STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF CHILDREN AND FAMILIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 and 2002

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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March 10, 2004

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2001 and 2002

We have examined the financial records maintained by the Department of Children and Families for the fiscal years ended June 30, 2001 and 2002. This included the records maintained for the Central Office, the regional offices, and the facilities established by the Department and the Children's Trust Fund Council.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts, and grants and to evaluating internal control policies and procedures established to ensure such compliance. This report on our examination consists of the Comments, Recommendations, and Certification, which follow:

COMMENTS

FOREWORD:

The Department of Children and Families (DCF) has been established and operates primarily under the provisions of Title 17a, Chapter 319, Sections 17a-1 through 17a-83 of the Connecticut General Statutes. In addition, under Sections 17a-90 through 17a-185 of Title 17a, Chapter 319a, and Section 17b-23 of Title 17b, Chapter 319o of the Connecticut General Statutes, the Commissioner and the Department are charged with specific responsibilities in regard to overseeing the welfare of children.

The Department is a multi-service agency designed and operated to help meet the needs of children and youth in Connecticut. It is responsible for planning, developing, administering and evaluating a comprehensive program of services, including preventive services for children and youth whose behavior does not conform to the law or acceptable community standards, or who are mentally ill, emotionally disturbed, delinquent, abused, neglected or uncared for. These include all children and youth that are committed to it by any court or voluntarily admitted to the Department for services of any kind.

For the fiscal years ended June 30, 2001, and 2002, the Department consisted of the five regional offices listed below along with the following facilities:

Region 1 - serving the southwestern portion of Connecticut
  Bridgeport Office
  Stamford Office
  Norwalk Office
Region 2 - serving the south central part of Connecticut
  New Haven Office
  Meriden Office
  Middletown Office
Region 3 - serving the eastern portion of Connecticut
  Norwich Office
  Willimantic Office
Region 4 - serving the north central part of Connecticut
  Hartford Office
  New Britain Office
  Manchester Office
Region 5 - serving the northwestern portion of Connecticut
  Waterbury Office
  Danbury Office
  Torrington Office

Connecticut Juvenile Training School - located in Middletown
Long Lane School - located in Middletown
Connecticut Children's Place - located in Warehouse Point, East Windsor
High Meadows Residential Treatment Center - located in Hamden
Riverview Hospital for Children and Youth - located in Middletown
Wilderness School - located in East Hartland

The Department's caseload continued to increase during the audited period. Total reports of abuse, neglect, abandonment or at risk received during the fiscal year ended June 30, 2001, were 40,793 of which 28,304 were accepted for investigation. Total reports of abuse, neglect, abandonment or at risk received during the fiscal year ended June 30, 2002, were 41,984 of which 31,501 were accepted for investigation. A summary of client census statistics, as of June 30, 2002, for some of the various services provided by the Department follows:

Number in Placement Category:	
Relative Care	1,054
Foster Care	3,334
Adoption	3,921
Subsidized Guardianship	970
Residential Care	1,024
Juvenile Justice	327

Group Homes	190
Temporary Shelters	101
Independent Living Program	101
Connecticut Juvenile Training School	192
Riverview Hospital for Children and Youth	41
High Meadows Residential Treatment Center	32
Connecticut Children's Place	28
Total	11,315

Kristine Ragaglia served as Commissioner of the Department during the audited period. Darlene Dunbar was appointed Commissioner in March 2003.

Consent Decree:

In December 1990, the Department entered into a consent decree to avoid litigation in response to a lawsuit filed in Federal Court by clients of the Department and others. The decree mandated specific changes to Department management, policies, practices, operations and funding. A court appointed monitor is responsible for overseeing implementation of mandates in the decree.

The large increases in appropriations and expenditures of the Department during the past several years are, for the most part, due to the implementation of such mandates.

State and Regional Advisory Councils:

Section 17a-4 of the General Statutes provides that the Governor shall appoint a State Advisory Council on Children and Youth Services consisting of 15 members. The duties of the Council include: recommending programs, legislation or other matters which will improve services for children and youth; reviewing and advising on the Commissioner's annual budget; interpreting to the community at large the policies, duties and programs of the Department; and, issuing reports it deems necessary to the Governor and Commissioner. The membership of the Council is to include at least five persons who are child care professionals, one child psychiatrist, and at least one attorney. The balance of the advisory council shall be representative of young persons, parents, and others interested in the delivery of services to children and youth. Members serve without compensation except for the reimbursement of necessary expenses. The Commissioner serves as an ex-officio member of the Council without a vote.

Section 17a-30 of the General Statutes provides that the Commissioner shall create in each region, a regional advisory council to advise the Commissioner on the development and delivery of services in the region and to facilitate the coordination of services in the region. Each council is to consist of no more than 21 members appointed by the Commissioner for terms ranging from one to three years. Council meetings are to be held at least quarterly.

Children's Trust Fund Council:

Section 17a-50 of the Connecticut General Statutes establishes a Children's Trust Fund Council, which is within the Department of Children and Families (DCF) for administrative purposes only. The Council administers a Children's Trust Fund to fund programs aimed at preventing child abuse and neglect and family resource programs.

RÉSUMÉ OF OPERATIONS:

Department of Children and Families:

During the fiscal years under review, funding for the general operations of the Department of Children and Families was provided by budgeted appropriations from the State General Fund. This funding was supplemented by restricted contributions in the form of Federal grants and private donations, grants and fees. A significant part of the Department's operating expenditures are reimbursed by the Federal government under the Foster Care-Title IV-E, the Adoption Assistance, and the Temporary Assistance for Needy Families (TANF) programs. The Foster Care Title IV-E program provides assistance on behalf of eligible children who are placed away from their families in foster care under the administration of the State. The Adoption Assistance program provides assistance on behalf of eligible children who are adopted through the State. The TANF program provides assistance to needy families with children so that the children can be cared for in their own homes; to prevent and reduce out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families. The TANF program is administered by the Department of Social Services. These programs reimburse the State for the board and care costs, adoption subsidies, and administrative costs incurred by the Department of Children and Families on behalf of eligible children.

General Fund Revenues and Receipts:

General Fund revenue and receipts applicable to the Department of Children and Families for the past three fiscal years are summarized below:

	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Federal Participation, per Foster Care-Title IV-E and Adoption Assistance of the Social Security Act	$116,470,769	$109,169,395	$95,341,545
Child Nutrition Program	404,058	399,495	427,380
Refunds of prior years' expenditures	689,573	614,524	900,156
Refunds of current appropriations	736,591	1,275,437	956,071
Restricted contributions, Federal	12,777,997	13,429,550	16,924,321
Restricted contributions, other than Federal	1,082,999	2,041,274	2,459,358
All other revenues	4,985	14,346	9,166
Total Revenue and Receipts	$132,166,972	$126,944,021	$117,017,997

Total revenue and receipts decreased by $5,222,951 and $9,926,024 during the fiscal years ended June 30, 2001 and 2002, respectively. The decreases in both fiscal years were mostly attributable to decreases in receipts from the Foster Care-Title IV-E program. The decreases in Foster Care-Title IV-E receipts during both of these fiscal years were attributable to decreases in the number of children determined to be eligible for Federal reimbursement under the Foster Care-Title IV-E program. The decrease in fiscal year ended June 30, 2002, was also influenced by an increase in restricted Federal contributions, which was mainly attributable to revenue that should have been received in the fiscal year ended June 30, 2001.

Reimbursements of the TANF program, which are not included in the above table, are claimed and deposited by the Department of Social Services. For the fiscal year ended June 30, 2001, and 2002, the Department of Social Services claimed $68,813,271 and $92,687,415, respectively, in reimbursement of costs incurred by the Department of Children and Families on behalf of TANF. The increase was mostly attributable to new TANF claiming initiatives for the fiscal year ended June 30, 2002.

