



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

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**Department of Human Services  
Division of Mental Health Services  
Trenton Psychiatric Hospital**

July 1, 2003 - January 28, 2005

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**Richard L. Fair  
State Auditor**

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The Honorable Richard J. Codey  
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The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
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, Trenton Psychiatric Hospital for the period of July 1, 2003 to January 28, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Richard L. Fair".

Richard L. Fair  
State Auditor  
May 31, 2005

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**Department of Human Services  
Division of Mental Health Services  
Trenton Psychiatric Hospital**

***Scope***

We have completed an audit of the Department of Human Services, Division of Mental Health Services, Trenton Psychiatric Hospital for the period July 1, 2003 to January 28, 2005. Our audit included the financial activities accounted for in the state's General Fund.

Annual expenditures are \$61 million. The prime responsibility of the Trenton Psychiatric Hospital is to provide services for voluntarily and legally committed mentally ill persons from Mercer, Middlesex, Monmouth, and Union counties. Annual revenues are \$17 million and the major components of revenue were recoveries from Medicare, Medicaid, and counties.

***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 conditions noted in our prior report dated June 12, 2000.

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 agency. 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 personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally or randomly selected for testing.

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 recorded properly in the accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention. We also found that the department has resolved two of the three significant issues noted in our prior report. The remaining issue involving procurement has been updated in our current report.

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## Payroll

**I**nternal controls  
over payroll  
expenditures need  
to be strengthened.

The hospital employed approximately 1,100 individuals during fiscal year 2004 and incurred \$54.4 million in payroll expenditures. Manual leave records are maintained for all employees. During calendar year 2003 and 2004, there were 485 employees in a zero pay status, which includes terminated employees and employees who took a leave of absence. We tested the leave records of 34 employees in zero pay status and noted that seven were paid for time not work and ten were paid for leave time not earned due to timekeeping errors. This resulted in \$14,700 in unrecovered overpayments.

Overtime expenditures during fiscal year 2004 amounted to approximately \$7.2 million. We tested 598 overtime payments to direct care employees during October 2003. We found 82 transactions in which employees reported overtime which overlapped their regular shift by approximately 30 minutes. This resulted in overpayments of \$763. We also found five transactions in which two employees recorded eight hours on the overtime sheet for the same hours as their regular shift resulting in overpayments of \$963. The internal controls of the current payroll timekeeping system do not facilitate a review to preclude overpayments due to employees submitting overlapping hours worked. Our review also noted that the Set Off Individual Liability (SOIL) program is not being used to recover overpayments. Management is responsible for enforcing internal controls that safeguard assets from loss or unauthorized use.

### *Recommendation*

We recommend that controls be enhanced to ensure that employee pay time is accurate. We also recommend that the hospital review the possibility of using an automated timekeeping system to reduce the errors related to employees' leave records. Management should seek restitution from employees

who were overpaid and utilize the SOIL program where necessary.



## Procurement

**T**he hospital is not following proper purchasing procedures

Treasury Circular Letter 00-13-DPP states that a Direct Purchase Authorization (DPA) purchase is a non-recurring, one-time purchase transaction that cannot be procured through primary contracting methods, the State Distribution and Support Services Center, the Bureau of State Use Industries, or the Central non-profit agency. It also states that an agency should anticipate what its purchase requirements are for the fiscal year and if the anticipated volume exceeds \$25,000 per service, the agency should submit a requisition or request a term contract. We reviewed transactions for eight vendors who each received more than \$25,000 during fiscal year 2004. We found five vendors in which the hospital should have anticipated that the volume of services for each would have exceeded \$25,000. These vendors received a total of \$350,000 during the fiscal year.

The Treasury Circular also outlines the level of competitive pricing necessary for various dollar thresholds. We tested 25 DPA transactions and found six, totaling over \$100,000, where price competition did not occur, thus violating required bidding procedures.

Management asserted that several of the transactions were due to emergency situations. The Circular Letter does allow for single quotes in cases of life, safety, and health emergencies; however, we concluded that the circumstances did not qualify as emergencies. The failure to follow proper state purchasing procedures could result in the inefficient or improper use of funds.

***Recommendation***

We recommend that the hospital comply with the purchasing circular letter by following required bidding procedures and submitting a requisition or requesting a term contract when necessary.

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## State of New Jersey

DEPARTMENT OF HUMAN SERVICES  
DIVISION OF MENTAL HEALTH SERVICES

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RICHARD J. CODEY  
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May 25, 2005

James B. Patterson  
Assistant State Auditor  
Office of Legislative Services  
Office of the State Auditor  
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Dear Mr. Patterson:

The Division appreciates the opportunity to respond to the Draft Audit Report on Trenton Psychiatric Hospital (TPH) dated April 29, 2005. We have conferred with hospital management and ask that the following comments be made part of the Final Report.

### **Payroll**

Additional controls have been put into place to improve procedures for time reporting, payroll preparation and check distribution. These include increased use of the Set Off Individual Liability (SOIL) program in appropriate instances. For the overpayments to employees identified in the Report, all appropriate information has been conveyed to Treasury Centralized Payroll and the recovery process has been initiated.

In the past, the Payroll/Timekeeping function at TPH had been affected by significant staff turnover which resulted in vacancies and a greater burden on existing staff. These vacancies have now been filled and the new employees are receiving the appropriate training. With this situation, we believe that there is an adequate segregation of duties over the entire process. Full staffing should also facilitate a greater level of supervisory oversight so that the future occurrence of similar type errors is less likely.

The Draft Report also recommends consideration of an automated timekeeping system. DHS had been contemplating a system for universal use, but implementation is not certain at this time. As a separate initiative, Ancora Psychiatric Hospital has developed an internal automated system which they have been phasing in over the last 6-12 months. With the authorization of DHS, we plan on implementing this system at our other facilities. For TPH, a meeting has already been scheduled with Human Resources, Payroll/Timekeeping and Information Technology staff to develop a specific phase-in plan. Ancora and Division representatives will also assist in this endeavor.

James B. Patterson  
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May 26, 2005

**Procurement**

For the vendors identified in the audit that were paid in excess of \$25,000 during the fiscal year without a Waiver of Advertising, the hospital did follow competitive bidding procedures for each individual occurrence. The transactions that were identified as not having competitive bids were deemed at the time to be either emergency situations or unique sole vendor medical services. These types of services are critical to the continued operation of the facility, and normal bidding procedures are not practical since arrangements must be made quickly.

In reviewing the Treasury Circular on Direct Purchase Authorization with Department and Division/hospital staff, we recognize that inconsistencies exist in the exact way these guidelines are interpreted and applied to individual cases. We have already discussed these areas with the Department's Office of Business and Procurement, since the Circular has such wide applicability throughout DHS, particularly as it affects our institutions. Working with that Office, we plan on seeking clarification from the Division of Purchase and Property on specific issues to assure that all components of the Circular are being correctly and consistently applied.

Please do not hesitate to call if you have any questions or concerns about these issues.

Sincerely,



Alan G. Kaufman, Director  
Division of Mental Health Services

AGK:DR

(tph-ols1)

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