New Jersey Office of Legislative Services
Office of the State Auditor
Audit Report

Department of Human Services
Division of Developmental Disabilities
Management and Administrative Services and Community Programs

July 1, 1994 to December 31, 1995

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Department of Human Services
Division of Developmental Disabilities
Management and Administrative Services
and Community Programs
Audit Report
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We have completed an audit of The Department of Human Services, Division of Developmental Disabilities, Management and Administrative Services and Community Programs for the period July 1, 1994 to December 31, 1995.

We found that the financial transactions included in our testing were related to the division's programs, were reasonable, and were recorded properly in the accounting systems. However, we did note areas where improvement in the community care waiver billings is needed. Billings, during the audit period, were based on old interim rates that had not been updated since fiscal year 1993. Had actual rates been established, we estimate that an additional $13.6 million in federal funds would have been available for use during fiscal years 1994 and 1995 and the General Fund could have earned additional interest of $567,000. In addition, we noted that there was no uniformity in methodology used for contract closeouts between the division and group homes and private institutional care programs. Details of these and other findings and recommendations are included in our report.
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.

Peter M. Guilfoyle
Assistant State Auditor
November 20, 1996
Scope

We have completed an audit of the Department of Human Services, Division of Developmental Disabilities, Management and Administrative Services and Community Programs for the period July 1, 1994 to December 31, 1995. Our audit included financial activities accounted for in the state’s General Fund.

Total expenditures during the 18 month audit period were $566.5 million. The prime responsibility of the division is to provide executive management to the entire developmental disabilities program, and support service for the operational program units through which programs for the developmentally disabled are carried out. Community programs provide care, treatment, training and habilitation of developmentally disabled individuals.

Revenues of the division totaled $232.4 million during our audit period and the major component of revenue was maintenance recoveries from counties, clients, and federal grants.

Objectives

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

To achieve these objectives, we reviewed the internal control structure and tested for compliance with applicable laws and regulations. We also tested for resolution of significant conditions noted in our prior report.

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 State Comptroller, and policies of the division. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends and prior audit report findings and interviewed division personnel to obtain an understanding of the programs and the internal control structure.

A statistical and 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. Sample populations were stratified and large dollar transactions were examined. Other transactions were judgmentally and randomly selected.

To ascertain the status of findings included in our prior reports, we identified corrective action, if any, taken by the division and walked through the system to determine if the corrective action was effective.

Conclusions

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

We also found that the division has resolved the significant issues noted in our prior report except for matters related to payroll and personnel, crew labor and fixed assets records. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.
Contract Closeouts

Contracts are prepared in the contract administration unit to fund group home and private institutional care programs. At the end of the contract period, the assigned contract administrator calculates the amount of overpayment, if any, to be recovered from the provider. This is done by comparing the provider’s actual expenditures to contract payments and by reviewing CPA audit reports for any questioned costs. Based on our review of the contract closeout procedures, we noted the following internal control weaknesses.

Currently, each contract administrator maintains his own overpayment records and is responsible for the collection of these amounts. Proper internal controls require segregation of receivable and cash receipt functions.
In addition, there is no standard contract closeout form to be used by all administrators in determining amounts of overpayments to be recovered from contract providers. A standard form could also serve as a document for recording and monitoring by the division’s fiscal unit.

The division closeout status report was established to assist management in monitoring the contract closeout process. We reviewed the November 1995 report for the disposition of 34 contracts for calendar year 1994. Our review showed that only 3 contracts were closed out, 6 were partially closed and the remaining 25 did not have any data to determine their status.

Recommendation

We recommend that the division:

Segregate the duties of collection and recording of accounts receivable, establish a standard contract closeout form and ensure that receivable amounts from overpayments are recorded by the fiscal unit.

