

# AUDIT REPORT

## Department of Mental Health and Substance Abuse Services

December 2014



### STATE OF TENNESSEE COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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December 10, 2014

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable E. Douglas Varney, Commissioner  
Department of Mental Health and Substance Abuse Services

Ladies and Gentlemen:

Transmitted herewith is the audit of the Department of Mental Health and Substance Abuse Services for the period January 1, 2012, through December 31, 2013.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in the finding that is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA  
Director

14/073

**Audit Report**  
**Department of Mental Health and Substance Abuse Services**  
**For the Period January 1, 2012, Through December 31, 2013**

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State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

## Department of Mental Health and Substance Abuse Services

For the Period January 1, 2012, Through December 31, 2013

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### Audit Scope

We have audited the Department of Mental Health and Substance Abuse Services for the period January 1, 2012, through December 31, 2013. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenues; payment cards; payroll and personnel; sensitive equipment; inventory; and patient trust funds. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Audit Finding

#### **Management did not establish adequate internal controls in one specific area**

There were internal control deficiencies in one specific area (page 6).

### Observation and Comment

Section 33-4-109, *Tennessee Code Annotated*, specific to the Department of Mental Health and Substance Abuse Services and concerning unclaimed property, conflicts with the provisions of the Uniform Disposition of Unclaimed (Personal) Property Act governed by Section 66-29-101 et seq., *Tennessee Code Annotated* (page 9).

**Audit Report**  
**Department of Mental Health and Substance Abuse Services**  
**For the Period January 1, 2012, Through December 31, 2013**

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**INTRODUCTION**

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**Post-Audit Authority**

This audit of the Department of Mental Health and Substance Abuse Services (the department) was conducted pursuant to Section 8-4-109, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**Background**

The department, with an annual budget of approximately \$315 million and approximately 1,900 employees, is the state's mental health and substance abuse authority. The department's mission is to plan for and promote the availability of a comprehensive array of quality prevention; early intervention; treatment; habilitation; and rehabilitation services and support based on the needs and choices of the individuals and families the department serves. The department is responsible for system planning; setting policy and quality standards; system monitoring and evaluation; disseminating public information; and advocating for persons of all ages who have mental illnesses, serious emotional disturbances, or substance abuse disorders. The department annually assesses the public's needs for mental health, substance abuse, and recovery service support.

The Central Office staff in Nashville handles services such as fiscal services, human resources, legal, administrative services, and licensing fees. In addition, four regional mental health institutes provide in-patient psychiatric services, including

- Memphis Mental Health Institute, which is located in Memphis and provides services to residents of Shelby County;
- Middle Tennessee Mental Health Institute, which is located in Nashville and provides services to residents of Middle Tennessee;
- Moccasin Bend Mental Health Institute, which is located in Chattanooga and provides services to residents of East Tennessee; and
- Western Mental Health Institute, which is located in Bolivar and provides services to residents of all counties in West Tennessee except Shelby County.

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## AUDIT SCOPE

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We have audited the Department of Mental Health and Substance Abuse Services for the period January 1, 2012, through December 31, 2013. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenues; payment cards; payroll and personnel; sensitive equipment; inventory; and patient trust funds. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

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### Revenues

The objectives of our review of the controls and procedures over revenues were to determine whether cash receipts were deposited timely in compliance with the Department of Finance and Administration policies.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's procedures and controls over revenues. We also tested the following nonstatistical samples<sup>1</sup> of cash receipts from the Central Office and each of the four regional mental health institutes for the period January 1, 2012, through December 31, 2013, to determine whether cash receipts were deposited within 24 hours of accumulating \$500; within 5 business days of accumulating more than \$100 but less than \$500; or once a month if less than \$100 was accumulated.

<u>Location</u>	<u>Sample Size</u>	<u>Population Size</u>
Central Office	\$ 90,139	\$ 4,852,600
Memphis Mental Health Institute	\$216,153	\$ 4,915,925
Middle Tennessee Mental Health Institute	\$107,747	\$ 8,942,206
Moccasin Bend Mental Health Institute	\$202,529	\$11,423,830
Western Mental Health Institute	\$150,068	\$10,671,065

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<sup>1</sup> For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our report. This sample was selected in such a manner as to permit the results to be projected to the population from which the sample was drawn.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that cash receipts were deposited timely in compliance with the Department of Finance and Administration policies, except one deposit of \$2,200, which was deposited one business day late.

