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Enclosed is our report on the audit of the Department of Human Services, Division of Developmental Disabilities, Hunterdon 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.
Department of Human Services  
Division of Developmental Disabilities  
Hunterdon Developmental Center

**Scope**

We have completed an audit of the Department of Human Services, Division of Developmental Disabilities, Hunterdon 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.

Total expenditures of the agency during the 22 month audit period were approximately $79.7 million. The prime responsibility of Hunterdon Developmental Center is to serve as a treatment and training facility for profoundly to mildly retarded residents. The federal medicaid billings for Hunterdon clients generates $23 million in revenue annually. In addition, client maintenance recoveries and other revenue during the audit period were $4 million.

**Objectives**

The objectives of our audit were to determine whether financial transactions were related to the agency’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant issues 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, prior audit report findings and recommendations, and interviewed agency personnel to obtain an understanding of the pro-
grams 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 randomly selected.

To ascertain the status of findings included in our prior report, 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 and matters of compliance meriting management's attention.

We also found that the agency has resolved the significant issues noted in our prior report except for matters related to unreported bank accounts and fixed asset records. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.

**Consumable Supplies Inventories**

Consumable supplies, by their very nature, require controls that will safeguard them from misuse and theft. These controls may involve physical security to control access to supplies.

Our review of consumable supplies disclosed the warehouse where goods are kept is not fully secured, with access by numerous employees throughout the day. In our review of the housekeeping and food supplement monthly inventory report dated February 1, 1996, we noted that 74 out of 118 items had differences totaling $2,500 between perpetual inventory records and physical count which was not supervised. This total difference was adjusted to $130 for unrecorded requisitions.
Recommendation

We recommend that management improve physical security measures at the warehouse.

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Appropriation Expenditures

Laundry Services

The center spends approximately $575,000 annually on laundry services for 635 clients. Prior to fiscal year 1995, the center utilized Trenton Psychiatric Hospital’s laundry service. With the closing of the hospital’s laundry services, the center, in July 1994, went to a private vendor for these services. The laundry services are for sheets, blankets, laundry bags, and diapers.

We found that soiled laundry sent to the private laundry service is not counted or weighed before being sent. The cleaned laundry is not being weighed when returned to the center on a consistent basis. On those occasions when the laundry is weighed, the records showing discrepancies with the private laundry service are discarded and not reported to the business office for further action. Condemned sheets and blankets are not returned by the private laundry service for verification of their condition.

The center’s cost per pound has decreased from thirty-six cents to twenty-five cents since privatization. However, the number of sheets and blankets issued annually has doubled since the private laundry started its service. The average number of sheets issued has increased from approximately 1900 to 3400 and blankets from 1200 to 2200. The approximate cost to the center due to these increases is $16,000 annually. Also, the center is receiving and being charged for laundry items that do not belong to Hunterdon.

Recommendation

We recommend the center weigh laundry prior to shipment and upon return from the laundry service, and condemned items be returned for verification as to their condition. Vendor invoices should be compared with recorded weights for accuracy.
Food Service and Energy Costs

The center is located near the Edna Mahan Correctional Facility for Women. Because of the close proximity of the two facilities, certain services (food and energy) are shared by both.

The center is an Intermediate Care Facility (ICF) which is eligible for federal reimbursement under Title XIX. Approximately one half of the center’s eligible cost is reimbursable based on per diem rates per client.

Our review showed that reimbursement between the facilities is based on budgeted amounts rather than actual cost for the services. These costs are used in the determination of the center’s Intermediate Care Facility (ICF) federal billing rates and should be based on actual rather than budgeted cost.

Specifically the food service unit at the Edna Mahan Correctional Facility for Women prepares and transports meals for the Hunterdon Developmental Center. These services must be in accordance with departmental, as well as federal guidelines and regulations for an Intermediate Care Facility. The center reimburses the Edna Mahan Correctional Facility approximately $700,000 per year for costs associated with food service. This reimbursement rate is based on the center's food appropriation, not the actual costs. Activities for Edna Mahan and Hunterdon are often intermingled. In addition, during our review of food records, we noted that the center was ordering nearly twice as many meals as there were clients. Our analysis of a day's meals showed that the center ordered 909 breakfast meals, 1177 lunch meals, and 1177 dinner meals for 635 clients. Management was unable to substantiate the reason for this deviation between the number of meals and the client population.

