DEPARTMENT OF HUMAN SERVICES
ANOKA-METRO REGIONAL TREATMENT CENTER
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

JUNE 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-33

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

ANOKA-METRO REGIONAL TREATMENT CENTER

FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: June 15, 1990 No. 90-33

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Social welfare receipts; social welfare disbursements; chemical dependency program receipts; shared services receipts; administrative disbursements; contractual services; payroll; industrial therapy payroll; dietary inventory control; and pharmacy inventory control.

- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found two areas where the internal control structure needed improvement:

- The center should ensure that an adequate separation of duties exists over the collection of outpatient chemical dependency receipts. An independent employee should review the determination of the client's financial need and reconcile billings to collections.

- The center paid professional and technical contracts without proper contract extensions. The center must file for contract extensions whenever the original contract amounts will be exceeded.

We found the center to be in full compliance with the material finance-related legal provisions that we reviewed.

Contact the Financial Audit Division for additional information.
(612) 296-1730

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Ann Wynia, Commissioner
Department of Human Services

Jonathan Balk, Chief Executive Officer
Anoka Metro Regional Treatment Center

Audit Scope

We have conducted a financial related audit of the Anoka Metro Regional Treatment Center as of and for the three years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Anoka Metro Regional Treatment Center, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Anoka Metro Regional Treatment Center in effect during January of 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of Anoka Metro Regional Treatment Center are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Anoka Metro Regional Treatment Center's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of Anoka Metro Regional Treatment Center is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- social welfare receipts;
- social welfare disbursements;
- chemical dependency program receipts;
- shared service receipts;
- administrative disbursements;
- contractual services;
- payroll;
- industrial therapy payroll;
- dietary inventory control; and
- pharmacy inventory control.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 and 2 involving the internal control structure of the Anoka Metro Regional Treatment Center. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to management of the Anoka Metro Regional Treatment Center at the exit conference held on April 5, 1990.

The results of our tests indicate that, with respect to items tested, Anoka Metro Regional Treatment Center complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Anoka Metro Regional Treatment Center had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of Anoka Metro Regional Treatment Center. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 15, 1990.

We would like to thank the Anoka Metro Regional Treatment Center staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 28, 1990

REPORT SIGNED ON: June 4, 1990

ANOKA METRO REGIONAL TREATMENT CENTER

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Ellen Merlin, CPA	Auditor-in-Charge
Lois Davis, CPA	Senior Auditor
Amy Jorgenson	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff on April 5, 1990:

Jonathan Balk	Chief Executive Officer
Robert Rosenthal	Chief Operating Officer
John Stocking	Associate Administrator
Bruce Olson	Chemical Dependency Unit Director
Dorothy Johnson	Assistant Administrator

ANOKA METRO REGIONAL TREATMENT CENTER

I. INTRODUCTION

Anoka Metro Regional Treatment Center provides treatment for severely disabled mentally ill (MI) and chemically dependent (CD) persons in the metro region. The average stay for mentally ill patients is six months, while chemical dependency treatment usually lasts from four to five weeks. Since August of 1980, the facility has been under the immediate supervision of Jonathan Balk, the Chief Executive Officer, appointed by the Commissioner of Human Services. The average resident population for fiscal years 1987 through 1989 is as follows:

Fiscal Year	Average Resident Population MI	CD	Total
1987	240	79	319
1988	236	67	303
1989	233	64	297

Anoka Metro Regional Treatment Center is subject to various legal provisions which direct its conduct regarding specific financial issues. Minn. Stat. Chapter 256 establishes the social welfare fund, providing for the use and disposition of monies for the legal benefit of various persons, including those suffering from mental illness and chemical dependency. Under Minn. Stat. Section 246.151 residents may receive compensation based on the quality and character of their work. Minn. Stat. Section 246.18 requires the appropriation of chemical dependency program receipts to the operation of chemical dependency programs. Under Minn. Stat. Section 246.57, the Chief Executive Officer may enter into shared service agreements on behalf of the Commissioner of Human Services. The center is also subject to certain general legal provisions which affect the financial management of most state agencies.

The center is financed mainly by General Fund appropriations made directly to the Department of Human Services. Human Services is responsible for maintaining, controlling, and transferring the necessary funds to the appropriate center accounts. Also, as of January 1988, the Department of Human Services began collecting payments for chemical dependency treatment from counties and insurance companies. During fiscal years 1988 and 1989, the department reported chemical dependency program collections of $1.2 and $3 million on behalf of Anoka Metro Regional Treatment Center.

The table below summarizes the Anoka Metro Regional Treatment Center General Fund expenditures for fiscal years 1987-1989:

	1987	1988	1989
Personnel	$13,004,625	$13,150,019	$14,003,547
Current Expense	1,179,263	1,146,791	1,036,839
Repairs and Betterments	76,191	100,850	211,480
Special Equipment	254	56,305	52,810
Total Expenditures	$14,260,333	$14,453,965	$15,304,676

Source: Statewide Accounting System Allotment Balance within Appropriation Report at the September closing for the respective years.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. <u>An inadequate separation of duties exists in the outpatient chemical dependency receipt process</u>.

