



**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 and Addiction Services  
Ann Klein Forensic Center**

July 1, 2010 to May 31, 2012

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**Stephen M. Eells  
State Auditor**

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# New Jersey State Legislature

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Enclosed is our report on the audit of the Department of Human Services, Division of Mental Health and Addiction Services, Ann Klein Forensic Center for the period of July 1, 2010 to May 31, 2012. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells  
State Auditor  
October 2, 2012

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## *Scope*

We have completed an audit of the Department of Human Services, Division of Mental Health and Addiction Services, Ann Klein Forensic Center for the period July 1, 2010 to May 31, 2012. Our audit included financial activities accounted for in the state's General Fund.

The forensic center serves the entire state in providing forensic psychiatric services for mentally ill persons who are legally committed. The center has a 200 bed unit with a staff of 550 full and part-time employees. Expenditures of the forensic center for fiscal year 2011 were \$38.5 million. This is before \$7.1 million of reimbursements were posted from the department to cover deficits in salary accounts. In addition, there were expenditures of \$9.2 million attributable to the special treatment unit at Avenel for the Civilly Committed Sexual Offenders. Forensic center employees provide treatment and rehabilitation services for these individuals. The funding for this unit is appropriated in the Department of Corrections accounts, and the forensic center is reimbursed for its expense.

Revenues of the forensic center for fiscal year 2011 were \$5.8 million. The major component of revenue is patient receipts-county. The county of residence of a patient of the forensic center is responsible to pay a portion of the costs. These revenues were excluded from the scope of this audit. However, we did examine portions of the forensic center's per diem rate used in billing the counties. We also performed limited procedures on the non-appropriated accounts, which are audited by the department on a four-year cycle.

## *Objectives*

The objectives of our audit were to determine whether financial transactions were related to the forensic center's programs, were reasonable, and were recorded properly in the accounting systems. Additionally, we reviewed selected activities of the non-appropriated accounts and examined the per diem rate methodology for reasonableness. We also tested for resolution of the significant condition noted in our prior report dated October 26, 2004.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, 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, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the forensic center. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed department and forensic center

personnel to obtain an understanding of the programs, internal controls, non-appropriated accounts, and the per diem rate.

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 populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of the finding included in our prior report, we identified corrective action taken by the forensic center and performed tests to determine if the corrective action was effective.

### *Conclusions*

We found that the financial transactions included in our testing were related to the forensic center's programs, were reasonable, and were recorded properly in the accounting systems, except for the reimbursement of salary expense from the department to cover deficits that should have been transacted by means of a transfer to properly reflect the cost of the center. Non-appropriated account activity appeared proper and the per diem billing methodology and calculation as they apply to the forensic center were reasonable. In making these determinations, we noted weaknesses related to separation of employment, overtime, revenue controls, and the "Our Store" fund. We also found that the forensic center has resolved the significant issue noted in our prior report.

## **Separation of Employment**

**Leave balances and payment determinations for separated employees need to be accurately calculated and monitored.**

Vacation, sick, and administrative leave time is credited to state employees in January under the assumption that it will be earned during the calendar year. Upon separation from state service, the credited leave time must be prorated to reflect the time actually earned in the final year. Based on our discussions with management and our review of time records, a significant number of forensic center employees exhaust their leave entitlements early in the calendar year. This may result in a separated employee owing leave time due to the proration of their final year leave balance. We reviewed 15 of the 71 separations of permanent employees that occurred during our audit period. Six of the 15 former employees owe a total of 385 hours or \$17,700 because of overdrawn leave time that was not recovered. In addition, 8 of the 15 separated employees owe a total of 237 hours or \$10,200 because of the incorrect proration of earned leave time calculated upon their separation. The forensic center's internal policy and New Jersey Administrative Code 4A:6-1.5 require the agency to hold an employee's final pay and to utilize payroll deductions to satisfy this debt. After failing to collect negative leave debt through payroll deductions, the center is required to bill the former employee by mail and send a follow-up invoice with a 30 day due date as per departmental regulations. The forensic center made no attempts to collect the debt either by holding an employee's final pay or by billing the former employee. A final means of collecting this type of debt is through the state's Set-Off of Individual Liability program. All discovered negative leave debt was submitted to the Department of the Treasury for collection.

