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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
DEPARTMENT OF MENTAL HEALTH
JULY 1, 2006 TO SEPTEMBER 30, 2006

OFFICIAL AUDIT
REPORT
JULY 25, 2007

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

Established by Chapter 19, Section 1 and operating under Chapter 123, Sections 1 through 36B of the Massachusetts General Laws, the Massachusetts Department of Mental Health (DMH) promotes mental health through early intervention, treatment, education, policy, and regulation so that all residents of the Commonwealth may live full and productive lives. DMH currently serves approximately 27,000 adults, adolescents, and children through an array of inpatient and community-based services, such as residential and intensive residential services, case management, and community rehabilitation support.

DMH is organized into six geographic Areas, each of which is managed by an Area Director. Each geographic Area is divided into local service sites. Each Site provides case management and oversees an integrated system of state and vendor-operated adult and child/adolescent mental health services. The Central Office of DMH, located in Boston, has three divisions in addition to the Commissioner's Office – Program Operations, Clinical and Professional Services, and Management and Budget. It coordinates planning, sets and monitors attainment of broad policy and standards, and performs certain generally applicable fiscal, personnel, and legal functions. Some specialized programs, including forensic mental health services, the child and adolescent inpatient units, and intensive residential treatment programs, are managed centrally.

In accordance with Chapter 11, Section 12, of the General Laws, we conducted an audit of certain financial and management operations of DMH's Central Office for the period July 1, 2006 to September 30, 2006. The purpose of the audit was to review and analyze DMH's internal controls over receipts and disbursements, personnel and payroll functions, administrative expenses, contract procurement, and safeguarding its assets; to review compliance with Office of the State Comptroller (OSC) and Chapter 647 requirements, including complete and accurate accounting records and an adequate Internal Control Plan (ICP); and to examine DMH activities relating to oversight of Area offices and facilities.

AUDIT RESULTS

4

1. INTERNAL CONTROL PLAN NEEDS IMPROVEMENT

4

DMH's ICP was incomplete and had not been updated, contrary to Chapter 647 of the Acts of 1989 and OSC guidelines. Additionally, our review of the ICP disclosed that it did not include two interrelated components detailed in the OSC's Internal Control Plan for Managers, and it contained outdated information and references. DMH officials recognized the need to revise and update the ICP, and has hired an Internal Control Officer, whose responsibilities include performing a department-wide risk assessment and establishing ICPs for each DMH unit based on its type of operation. The Internal Control Officer stated that the DMH risk assessment and new ICP should be finalized by June 30, 2007. In response to our audit report, DMH stated that it was currently in the process of updating its existing Internal Control Plan for its fiscal operations agency-wide to comply with the provisions of Chapter 647 of the Acts of 1989 and the requirements set forth by the Office of the State Comptroller. Additionally, an annual risk assessment of fiscal operations will be performed

and will be referenced to specific fiscal policies and procedures for mitigating risks. Finally, the ICP will also include references to the five interrelated components of internal controls: control environment, risk assessment, control activities, information and communication, and monitoring.

2. INTERNAL CONTROLS OVER FIXED ASSETS NEED IMPROVEMENT

6

Our review disclosed that DMH was not in compliance with OSC requirements for accounting for, recording, reporting, and reconciling fixed assets. Specifically, our review noted that DMH's inventory list was not completely or accurately maintained, fixed assets were not properly tagged in all instances, and an annual reconciliation of fixed assets was not performed. In addition, DMH's Non-GAAP (Generally Accepted Accounting Principles) fixed asset list lacked required information, including dates of purchase and historical costs. Without proper internal controls over fixed assets, there is inadequate assurance that DMH's property and equipment is adequately safeguarded against loss, theft, or misuse. In response to our audit report, DMH indicated that it would take the necessary corrective actions regarding fixed asset management to ensure compliance with OSC's guidelines to ensure adequate internal controls over fixed assets. In order to comply with the audit recommendation, DMH will review its current inventory policies and procedures for adequacy and effectiveness. DMH will also establish additional policies and implement additional procedures agency-wide, as needed, for the recording, tagging, and transfer of fixed assets in accordance with OSC guidelines.

APPENDIX

10

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

10

INTRODUCTION

Background

Chapter 19, Section 1, of the Massachusetts General Laws established the Department of Mental Health (DMH), which is supervised and controlled by the Commissioner of Mental Health. DMH falls under the umbrella of the Executive Office of Health and Human Services (EOHHS), and is responsible for overseeing all matters affecting the mental health of the Commonwealth's citizens. DMH's primary mission is to provide services to citizens with long-term or serious mental illness, early and ongoing treatment for mental illness, and research into the causes of mental illness. Chapter 123 of the General Laws established DMH's operating statutes, which require the adoption of regulations and professional standards for the treatment of mentally ill persons in DMH facilities.