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## **Payment Cards**

The objectives of our review of the controls and procedures over payment cards were to determine whether

- cardholders were properly approved;
- purchases made using payment cards were adequately supported;
- payment card purchases appeared reasonable and necessary to conduct state business; and
- payment card purchases complied with the Department of General Services' purchasing policies and procedures.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over payment cards. We obtained a list of all cardholders and reviewed documentation to determine if signed and approved cardholder agreements were on file for all payment cards activated during the audit period. We also tested a nonstatistical sample<sup>2</sup> of payment card purchases, totaling \$3,204, from a population of \$99,226 for the period January 1, 2012, through December 31, 2013, for adequate documentation and compliance with the Department of General Services' purchasing policies and procedures.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that

- cardholders were properly approved;
- purchases were adequately supported;
- purchases appeared reasonable and necessary to conduct state business; and
- purchases complied with the Department of General Services' purchasing policies and procedures, except an advertising purchase that was made by an individual who was not on the list of persons authorized to make advertising purchases.

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## **Payroll and Personnel**

The objectives of our review of the payroll and personnel controls and procedures were to determine whether

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<sup>2</sup> See footnote 1.

- payroll transactions were properly approved, adequately supported, and agreed with personnel records;
- payroll disbursements were made for work performed by an employee of the department;
- paid time off for injury resulting from assault by a patient was properly approved, within the department's guidelines, and adequately supported;
- overtime pay was properly approved and within the department's guidelines;
- documentation indicated newly hired employees were qualified for their positions and received background checks;
- terminated employees were not included on the next succeeding payroll register;
- payment cards were canceled promptly for terminated employees; and
- management had adequate internal controls over a specific area.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over payroll and personnel. We tested a nonstatistical sample<sup>3</sup> of 28 payroll transactions from a population of 59,301 to determine whether payroll disbursements were made for work performed by an employee of the department, were properly approved, were adequately supported, and agreed with personnel records. We also reviewed payroll records of employees paid by Lakeshore Mental Health Institute after its closure to determine whether payroll disbursements were made for work performed by an employee of the department. We tested a nonstatistical sample<sup>4</sup> of 25 payments to employees made for paid time off for assault injuries from a population of 1,600 for the period January 1, 2012, through December 31, 2013, to determine whether paid time off was adequately supported, was properly approved, and complied with regulations. To determine whether overtime pay was properly approved, we tested a nonstatistical sample<sup>5</sup> of 29 overtime payments from a population of 30,990 for the period January 1, 2012, through December 31, 2013. For all newly hired finance and information systems employees for the period January 1, 2012, through December 31, 2013, we reviewed personnel files to determine if they contained documentation indicating the employees met the job qualifications. We also tested a nonstatistical sample<sup>6</sup> of 25 newly hired healthcare employees from a population of 271 for the period January 1, 2012, through December 31, 2013, to determine whether personnel files contained documentation indicating the employees met the job qualifications and whether background checks were performed. For the period January 1, 2012, through December 31, 2013, we reviewed personnel files and payroll registers for a nonstatistical sample<sup>7</sup> of 25 terminated employees from a population of 782 to determine whether employees were not included on the next succeeding payroll register and to determine whether payment cards were canceled promptly. We also reviewed management's internal controls over a specific area.

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<sup>3</sup> See footnote 1.

<sup>4</sup> See footnote 1.

<sup>5</sup> See footnote 1.

<sup>6</sup> See footnote 1.

<sup>7</sup> See footnote 1.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that

- payroll transactions were properly approved, adequately supported, and agreed with personnel records, except one employee reported 16 hours worked and was paid for 11 hours, and one employee reported 1.4 hours of sick leave in the state's accounting and timekeeping system but 7.5 hours of sick leave on the paper timesheet;
- payroll disbursements were made for work performed by an employee of the department;
- paid time off for injury resulting from assault by a patient was properly approved, within the department's guidelines, and adequately supported;
- overtime pay was properly approved and within the department's guidelines, except one employee worked 17 hours in a 24-hour period, and the policy states staff may work no more than 16.5 hours in a 24-hour period;
- documentation indicated newly hired employees were qualified for their positions and background checks were performed;
- terminated employees were not included on the next succeeding payroll register;
- access to payment cards was promptly canceled for terminated employees; and
- management did not establish adequate internal controls in one specific area (see the finding below).

### **Management did not establish adequate internal controls in one specific area**

#### **Finding**

There were internal control deficiencies in one specific area. Management did not establish internal controls as required by state policies or industry best practices. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

#### **Recommendation**

The Commissioner should ensure that these conditions are remedied by the prompt development and implementation of effective controls. In addition, the Commissioner should ensure that the risks associated with this finding are adequately identified and assessed in the department's documented risk assessment. The Commissioner should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

## Management's Comment

We concur. The Commissioner has assigned staff to review procedures and make any changes needed to address the risk associated with this internal control. The Assistant Commissioner for Administrative Services will make sure the annual risk assessment accurately reflects any risk associated with this internal control deficiency. Staff have been tasked with implementing a monitoring plan to ensure compliance. Further details on our response are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*.

