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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 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, New Lisbon Developmental Center for the period July 1, 1994 to April 30, 1996.

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

Richard L. Fair  
State Auditor  
March 20, 1997
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Scope

We have completed an audit of Department of Human Services, Division of Developmental Disabilities, New Lisbon Developmental Center for the period July 1, 1994 to April 30, 1996. Our audit included financial activities accounted for in the state’s General Fund.

The center also maintains nonappropriated funds. These funds are subject to audit by the Department’s Office of Auditing. Therefore our work on these funds was limited.

The developmental center is responsible for the care of approximately 700 developmentally disabled individuals housed on the grounds in Woodland Township. Total expenditures of the center during the 22 month audit period were $86 million. The federal Medicaid billings for New Lisbon clients generate $30 million in revenue annually. In addition, client maintenance recoveries and other revenue during the audit period were $4.8 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. 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, and minutes of the commission meetings, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

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. Sample transactions were randomly and judgmentally selected.

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

**Conclusions**

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were properly recorded in the accounting systems. In making this determination we noted internal control weaknesses affecting the center's operations. We also noted areas where operating efficiencies could be realized. Details of our findings and recommendations follow.

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**Suspensions**

Between January and June of 1995 the New Lisbon Developmental Center Human Resources office suspended direct care staff for a total of 562 days. Some of the suspensions were for excessive absenteeism or tardiness. Based on an eight-hour day and an estimated additional overtime rate of $7 per hour the cost to replace the suspended employees was $63,000 in calendar year 1995.

This does not include the personnel cost for appeals by employees and possible unemployment benefits for which an employee may be eligible. The institution's employee relations staff of four persons spends most of its time handling appeals of suspensions.
We recommend that the Human Resources Office consider alternative disciplinary tools beside suspensions to deal with excessive absenteeism or tardiness.

Medicaid ICF/MR Revenue

The institution generates $30 million annually in federal Medicaid ICF/MR (Intermediate Care Facility/Mental Retardation) revenue. Payment is based on the number of client days multiplied by an approved rate. A monthly report of all client days eligible for reimbursement is prepared by an employee in the patients trust office. The report, called the Turnaround Document (TAD), is manually adjusted for all noneligible days. If a client is transferred to the hospital or clinic for all or part of the month, the hospital visit must be recorded on the TAD, since these days are not eligible. We noted errors in the posting of client population movements to the TAD. This resulted in over and under reimbursement from the federal government. Tests of April 1995 population movements detected three errors out of 18 clients tested. The errors resulted in overpayments of $2,250 from the federal government.

Manual records used to post data to the TAD were not always legible, resulting in errors. There are no procedures in place to detect errors in the posting of hospital visits to the TAD. There are no procedures in place to determine that the total days eligible are billed. An adequate system of internal controls can prevent many errors from occurring and also provide for timely detection of errors that do occur.

We recommend that the center develop and institute procedures to ensure the accurate reporting of all eligible client days for Medicaid reimbursement. Total client days should be reconciled with data provided by the center’s central records section. This would detect material errors that occur.
Client Possessions

The center has developed detailed procedures regarding the approval, purchase and safeguarding of clients’ funds and possessions. The purpose of these procedures is to, “...ensure that fund expenditures address his/her (the clients) needs and interests.” In addition, they state that, “Designated staff shall be accountable for the use of individual funds and maintenance/accountability of personal possessions.” They require that each cottage supervisor maintain an Individual Personal Possessions Inventory of all items over $25 and perform a bimonthly review of the inventory. They must mark items over ten dollars with the individual’s name before distribution.

The Patients Accounts Office is required to audit the inventories by visually checking the item and comparing the cottage inventory with the purchase orders. During our audit period, they conducted six audits. Out of 18 cottages at the center, ten had no audits done during our audit period. Other problems noted with the audits include notifying the cottage in advance, not comparing the inventory with the purchase orders, and not checking the serial numbers to positively identify the item. A memo stating the item has been located has been accepted as sufficient evidence that an item not available for inspection has been found. They do no subsequent physical inspection.

The cottage staff does not follow procedures regarding maintaining the Individuals' Personal Possessions Inventories. Purchases are not always inventoried or marked with the client’s name before distribution. The cottage supervisor rarely conducts bimonthly reviews of inventory, documenting the status of each item.

The results of the Patient Accounts Office audits revealed that five out of 75 items were not given to the individual, including a $400 television purchased eight months before inspection. This raises the question of whether they should have purchased the item in the first place.

We recommend that the cottage supervisors maintain adequate records of all individuals' possessions and perform
bimonthly reviews, as required. Patients Accounts Office staff should perform more frequent audits of inventories in all of the cottages.