Prepare and complete the closeout status report on a timely basis.
Community Care Waiver Billings

The purpose of the Community Care Waiver (CCW) program administered by the division is to provide an alternative to recipients who would otherwise be institutionalized in an Intermediate Care Facility for the Mentally Retarded (ICF/MR). Through a waiver granted by the federal Health Care Financing Administration (HCFA), the division is authorized to use medicaid funds to pay for alternative services provided in a home or community based setting. The waiver program is funded through Medical Assistance (Title XIX) equally with state and federal funds. Reimbursement for providers of waivered services is processed through the Division of Medical Assistance claims processing system, based on approved interim rates. CCW revenues for fiscal year 1995 and the first six months of 1996 were $68.2 million and $20.4 million, respectively.

During our audit, we noted that approved CCW interim rates (with the exception of personal care independent living rates established for fiscal year 1995) have not been updated since fiscal year 1993. Interim rates are based on approved billing rates, which increased during fiscal years 1994 and 1995. We conservatively estimate that the federal government was under billed approximately $13.6 million for their share of the program cost during these two fiscal years. If interim rates for these two fiscal years had been based on actual, these funds would have been available during the above period and the General Fund could have earned additional interest of $567,000.

Federal revenues for the CCW program recorded on the state accounting system were not being reconciled to the division’s internal reports. For fiscal year 1994, we noted a $3 million variance between the department report of community care waiver recipients units and payments, and state treasury records of federal share received. Neither the division nor the department reconcile its internal computerized reporting system with revenue amounts per state treasury records. In addition, we noted a large variance between the budgeted fiscal year 1994 program revenues and those actually recognized. Of the $65 million in receipts collected during fiscal year 1994, $22 million was applied back to 1993 to satisfy a prior federal receivable which could not be verified. Failure to perform adequate reconciliations could lead to a reoccurrence of this condition.
Recommendation

We recommend that the division:

Update the community care waiver interim billing rates for proper reimbursement of federal share.

Develop a reconciliation process between their reporting system and state treasury records.

Community Residence for the Developmentally Disabled-Licensing

Community residences for the developmentally disabled provide every person admitted assistance in maintaining a basic level of self-care and in developing the potential to live independently in the community. According to NJSA 30:11B-4, “All such residences....shall be licensed by the Department of Human Services under appropriate regulations promulgated by the commissioner....The regulations shall assure that essential life-safety, health and comfort conditions exist in a home like atmosphere.” During our current review, we noted that 1061 out of 1840 community residences for the developmentally disabled were operating with expired licenses. Individuals residing at those residences with expired licenses may be at risk. There is also a possible loss of federal funding if the licensure or certification requirements are not met.

Recommendation

We recommend that the division’s quality assurance specialists inspect and license these residences in a timely manner.
Crew Labor Records

The Division of Developmental Disabilities, as part of their Adult Training Program, has a companion program in place for adult men and women participants. This program is called the Crew Labor Program. The division has crew labor units at four different locations. Effective July 1, 1995, the Division of Developmental Disabilities had privatized their adult training services, which included the crew labor units. During our review of the closing out of these activities, we noted a lack of direction or regulations by the Departments of Human Services and Treasury, to provide an accountable system to govern the transfer of state owned assets to the private companies. In regard to the crew labor units, most financial records, such as cash receipt and disbursement journals, canceled checks and bank statements were missing or discarded. These records should have been retained for seven years according to Department of the Treasury Circular Letter 94-28.

Advances of $19,654 from program funds were made to the contracted vendors at Camden and Burlington crew labor units, prior to the closing of the overhead accounts, to cover the transition period. These advances were not recorded on the state accounting system, nor was there any explanation of how these funds will be repaid or deducted from the contracted payments to these vendors.

Recommendation

We recommend that the division:

Develop a policy with the assistance of the department, for the transfer of state owned assets to these privatized centers and ensure compliance with the treasury circular letter regarding the retention of state records.

Establish a receivable for advances made to the private contractors.
Payroll and Personnel

Our test of the payroll and personnel system consisted of random samples of employee records from regular and supplemental pay periods during the audit period. Our review noted the following exceptions.

