

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010*

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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September 20, 2012

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010

We have examined the financial records of the Department of Mental Health and Addiction Services for the fiscal years ended June 30, 2009 and 2010. 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 to a local mental health authority with some local mental health authorities assigned more than one catchment area. As of June 30, 2010, there were 15 local mental health authorities in effect; eight were state-operated local mental health

authorities and seven were operated by private non-profit organizations. The eight 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) – umbrella unit overseeing:
 - Greater Waterbury Mental Health Authority* – Serves Northern New Haven County.
 - Danbury Mental Health Authority* – Serves Northern Fairfield County.
 - Northwest Mental Health Authority* – Serves Litchfield County.

The seven 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 five facilities, which provide inpatient psychiatric and/or 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 Regional Hospital in Newington and Blue Hills Substance Abuse Division in Hartford
5. Capitol Region Mental Health Center in Hartford

Thomas A Kirk, Jr., Ph.D. served as commissioner of DMHAS until his retirement on July 1, 2009, at which time, he continued to serve as commissioner in a temporary retiree worker position until September 30, 2009. Effective October 1, 2009, Patricia Rehmer served as interim commissioner until October 23, 2009, at which time, she was appointed as commissioner of DMHAS. 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, 2009 and 2010 follows:

	2008 – 2009	2009 – 2010
Rental of Cottages or Residences	\$ 114,011	\$ 106,199
Refunds of Prior Years' Expenditures	258,472	74,507
All Other Revenue	<u>9,236</u>	<u>18,234</u>
Total General Fund Revenue and Receipts	<u>\$ 381,719</u>	<u>\$ 198,940</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, including expenditures of the Psychiatric Security Review Board, for the fiscal years ended June 30, 2009 and 2010 follows:

	2008 – 2009	2009 – 2010
Personal Services	\$302,613,292	\$283,683,000
Contractual Services	42,146,562	42,915,214
Yale University – CMHC Staffing	15,570,729	15,449,680
Commodities	15,584,393	13,322,069
General Assistance Managed Care	80,015,222	81,968,250
Workers' Compensation	11,861,205	12,128,927
Sundry	3,011,385	426,432
State-aid Grants	190,154,371	196,967,096
Equipment and Buildings	<u>22,230</u>	<u>62,995</u>
Total	660,979,389	646,923,663
Disproportionate Share – Budgeted Costs	<u>(77,640,000)</u>	<u>(77,640,000)</u>
Total Budgeted Accounts	<u>\$583,339,389</u>	<u>\$569,283,663</u>

General Fund budgeted expenditures, prior to Medicaid disproportionate share hospital adjustments, totaled \$660,979,389 and \$646,923,663 for the fiscal years ended June 30, 2009 and 2010, 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 fiscal years, disproportionate share adjustment deposits of \$77,640,000 were applied as reductions to DMHAS General Fund budgeted expenditures and \$28,295,000 was credited directly to the State Comptroller's Office accounts for fringe benefit cost recovery on these reimbursements.

During the audited period, the majority of General Fund budgeted expenditures were for personal services, state-aid grants primarily used to fund a community-based network of services, and general assistance medical payments. A net decrease in General Fund expenditures of \$14,055,726 in the 2009-2010 fiscal year was primarily due to a decrease of \$18,930,292 in personal services, offset by other smaller increases. As part of addressing statewide budgetary cutbacks, staffing levels were reduced, resulting in the decrease in personal services. Full-time

positions funded by budgeted accounts were 3,265 and 2,932 as of June 30, 2009 and 2010, respectively.

Special Revenue Fund – Federal and Other Restricted Accounts:

A summary of Federal and Other Restricted Accounts receipts for the fiscal years ended June 30, 2009 and 2010 follows:

	<u>2008 – 2009</u>	<u>2009 – 2010</u>
Federal	\$50,672,123	\$49,127,108
Other than Federal	<u>25,068,859</u>	<u>19,310,512</u>
Total Receipts	<u>\$75,740,982</u>	<u>\$68,437,620</u>

A summary of Federal and Other Restricted Accounts expenditures for the fiscal years ended June 30, 2009 and 2010 follows:

