” of Providers:

Criteria:

Pursuant to Section 4-236-21, subsection (b)(6) of the State Regulations, a State agency that provides financial assistance shall “follow up on audit findings affecting a state agency’s programs and ensure that the auditee takes appropriate and timely corrective action.” One of the tools used by DMHAS to accomplish these follow-ups has been to visit the providers’ premises to examine the financial operations as related to the DMHAS contract. These inspection-type examinations are called “site visits” that also serve as monitoring tools.

Criteria have been developed to assist DMHAS in selecting which providers to visit. One of DMHAS’ criteria for performing site visits is the presence of findings in an entity’s State Single Audit report. The PSU Audit Sub Unit reviews the findings to determine the potential materiality they have on the programs provided by the contractor and the DMHAS funding. Providers can also be selected for a “site visit” randomly. The purposes and objectives of a monitoring “site visit” are to:

- ◆ Answer specific questions and concerns about a provider's fiscal report and assess the quality and condition of the provider's records;
- ◆ Find reason(s) for a provider's incomplete and/or erroneous information submitted to DMHAS and to provide needed technical assistance as a result;
- ◆ Make providers aware of the Department's ability and willingness to conduct "site visits" and perform fiscal reviews to ensure accountability for DMHAS funds;
- ◆ Create a database about the DMHAS provider's fiscal information.
- ◆ Confirm that costs charged to DMHAS programs are actual, valid and are based on approved budget;
- ◆ Ascertain compliance with DMHAS's contract, budgets, and the Federal and State Single Audit Acts.

Condition:

During our review of the State Single Audit function at DMHAS, we were informed that, due to time constraints, only three fiscal "site visits" were performed and related reports issued for the 1998-1999 fiscal year. In two of the three reports issued, exceptions were noted that appeared to have an effect on DMHAS funding. If DMHAS had not performed these site visits, the exceptions may not have been noted otherwise.

Some exceptions noted, included:

- ◆ Hours on individual timesheets differed from hours on summary timesheets/payroll. Personnel schedules for salaries charged to a program were not available.
- ◆ Quarterly fiscal reports did not reflect the actual expenses incurred and the amounts posted in these reports were not reliable.
- ◆ A loan from the executive director to the entity was recorded as a "Bank Loan", which should have been recorded as a "Loan from Related Party." There was no authorization from the Board of Directors to incur this loan.

Effect:

Without performing on-site fiscal monitoring of entities that meet the above-mentioned criteria or that are chosen randomly, DMHAS has less assurance that corrective action to findings has been undertaken and that the entities are aware that DMHAS is watchful that its funding is properly used and accounted for. Further, direct knowledge about the entity's financial operations that could impact future DMHAS funding is not obtained. Nor will DMHAS be able to offer technical assistance to improve the provider's operations.

Cause: Limited staffing resources did not allow DMHAS to perform additional on-site fiscal monitoring visits. DMHAS staff indicated that had more time and staff been available, additional entities were identified for which on-site fiscal monitoring visits would have been performed.

Recommendation: DMHAS should increase the number of on-site financial monitoring visits it conducts. It is clear from reports of completed "site visits" that the visits are an effective method for monitoring provider's financial operations and for lending assistance to the provider to improve those operations. (See Recommendation No. 3)

Agency Response: "Due to the limited staff resources and our priority in the completion of the audit backlog project, we were unable to perform extensive fiscal monitoring site visits. Upon completion of our backlog project, efforts will be focused on expanding site visits for monitoring purposes. DMHAS will ask for Independent Public Accountant's work papers if inaccuracies and material errors through our audit desk review process and or monitoring site visits are noted.

In our opinion, for fiscal year 1999, extensive quality control reviews of the Independent Public Accountant's work-papers should be the responsibility of the cognizant agency since the standards for review should be determined and monitored by that office. Moreover, effective 4/2/01, Section 4-236-21 of OPM regulations specifically identifies the cognizant agency for conducting quality control reviews of the work performed by the independent public accounting firms."

Item No. 4 Program Reports:

Criteria: DMHAS' Division of Community Services and Hospitals (CSH) program staff are to review the following program reports of performance measures and other information that are required by the DMHAS standard Human Service Contract:

- ◆ Client Information Collection System (CICS) - Admission and Discharge Reports for the Addiction Services Program - These reports outline client activities, such as each admission and discharge occurring during the month, and they are due to DMHAS no later than the tenth day after the end of the month.
- ◆ Monthly Substance Abuse Disorder Treatment Reports - These reports relay the type and quantity of treatment services provided and should be submitted by contractors providing

services for substance use disorders. They are due no later than the seventh day after the end of the month.