Sixty-two out of the 188 employees' leave records tested had at least one mathematical error. These errors resulted in either overstated or understated leave records. The monetary impact of these errors when projected to the entire population is approximately $138,000 in understatements and $72,000 in overstatements. Forty-two additional records in the sample were from the foster grandparent program and none of the program's calendar year 1995 leave records were posted as of November 1, 1995.

A test of 14 terminated employees disclosed that in seven cases the employee was not removed from the subsequent payrolls in a timely manner. There is an increased risk of unauthorized payment.

The division was unable to provide us with doctors' notes for ten out of 11 employees who were out on extended sick leave.

Recommendation

We recommend that:

The division take the necessary steps to reduce the error rate for pay and leave time calculations by having a person independent of the time keeping function periodically verify the accuracy of the time and leave records.

The division remove terminated employees from the payroll register promptly to reduce the risk of issuing unauthorized paychecks.

The division establish written procedures for monitoring and validating extended sick leave.
Outstanding Obligations

In conjunction with our test of obligated funds at the division, we reviewed 48 obligations amounting to $3.1 million. The obligations were initiated by the division during fiscal years 1995 and prior. Our examination found that 40 obligations with balances as of December 31, 1995 totaling $1.9 million should have been canceled because they were no longer required. When we brought this to the attention of the division, most of these obligations were canceled. However, this indicates that the division was not properly reviewing prior year outstanding obligation balances and canceling unneeded obligations. The cancellation of these obligations would release the obligated funds and make appropriations available for other purposes.

Recommendation

We recommend that the division periodically review obligations and cancel those balances which are no longer needed.

Segregation of Duties

The administrative assistant of the fiscal unit at the Developmental Disabilities Council performs purchasing and disbursement functions and has all three level of approvals on the state accounting system. This authority enables the individual to enter or change and approve transactions without supervisory approvals. Lack of segregating the purchasing and disbursement functions may prevent errors and/or irregularities from being detected timely. The number of expenditure transactions processed annually by the council is approximately 550 totaling $1.1 million. It may be cost effective for the division’s fiscal unit to process the council’s accounting transactions since it is located within a close vicinity. This would also enhance controls.

Recommendation

We recommend that the council ensure proper segregation of duties over expenditures or have the division’s fiscal unit process their transactions.
Motor Vehicles

Appropriations for vehicular usage, maintenance and rent from Central Motor Pool totaled $1,049,000 for each of the fiscal years 1995 and 1996. The division and community programs had a fleet of 224 cars, vans and buses according to the monthly billing statements received from the bureau of transportation services. To review the division's internal controls over vehicular usage, we selected the billing statement for one month. The following areas of concern were noted.

The division's vehicles inventory records were maintained manually and infrequently updated. Changes were made with no date or explanation, and there was no indication that the records were being reconciled to the monthly billing statements for accuracy.

The monthly mileage for 39 vehicles was not reported and 58 reported mileage usage were below Treasury's minimum requirement. Treasury Circular Letter 93-04 states that, "An agency may be permanently assigned a State vehicle only if employees of the agency will collectively use the vehicle for more than an average of 1000 business miles per month on official State business." Based on this criteria the division is overpaying $58,000 annually in rental cost.

Recommendation

We recommend that the division update their manual records and reconcile them to monthly billing statements. The division should enforce the reporting requirements by their employees to comply with the mileage requirement of Treasury Circular Letter 93-04 or seek approval of the General Services Administrator for an exception to the regulation.