	<u>2008 – 2009</u>			<u>2009 – 2010</u>		
	<u>Total</u>	<u>Federal</u>	<u>Other</u>	<u>Total</u>	<u>Federal</u>	<u>Other</u>
Personal Services	\$ 4,122,153	\$ 1,108,488	\$ 3,013,665	\$ 2,252,804	\$ 857,937	\$ 1,394,867
Contractual Services	25,327,208	20,336,639	4,990,569	20,065,493	17,232,307	2,833,186
Commodities	57,326	45,080	12,246	116,097	15,240	100,857
Sundry	166,697	126,149	40,548	94,172	74,172	20,000
Grants	46,443,335	30,495,621	15,947,714	47,688,087	30,947,751	16,740,336
Equipment	<u>76,063</u>	<u>6,853</u>	<u>69,210</u>	<u>129,459</u>	<u>1,899</u>	<u>127,560</u>
Total	<u>\$76,192,782</u>	<u>\$52,118,830</u>	<u>\$24,073,952</u>	<u>\$70,346,112</u>	<u>\$49,129,306</u>	<u>\$21,216,806</u>

The decrease in total expenditures of \$5,846,670 during the 2009-2010 fiscal year was primarily attributable to decreases of about \$2,900,000 in both federal and other grant funding. Decreases in federal funding were primarily the result of reduced funding from the Department of Health and Human Services for the Connecticut Access to Recovery grant program and the Mental Health Transformation State Incentive grant. Decreases in other grants of about \$2,675,000 were due to a change in the funding of the Shared Population program. Shared Population program funds were received from the Department of Children and Families in the 2008-2009 fiscal year, and were appropriated directly to DMHAS for the 2009-2010 fiscal year. In addition, a decrease of about \$1,732,000 in NCI settlement agreement funding was realized, which provided reimbursements to DMHAS from the Department of Correction for staff performing mental health evaluations in correctional institutions. Reductions from both these programs of about \$4,407,000 were offset by numerous smaller increases received from other private grants.

Special Revenue Funds Expenditures:

Special revenue fund expenditures, excluding Federal and Other Restricted Accounts, totaled \$6,950,538 and \$3,500,829 for the 2008-2009 and 2009-2010 fiscal years, respectively. This

includes expenditures totaling \$91,487 and \$71,725 for DMHAS renovation projects and \$6,160,431 and \$2,959,720 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 Purchase Fund totaling \$698,620 and \$469,384 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			
	2008 – 2009		2009 – 2010	
	<u>Daily</u>	<u>Annual</u>	<u>Daily</u>	<u>Annual</u>
Connecticut Valley Hospital	\$1,396	\$509,540	\$1,236	\$451,140
Connecticut Mental Health Center	1,917	699,705	1,932	705,180
Southwest Connecticut Mental Health System	1,435	523,775	1,452	529,980
Cedarcrest Hospital	1,342	489,830	1,236	451,140

CONDITION OF RECORDS

Our examination of the records of the department disclosed the following matters of concern requiring disclosure and agency attention.

Furlough Leave Time:

Background: In order to reduce the state budget deficit, the state negotiated with its employees to take furlough days. The Office of Labor Relations issued General Notice 09-10, dated May 12, 2009, to provide information on the agreement between the state and the State Employees Bargaining Agent Coalition (SEBAC), and to formalize procedures for taking required furlough days for each bargaining unit.

Criteria: In accordance with the SEBAC agreement, members of the New England Health Care Employees Union District 1199 (District 1199) agreed to a total of seven furlough days, one in the 2008-2009 fiscal year and three days in each of the 2009-2010 and 2010-2011 fiscal years. Part time employees were also required to take furlough days on a pro-rata basis.

For the 2009-2010 and 2010-2011 fiscal years, the biweekly pay was reduced so that the total value of three furlough days was deducted evenly throughout the year. In exchange for this reduction in pay, bargaining unit members could take three days off, to be determined by the appointing authority, without additional loss of compensation in lieu of a voluntary schedule reduction day.

Condition: A review of Core-CT records for District 1199 bargaining unit employees at DMHAS disclosed that some employees had used furlough time in excess of amounts that were deducted from their pay. An exception listing disclosed that there could potentially be 535 employees in the 2009-2010 and 341 employees in the 2010-2011 fiscal years that used furlough leave time in excess of amounts that were deducted from their pay. The department was aware of over usage of furlough time by some employees and, as of September 1, 2011, was in the process of identifying and recovering overpayments.

Effect: Some employees used more furlough time than was deducted from their pay.

Cause: There was a lack of control over the scheduling, approval and monitoring of District 1199 employee furlough day usage.