The forensic center's practice is to pay employees after verification of a submitted timesheet. Despite this, the center failed to timely terminate payroll disbursements in 7 of the 15 separations we reviewed. They were initially overpaid \$24,500. Overpayments to two employees were subsequently discovered and the agency was able to recover \$14,200. A comparison of separation date to payroll for the remaining 56 separations during our audit period revealed additional overpayments of \$10,800 to six employees. One of these overpayments for \$3,200 was subsequently reimbursed.

### **Recommendation**

We recommend that the forensic center adhere to state and internal policies regarding calculation of leave balance proration, negative leave, and payroll cut-off. Calculations need to be properly reviewed for accuracy. Any previous payment errors should be recovered.



## **Salary Deficits**

### **Salary expenses should be properly reflected in the budget and accounting system.**

The forensic center incurred salary expenses of \$35 million for fiscal year 2011. The annual state appropriation for these salaries was insufficient, so \$7.1 million was reimbursed from departmental accounts to cover the salary deficits. This has the effect of understating the center's salary expense on the state accounting system and in future state budget documents. An appropriation transfer should be used to properly reflect this activity.

### **Recommendation**

We recommend that the forensic center's actual expenditures be reflected in the state accounting system and the state budgets, and any future deficits be covered using a transfer document.



## **Overtime**

### **Medical security overtime costs can be reduced.**

The forensic center expended \$4 million for medical security officers' overtime in fiscal year 2011, an increase of 60 percent over the prior year. The center follows operational standards and minimum staffing levels established in collaboration with the division. Officers are scheduled for continuous visual observation of patients who are at risk of hurting others or themselves. In 2011, the center experienced an increase in continuous visual observations from an average of six officers per shift to an average of eleven officers per shift. The increase in monitoring of individual patients required 45,000 additional medical security hours which resulted in 36,000 hours of overtime. The center was able to absorb 9,000 hours by minimizing overstaffing on shifts.

While we consider the staffing levels to be reasonable, we identified two examples of unnecessary overtime. Because of work-related injury, some security officers were assigned to adjusted work duty (light duty) by attending physicians. These officers were not allowed patient contact and there are a limited number of assignments at the center that could be filled by these officers without additional training. Loading dock assignments, which are available on day and evening shifts, do not require additional training and should be given to light duty officers when available. All light duty officers are assigned to the loading dock and there is usually an additional medical security officer that does not have any work restrictions on this assignment. This additional officer is not necessary and could substitute any other assignment that had been scheduled with overtime. We identified 2,600 hours of overtime costing \$110,000 that could have been avoided if light duty officers replaced the regularly scheduled officer assigned to the

loading dock and have him assigned where needed rather than overtime for a medical security officer.

In another example, required staffing levels were exceeded daily by scheduling an additional two medical security officers. This resulted in unnecessary overtime totaling \$62,000 from June 6 through October 10, 2011.

According to management, the increase in continuous visual observations for 2011 appears to be permanent. The number of officers required to monitor individual patients fluctuated from an average of 14 per shift in January to 7 per shift in October. Current staffing levels are sufficient to cover seven continuous observations per shift. For that reason, the center covers additional monitoring assignments by utilizing overtime. Hiring additional security officers would cause overstaffing on shifts when continuous visual observations are low and would not have a significant effect on total payroll costs. However, overtime is also an expensive means of meeting the continuous visual observation levels. The average overtime rate for medical security officers in 2011 was \$41.70 per hour.