Fixed Assets

We noted in our prior report that the fixed asset records have not been properly maintained. Currently the division's central administration maintains records only for its computer equipment including those maintained at the developmental centers. However, the listings did not contain such information as cost, inventory tag number and source of funds used to purchase these items. Also, the inventory list did not include any other type of fixed assets and has not been updated for new acquisitions during our review period. This lack of procedures weakens the system as a means of safeguarding state assets. We also noted that the annual physical fixed asset inventories are not being taken.
At day training centers, the system of maintaining fixed asset records varied between locations. However, none of these records met the minimum requirement at any of the seven locations we visited. Supervisors at most locations were not familiar with Treasury Circular Letter 91-32 requirements regarding the establishment of fixed asset records.

**Recommendation**

We recommend that the division complete the fixed assets inventory listing and update it as assets are acquired or deleted and a physical inventory of fixed assets should be taken annually. Also, the division should establish stronger controls at the day training centers to ensure compliance with Treasury Circular Letter 91-32.

**Day Training Centers**

Day training centers receive student activities money in advance allotments. Funds are requested from the Office of Education and checks are issued in the name of the vendors. These funds are used to purchase gift certificates or credit at local businesses such as restaurants and movie theaters. Several employees at each center are assigned the task of keeping track of the expenditures or use of the certificates and complete a monthly report on the use of funds. Based on our review of the procedures, the centers might be better off maintaining a petty cash fund for these type of expenditures. Such a fund would provide a better record and would prevent the instances where gift certificates or unused credit remain with the vendors for a long period of time. A petty cash fund would also allow the centers greater flexibility in choosing where to purchase goods and services.

**Recommendation**

We recommend that the Office of Education establish petty cash funds at the centers or at least at each of the regional offices to meet these type of expenditures.
Dear Mr. Fair:

Thank you for the opportunity to respond to the Financial and Compliance Review of Management, Administrative Services and Community Programs of the Division of Developmental Disabilities.

I was pleased to note that your review disclosed the fiscal activities of Division were generally well controlled and that you found no major weaknesses. Regarding the specific findings and recommendations, I offer the following clarifications and assurances:

Finding No. 1 - Contract Closeouts
The Division will eliminate the noted internal control weaknesses by segregating the duties of collection and recording of accounts receivable. Regional contract staff will prepare the contract closeout information. This information will be reviewed and approved by the Office of Contract Compliance. A standard contract closeout form will be developed by the Office of Contract Compliance in conjunction with regional contract staff.

The contract closeout status report will be prepared and maintained by the Office of Contract Compliance. This information will be distributed to the Fiscal unit and that unit will have a record of receivables from overpayments to provider agencies or conversely amounts due to provider agencies.

Finding No. 2 - Community Care Waiver Bills
The Community Care Waiver Interim billing rates were updated prior to the issuance of this audit finding and recommendation. All overdue cost reports were completed in the spring of 1996 and forwarded to DHS Rate Setting for processing. Additionally, we have, today, forwarded our recommended Interim rate for SFY 1997 for DHS review.

The second part of the auditors recommendation states that no reconciliation process exists between the Division's reporting system and state treasury records—this is not accurate. On an ongoing basis the DHS, Office of Budget Planning prepares detailed reconciliations between the UNISYS CCW reports, the Department's Bureau of Revenue Management, and Treasury's NJCFS system. The report claims that in FY 94, there is a $3 million variance between the systems. We were able to reconcile that year within .53 cents. Perhaps the auditors did not take into account the approximate $3.5 million in administrative claims that do not show on the
CCW reports. In addition, there are $1,524,995.00 in FY 93 amounts that are included in Treasury's FY 94 amount, as the FY 93 receivable was satisfied. It is also important to note that final rate adjustments for FY's 93, 94 & 95 are still in process. The numbers reflected on the treasury system are not final.

Finding No.3 - Community Residence for the Developmentally Disabled - Licensing
The "backlog" of inspections for community residences for the developmentally disabled developed as a result of the reduction in force effective October 2, 1992. However during 1996, progress has been made and the number of overdue inspections has ceased to grow and, in fact, is decreasing. It is anticipated that the backlog of Community Care Residence inspections will be eliminated by 1/31/97. We will also examine current administrative code requirements for annual inspections and, where feasible, will look to issue either two-year or three-year licenses to licensees who meet the applicable requirements.

