



# The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF THE  
DEPARTMENT OF MENTAL HEALTH CENTRAL  
MASSACHUSETTS AREA OFFICE  
JULY 1, 2006 TO FEBRUARY 28, 2007**

**OFFICIAL AUDIT  
REPORT  
OCTOBER 5, 2007**

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Established by Chapter 19, Section 1, and operating under Chapter 123, Section 1 through 36B of the Massachusetts General Laws, the Massachusetts Department of Mental (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 Massachusetts Area Office (CMAO) located in Worcester consists of the CMAO administration office, three site offices, and the Worcester State Hospital. The CMAO serves 66 cities and towns throughout the area and approximately 2000 DMH clients.

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 CMAO for the period July 1, 2006 to February 28, 2007. The purpose of the audit was to review and analyze whether the CMAO has adequate internal controls over receipts and disbursements, personnel and payroll functions, administrative expenses, contract procurement, and safeguarding its assets; and 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).

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Our audit of the Central Massachusetts Area Office (CMAO) disclosed that although they do have policies and procedures over financial and administrative functions, they do not have a written internal control plan that specifically addresses issues concerning the CMAO. Chapter 647 of the Acts of 1989 (An Act to Improve Internal Controls within State Agencies) and Office of the State Comptroller (OSC) guidelines require departments to develop an internal control plan in accordance with OSC guidelines and update it annually or more often as conditions warrant.

During our audit we noted that CMAO had administrative policies and procedures that support internal controls established within the CMAO; however, a formal ICP has not been developed to document those controls. CMAO officials believe that the ICP should be developed and administered by DMH's Central Office.

Our recent audit of DMH's Central Office (2007-0236-3S) disclosed that DMH does not have a complete and updated ICP. 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 departmental unit based on its type of operation. In response to our audit report, DMH-CMAO Area Director stated that work is well underway. As part of the overall DMH Internal Control efforts, the administrative staff of the CMAO is working with DMH's Internal Control Officer and Internal Control Team to develop an ICP in compliance with Chapter 647 of the Acts of 1989. Efforts to produce a Fiscal Operations Manual for each DMH Area and DMH's Central Office are also underway agency-wide.

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## 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 establishes 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, Massachusetts and six area offices, which provide and supervise extended-stay inpatient services and community-based services including hospitals, comprehensive centers and clinics, and other mental health facilities established within the DMH. The offices also set the operating standards for mental health facilities and community residential programs.

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 emanate from site and area offices. Citizen advisory boards at every level of the organization participate in agency planning and oversight. The Central Area Massachusetts Office (CMAO) located in Worcester consists of the CMAO administration office, three site offices, and the Worcester State Hospital. The CMAO serves 66 cities and towns throughout the area and approximately 2000 DMH clients.

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 MGL, Chapter 6A, Section 16 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 coordination 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 re-organization 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, 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 including HRCMS Payroll Processing, Federal Revenue Claiming and Revenue Forecasting, Information Technology Services, and Leasing. In accordance with the ISA, EOHHS is responsible to provide staff and resources to perform these functions for the departments.

DMH currently serves about 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 CMAO for the period July 1, 2006 to February 28, 2007. Our audit was conducted in accordance with applicable generally accepted governmental auditing standards and, accordingly, included audit tests and procedures that we considered necessary. The purpose of the audit was to review and analyze whether the CMAO has adequate internal controls over receipts and disbursements, personnel and payroll functions, administrative expenses, contract procurement, and safeguarding its assets; and 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).

To accomplish our objectives, we conducted interviews with management and staff, reviewed departmental documentation, 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 CMAO Area Director, Area Operations Manager, and the Director of Budget and Accounting.

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.

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## AUDIT RESULTS

### INTERNAL CONTROL PLAN NEEDS IMPROVEMENT

Our audit of the Central Massachusetts Area Office (CMAO) disclosed that although they do have policies and procedures over financial and administrative functions, they do not have a written internal control plan that specifically addresses issues concerning the CMAO. 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 require departments to develop an Internal Control Plan (ICP) in accordance with OSC guidelines and update it annually or more often as conditions warrant.

The OSC's Internal Control Guide, Vol.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. A risk assessment is an entity's identification and analysis of risks relevant to achievement of its goals and objectives and forms a basis for determining how the risks should be managed. During our audit we noted that CMAO had administrative policies and procedures that support internal controls established within the CMAO; however, a formal ICP has not been developed to document those controls. CMAO officials believe that the ICP should be developed and administered by DMH's Central Office.

Our recent audit of DMH's Central Office (2007-0236-3S) disclosed that DMH does not have a complete and updated ICP. 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 departmental unit based on its type of operation. An ICP must be evaluated and updated to respond to changes in an entity's internal control system while maintaining the system's effectiveness. The Internal Control Officer stated that the department's risk assessment and new ICP should be finalized by June 30, 2007.

Without a complete ICP in place, there is inadequate assurance that the Department will achieve its missions and objectives efficiently, effectively, and in compliance with applicable state laws and regulations; provide guidance in the event of employee turnover; and properly safeguard its assets against loss, theft, or misuse.

***Recommendation***

The administrative staff of the CMAO should work with DMH's Internal Control Officer to develop an ICP in compliance with Chapter 647 of the Acts of 1989, which is specific to its operations, to ensure proper accountability and safeguarding of its assets.

***Auditee's Response***

*...work is well underway...the Department is taking a state wide approach to the establishment of the appropriate internal controls and is developing a singular ICP....the DMH response in its recent Central Office audit (no. 2007-0236-3S) stated that: "DMH is currently in process of updating its existing Internal Control Plan (ICP) 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."*

*As part of the overall DMH Internal Control efforts, the administrative staff of the CMAO is working with DMH's Internal Control Officer and Internal Control Team to develop an ICP in compliance with Chapter 647 of the Acts of 1989. Efforts to produce a Fiscal Operations Manual (FOM) for each DMH Area and DMH's Central Office are also underway agency-wide. The content of each FOM will address the specific fiscal operations and procedures conducted within an Area. These procedures do and will support DMH's compliance with its ICP requirements in order to ensure proper accountability and safeguarding of its assets.*



APPENDIX

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

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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

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

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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

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

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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 H. Kiah*, Governor.