STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF MENTAL HEALTH AND
ADDICTION SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

AUDITORS OF PUBLIC ACCOUNTS

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April 19, 2004

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

We have examined the financial records of the Department of Mental Health and Addiction Services for the fiscal years ended June 30, 2001 and 2002. This report on our examination consists of the Comments, Recommendations and Certification which follow.

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

COMMENTS

FOREWORD:

The Department of Mental Health and Addiction Services (DMHAS) operates under Title 17a, Chapters 319i and 319j and Sections 17a-450 through 17a-715 of the General Statutes. DMHAS's 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 Division of Community Services and Hospitals (CSH). The CSH oversees all State-operated and DMHAS funded mental health and addiction services. Under CSH, the State is divided into 23 catchment areas for the purposes of administering mental health services. Each catchment area is assigned a Local Mental Health Authority with some Local Mental Health Authorities assigned more than one catchment area. As of June 30, 2002, there were 15 Local Mental Health Authorities in effect; six are State-operated Local Mental Health Authorities and nine are operated by private non-profit organizations. The six State Local Mental Health Authorities listed below provide mental health services as well as manage and fund a network of non-profit agencies in their geographic region.

Capitol Region Mental Health Center (Hartford) – Serves the Hartford area.
Connecticut Mental Health Center (New Haven) – Serves the New Haven area.
River Valley Services (Middletown) – Serves Middlesex County.
Southwest Connecticut Mental Health System (Bridgeport) – Serves lower Fairfield County.
Southeastern Mental Health Authority (Norwich) – Serves New London County.
Western Connecticut Mental Health Network (Waterbury) – Serves Litchfield County and northern New Haven and Fairfield Counties.

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

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

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

Thomas A Kirk, Jr., Ph.D. continued to serve as Commissioner of DHMAS during the audited period. Under the provisions of Sections 17a-456 and 17a-457 of the General Statutes, a Board of Mental Health and Addiction Services assists the Commissioner by reviewing and advising on DMHAS programs, policies and plans. Effective October 1, 2000, Public Act 00-101 increased the number of board members appointed by the Governor from 15 to 19 members. This Public Act also increased board membership from the five regional mental health boards and the five substance abuse regional planning and action councils from 15 to 30 members for a total of 49 board members.

RÉSUMÉ OF OPERATIONS:

General Fund Revenues and Receipts:

A summary of General Fund revenues and receipts for the fiscal years ended June 30, 2001 and 2002 follows:

	2000 - 2001	2001 - 2002
Restricted contributions, Federal	$ 36,238,558	$ 43,019,971
Restricted contributions, other than Federal	4,898,848	9,418,325
Refunds of prior years' expenditures	1,098,936	882,887
Refunds of current year expenditures	1,346,689	853,531
All other revenue	260,922	256,993
Total	43,843,953	54,431,707
Disproportionate Share	151,000,000	105,935,000
Total General Fund Revenues and Receipts	$194,843,953	$160,366,707

During the audited period, General Fund receipts consisted primarily of Federal and private grants, refunds of expenditures for workers' compensation, and Federal Medicaid disproportionate share hospital payment adjustments. Decreases of $34,477,246 in receipts during the 2001-2002 fiscal year were due primarily to a $45,650,000 decrease in Federal disproportionate share, which was partially offset by increases in Federal and private grants.

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

General Fund Expenditures:

A summary of General Fund expenditures for the fiscal years ended June 30, 2001 and 2002 follows:

	2000 - 2001	**2001 - 2002**
Personal services	$220,623,434	$238,114,294
Contractual services	31,867,216	31,859,143
Yale University - CMHC staffing	8,967,572	9,097,134
Commodities	14,853,400	15,158,707
Sundry charges:		
General Assistance	65,502,117	58,150,038
Workers' compensation	7,144,709	5,833,352
Other	16,029,933	25,913,847
State-aid-grants	103,423,947	105,835,559
Equipment and buildings	95,458	27,667
Total	468,507,786	489,989,741
Disproportionate share	(112,640,000)	(77,640,000)
Federal indirect cost – CMHC	(430,292)	(416,029)
Total Budgeted	355,437,494	411,933,712
Restricted Contribution Accounts:		
Disproportionate share - budgeted	112,640,000	77,640,000
Disproportionate share - fringe benefits	38,360,000	28,295,000
Private accounts	3,880,171	10,444,403
Federal accounts	33,689,211	40,557,412
Total Expenditures	$544,006,876	$568,870,527