Recommendation: The Department of Mental Health and Addiction Services should take action to review and recover amounts due from employees for using excessive furlough leave time. (See Recommendation 1.)

Agency Response: “The Department agrees with this comment and has commenced actions to identify and recover amounts due from employees for using excessive furlough leave time. The Department will make all necessary corrections to recover the amounts due by August 1, 2012.”

Falsified Timesheets:

Criteria: Supervisory reviews and approvals of time sheets are key controls to ensure that employees are paid for actual time worked.

Condition: A lieutenant working for the Public Safety Unit at Connecticut Valley Hospital was found to have falsified his timesheets. The department reviewed time sheets during the 2009 and 2010 calendar years, comparing them to police work schedules, computer aided dispatch reports, building card key access reports, training reports, state vehicle logs and weapons logs. The department determined that the lieutenant was overpaid \$31,942. The lieutenant retired effective April 1, 2011 and the matter of falsified time sheets was turned over to the state police. The lieutenant was charged and arraigned on March 15, 2012.

Effect: The lieutenant was overpaid for time not worked, resulting in a loss to the state.

Cause: Timesheets were altered by the lieutenant after they were signed by the police chief and prior to delivery to the payroll unit.

Resolution: The Department of Mental Health and Addiction Services has corrected weaknesses over the handling of public safety timesheets.

Personal Service Agreement Payments:

Criteria: Section 4-89 of the General Statutes states that no officer, department, board, commission, institution or other agency of the state shall, after the close of any fiscal year, incur, or vote or order or approve the incurring of, any obligation or expenditures under any appropriation made by the General Assembly for any fiscal year that had expired at the time the obligation for such expenditure was incurred.

- Condition:* A personal service agreement had been overpaid \$624,122 as of June 30, 2010 and \$1,545,606 as of June 30, 2011. Both of these overpayments were used to reduce contractual payments in the subsequent year.
- Effect:* Overpayments on a personal service agreement at fiscal year end were carried forward to the next fiscal year, resulting in the prior year's appropriations being available for use in the subsequent fiscal year.
- Cause:* DMHAS estimated payments to a nonprofit organization resulting in large balances being carried forward at the end of the fiscal year.
- Recommendation:* The Department of Mental Health and Addiction Services should improve controls over personal service agreements to avoid making excessive overpayments to nonprofit organizations at fiscal year end. (See Recommendation 2.)
- Agency Response:* "DMHAS is reviewing its internal controls for PSA payments and will implement procedures to ensure over payments do not occur. All PSA payments greater than \$250,000 are held at the DMHAS Fiscal Services Bureau and reviewed by central office accountants before payment is processed."

Contracted Psychiatric Services:

- Background:* In calendar year 2008, DMHAS had difficulty hiring psychiatrists and was at risk of losing hospital accreditation due to inadequate medical staffing levels. DMHAS attempted to address staffing needs by using contractual psychiatric service vendors listed on the Department of Administrative Service (DAS) statewide master contract for temporary medical services. We were informed that DMHAS was unsuccessful in using contractual psychiatrists from existing vendors on the statewide contract, which had hourly rates ranging from \$85 to \$140. As a result, DMHAS requested that DAS add additional vendors to the statewide master contract, resulting in two additional vendors being added, including one vendor with an hourly rate of \$275 for psychiatric services.
- Criteria:* DAS statewide contract 07PSX0075 provides for the purchase of professional services on a temporary basis. The contract stipulates that a single position may not be filled for a period of more than six months with temporary staff and that employees who previously retired from state employment may not work at a state agency on behalf of a contractor.

The State Accounting Manual requires that purchase orders be created for all outright purchases of commodities, services and equipment. Section 4-98 of the General Statutes states, in part, that no budgeted agency or agent thereof shall incur any obligation, by order, contract or otherwise, except by the issue of a purchase order.

Conditions:

1. In recent years, DMHAS has been growing increasingly reliant on temporary contractual psychiatrists being paid \$275 per hour to meet their medical staffing needs. The vendor providing these services was selected from DAS' statewide contract for temporary medical services, which provided agencies with the ability to fill positions on a temporary basis, for up to six months.