Department of Administrative Services Receipts:

Under the provisions of Section 17a-17 subsection (a) of the General Statutes, the Department of Administrative Services (DAS) is authorized to bill and collect the total cost of care for children who have been placed under the guardianship of the Commissioner of Children and Families. Based on information furnished by DAS, receipts and billings, for the 2000-2001 fiscal year totaled $28,035,912. For the 2001-2002 fiscal year, receipts and billings data was not available because DAS began a new computer system for monitoring receipts that does not have the capability to generate reports identifying receipts by agency.

Recoveries initiated by DAS from Title XIX and third parties (legally liable relatives and private insurance shown as cash receipts below) for board and care of clients in Department facilities constitute a majority of such receipts and billings. The amounts for 2000-2001 fiscal year are presented as follows:

	Fiscal Year 2000-2001	
	Cash Receipts	Title XIX Billings
Central Office	$ 3,618,259	$
Riverview Hospital for Children and Youth	17,350,663	7,038,389
High Meadows Residential Treatment Center	24,621	
Miscellaneous	3,980	
Total	$20,997,523	$7,038,389

The above amounts include moneys received from children's social security benefits, survivor benefits and other contributions, which are received by the Department of Children and Families and deposited in its Children's Trust Accounts Fund. These moneys are transferred to DAS on a regular basis. Transfers amounted to $1,959,253 for the fiscal year ended June 30, 2001.

Per Capita Costs:

Under the provisions of Section 17b-223 of the General Statutes, the State Comptroller is required to determine annually the per capita costs per diem for the care of all persons in State institutions. The average per capita in-patient costs per diem for the 2000-2001 and the 2001-2002 fiscal years are summarized below:

	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Connecticut Juvenile Training School	$ 633.80	$ 762.88
Connecticut Children's Place	743.78	844.39
High Meadows Residential Treatment Center	782.62	1,025.54
Riverview Hospital for Children and Youth	1,036.76	1,204.75

General Fund Expenditures:

General Fund expenditures applicable to the Department of Children and Families for the past three fiscal years are summarized below:

	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Budgeted Accounts:			
Personal services	$174,752,220	$182,681,139	$194,936,806
Contractual services	24,168,085	23,978,415	31,251,745
Commodities	4,861,531	4,835,928	6,639,927
Revenue refunds			9,711
Sundry charges	4,354,417	4,245,614	5,631,207
State Aid Grants	59,951,189	66,630,915	92,026,866
State Aid Grants - Board and Care	176,048,051	193,295,020	206,258,374
Capital outlay	4,238,790	136,092	544,783
Total Budgeted Accounts	448,374,283	475,803,123	537,299,419
Restricted Accounts:			
Federal Accounts	12,025,892	16,415,213	13,739,557
Other than Federal Accounts	779,040	2,353,142	4,494,674
Total Restricted Accounts	12,804,932	18,768,355	18,234,231
Total Expenditures	$461,179,215	$494,571,478	$555,533,650

Total General Fund expenditures increased by $33,392,263 and $60,962,172 during the fiscal years ended June 30, 2001 and 2002, respectively. The increases were mostly attributable to increases in staff, grants made to subrecipients, and board and care payments made on behalf of foster care and adopted children.

In December 1990 the U. S. District Court imposed a consent decree upon the Department. The Department has been required to add personnel positions in response to the decree, which requires reductions in the caseloads of each social worker. Filled permanent personnel positions in the Department changed from 3,278 full time and 182 part time positions as of June 30, 2000, to 3,250 full time and 187 part time positions as of June 30, 2001. As of June 30, 2002, the Department had 3,371 full time and 205 part time positions.

Budgeted expenditures in the category of State Aid Grants increased by $6,679,726 and $25,395,951 during the fiscal years ended June 30, 2001 and June 30, 2002, respectively. The increases in State Aid Grants were mostly attributable to new State programs and additional grants made to subgrantees.

Budgeted expenditures in the category of State Aid Grants - Board and Care increased by $17,246,969 and $12,963,354 during the fiscal years ended June 30, 2001 and June 30, 2002, respectively. These expenditures primarily consisted of board and care payments made to foster homes, institutions, adoptive homes, and other private providers on behalf of DCF placed children. These expenditures were disbursed through a checking account maintained by the Department. The increases in these expenditures were mostly attributable to an increase in the number of children placed in institutions, which are more expensive than foster homes, and an increase in the number of adopted children. In addition, there were increases in the rates paid to foster homes, adoptive homes, and institutions.

Expenditures made for capital outlay during fiscal year ended June 30, 2000, were mostly attributable to the purchases of data processing equipment that were Year 2000 compliant, which were not needed in the subsequent fiscal years.

Special Revenue Funds:

Receipts deposited into various Special Revenue Funds totaled $3,603,503 and $1,367,891 during the fiscal years ended June 30, 2001 and 2002, respectively. Receipts were primarily for transfers made from the Capital Projects Funds for renovations or repairs to DCF facilities.

Expenditures from various Special Revenue Funds totaled $5,849,259 and $7,250,575 during the fiscal years ended June 30, 2001 and 2002. Expenditures were primarily for State aid grants, purchases of equipment, and renovations or repairs to DCF facilities.

State aid grants, which were made under various Bond Acts passed by the Legislature, totaled $2,955,082 and $4,190,944 during the fiscal years ended June 30, 2001 and 2002, respectively. The Department extended grants to its private providers for alterations, repairs, and safety improvements to facilities and group homes used in conjunction with children's programs funded by the Department. Several providers also were given grants to fund major capital acquisition and building programs.

Capital Projects Funds:

Receipts totaling $2,470,163 were deposited into Capital Projects Funds during the fiscal year ended June 30, 2001. The majority of this amount was for refunds of expenditures.

Expenditures from various Capital Projects Funds totaled $25,959,645 and $4,974,454 during the fiscal years ended June 30, 2001 and 2002, respectively. Of these amounts, $3,561,696 and $1,367,891 were transfers made from the Department of Public Works to DCF for capital projects administered by DCF. Expenditures were primarily for the construction, addition, and renovation of State owned facilities and purchases of equipment. The majority of the fiscal year ended June 30, 2001, expenditures was primarily due to costs totaling $24,313,451 for the construction of the new Connecticut Juvenile Training School, which opened in August 2001. The development of the new Connecticut Juvenile Training School in Middletown was authorized under Public Act 99-26.

Fiduciary Funds:

There are a number of Fiduciary Funds, which are administered throughout the Department. A brief description of the funds and their purpose follows:

Central Office - Children's Trust Accounts:

Under the provisions of Section 46b-129 of the General Statutes, the Commissioner of

Children and Families may be appointed guardian of any uncared for, neglected or dependent child committed to the Commissioner by the Superior Court. Further, Section 46b-129(l) provides that the Commissioner may bill to, and collect from, the person in charge of the estate of any child or youth aided by the Commissioner, including his decedent estate, or the payee of such child's or youth's income, the total amount expended for care of such child or youth or such portion thereof as any such estate or payee is able to reimburse. The Commissioner, as guardian, is allowed to receive and use property of a child in an amount not to exceed $10,000, as provided in Section 45a-631 of the General Statutes.

Receipts come primarily from Social Security benefits, survivor benefits, and other contributions received on behalf of some children placed in the Department's care. Disbursements are primarily to the Department of Administrative Services for the cost of board and care. A minimum balance of $600 is kept as a reserve for each child and is paid to the child upon his/her leaving the Department's care. Active trust fund cases being maintained for such children totaled 537 at June 30, 2001, and 531 at June 30, 2002. The cash on hand in these accounts, as of June 30, 2001 and 2002, totaled $584,776 and $439,196, respectively.

Welfare Funds and Activity Funds at the Regions and Facilities:

These funds were established to account for private gifts, donations, and revenue derived from operations that pertain to activities of the children. Funds are generally used for the welfare and activities of children under the care of the Department. Individual welfare fund accounts are maintained at the Connecticut Juvenile Training School, the Connecticut Children's Place, and the regional offices. Individual activity fund accounts are maintained at the Connecticut Juvenile Training School, Riverview Hospital for Children and Youth, and High Meadows Residential Treatment Center.