One employee at the center is responsible for all aspects of the "self pay" receipt process for the outpatient chemical dependency program. The Department of Human Services' central office collects county payments for clients needing financial assistance, including the receipts from insurance companies. However, the outpatient counselor of the center collects receipts paid directly by clients. The counselor assesses the clients' financial needs and collects payments in advance of treatment. The counselor may also set up payment plans and collect accounts receivable.

These duties are incompatible, increasing the risk that errors and irregularities may occur without prompt detection. Ideally, the center should separate duties over assessing, collecting, and recording fees paid. At a minimum, someone idependent of the receipt and accounting processes should review the clients' financial needs, and reconcile billings to collections. Another individual may then receive cash and keep the accounting records. By separating the receipt duties, the facility reduces the risk of errors and irregularities.

RECOMMENDATION

- **Anoka Metro Regional Treatment Center should ensure that an adequate separation of duties exists over the collection of outpatient chemical dependency receipts. An independent person should review the determination of financial need, reconciling to the fees collected.**

2. <u>The center paid professional and technical contracts without proper contract extensions</u>.

During fiscal years 1987 through 1989, the center paid 10 vendors in excess of contract limitations by a total of $7,406. These unauthorized payments include $6,782 for the continued services of nine pyschiatric consultants. Similarly, one vendor received $534 in excess of a contract negotiated for waste management services.

The excess payments were taken from funds available for miscellaneous services. The miscellaneous service funds had been approved by the Department of Administration to provide for small purchases not requiring contracts. These funds are not intended to be used as supplements to existing contracts.

Under the Department of Administration Policy and Procedure ADM-188, contract extensions must be filed if the vendor is to be paid more than the original contract amount. These extensions must be approved by the Contract Management Division. Properly authorized contracts limit the state's risk from potential liability, identifying specific obligations of the state and vendors.

RECOMMENDATIONS

- **Anoka Metro Regional Treatment Center must file for contract extensions whenever original contract amounts will be exceeded.**
- **The center should not supplement contract amounts with funds available for miscellaneous services.**

SF-00006-05 (4/86)

DEPARTMENT : AMRTC

STATE OF MINNESOTA

Office Memorandum

DATE : 5/23/90

TO : James R. Nobles
Legislative Auditor

FROM : Robert F. Rosenthal
Chief Operating Officer

PHONE : 422-4300

SUBJECT : Audit Response

Listed below are the responses to the recommendations contained in your Audit Report on Anoka-Metro Regional Treatment Center dated May 10, 1990. The audit included three fiscal years ending June 30, 1989.

As requested, each recommendation contains the name and title of the person(s) responsible to take corrective action, the date of completion/expected completion.

If there are any questions, please do not hesitate to call me.

1. Separation of duties of the outpatient chemical dependency receipt process
   Dorothy J. Johnson, Accounting Supervisor Sr.
   Judith Martin, Reimbursement Officer
   Bruce Olson, Chemical Dependency Program Director
   Completion Date: 5/1/90

Judy Martin, John Bren, Bruce Olson, and Dorothy Johnson have developed a written procedure which outlines the separation of these duties. This procedure was implemented immediately. Attached please find a copy for your reference.

- All collections paid by clients shall be paid by the client at the Business Office. After Business Office hours, the client will pay at the Switchboard.

- Reimbursement Officer shall assess the financial needs of the client and also reconcile billing to collection.

2. Proper Contract Extensions
   Dorothy J. Johnson, Accounting Supervisor Sr.
   Completion Date: 5/1/90

All contracts properly monitored each month with statements sent to each contractor and agent indicating the remaining balances available. This process, with timely notification from the agent responsible for each contract, should give us ample time to process extensions to contracts. Therefore, we will not have the need to use the Miscellaneous Services account. This process has been in place for fiscal year 0.

RFR:cjc

Enc.

SUGGESTED PROCEDURES FOR PRIVATE PAY (OUT-PATIENT AND INPATIENT) CD ADMISSIONS AND BILLING

1. All CD clients have the right to be screened for payment eligibility by their county of residence. This right will be addressed at the time of initial contact by the proposed client with this facility. A client has the right to refuse pre-screening by their county of residence.

2. All private pay clients (clients who are ineligible, or refuse screening, or have insurance) will be interviewed by the Reimbursement Officer prior to final admission by CD. Reimbursement will advise the patient at the close of the financial interview whether that patient has worked out a suitable financial payment with the Reimbursement Officer.

   All private CD patients will be advised that they are 100% liable for their bill, but that Reimbursement will attempt to recover insurance from all third party payors on behalf of the client. The prospective CD client will then be referred to the CD unit for a final decision by the CD facility to admit or refuse admission.

   All private pay CD patients will make their payments to the Business Office, or the switchboard if after hours. The CD client will get a receipt of payment from the receiving source. CD personnel will not accept any money from a CD client for his/her Cost of Care.

   Reimbursement will bill all private pay patients who have not paid their CD treatment in full at the time of discharge. Reimbursement will forward to Central Office discharged, delinquent accounts. The entire Cost of CD treatment will be posted to each Client account at the beginning of treatment to establish a paper trail for auditing and collection purposes.

   The CD facility acknowledges that delinquent private accounts under the new 1988 CD statute (as explained by the legal section of Reimbursement) are considered general debts, with no priority given to the state to recover them.

3. The final decision to admit any private pay client will be made by the CD unit. The facility can refuse admission to any CD client who refuses to comply with the treatment and/or financial requirements of the facility.