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

Department of Human Services
Division of Mental Health Services

July 1, 1999 to June 30, 2001

Richard L. Fair
State Auditor
The Honorable Donald T. DiFrancesco
Acting 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 Mental Health Services for the period July 1, 1999 to June 30, 2001.

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

October 29, 2001
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Community Residences - License Renewals</td>
<td>3</td>
</tr>
<tr>
<td>Community Capital Unit</td>
<td>4</td>
</tr>
<tr>
<td>Self Help and Legal Services Programs</td>
<td>5</td>
</tr>
</tbody>
</table>
Department of Human Services
Division of Mental Health Services

Scope

We have completed an audit of the Department of Human Services, Division of Mental Health Services for the period July 1, 1999 to June 30, 2001. Our audit included financial activities accounted for in the state’s General Fund, Public Purpose Building Construction Fund, Human Services Facilities Construction Fund, Public Purpose and Community-Based Facilities Construction Fund, and the Community Mental Health Portion of the Developmental Disabilities Waiting List Reduction and Human Service Fund.

Expenditures for the division during the 24 month audit period totaled $637 million. The prime responsibility of the division is to develop a range of accessible, coordinated mental health services for all citizens of the state, with emphasis on the development of local mental health programs as well as providing leadership and management for the state psychiatric hospitals. Annual revenues of the division exceeded $30 million during our audit period. The major components of revenues were medicaid disproportionate share and other 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. We also tested for resolution of significant conditions noted in our prior report.

The 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, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the 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. Sample transactions were judgmentally selected.

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

**Conclusion**

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 system. In making this determination, we noted certain matters of noncompliance with laws and regulations and internal procedures merit management’s attention. We also found that the division has resolved the significant issues noted in our prior report.
All community residences should be evaluated annually for health and safety issues.

**Community Residences- License Renewals**

Community residences for mentally ill adults and youths are required to be licensed by the Department of Human Services. The licenses are issued through the Division of Mental Health Services and renewed annually, per New Jersey Administrative Code 10:37A-2 and 10:37B-2. The administrative code states, “Determination of license renewal shall be based on the annual evaluation conducted by the Division’s Bureau of Licensing and Inspections (BLI)”. The calendar year licenses are based on the evaluations performed in the previous calendar year. These evaluations are of the physical plant and include plumbing, electrical systems, heating, fire safety, structural safety and maintenance, etc. Our review disclosed that 57 of the approximately 400 community residences were issued calendar year 2001 license renewals without the required BLI evaluation. The lack of an annual evaluation by the BLI increases the risk that a residence will operate without meeting the safety and quality of life standards established by the administrative code. The evaluations were not performed because the BLI did not schedule all of the residences and did not ensure that all residences scheduled were evaluated prior to issuing licenses. Upon bringing the matter to management’s attention, the 57 residences were evaluated and a corrective action plan was implemented to prevent future occurrence.

**Recommendation**

We recommend that the BLI ensure that the corrective action plan continues to be instituted and that they verify all required evaluations are performed prior to issuing license renewals.

**Auditee’s Response**

We concur with this report finding and the related recommendation. As noted, once brought to our attention, we immediately scheduled and conducted evaluations of these residences and found them all to be in compliance with the applicable standards, thus warranting the licenses that were issued. Moreover,
we have implemented a tracking form and internal procedures to assure that no licenses are issued in the future unless we have confirmed that the required evaluation has been conducted and the results of such evaluations warrant continued licensure.

The division should ensure that mortgages are filed.

Community Capital Unit

The mission of the division’s Community Capital Unit (CCU) is to expand, maintain, and improve the statewide network of community-based mental health residential and service facilities. To this end, the unit has expended over $45 million in bond monies since 1979 to fund the purchase of over 200 facilities. Although the providers hold title to the properties, they are required to provide services at the site for an agreed upon period, usually 20 years. At the end of the period, the agreement may be extended or the property title transfers to the state, who in turn may transfer title to another provider. Standard contract language requires providers to file the mortgage in the county in which the facility is located and deliver proof of such filing to the division within seven days. The recorded mortgage is necessary to protect the state’s interest in the property in case of default. It is the responsibility of the CCU to ensure proof of recorded mortgages is received. Our review disclosed that seven of eight properties in a sampled county did not have mortgages filed with the county clerk’s office and the one filed was for an insufficient amount. A follow-up review by the unit disclosed that over 75 percent of the properties did not have documentation of recorded mortgages on file. The unit has initiated corrective action by requesting all providers without recorded mortgages to file mortgages with the applicable county and to provide the CCU with proof of the filing.

Our review also disclosed that the CCU did not maintain an adequate record of the purchased facilities. For certain facilities we noted incomplete
address information, no agreement termination date, and incomplete payment information. The lack of accurate record keeping could inhibit management from monitoring project and property status.

**Recommendation**

We recommend the unit continue with the corrective action process to ensure all required mortgages are recorded and reported to the division. We further recommend the unit create a project control record that contains all pertinent facility related data.

**Auditee’s Response**

We concur with the finding and related recommendation. To assure that we receive proof of filed mortgages as required, we have developed and implemented a tool and internal procedures to track and verify that mortgages have been filed. In addition, we have developed and implemented an enhanced project control record to reflect all pertinent data for each facility. This control record will be an evolving tool to be amended as data needs arise and will also serve as the starting point for a more comprehensive project database.

E**valuation of these programs should be consistent with other programs.**

**Self Help and Legal Services Programs**

Services contracted for by the division are monitored through quarterly reports prepared by the providers. These reports provide an aggregate overview of the various services rendered to the division’s clients during the report period and are measured against contractual commitments. New Jersey Administrative Code 10:37-10.1 requires that all services be subject to a comprehensive site review performed by the division every three years. We found that the division had not implemented the same level of monitoring and evaluation for the Self Help program with 27 sites and Legal Services with 12 sites. The combined annual costs for these two programs is $4 million. The Self Help program was not required to submit quarterly reports and neither program had been subject to a three-year site review.
The lack of sufficient program monitoring increases the risk that the services provided are not adequate or at a level commensurate with contractual commitments.

**Recommendation**

We recommend that the division require quarterly monitoring reports for the Self Help program and include the Self Help program and Legal Services in their three-year site reviews.

**Auditee’s Response**

We concur with the findings and recommendations in the report. With regard to our contracts with consumer-operated Self Help Centers, DMHS has designed and implemented, effective October 2001, a monthly report to be submitted by and reviewed for all such centers. In addition, DMHS has also developed a review instrument and effective October 2001, will begin using it to conduct monitoring site review visits to all centers within a 3 year cycle. With respect to our contracts for Legal Services, we have also developed a site review protocol and in the Spring of 2002, we will begin conducting monitoring site reviews of all such service sites at least once every 3 years.