



**New Jersey State Legislature
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Office of the State Auditor**

**Department of Human Services
Division of Mental Health Services
Senator Garrett W. Hagedorn
Psychiatric Hospital**

July 1, 2004 to April 30, 2007

**Richard L. Fair
State Auditor**

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Enclosed is our report on the audit of the Department of Human Services, Division of Mental Health Services, Senator Garrett W. Hagedorn Psychiatric Hospital for the period of July 1, 2004 to April 30, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
Assistant State Auditor
September 28, 2007

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**Department of Human Services
Division of Mental Health Services
Senator Garrett W. Hagedorn Psychiatric Hospital**

Scope

We have completed an audit of the Department of Human Services, Division of Mental Health Services, Senator Garrett W. Hagedorn Psychiatric Hospital for the period July 1, 2004 to April 30, 2007. Our audit included financial activities accounted for in the state's General Fund.

Fiscal year 2006 expenditures and revenues for the hospital were \$36.5 million and \$15.8 million, respectively. The Senator Garrett W. Hagedorn Psychiatric Hospital is a 288 bed psychiatric hospital serving a designated New Jersey population. The hospital is an accredited health care facility, one of five state psychiatric hospitals governed by the State of New Jersey, Division of Mental Health Services. Located on approximately 600 acres in Glen Gardner, the hospital provides quality 24 hour comprehensive psychiatric services for patients 18 and older.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the hospital's programs, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Office of Management and Budget, and policies of the hospital. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of

financial transactions. We also read the budget message, reviewed financial trends, and interviewed hospital personnel to obtain an understanding of the programs and internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were randomly and judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing were related to the hospital's programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with the Department of the Treasury regulations meriting management's attention.

Pension Bases

Certain pension salary bases are overstated.

Doctors and nursing supervisors are paid cash overtime as an extra compensation for shift coverage. For doctors, this coverage is also called Medical Officer of the Day (MOD). We have found inconsistencies when reporting overtime toward the calculation of employee pension salary bases for doctors and nursing supervisors at the five state psychiatric hospitals. As noted in the following chart, when comparing two doctor's compensation for calendar year 2006, these inconsistencies can have a significant impact on an employee's pension base.

<u>Hospital</u>	<u>Regular Salary</u>	<u>Reported Overtime</u>	<u>Pension Base</u>
Doctor at Hagedorn Psychiatric	\$158,000	\$119,000	\$277,000
Doctor at Trenton Psychiatric	\$158,000	\$105,000	\$158,000

Senator Garrett W. Hagedorn Psychiatric and Ann Klein Forensic Center hospitals add MOD overtime to regular salary in determining the pension salary, whereas Ancora Psychiatric, Greystone Park Psychiatric, and Trenton Psychiatric hospitals do not add MOD overtime. For calendar year 2006, this additional compensation ranged from \$1,000 to \$119,000 for 18 doctors at Senator Garrett W. Hagedorn Psychiatric and Ann Klein Forensic Center hospitals. In addition, Hagedorn is the only hospital that adds "overtime" to nursing supervisor compensation in determining the pension base. For calendar year 2006, this additional compensation ranged from \$2,000 to \$10,000 for five nursing supervisors at Hagedorn.

Hagedorn and Ann Klein Forensic hospitals record additional pension bases to salaries by utilizing special service titles on supplemental payrolls for these doctors and nursing supervisors.

According to N.J.A.C. 17:2-4.1, "compensation... shall be limited to base salary, and shall not include extra compensation...extra compensation means individual salary adjustments which are granted primarily in anticipation of a member's retirement or as additional remuneration for performing temporary duties beyond the regular workday or work year." Further analysis of all 87,000 state employees on the master payroll as of April 2007 did not reveal significant prohibitive overtime towards employee pension bases. We informed the Division of Pensions and Benefits and the Board of Trustees of the Public Employees Retirement System of these discrepancies. The Board of Trustees of the Public Employees Retirement System rendered a decision on June 20, 2007 that MOD earnings are not creditable compensation toward the calculation of employee pension salary bases. The Division of Pensions and Benefits is in the process of reviewing pension bases for nursing supervisors.

Recommendation

We recommend that the hospital comply with the ruling of the Board of Trustees of the Public Employees Retirement System in regards to pension based salaries for doctors and supervising nurses.

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Purchase Orders

The Management Acquisition Comprehensive System Enhancement (MACSE), is the state's purchasing system that electronically records all purchase order transactions and information such as descriptions of purchase items, general ledger account charges, payments against purchase orders, and shipment destinations.

Shipping destinations on hospital purchases were altered.

Our test of fiscal years 2005 and 2006 capital asset purchases disclosed 40 purchase orders that were altered by placing adhesive mailing labels over the purchase order original "ship to" headers. These purchased items, primarily computer related equipment, were shipped to other state psychiatric hospitals and the division's central office. The business office staff was directed by the division's fiscal management to alter these purchase order documents and also to maintain a separate off-line record of these expenditures and related available appropriation balances for the remaining state psychiatric hospitals and the division's central office. As of May 15, 2007, \$725,000 is earmarked for the benefit of agencies other than Hagedorn hospital. Due to these altered purchase orders, Hagedorn's capital expenditures were overstated by a combined \$300,000 in fiscal years 2005 and 2006.

Recommendation

We recommend the hospital discontinue the practice of altering purchase orders. In addition, the \$725,000 appropriation balance should be transferred to the intended hospital(s) or the division's central office in order to properly record subsequent purchases.

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Medicaid Billing

The monthly Medicaid billings are not being reconciled to the fiscal agent's remittance advice.