In November 2008, DMHAS started employing contractual psychiatrists and, as of June 30, 2011, was employing seven individuals; one individual worked 30 consecutive months, three individuals were employed for at least 20 consecutive months, and four were employed for at least ten consecutive months. Contractual payments also increased, totaling \$625,853 for the 2008-2009 fiscal year, \$2,087,663 for the 2009-2010 fiscal year and \$3,280,475 for the 2010-2011 fiscal year.

2. One contractual psychiatrist had retired from state service and was concurrently collecting a state retirement benefit, which appears to be prohibited by the terms of the DAS statewide contract for temporary medical services.
3. DMHAS began employing temporary medical staff in November 2008 and did not prepare a purchase order until January 12, 2009, approximately ten weeks after services commenced.

Effect:

1. & 2. The department was not in compliance with statewide contract conditions. The department was using temporary contractual services for filling full time positions in excess of six months and used the services of a retired employee.
3. State purchasing procedures were not followed.

Cause:

The department was having difficulty hiring psychiatrists.

Recommendation:

The Department of Mental Health and Addiction Services should review their use of temporary medical services. (See Recommendation 3.)

Agency Response: “DMHAS is reviewing its Policies and Procedures related to use of DAS contracts and is adhering to the DAS contract as best as possible while meeting client needs for psychiatrists.

Other activities include:

- a. The services of a law firm were retained to assist with the Visa applications for identified foreign national physician applicants.
- b. Expansion of the Yale Fellowship program at the Connecticut Mental Health Center, utilizing it as an avenue for recruitment.
- c. Exploration of a residency program with the University of Connecticut Medical School utilizing its program as an avenue to recruit new physicians.
- d. Effective March 23, 2012, DMHAS hired a Clinical Recruiter for the Department. The employee’s focus is to research and implement strategies to recruit physicians thereby reducing the need for Locum Tenens physician use.
- e. Regular advertising in professional medical journals continues.”

Cell Phones:

Criteria: General Statutes Section 3-117(c) requires the chief information officer to charge the appropriation of any state agency for telecommunication services without certification that such services were received. However, not later than thirty days following notification to state agencies of such charges, agencies are required to certify to the chief information officer that such services were provided to the agency.

DAS Bureau of Enterprise Systems and Technology (BEST) procedures require agencies to verify monthly billing statements by returning the signed certification sheet and any exceptions within 30 days.

Conditions:

1. A review of cell phone operations disclosed that, during the audited period, none of DMHAS’ constituent units had certified monthly statements to BEST.
2. A review of procedures used by DMHAS’ constituent units to verify cell phone billings disclosed the following exceptions in meeting requirements to verify cell phone bills within the 30 days:

- a. Office of the Commissioner – A review of 30 cell phone bills noted that four were returned late and that three had not been returned.
- b. Connecticut Valley Hospital – A review of 72 cell phone bills noted that 18 were not returned. Of the 54 cell phone bills noted as being returned on the verification tracking log, five forms could not be located and 28 of the 54 cell phone bills were returned from 31 to 76 days late.
- c. Western Connecticut Mental Health Authority – A review of 105 bills noted that 73 were returned from 31 to 76 days late.
- d. Southeastern Mental Health Authority – Verification tracking logs were not being used to identify bills being sent and returned. A check of 50 bills noted that 25 were two to 87 days late.
- e. Connecticut Mental Health Center – Verification of cell phone bills was done on quarterly basis rather than on a monthly basis. A review of billings for the quarter ended June 30, 2010 noted that five out of 64 bills were not returned.
- f. Capitol Region Mental Health Center – Verification of cell phone bills was done on a quarterly basis rather than on a monthly basis.
- g. Southwest Connecticut Mental Health System – As of May 2011, the last cell phone bills that had been verified were for cell phone billings dated September 25, 2009.

Effect: The agency was not in compliance with state procedures and statutory requirements concerning telecommunication services. Weaknesses in verifying cell phone billings increases the risk that abuse and losses can occur without being detected in a timely manner.

Cause: The department was not following state procedures established by BEST. In addition, BEST was not following up on the apparent exceptions of DMHAS not returning required monthly certifications since they never notified the agency of non compliance.

Recommendation: The Department of Mental Health and Addiction Services should comply with state telecommunication procedures for verifying cell phone charges. (See Recommendation 4.)

Agency Response: “Effective immediately monthly telephone statements from BEST will be certified by the DMHAS CFO.