During 1966, the State Legislature enacted the Comprehensive Mental Health and Retardation Services Act to decentralize DMH and establish a network of community-based services. DMH operates through a central office located in Boston and six area offices, which provide and supervise extended-stay inpatient services and community-based services at hospitals, comprehensive centers and clinics, and other mental health facilities established within DMH, and sets the operating standards for mental health facilities and community residential programs.

The central office, which consists of the Commissioner's office and three divisions – (Program Operations, Clinical and Professional Services, and Management and Budget) coordinates planning; sets and monitors attainment of broad policy and standards; and performs certain generally applicable fiscal, personnel, and legal functions. Some specialized programs, such as forensic mental health services, child and adolescent inpatient units, and intensive residential treatment programs, are managed through the central office.

The six area offices are organized by geographic area, each of which is managed by an Area Director. Each area office is divided into local service sites. Each site provides case management and oversees an integrated system of state and vendor-operated adult and child/adolescent mental health services. Most planning, budget development, program monitoring, contracting, quality improvement, and citizen monitoring functions emanate from site and area offices. Citizen advisory boards at every level of the organization participate in agency planning and oversight. DMH allocates funds from its state appropriation and federal block grant to the areas for both state-

operated and state-contracted services. This includes four state hospitals; five community mental health centers with inpatient units; adult inpatient units at two public health hospitals; contracted adult, adolescent, and latency-age inpatient units and latency and adolescent intensive residential treatment programs; and community-based services.

From 1998 to 2000, DMH revised 104 Code of Massachusetts Regulations (CMR), which outlines DMH's authority, mission, and organizational structure; citizen participation; licensing and operational standards for inpatient facilities (DMH-operated and other licensed inpatient facilities) and community programs; and standards for service planning, fiscal administration, research, investigation procedures, and designation and appointment of professionals to perform certain statutorily authorized activities.

Chapter 26, Section 15 of the Acts and Resolves of 2003 amended Chapter 6A, Section 16, of the General Laws by inserting in place thereof the following section:

Section 16. The executive office of health and human services shall serve as the principal agency of the executive department for the following purposes: (a) developing, coordinating, administering and managing the health, welfare and human services operation, policies and programs; (b) supervising and managing the organization and conduct of the business affairs of the departments, commissions, offices, boards, divisions, institutions and other entities within the executive office to improve administrative efficiency and program effectiveness and to preserve fiscal resources; (c) developing and implementing effective policies, regulations and programs to assure the coordinating and quality of services provided by the security and all of the departments, ... (d) acting as the single state agency under section 1902(a)(5) of the Social Security Act authorized to supervise and administer the state programs under Title XIX, for the programs under titles IV(A), IV(B), IV(E), XX and XXI of the Social Security Act, and for ... (e) maximizing federal financial participation for all agencies, departments....

As a result, and as part of the reorganization of its departments, EOHHS entered into an Interdepartmental Service Agreement (ISA) with DMH on June 30, 2005. The purpose of the ISA was to improve administrative efficiency and service delivery to better support department operations and preserve financial resources by identifying certain functions and activities that are common to the separate agencies and departments within EOHHS in accordance with the legislation. The Core Administrative Activities designated in the ISA as common to EOHHS and its various departments and agencies include: Human Resources, Federal Revenue Claiming and Revenue Forecasting, Information Technology Services, and Leasing. In accordance with the ISA, EOHHS is responsible for providing staff and resources to perform these functions for the departments.

DMH currently serves approximately 27,000 adults, adolescents, and children through an array of inpatient and community-based services, such as residential and intensive residential services, case management, and community rehabilitation support. DMH also has an extensive array of services targeted to people with serious mental illness who are homeless. In addition, in fiscal year 2006, DMH forensic specialists performed 16,300 evaluations in the adult courts, and provided services in 3,684 cases for children and families involved in the juvenile justice system.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of certain financial and management operations of DMH's Central Office, including DMH's internal control structure, for the period July 1, 2006 to September 30, 2006.

Our audit was conducted in accordance with applicable generally accepted governmental auditing standards and, accordingly, included audit tests and procedures that we considered necessary. Our objectives were to review and analyze whether DMH has adequate internal controls over receipts and disbursements, personnel and payroll functions, administrative expenses, contract procurement, and safeguarding its assets; to review compliance with Office of the State Comptroller (OSC) and Chapter 647 requirements, including those related to complete and accurate accounting records and an adequate Internal Control Plan (ICP); and to examine DMH activities relating to oversight of area offices and facilities.

To accomplish our objectives, we conducted interviews with management and staff; reviewed departmental documentation, including DMH's ICP; and performed, on a test basis, such other procedures as we considered necessary.