Donation Fund – Connecticut Juvenile Training School:

The Donation Fund was originally established from unexpended public donations and legacies at the time the State acquired the institution from private interests. The purpose of the Fund is to provide recreational, educational and other advantages for the residents at the Connecticut Juvenile Training School.

Assets of the Fund consist of investments in real estate and short-term investments. Income from the rents of single-family dwellings constitutes a majority of fund revenue. Interest on investments also contributes to fund resources. Total assets of the Fund as of June 30, 2001 and 2002, were $660,586 and $645,482, respectively.

Residents' Cash Fund – Connecticut Juvenile Training School:
Children's Allowance Fund – Connecticut Children's Place:

These funds are maintained to control the custodial accounts of individuals residing at these facilities. Assets belonging to the residents, such as monies in their possession at admission, monetary gifts, and wages earned through the work pay programs, comprise the major source of receipts for these funds.

Children’s Trust Fund Council:

Section 17a-50 of the Connecticut General Statutes established the Children's Trust Fund Council, which is within the Department of Children and Families for administrative purposes only. The Council administers a Children's Trust Fund to fund programs aimed at preventing child abuse and neglect and family resource programs. The council is composed of sixteen members as follows: the Commissioners of the Departments of Social Services, Education, Children and Families, and Public Health, or their designees; four representatives of the business community with experience in fund-raising; three parents; two persons with expertise in child abuse prevention; two staff members of a child abuse prevention program; and a pediatrician.

For the fiscal years ended June 30, 2001 and 2002, funding for the general operations of the Children’s Trust Fund Council was provided by budgeted appropriations from the State General Fund. This funding was supplemented by restricted contributions in the form of Federal and State grants, private donations, and fees.

General Fund Revenues and Receipts:

General Fund revenue and receipts applicable to the Children’s Trust Fund Council for the past three fiscal years are summarized below:

	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Refunds of current appropriations	$ 65,169	$ 69,392	$150,192
Restricted contributions, Federal	150,724	301,026	244,877
Restricted contributions, other than Federal	96,184	84,108	176,810
Total Revenue and Receipts	$312,077	$454,526	$571,879

Total revenue and receipts increased by $142,449 and $117,353 during the fiscal years ended June 30, 2001 and 2002, respectively. The increase in fiscal year 2000-2001 was mostly attributable to an increase in Federal funds, and the increase in fiscal year 2001-2002 was mostly attributable to an increase in State grants and refunds of grants received from subrecipients

General Fund Expenditures:

General Fund expenditures applicable to the Children’s Trust Fund Council for the past three fiscal years are summarized below:

	Fiscal Year 1999-2000	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Budgeted Accounts:			
Personal services	$ 74,327	$ 132,799	$ 141,232
Contractual services	3,210,201	3,249,729	233,290
Commodities	613	3,830	39,922
Revenue refunds			5,325
Sundry charges	125,000	1,219,526	4,895,177
Capital outlay		1,285	2,569
Total Budgeted Accounts	3,410,041	4,607,169	5,317,515

Restricted Accounts:			
Federal Accounts	188,829	328,172	224,080
Other than Federal Accounts	12,376	53,656	5,250
Total Restricted Accounts	201,205	381,828	229,330
Total Expenditures	$3,611,246	$4,988,997	$5,546,845

Total General Fund expenditures increased by $1,377,751 and $557,848 during the fiscal years ended June 30, 2001 and 2002, respectively. The increases were mostly attributable to increases in grants made to subrecipients. Our audit disclosed that the majority of the contractual services were for grants made to towns or nonprofit agencies. The decrease in contractual services and the increase in sundry charges that occurred in fiscal year 2001-2002 was the result of the Council changing its coding procedures to properly reflect grants made to subrecipients as sundry charges. As of June 30, 2002, the Children's Trust Fund Council had two full time positions.

PERFORMANCE EVALUATION:

In accordance with Section 2-90 of the General Statutes the Auditors of Public Accounts are authorized to perform evaluations of selected agency operations for performance and efficiency.

Our prior audit examined the job duties of the fiscal employees at the Department's regional offices to determine whether or not it would be more economical and/or efficient to have the business functions performed at the regional offices or to have all these types of functions brought into the Central Office. This performance evaluation noted the following:

- Each of the five regional offices at the Department of Children and Families was performing business functions as if each was an independent agency. Many of the same functions performed at the Central Office and at each of the five regional offices could have been consolidated into one function performed at the Central Office. Such things included maintaining the inventory, purchasing and processing payments, reconciling expenditure records, filing required reports to the State Comptroller, and providing oversight to regional offices' activity, welfare and petty cash accounts. The business offices of the regions were all staffed at different levels and employees that did not have fiscal related job classifications were found performing fiscal functions. Based on these conditions, we recommended that the Department should review its business office functions at the regions, facilities and at the Central Office to determine if a centralized operation would be more cost effective and efficient.

- Our review of the business functions at the Department of Children and Families' regional offices disclosed numerous instances where employees performing the same function were classified in different job titles and therefore compensated differently. Most notable was the position of regional office Business Manager. The Business Manager in each of the five offices performed approximately the same functions. The major differences among the regions were the size of the area covered, the number of potential clients, and the size of the staff at the regional office. The effect of any of these on the business office function was minor. However, the Business Managers were classified either as a Fiscal Administrative Manager 2, Fiscal Administrative Manager 1 or Fiscal Administrative Supervisor. The salary discrepancy between these positions was approximately $26,000 for doing the same job. Based on these conditions, we recommend that the Department, with the aid of the Department of Administrative Services, perform a review to compare actual job duties to what is required by the defined job descriptions and then classify all Business Managers with the same classification.

We were informed that the regional offices business functions were brought into the Central Office. This reorganization became effective July 1, 2003. The two recommendations related to the performance evaluation completed for the previous audit have been resolved.

During our current audited period, we performed three performance evaluations. Two performance evaluations examined the Department's efforts to obtain Federal financial assistance for costs expended on behalf of administering the Foster Care-Title IV-E and Adoption Assistance programs. The audit objective of these two performance evaluations was to determine whether a significant amount of potential Federal reimbursement was not collected because the Department (or State) failed to properly identify certain children as meeting the eligibility requirements of the Foster Care-Title IV-E and the Adoption Assistance programs. Two separate audit reports related to these two performance evaluations were issued on October 30, 2002, and April 25, 2003. The other performance evaluation examined the licensing of foster care providers by the Department. The audit objective of this performance evaluation was to determine if the Department has effective policies and procedures in place to ensure that licensing standards are maintained. This report was issued on October 24, 2001. Provided below is a summary of these reports.

<u>April 25, 2003</u>
The State is reimbursed for its incurred foster care and adoption assistance costs at rates of 50 percent for foster care maintenance payments, adoption assistance subsidy payments and administration costs and 75 percent for training costs. The majority of the foster care maintenance payments are payments made directly to foster homes and other foster care providers for the care of children placed under the Department's protection (supervision). The majority of the adoption subsidy payments represent financial and medical subsidies made available to adoptive parents to facilitate adoption of children with special needs who are under the care of the Department. Foster care children placed in the Department's care and adopted children under the care of the Department are considered eligible under the Foster Care-Title IV-E and Adoption Assistance programs, respectively, if they meet the programs' eligibility requirements. A review of the programs' eligibility requirements disclosed that the Department or other State agencies have control over obtaining court orders with the proper language in a timely manner, placing children with licensed providers, having adoption assistance agreements signed before the final decree of adoption, and making reasonable efforts to place children for adoption without subsidy.

This report indicated that the State could have gained revenue totaling approximately $6,720,000 in Federal reimbursement for foster care maintenance payments, adoption subsidy payments, and administrative costs incurred by the Department of Children and Families during the fiscal year ended June 30, 2001, in support of the Foster Care-Title IV-E and Adoption Assistance programs. Our review disclosed that the Department did not claim all of the Federal reimbursement that could have been allowed due to apparent administrative deficiencies, which the Department or other State agencies should have been able to eliminate. We noted that the Department did not document in its adoption and foster care case records the information needed to perform proper eligibility determinations and there were clerical errors. We also noted that a number of different sources of information needs to be reviewed to determine whether the children met certain eligibility requirements of the programs. This review process appears to be very time consuming and does not provide reasonable assurance that a proper eligibility determination will be made. This audit report made the following six recommendations:

1. The Department should review adoption subsidy payments that are not being claimed for Federal reimbursement to determine whether adequate documentation can be obtained that would allow for a correction, if appropriate, to the eligibility determinations to ensure that the maximum Federal reimbursement can be claimed.

2. The Department should establish procedures to apply for Supplemental Security Income (SSI) benefits prior to adoption, as applicable, to ensure that adoption subsidy payments

made on behalf of children that are eligible for SSI are claimed for Federal reimbursement under the Adoption Assistance program.

3. The Department's case workers should document effectively in a child's case record whether the child was deprived of parental support so that a complete eligibility determination could be made. Consideration should be given to documenting this information, as well as any other necessary information, in a specific location to allow the Revenue Enhancement Unit to perform more effective and efficient eligibility determinations.

4. The Department's case workers should document effectively in a child's case record whether the child was living with a specified relative within six months of the child's removal from the home so that a complete eligibility determination could be made. Consideration should be given to documenting this information, as well as any other necessary information, in a specific location to allow the Revenue Enhancement Unit to perform more effective and efficient eligibility determinations.

5. The Department's case workers should document effectively in a child's case record the wages of the child's parents so that a complete eligibility determination could be made. Consideration should be given to documenting this information, as well as any other necessary information, in a specific location to allow the Revenue Enhancement Unit to perform more effective and efficient eligibility determinations.

6. The Department should perform eligibility determinations in a timely manner so that those children eligible for Federal reimbursement are properly identified to ensure the maximum allowed Federal reimbursement can be claimed.

<u>October 30, 2002</u>
This report indicated that the State could have gained revenue totaling approximately $8,180,000 in Federal reimbursement for foster care maintenance payments and administrative costs incurred by the Department of Children and Families (DCF) during the fiscal year ended June 30, 1999. We noted that the Department did not obtain the necessary court orders in a timely manner and did not place the children in licensed foster care homes and institutions. This audit report made the following five recommendations:

1. The Department should review unlicensed homes in a timely manner so that the necessary corrections to the foster home licenses can be made, if appropriate, to ensure the maximum allowed Federal reimbursement can be claimed.

2. The Department should immediately review court orders to determine whether the court orders contain the proper language concerning "reasonable efforts" so that revisions to the court orders can be made, if necessary and appropriate, to ensure the maximum allowed Federal reimbursement can be claimed.

3. The Department should obtain copies of court orders for children placed in its care and file the orders in the children's case records so that a proper eligibility determination can be performed to ensure the maximum allowed Federal

reimbursement can be claimed.

4. The Department should obtain court orders for children placed in its care by voluntary placement agreements within 180 days of the agreements and file the orders in the case records to ensure the maximum allowed Federal reimbursement can be claimed.

5. The Department should establish procedures to ensure that children placed in its care by the Probate Court can be claimed, if appropriate, for Federal reimbursement.

October 24, 2001

This report noted deficiencies concerning the Department policies and procedures related to licensing foster care providers. The Department is responsible for the licensure of such providers, as specified within Section 17a-114 of the General Statutes. The licensing process includes a review of the background of prospective foster parents and homes, and is designed to mitigate the risk that unsuitable providers will ultimately become foster parents for children placed by the Department. This report made the following seven recommendations:

1. The Department's Bureau of Quality Management should expand its involvement in the licensing process and establish a system to monitor the individual licensing units within the Regional Offices.

2. The Department should complete the sections of its Policy Manual which address specific licensing and relicensing responsibilities, and issue the updated manual to Department staff.

3. The Department needs to improve its efforts to accumulate and process relicensing information in a timely manner.

4. Relicensing forms should be approved/signed by all of the individual regional program supervisors responsible for foster home licensing.

5. The reason for additional placements in homes that are at full capacity should be identified and summarized.

6. The Licensing Units within the Regions need to obtain information concerning new foster care placements in a more timely manner, and complete the process of assessing relative foster homes within the timeframes required by Section 17a-114 of the General Statutes.

7. The Licensing Units within the Regions should document the review of information that is present within a licensing file when it is "negative" in nature.

CONDITION OF RECORDS

Our examination of the records of the Department of Children and Families revealed several areas requiring improvement or further attention as discussed below:

Board and Care Disbursements:

Background: Section 17a-17 of the Connecticut General Statutes permits the Commissioner of Children and Families to make direct payments for reasonable expenses necessary for the care and maintenance of children in the Commissioner's custody. The Department has established a direct disbursement checking account to disburse board and care payments to foster care and adoptive families. Payments are processed through the Department's Statewide Automated Child Welfare Information System, commonly known as LINK. This system was established outside of the general controls of the State Comptroller's accounting system. Much of the authority and control over the payments, including entering them into the system, is vested in the regional offices.

For the fiscal years ended June 30, 2001 and 2002, the Department expended from its Board and Care Checking Account $196,820,229 and $208,883,374, respectively, on behalf of children in the custody of the Department. These payments represent the monthly board and care payments made to foster homes and institutions, payments for miscellaneous expenses not covered by the monthly foster care payment, and monthly adoption subsidy payments made to adoptive parents.

Criteria: The Department's Policy and Procedures Manual provides that social worker supervisors shall approve the placement of a child into the Department's care.

Section 17a-114 of the Connecticut General Statutes provides that no child in the custody of the Commissioner of Children and Families shall be placed with any person, unless the Department licenses such person for that purpose.

Section 17a-151 of the Connecticut General Statutes requires that the safety of a foster care institution be addressed.

Section 17a-150-110 of the Connecticut State Regulations provides that a foster family or prospective adoptive family will not be granted a license if any member of the household has been convicted of a certain felony.

Section 46b-129 provides that the Court may commit a child to DCF and that the commitment of a child to DCF would be documented by a court order.

Section 17a-101k of the Connecticut General Statutes requires the Department to maintain a registry of the reports of abused and neglected children that were received.

Section 17a-117 of the Connecticut General Statutes provides that the amount and duration of the subsidy shall be mutually agreed to by the Commissioner and the adopting parents prior to the approval of the adoption decree.

Condition: For the fiscal years ended June 30, 2001 and 2002, we selected 99 transactions, representing $86,568, and 98 transactions, representing $96,746, respectively, from the Department's Board and Care Checking Account. These transactions were made on behalf of 197 children. Our review disclosed 30 of the 197 transactions tested had one or more audit exceptions. A summary of the types of exceptions follows:

- For 20 transactions, we could not verify whether the approvals of the children's placements were made by social worker supervisors as required in the Department's Policy and Procedures Manual. In addition, for one of these transactions, we could not substantiate the rate paid to the provider.

- For 15 transactions, the Department did not have documentation on hand that would substantiate that these transactions were in compliance with State laws and regulations. Five of these 15 transactions are included in the 20 transactions mentioned in the above arrow. Listed below is a description of the noncompliances with State laws and regulations that were noted during our audit:

    - Two transactions were not in compliance with Section 17a-114 of the Connecticut General Statutes because the payments were made on behalf of two children who were not placed with licensed providers.

    - We could not verify whether three transactions were in compliance with Section 17a-151 of the Connecticut General Statutes because the Department did not have documentation on hand to verify whether the safety considerations of the institutions were considered.

    - We could not verify whether one transaction was in compliance with Section 17a-150-110 of the Connecticut State Regulations because the Department did not document in the adoptive parent's case file that criminal background checks were performed.

- We could not verify whether four transactions were in compliance with Section 46b-129 of the Connecticut General Statutes, because the Department did not have the proper court orders in the children's case records.

- One transaction was not in compliance with Section 17a-101k of the Connecticut General Statutes because the Department could not locate the case record of the child placed with DCF.

- We could not verify whether four transactions complied with Section 17a-117 of the Connecticut General Statutes. For one transaction, an annual agreement for adoption assistance was not on file for the service period audited. For three transactions we could not verify whether the initial subsidy agreements were signed before the adoption decrees because two initial adoption subsidy agreements were not dated and the adoption decree for the other child was not on file.

Effect: Payments made from the Board and Care Checking Account were not properly documented. In addition, the Department did not comply with State laws and regulations.

Cause: The internal controls over the disbursements from the Board and Care Checking Account were not completely effective.

Recommendation: The Department of Children and Families should improve its system of controls to eliminate board and care disbursement errors and to ensure compliance with State laws and regulations. (See Recommendation 1.)

Agency Response: "The Department agrees with this recommendation. However, we would note that the predominate findings on this issue relates to a lack of documentation in the case record and the apparent assumption by the Auditors that if the information was not in the case record then the necessary action must not have been taken. The Department continues to make efforts to improve the maintenance of documentation in its records but does not agree, for example, that a lack of a copy of a Court Order in the record is the equivalent of the necessary Court Order never being issued."

Reconciliation of the Board and Care Checking Account:

Background: As noted above, the Department uses the Board and Care Checking

Account to disburse board and care payments to foster care and adoptive families. The Account is overseen by the Child Welfare Accounting Unit located in the Department's Central Office, and the payments are processed through the Department's Statewide Automated Child Welfare Information System, commonly known as LINK.

Criteria: The Department is required to report the Board and Care Checking Account's year end cash balance to the State Comptroller. The year end cash balance is subtracted from the closing year expenditures of the board and care appropriations and added as an expenditure to those appropriations in the following year. Further, the Department is required to confirm monthly to the State Treasurer that the Department's cash balance reconciles to the Treasurer's cash balance.

Effective internal controls over checking accounts include the preparation of bank reconciliations in a timely manner.

Condition: We found that the Department reported its Board and Care Checking Account's June 30, 2001 and 2002, cash balances to the State Comptroller without properly reconciling the account. Also, the Department confirmed monthly to the State Treasurer that the Department's cash balance reconciles with the Treasurer's cash balance without properly reconciling the records.

Our review of the Department's bank reconciliation found that, as of June 30, 2002, there was an unreconciled difference of $1,638,489. It appears that the majority of the difference noted is due to the bank's report of outstanding checks, which includes as outstanding checks those that have been canceled or stopped. The Department has been in the process of investigating the difference.

Effect: Without proper reconciliations the Department may be reporting the incorrect cash balances to the State Comptroller.

Cause: The Department did not properly reconcile its Board and Care Checking Account's records to the State Treasurer's records in previous fiscal years, which accounts for the unreconciled difference. The Department is currently only reconciling current period activity to determine whether the current activity is being properly processed. The Department is attempting to address the unreconciled difference.

Recommendation: The Department of Children and Families should take the necessary steps to properly reconcile the Board and Care Checking Account's cash balance to the State Treasurer's cash balance. (See Recommendation 2.)

Agency Response: "The Department agrees with this recommendation. The condition the Auditors note is an historical issue resulting from the transition to and implementation of the statewide automated child welfare information system known as LINK a decade ago. The Department has been actively engaged in addressing this issue and as of January 2003, the account is reconciled for all years and this issue is resolved."

Auditors' Concluding Comment:
The Department has reconciled the account during fiscal year 2002-2003 and has determined the actual error amount on the bank's report of outstanding checks. However, a correction to the bank's report of outstanding checks has not been made.

Miscellaneous Payments from the Board and Care Checking Account:

Background: The majority of expenditures paid from the Department's Board and Care Checking Account were monthly payments made to foster homes, institutions, and other private providers. However, other expenses that are needed to administer the Foster Care program are also made from this account. These expenses include the purchase of clothing for a child at the time of initial placement into the Department's care. During the 2000-2001 and 2001-2002 fiscal years the Department expended $1,202,950 for initial clothing.

Criteria: A governmental entity is accountable to the public and to other branches of government for the resources provided to administer government programs and services. The resources provided should be administered in accordance with applicable laws and regulations and applied efficiently, economically, and effectively.

Section 36-55-25.4 of the Department of Children and Families (DCF) Policy Manual provides that the foster care reimbursement rate is based on the United States Department of Agriculture (USDA) estimate of "Expenditures on a Child by Middle Income Families, Urban Northeast, 1997." The estimate is based on various budgetary components and expense items. These budgetary components include expenses for housing, food, transportation, clothing, education, child care, and other miscellaneous payments. The Manual provides a listing of the expense items included in each budget component.

Section 36-55-25.5 of the DCF Policy Manual provides for an adequate supply of seasonal clothing to be purchased in an amount not to exceed $300 when the child is first placed in the Department's system. The initial clothing allowance is supplemented by the monthly clothing allowance, which is provided for the child on a monthly basis and is included in the basic reimbursement rate. The DCF Policy

Manual also states that the social worker will plan with the foster parent for the use of the initial clothing allowance.

Adequate internal control includes the approval of the type of items to be purchased prior to the issuance of a purchase order. The DCF Form 1027 *Purchase Order and Invoice*, which is used by the Department to process miscellaneous expenses, does provide the social worker the option to itemize the items authorized to be purchased.

Condition: A review of the Department's controls for processing miscellaneous expenses from its Board and Care Checking Account revealed the following:

- In four out of the ten cases tested, the children received clothing allowances that exceeded the initial clothing allowance of $300. We also noted that clothing payments were made when the foster parents had already started receiving the monthly foster care reimbursement payment, which includes an allowance for clothing.

- A review of the Department's controls disclosed that the social workers do not list the type of items to be purchased on the Form 1027 prior to issuing the Form.

- We also noted that the DCF Policy Manual does not provide guidance concerning other expenses (for example, use of translators and travel costs for children placed in shelters) that can be made on behalf of a child.

Effect: Expenditures were made that are not in accordance with the established policy. Financial resources may not be used efficiently, economically, and effectively. Internal controls are not adequate. The Department could be disbursing funds for expenses on behalf of a child that might also be included in the foster care monthly maintenance rate paid for that child.

Cause: The Department's social workers appear to misunderstand and/or disregard the DCF Policy Manual. The Department failed to establish adequate internal controls to provide reasonable assurance that resources are being used efficiently, economically, and effectively and in accordance with Department policy. In addition, the DCF Policy Manual does not include guidance governing the types of expenses that can be made on behalf of a child.

Recommendation: The Department of Children and Families should establish proper internal controls to provide assurance that miscellaneous expenditures from the Board and Care Checking Account are being made efficiently, economically, effectively, and in accordance with

Department policy. (See Recommendation 3.)

Agency Response: "The Department agrees."

Reporting Systems:

Background: In conjunction with our audit of the State's Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2001 and 2002, we reviewed the Department's Generally Accepted Accounting Principles (GAAP) Reporting Package submitted to the Comptroller.

Criteria: The submission of complete and accurate GAAP information is instrumental in producing a fairly stated CAFR. Reports should be complete, accurate, and in compliance with the State Comptroller's requirements contained in the State Accounting Manual and other instructions.

Condition: Our review of the Department's GAAP package for the fiscal years ended June 30, 2001 and 2002, disclosed the following exceptions:

- For the fiscal year ended June 30, 2002, the Department understated receivables by $107,395. The Department improperly reported as the Federal receivable amount the total expenditures incurred less the Federal grant award. Based on the Comptroller's instructions, the Federal receivable amount should be the total expenditures incurred less the funds (revenue) received from the Federal government. The difference in the calculation methodology resulted in the understatement.

- For the fiscal year ended June 30, 2002, the Department overstated the contractual commitments by $50,000 and overstated retainages by $3,094,561.

- For the fiscal year ended June 30, 2002, the Department understated the bank balances reported for the Children's Trust Fund checking account and a Welfare Fund account by $180,266 and $1,339, respectively, and overstated the bank balance reported for the Children's Trust Fund savings account by $5,673.

- For the fiscal year ended June 30, 2002, the Department overstated the "amount collected thru August 31" reported on the GAAP Form #3 by $671,728. Based on the Comptroller's instructions, collections thru August 31, 2002, should not be reported for Federal reimbursable-type grants. The Federal receivable reported by DCF is a reimbursable-type grant.

- For the fiscal year ended June 30, 2002, the Department could not provide to us a list of payables by providers to support the $10,586,408 in accounts payable reported on GAAP Form #10.

- For the fiscal year ended June 30, 2001, the Department understated accounts receivables by $86,020.

- For the fiscal year ended June 30, 2001, the Department could not provide to us adequate documentation to support the contractual commitments reported on GAAP Form #5.

Effect: These conditions have the effect of providing inaccurate and/or incomplete information on the Department's GAAP Reporting Package. If not corrected this would cause inaccurate and/or incomplete information to be reported on the State's CAFR.

Cause: Failure to follow the instructions of the State Comptroller and clerical errors were the causes of these conditions.

Recommendation: The Department of Children and Families should prepare the Generally Accepted Account Principles (GAAP) Reporting Package in accordance with the State Comptroller's requirements. (See Recommendation 4.)

Agency Response: "The Department agrees."

Overtime Costs:

Background: Overtime costs for the Department totaled $11,172,365 and $11,726,609 for the fiscal years ended June 30, 2001 and 2002, respectively. Our review disclosed employees working significant amount of hours during a given pay period.

Criteria: A governmental entity is accountable to the public and to other levels and branches of government for the resources provided to administer government programs and services. The resources provided should be applied efficiently, economically, and effectively.

Condition: We reported in our prior audit report that the total overtime expenses increased substantially from prior fiscal years. Our current audit did not disclose substantial increases in overtime expenditures. However, we did note that overtime expenditures continued to appear to be excessive during the fiscal years ended June 30, 2001 and 2002. Further, our audit continued to disclose employees working significant amount of hours during a given pay period.

For the fiscal year ended June 30, 2002, overtime expenditures represented six percent of the Department's total personal services expenditures.

The most significant overtime costs occurred at the Connecticut Juvenile Training School. For the fiscal years ended June 30, 2001 and 2002, overtime costs expended by the Connecticut Juvenile Training School totaled $3,189,323 and $3,603,367, respectively.

For the fiscal year ended June 30, 2002, we noted that the total overtime costs at the Connecticut Juvenile Training School represented 13.7 percent of its total personal services expenditures.

For the fiscal year ended June 30, 2002, we also noted at the Connecticut Juvenile Training School the following:

- 65 employees received overtime pay between $10,000 and $24,999;
- 25 employees received overtime pay between $25,000 and $39,500;
- 10 employees received overtime pay between $39,501 and $49,999;
- four employees received overtime pay between $50,000 and $81,000.

Additional analysis was conducted on the 14 employees who were paid the highest overtime wages. These employees represented twelve youth services employees and two police officers. The highest regular salary paid to these 14 employees during the fiscal year ended June 30, 2002, was $51,829. As a result, we noted that 10 of the 14 employees were paid more in overtime wages than they were paid in regular wages. In addition, we selected timesheets for two pay periods for each of these 14 employees. Our review noted that the overtime hours paid to these employees during a pay period ranged from 63 hours to 146 hours. As a result, we noted that the actual hours paid for being at work in a pay period to these employees ranged from 117 hours to 234 hours. Further review of two consecutive pay periods for one of these employees disclosed that the employee was apparently at work a little over 16 hours a day for 26 days in a 28 day period. The total number of hours worked by all of these employees appears to be excessive and suggests that their effectiveness would be questionable during these periods of working excessive hours.

Our review also noted that two employees working for the Connecticut Children's Place and two employees working for Riverview Hospital were paid excessive overtime costs. The overtime hours worked by these employees during a pay period ranged from 31 hours to 104 hours. As a result, we noted that the actual hours worked in a pay period by these employees ranged from 102 hours to 192 hours. The total number of hours worked by these employees also appears to be excessive and suggests that their effectiveness is questionable.

Effect: Employees working excessive number of hours per week could result in those employees not being fully alert to perform their duties effectively and responsibly. In addition, the increase in an employee's annual salary would result in an increase in the employee's retirement pension. Five of the 14 employees at CJTS retired from State service.

Cause: CJTS: We were informed that the Department had to operate simultaneously two facilities, Long Lane School (LLS) and CJTS. Further, there was a suicide that occurred at LLS in 1998, which resulted in a policy change for closer monitoring of the children at the LLS. We also were informed that a higher number of employees at CJTS who are on workers compensation during any given day contributes to the amount of overtime needed. The employee bargaining contract does not prevent an employee from working up to 20 hours a day with no limit to the number of consecutive days worked.

We did not determine the cause of the conditions noted at the Connecticut Children's Place and Riverview Hospital.

Recommendation: The Department of Children and Families should take steps to control its overtime costs. (See Recommendation 5.)

Agency Response: "The Department disagrees. While we do not dispute the assertion that the Department "should take steps to control its overtime costs", we disagree that there were any contractual violations, violations of existing labor laws, or that we did not apply appropriate managerial oversight and act in accordance with pertinent contract language in the allocation of overtime. There are many factors that contribute to the necessary use of overtime including but not limited to the agency's statutory staffing allocation, the ability to obtain approval to establish or fill vacancies, and provisions of workers compensation statutes that are beyond the control of the Department."

Auditors' Concluding Comments:
The condition noted in our audit did not pertain to any noncompliance with laws, regulations and contracts. This condition noted that the total number of hours worked by some employees appears to be excessive and could suggest that their alertness and effectiveness would be questionable during these periods of working excessive hours. Also, payment of overtime rates and the associated higher retirement costs appear to be a more expensive option then obtaining a sufficient number of employees so that overtime costs can be avoided.

Inventory Records:

Background: The Department's Central Office, the regional offices, and the facilities maintain their own inventory records and prepare separate annual Fixed Assets/Property Inventory Report/GAAP Reporting Forms (CO59). Prior audits have presented concerns over the inventory records for equipment, supplies and software. Our current review continued to disclose certain deficiencies.

Criteria: Section 4-36 of the Connecticut General Statutes requires agencies to maintain inventory accounts prescribed by the Comptroller and report annually to the Comptroller the agency's inventory balances.

The State of Connecticut's *Property Control Manual* requires supporting subsidiary equipment records, the immediate tagging of equipment, and periodically documenting physical inventories of equipment. Proper internal controls and procedures specified by the Manual require the Department to establish and keep an inventory account in an approved form and to maintain a list of capitalized and controllable assets. The Manual also states that a separate perpetual inventory should be maintained on all stores and supplies and that agencies maintain a central software inventory to track and control all of its software.

Proper internal controls provide reasonable assurance for the safeguarding of assets. Safeguarding of assets is defined as objectives designed to prevent the unauthorized acquisition, use, or disposition of assets.

Condition: We noted differences in the type of equipment inventory records maintained by the offices and facilities. In particular, we noted instances where the same type of capitalized inventory items were reported in different amounts on the inventory listings. The Department does not have controllable asset inventory listings for all of its regional offices and facilities. For those regional offices or facilities that have controllable assets, we noted differences in the type of inventory items that are recorded on the controllable asset inventory listings.

The Department did not maintain inventory listings of fixed assets in accordance with the form established in the State of Connecticut's Property Control Manual. Further, inventory listings contained inaccurate and inadequate information. One regional office does not use tag numbers, and another regional office has not completed a physical inventory since April 2000.

The Department could not substantiate the amounts reported on the annual Fixed Assets/Property Inventory Report/GAAP Reporting Forms (CO59). One regional office did not complete the CO59 for the fiscal years ended June 30, 2001 and 2002.

The Department could not provide adequate documentation to substantiate the total deletions reported on the CO59s for the fiscal years ended June 30, 2001 and 2002.

The real property value of the Wilderness School, which totaled $1,308,249, was not included on the Department's CO59. The real property values reported on the CO59s for the Connecticut Juvenile Training School and High Meadows Residential Treatment Center were overstated by $8,927,702 and $114,103, respectively.

We noted differences in the types of items that are included on the supplies inventory records maintained by the facilities. We also noted instances where the amount of items on hand differed from the perpetual inventory records. In addition, perpetual supplies inventory records were not maintained for one of the facilities.

Our review of EDP disclosed that the Department does not have a software inventory control system in place nor does the Department have a software library. The Department has not performed a physical inventory of software and is unable to produce a software inventory report.

Effect: The above conditions have the effect of weakening controls over equipment. The CO59s submitted to the State Comptroller were inaccurate and not properly supported.

Supplies inventory and software inventory are not being kept in a manner consistent with the requirements of the State of Connecticut's Property Control Manual.

Cause: The Department has not established agency-wide policy for maintaining inventory records.

Recommendation: The Department of Children and Families should improve controls over its equipment, software and supplies inventories. Inventory records for the Department's equipment, supplies, and software should be kept in a manner consistent with the State of Connecticut's *Property Control Manual*. (See Recommendation 6.)

Agency Response: "The Department agrees."

Case Management System - Notification of Child Placements:

Background: Social workers are primarily responsible for creating case file data in the Department's Statewide Automated Child Welfare Information System (SACWIS), commonly known as LINK, which generates board and care payments and credits based on the date and type of the child's placement, treatment, or service needs. Overpayments result when the LINK system contains incorrect, inaccurate, or outdated placement data. We reviewed overpayments identified by the Department to determine the cause of the overpayments.

Criteria: Paragraph (B)(2)(a) of Chapter XXII of the Consent Decree dated January 7, 1991, provides that the Statewide Automated Child Welfare Information System shall have a Case Management System that will maintain for each child on the Department caseload, a case file which identifies the child's and/or family's placement, treatment and service needs, and the date the needs were identified, acted on, or wait-listed.

Section 3-117 of the Connecticut General Statutes requires that payments of claims against the State are to be made only for goods or services certified as actually received.

Condition: Our prior audits disclosed that the Department's system was not updated to account for changes that occurred to the Department's caseload. Our current review of the overpayments identified by the Department during the fiscal year ended June 30, 2002, noted that the proper data was not entered into the Department's system in a timely manner. As a result, the Department's LINK system did not reflect the proper information and generated significant overpayments.

Effect: The Department's system did not properly reflect the Department's caseload. Further, the Department had to establish 219 receivable accounts related to overpayments totaling $228,649 during the fiscal year ended June 30, 2002, because providers were paid for services that were not rendered. Our review disclosed a significant receivable account that was established by the Department in August 2001 for a provider who was overpaid for 22 months, totaling $29,912. As of June 27, 2003, the adoptive parent reimbursed the Department $13,700 of this overpayment. We also noted a significant receivable account that was established in November 2002 for a provider who was overpaid for 31 months, totaling $30,871. As of June 27, 2003, the foster parent has not reimbursed the Department any portion of this overpayment. The matter concerning the two overpayments was reported to the Governor and other State Officials on June 30, 2003, in accordance with Section 2-90 of the Connecticut General Statutes.

Cause: Social workers did not enter the proper data into the Department's system on a timely basis. Further, the Department has developed procedures in which the social workers and their supervisors must certify on a monthly basis the placement of their assigned children; however, it appears that this procedure was not being followed.

Recommendation: The Department of Children and Families should enter the proper data into its Statewide Automated Child Welfare Information System, commonly known as LINK, to ensure that the Department's system has accurate and up to date information and to ensure that proper payments are being made to the Department's providers. (See Recommendation 7.)

Agency Response: "The Department agrees."

Confidentiality of Children Placed in the Department's Care:

Background: The Department uses DCF Form 1027 *Purchase Order and Invoice* to process miscellaneous expenses that are needed to administer the Foster Care program. This Form is given to various vendors at the time of purchase.

The Department developed an intranet website for use by the Department's staff. It is intended to make Department's access to, and use of, necessary information less cumbersome and more efficient.

Criteria: Section 17a-28 of the Connecticut General Statutes provides for the confidentiality of, and limits access to, records maintained by the Department of Children and Families.

Condition: Our prior audits disclosed that the child's name is recorded on the DCF Form 1027 at the time the Form is given to the vendor. The current audit disclosed that this condition continues to exist.

Our current audit disclosed that the Department had at least three reports on its intranet website that had information that is considered to be confidential. The DCF intranet website was created solely for the use of DCF staff. However we determined that other State agencies had access to the Department's intranet website. The three reports on the intranet website included the following:

- The names, addresses and some phone numbers of foster care homes.
- The names of the foster care homes and the foster children placed with those homes.
- The case name, which could be either the name of the child or the child's parent, the date the complaint of abuse was accepted, and the commencement date of the investigation.

We were informed that the reports were put onto the DCF intranet website during April 2001. As a result of our notification, the Department corrected this matter in October 2001 by preventing other agencies from having access to this data.

Effect: The Department was not in compliance with Section 17a-28 of the Connecticut General Statutes.

Cause: The Department did not determine whether recording the child's name on DCF Form 1027 is a violation of Section 17a-28. The Department informed us that it was not aware that individuals other than DCF employees had access to the DCF intranet website.

Recommendation: The Department of Children and Families should ensure that the confidentiality of the children placed in its custody is maintained in accordance with the provisions of Section 17a-28 of the Connecticut General Statutes. (See Recommendation 8.)

Agency Response: "The Department agrees."

Fiduciary and Petty Cash Funds:

Background: The Department of Children and Families operates five regional offices and four facilities. Each regional office and facility maintains its own Petty Cash Fund, Activity Fund and/or Welfare Fund. Our review of the Funds and bank accounts maintained by the Department disclosed certain deficiencies.

Criteria: The *Accounting Procedures Manual – Activity and Welfare Funds*, issued by the Office of the State Comptroller includes procedures for maintaining all activity and welfare funds operated by State agencies. The *State Accounting Manual* includes procedures for maintaining petty cash funds. Also, adequate internal controls require that all expenditures should be supported by receipts; any excess in the amounts advanced should be returned in a timely manner; and that checks should not be signed without being completely filled out as to payee and amount.

Condition: Our review of the various funds maintained by the Department revealed the following:

- Ledgers were not maintained in accordance with the *Accounting Procedures Manual – Activity and Welfare Funds*.
- There were inadequate segregation of duties.
- Checks were made payable to cash.

- All expenditure documentation on hand did not provide an adequate audit trail.
- Wages paid to children placed at the Connecticut Children's Place were processed through the Petty Cash Fund, a use which was not approved by the State Comptroller.
- Cash counts did not agree with Department records.
- The ledgers did not agree with the authorized petty cash amount.
- Petty cash checks were issued to make payments to the Department of Public Safety rather than issuing transfer invoices.
- Petty cash payments sometimes exceeded the $50.00 threshold established by the Comptroller.
- For one facility, loans were improperly made from the Welfare Fund to the Petty Cash Fund, improper deposits were made into the Petty Cash Fund, a replenishment of petty cash was not deposited, an improper payment made to the Welfare Fund from the Petty Cash Fund, and numerous journal entries had errors.