Cell phone invoice review has been strengthened in all facilities as follows: Individual cell invoices are sent out monthly to employees and their supervisors for approval and reimbursement of any

personal calls. (All DMHAS Supervisors receive a memo titled "Supervisor's Role in Review of State Assigned Cellular Device Billing Reports" which assists in this process.) OOC reviews all individual total monthly expenditures department wide and requests explanation for any charges exceeding \$100.00 per month, per phone.

SWCMHS distributed all cell phone invoices to employees for FY10 and FY11 and recouped \$360.00."

Capital Projects:

Criteria:

General Statutes Section 4b-52 permits state agencies to administer repairs, alterations or additions to facilities costing \$500,000 or less with prior approval from the commissioner of the Department of Construction Services (DCS). DCS has issued a Guidelines and Procedures Manual for Agency Administered Projects that includes the following:

1. Approval from DCS must be obtained prior to an agency administering and/or awarding a construction project contract.
2. When applicable, contractors for all projects must submit a certificate of insurance covering public liability and workers' compensation prior to the commencement of work.
3. Copies of change order requests and a copy of the contractor's proposal is required to be submitted to the DCS Special Projects Unit for change orders exceeding \$10,000.
4. A certificate of compliance form is required to be submitted to DCS' Special Projects Unit for completed projects when they exceed \$50,000.
5. DCS requires agencies to submit a request letter for using Department of Administrative Services (DAS) on-call trade contractor services on projects that exceed \$10,000.

Conditions:

A review of six agency administered construction projects disclosed the following:

1. DCS approval was not obtained prior to the start of a project costing \$25,156.
2. Certificates of insurance were not found for two projects.
3. Documentation reporting a change order for \$22,707 to DCS was not found.
4. Two projects costing \$72,425 and \$95,729 did not have certification of compliance.
5. DCS approval to use DAS on-call trade contractors for projects costing over \$10,000 were not found for two contractors.

- Effect:* The agency was not in compliance with DCS' guidelines and procedures.
- Cause:* A lack of managerial oversight appears to have resulted in the noted compliance exceptions.
- Recommendation:* The Department of Mental Health and Addiction Services should improve controls over agency administered projects to ensure compliance with state procedures. (See Recommendation 5.)
- Agency Response:* "The Agency Engineering Department will review all current Department of Construction Services (DCS) Guidelines and Procedures to ensure compliance. DMHAS Engineering will strengthen internal controls for all Agency Administered Projects. These efforts will focus on establishing better internal procedures to make sure required DCS approvals are obtained and documented appropriately. Engineering staff will also improve coordination with DMHAS Fiscal Services Bureau to ensure required Capital Project documents are filed according to state procedures.

Issue of insurance certificates – It is the standard practice of the FSB to always secure insurance certificates. FSB believes the two missing were from projects using the DAS trade contract. In this instance, it was assumed that since this was a DAS contract, DAS had the certificates. FSB discovered that DAS regulations require the using agency to also request certificates from the vendor. FSB has now added this to its procedures."

Segregation of Duties over Fiduciary Funds:

- Background:* DMHAS' constituent units are located throughout the state and provide services for clients. At many locations, fiduciary funds are used to assist clients with cash management services and to hold money in trust.
- Criteria:* The objectives of internal controls are to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that financial transactions are recorded properly.
- Condition:* At many locations, the majority of responsibilities for administering fiduciary funds were primarily conducted by one individual. These included fiduciary funds at the following locations:

1. Western Connecticut Mental Health System – including the Western Connecticut Mental Health Network Client Fund, the Greater Waterbury Mental Health Authority Trustee Fund and the Greater Danbury Mental Health Authority Trustee Fund.
2. Southwest Connecticut Mental Health Network – including the Greater Bridgeport Mental Health Center Client Fund, the Young Adult Services Representation Client Fund, The Young Adult Services Bridges Fund and the F.S. Dubois Center Client Fund.
3. Connecticut Mental Health Center – including the Community Treatment Client Fund and the Representative Payee Client Fund.

We performed extensive work at the Southwest Connecticut Mental Health Network. In addition to the lack of segregation of duties, we noted several internal control weaknesses and other matters in the client cash disbursement process including client budgets that were used as authorization for disbursements to clients that were informal and sloppy; excessive cash on hand for client distribution; no procedure for independent verification of client disbursements made from the client cash on hand; no documentation supporting the amounts requested for checks to be used as cash for clients; no records to adequately support that the cash received from the bank for distribution to clients was actually distributed to the clients; and no reconciliations of the total client account balances per the records to the bank balance.