Instead of paying overtime, the center may utilize temporary employment services for temporary increases needed in the medical security department. The center employed 25 temporary employees in fiscal year 2011. They are trained in the same manner as permanent employees, but are limited to 944 hours of employment per fiscal year. Temporary employees at the forensic center are assigned three days a week until they exhaust their allowed hours. They usually all start in July and finish between January and March of the same fiscal year. In January, all permanent employees receive their annual allotments of leave time and use it extensively. This combination of the unavailability of temporary employees and call-outs by permanent employees creates shortages requiring overtime. In the first three months of calendar year 2011 overtime reached an average of 300 hours per day.

Temporary employees in medical security are compensated \$17.74 per hour. If the center hired more temporary employees and utilized them on an as-needed basis, the hospital could save significant overtime costs. For example, if half of 2011 overtime costs were replaced with services provided by temporary employees, the center could save \$800,000 annually.

### **Recommendation**

We recommend the forensic center evaluate their overtime cost for potential savings. Consideration should be given to hiring additional temporary employees for medical security.





## **Insurance Receipts**

### **Controls over receipts from private insurance companies should be improved.**

The forensic center may obtain partial reimbursement for the care of patients who are covered by private insurance. For fiscal year 2011, the center received \$67,000 from private insurance companies. The supervisor of patient accounts is responsible for billing these companies, maintaining the records, and receiving the insurance payment checks. These responsibilities should be segregated for proper internal control.

### **Recommendation**

We recommend that the responsibility for the receipt of insurance checks be assigned to someone other than the individual performing the billing and recording functions.



## **Our Store**

### **The Our Store fund should account for all costs, and controls over cash receipts need to be strengthened.**

The Our Store fund is designated to receive funds from the Patient Trust Account for patient store purchases and to provide funds from store profits to the Patient Welfare Fund. The store sells items such as snacks, drinks, and hygiene products to both patients and employees at the forensic center. The store is open for five and one-half hours for employees and 12 and one-half hours for patients per week. It is staffed by center employees and also by patients as part of their rehabilitation program.

The forensic center records showed \$157,252 in total store sales for calendar year 2011, which generated profits of \$20,737. Our review found that salary costs to operate the store are excluded from the determination of the store's profits. The salary cost to staff the store during operating hours was estimated to be \$55,000 in calendar 2011. Therefore, the store is operating at a loss.

We reviewed activity in the fund and found controls over patient sales, which do not involve cash, to be reasonable. However, controls over cash sales to employees, which totaled \$6,350 in calendar year 2011, need improvement. There were no cash receipt records or ledger; and one person receives the cash, makes the deposit, and prepares the bank reconciliation.

## **Recommendation**

We recommend that the forensic center evaluate total costs to operate the store when determining sale prices. The controls over employee sales should be enhanced by including the use of cash receipt records and segregating duties over the cash function.





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September 19, 2012

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William D. Robinson, CPA  
Manager Office of Legislative Services  
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Dear Mr. Robinson,

In response to the draft audit of the Ann Klein Forensic Center for the period July 1, 2010 to May 31, 2012, please accept the following responses to the recommendations made:

**1) Separation of Employment**

**Recommendation** - OLS recommends that staff adhere to the state and internal policies regarding calculation of leave balance proration, negative leave and payroll cut-off. Calculations need to be properly reviewed for accuracy. Any previous payment errors should be recovered.

**Response:** AKFC is a completely manual timekeeping facility comprised of approximately 600 staff half of which operate 24/7. One of the State's initiatives is to have as many employees as possible enrolled in direct deposit. As such many staff at AKFC do not receive actual checks on pay day, they receive their pay electronically directly into their accounts. With that being said when an error in over payment is discovered the option of "holding an employee's final pay" is often not an option. If someone does receive an actual pay check and an overpayment is discovered the last pay check is held.

When an overpayment is discovered the employee's debt is submitted directly to the Set-Off of Individual Liability (SOIL) program. In the past AKFC used to request payment from the employee prior to sending the debt to SOIL. However, the employees very rarely if ever paid back the money and the debt was then forwarded to SOIL for collection. AKFC stopped sending the letters to employees because it delayed the collection process. Due to the audit findings AKFC now has resumed sending a letter to the employee prior to the debt being submitted to SOIL. To date no employee has submitted any monies owed.