A private co-generation plant located on the grounds of Hunterdon Developmental Center provides steam which is used in the heating of both the center and Edna Mahan Correctional Facility. We noted that the plant lacks meters to measure the energy consumed by both facilities. The center paid the entire cost of $3.4 million in fiscal year 1995 and was reimbursed by Edna Mahan Correctional Facility for their entire energy appropriation totaling $1.2 million. The
center was unable to determine if the reimbursement was correct due to a lack of meters.

**Recommendation**

We recommend that the department and the center perform an analysis of the number of meals required and the associated cost for food services to determine actual consumption levels and payments to the Department of Corrections.

We also recommend that Hunterdon Developmental Center require that the co-generation plant install meters to monitor the amount of energy being consumed by each facility.

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**Bank Accounts**

In our review of the bank accounts maintained by Hunterdon Developmental Center, we noted that the agency is not in compliance with Department of the Treasury Circular Letters 93-02 and 96-14 which require that all bank accounts be reported to Treasury’s Cash Management Unit. We noted six accounts ranging in value from $12,900 to $84,600, totaling $264,600 as of April 30, 1996, which did not appear on the account directory prepared by the Cash Management Unit. We also noted that three of the six accounts were certificates of deposit in financial institutions which was not a recommended practice per Treasury Circular Letter 93-02. All investments, such as certificates of deposit, are to be made through Treasury's Division of Investments. We obtained documentation that the Department of Human Services, Office of Finance and Accounting had been notified of these nonappropriated fund bank accounts by the center.

**Recommendation**

We recommend that the center comply with Treasury Circular Letters 93-02 and 96-14.

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**Fixed Assets**

The center is not in compliance with Department of the Treasury Circular Letter 91-32 regarding the maintenance of fixed asset records.
An adequate fixed asset inventory system is necessary to help fix responsibility for particular assets, safeguard them from loss or theft, obtain optimum insurance coverage, support insurance claims, identify surplus property, and track items purchased with federal funds.

In our current review of the fixed asset records, we noted that the center does not maintain a master inventory with the minimum description requirements required by the circular letter. We also noted that the center’s fixed asset records were not adequately updated. Our testing revealed 14 of 16 purchases sampled did not appear on any of the various decentralized listings located throughout the center.

**Recommendation**

We recommend that the center take the appropriate action to comply with Treasury Circular Letter 91-32.
DEPARTMENTAL RESPONSE

Richard L. Fair  
State Auditor  
Office of the State Auditor  
CN 067  
Trenton, New Jersey 08625  

Dear Mr. Fair:

Thank you for the opportunity to respond to the Financial and Compliance Review of Hunterdon 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 Hunterdon 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 - Consumable Supplies Inventories

The Department of Human Services is in the process of instituting a standardized computer inventory program at each facility. Currently the warehouse inventory is done manually, the actual count and subsequent reconciliation is completed without the aid of a computer program. We anticipate that after implementation of the Department's inventory system this item will be fully addressed. Additionally, the warehouse has been re-keyed with access limited to official employees only.

Finding No. 2 - Laundry Services

Hunterdon agrees with and has implemented the auditors' recommendation. The center now weighs laundry prior to shipment and upon return from the laundry service. Condemned items will be returned for verification as to their condition.

Finding No. 3 - Food Service and Energy Costs

Hunterdon agrees with the auditors' recommendation and an analysis is currently being completed with respect to the number of meals required and the associated cost for food services.

Additionally the contract with the co-generation company is under review by the Department of Human Services and Treasury. The issue of meter installation to monitor the amount of energy consumed is part of this review.

Finding No. 4 - Bank Accounts

The Center is in the process of conforming to Treasury Circular Letter 93-02 and 96-14. We anticipate complete compliance by June 30, 1997. To date, the Welfare checking account has been recognized and authorized by Cash Management. Two maturing certificates of deposit are being closed and forwarded for investment in the Treasury's Division of Investments.

Finding No. 5 - Fixed Assets
Compliance with Treasury Circular Letter 91-32 will occur with the implementation of the Department of Human Services inventory system being instituted in all DHS facilities.

Sincerely,

Robert B. Nicholas, Ph.D.
Director

RBN: TK: jh