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**Fixed Assets**

Treasury Circular Letter 91-32 requires agencies to maintain detailed fixed asset records showing the cost, location, and date purchased. The New Lisbon Developmental Center currently keeps no fixed asset records for equipment other than computers. A similar finding was made during our prior audit. The response from the department, dated January 1993, said that, “All pertinent inventory items will be tagged; revamping of the fixed asset system should be completed by July 1, 1993.” The Department of Human Services is currently setting up a computerized inventory system at all of its institutions. The installing of the new system at the center is not scheduled to begin for at least two years. In the meantime the institutions were not told to suspend the recording of fixed asset inventories.

*We recommend* that the center maintain a fixed asset inventory of equipment purchases costing more than $1,000 as required by Treasury Circular 91-32.

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**Nonappropriated Accounts**

The center maintains separate checking accounts for various functions. These accounts include the Clients’ Trust Account, Welfare Fund, Occupational Therapy Fund, ICF/MR Special Fund and Garage Account. During our prior audit we noted a lack of segregation of duties with regard to three of the funds noted above. Recent audits by the Department of Human Services, Office of Auditing covering fiscal year 1994 reached a similar conclusion. The internal audit reports further stated that, “The major internal control weaknesses are the lack of
written policies and procedures, failure to assign and communicate responsibility at appropriate levels, inadequate segregation of duties, inadequate supervisory oversight and lack of understanding and implementation of the Department’s internal control process as specified in A.O. 6:12.”

In addition, the garage rental checking account is no longer used and there has been no activity in the account for more than five years. The balance in the account at April 30, 1996 was $30,000. During our prior audit we recommended that the center close its garage rentals checking account and place the funds in the Client Welfare Fund. The center has been reluctant to transfer the funds to the welfare fund, which would then place these funds under the control of the Board of Directors of the fund.

We recommend that the center develop and implement adequate internal controls to improve the accountability over all nonappropriated funds.

We further recommend that the garage account be closed and the funds disbursed to the Client Welfare Fund for the benefit of the clients at the center.

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DEPARTMENTAL RESPONSE

State of New Jersey
DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
CN-726
Trenton, NJ 08625-0726

Christine Todd Whitman
Governor

William Waldman
Commissioner

Richard L. Fair
State Auditor

Robert B. Nicholas, Ph.D.
Director

Office of the State Auditor
Trenton, New Jersey 08625

March 7, 1997
Tel (609) 292-3742

Dear Mr. Fair:

Thank you for the opportunity to respond to the Financial and Compliance Review of New Lisbon Developmental Center for the period July 1, 1994 to April 30, 1996. I was pleased to note that your review disclosed the fiscal activities of New Lisbon 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 - Suspensions
Although there may be alternative disciplinary tools beside suspensions to deal with excessive absenteeism or tardiness, New Lisbon follows the lead of the Department of Human Services, Office of Employee Relations which only allows suspensions as a means of discipline. However, a suspended employee may substitute accrued vacation time to offset suspended days.

Finding No. 2 - Medicaid ICF/MR Revenue
New Lisbon will reinstitute the use of the CP-10 reconciliation process to reduce the number of errors. This process will help ensure the accurate reporting of all eligible client days for Medicaid reimbursement.

Finding No. 3 - Client Possessions
Effective December 1, 1996, implementation responsibilities for maintaining compliance with the Center's policy for personal possessions' accountability, PRS #3: Management of Funds and Personal Possessions, was revised as follows:

1. Cottage supervisors maintain responsibility for entering individual client purchases, costing $25 and over, into the Personal Possessions Inventory and engraving the individual's name on item prior to distribution.

2. Residential Services Department managers, in accordance with center policy ADM #46: Quality Improvement Review, perform monthly oversight audits of randomly selected Personal Possessions Inventory forms, comparing logged entries with Clients Accounts Office printout(s) of recent (6 month) client purchasing activity. This review includes visual verification of item(s), location, and date. An administrative investigation is initiated for missing and/or unaccountable items.

Finding No. 4 - Fixed Assets
The Department of Human Services' computerized inventory system should be installed and operable by the late summer of 1997.
Finding No. 5 - Nonappropriated Accounts

Purchasing and accounting procedures were developed for nonappropriated accounts. These procedures will be merged with current Business Office procedures, and as a result of reorganization of the fiscal activities of the Center, allow for a better segregation of duties as well as proper supervisory oversight.

The Garage Rental checking account has been utilized to enhance television reception for all of the individuals who live at New Lisbon Developmental Center, and the account will be closed according to the Department of Treasury regulations.

Robert B. Nicholas, Ph.D.
Director

RBN:TK.jh