At the end of our audit, the results of our review were communicated to DMH's Deputy Commissioner of Management and Budget, the Assistant Commissioner for Administration and Finance, the Director of Accounting and Operations, and the Internal Control Officer.

Our tests indicated that, except as reported in the Audit Results section of this report, DMH has adequate internal controls over receipts and disbursements, personnel and payroll functions, administrative expenses, contract procurement, and safeguarding of assets, and complied with applicable laws, rules, and regulations for the areas reviewed.

AUDIT RESULTS

1. INTERNAL CONTROL PLAN NEEDS IMPROVEMENT

Our audit indicated that the Department of Mental Health (DMH) does not have a complete and updated Internal Control Plan (ICP), contrary to Chapter 647 of the Acts of 1989 (An Act Relative to Improving Internal Controls within State Agencies) and Office of the State Comptroller (OSC) guidelines. Chapter 647 requires departments to develop an internal control plan in accordance with OSC guidelines, and to update it annually or more often as conditions warrant. Our review of DMH's ICP noted that the plan contained outdated information and references, and that it did not include two interrelated components detailed in the OSC's Internal Control Guide for Managers.

The OSC's Internal Control Guide, Volume 2, states, in part:

The Office of the Comptroller defines an internal control plan as, a "high level summarization, on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e., departmental policies and procedures. . . ."

For the ICP to be considered a high-level summarization, five interrelated components of internal control must be present: control environment, risk assessments, control activities, information and communication, and monitoring. However, DMH's ICP only documented the control environment, control activities, and information and communication components. Although DMH does have various standard operating policies and procedures in draft form, the ICP did not address risk assessment and monitoring. Without a complete ICP in place, there is inadequate assurance that DMH will achieve its goals and objectives efficiently, effectively, and in compliance with applicable laws, rules, and regulations; provide guidance in the event of employee turnover; and properly safeguard its assets against loss, theft, or misuse.

A risk assessment is an entity's identification and analysis of risks relevant to achievement of its goals and objectives, and it forms a basis for determining how the risks should be managed. Monitoring is a process that assesses the quality of the internal control performances over time. The effectiveness of internal controls needs to be monitored periodically to ensure that controls continue to be adequate and function properly.

An ICP must be evaluated and updated to respond to changes in an entity's internal control system while maintaining the system's effectiveness. We noted that DMH's ICP was last issued in 1999, and that the latest revisions reference policies from 2000. As of July 2005, the Executive Office of Health and Human Services performs many core administrative functions referenced in DMH's ICP, such as human resources, payroll processing, revenue collections, and reporting. As a result, the ICP included outdated information, such as revenue collections and the data entry of payroll time records, and it contains references to the old Personnel Management Information System and Commonwealth Automated Payroll System (PMIS and CAPS), rather than the current Human Resources/Compensation Management System (HR/CMS) payroll system, which was implemented in February 2000.

Chapter 647 states that an agency's internal control officer:

Shall annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure continued integrity of the system.

Relative to management's involvement in internal controls, the OSC's Internal Control Guide for Managers, Chapters I and IV, states, in part:

New studies on internal control have confirmed management's involved support as essential to the proper functioning of internal controls. No system of internal control functions properly without the knowledge and support of management at all levels. The revised Internal Control Guide for Managers stresses the essential role of managers at all levels in developing and monitoring departmental internal controls. . . .

Internal controls coordinates a department's policies and procedures to safeguard its assets, check the accuracy and reliability of its data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Department managers must develop, implement, monitor, and update an effective plan of internal controls. . . .

Preparing written internal controls will clearly communicate specific responsibilities to individual staff, facilitate training new staff, and enable you to review and monitor your internal control system.

DMH officials recognized the need to revise and update the ICP and therefore hired an Internal Control Officer, whose responsibilities include performing a department-wide risk assessment and establishing ICPs for each DMH unit based on its type of operation. The Internal Control Officer stated that DMH's risk assessment and new ICP should be finalized by June 30, 2007.

Recommendation

DMH should update its ICP to ensure that it is in compliance with Chapter 647 and OSC guidelines by completing a high-level summarization of its internal control activities, including a risk assessment with sufficient reference to its detailed policies and procedures for mitigating risks, and include reference to the five components of internal controls. Additionally, the update should include current references to the HR/CMS payroll system.

Auditee's Response

DMH is currently in the process of updating its existing Internal Control Plan for its fiscal operations agency-wide to comply with the provisions of Chapter 647 of the Acts of 1989 and with the requirements set forth by the Office of the State Comptroller. An annual risk assessment of fiscal operations will be performed and will be referenced to specific fiscal policies and procedures for mitigating risks. The ICP will also include references to the five inter-related components of internal controls: control environment, risk assessment, control activities, information and communication, and monitoring.