Payroll submits a clearance form containing time balances to process all separation actions. All clearance forms will now be reviewed for accurate time balance calculations by another payroll staff prior to submitting for separation processing.

## 2) Salary Deficits

**Recommendation** – We recommend that the forensic centers actual expenditures be reflected in the state accounting system and the state budgets, and any future deficits be covered using a transfer document.

**Response:** While the forensic center did not decide which transactions were used to alleviate the salary deficits, DHS, Central Office was contacted and provided the following: "The two UA transactions in question were processed to resolve salary deficits in AKFC from centrally budgeted federal funding sources. These federal funds are authorized by the Fringe and Indirect exemption and are budgeted centrally to allow the department flexibility to react to changing closeout needs. Federal claiming and reporting are not affected because the department adjusts the cost reports to ensure proper accounting of expenditures. The department has taken steps to reduce the amount of funds that are budgeted centrally. For FY12, ICF and CCW funding are now totally budgeted in DDD."

## 3) Overtime

**Recommendation** - We recommend that the forensic center evaluate their overtime cost for potential savings. Consideration should be given to hiring additional temporary employees for medical security.

- a) Light duty officers were allowed by physician statement to cover non-patient contact assignments, and while being positioned there, an additional medical security officer without restrictions was also assigned. This full-duty officer should be assigned to a regular assignment which would have reduced 2600 hours.
- b) Required staffing levels were exceeded daily by scheduling an additional two medical security officers from June 6<sup>th</sup> through October 11, 2011.
- c) An increase in continuous visual observation of patients who may hurt themselves or others from 6 to 11 per shift appears to be permanent. Additional Officers, or the use of Temporary employee services, would reduce the coverage costs.

**Response:** Examples of the excessive use of overtime are listed above. The replies:

- a) Light duty officers were eliminated due to the discontinuation of the sick leave injury benefits by the State.
- b) A new program had begun to increase the mobility and services provided to the patients in the most personal crisis called Therapeutic Alternatives Program (TAP), which was supported by administration. This required the use of these unbudgeted officers during that time.
- c) The recommendation was that an additional 27 TES (60%) Medical Security Officers be hired and that the 944 hours be utilized in a manner to assure that overtime be reduced, consistent with the calendar year, and the use of the annualized staff time-off in January of each year. This has been an issue with the employee organizations in the past and the ability of the Civil Service Commission to certify the title in sufficient numbers. The forensic hospital will explore the possible MSO addition and approval from Divisional Workforce Development staff.

#### 4) Insurance Receipts

**Recommendation** - We recommend the responsibility for the receipt of insurance checks be assigned to someone other than the individual performing the billing and recording functions.

**Response** – The receipt of the checks has been transferred to the Department of Human Services lockbox, located at 222 South Warren Street, in accordance with the DHS policy.

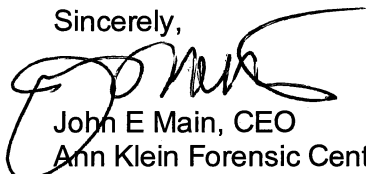
#### 5) Our Store

**Recommendation** – We recommend that the forensic center evaluate total costs to operate the store when determining sale prices. The controls over employee sales should be enhanced by including the use of cash receipt records and segregating the duties over the cash function.

**Response:** All overhead costs are figured in the calculation of the sale prices, except the cost of the Instructor Counselor. These include the bags, the ordering slips, and beverage cups. Average daily living skills are taught to the patients and that the sales of the personal hygiene, electronic and snack items make them choose by priority (decision making of their available funds). Since the store workers are also patients, the program is considered to be therapeutic and work opportunities, resulting in the state's liability to provide the cost of that staff.

Segregation of the duties in the employee cash sales is being rearranged to assure compliance with GAAP.

Sincerely,

A handwritten signature in black ink, appearing to read "John E. Main", is written over the printed name.

John E Main, CEO  
Ann Klein Forensic Center

C: A. Kenyon  
C. Murray  
File