Finding No.4 - Crew Labor Records
We agree that policies should be developed to provide an accountable system to govern the transfer of state owned assets to private providers. At the time of the Crew Labor privatization there were no regulations delineated to govern the transfer of state owned assets to private providers. However, canceled checks, bank statements, and other financial records were and continue to be available in the southern regional office Camden. These records will be retained according to the requirements of Treasury Circular Letter 94-28.

Finding No.5 - Payroll and Personnel
The Department's personnel office agrees with this finding and is in the process of implementing the auditors' recommendation. The personnel office is taking steps to reduce the error rates for pay and leave time calculations as well as promptly removing terminated employees from the payroll register.

Finding No.6 - Outstanding Obligations
Most of the FY'95 obligations were canceled prior to the time the auditors finished their field work here at the Division. As recommended, obligations were and continue to be periodically reviewed and canceled for FY'96. The only outstanding obligations for FY'96 are pending approval to close by our Contract Administrators.

Finding No.7 - Segregation of Duties
The Developmental Disabilities Council is a federally mandated, thirty member statutory board appointed by the Governor which is located "in, but not of" the Department of Human Services. Prior to Public Law 98-527, the Division of Developmental Disabilities was designated as the Council's "administering Agency."

However, that law stipulated that agencies which directly serve people with developmental disabilities could no longer be the administering agency for a council after October 1, 1989. Therefore, the Council assumed responsibility for administering its own grant program and all fiscal processing and acknowledged that the functions of appointing authority and approval officer would reside within the Council.

The Council employs only eight staff members consequently we applied to Frank Gatti and were granted an exemption to Treasury Circular Letter 95-
11. In granting this exception the New Jersey Developmental Disabilities Council must maintain paper documentation which contains at least one authorized signature other than the person who has applied three levels of approval. In addition, for payment transactions, the certification for goods or receipt of services must be by someone other than the person with three levels of approval. Failure to comply with these requirements will result in revocation of this exemption.

Finding No. 8 - Motor Vehicles
Our Division has had approximately 150 vehicles since FY '96.

Since the time of this audit our vehicle records have been computerized. We will assign a staff person to reconcile the monthly billing statements to the monthly mileage cards.

Finally, we have obtained waivers with respect to Treasury Circular Letter 93-04 from GSA for some of our vehicles. They are located in urban areas and although they are used on a daily basis, will never meet the required 1,000 miles per month.

Finding No. 9 - Fixed Assets
The Division is currently working with the Department to establish a perpetual inventory system that will require the establishment and maintenance of fixed asset inventory data. This list will be updated on a daily basis to reflect new purchases, equipment transfers, cost and location of equipment, make, model and serial number, date the equipment was received, along with vendor information. Divisions have been asked not to take the lead in establishing their own systems. The Department's system will be installed in each Division beginning at the developmental centers. DDD will have its first system installation at North Princeton Developmental Center. It is projected that this installation will occur in January or February 1997.

In keeping with the Department's directive the Division will not implement a system of its own, but will direct that each unit within its central office develop a list of assets recording make, model, serial number, and item cost.

Finding No. 10- Day Training Centers
For FY 1997 the day training centers received $68,200 in student activities money. The Office of Education considers this a large amount of money and does not allow for it to be considered petty cash. Since the day training centers are located throughout the state it would be difficult, if not impossible, to maintain control of this money. Also, by not establishing petty cash, we are removing the temptation and opportunity for theft.

When a day training center requests a check for a local vendor, it's to be used as a shopping activity for the student. The activity improves the student's shopping skills and integrates the student with the community. However, current procedures will be reviewed to avoid the instances where gift certificates or unused credit remain with the vendors for a long period of time.

Sincerely,
Robert B. Nicholas, Ph.D.
Director

RBN:TFK.-jh