2. INTERNAL CONTROLS OVER FIXED ASSETS NEED IMPROVEMENT

Our review disclosed that DMH was not in compliance with OSC requirements for accounting for, recording, reporting, and reconciling fixed assets. Specifically, our review noted that the inventory list was not completely or accurately maintained, fixed assets were not properly tagged in all instances, and an annual reconciliation of fixed assets was not performed. In addition, DMH's Non-GAAP (Generally Accepted Accounting Principles) fixed asset listing lacked required information, including dates of purchase and historical costs.

We selected for review 20 inventory items to verify the existence of the asset, its location, and the proper recording of each item. Our tests disclosed the following:

- Three computers, a computer monitor, a laser-jet printer, and a file cabinet selected from the fixed asset list could not be located. DMH personnel stated that the computer monitor and printer had been replaced, and we were able to verify the replacement items to the fixed asset list. However, DMH personnel could not determine the location of the other items.
- A computer and two laser-jet printers selected from the floor were not recorded on the fixed asset listing.
- Desktop computers, printers, and fax machines located in a storage room lacked identification tag numbers.

During our audit, we also noted some recently purchased furniture that lacked property tag numbers. However, DMH tagged this furniture when we brought it to their attention.

The Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide sets forth the following policies. Chapter 5, Accounting and Management, Policy Numbers 5-5 and 5-6:

Fixed Asset Inventory – There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include at a minimum a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets.

Reconciliation – There shall be a reconciliation of the fixed assets inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.

Chapter 4, Recording Including Depreciation, Policy Number 4-5:

Tagging of Assets – Physical property other than land, buildings and infrastructure shall be marked with some type of permanent tag affixed to a readily available area of the asset. This tag must have a unique identification number that will be associated with that asset and become a part of the asset's permanent record.

Chapter 6, Reporting, Policy Number 6-3:

Non-GAAP Fixed Assets – Departments must maintain an inventory of these assets either on the Fixed Asset Subsystem in MMARS or on an in-house system.

Also, the OSC's Internal Control Guide for Departments, Volume II, Chapter 3, Section C, Fixed Assets, sets forth the following requirements:

Departments are required to properly account for all fixed asset transactions, including the proper recording and the reconciliation of a periodic inventory of all fixed assets.

The department has implemented adequate security of fixed assets, equipment or other inventory guidelines to ensure the safety of fixed assets from loss, theft, misuse or destruction, including restricted access to the public to office space.

Procedures in place to ensure that all fixed assets are properly recorded in either MMARS or the department's inventory system within 7 days of receipt.

Internal inventory systems must include the description of the item, the value of the item, the acquisition date and where the property can be located within the department.

Moreover, the OSC and Operational Services Division (OSD) Fixed Assets - Acquisition Policy, issued on July 1, 2004 and revised on November 1, 2006, states, in part:

Non-GAAP Fixed Assets must be recorded in a Department's inventory and reconciled at least annually. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item.

Without proper fixed asset controls, there is inadequate assurance that property and equipment is safeguarded against loss, theft, or misuse.

DMH personnel stated that it completed an annual inventory of property and equipment in June 2006 by scanning bar-code tags to DMH's IntelliTrack property database system. They indicated that assets located but not previously included on the list were added at that time, but that a reconciliation of items listed and not physically located was not completed due to a lack of resources. DMH personnel also stated that the individual responsible for maintaining inventory records works on a 120-day, part-time basis, and that, as a result, assets were not being recorded and tagged in a timely manner. In addition, DMH personnel stated that surplus items have not been processed in the last year. DMH personnel also noted that DMH has recently begun a department-wide replacement of computers, and that, as a result, management responsibility for computers has been transferred from the Administration and Finance Division to the Information Technology Department.

Recommendation

DMH should take the necessary corrective actions regarding fixed asset management to ensure compliance with OSC's guidelines and to ensure adequate internal controls over its fixed assets. Specifically, it should:

- Reconcile on an annual basis, at a minimum, its fixed asset inventory against the records that it maintains.
- Maintain cumulative fixed asset listings accurately, completely, and in a timely manner, and include each item's description, property identification number, location, acquisition date, and historical costs.
- Monitor the transfer of equipment within DMH.
- Ensure that all fixed assets have a permanently affixed identification tag.

Auditee's Response

DMH acknowledges the audit recommendation to take the necessary corrective actions regarding fixed asset management to ensure compliance with OSC's guidelines to ensure adequate internal controls over fixed assets. In order to comply with the audit

recommendation, DMH will review its current inventory policies and procedures for adequacy and effectiveness. DMH will also establish additional policies and implement additional procedures agency-wide, as needed, for the recording, tagging, and transfer of fixed assets in accordance with OSC guidelines.

APPENDIX I

Chapter 647, Acts of 1989, An Act Relative to Improving the
Internal Controls within State Agencies

H 5

Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

11 5

Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

H 5

by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved,

Richard Riordan, Governor.