General Fund budgeted expenditures, prior to disproportionate share adjustments, totaled $468,507,786 and $489,989,741 for the fiscal years ended June 30, 2001 and 2002, respectively. The majority of these costs were for personal services, State-aid grants primarily used to fund a community-based network of services, and General Assistance medical payments. The increase of $21,481,955, in the 2001-2002 fiscal year, was primarily due to personal services as a result of collective bargaining and other salary adjustments. There were 3,398 and 3,420 full-time positions funded by budgeted accounts at June 30, 2001 and 2002, respectively.

Special Revenue Funds Expenditures:

Special Revenue Funds expenditures totaled $3,814,007 and $4,250,495 for the 2000-2001 and 2001-2002 fiscal years, respectively. This includes expenditures totaling $1,578,558 and $1,863,161 for renovation projects at Connecticut Valley Hospital and $387,889 and $725,755 for grants to the Department's private providers for acquisition and improvement of facilities during the respective audited years.

The Department purchased equipment through the Capital Equipment Purchases (1872) Fund totaling $1,847,560 and $1,661,579 during the 2000-2001 and 2001-2002 fiscal years, respectively.

Per Capita Costs and Bureau of Collection Services Receipts:

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

	Per Capita Costs - In-Residence			
	2000 - 2001		2001 - 2002	
	Daily	Annual	Daily	Annual
	$	$	$	$
Connecticut Valley Hospital	776	283,240	830	302,950
Connecticut Mental Health Center	1,339	488,735	1,337	488,005
Southwest Connecticut Mental Health System	1,132	413,180	1,179	430,335
Cedarcrest Hospital	852	310,980	895	326,675

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

	2000 - 2001	2001 - 2002
Cash Receipts	$ 5,161,010	Collection
Title XIX Billings	5,442,216	amounts no
Totals	$10,603,226	longer available

Subsequent to the 2000-2001 fiscal year, the Bureau of Collection Services changed it reporting format, which no longer reports collection activity by Agency thereby making this information unavailable.

The cash receipts shown above consisted of the Bureau's collection from legally liable relatives or third parties. The Title XIX billings represent the Bureau's billings to the Department of Social Services for the value of services provided to patients under the Medicaid program of the Social Security Act and only one-half of it represents potential reimbursement from the Federal government. (The Bureau "bills" the Department of Social Services monthly for the value of such services. Upon receipt of such "bills", that Department recovers approximately 50 percent of the amount from its appropriate Federal account and credits it to the State's General Fund as revenue).

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

Program Evaluation:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. During July 1992, Congress enacted P.L.102-321 in an effort to decrease the use of tobacco products by minors under the age of 18. In January 1996, the Federal government issued the Synar Amendment, which detailed compliance requirements for States to follow in restricting access to and the use of tobacco products by minors. A major component of these regulations was a requirement to conduct random, unannounced inspections of retail outlets as part of a program to ensure a purchase violation rate of less than 20 percent. Accordingly, we have decided to perform a program evaluation on DMHAS's compliance with Federal tobacco enforcement compliance requirements.

Historically in Connecticut, under the provisions of Section 53-344 of the General Statutes, it is a crime against public policy for individuals to sell, give or deliver tobacco in any form to minors. Several modifications had been made to this Statute over time that included Public Act 87-374, which increased the tobacco purchase age from 16 to 18, and Public Act 92-66, which increased the fine limit from $25 to $50. Though the sale of tobacco products to minors is a crime against public policy, enforcement activity and arrests concerning this crime were rarely done until the Synar Amendment emphasized the need to improve enforcement. As part of improving enforcement activity, Public Act 96-240, effective June 6, 1996, amended Section 53-344 by increasing fines that could be assessed up to a $200 limit for a first offense, up to $350 for a second offense, and up to $500 for each subsequent violation within an 18-month period.