The hospital bills and receives \$6 million annually in Medicaid revenue. The supervisor of patient accounts (SPA) at the hospital is responsible for the monthly Medicaid billing which consists of the number of eligible patient days multiplied by an approved rate. A remittance advice is received from the Medicaid fiscal agent listing each patient and the corresponding claim payment. We found that the SPA's office does not reconcile the monthly billings to the remittance advice. There are also no formalized policies from the division or the Department of Human Services requiring

reconciliations. Our January 2006 billing reconciliation revealed \$6,800 in claim overpayments and \$20,000 in unpaid claims which were outstanding for twelve months. Monthly reconciliations and follow-up procedures on discrepancies and outstanding claims should be performed. Without monthly reconciliations, the hospital can not ensure that all Medicaid claims were billed and collected. Subsequent to the end of our field work, the SPA's office completed its first reconciliation for the January 2007 Medicaid billing.

Recommendation

We recommend that the SPA's office reconcile Medicaid billings on a timely basis. We also recommend the Department of Human Services implement a formalized policy for Medicaid billing reconciliations.

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State of New Jersey

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September 21, 2007

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Dear Mr. Eells:

This is in response to the Confidential Draft Report dated August 30, 2007 on Hagedorn Psychiatric Hospital. We appreciate the opportunity to provide these comments related to each finding and recommendation for inclusion in your Final Report.

Finding—Pension Bases

We agree with the audit recommendation, and Hagedorn has already taken corrective action to comply with the Public Employees Retirement System (PERS) Board of Trustees ruling regarding pension-based salaries for doctors and supervising nurses. The Pension code for affected individuals working hourly as Medical Officer of the Day (MOD) and/ or Administrator Officer of the Day has been changed to reflect no pension eligibility for those particular duties. Payroll changes have been made and all involved staff have been notified.

The Report further noted that Ann Klein Forensic Center (AKFC) was also adding MOD compensation in determining pension-based salaries. Upon notification of the PERS ruling, AKFC has also taken corrective action to discontinue the practice and make the necessary adjustments.

Finding—Purchase Orders

We agree with the basic audit recommendations, but believe that some background information is necessary to explain how this situation developed. During FY 2002, in order to help resolve a Budget shortfall, OMB acted to freeze and eventually transfer out any unspent balances in our hospital and Central Office Equipment accounts. FY 2003 appropriations restored our total resources, but the allocation of those resources was adjusted in that the amount previously appropriated to our Central Office (\$377,000), was now entirely appropriated to Hagedorn—in addition to Hagedorn's own prior appropriation. This situation continued through FY 2006. Finally, per the Division/ Department's request, the FY 2007 appropriation restored the \$377,000 back to the Central Office account.

Accordingly, from FY 2003 through FY 2006, the Division managed its overall Equipment Spending Plan by advising Hagedorn that the Division would control the use of the \$377,000 appropriation plus any subsequent carry-forwards related to that pool of funds. It has always been the Division's practice to utilize

Central Office Equipment resources—in part, for purchases that directly benefit our hospitals—most notably for Information Technology system-wide enhancements. As noted in the Audit Report, Division fiscal management did instruct Hagedorn staff to adjust/ revise the “ship to” addresses on the purchase orders related to these procurements. It should be noted that all Central Office internal controls always continued in place—that is, internal purchase requests were prepared, reviewed and approved and all accompanying documentation was forwarded to Hagedorn to cut the actual purchase orders.

The Division regrets and takes responsibility for not knowing that the “ship to” addresses on the purchase orders could be changed electronically through MACS-E rather than manually with adhesive mailing labels. If we had known about using MACS-E, we would have done so and the net effect would be the same. Upon notification of this situation during the audit fieldwork, we immediately changed to the correct procedure and informed the auditors. Consequently, we are disappointed that the Audit Report does not recognize our timely action. We also point out that in preparing our Cost Allocation Plan (CAP) for each of the affected years, adjustments were made so that reported expenditures for Hagedorn did not include purchases made on behalf of the Division.

We further agree with the recommendation to transfer the \$725,000 remaining in Hagedorn’s account to other hospitals or to the Central Office. The main component of these funds relates to our planned upgrade of the video surveillance systems at the respective hospitals, for which the Purchase Bureau expects to award a contract in the very near future. It is unfortunate that this process has been wrought with significant delays, but as soon as the contract is awarded and the exact needs of each hospital are finalized, the proper amount of funds will be transferred to each facility. Similar transfers will be requested when uses of the remaining funds are identified.

Finding—Medicaid Billing

We agree with the recommendation for regular and timely Medicaid billing reconciliations, and the hospital is now assuring that these reconciliations are done on a monthly basis including review for accuracy and appropriate follow-up on unpaid claims and resulting resubmissions. Furthermore, the Division is re-instituting a monthly checklist process for all hospitals where each facility must report their current status with certain key functions under the Supervisor of Patients Accounts’ (SPA) responsibility—including Medicaid billing reconciliations. This helps the Division monitor and ensure that all essential functions are being done on a timely basis.

Regarding the audit recommendation for a formalized DHS policy on Medicaid billing reconciliations, DHS believes that an existing Administrative Order titled “Limiting Federal Disallowances” already covers this area. The AO refers to doing everything necessary and fiscally responsible to maximize federal financial participation, and also requires each Division to take its own steps to regularly maximize reimbursement. As noted above, the Division is already checking compliance on a monthly basis. As a further action, the DHS Office of Finance will prepare a letter to the hospitals reinforcing the importance of regular billing review and reconciliations.

Sincerely,



Kevin Martone, Assistant Commissioner
Division of Mental Health Services

HPH-OLS audit response1

C: Jennifer Velez, Commissioner
Diane Zompa, Chief of Staff
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