As previously indicated, the above weaknesses were noted at the Southwest Connecticut Mental Health Network. Since the majority of responsibilities for administering fiduciary funds at the other locations were primarily conducted by one individual, it is possible that these internal control weaknesses and/or others are also present at those locations.

Effect:

A lack of segregation of duties, coupled with weak internal controls or non-existent compensating controls, increases the risk of client funds being misappropriated.

Our review at the Southwest Connecticut Mental Health Network disclosed client cash disbursements which could not be accounted for as well as considerable unexplained differences between the total client account balances per the records and the bank balances.

Cause:

Minimal staff contributed to the condition, as did the lack of adequate internal controls and/or compensating controls.

Client funds at the Southwest Connecticut Mental Health Network were unaccounted for as a direct result of one employee essentially

controlling all of the cash functions in the client money management process and the failure to have compensating controls in place.

Recommendation: The Department of Mental Health and Addiction Services should review its fiduciary fund operations at each of its locations and address the lack of segregation of duties and any other weaknesses in the internal control procedures. (See Recommendation 6.)

Agency Response: “Presently, each DMHAS facility is reviewing their procedures regarding segregation of duties. DMHAS is reviewing fiscal staffing patterns to identify any needed positions in order to improve internal controls where necessary

In addition, the Department’s Audit Division is currently performing a review of the fiduciary funds at the Southwest Connecticut Mental Health System for the purpose of identifying and evaluating its various cash handling procedures and controls.”

Connecticut Valley Hospital Activity Fund:

Criteria: Connecticut Valley Hospital procedures require that cash advances made to hospital wards and other programs be accounted for within 30 days of issuance.

Condition: A test of 54 Activity Fund cash advances totaling \$10,263 made for various programs and activities, disclosed that accountability for 10 advances totaling \$2,250 were submitted between four and 39 days late.

Effect: The agency was not in compliance with its internal control procedures, increasing the risk of loss.

Cause: Individuals responsible for expending funds did not always return an accounting of funds within 30 days as required by agency procedures.

Recommendation: The Department of Mental Health and Addiction Services should improve accountability over program advances made from Connecticut Valley Hospital’s Activity Fund. (See Recommendation 7.)

Agency Response: “In March 2010 a new system for providing funding to various unit programs was implemented and is included with this response. The new system is requisition based and basically disburses funds for specific pre-approved requests. This new system requires an

accounting of advanced monies within five (5) business days and has eliminated large sums of cash advances withdrawn for what typically was a month's worth of activities for each program. Valley Finances will continue to monitor the timeliness of these advances and record when notification of delinquency is delivered to the offending party. It should also be noted that the \$2,250 of the delinquent accounting of the advances although submitted late were, in fact, accounted for."

Records Retention:

Criteria: The records retention/disposition schedule issued by the Connecticut State Library's Office of the Public Records Administrator requires state agencies to retain fiscal records for at least three years or until audited, whichever is later.

Conditions: The following exceptions concerning records retention were encountered:

Fiscal Service Bureau:

1. P-Card journal entry adjustments were not retained and were not available for review.
2. Invoices for two purchases could not be located.

Human Resource Service Bureau:

Employee payroll reimbursement forms (Form CO17XP) could not be located for three payroll reimbursement transactions.

Connecticut Valley Hospital:

A cash receipt book shared by Battell and Woodward Halls could not be located for the period July 1, 2008 through February 8, 2010.

Effect: Without proper documentation, financial account balances and transactions cannot be adequately supported.

Cause: Agency records were not properly retained.

Recommendation: The Department of Mental Health and Addiction Services should improve records retention over fiscal records to ensure they are properly maintained in accordance with state procedures. (See Recommendation 8.)

Agency Response: "CVH: Valley Finance currently uses a log book to track all deposit receipt books. New receipt books are not issue until the old ones are returned.

The used receipt books are then stored in one location to facilitate auditor reviews. It should also be noted that all deposits in the aforementioned missing receipt log were all accounted for.

FSB:

P-Card Journal – Appropriate staff were advised to keep backup documentation .

Invoices for Purchases – FSB receives and process approximately 22,000 invoices per year and two were not located in the requested sample.”