In addition to increasing fines under crimes against public policy statutes, provisions of Public Act 96-240, effective July 1, 1997, established Section 12-295a of the General Statutes, which gave the Commissioner of Revenue Services authority to assess civil penalties on dealers or distributors and their employees for selling, giving or delivering tobacco products to minors. Under Section 12-295a of the General Statutes, employees of dealers and distributors of tobacco products are assessed penalties of $100 for a first violation and $150 for a second or subsequent violation within 18-months. In addition, dealers or distributors are assessed a civil penalty of $250 for the first violation and $500 for a second violation within 18 months. For a third violation within 18-months, dealers and distributors are assessed a civil penalty of $500 and their license is suspended for not less than 30 days.

During 1996 DMHAS, in conjunction with the Department of Revenue Services and law enforcement personnel, implemented an inspection program to randomly test outlets as part of the State's plan to achieve compliance with Federal Synar Amendment requirements. The Federal Center for Substance Abuse Prevention allowed DMHAS five years to achieve a buy rate (the percentage of retailers willing to sell tobacco products to underage youth) of no more than 20 percent. Federal regulations also provide for possible sanctions for States failing to meet and maintain a 20 percent buy rate through the reduction of Substance Abuse Prevention and Treatment (SAPT) Block Grant funding. Non-compliance could result in a 10 percent annual reduction in SAPT funding for each year of non-compliance up to a 40 percent maximum. Connecticut receives approximately $17 million annually in SAPT Grant funding.

Annually, DMHAS's Tobacco Compliance Unit randomly selects approximately 750 cigarette dealers for compliance checks. Since implementation of DMHAS's compliance program, the overall buy rate for tobacco products by minors has decreased as follows:

Fiscal Year Ended June 30,	Buy Rate
1997	59%
1998	35%
1999	17%
2000	18%
2001	13%
2002	12%

As detailed by the statistical information above, the DMHAS Tobacco Enforcement Program has been highly successful in significantly reducing tobacco buy rates and meeting Federal compliance mandates in a timely manner. However, during the course of our review, Tobacco Compliance Enforcement staff expressed concerns about three of the Unit's five investigators being laid off during the 2002-2003 fiscal year, as a result of the State's budgetary problems. Staff reductions have resulted in decreased enforcement activity and could result in the State not meeting the Federal mandate of a 20 percent buy rate. We suggest that DMHAS continue to monitor its Tobacco Enforcement Program and make applicable changes if required to assure continued success with Federal compliance requirements.

CONDITION OF RECORDS

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

Cash Receipts:

Criteria: Section 4-32 of the General Statutes requires that each State department account for and deposit within 24 hours, any receipts totaling $500 or more. The Comptroller's State Accounting Manual requires agencies to keep a receipts journal that indicates the date of receipt.

Conditions:

1. Cedarcrest Hospital – The testing of 55 meal ticket sales totaling $1,550 disclosed that all 55 receipts were deposited from one to 43 days late.
2. Southwest Connecticut Mental Health System, Greater Bridgeport Mental Health Center – The testing of ten Activity Fund receipts totaling $7,031 disclosed that six receipts totaling $3,610, for Sunrise Café operations, were deposited from one to 12 days late. In addition, cash register tapes for Sunrise Café operations could not be found for the time period May 15, 2002 to August 27, 2002. For Client Fund operations, a log was not maintained to record the initial receipt of clients' funds. However, since receipts are issued to clients for cash received, we were able to determine that $15 in cash, out of $16,968 in transactions tested, was deposited eight days late.
3. Southwest Connecticut Mental Health System, F.S. Dubois Center – The cash receipts log used to record the initial receipt of client funds was not properly maintained. Our testing of ten deposits disclosed that the initial receipt of seven transactions could not be determined from receipt log records.
4. Southeastern Mental Health Authority – Testing of Activity Fund cash receipts for the 2001-2002 fiscal year disclosed that the initial recording of receipts was not done for 17 out of 43 receipts tested.

Effect: Agency receipts were not deposited in a timely manner as required by Section 4-32 of the General Statutes and incomplete receipts records are in violation of State Comptroller's requirements.

Cause: Late deposits, lost cash register tapes and the unrecorded initial receipt of transactions were the result of the Agency's failure to establish or maintain adequate operating procedures for handling cash receipts.

