New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Human Services
Division of Developmental Disabilities
Green Brook Regional Center

July 1, 1995 to January 31, 1997

Richard L. Fair
State Auditor
The Honorable Christine Todd Whitman  
Governor of New Jersey  

The Honorable Donald T. DiFrancesco  
President of the Senate  

The Honorable Jack Collins  
Speaker of the General Assembly  

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

Enclosed is our report on the audit of the Department of Human Services, Division of Developmental Disabilities, Green Brook Regional Center for the period July 1, 1995 to January 31, 1997.  

If you would like a personal briefing, please call me at (609) 292-3700.  

Richard L. Fair  
State Auditor  
July 11, 1997
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Scope

We have completed an audit of the Department of Human Services, Division of Developmental Disabilities, Green Brook Regional Center for the period July 1, 1995 to January 31, 1997. Our audit included financial activities accounted for in the state’s General Fund.

Total expenditures of the center during the 19 month audit period were $12.2 million. The prime responsibility of the center is to provide habilitative and residential functional services for residents over age 55. Residents of the center range from moderately to profoundly retarded. The federal medicaid billings for Green Brook clients generates $4.7 million in revenue annually. In addition, client maintenance recoveries and other revenues during the audit period were $.5 million.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the center’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 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 center personnel to obtain an understanding of the programs and the internal control structure.

A statistical and non-statistical 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 randomly or judgmentally selected.

**Conclusions**

We found that the financial transactions included in our testing related to the objectives of the center, were reasonable, and were properly recorded in the accounting systems, except for the transfers made out of Green Brook mortgage appropriations, which were recorded as expenditures. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

**Auditee's Response**

We want to thank the State Auditor and his staff for the thorough and professional manner in which the audit was conducted. We view this audit report and findings as a most serious matter and have addressed the issues accordingly.

We concur fully with the auditors' findings. The nature of the findings cause us great concern and have resulted in us taking swift and decisive action to correct the situations at Green Brook, as well as, initiating measures to preclude similar situations from occurring in any of our other operations.

The business manager at Green Brook was reassigned almost immediately after we were notified by the
State Auditor of the existence of the situations described in the audit. Pending the outcome of further review and analysis, administrative actions may be taken.

Because of the seriousness of the questionable business practices described in the audit, the matter has been referred to and accepted by the Division of Criminal Justice for further investigation. The outcome of the investigation is pending as of this writing.

A Department Central Office fiscal monitoring function, which was dismantled due to reductions in staff in 1991 is in the process of being reinstituted. The function will be designed to review, question, and investigate individual fiscal transactions, as well as to monitor trends of transactions within departmental components and across all department lines on an on-going basis.

In closing, while further administrative and disciplinary actions are under review and the Division of Criminal Justice investigation is in process, we have taken every action to rectify those situations described at Green Brook. Although we believe the situation at Green Brook to be an anomaly, we have reemphasized the policies, procedures, rules and regulations of the Department and the State to all of our divisional components. We also believe that the reinstitution of a central office monitoring function will significantly enhance our systems of internal controls which will provide a higher assurance that fraud, waste, and/or abuse will be detected in the normal course of doing business.
A special purpose appropriation for payment of the “Green Brook Mortgage” is being used for other than its intended purpose without proper transfer authority.

In 1981, the New Jersey Health Care Facilities Finance Authority and the University of Medicine and Dentistry of New Jersey entered into an agreement with the Division of Developmental Disabilities which provided for the division to use an existing facility (formerly Raritan Valley Hospital) as Green Brook Regional Center and to assume an existing mortgage and bond obligation. Appropriations of approximately $700,000 per fiscal year from 1982 to 1995 for mortgage and bond debt service payments, and $393,000 for fiscal years 1996 and 1997 for bond payments only, had been made for this purpose. Although the bond amortization schedule for fiscal years 1996 and 1997 require payments of approximately $304,000 per fiscal year, the center requested and received an appropriation of $393,000 for each of these years.