RECOMMENDATIONS

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

Status of Prior Audit Recommendations:

- *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* – The current review of deposits noted no exceptions in the handling of deposits and as a result, this recommendation is not being repeated.
- *The Department of Mental Health and Addiction Services should improve cash management operations for the federal Shelter Plus Care Program* – The department has taken action to improve drawdown of the federal Shelter Plus Care Program, therefore, this recommendation is not being repeated.
- *The Department of Mental Health and Addiction Services should strengthen controls over cell phone operations* – Weakness in verifying cell phone activity continued to exist, therefore, this recommendation is being repeated. (See Recommendation 4.)
- *The Department of Mental Health and Addiction Services should improve accountability over program advances made at Connecticut Valley Hospital* - Delays in accounting for program advances from the Activity Fund were noted in the current review and as a result, this recommendation is being repeated. (See Recommendation 7.)
- *The Department of Mental Health and Addiction Services should improve operations of Connecticut Valley Hospital Patient Account Funds* – The department has made improvements in administering Patient Account Funds so this recommendation is not being repeated.
- *The Department of Mental Health and Addiction Services should improve records retention over fiscal records to ensure they are properly maintained in accordance with state procedures* – Weaknesses in records retention were encountered in the current review and as a result, this recommendation is being repeated. (See Recommendation 8.)

Current Audit Recommendations:

- 1. The Department of Mental Health and Addiction Services should take action to review and recover amounts due from employees for using excessive furlough leave time.**

Comments:

The current review noted that a number of the department's employees had taken furlough leave time in excess of amounts that were deducted from their pay.

- 2. The Department of Mental Health and Addiction Services should improve controls over personal service agreements to avoid making excessive overpayments to nonprofit organizations at fiscal year end.**

Comments:

Large payments were made to a nonprofit organization at fiscal year-end, resulting in these funds being carried forward and used for services in the following fiscal year.

- 3. The Department of Mental Health and Addiction Services should review their use of temporary medical services.**

Comments:

In recent years, the department has been growing increasingly reliant on using temporary contractual psychiatrists to meet their medical staffing needs.

- 4. The Department of Mental Health and Addiction Services should comply with state telecommunication procedures for verifying cell phone charges.**

Comments:

A review of cell phone operations noted that state procedures were not being followed for verifying monthly cell phone bills.

- 5. The Department of Mental Health and Addiction Services should improve controls over agency administered projects to ensure compliance with state procedures.**

Comments:

A review of capital projects noted a number of exceptions in the handling of agency administered capital projects.

- 6. The Department of Mental Health and Addiction Services should review its fiduciary fund operations at each of its locations and address the lack of segregation of duties and any other weaknesses in the internal control procedures.**

Comments:

Our review disclosed that at many DMHAS constituent unit locations the majority of responsibilities for administering fiduciary funds were primarily conducted by one individual and at one of the locations there were several other internal control weaknesses in the client cash disbursement process. Our review also disclosed unaccounted for client funds at one location, which can be attributed to the lack of adequate internal control procedures.

- 7. The Department of Mental Health and Addiction Services should improve accountability over program advances made from Connecticut Valley Hospital's Activity Fund.**

Comments:

There were several instances of delays in accounting for advances made from the Activity Fund.

- 8. The Department of Mental Health and Addiction Services should improve records retention over fiscal records to ensure they are properly maintained in accordance with state procedures.**

Comments:

Several instances were encountered in which fiscal records could not be located.

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, 2009 and 2010. This audit was primarily limited to performing tests of the department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the department are complied with, (2) the financial transactions of the department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the department 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, 2009 and 2010, are included as a 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

Management of the Department of Mental Health and Addiction Services is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants. In planning and performing our audit, we considered the Department of Mental Health and Addiction Services' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Mental Health and Addiction Services' internal control over those control objectives.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department of Mental Health and Addiction Services' financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Department of Mental Health and Addiction Services' financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendations 1 – Administration of furlough days, 4 – Verification of cell phone bills, 6 – Fiduciary funds segregation of duties, 7 – Activity Fund program advances and 8 – Record Retention. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Mental Health and Addiction Services complied with laws, regulations, contracts and grant agreements, 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 department's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters, which we reported to Agency management in the accompanying Condition of Records (and Recommendations) section(s) of this report.

The Department of Mental Health and Addiction Services' response to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Department of Mental Health and Addiction Services' response and, accordingly, we express no opinion on it.

This report is intended for the information and use of department management, 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.



Douglas Stratoudakis
Auditor II

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts