STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF ADMINISTRATIVE SERVICES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

AUDITORS OF PUBLIC ACCOUNTS
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March 25, 2002

AUDITORS' REPORT
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We have made an examination of the financial records of the Department of Administrative Services (DAS) for the fiscal year ended June 30, 2000.

This report on the examination consists of the Comments, Condition of Records, Recommendations and Certification which follow. Financial statements pertaining to the operations and activities of the Department of Administrative Services are presented on a Statewide Single Audit basis to include all State Agencies. This audit has been limited to assessing the Department of Administrative Services' compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Agency's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Administrative Services (DAS) operates primarily under the provisions of Title 4a, Chapter 57, of the General Statutes. A description of the major functions of the Department is presented below:

TABLE OF CONTENTS

Office of the Commissioner:

The Office of the Commissioner provides support services for the respective business centers, including communications, affirmative action, legal guidance, and business planning.

Strategic Leadership Center:

The Strategic Leadership Center (SLC) provides leadership by overseeing the implementation of the business plan throughout DAS. The SLC is responsible for the development, implementation and monitoring of all performance measurement and customer feedback reviews. In addition, the Center's responsibilities include oversight of technology planning and infrastructure, project management, and internal auditing.

Human Resources Business Center:

The Human Resources Business Center provides personnel services within DAS and to other agencies, including recruiting and testing, personnel development, and workers' compensation administration.

Financial Services Center (FSC):

The Financial Services Center provides business support services to organizational units within DAS and to other State agencies. Also included within the FSC are the operations of the Collections Unit. The Collections Unit bills and collects for services rendered by the State health care institutions and supports miscellaneous collection efforts of other State agencies. The Collections Unit also acts in a fiduciary capacity when designated to administer the funds of certain individuals.

Business Enterprises:

Business Enterprises provides services for the statewide operations of fleet, procurement, central printing, mail and courier services, State and Federal surplus property and Federal Food Distribution Program.

Barbara A. Waters served as Commissioner of Administrative Services during the audited period.

Significant Legislation:

One notable legislative change, which took effect during the audited period, is presented below:

- **Public Act 99-161** – Section 2 of the Act amended Section 4a-57, subsection (a), of the General Statutes, by authorizing the Commissioner to use competitive negotiation in addition to competitive bids as the basis for making purchases of, and contracts for, supplies, materials, equipment and contractual services instead of only for advertising and increases, from $10,000 to $50,000, the spending threshold for requiring advertising when making purchases.

  Section 2 of the Act also increases, from $1,000 to $10,000, the cap under which the Commissioner can waive competitive bidding for agencies' direct purchasing authority for minor nonrecurring and emergency purchases and applies the new cap to waivers of competitive negotiation.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts collected by the DAS Commissioner's Office totaled $1,820,410 for the fiscal year ended June 30, 2000. These receipts were comprised primarily of refunds of expenditures related to Worker's Compensation Program recoveries.

General Fund collections made by the Collections Unit for the fiscal years ended June 30, 1999 and 2000, are presented below for comparative purposes:

	Fiscal Year	
	1999-2000	**1998-1999**
Recoveries of the costs of:	$	$
Public Assistance	35,663,272	33,565,523
Care of patients at State humane institutions:		
In-patient services	21,747,482	18,709,890
Out-patient services	468,740	704,977
Care and treatment provided by the Department of Children and Families	2,086,034	2,409,121
Miscellaneous recoveries	100,077	226,043
Total Receipts	**$60,065,605**	**$55,615,554**

The Collections Unit also performed claims submission for the Federal Medicaid (i. e., Title XIX) program billings. The Medicaid program, which was established pursuant to Title XIX of the Social Security Act, provides medically related care and services to needy persons. The State received fifty percent reimbursement from the Federal government for claims accepted and paid under the Title XIX program. During the 1999-2000 fiscal year, the Collections Unit reported Title XIX collections of $595,842,100 from the following inpatient and outpatient medical assistance programs:

	Fiscal Year 1999-2000
Inpatient Care:	$
State Facility Services	187,634,570
Veteran's Administration	12,975,617
State Department of Education – School Based	26,266,292
Department of Mental Health – Targeted Case Management	2,957,837
Department of Mental Retardation – Targeted Case Management	9,382,314
Department of Mental Retardation (DMR) – Birth to Three	5,664,560
Home and Community Based Program (DMR) – Residential	288,804,255
Home and Community Based Program (DMR) – Day Care	59,183,622
Home and Community Based Program (DMR) – Other	1,269,038
Total Inpatient Care Collections	594,138,105
Outpatient Care Services	1,703,995
Total Title XIX Collections	$595,842,100

A comparative summary of DAS expenditures from General Fund appropriations for the fiscal years ended June 30, 1999 and 2000 is presented below.

	Fiscal Year	
	1999-2000	**1998-1999**
Budgeted Appropriations:	$	$
Personal Services	17,991,521	16,313,485
Contractual Services	9,208,899	9,605,397
Commodities	381,420	315,353
Revenue Refunds	25,212	146,120
Sundry	1,265,396	1,023,336
Equipment	359,475	445,339
Other miscellaneous	(318)	-
Total from Budgeted Appropriations	29,231,605	27,849,030
Restricted Appropriations:		
Other-than-Federal	270,053	281,023
Federal	569,749	60,961
Total General Fund Expenditures	**$30,071,407**	**$28,191,014**

Workers' Compensation Claims:

In accordance with Section 4-77a of the General Statutes, appropriations for the payment of workers' compensation awards were made directly to the Departments of Mental Retardation, Mental Health and Addiction Services, Correction, Transportation, Public Safety, and Children and Families, while the appropriations for the payment of workers' compensation claims for all other budgeted State agencies were administered by the Department of Administrative Services.

A summary of net expenditures charged against the aforementioned seven agencies' workers' compensation appropriations for the fiscal years ended June 30, 1999 and 2000 is presented below:

	1999-2000	**1998-1999**
General Fund:	$	$
Mental Retardation	10,947,037	10,180,178
Mental Health and Addiction Services	6,268,353	5,728,588
Correction	15,333,413	13,904,424
Public Safety	2,452,075	2,450,531
Children and Families	3,341,591	2,723,894
Administrative Services	11,941,017	13,227,600
Total General Fund	**50,283,486**	**48,215,215**
Transportation Fund:		
Transportation	3,084,252	2,228,269
Public Safety	-	48,188
Total All Funds	**$53,367,738**	**$50,491,672**

General Service Revolving Fund:

During the audited period, DAS administered the General Services Revolving Fund. This Fund is authorized by Section 4a-75 of the General Statutes, and is used to defray the expenses for supplies, materials, equipment and contractual services incurred by the Department of Administrative Services in anticipation of the future requirements of State agencies and institutions. The working capital of the Fund is maintained by charges to agencies and institutions for commodities and services furnished to them by the various operations of the Business Enterprises Division. Cash receipts and disbursements for the Fund during the audited period were as follows:

	1999-2000
Cash Balance, Beginning of Year	$ (13,157,299)
Receipts	30,871,926
Total	17,714,627
Disbursements	38,291,940
Cash Balance, End of Year	**$ (20,577,313)**

Trustee Accounts in the Custody of the Commissioner of Administrative Services:

The Commissioner of Administrative Services has designated the Collections Unit to act as trustee for persons under the following categories:

Estate Administrator Accounts - pursuant to Section 4a-15 of the General Statutes. The Estate Administrator, appointed by the Commissioner of Administrative Services, may act in a fiduciary capacity in connection with the property of any minor, incapable, incompetent or deceased person who is or has been receiving financial aid from the State.

Legal Representative Accounts – pursuant to Section 4a-16 of the General Statutes. These accounts are established for deceased persons for whom a court has designated the Commissioner of Administrative Services to administer the funds of the deceased.

Representative Payee Accounts – pursuant to Section 4a-12, subsection (a) of the General Statutes. The majority of the accounts administered by the Financial Services Center Collections Unit are for patients and/or residents of State humane institutions, for whom the payer of funds due these persons has agreed to permit DAS to act as a conduit of those funds. These arrangements usually involve DAS being named representative payee for Social Security Administration, Veterans' Administration and other various payments. The primary distinction between accounts in this category and the other categories is that these accounts are the result of agreements while those in the Estate Administrator and Legal Representative categories have been designated by court proceedings.

The receipts for the Trustee Accounts in the Custody of the Commissioner totaled $14,271,009 during the fiscal year ended June 30, 2000. This amount consisted primarily of revenues of $13,935,914 derived from Social Security, pension and Veterans' benefits paid on behalf of individuals who were residents in State humane institutions. In addition, interest earned on deposits was a source of receipts for these accounts.

Disbursements from these Trustee Accounts totaled $11,908,925 during the audited period. These disbursements were primarily expenditures for the costs associated with the board, care and treatment, personal expense allowance, funeral and other miscellaneous expenses on behalf of patients in State humane institutions.

The Trustee Accounts' assets totaled $8,170,891 as of June 30, 2000. The assets consisted of a cash balance of $1,706,039 and total investments of $6,464,852 in the Treasurer's Short-Term Investment Fund. The liabilities and fund balance of the Trustee and Legal Representative Accounts were $4,126,481 and $4,044,410, respectively, as of June 30, 2000.

The Collections Unit also has custody of certain other noncash assets that are held in trust for accounts in the legal representative category. Legal Representative accounts' noncash assets found inventoried and on hand included stocks and bonds, insurance policies, savings account passbooks, as well as other personal property.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct a program evaluation as part of their routine audits of public and quasi-public agencies.

Audit Objectives:

The objective of this examination was to perform a follow up review on the three recommendations relative to the Workers' Compensation Program, as reported in our Performance Audit report dated May 23, 1997, which included specific recommended actions on the part of the Department of Administrative Services (DAS).

The specific aspects of the Workers' Compensation program reviewed and the related recommendations, as reported in our Performance Audit report, are presented as follows:

- Job Bank:
  Agencies should maintain an updated job bank of available light duty positions and streamline processes for bringing an employee out on workers compensation back to work in a light duty position. Also, the State should consider a Statewide job bank of available light duty positions.

  The Department of Administrative Services should consider revising the Workers' Compensation manual to include the requirement of a job bank of light duty positions in agencies with a large volume of Workers' Compensation cases.

- Selective Duty Program:
  The Department of Administrative Services should review the selective duty program and address the lack of utilization by eligible agencies and the lack of use of selective duty positions outside the originating agency or facility where the injury occurred.

  The Department of Administrative Services should go forward with its planned review of the selective duty program.

- Late Reporting:
  Work injuries should be reported within 24 hours.

  The Department of Administrative Services should determine why injuries are not reported within 24 hours and take corrective action.

Scope and Methodology:

We met with and inquired of Department staff responsible for addressing the above recommendations. In addition, we reviewed pertinent records and documentation to determine the status of the efforts made to implement the recommended corrective actions.

Results:

Our review disclosed that the DAS has implemented all of the recommended corrective actions included in our Performance Audit report. The results of our review are described as follows:

Re: Job Bank
Our review disclosed that the Department of Administrative Services implemented the recommended corrective action relative to this aspect of the Workers' Compensation program. A revision was made to Section VII of the Workers' Compensation Manual in January 2000, which incorporated the requirement that agencies with a large volume of workers' compensation claims should maintain a job bank to be used by employees returning to less arduous work.

Re: Selective Duty Program:
As a result of our review, we have concluded that the Department has implemented the recommended corrective actions to address the finding relative to this aspect of the Workers' Compensation program. DAS has initiated the preparation of an annual report on the Workers' Compensation Selective Duty Program. This report, which supports DAS' annual review of the program, is used to summarize relevant statistical and financial information relative to individuals enrolled in the program. In addition, DAS has issued instructional guidelines for the program in order to encourage utilization by all eligible agencies.

Re: Late Reporting:
Our review disclosed that the recommended corrective action to address the issue of the late reporting of injuries has been implemented. The DAS' follow up to determine the reason for the lack of compliance with its established policy for reporting injuries revealed that there was a lack of a clear understanding for the need to report employees' injuries in a timely manner. Although the other State agencies were aware of DAS' policy for reporting a claim of injury within 24 hours, there was an apparent misunderstanding of the need for timely reporting because of the language in Section 31-394c, subsection (a), of the General Statutes. Under this Section of the General Statutes, a valid claim for compensation can be maintained as long as the employee files a written notice of claim within one year from the date of the accident that caused the injury. Therefore, in an effort to clarify its established policy, DAS' revised Section II of the Workers' Compensation Manual, in January 2000, to reemphasize the timely reporting requirement for the purpose of ensuring compliance by the other State agencies. It is our

conclusion that DAS has adequately communicated to other State agencies the procedural requirement for reporting a claim of injury within 24 hours of the injury.

CONDITION OF RECORDS

Areas warranting comments are presented below:

Human Resources Business Center:

The DAS Human Resources Business Center provides payroll processing and personnel support services to the various DAS bureaus and administers the provisions of the State Personnel Act across most State agencies.

Human Resources:

Automated Personnel System (APS) Controls:

Criteria: In accordance with Section 5-198, subsection (n), of the General Statutes, DAS has created the durational titles of Customer Service Program Developer, Durational Project Manager and Transitional Manager for the purposes of carrying out special projects or installations. The Automated Personnel System (APS) was designed to include two data fields critical to monitoring the appointments of durational positions. These fields include the position end date and an indicator as to whether such appointments are "durational" or "permanent". In addition, APS includes a field indicating eligibility for participation in management incentive plans.

Condition: Three State positions are designated as "durational" positions and have specific requirements regarding the term of the position. The Customer Service Program Developer position has been amended to allow for the extension of the term upon the approval of the Commissioner. The Durational Project Manager position has a maximum three year duration unless there is a formal request documenting the need for an additional extension. The formal request must be approved by the Commissioner. The Transitional Manager position has a true three year maximum duration.

Reports provided to us from the APS system revealed that three of the 57 durational positions examined did not have the position end date fields completed. All 57 durational positions had the indicator entered as "permanent" regardless of the true duration.

Effect: The lack of end dates and correct "durational" designations prevents the automated monitoring of those positions. It is necessary to place increased reliance on the periodic manual review by Human Resources staff. The result is an increased risk that durational employees could remain in their positions beyond the intended expiration dates without obtaining the requisite approvals. There is reduced assurance that incentive plan bonuses are properly paid if the eligibility field is incorrect.

Cause: During the audited period, there were no apparent requirements that these fields contain entries corresponding to the specific characteristics of the positions. In addition, these same data fields were not systematically linked within APS to prevent an erroneous payment, and the data was not verified by DAS at the time it was entered by the agencies.

Recommendation: DAS should improve controls over durational positions by requiring accurate completion of all corresponding data fields on the Automated Personnel System, and the auditing of this data at the time of entry. (See Recommendation 1.)

Agency Response: "We agree with the findings in the condition. DAS has directed agencies to include an end date with all durational appointments. DAS staff has been monitoring that effort for approximately two years. All agencies according to the Automated Personnel System have been in compliance. With regard to the appointment designation of durational versus permanent, all agencies in violation have been sent a letter requiring them to make the appropriate correction. In addition, technical APS staff has been requested to build an edit function that will automatically reject any agency request for a durational position without the appropriate information in the appointment code field."

Approval of Managerial Position Designations:

Criteria: In accordance with Section 4a-2 of the General Statutes, the Commissioner of the Department of Administrative Services is responsible for the personnel administration of State employees. Section 5-270, subsection (g), of the General Statutes specifies the criteria for designating personnel positions as managerial.

Condition: Prior auditors' reports criticized the fact that DAS had approved "managerial" position designations without documentation of having met the statutory criteria of Section 5-270. We have determined that the DAS has not yet complied with our prior recommendation. DAS has not implemented a documented or written process to compare agency requests for managerial designations to the statutory criteria.

Effect: Designation of positions as "managerial" can have implications in the order of, and susceptibility to, transfers and layoffs. In addition, while managerial salaries are generally equivalent to the corresponding bargaining unit positions, the longevity payments and other fringe benefits are often greater with managerial positions. Erroneous designations result in an increased expenditure of State resources without added benefit.

Cause: DAS does not have a consistent, documented methodology with which to compare agency requests for the managerial designation to the statutory criteria.

Recommendation: DAS should implement written policies and procedures for the review of requests for managerial positions. All positions with managerial and bargaining unit equivalents should be considered bargaining unit positions unless a proper justification is given by the requesting agency. (See Recommendation 2.)

Agency Response: "We agree with the findings. Subsequently, DAS has directed agencies, via letter to all Agency Human Resource Managers and Administrators, that all new requests for managerial positions need to meet the statutory definition of a "managerial employee" as described in CGS, Section 5-270 (g). DAS staff will monitor transaction requests closely and return those that do not meet the necessary requirements to the requesting agency. All requests must clearly document at least two of the criteria to be designated as a managerial position."

Use of Durational Project Managers:

Criteria: The Durational Project Manager designation was created as a personnel position in the unclassified service pursuant to Section 5-198, subsection (n), of the General Statutes. This statute allows for the use of unclassified service designation for "Persons employed to make or conduct a special inquiry, investigation, examination, or installation".

Condition: We noted that the DAS had approved Durational Project Manager positions without requiring the elements necessary to show compliance with Section 5-198, subsection (n). Our review disclosed numerous instances in which Durational Project Manager positions were approved without denoting the duration of the project. Many of the positions appeared to be permanent.

Effect: The position designation of Durational Project Manager provides a vehicle for circumventing established employment procedures, if the designation is not used for its intended purposes. Because the Durational Project Manager position is not within classified State service, individuals can be appointed non-competitively without regard to relevant experience and training.

Cause: DAS feels that the use of such durational positions requires that they be involved in normal administrative functions on a short-term basis. Consideration has apparently not been given to whether the duties of the position will remain after the term of the defined project.

Recommendation: DAS should ensure that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute. (See Recommendation 3.)

Agency Response: "We agree with the finding; however, since that time DAS has taken steps to ensure that the proper appointment code will be used when making a durational appointment. An edit function has been built into the Automated Personnel System that will automatically reject any agency request for a durational position without the appropriate information in the appointment code field. In addition, DAS staff will be reviewing agency durational positions on an annual basis to determine if the position is being used in a project-oriented role. If not, agencies will be apprised of the need to terminate such positions and/or reassign incumbents to other duties/positions for which they are qualified to fill. DAS continues to work with those agencies having durational positions to develop a plan for termination or reassignment of incumbents after the three year period is completed."

Compilation of Employee Roster:

Criteria: Section 5-200, subsection (e), of the General Statutes states that the DAS Commissioner shall establish and maintain a complete roster of the employees and officers in the State service, whether under the classified service or not. Section 5-200d of the General Statutes specifies capabilities for a comprehensive automated personnel system (APS), including the ability to track employees' history in the State service. The APS system, as designed, appears to meet these requirements.

Condition:

The Human Resources Business Center receives a report that lists State employees who are on the Automated Personnel System (APS). The APS report is an alphabetical listing of State employees that notes the corresponding agency or agencies that the employee works for. However, the APS report does not include all State employees.

The ability to track all State employees is hampered by the fact that employees of some State agencies are not included on the APS report. For instance, the system currently in use by the Department of Education can not interface with the APS system to create one master report.

Effect: The DAS is not in compliance with Section 5-200, subsection (e), of the General Statutes.

Cause: The existing APS reports do not include the employees from all the State agencies and must be manually cross-referenced to the employee listings from those agencies not included on the APS. The inability of some State systems to interface with the APS prohibits the compilation of one report that shows all State employees.

Recommendation: DAS should continue to consider alternative ways to compile a complete roster of employees in State service. (See Recommendation 4.)

Agency Response: "We agree with this finding as we have in the past. We will not be able to have a full and complete roster of State employees until the Core Systems project is completed."

Quality Control Committee:

Criteria: The Quality Control Committee was established pursuant to Section 5-237b of the General Statutes. This statute calls for the committee to review and evaluate, on a continuing basis, the effectiveness of the implementation of incentive plans (established pursuant to Section 5-210 of the General Statutes) for State employees designated as managerial or confidential. DAS promulgates procedures relative to the Performance Assessment and Recognition System (PARS), which is an incentive program for managerial and confidential employees. The PARS handbook states that the PARS program was established in accordance with Section 5-210.

Condition: The Quality Control Committee has not met since 1991.

Effect: The ongoing evaluation of the PARS incentive program was not provided as intended by statute.

Cause: DAS apparently did not consider the PARS program to be covered by the provisions of Section 5-237, despite the fact that PARS was created pursuant to Section 5-210.

Recommendation: DAS should continue its efforts to ensure that the current management incentive plan (PARS) evaluations are conducted by the Quality Control Committee pursuant to Section 5-237b of the General Statutes. (See Recommendation 5.)

Agency Response: "We agree with the finding and we will continue in our efforts to ensure that the new management incentive plan (PARS) evaluations are conducted by the Quality Control Committee."

Auditors' Concluding Comments: It should be noted that the Agency's efforts to comply with Section 5-237b of the General Statutes were, at most, preliminary in nature. The Agency had neither selected the members of the Quality Control Committee nor conducted any PARS evaluations during the audited period.

Payroll and Personnel – Attendance Records:

Criteria: Agency procedures require that timesheets be signed by the employee, and verified and approved by a supervisor or department head, as applicable.

Condition: Our review of a sample of 25 payroll transactions revealed three instances in which the employee's timesheet was not approved by the supervisor or department head, as required.

Effect: The lack of properly approved time sheets lessens the assurance that personal services were received.

Cause: The Department failed to comply with the established procedures.

Recommendation: The DAS should ensure that employee time sheets are properly verified and approved. (See Recommendation 6.)

Agency Response: "We agree that three of the twenty-five did not have supervisory or managerial approval; however, in the case of these three, it is not practical to have a supervisor or manager's signature."

Auditors' Concluding Comments: Compliance with the Agency's established payroll procedures can only be ensured if all employees subject to both DAS' payroll and personnel functions submit properly approved timesheets. This would include those employees who are directly responsible to either a department head or the chief executive of another agency.

Medical Certificates for Extended Use of Sick Leave:

Criteria: According to employee bargaining unit contracts, a signed statement of the reasons for the absence is required of an employee to substantiate the use of sick leave for any period of absence in excess of five consecutive working days. Employees that are not covered by provisions of a collective bargaining unit are required to provide an acceptable medical certificate, signed by a licensed physician, to substantiate the use of sick leave in excess of five consecutive working days.

Condition: Our review of a sample of ten employees at the DAS, who had taken sick leave in excess of five consecutive days, disclosed that three did not have the required statement or medical certificate on file.

Effect: Abuse of sick leave by employees can occur and not be detected if the required medical certificates are not submitted.

Cause: The Department did not effectively enforce the requirement that its employees submit the required certificates.

Recommendation: The DAS should effectively enforce the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days. (See Recommendation 7.)

Agency Response: "We agree that three of the ten employees tested did not have a medical certificate on file. With the vast amount of paper work that is received, we can only speculate that these medical certificates have been misfiled. We will try to insure that all required documents are filed in each employee file."

Business Enterprises:

Procurement:

The Department of Administrative Services' Business Enterprises includes Procurement, which functioned as the centralized purchasing authority for budgeted State agencies during the audited period. In accordance with Section 4a-51 of the General Statutes, the Commissioner of Administrative Services shall purchase or contract for all supplies, materials, equipment and contractual services required by any State agency, except for emergency purchases and purchasing authority that has been delegated to others by legislation. We noted the following in our review of the DAS Procurement.

Evidence of Bidders' Insurance Coverage:

Criteria: DAS has adopted the principles of "customer service" within the Business Enterprises, Procurement. In doing so, DAS should take steps to extend the services it provides.

When it is deemed necessary, DAS requires bidders to have appropriate insurance coverage in place, including automotive and general liability, workers' compensation, and employee bond coverage. The purpose of the requirement is to protect the State in the event a contractor's employees are involved in accidents or thefts of State property.

Condition: DAS usually does not require evidence of insurance prior to the award of a contract. It is anticipated that using agencies will obtain documentation of insurance prior to engaging the services of the contractor and at such times that coverage is renewable. In situations where multiple agencies may be using the same contract, duplication of effort is needed to permit each agency to document insurance coverage.

Since using agencies ("customers") may not have the resources needed to verify and evaluate the adequacy of coverage that is presented to them, customer service would be enhanced if DAS verified insurance coverage centrally.

Effect: The failure to verify insurance coverage prior to awarding a contract increases the risk that awards may be made to contractors with inadequate coverage. Duplication of effort by using agencies is an inefficient use of resources.

Cause: DAS has not implemented the procedures necessary to verify insurance coverage prior to the awarding of all State contracts.

Recommendation: DAS should continue its efforts to implement procedures to verify and monitor the existence of insurance coverage prior to the awarding of a contract as a service to its customers. (See Recommendation 8.)

Agency Response: "We agree with the condition but wish to note that since February 2001 Procurement Services has maintained a central file of insurance certificates for contracts that are used by multiple agencies. To further improve the process, an Access database is being established to facilitate the monitoring of expiration dates and ensure continuity of insurance coverage. DAS continues to believe that insurance for single agency contracts is best monitored by the individual agencies. Typically, these agencies have processes in place to accomplish this monitoring."

Auditors' Concluding Comments: Although the DAS has noted the implementation of a proof of insurance coverage procedure, we were unable to confirm that it has been implemented because our initial assessment, at the time of our review, did not provide evidence sufficient enough to support the existence of such a procedure. The assessment of the Agency's newly implemented procedures will be performed as part of our subsequent audit of the DAS.

Fleet Operations:

The Department of Administrative Services' Business Enterprises includes the Fleet Management Unit. This unit is responsible for vehicle procurement; long-term leases and daily car rentals and loaners; vehicle maintenance and repair; operator safety and disposal of used vehicles, and oveall administration and recordkeeping of the State's centrally-owned fleet of motor vehicles.

Receipt of Mileage Reports:

Criteria: In order to efficiently manage the vehicles in the State of Connecticut fleet, DAS needs to know the levels of usage of each vehicle. To obtain this information, DAS requests monthly mileage reports to be completed for each vehicle. General Letter #115 specifies that monthly usage reports are to be certified by the operator and agency head and forwarded to the Director of Fleet Operations by the 15th of the following month. Lack of submittal of two or more monthly usage reports may result in the immediate recall of the vehicle by the Director of Fleet Operations.

Condition: Our review of one six-month period disclosed that 2,760 monthly mileage reports relative to 1,379 vehicles were either missing or not submitted as required. DAS, itself, was among the agencies that failed to submit the required mileage reports.

Effect: The failure to submit the required reports prevents efficient and effective management of the vehicles. Also, in the absence of monthly mileage reports, it is possible for state vehicles to be used for unauthorized purposes and not be detected.

Cause: While DAS had been monitoring the affected agencies, DAS never acted on its right to recall the vehicles for failure to submit mileage reports.

Recommendation: DAS should take more stringent steps to gather the mileage information necessary to effectively monitor the vehicles within Fleet Operations. (See Recommendation 9.)

Agency Response: "We agree with the finding. Subsequently, Fleet Operations sent a memorandum to agency heads advising them of the importance of submitting mileage reports on a timely basis. The new Fleet Management Information System (Fleet Anywhere) has been programmed to monitor the receipt of monthly mileage reports. Delinquent agencies receive notification of overdue reports and are advised that failure to submit reports may adversely affect requests for additional or replacement vehicles. An electronic system is currently being developed to notify agencies automatically."

Financial Services Center:

Fiscal Management Unit:

The Fiscal Management Unit within the DAS Financial Services Center provides fiscal services in support of departmental operations. These services include budget development and administration, purchasing, accounts payable/receivable, property management and grants administration.

Maintenance of Accounts Receivable Records (Other Than FSC-Recovery Unit):

Criteria: Adequate internal controls over accounts receivable should ensure prompt billing and collection of amounts due to the State.

Condition: Our review, in May 2001, of a sample of paid invoices for repairs made to State vehicles during the period from July 1999 through June 2000 disclosed that the repair costs were not being billed to responsible parties in a timely manner. Of the total repair costs of $28,821 only $26,666, or 93 percent, was actually billed to the liable State agencies or other third parties. Of the $26,666 actually billed only $18,970, or 71 percent, was collected as of the date of our review.

A review of the Fleet Operations' accounts receivable records, as of April 2001, disclosed that 403 accounts totaling $707,103 were outstanding for more than 90 days. We also determined that $55,523 of the total receivables of $115,434 related specifically to third party billings for accidents involving State vehicles was outstanding for more than one year.

Effect: The lack of adequate internal controls over third-party billings and accounts receivable increases the risk that amount owed to the State will not be collected.

Cause: The Agency has apparently not implemented effective accounting controls over Fleet Operations' third-party receivables.

Recommendation: DAS should implement the internal control policies and procedures necessary to ensure the prompt billing and collection of amounts due to the State. (See Recommendation 10.)

Agency Response: "We agree with the findings. It should be noted that Fleet Operations is responsible for the billings to liable third parties and Fleet Operations did not bill the $2,155. Once a billing is done, the information is sent to the business office, and it becomes a part of our receivables records. The difference of $7,696 between billed and collected represents one claim that was unpaid. Since April of 2001, we have instituted new and more stringent accounting controls over our third party receivables. Follow-up steps will be taken to collect amounts due through 3 billing cycles, or approximately 90 days. After that, unpaid balances will be turned over to the Delinquent Accounts Unit for collection purposes."

Equipment Inventory Recordkeeping:

Criteria: The State of Connecticut's Property Control Manual, under authority granted under Section 4-36 of the General Statutes, prescribes procedures for the maintenance of equipment inventory records and establishes inventory control policies and procedures for State agencies.

Condition: Our review of the annual Fixed Assets/Property Inventory Report (CO-59 form), physical inspection of the equipment inventory, and review of the related equipment inventory and expenditure records revealed the following:

The Agency's inventory records were not accurate due to errors or omissions. Newly purchased equipment valued at $36,993 was not recorded in the inventory records nor was it included on the CO-59 form submitted to the State Comptroller.
In addition, we identified one instance in which equipment was transferred to another State agency without the required formal written authorization.

Effect: The Fixed Assets/Property Inventory Report submitted to the Comptroller was inaccurate. Equipment balances may be in error by the value of the equipment not recorded. Controls over inventory are reduced if equipment transfers to other State agencies are made without proper authorization.

Cause: The DAS failed to follow the procedures established by the State Comptroller.

Recommendation: DAS should improve its controls over the equipment inventory to ensure that inventory records are complete and accurate, and maintained in accordance with the Comptroller's Property Control Manual. (See Recommendation 11.)

Agency Response: "We disagree with some aspects of this finding. The cited balance of $36,993 consists of:

- $19,089 represents keyboard trays purchased in September of 1999. The value of these items was added to the value of the systems furniture after the trays were attached. This process that occurred during the remainder of FY2000 was a time which saw major DAS renovations and work section unit moves. When this process was finalized the keyboards were recorded in our records and reported in our CO-59 reports to the Comptroller for FY01.

- $17,904 cited in the audit represents the purchase of laptop computers. Of these, two were recorded in our records upon receipt. The remaining laptops were not tagged or recorded upon receipt due to a lack of notification to the property management unit. The values, however, were recorded in our records pending the items being located and tagged. CO-59 reports to the Comptroller for FY01 contain adjustments to properly reflect these items. These items were tagged and recorded at a later date, when we learned that they had been received. We have since revised agency procedures to make the property management unit the designated receivers for all recordable equipment items. This should eliminate similar issues in the future."

Auditors' Concluding Comments:

The equipment items in question were both recorded in the inventory records and reported as adjustments on the CO-59 form to the State Comptroller for the fiscal year ended June 30, 2001.

However, the evidence obtained at the time of our review for the fiscal year ended June 30, 2000, indicated that the equipment had not been added to the inventory records and had not been included on the CO-59 form for the period then ended.

Use of State Owned Vehicles:

Criteria:

The Department of Administrative Services' Fleet Operations has established policies to ensure that the State vehicle fleet is used in a manner that promotes its most efficient use.

Regarding the use of vehicles leased from State Fleet Operations for Department business, it is generally more cost-effective to rent a vehicle from the State motor pool on a monthly basis if the vehicle is used more than 1,000 miles per month. If use is less than 1,000 miles per month, the agency will incur less expense by obtaining vehicles, as needed, on a daily rental basis.

Condition:

Our review of the DAS' mileage reports relative to its permanently-assigned vehicles, which were submitted during the audited period, disclosed that 12 of the vehicles were not used in a cost-effective manner. Our analysis of the rental costs for these 12 vehicles revealed that the Department expended $39,353 in monthly rental fees, compared to the $12,879 that it would have cost in daily rental fees.

Effect: All permanently assigned vehicles are not used in the most cost-effective manner. The Department paid $26,474 more than it should have for the rental of State owned vehicles. The cost of keeping underutilized State vehicles available is greater than the cost incurred by renting vehicles on a daily basis.

Cause: A lack of adequate administrative control contributed to this condition.

Recommendation: The DAS should review the usage of its permanently-assigned State owned vehicles to ensure that the vehicles are being used in the most efficient and effective manner, and should, where possible, return underutilized vehicles to Fleet Operations. (See Recommendation 12.)

Agency Response: "We agree that DAS should monitor the usage of its permanently assigned vehicles, and ensure their use in the most efficient and effective manner. Since the end of the audit period, we have, in fact, returned a total of 5 of the 12 vehicles identified in the audit report. We have also re-instituted a procedure to have monthly mileage reports submitted to the Property Management Unit for review and to determine if vehicles are being under-utilized. Where possible and practical, we will continue to return permanently assigned vehicles, and obtain replacements, as needed, on a daily rental basis."

Monitoring of Grantees:

Criteria: The State Single Audit Act requires municipalities, audited agencies and nonprofit agencies to have an audit completed in accordance with Sections 4-230 to 4-236 of the General Statutes and regulations adopted pursuant to Section 4-236 of the General Statutes.

DAS' Memorandum of Understanding (MOU) with one grantee required the submission of periodic expenditure reports to DAS during the grant period. Adequate internal control includes monitoring grantees to ensure that expenditures and activities are in accordance with the MOU.

Condition: Our review of State grants revealed that DAS failed to receive a grantee's independent audit report required under Section 4-231 of the General Statutes.

In addition, the expenditures of grant awards were not monitored effectively to ensure that such expenditures meet the Department's objectives and policies. The Department failed to obtain a grantee's periodic expenditure reports as required under its MOU with the grantee.

Effect: Without adequate monitoring of the Department's grantees, errors and noncompliance with contract requirements could occur and not be detected in a timely manner.

Cause: The Department has not made the effective monitoring and audit of its grant awards a priority.

Recommendation: DAS should establish adequate procedures to obtain and review required audit reports, and to conduct on-going monitoring of its grantees. (See Recommendation 13.)

Agency Response: "We agree with the finding that DAS failed to receive a grantee's independent Audit Report required under Section 4-231 of the General Statutes. Because we had not previously awarded a grant equal to or in excess of one hundred thousand dollars in a fiscal year, we were not aware of this requirement under the Single Audit statutes. Since it was pointed out to us, we have decided that this provision will be added in to the MOU at the next available opportunity.

DAS does have procedures in place to obtain and review grantee expenditure reports to monitor and ensure that they meet the MOU's objectives and proposals. Every effort is made to obtain these reports on a timely basis in accordance with the MOU. Occasionally, however, grantees do not make such reporting a priority, or program realities delay preparation of reports, and reports are submitted after their due date. Essentially, while we agree that we did not obtain a required report, and some reports are not received timely, we feel that we have adequate procedures in place to conduct ongoing monitoring of our grantees. Additional effort will be made to comply with our procedures."

General Services Revolving Fund 4015:

General Ledger Cash Balance Reconciliation:

Criteria: Accepted internal controls dictate that agency records be reconciled periodically. Specifically, reconciliations between the DAS General Services Revolving Fund general ledger cash balance and the records of the State Comptroller should be performed routinely throughout the fiscal year and, specifically, at the year-end.

Condition: At the time of our review, April 2001, the Department of Administrative Services had not performed the reconciliation between their General Services Revolving Fund general ledger cash records and the Fund cash balance per the State Comptroller since December 31, 1999.

Effect: The Agency's accountability for reconciling the DAS general ledger cash balance to the cash balance per the State Comptroller is in question.

Cause: Switching from the P 2000 computer system to the Great Plains computer system may have contributed to this problem.

Recommendation: The Agency should perform periodic routine and year end reconciliations of the General Services Revolving Fund general ledger cash balance to the cash balance per the State Comptroller. (See Recommendation 14.)

Agency Response: "We agree that DAS should perform periodic routine and year-end reconciliations of the General Services Revolving Fund general ledger cash balance to the cash balance per the State Comptroller. As of this writing, we have completed the FY 2000 reconciliation and made all necessary adjusting entries.

We continue our efforts to bring these reconciliations up-to-date."

Accounts Receivable Reconciliation:

Criteria: Basic accounting principles suggest that accounts receivable subsidiary accounts be reconciled on a regular basis to the respective control accounts.

Condition: Our review of the General Services Revolving Fund's General Ledger in April 2001 disclosed that the accounts receivable balance was understated by $535,926 when compared to the Agency's accounts receivable subsidiary record.

Effect: The General Services Revolving Fund financial statements do not accurately reflect the balance of the accounts receivable of the Fund.

Cause: The Agency has not implemented an on-going reconciliation process for the General Services Revolving Fund accounts receivable accounts.

Recommendation: The Agency should reconcile the General Services Revolving Fund accounts receivable subsidiary accounts to the respective control accounts on a regular basis. (See Recommendation 15.)

Agency Response: "We agree that DAS should reconcile the accounts receivable subsidiary accounts to the respective control accounts on a regular basis, and we are, in fact, doing so. The understated balance cited is the result of several factors surrounding the transition from P-2000 to the Great Plains accounting system. We are currently researching the most practical resolution of this discrepancy, and have instituted a monthly reconciliation of our accounts receivable subsidiary accounts to the respective control accounts."

GAAP Reporting:

Criteria: The submission of complete and accurate GAAP information is instrumental in producing a fairly stated State Comprehensive Annual Financial Report. The DAS is required to submit both a balance sheet and operating statement for the General Services Revolving Fund as part of its GAAP reporting of "other financial information" to the State Comptroller per the *State Accounting Manual*.

Condition: Our examination of DAS' GAAP closing package revealed that $178,599 worth of equipment, which was purchased on behalf of the General Services Revolving Fund from a General Fund appropriation account, was not included in the GAAP financial statements submitted to the Comptroller.

Effect: The Department's GAAP financial statements submitted for the General Services Revolving Fund were inaccurate and/or incomplete.

Cause: It appears that a lack of proper communication between staff in the Financial Services Fiscal Management Accounting Services unit resulted in the reported condition.

Recommendation: DAS should ensure that the General Services Revolving Fund financial statements submitted as a component of its GAAP reporting to the State Comptroller contain accurate and complete information. (See Recommendation 16.)

Agency Response: "We agree with this finding, and are taking the necessary steps to ensure that this information is included in GAAP reports submitted to the State Comptroller."

Allocation of Overhead Costs:

Criteria: The Federal Office of Management and Budget (OMB) has issued regulations that apply to all internal service funds, including those which provide central services on behalf of other State agencies that receive Federal funds. These regulations are contained in the OMB publication *OMB Circular A-87.* With regard to indirect costs, *OMB Circular A-87* stipulates that it may be necessary to establish a number of indirect cost pools in order to facilitate the equitable distribution of indirect expenses to the cost objectives served. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of the relative benefits derived. In addition, the *Circular* states that revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues.

Condition: We found that the Department's current methodology for determining and allocating overhead costs for the General Services Revolving Fund does not comply with all of the requirements set forth in *OMB Circular A-87*. Our review disclosed that the DAS charges 100 percent of the payroll costs for 12 employees in the Financial Services Center (FSC) Fiscal Management unit to the Revolving Fund, although only one employee actually dedicates 100 percent of his time to the Revolving Fund.

We also found that other employees, who are assigned to both General Services Revolving Fund and General Fund activities, are not charged to the Revolving Fund.

In an independent report issued by an outside consultant in January 2000, DAS was informed that there is a significant discrepancy between the current allocation method and the actual time spent for each Revolving Fund enterprise. It was noted that DAS currently allocates overhead for the activities of the General Services Revolving Fund, including payroll costs, based on a ratio-of-expenses method (i. e., the ratio of expenditures for each individual Revolving Fund enterprise to the total expenditures for all enterprises). However, the report noted that this methodology has resulted in an inequitable allocation of such overhead costs to certain Revolving Fund enterprises. In addition, the report concluded that DAS does not regularly track the time spent by its FSC Fiscal Management personnel on various Revolving Fund activities either in total or by enterprise.

Our review, also, disclosed that DAS currently does not identify and include all revenues generated as a result of the activities of the General Services Revolving Fund in its current methodology for determining overhead costs allocated to the Revolving Fund. We found that DAS does not properly recognize the imputed revenues generated by Fleet Operations related to unbilled repair costs.

Effect: The current method of allocating FSC Fiscal Management unit overhead costs to the General Services Revolving Fund may not comply with *OMB Circular A-87* and does not reflect the actual costs of the resources used. Recipients of General Services Revolving Fund services may be improperly charged for such services.

Cause: The current method of allocating the FSC Fiscal Management unit costs to the General Services Revolving Fund does not provide a reasonable and equitable allocation of such costs. DAS has not implemented the procedures necessary to regularly track the time spent by the FSC Fiscal Management employees on the various General Services Revolving Fund activities and enterprises.

Recommendation: DAS should implement control procedures, including the regular tracking of personnel time, to ensure the reasonable and equitable allocation of the Financial Services Center Fiscal Management overhead costs to the General Services Revolving Fund in compliance with Federal guidelines. (See Recommendation 17.)

Agency Response: "We disagree with this finding, and believe that our methodology for allocating overhead costs to the General Services Revolving Fund is in compliance with federal guidelines and fairly represents the actual costs of resources used.

Only ten (10) positions are allocated as business office overhead; two (2) additional Revolving Fund positions are direct costs to the Master Insurance business.

Most business office employees, including managers, work on both General and Revolving Fund activities, and all recent time studies indicate that an equivalent of nearly eleven (11) full time employee-hours are spent on Revolving Fund activities, and the costs associated with the ten (10) allocated positions fairly represents actual costs. Overhead allocations are then made based on gross expenditures and cost of goods sold. Our existing methodology is adequate, our methods have been reviewed annually by the Comptroller's Office, and we believe they are in compliance with all federal guidelines."

Auditors' Concluding Comments: The tracking of the FSC Fiscal Management unit's personnel costs for the purpose of allocating overhead costs to the various activities or enterprises of the General Services Revolving Fund is not performed on a regular basis. The most recent time study conducted by DAS for determining the allocation of the overhead costs of the FSC Fiscal Management unit was performed for the fiscal year 1998-1999.

User Rates for State Vehicles:

Criteria: DAS uses the General Services Revolving Fund to account for the income and expenses of its business centers, one of which is the rental of vehicles to the State Agencies. Under revolving fund concepts, rates should be set to recoup direct costs and provide for the capitalization necessary to purchase capital assets.

Condition: Rental rates for fleet vehicles have not been revised to reflect operational costs and capitalization expenses.

Effect: The cash flow of the Revolving Fund was unnecessarily reduced. In addition, the ability of a using agency to budget for cost increases is hampered if such increases are sporadic.

Cause: DAS failed to adjust the user rates in response to increases in the cost of operations.

Recommendation: DAS should implement control procedures for the General Services Revolving Fund to review and revise rates in a more timely manner. (See Recommendation 18.)

Agency Response: "We disagree with this finding. DAS sets Fleet rates (and all other Revolving Fund rates) every year to recoup direct costs and provide for the capitalization necessary to purchase capital assets. This is done in a timely fashion to allow agencies to be notified and build increases into their budgets. Before notifying the agencies, DAS is required to seek OPM approval to implement new rates. Since 1993, OPM has denied all of our requests for Fleet rate increases."

Auditors' Concluding Comments: Internal Service Funds are to account for the financing of goods or services provided to other agencies of a governmental unit on a cost-reimbursement basis. If the General Services Revolving Fund is to be operated on a true business basis, it must be able to finance from its operations replacement, modernization, and expansion of plant and equipment used in fund operations.

Control and Deposit of Receipts:

Our examination of deposits, is discussed below:

Criteria: Section 4-32 of the General Statutes generally requires that any State agency receiving any money or revenues for the State amounting to more than $500 shall deposit such receipts in depositories designated by the State Treasurer within 24 hours of receipt.

Condition:	Our examination of the Agency's receipts log revealed two of the 15 tested checks were not deposited in compliance with Section 4-32 of the General Statues. These checks for $26,670 and $15,085, respectively, were recorded in the check log as having been received on October 25, 1999 and November 24, 1999, respectively. However, the checks were not deposited until November 9, 1999, 11 days late, and November 29, 1999, one day late, respectively. We reported this matter to the Governor and others in a letter dated January 23, 2002.
Effect:	Untimely deposits increase the opportunity for loss or misappropriation of funds. Such delays reduce the opportunity for the State Treasurer to invest idle money.
Cause:	It appears that the staff was not effectively monitoring prompt deposit requirements.
Recommendation:	The Department should comply with established internal control procedures to ensure receipts are deposited promptly in compliance with statutory requirements. (See Recommendation 19.)
Agency Response:	"We agree with the condition but believe that our internal controls and our procedures are sufficient to ensure that receipts are deposited in compliance with statutory requirements. Of the two instances cited, our response is as follows. A check received and logged in on the day before Thanksgiving was deposited the following Monday, for all practical purposes the next working day. The other was an isolated instance where a check was held for approximately ten days while additional documentation was sought, when the check should have been deposited to a pending receipt account within 24 hours. This was perhaps a lapse in individual judgment, but not an indication that our procedures or internal controls are not adequate. We will continue to make every effort to make timely deposit of receipts."

Information, Intake and Input Unit, and Recovery Unit:

The Information, Intake and Input Unit within the DAS Financial Services Center is responsible for the investigation, billing and collection of charges for the support of persons cared for in facilities or programs operated or funded by the State. DAS may be designated to act as trustee for certain individuals in the collection of benefits and maintenance of trustee accounts.

The Recovery Unit within the DAS Financial Services Center is responsible for the billing and collection of money due to the State for overpayments of public assistance and performs collection services for other State agencies by mutual agreement.

The following findings relate to our review of these DAS units.

Valuation of Accounts Receivable:

Criteria: Generally Accepted Accounting Principles (GAAP) require that reported values of accounts receivable reflect reasonable estimates of the dollar amounts likely to be collected and that credits resulting from overpayments be reported separately as liabilities.

Sound internal control practices dictate that material adjustments to accounts receivable balances be approved by someone other than the person initiating the transaction.

Billing rates for Title XIX reimbursements are determined by the Department of Social Services (DSS). DAS does not employ controls to provide the cost-effective assurance that all available Title XIX reimbursements are received.

Condition: Our prior reports have discussed significant departures from GAAP relating to the valuation of accounts receivable and the "absorbing" of credit balances. We found such departures to continue throughout the current audited period. Consistent with its past practices, DAS does not employ a reasonable method of estimating, recording, and reporting the probable value of uncollectible accounts. In our opinion, there likely exists a material difference between the Bureau's reported values of accounts receivable and the values that would reflect reasonable provisions for uncollectibles. We also noted that material adjustments are processed without any evidence of supervisory approval.

Accounts receivable ledgers were not always adjusted for changes in billing rates. Prior audits have noted that Title XIX billings for services provided at State humane institutions were paid by DSS in amounts that varied from those billed by DAS. Hospital billing files are not reviewed frequently enough to allow for timely rate adjustments, resulting in inaccurate receivable balances. Also, receivable ledger balances do not fully reflect the amounts billed.

Effect: As a result of the aforementioned departures from GAAP, the reasonableness of the financial presentation of the accounts receivable balances is questionable. The failure to document the supervisory approval of adjustments increases the risk that erroneous entries may go undetected.

DAS does not accurately record or report revenues and accounts receivable balances relative to Title XIX billings.

Cause: The accepted method for determining a reasonable provision for uncollectible accounts depends on aging reports which cannot be provided by the current data processing systems. The investigation and adjustment of credit balances and the adjustment of rates and balances in the accounts receivable system are not given as much priority as the processing of billings and recording of payments.

DAS lacks an automated method of tracking the Title XIX billings versus payments differences.

Recommendation: DAS should conform to all relevant Generally Accepted Accounting Principles in the maintenance of accounting records, establish procedures to document the authorization of material adjustments affecting account balances and track the resolution of all known Title XIX billing differences with the DSS. (See Recommendation 20.)

Agency Response: "This section contains two separate and distinct findings. Our first response is for GAAP principles (Section a) and the second is for Title XIX reimbursements (Section b):

a) We agree but as stated in previous responses, GAAP compliance is a major specification of Avatar, the Collection Services planned computer system scheduled for implementation in the 2001-2002 fiscal year.

b) We agree but wish to point out the following. Title XIX rates are officially issued by DSS based on cost reports. Cost reports for a certain period are often amended. Each time a cost report is filed, or amended, it results in a new rate.

When DAS receives notification of a new rate, it is entered into the appropriate billing system within 24 hours. If a claim is not paid at the new rate, it is flagged as out of balance, reviewed and communicated to DSS. This situation would only occur if there were timing differences when the new rate was entered into the two different systems.

Since rates are always retroactive, there will be claims that exist that were filed at the old rate. To resolve this situation, upon issuance of a new retroactive rate, EDS schedules a mass adjustment cycle where claims are adjusted and paid at the new rate. These adjustment cycles generally occur quarterly. Since the claims are paid from a price table, it is only necessary to check a single claim for various factors in the adjustment cycle.

In 2001-2002, 268,483 claims were mass adjusted, resulting in 536,966 transactions. This rate change was for 3,058,842 units of service and resulted in an additional $2,018,022.97, or $.66 per unit of service. Of this amount, $1,900,000 and 2,303,116 units of service were for a single provider and two procedures. This change was for the period 7/1/96 through 3/31/2001. This adjustment cycle was checked for accuracy.

DAS does have a procedure for the timely entry of rates into the billing system. DAS does review billed versus paid discrepancies and reports rate problems to DSS. DAS does review mass rate adjustment cycles on a global level and does report incorrect rates to DSS."

Auditors' Concluding Comments: While we acknowledge the fact that there may be occasional timing differences between the entry of new or revised Title XIX rates on the Medicaid Management Information System (MMIS) by DSS' fiscal agent EDS and DAS' entry of the same rates on its billing system, the Agency continues to lack an adequate method for resolving the differences between the related accounts receivable and the amounts billed on those accounts, which reflects a persistent internal control weakness.

Gathering of Information from Other Agencies:

Criteria: DAS is highly dependent on other agencies and facilities for the information needed to process billings to the Department of Social Services (DSS). Untimely or incomplete attendance reports delay the ability of DAS to bill and collect Federal reimbursements for programs.

Prior authorization must be received from DSS for the payment of psychiatric treatment services exceeding thirteen visits within a ninety-day period or twenty-six within a six-month period, in accordance with DSS' policy for hospital outpatient services.

Condition: Our review conducted for the period from July 1999 through December 1999 revealed the failure of the Department of Mental Retardation (DMR) to submit the attendance reports required for billing in a timely manner. We found that 37 percent of the providers in the community training home program failed to provide attendance reports for one or more months during the period. We also determined that 27 of the 312, or approximately nine percent, of the DMR providers in the program had not been assigned provider numbers to allow DAS to bill DSS for reimbursement.

In addition, we found that the Department of Mental Health and Addiction Services (DMHAS) did not submit the attendance reports required for billing of outpatient services in a timely manner. The attendance reports for the month of October 1999 were not submitted to DAS until January 2001. In addition, the attendance reports required for billings to DSS for the months of November 1999 through September 2000 were not received by DAS until February 2001.

We have determined that approximately $166,000 in billings for outpatient services for fiscal year 2000 were rejected due to the lack of pre-authorization for visits exceeding the limits set by DSS, as a result of the delay in receipt of the required attendance reports.

Effect: Untimely Medicaid claims may result in the loss of Federal reimbursements for up to fifty percent of the claim amount. We were unable to determine the exact amount of unbilled attendance on behalf of DMR providers for the audited period. However, any delay in billing for these services hinders revenue collection and reduces cash flows to the State. We also observed that during a time of reduced personnel resources, an excessive amount of time is spent by the DAS staff in resolving these matters.

Cause: DAS tracks the missing DMR attendance reports and the providers without valid provider numbers, but they have no authority to demand resolution of this condition. Attendance information is not received from DMR in a timely manner. This data can be behind up to three months or not available at all.

Due to difficulties in obtaining timely attendance data from DMHAS, DAS cannot obtain pre-authorization for psychiatric services from DSS.

Recommendation: DAS should continue to work with the appropriate social service agencies involved in the collection process to establish procedures to minimize delays in the receipt of attendance data. In order to compensate for any built-in deficiencies, DAS should utilize a database system to track psychiatric visits on a current basis to request the required authorizations as the visits occur. (See Recommendation 21.)

Agency Response: "We disagree with the conditions noted because these are not DAS problems but other State agencies. DAS aids each agency noted in this condition section. We help the Department of Mental Retardation (DMR) by identifying missing attendance reports by provider as well as providers that have not received provider numbers from the Department of Social Services (DSS). We assure no reimbursement is lost due to these two factors. As for the timely reporting by the Department of Mental Health and Addiction Services (DMHAS), we worked with this agency and information is now within 30 days of the close of the calendar month when the services were provided in a state operated facility.

We agree the amount is closer to $166,000 for outpatient rejections due to lack of pre-authorizations for visits exceeding the limits set by DSS for fiscal year 2000.

In fact, this amount has been reduced to about $18,500 for fiscal year 2001, which is a remarkable improvement for an area where pre-authorizations situations are difficult to identify and, at times, to obtain despite continuous staff efforts.

Auditors' Concluding Comments: Although improvements have been made in the posting of billing information by the DAS, the collection of billing information requires improvement to ensure the timeliness of Medicaid claim filing.

Mortgages/Liens:

Criteria: Section 4a-13 of the General Statutes grants the Commissioner of the DAS the power to accept mortgage notes and mortgage deeds in payment of claims due for welfare assistance or institutional care provided by the State. This section indicates that such encumbrances may be foreclosed in an action brought in a court of competent jurisdiction by the Commissioner on behalf of the State. In addition, this section requires the Commissioner to release the mortgage or lien upon payment of the amount secured by it.

When negotiating the terms of the mortgage, it is required that the payee provide the Agency with a copy of the current insurance on the property. The Agency must also advise the payer that the State must be listed as the loss payee. Documentation of the insurance policy must be kept in the file. The insurance protects the State's interest in the event of loss.

Condition: Our examination revealed errors relative to four of ten mortgage files reviewed. Two mortgage files lacked evidence of current insurance in the file. Another case file review provided evidence that the State's lien, which had been extinguished in February 1995 per instructions from the Office of the Attorney General, was not released. This case remained in the Agency's active files when it should have been closed. A fourth file revealed a discrepancy of $13,778 between the amount due per the Agency's records for the services provided by the State and the value stated on the mortgage documents accepted for payment by the DAS.

Effect: The interests of the State are not adequately protected if the mortgaged property is not covered by insurance.

The Agency's failure to release its interest in a mortgage instrument, upon the discharge of the amount secured by operation of the law, resulted in noncompliance with Section 4a-13 of the General Statutes.

Inaccuracies in the mortgage file information could result in either the overpayment or underpayment of amounts owed to the State.

Cause: The lack of periodic reviews of mortgage files appears to have contributed to the reported condition.

Recommendation: DAS should conduct periodic reviews of all mortgage files to ensure all required information is current, complete and accurate, and to ensure compliance with Section 4a-13 of the General Statutes. (See Recommendation 22.)

Agency Response: "We do not agree with two of the three error conditions for the four files noted. We do agree at the time of the audit that two mortgage files lacked current insurance. One of these has since been paid in full and the other now has current insurance. The release of the lien in February was not necessary because this was a foreclosure action, which extinguished the lien by order of law. As for the discrepancy of $13,778, Connecticut General Statute 17b-94 (b) provides that fifty percent of the assets of the estate payable to the beneficiary or the amount equal to the assistance paid, whichever is less, shall be assignable to the State for payment. By order of law, the mortgage could not exceed that amount, and the agency was in compliance with the statute."

Auditors' Concluding Comments: The Agency maintained the amount secured by a lien that had previously been extinguished with the open receivable balances due to the State. The Agency was unaware that this closed case remained in the active files.

A discrepancy was identified between the mortgage amount and the amount claimed as due to the State per the Agency's records for the case in question. Although limited by statute in the amount of the mortgage that could be accepted for the amount owed to the State, the Agency did not adjust its records to properly reflect the amount assignable to the State.

RECOMMENDATIONS

Our prior report on the fiscal year ended June 30, 1999, contained a total of 25 recommendations. Of those recommendations, eight have been implemented or otherwise resolved. In addition, aspects of two prior recommendations have been combined into one recommendation, with the relevant aspects of the prior recommendations repeated in a modified form. The status of recommendations contained in this prior report is presented below.

Prior Audit Recommendations:

- DAS should improve controls over durational positions by requiring accurate completion of all corresponding data fields on the Automated Personnel System, and auditing this data at the time of entry. This recommendation is being repeated. (See Recommendation 1.)

- A systematic process should be implemented for the review of requests for managerial positions. All positions with managerial and bargaining unit equivalents should be considered bargaining unit positions unless a proper justification is given by the requesting agency. This recommendation has been modified to reflect current conditions. (See Recommendation 2.)

- DAS should ensure that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute. This recommendation is being repeated. (See Recommendation 3.)

- DAS should continue to consider alternative ways to compile a complete roster of employees in State service. DAS should review their Memorandum of Interagency Agreement with the Department of Education to determine if there are any provisions in the agreement that would allow DAS to further pursue the Department of Education's compliance. This recommendation has been modified and repeated in part to reflect current conditions. (See Recommendation 4.)

- DAS should ensure that the current management incentive plan (PARS) evaluations are conducted by the Quality Control Committee pursuant to Section 5-237b of the General Statutes. This recommendation is being repeated. (See Recommendation 5.)

- The Department should put in place procedures to ensure the contractually required reconciliations of the Workers' Compensation Fund checking account are completed by the Third Party Administrator and forwarded to DAS in accordance with contractual requirements. Reconciling items should be identified and corrective action taken in a timely manner. This recommendation has been resolved.

- DAS should take steps to ensure that the Workers' Compensation Third Party Administrator properly documents claim payments, performs supervisory reviews on a regular basis and complies with all applicable State statutes. This recommendation has been satisfied.

- DAS should institute procedures to verify and monitor the existence of vendor insurance coverage prior to the awarding of a contract as a service to its customers. DAS should implement procedures to obtain certifications from all vendors regarding suspension and debarment. This recommendation has been modified to reflect current conditions. (See Recommendation 8.)

- DAS should expand efforts to document the review of purchase orders of other State agencies in order to ensure compliance with purchasing procedures and to determine if preferred pricing is being obtained. This recommendation has been satisfied.

- DAS should take more stringent steps to gather the mileage information necessary to effectively monitor the vehicles within Fleet Operations. This recommendation is being repeated. (See Recommendation 9.)

- DAS should implement control procedures for the General Services Revolving Fund to review and revise rates in a more timely fashion. This recommendation is being repeated. (See Recommendation 18.)

- The Department of Administrative Services should follow the GSA guidelines on reporting donated Federal Surplus Personal Property. This recommendation has been resolved.

- The Department should improve controls over the procurement process to insure that all statutory requirements pertaining to personal service agreements are adhered to. This recommendation has been satisfied.

- DAS should improve accounting controls over accounts receivable, perform periodic evaluations of amounts due and take steps to fully comply with Section 3-7 of the General Statutes when accounts are deemed to be uncollectible. This recommendation has been modified to reflect current conditions. (See Recommendation 10.)

- DAS should improve controls over equipment inventory by recording acquisitions of equipment in a timely fashion. This recommendation has been modified to reflect current conditions. (See Recommendation 11.)

- The Agency should perform periodic routine and year-end reconciliations of the General Services Revolving Fund general ledger cash balance to the cash balance per the State Comptroller. This recommendation is being repeated. (See Recommendation 14.)

- The Agency should reconcile subsidiary accounts on a regular basis to the respective control accounts and prepare annual General Services Revolving Fund GAAP Forms (balance sheet and income statement) based on reconciled accounts. This recommendation has been modified to reflect current conditions.
  (See Recommendation 15.)

- The Department should improve its internal control over receipts and implement procedures to ensure receipts are deposited promptly in compliance with statutory requirements. This recommendation has been modified to reflect current conditions. (See Recommendation 19.)

- DAS should ensure that Trust System accounts are properly reconciled to control accounts and that financial statements are completed. This recommendation has been resolved.

- DAS, in an effort to maximize the potential collections on behalf of State institutions, should take a more active role in working with the affected agencies to get managed care arrangements in place. This recommendation has been satisfied.

- DAS should conform to all relevant generally accepted accounting principles in the maintenance of accounting records and establish procedures to document the authorization of material adjustments affecting account balances. This recommendation has been modified to reflect current conditions. (See Recommendation 20.)

- A physical inventory of all assets held in the care and custody of the Collection Unit should be performed and a comprehensive listing of all assets should be prepared. This recommendation has been resolved.

- DAS should track the resolution of all known Title XIX billing differences with the Department of Social Services. This recommendation has been incorporated into our recommendation relative to the valuation of accounts receivable. (See Recommendation 20.)

- DAS should continue to work with the appropriate social service agencies involved in the collection process to establish procedures to minimize delays in the receipt of attendance data. In order to compensate for any built-in deficiencies, DAS should utilize a database system to track psychiatric visits on a current basis to request authorizations as the visits occur. This recommendation is being repeated. (See Recommendation 21.)

- All mortgage files should be reviewed for complete and accurate insurance documentation. A system should be in place to track expiring certificates. This recommendation is being modified and repeated in part to reflect current conditions. (See Recommendation 22.)

Current Audit Recommendations:

1. **DAS should improve controls over durational positions by requiring accurate completion of all corresponding data fields on the Automated Personnel System (APS), and the auditing of this data at the time of entry.**

Comment:

We found that certain data fields within the Automated Personnel System were inconsistent with the durational characteristics of the positions.

2. **DAS should implement written policies and procedures for the review of requests for managerial positions. All positions with managerial and bargaining unit equivalents should be considered bargaining unit positions unless a proper justification is given by the requesting agency.**

   Comment:

   We noted that positions were approved with managerial designations without adequate documentation.

3. **DAS should ensure that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute**.

   Comment:

   A review of Durational Project Managers and similar positions found they were being used to provide normal administrative functions rather than projects of a defined duration.

4. **DAS should continue to consider alternative ways to compile a complete roster of employees in State service.**

   Comment:

   DAS relies primarily on the APS system to track the employment status of current State employees. The APS system does not include all State employees. A process designed to permit DAS to prepare a complete roster of State employees as required by Section 5-200, subsection (e) of the General Statutes was not in place.

5. **DAS should continue its efforts to ensure that the current management incentive plan (PARS) evaluations are conducted by the Quality Control Committee pursuant to Section 5-237b of the General Statutes.**

   Comment:

   The Quality Control Committee has not met since 1991.

6. **The DAS should ensure that employee time sheets are properly verified and approved.**

Comment:

We noted three instances in which an employee's timesheet was not approved by a either a supervisor or department head.

7. **The DAS should effectively enforce the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days.**

Comment:

Three employees, who had taken sick leave in excess of five consecutive days, did not have the required statement or medical certificate on file.

8. **DAS should continue its efforts to implement procedures to verify and monitor the existence of insurance coverage prior to the awarding of a contract as a service to its customers.**

Comment:

The DAS Procurement typically awards contracts stating that vendors must supply evidence of insurance to using agencies. Controls would be enhanced and duplication of effort eliminated if DAS assumed responsibility for verifying the adequacy of insurance coverage.

9. **DAS should take more stringent steps to gather the mileage information necessary to effectively monitor the vehicles within Fleet Operations.**

Comment:

Our review disclosed excessive deficiencies in the reporting of monthly mileage usage reports. DAS, itself, was among the agencies that failed to submit the required mileage reports.

10. **DAS should implement the internal control policies and procedures necessary to ensure the prompt billing and collection of amounts due to the State.**

Comment:

Accounting controls over amounts due from Fleet vehicle collisions are not adequate.

11. **DAS should improve its controls over the equipment inventory to ensure that inventory records are complete and accurate, and maintained in accordance with the Comptroller's Property Control Manual.**

Comment:

Equipment valued at $36,993 was not recorded in the inventory records. One piece of equipment was transferred to another State agency without the required written authorization.

12. **The DAS should review the usage of its permanently assigned State owned vehicles to ensure that the vehicles are being used in the most efficient and effective manner, and should, where possible, return underutilized vehicles to Fleet Operations.**

Comment:

Twelve permanently assigned vehicles were not used in a cost-effective manner. The Agency expended $26,474 more than it should have for the rental of these vehicles during the audited period.

13. **DAS should establish adequate procedures to obtain and review required audit reports, and to conduct on-going monitoring of its grantees.**

Comment:

The Agency failed to obtain an audit report required under Section 4-231 of the General Statutes and the periodic expenditure reports as required under its MOU from one grantee.

14. **The Agency should perform periodic routine and year-end reconciliations of the General Services Revolving Fund general ledger cash balance to the cash balance per the State Comptroller**.

Comment:

At the time of our review, the Department of Administrative Services had not performed a reconciliation between its General Services Revolving Fund general ledger cash balance and the Fund cash balance per the State Comptroller since December 31, 1999.

15. **The Agency should reconcile the General Services Revolving Fund accounts receivable subsidiary accounts to the respective control accounts on a regular basis.**

Comment:

The General Services Revolving Fund accounts receivable balance as of June 30, 2000, was understated by $535,926 when compared to the agency's accounts receivable subsidiary record.

16. **DAS should ensure that the General Services Revolving Fund financial statements submitted as a component of its GAAP reporting to the State Comptroller contain accurate and complete information.**

    Comment:

    Equipment valued at $178,599 was not included in the General Services Revolving Fund financial statements submitted to the State Comptroller for GAAP reporting purposes.

17. **DAS should implement control procedures, including the regular tracking of personnel time, to ensure the reasonable and equitable allocation of the Financial Services Center Fiscal Management overhead costs to the General Services Revolving Fund in compliance with Federal guidelines.**

    Comment:

    The current method of allocating FSC Fiscal Management unit overhead costs to the General Services Revolving Fund does not comply with *OMB Circular A-87* and does not reflect the actual costs of the resources used.

18. **DAS should implement control procedures for the General Services Revolving Fund to review and revise rates in a more timely fashion.**

    Comment:

    Rental rates for fleet vehicles have not been revised to reflect operational costs and capitalization expenses.

19. **The Department should comply with established internal control procedures to ensure receipts are deposited promptly in compliance with statutory requirements.**

    Comment:

    Our examination of the DAS receipts revealed that receipts over $500 were held in excess of 24 hours, for periods ranging from one to eleven days. Such delays reduce the opportunity for the State Treasurer to invest idle money.

20. **DAS should conform to all relevant Generally Accepted Accounting Principles in the maintenance of accounting records, establish procedures to document the authorization of material adjustments affecting account balances and track the resolution of all known Title XIX billing differences with the DSS.**

Comment:

We continue to note significant departures from GAAP relating to the valuation of accounts receivable and the “absorbing” of credit balances. DAS does not employ a reasonable method of estimating and reporting uncollectible accounts. The realizable value of these accounts is likely to be materially less than the recorded value. The lack of an adequate method to both track and adjust for the differences between Title XIX billings and payments, as a result of rate changes, has resulted in inaccurate accounts receivable balances.

21. **DAS should continue to work with the appropriate social service agencies involved in the collection process to establish procedures to minimize delays in the receipt of attendance data. In order to compensate for any built-in deficiencies, DAS should utilize a database system to track psychiatric visits on a current basis to request the required authorizations as the visits occur.**

Comment:

Our review conducted relative to the billings for inpatient services for the period from July 1999 through December 1999, revealed the failure of the Department of Mental Retardation (DMR) to submit the attendance reports required for billing, in a timely manner. In addition, our review relative to the billings for outpatient services for the period October 1999 through September 2000, revealed the failure of the Department of Mental Health and Addiction Services (DMHAS) to submit the attendance reports in a timely manner. The outpatient attendance reports for the months of November 1999 through September 2000 were received in January 2001.

22. **DAS should conduct periodic reviews of all mortgage files to ensure all required information is current, complete and accurate, and to ensure compliance with Section 4a-13 of the General Statutes.**

Comment:

An examination of mortgage files revealed inadequate insurance documentation in two of the ten files sampled. Another case file review revealed that the State lien, which had been extinguished by order of the Office of Attorney General in February 1995, was not released as required. A fourth case file review revealed a $13,778 discrepancy between the amount due to the State per the Agency records and the value stated in the mortgage documents.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Administrative Services for the fiscal year ended June 30, 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding, and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audit of the Department of Administrative Services for the fiscal year ended June 30, 2000, is included as a part of our Statewide Single Audit of the State of Connecticut for that fiscal year.

We conducted our audit in accordance with generally accepted government auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Administrative Services complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Administrative Services is the responsibility of the Department of Administrative Services' management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Administrative Services is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Administrative Services' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: departures from generally accepted accounting principles in the valuation of accounts receivable for the DAS Collections Unit, the lack of a reasonable and equitable method for the allocation of the Financial Services Center Fiscal Management unit's overhead costs to the General Services Revolving Fund, the lack of reconciliation of General Services Revolving Fund subsidiary accounts to control accounts and the preparation of annual generally accepted accounting principles reporting package based on non-reconciled accounts, the lack of reconciliation of General Services Revolving Fund general ledger cash balance to the cash balance per the State Comptroller.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable conditions to be material or significant weaknesses: the departures from generally accepted accounting principles in the valuation of the accounts receivable for the DAS Collections Unit, the lack of reconciliation of General Services Revolving Fund subsidiary accounts to control accounts, the preparation of annual generally accepted accounting principles reporting package based on non-reconciled accounts and the lack of a reasonable and equitable method for the allocation of the Financial Services Center Fiscal Management unit's overhead costs to the General Services Revolving Fund.

We also noted other matters involving internal control over the Agency's financial operations and internal controls over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Administrative Services during the course of this examination.

Robert G. Koch
Principal Auditor

Approved:

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts

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