In our review of this account from fiscal year 1993 to January 31, 1997, we noted that the center recorded expenditures totaling $2,317,434. However, our audit of these expenditures shows actual payments of only $1,979,898 to the financial institutions administering these obligations. The remaining $337,536 were improperly refunded or credited to other Green Brook accounts, without proper transfers of appropriations and required approvals. In accordance with the general provisions of the appropriations acts, all transfers in excess of $25,000 to or from any special purpose or grant account require the approval of the Director of the Division of Budget and Accounting and the Legislative Budget and Finance Officer. These approvals were never sought or granted.

In addition, when making the refunds the center improperly credited vendors not involved in the transactions. As a result, amounts reported to the Internal Revenue Service on forms 1099 were reduced and thus incorrectly reported by the State of
New Jersey. We noted three instances where this occurred.

**Recommendation**

The mortgage and bond appropriation should be spent for its original intent. Any excess appropriations should be moved by transfers with the approval of the Director of the Division of Budget and Accounting and the Legislative Budget and Finance Officer as required by the General Provisions of the Appropriations Act. The center should not deposit excess disbursements as refunds into other unrelated accounts.

**Auditee's Response**

During fiscal year 1998, the Department and the Division will seek to restore the inappropriately used balance of $337,536.00 by restricting the spending of accounts other than those used for direct client care or salaries. The Special Purpose Appropriation will be used solely for its intended purpose unless otherwise approved by the Director of the Division of Budget and Accounting and the Legislative Budget and Finance Officer in accordance with the General Provisions of the Appropriation Act.

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**Central Motor Pool Vehicle Repairs**

The center rents from Department of the Treasury, Central Motor Pool (CMP) 12 state vehicles costing $40,000 annually. The rental cost includes unlimited repairs at CMP service garages and escrow charges for the replacement of vehicles. According to Executive Order No. 33, the Department of the Treasury assumes title of all state owned and leased vehicles.

During our review period, the center expended approximately $20,000 for vehicle repairs from outside vendors instead of utilizing CMP’s facilities for the repairs. The State Bureau of Transportation Services reviewed several payment vouchers, pur-
chase order requests, and vendor work completed invoices, and have determined that the center:

1. Failed to follow the assignment and use policy CL93-04 GSA, concerning the filing of accident/incident reports.

2. Failed to follow the assignment and use policy in that all vehicles involved in accidents or incidents be repaired at CMP.

3. The invoices prepared by the vendor are in violation of the State Auto Body License Act, as they do not follow the written estimate guidelines as per N.J.A.C. 13:21-10 and there was inconsistencies in one purchase order for the services provided.

4. The expenditures of $3,665 on a vehicle with over 140,000 miles is not reasonable or in keeping with CMP policies, both written and implied.

Since repairs are included in the CMP rental charges, the additional costs of repairs from outside vendors were unnecessary. Checks for these repairs were mailed to the vendor at the home address of an employee in the center's fiscal office. In addition, the employee co-endorsed some of the checks paid to the vendor. The vendor was contracted by the center under delegated purchase authority (DPA) and the Purchase Bureau was not utilized to award the contract.

**Recommendation**

We recommend the center utilize CMP for the repair and maintenance of state vehicles, to avoid these extra costs.
Auditee’s Response

All appropriate Division personnel have been instructed to strictly comply with all Central Motor Pool policies and all GSA circular letters. Further investigation of this matter is being conducted by the Division of Criminal Justice.

Purchasing Procedures

The center should comply with state purchasing procedures. The center continues to be in noncompliance with Treasury Purchase Bureau procurement procedures. In our samples of 20 purchases, we found 7 delegated purchase authority (DPA) exceptions, including insufficient bids, telephone quotes used instead of sealed bids, and state contracts not utilized for temporary employment agency services and painting contracting services costing $76,000 and $26,000, respectively in fiscal year 1996.

In addition, by coding all orders as DPA, the center is not processing state contract purchase orders properly to the state purchasing system. During our audit period, the state purchasing system inaccurately recorded $3.6 million in DPA purchase orders and $0 to state contract purchase orders. State purchasing policies requires that all purchase orders be coded correctly to the state purchasing system. Therefore the Purchase Bureau can not adequately monitor the purchasing activities of the center. In addition, the purchasing data of the center is unreliable and can not be utilized for future state contract renewals. The center’s management stated that all purchase orders are processed DPA because the center’s internal accounting system could not capture state contract data.

In one case, the spouse of an employee in the center's fiscal office was contracted for painting and paid $81,000 during a three year period. The painting contractor that was awarded the contract submitted the only response out of three vendors requested to
The center should comply with state procedures for the procurement of computer consulting and computer systems.

Recommendation

We recommend that the center comply with Treasury Purchase Bureau DPA procurement procedures and process purchase orders properly in the state purchasing system. Treasury Purchase Bureau may revoke the center's delegated purchase authority if purchasing procedures are not in compliance.

Auditee's Response

As the auditors noted $3.6 million was inaccurately recorded as DPA purchase orders in the State Purchasing system due to coding errors. In actuality most of these services were performed by State Contract Vendors.

Since the time of this audit the coding of these transactions has been corrected.

The related party transaction identified by the auditors is under review by the Division of Criminal Justice.

Purchase of Personal Computers

During our review period, the center purchased approximately $49,000 in personal computers and system consultation services that were not approved by their division’s Information Systems Manager nor the Department of the Treasury’s Office of Telecommunications and Information Systems (OTIS). According to Treasury Circular Letter 96-23G, all computer consulting and computer systems purchases aggregating more than $10,500 must be approved by OTIS prior to proceeding with the procurement process. In addition, according to the Division of Developmental Disabilities’ inter-office memorandum dated August 25, 1995, all data processing/office
automation hardware and software must be approved by the division’s Information Systems Manager prior to the issuance of a purchase order to a vendor. The primary purpose of the memorandum is to ensure that there is a central coordination of computer purchases and that the computer purchases meet the goals and standards of the division’s management information system unit. An additional review of computer-related purchases for the period September 1993 through January 1997 disclosed payments of $125,000 to one vendor for computer hardware and $16,000 to another vendor for consulting services. Since the computer purchases and system consultation services were not approved by OTIS and the division’s Information Systems Manager, the center’s computer systems may not be compatible with future computerized systems to be implemented by the division.

**Recommendation**

We recommend that the center seek the appropriate approvals prior to issuing purchase orders for computer purchases and consulting services.

**Auditee's Response**

Since the completion of this audit appropriate Division personnel have examined this equipment and in fact these computers meet the goals and standards of the Division's management information system.

All Division personnel have been instructed to strictly comply with Treasury circular letters and Division information system policies.
Leasing of State Real Property

Green Brook Regional Center receives monthly rental payments of $3,958 from a private hospital that occupies 4,000 square feet of the center’s building. These rental payments are based on a 1982 agreement between the Division of Developmental Disabilities and the hospital. According to the provisions of the agreement, the center and the hospital, within four months of the agreement, were to enter into a formal lease. Management was unable to locate this lease agreement between the center and the hospital to determine the basis for this amount or if it is in compliance with state leasing procedures. In addition, receipts from these rental payments were being credited to the center’s operating accounts as refunds of expenditures.

According to Treasury Circular Letter 91-06-General Services Administration, “proceeds from the leasing of State real property shall be payable to the Treasurer, State of New Jersey and deposited in the General Treasury of the State”. Also, the terms and conditions of all real property leases must be approved by the State House Commission and the initial term of the lease agreement shall be no greater than a five year period. The division and the center are not complying with this directive.

Recommendation

We recommend that the Department of Human Services provide the Department of the Treasury, General Services Administration, with all pertinent facts about this agreement to enable the Office of Property Management to negotiate the terms of the lease agreement in accordance with Treasury Circular Letter 91-06. Proceeds from the lease should be sent directly to the State Treasurer.

Auditee’s Response

The Division is in the process of gathering all the facts related to the current tenet and space utilized. This information will be forwarded to the Office of
Property Management in accordance with Treasury circular letter 91-06.

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**Consumable Supplies Inventories**

Unreliable inventory records for consumable supplies can lead to an increased risk of shortages and overages of items, as well as loss due to misuse or theft. In addition, the center’s ability to track supplies usage and plan more efficient purchases in conformity with management objectives will be diminished. During fiscal year 1996, the center purchased consumable supplies totaling $488,000.