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## Sensitive Equipment

The objectives of our review of the controls and procedures over sensitive equipment were to determine whether sensitive equipment is accounted for properly. Sensitive equipment is defined as equipment that is vulnerable to theft and has an initial individual cost below \$5,000.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over sensitive equipment. We tested the following nonstatistical samples<sup>8</sup> of sensitive equipment from each of the four regional mental health institutes to determine whether recorded sensitive equipment could be located and whether the asset description and tag number recorded in the inventory system agreed to the asset located.

<u>Location</u>	<u>Sample Size</u>	<u>Population Size</u>	<u>As of</u>
Memphis Mental Health Institute	25	267	May 5, 2014
Middle Tennessee Mental Health Institute	25	568	May 7, 2014
Moccasin Bend Mental Health Institute	25	302	April 23, 2014
Western Mental Health Institute	25	405	April 7, 2014

Based on our interviews, review of supporting documentation, and testwork performed, we determined that sensitive equipment is accounted for properly.

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## Inventory

The objectives of our review of the controls and procedures over inventory were to determine whether pharmacy and central medical supply inventory records matched the actual inventory quantities on hand.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over inventory. We tested the following samples of pharmacy and central medical supply inventory<sup>9</sup> from each of the four regional hospitals to determine whether the inventory records matched the actual inventory quantities on hand.

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<sup>8</sup> See footnote 1.

<sup>9</sup> Memphis Mental Health Institute and Western Mental Health Institute did not maintain a central medical supply inventory. Supplies are maintained at a minimal level and ordered monthly at each of these facilities because they do not have a sanitary storage area to maintain large quantities like the other two facilities.

<u>Location</u>	<u>Inventory Type</u>	<u>Sample Size</u>	<u>As of</u>
Memphis Mental Health Institute	Pharmacy	25	May 6, 2014
Middle Tennessee Mental Health Institute	Pharmacy	25	May 6, 2014
Moccasin Bend Mental Health Institute	Pharmacy	25	April 8, 2014
Western Mental Health Institute	Pharmacy	25	April 8, 2014
Middle Tennessee Mental Health Institute	Central Medical	25	May 7, 2014
Moccasin Bend Mental Health Institute	Central Medical	25	April 22, 2014

Based on our interviews, review of supporting documentation, and testwork performed, we determined that pharmacy and central medical supply inventory records matched the actual quantities on hand, with only minor exceptions.

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## **Patient Trust Funds**

The objectives of our review of the controls and procedures over patient trust funds were to determine whether cash receipts were deposited to the correct patient's account and whether withdrawals were made in compliance with the regional mental health institutes' policies and procedures.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over patient trust funds. To determine whether monies were deposited to the correct account, we tested the following nonstatistical samples<sup>10</sup> of patient trust fund cash receipts from each of the four regional mental health institutes for the period January 1, 2012, through December 31, 2013.

<u>Location</u>	<u>Sample Size</u>	<u>Population Size</u>
Memphis Mental Health Institute	\$2,860	\$ 33,971
Middle Tennessee Mental Health Institute	\$6,499	\$ 1,021,433
Moccasin Bend Mental Health Institute	\$3,285	\$ 845,647
Western Mental Health Institute	\$3,009	\$ 383,207

We also tested the following nonstatistical samples<sup>11</sup> of patient trust fund cash withdrawals for the period January 1, 2012, through December 31, 2013, to determine whether monies were withdrawn from the correct account.

<u>Location</u>	<u>Sample Size</u>	<u>Population Size</u>
Memphis Mental Health Institute	\$2,479	\$ 34,425
Middle Tennessee Mental Health Institute	\$1,303	\$ 831,928
Moccasin Bend Mental Health Institute	\$ 730	\$ 305,481
Western Mental Health Institute	\$3,115	\$ 445,468

Based on our interviews, review of supporting documentation, and testwork performed, we determined that cash receipts were deposited to the correct account and withdrawals were made

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<sup>10</sup> See footnote 1.

<sup>11</sup> See footnote 1.

in compliance with the regional mental health institutes' policies and procedures, with only minor exceptions.

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## OBSERVATION AND COMMENT

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### **Conflicting Legislation**

Section 33-4-109, *Tennessee Code Annotated*, directs the Department of Mental Health and Substance Abuse Services to place unclaimed property in a benevolent fund to be maintained and used within the department. However, this law is in direct conflict with the provisions of the Uniform Disposition of Unclaimed (Personal) Property Act governed by Section 66-29-101 et seq., *Tennessee Code Annotated*. Therefore, the General Assembly may want to create an exception to the Unclaimed Property Act, which allows these funds to be maintained within the department, or repeal the department-specific legislation.