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

Agency Response: "Cedarcrest Hospital – Responsibility for timely deposit of meal ticket receipts have now been assigned to one employee. Receipts totaling $500 or more are now deposited within 24 hours as required by statute.

Southwest Connecticut Mental Health System (SWCMHS) – Due to layoffs incurred during FY 2003, the Sunrise Café was closed. Therefore, issues relating to timely deposits for Café operations will no longer be applicable.

For client fund operations, all checks are copied, date-stamped and filed on the day they are received. When the checks are deposited at the bank a copy of the bank deposit slip is attached to the check photocopies evidencing timely deposit.

In our opinion, these procedures appear to be adequate in lieu of maintaining a separate cash receipts log or journal. However, to address your office's concern raised in this finding, we will seek permission from the Comptroller's Office to waive the requirement of maintaining a separate receipts log or journal.

Southeastern Mental Health Authority (SMHA) – The business office manager transitioned to a new position. The new office manager was not immediately aware of this specific cash handling function upon assuming these duties. This procedure was brought to the attention of the new manager who immediately implemented same."

Cash Management – Federal Shelter Plus Care Program:

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

Condition: During the 2001-2002 fiscal year, large grant receivable balances were maintained for the Federal Shelter Plus Care Program. Grant receivable balances generally exceeded $1,500,000 throughout the fiscal year and, for a short period of time, had exceeded $3,000,000.

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

Cause: Reporting errors for program components in past drawdowns resulted in Federal funds not being available for some programs. During the 2001-2002 fiscal year, a large portion of cash management activity was devoted to correcting drawdown reporting errors so that drawdowns could be resumed in a timely manner.

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

Agency Response: "The drawdown inefficiencies noted in this finding have now been addressed. As a result, drawdown of HUD dollars are now timely processed and received."

Payroll and Personnel:

Criteria: Agency procedures require timesheets, leave time request and change forms to be signed by the employee and approved by a supervisor.

Conditions: Our test check of 80 payroll transactions disclosed:

1. 29 timesheets were not properly signed. Employees and their supervisors did not sign 21 of these timesheets, 20 of which were submitted by Connecticut Valley Hospital nursing programs. The remaining nine exceptions included seven timesheets that were signed by employees only and two that were signed by supervisors only.
2. Leave time authorization forms were not found in eight instances. Supervisor approval was missing for one leave form.
3. Five timesheet change forms were missing employee signatures. A sixth timesheet change form was missing both the employee and supervisor signatures.

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

Cause: Due to time constraints, the Centralized Payroll Unit processed transactions even though attendance records may not have been properly signed. Adequate follow-up on these exceptions was generally not conducted.

Recommendation: Controls should be strengthened to ensure that attendance records are signed by employees and approved by supervisors. (Recommendation 3.)

Agency Response: "Connecticut Valley Hospital has instituted policies of having copies of time sheets maintained in the nursing support areas that are signed by the employee and supervisor. In addition, periodic internal reviews note, on occasion, some inconsistencies in the application of this policy. Reminders are periodically issued to all Division Directors reinforcing compliance with these procedures. These procedures will be modified upon transitioning to the new statewide payroll system."

Funding of Work-Related Activities:

Criteria: Policies and procedures should be in place to provide guidance for DMHAS and its constituent units regarding to what extent social and work-related functions and events should be supported.

Conditions:

1. During the audited period, the Capitol Region Mental Health Center paid for the following social and work-related functions:
   a. Catering costs of $1,039 were expended for two annual managerial Christmas parties held at a manager's home.
   b. Floral arrangements totaling $795 were purchased for employees who lost a close family member.
2. DMHAS has over 3,000 full-time employees who work within an operating environment that includes nine major operating units. These operating units are given a high level of autonomy concerning their operations including what social and work-related events to sponsor. By our observations, we noted that practices and the level of funding for such activities could vary widely among these units.

Effect: Without guidelines, risk that expenditures are made for questionable or inappropriate activities increases.

Cause: Policies and procedures have not been established to address what social and work-related events and functions are appropriate to fund.