Consumable supplies, by their very nature, require controls that will safeguard them from misuse and theft. These controls usually involve both physical security to control access to supplies, and appropriate inventory records to track deliveries, requisitions, and current balances of items on hand. We reviewed computerized inventory records for bulk stores items including food, household supplies, medical supplies, and office supplies. We also reviewed inventory activity for nonbulk stores food items for immediate use by comparing actual milk deliveries to milk consumption as outlined in the standard client menu. In addition, we reviewed individual client clothing inventory records by tracing recent clothing purchases made on their behalf to their updated clothing par/inventory sheets. We noted that 15 of 22 bulk stores items tested in the areas of household, medical, and office supplies had variances between the quantities recorded on the updated computerized inventory status report and the actual quantities determined by auditor count. The variances indicate that the inventory system is not being updated in a timely manner to reflect current deliveries and requisitions.

In the area of client clothing, the nine sample clients for whom individual clothing had been purchased in
September 1996 had clothing par/inventory sheets dated March 1996, the most recent count performed. Agency procedures require a client clothing inventory count be performed for each client at least twice a year, in February and August. The direct care staff did not count the clothing inventory in August 1996 for the sampled clients, nor did they update the clothing inventory at the time the purchased items arrived at the end of September 1996. As a result, there is no documentation for the distribution of the new clothing to the individual clients.

**Recommendation**

We recommend that the center modify its computerized inventory system or the procedures governing its usage to achieve the goal of a reliable system that provides accurate and current information on consumable supplies on hand in bulk stores. In addition, the center should adhere to their procedures regarding the maintenance of clothing inventories for the clients so that distributions of new clothing are properly reflected in the clients' individual clothing records.

**Auditee's Response**

The Department of Human Services has been implementing a Department-wide fixed asset and consumable supplies inventory system. During April, 1997 a physical count was conducted and we are now in the process of installing inventory software and training personnel with respect to the system at Green Brook. We feel this inventory system will address Green Brook's needs and bring the facility into compliance.

While the Department-wide inventory system does not maintain an inventory of clients' personal possessions, the Division has re-emphasized to staff the need to update and upgrade their policies on client possessions.

**Fixed Assets**

An adequate fixed asset inventory system is necessary
The center should comply with Treasury Circular Letter 91-32 regarding the maintenance of fixed asset records.

to establish both responsibility and accountability for individual assets, safeguard them from loss or theft, obtain optimum insurance coverage, support insurance claims, identify surplus property, and track items purchased with federal funds. The Department of the Treasury Circular Letter 91-32 sets forth the reporting requirements to record assets with an original cost of $1,000 or more and an expected useful life of three years or more. During our audit period, the center purchased equipment valued at $89,000.

The center's master inventory did not meet the minimum description requirements of the circular letter nor were their fixed asset records adequately maintained. While reviewing fixed asset acquisitions during fiscal year 1996, we noted that two of nine sample items purchased could not be found on the agency's fixed asset records or physically located. During an additional review of personal computer purchases by the center, we noted that only 12 of 24 computers purchased had serial number identifications on the purchase documents. Three of the 12 computers having such identification were not listed on the center's personal computer inventory report and could not be located. A review of the center's personal computer inventory report indicated that this subsidiary fixed asset record also does not meet the reporting requirements of the circular letter. While attempting to locate the 62 personal computers listed on this schedule, we noted that two were described as obsolete and no longer in service. We could not locate these two machines.

We recommend that the center take the appropriate action to comply with Treasury Circular Letter 91-32. In addition, the center should identify all computers acquired, physically locate them, and prepare an accounting to the Department of Human Services, Office of Audit.
**Recommendation**

**Auditee's Response**

The Department of Human Services has been implementing a Department-wide fixed asset and consumable supplies inventory system. During April, 1997 a physical count was conducted and we are now in the process of installing inventory software and training personnel with respect to the system at Green Brook. We feel this inventory system will address Green Brook's needs and bring the facility into compliance.

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