- ◆ Daily Census Report for Substance Use Disorder Treatment
- ◆ Monthly Mental Health Community Program Activity Reports (CPAR) – These reports indicate the contractor’s compliance with mental health program performance measures as outlined in the DMHAS contract. They are due within ten days after the end of the month. The data are either directly entered into the CPAR’s system by providers that have online capabilities or are sent to the appropriate State-operated Local Mental Health Authority.

Good business practice dictates that program data supplied by contractors are reviewed periodically to ensure contractor compliance with performance measures. Per the standard Human Service Contract, “required reports will be used for purposes including, but not limited to, determination of the contractor’s compliance with program performance standards, provision of cumulative reports and statistical information pursuant to [Connecticut General Statutes Section] 17a-451(n), and such other routine information as may be required by the department.”

Condition:

During our review of selected contracts at DMHAS, we noted that program report data are not consistently obtained and reviewed by each Regional team of DMHAS’ Division of CSH. In a number of instances, the CPAR data was available only from the Quality Assurance Division rather than from the CSH. This suggests that the CSH program monitors did not have and did not review the data from those reports. Nor was there any evidence that the CICS data was reviewed by the program monitors. The data are evaluated during the Regional Mental Health Boards’ review, which is done annually; however, it should be reviewed periodically to determine compliance with program requirements.

Effect:

DMHAS’ lack of review of the quarterly programmatic reports or data by the program monitors may result in continued funding to an underutilized program. Monies spent to fund programs that continue to not meet outcome measures outlined in the providers’ contracts could be used to expand other programs.

In addition, if such reports are necessary and the contractors are required to provide the data to DMHAS, the Agency should review them and make use of the information. Otherwise, requiring the contractor to supply such information is a misuse of the contractor’s and DMHAS’ resources.

Cause: Per the CSH staff, the CICS and CPAR reporting systems have been under revision. In addition, staff shortages caused the data entry of the CPAR and CICS information to be delayed and, at times, not to be entered at all. These delays in the data being available to program staff may contribute to the reason that the information has not been used for monitoring. However, in most cases if this data is not reviewed, no review of the contractor's compliance with contract requirements is performed. Not until recently, have the CPAR and CICS data been entered into the systems in a timely manner.

Recommendation: Procedures should be implemented to require that quarterly programmatic reports are received in a timely manner and reviewed on a periodic basis to ensure contractor compliance with program measures. DMHAS should maintain a detailed list of reports received and review them on a periodic basis. (*See Recommendation No. 4*)

Agency Response: "CSH does maintain a log to document quarterly report submissions. The log is maintained by the Administrative Assistant of the Director of Programs and Services. Once quarterlies are logged, they are distributed to appropriate regional staff members for review. However, there has not been a process for sending letters to delinquent reporters and there has not been feedback from Team members that documents that they have reviewed the quarterly submission. Effective January 1, 2002, DMHAS will enhance their current system sending late notices to providers and appropriate Team Leaders. In addition, all CSH review teams will complete a quarterly review form that evaluates program compliance with expected standards. The review form will be maintained in each provider file. The form will identify actions to be taken as a result of the review.

DMHAS has already implemented a system that routinely identifies when providers have not submitted monthly SATIS and service data, information that is also used for assessing compliance with program outcomes. A delinquent letter is sent to those providers with a copy to the appropriate Team Leader for follow-up. The letters are attached for your review. Data submissions are reviewed monthly and delinquent letters are sent to all providers who have not complied with that month's reporting requirements. This was implemented in August 2001. This letter is in each provider file."

Item No. 5 Quarterly Fiscal Reporting:

Criteria:

In accordance with Section 17a-478 of the General Statutes, the Commissioner of DMHAS established five health service regions in the State. Section 17a-479 of the General Statutes states that “the purpose of the mental health regions shall be to establish a system of regionalized services for care and treatment of persons with psychiatric disabilities.” In each region, a State-operated Local Mental Health Authority was also established, responsible for performing day-to-day monitoring functions on contracted providers in its service region. These functions include budget, application, and contract assistance and review, as well as, review of quarterly fiscal and programmatic reports.

Pursuant to the Human Service Contract issued by DMHAS, quarterly fiscal reports, in addition to the program reports discussed in Item No. 4, for mental health programs, should be submitted within 30 days after the end of each quarter. The purpose of the fiscal reports is to provide the Department a means to monitor throughout the fiscal year the degree to which the actual income and expenses for each program are consistent with the provider’s budget. The fiscal quarterly report indicates income and expenditures by program per quarter. The PSU developed this report, which is completed by the provider and in many cases submitted electronically. Some providers without online capabilities send their fiscal reports to the State-operated Local Mental Health Authorities. The provider is required to submit a separate report for each program and a consolidated report. The fiscal quarterly reports for the first three quarters are sent directly to the State-operated Local Mental Health Authority. Only the fourth quarter fiscal reports, which are cumulative, are sent to the Purchased Services Unit (PSU) at DMHAS for review. The PSU reviews the provider’s fourth quarter fiscal reports to ascertain if there were budget overruns or unexpended funds for the program for the fiscal year.

Condition:

For the period of our review, the PSU maintained a quarterly fiscal report log that indicated if an entity’s fiscal reports were received. Per PSU staff, when a provider was under the responsibility of a State-operated Local Mental Health Authority, the first three quarter’s data was filled in with “LMHA,” which indicated that the quarterly fiscal report was received by the State-operated Local Mental Health Authority. The actual receipt was not verified with the State-operated Local Mental Health Authority. Therefore, the quarterly fiscal report log, which the PSU uses to monitor the

receipt of quarterly fiscal reports, was not a positive method for assuring that the reports were actually received.

In addition, the quarterly fiscal report log completed by the PSU was not consistently maintained. During our review, we noted that the log was not always completed; in many instances, the data fields for the first three quarters were left blank, which indicated that those reports had not been received. No follow up was done to determine positively if they had been received, or if not, why not.

Effect: Unless the quarterly fiscal reports required by DMHAS are received and reviewed in a timely manner, the financial information becomes meaningless for budget making decisions and for managerial information. Additionally, budget overruns or unexpended funds from the provider's programs may not be recognized, therefore delaying or prohibiting DMHAS from recovering funds.

Cause: The PSU at DMHAS relied on the State-operated Local Mental Health Authority to perform monitoring (i.e. review of quarterly reports) without knowing if the monitoring was performed.

Recommendation: The PSU should implement procedures to ensure that the State-operated Local Mental Health Authorities receive all quarterly fiscal reports. Quarterly contact with each State-operated Local Mental Health Authority to inquire into whether the quarterly fiscal reports were received may prevent continued funding to an entity in non-compliance with program requirements. (See *Recommendation No. 5*)

Agency Response: "The PSU receives from the State operated LMHA's second quarter financial information submitted by the private non-profit providers. A fiscal quarterly log, utilized by the PSU, notes receipt of all required financial information. If the information is not received timely, contact is made with the LMHA's to remind them to submit all necessary financial data and/or to follow-up with the providers who have not submitted their required data. In addition, the LMHA's are aware of the required filing deadlines for submitting financial data since it is a requirement of the DMHAS Human Services contract.

At the end of the third quarterly report review, the PSU can reduce the final payment made within the fiscal year if large unexpended fund amounts are projected. In addition, the PSU also has the ability to recover unexpended funds during the desk review

document its review of the mental health providers to ensure the completeness and effectiveness of the Board's review of an entity. (See Recommendation No. 6)

Agency Response: “The CSH [Office of Community Services and Hospitals] monitoring teams do perform interim reviews of all mental health providers to ensure program compliance with performance measures. Annually a formal contract analysis is completed for all mental health providers. This analysis specifically examines program performance in relation to established benchmarks and measures. This is done in conjunction with PSU. If performance is under expected measures, when contracts are renewed, agencies are placed on review statuses that require the submission of a corrective action plan and subsequent monitoring.

This review is a desk audit but incorporates findings from previous site visits, DPH monitoring visits, and any monitoring performed under the General Assistance contract. The analysis is typically performed during the months of March and April prior to contract renegotiations. The analysis also examines data submissions in order to determine contract compliance. The results of the analysis are documented and available for review.”

Auditor's Concluding Comments:

At the time of our review, data was not available to verify that interim reviews of mental health providers were performed. We reviewed provider files, held discussions with regional team leaders and were unable to obtain data that suggests that interim reviews were performed. If DMHAS has changed its policies and procedures regarding reviews of mental health providers, we will review those policies and procedures during our follow up review.

RECOMMENDATIONS

1. **DMHAS should continue to contact each provider as a reminder that the State Single Audit report is required and due. In addition, return correspondence should be required to ensure that the provider understands the State Single Audit requirement. DMHAS should seek to penalize an entity for not submitting a State Single Audit report and consider a policy in which future funding could be withheld until the State Single Audit requirement has been met.**

Comments:

Compliance with statutory requirements to submit the reports within six months from the close of the fiscal year was not achieved. For maximum usefulness, audit reports need to be received as quickly as possible to allow the State agency to take expedient action, if needed, as regards the current fiscal year assistance agreements. Timely review also assures that corrective action plans have been put into place and that steps to recover any monies that might be due back to the State can be taken. Without the timely receipt and review of audit reports, management is unable to evaluate the financial condition of recipients in a timely manner.

2. **DMHAS should establish and implement procedures to monitor entities that receive in excess of the \$100,000 threshold for State Single Audit requirements, to ensure that all required audit reports are received and reviewed. Efforts to review and identify the individual non-profit agencies that expend less than \$100,000 of DMHAS funds, but more than \$100,000 in total State financial assistance, will be necessary until a system is implemented by the Office of Policy and Management to identify that information.**

Comments:

Procedures should be developed to ensure that all providers whose programs are included in the State Single Audit Compliance Manual have submitted a State Single Audit report if the entity meets the \$100,000 threshold for State expenditures. The Department of Mental Health and Addiction Services staff should review the "Other Governmental Funds" section of the funding application to determine if this additional funding from other State agencies would cause the entity to reach or exceed the \$100,000 State Single Audit threshold.

3. **DMHAS should increase the number of on-site financial monitoring visits it conducts. It is clear from reports of completed "site visits" that the visits are an effective method for monitoring provider's financial operations and for lending assistance to the provider to improve those operations.**

Comments:

Without performing on-site fiscal monitoring of entities that meet the above-mentioned criteria or that are chosen randomly, DMHAS has less assurance that corrective action to findings has been undertaken and that the entities are aware that DMHAS is watchful that its funding is properly used and accounted for.

- 4. Procedures should be implemented to require that quarterly programmatic reports are received in a timely manner and reviewed on a periodic basis to ensure contractor compliance with program measures. DMHAS should maintain a detailed list of reports received and review them on a periodic basis.**

Comments:

DMHAS' lack of review of the quarterly programmatic reports or data by the program monitors may result in continued funding to an underutilized program. Monies spent to fund programs that continue to not meet outcome measures outlined in the providers' contracts could be used to expand other programs. Steps should be taken to ensure timely receipt of the programmatic reports to utilize the data in the most efficient manner possible.

- 5. The PSU should implement procedures to ensure that the State-operated Local Mental Health Authorities receive all quarterly fiscal reports. Quarterly contact with each State-operated Local Mental Health Authority to inquire into whether the quarterly fiscal reports were received may prevent continued funding to an entity in non-compliance with program requirements.**

Comments:

Due to the fact that the Purchased Services Unit relies on the State-operated Local Mental Health Authorities to review the quarterly fiscal reports, the Unit should require the State-operated Local Mental Health Authorities to submit logs of quarterly fiscal reports received.

- 6. DMHAS staff should perform interim reviews of providers' mental health programs to ensure compliance with program measures. In addition, DMHAS should implement procedures to review the Regional Mental Health Board's work papers used to document its review of the mental health providers to ensure the completeness and effectiveness of the Board's review of an entity.**

Comments:

Mental Health programs are not reviewed on an annual basis. The Regional Mental Health Boards review the mental health providers on a two to three year cycle; no interim reviews are performed unless a problem is indicated during the review of reports, and discussions with the State-operated Local Mental Health Authority and the provider. In addition, the Department does not perform a review of Regional Mental Health Boards to ensure completeness of its monitoring visit of the mental health providers.

CONCLUSION

In conclusion, we wish to express our appreciation of the courtesies shown to our representatives during the course of the audit. The assistance and cooperation extended to them by the Department of Mental Health and Addiction Services in making their records readily available and in explaining transactions greatly facilitated the conduct of this examination.

Martha T. O'Leary
Auditor II

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
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