Recommendation: The Department of Mental Health and Addiction Services should establish policies and procedures addressing what social and work-related functions and events are appropriate to fund. (See Recommendation 4.)

Agency Response: "Capitol Region Mental Health Center will no longer approve these expenditures. Parameters under which these expenditures are allowable will be developed."

Petty Cash Fund:

Criteria: The Comptroller's State Accounting Manual (SAM) guidelines for petty cash funds provide that employees receiving cash advances for travel expenses must submit an employee travel reimbursement form within five working days after returning from travel.

Condition: A test of 20 travel advances totaling $12,046 disclosed that reimbursement forms for nine transactions totaling $4,227 were submitted by employees four to 90 days late.

Effect: The Agency was not in compliance with SAM requirements.

Cause: There were weaknesses in oversight over petty cash travel advances.

Recommendation: The Office of the Commissioner should strengthen controls over petty cash funds. (See Recommendation 5.)

Agency Response: "It is the practice of the business office to issue reminders to those employees who are late in filing their travel documentation. This communication (via written memo and telephone) reminds the employees to submit in a timely fashion their travel advance documentation."

Petty Cash – Tobacco Compliance Unit:

Criteria:	The Comptroller's State Accounting Manual requires that a journal or register be used to record petty cash transactions and that disbursements be appropriately documented.
Condition:	From June 1999 through August 2002, approximately $19,000 in petty cash funds was disbursed for purchasing tobacco products as part of compliance testing. During this time period, our analysis of Agency records disclosed that outstanding cash advances totaling $1,821 were not supported by valid tobacco purchase reports.
Effect:	Supporting documentation for expenditures totaling $1,821 was not obtained. This matter was reported to the Governor and other State Officials on February 24, 2003.
Cause:	Controls and accountability over tobacco compliance petty cash funds were weak. Cash advances were made when previous advances were not completely accounted for.
Recommendation:	Controls should be strengthened over tobacco compliance petty cash funds to ensure that expenditure transactions are adequately documented. (See Recommendation 6.)
Agency Response:	"Procedures for: 1) disbursing funds for the purchase of tobacco products and 2) handling and control over tobacco products have been revised. The fiscal division is now responsible for disbursing and accounting for all cash disbursements to tobacco investigators. All tobacco products are presented to and accounted for by the tobacco staff supervisor. In addition, the supervisor is responsible for the initial accounting of all funds spent by each investigator prior to any additional disbursement by the fiscal unit of tobacco funds."

Indirect Cost Recoveries – Connecticut Mental Health Center:

Background:	The Connecticut Mental Health Center (CMHC) is a cooperative operation between the State of Connecticut and Yale University. The State provides for CMHC facility and support staff costs. Professional staff is provided primarily by Yale University with such costs being reimbursed by the State under the Yale Staffing Contract. Yale University is allowed to use CMHC facilities and staff for their own operations such as Federal grants or private services such as drug testing.

When Yale University recovers indirect costs, they are required to forward to the State, its share of such recoveries attributable to using State resources.

Criteria: Section 3-2 of the State Comptroller's Indirect Cost and Fringe Benefit Recovery Manual states, "In those instances where the indirect cost recovery is made by a direct deposit, Form CO-39, or on a Transfer Certificate, Form CO-607, the revenue MUST be credited to Standard Account 94060, Indirect Overhead – Federal and Other Projects."

Condition: During the audited period, indirect costs received from Yale University for using CMHC resources were coded as refund of current year expenditures (99010). Indirect costs that were coded as refund of current year expenditures amounted to $430,292 and $416,029 during the fiscal years ended June 30, 2001 and 2002, respectively.

Effect: By coding indirect cost recoveries as refund of current year expenditures, CMHC provided a mechanism to spend the indirect costs received from Yale University. State procedures require indirect cost recoveries to be credited to the General Fund, therefore, making them unavailable for Agency use.

Cause: Effective with the 2000-2001 fiscal year, CMHC began to deposit indirect cost recoveries received from Yale on a monthly basis as refund of expenditures so that these amounts would be available to be expended by CMHC.

Recommendation: The Department of Mental Health and Addiction Services should deposit indirect cost recoveries to the General Fund in accordance with State Procedures. (See Recommendation 7.)

Agency Response: "The Department has formally requested, from the Office of Policy and Management and the Office of the Comptroller, permission to code reimbursement of indirect costs received from Yale University as refunds of current year expenditures. Responses are pending from both agencies."

Property Control:

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

Conditions:

1. Office of the Commissioner – Electronic data processing equipment costing $441,079, for the Office of Commissioner and constituent units, was recorded at $331,237 (net of $109,842 in equipment traded in) and as one item on the inventory records. Approximately 93 capitalizable equipment items from this purchase were not individually identified on inventory records and equipment traded in was not properly removed from inventory records. A physical test check of equipment disclosed numerous instances where inventory records did not accurately show an item's location, including five computers that could not be located, and one computer that was disposed of but not removed from inventory. We also continued to find that a central computer software inventory was not maintained.
2. Southwest Connecticut Mental Health System – Documentation was not maintained to support the July 1, 1999 balance for site improvements of $24,500. Five purchases totaling $8,232 were not posted to inventory records and annual physical inventories were not taken during the audited period.
3. Connecticut Valley Hospital – As noted in previous audits, we continued to find property control records to be incomplete, including the accountability of equipment transferred several years ago as a result of the closing of Fairfield Hills and Norwich Hospital facilities.
4. Capitol Region Mental Health Center – Site improvements were understated by $129,449 as result of the cost of $90,304 for a new generator not being recorded and the cost of a roof replacement of $311,445 being understated by $36,983. Additions to the equipment account for the 2000-2001 fiscal year were understated by $784 as a result of seven computers that were recorded at a cost of $1,200 instead of their actual cost of $1,312.
5. River Valley Services – A physical test check of 25 items valued at $21,121 disclosed several exceptions. An older computer and printer originally valued at $1,339 could not be located. A second printer valued at $450 had been scrapped but never removed from inventory and an older computer valued at $1,329 was disposed of without authorization. A review of purchases disclosed that a software program costing $659 was not added to the software inventory records and that, in the 2001-2002 fiscal year, equipment postings to subsidiary records were understated by $550.

6. Connecticut Mental Health Center – Records were not maintained to support site improvements of $340,112. A physical test check of 13 equipment items valued at $50,863 disclosed that four items costing $6,916 could not be located.

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

Cause: A lack of oversight and training contributed to property control weaknesses.

Recommendation: Controls over equipment inventory and reporting should be improved. (See Recommendation 8.)

Agency Response: "Office of the Commissioner – Inventory records will be corrected to show the proper tagging for each item approximating the cost of $441,079 and location of the items purchased on the inventory records. The computer equipment disposed will be removed from the inventory records. Software inventory records were created in FY 2004.

Southwest Connecticut Mental Health System (SWCMHS) – Efforts are underway to obtain documentation from the Department's Engineering Services Division to substantiate the site improvement purchases of $24,500. The five items mentioned in the findings have now been properly recorded in the inventory records. Physical inventory was completed subsequent to 6/30/02 and will be done on an annual basis.

Connecticut Valley Hospital (CVH) – CVH has recorded on its books, the value of equipment transferred from both Norwich and Fairfield Hills Hospitals that were put into service at the hospital. Inventory records have been corrected to reflect only those assets on hand. Those corrections included: data entry errors; items maintained on the records that were ultimately sent to surplus; and incomplete record-keeping. The records were corrected and are now properly maintained utilizing an electronic spreadsheet database.

Capitol Region Mental Health Center – The CO-59 for the period ending June 30, 2003 includes all expenditures. CRMHC has implemented the procedure to verify capital improvements with Engineering Services to ensure that all capital improvements have been included in the report. Additional attention to the actual price of purchases awarded through the bid process has been implemented.

River Valley Services – For the older computer and printer equipment valued at $1,339 and an individual printer valued at $450, they have been removed from our inventory records with authorization. For the older computer valued at $1,329, we will request a Certificate of Destruction to properly account for the removal of this equipment from our records. Due to an oversight, this software was not added to our inventory upon initial receipt. However, this has been corrected. In addition, the records have been corrected to properly record the understatement of $550 worth of computer equipment.

Connecticut Mental Health Center – The site improvement amount of $340,112 was recorded on a prior years GAAP report, in error. We have requested permission from the State Comptroller's Office to remove this dollar amount from our records. Their response is pending.

For the four computer items that could not be located, three of the items were discarded. The other item was Yale University computer equipment that was tagged as "State" property, in error. Therefore, this item would not and should not be part of CMHC's business office equipment."

RECOMMENDATIONS

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

Status of Prior Audit Recommendations:

- *The Department of Mental Health and Addiction Services Audit Unit should be independent from Agency officials responsible for managing Agency financial operations* – The Department has established an audit committee addressing audit independence concerns of this finding. This recommendation has been resolved.

- *Controls over equipment inventory and reporting should be improved* – Property control weaknesses were encountered in the current review, therefore, this recommendation is being repeated. (See Recommendation 8.)

- *Fiduciary fund operations should be improved* – Since the Agency has made improvements in fiduciary fund operations, this recommendation is considered resolved.

- *The Department of Mental Health an Addiction Services should conform with the Comptroller's State Accounting Manual guidelines by improving controls over petty cash* – Our current examination noted that even though petty cash fund operations were improved at some locations, weaknesses were encountered at the Office of the Commissioner. Therefore, this recommendation has been modified and repeated. (See Recommendation 5.)

- *The Department of Mental Health and Addiction Services should improve its controls and oversight over expenditures and use competitive bidding whenever possible* – The agency has made improvements in its oversight over expenditures, therefore, this recommendation is considered resolved.

- *The Department of Mental Health and Addiction Services should ensure that attendance records are properly approved* – Due to payroll weaknesses noted during our current examination, this recommendation is being repeated. (See Recommendation 3.)

- *The Department of Mental Health and Addiction Services should ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes* – Weaknesses in the handling of cash receipts were encountered in our current review, therefore, this recommendation is being repeated. (See Recommendation 1.)

- *The Department of Mental Health and Addiction Services should ensure that reconciliations of it records are performed on a timely basis and documented* – Since improvements have been made in bank reconciliations, this recommendation is considered resolved.

- *The Department of Mental Health and Addiction Services should ensure that its employees adhere to the Statewide Cellular Telephone Policy by minimizing the personal use of State cellular phones* – Controls over cellular telephone operations were improved, therefore, this recommendation is considered resolved.

Current Audit Recommendations:

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

   Comments:

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

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

   Comments:

   During the 2001-2002 fiscal year, Federal grant drawdown inefficiencies resulted in grants receivable balances generally exceeding $1,500,000 and, for a short period of time, in excess of $3,000,000.

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

   Comments:

   A review of payroll and personnel records noted numerous instances of timesheets, leave authorization and change order forms that were not signed by employees or supervisors.

4. **The Department of Mental Health and Addiction Services should establish policies and procedures addressing what social and work-related functions and events are appropriate to fund.**

Comments:

Testing of expenditures at the Capitol Region Mental Health Center disclosed that State funds were used to cater managerial Christmas parties held at a manager's home and for floral arrangements for employees who lost a close family member.

5. The Office of the Commissioner should strengthen controls over petty cash funds.

Comments:

Our examination noted untimely petty cash bank reconciliations and that travel advances were not being accounted for within five days of employees returning from travel.

6. Controls should be strengthened over tobacco compliance petty cash funds to ensure that expenditure transactions are adequately documented.

Comments:

An examination of tobacco compliance petty cash funds noted that cash advances totaling $1,821, were not supported by valid tobacco purchase reports.

7. The Department of Mental Health and Addiction Services should deposit indirect cost recoveries to the General Fund in accordance with State Procedures.

Comments:

Indirect cost recoveries received by the Connecticut Mental Health Center from Yale University, were coded as refund of expenditures. This practice differs from State Comptroller's instructions that require that such receipts be coded to a revenue account.

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

Comments:

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

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, 2001 and 2002. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Mental Health and Addiction Services for the fiscal years ended June 30, 2001 and 2002, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

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

- cash receipt weaknesses
- payroll and personnel weaknesses
- inadequate property control

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

- payroll and personnel weaknesses
- inadequate property control

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

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

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

Anthony Turko
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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