Effect: The Department is not in compliance with the State procedures included in the *Accounting Procedures Manual – Activity and Welfare Funds* and the *State Accounting Manual*. Also, without an effective system of internal control, the Department is not assured that funds are being properly used or safeguarded.

Cause: The Department did not establish procedures for the regional offices and facilities to follow for maintaining these funds.

Recommendation: The Department of Children and Families should follow the procedures set forth in the *State's Accounting Procedures Manual– Activity and Welfare Funds*, and the *State Accounting Manual*. The Department should also establish standard procedures that should be used to ensure that these funds are being properly used and safeguarded. (See Recommendation 9.)

Agency Response: "The Department agrees."

Expenditures:

Background: The Department of Children and Families operates a Central Office, five regional offices and four facilities. Each office and facility processes its own expenditures. Our sample was drawn from a population of 44,069 transactions totaling $258,253,518 in expenditures made by DCF for fiscal years ended June 30, 2001 and 2002. These expenditures were for administrative costs and not for board and care payments made on behalf of children placed at DCF.

Criteria: Section 4-98 of the Connecticut General Statutes requires the issuance of a purchase order and commitment prior to incurring a payment obligation.

Section 3-117(a) of the Connecticut General Statutes provides that the original vouchers or receipts shall be filed in the Comptroller's Office or retained by such agency in accordance with such procedures as the Comptroller may prescribe.

The *State Accounting Manual*, issued by the Office of the State Comptroller, includes policies and procedures that State agencies should follow for processing expenditure transactions.

Condition: We reviewed 250 DCF transactions totaling $1,678,464 that were expended during the fiscal years ended June 30, 2001 and 2002. Our review disclosed that 62 of the transactions tested were not made in accordance with either applicable State laws and regulations or the *State Accounting Manual*. We noted the following:

- Sixteen transactions did not have purchase orders (3) or direct purchase orders (13) approved prior to the time when the goods or services were received. Also, one of these transactions did not have the contract period section recorded on the purchase order and one of these transactions did not have the capital lease indicator recorded on the purchase order. In addition, one of these 13 transactions was not recorded with the correct receipt date, which is used to record when the goods or services were received.

- Five transactions did not have contracts approved prior to the start of the contract period.

- Seven transactions did not have direct purchase orders on file, and one of these transactions was not supported by a vendor invoice.

- Thirteen transactions did not have adequate support. We noted that five transactions were not supported by vendor invoices or receipts and six transactions could not be tested because the expenditure documentation could not be located. In addition we could not verify whether two transactions were made in accordance with DCF policy.

- Two transactions were not recorded with the correct receipt date.

- Eleven transactions did not have properly prepared purchase orders. We noted that five transactions did not have the contract period section recorded on the purchase orders and six transactions did not have the capital lease indicator recorded on the purchase order.

- Six transactions were not charged to the proper appropriation account.

- Two transactions were processed using general reservations to commit the funds rather than being committed by purchase orders.

Our audit also disclosed that the Internal Audit Unit identified in May 2002 a refund of $84,778 due to the Department from a grantee. However, as of April 24, 2003, an attempt to have these funds returned has not been made.

The Department paid the Department of Information and Technology for the rental of a terminal and two printers it no longer uses. The monthly rental cost totaled $111 for these items.

We also noted improper segregation of duties between the person preparing the purchase orders and preparing the expenditure documentation.

Effect: The Department did not comply with Section 3-117 and Section 4-98 of the Connecticut General Statutes and with the *State Accounting Manual*.

Cause: The controls in place were not completely effective.

Recommendation: The Department of Children and Families should process expenditures in accordance with State laws and regulations and the *State Accounting Manual*. (See Recommendation 10.)

Agency Response: "The Department agrees in part. Given that most of the Department's business offices are small (two to three persons), complete segregation of duties is not always possible. A reorganization (centralization) of regional business office staff is underway and should serve to address this issue."

Lapsing of Funds:

Background: The Department maintains a checking account to process board and care payments from the Department's appropriations. The account operates through a local zero-balance checking account with a bank and an operating account with the State Treasurer. As checks are presented to the bank, the State Treasurer covers them. The Department estimates the amounts needed to operate the checking account and periodically transfers funds to the operating account from the Department's appropriations. The Department reports annually the balance remaining in the operating account as of June 30 to the State Comptroller as directed by Chapter 9 Section 1.6d of the State Accounting Manual. The following year appropriations are reduced by the year-end balance remaining in the operating account.

Our previous audit disclosed that the Department hand wrote checks to avoid the lapsing of funds by bypassing the check processing procedures established in its computer system. That audit noted that the Department expended funds totaling $1,640,955 and $1,004,123 at the end of fiscal years 1999-2000 and 2000-2001, respectively. This matter was previously reported to the Governor and other State officials on November 14, 2001, in accordance with Section 2-90 of the Connecticut General Statutes. Our current audit disclosed hand written checks were also prepared at the end of the fiscal years ended June 30, 2002, and June 30, 2003.

Criteria: Section 4-89 of the General Statutes provides that unexpended balances of appropriations made by the General Assembly in the State budget act shall lapse at the end of the period for which they have been made and shall revert to the unappropriated surplus of the fund from which such appropriation or appropriations were made.

Condition: Our audit disclosed that at the end of fiscal year 2001-2002, the Department hand wrote 30 checks totaling $5,442,430 on behalf of foster care children placed with 30 residential providers during the period June 1, 2002, to June 30, 2002. Sixteen checks totaling $3,441,053 were issued on June 26, 2002, twelve checks totaling $1,779,257 were issued on June 27, 2002, and two checks totaling $222,120 were issued on June 28, 2002.

The Department's Statewide Automated Child Welfare Information System, commonly known as LINK, automatically issues monthly checks to a residential provider where a child has been placed. The controls established in the computer system would have generated these 30 payments on July 15, 2002, the following fiscal year. It appears that the Department hand wrote the 30 checks to avoid the lapsing of funds by bypassing the check processing procedures established in the system. These 30 handwritten checks resulted in 23 residential providers receiving 13 monthly payments during the fiscal year ended June 30, 2002. For the remaining seven residential providers, only twelve monthly payments were made during the fiscal year ended June 30, 2002, because the Department prepared handwritten checks in June 2001 for payments that would have been issued on July 15, 2001.

In addition, as a result of issuing the checks prior to June 30, 2002, the Department processed a portion of the payments prior to those services being rendered. Further, the Department paid four residential providers a total of $3,632 in services on behalf of six children who were discharged after the date of the check and prior to June 30, 2002. Further review did disclose that these overpayments were collected from these four providers.

Our review of the activity that occurred at the end of fiscal year 2002-2003 also disclosed that the Department issued six handwritten checks totaling $1,375,837 on June 30, 2003, apparently to avoid the lapsing of funds. The procedures established in the computer system would have generated these six payments on July 15, 2003, the following fiscal year. Four of the six checks were for payments made to four of the 30 providers noted in the above paragraph; accordingly only 12 monthly payments were made to these four providers during the fiscal year ended June 30, 2003. For the remaining two providers, an extra 13th monthly payment was made to them during the fiscal year 2002-2003.

This matter was reported to the Governor and other State Officials on July 11, 2003, in accordance with Section 2-90 of the Connecticut General Statutes.

Effect: It appears that the Department, in violation of Section 4-89 of the General Statutes, avoided the lapsing of funds totaling $5,442,430 and $1,375,837 during the fiscal years ended June 30, 2002 and 2003, respectively, by overriding the control procedures established for board and care payments. This resulted in 23 and two residential providers being paid an extra monthly payment during the fiscal years ended June 30, 2002 and 2003, respectively. In addition, the Department paid for some services prior to the rendering of the services and also paid $3,632 in services during the fiscal year ended June 30, 2002, that were not rendered.

Cause: The Department does not consider processing these payments at the end of the fiscal year to be a violation of Section 4-89 of the General Statutes. The Department believes that the resources are being properly applied to the liabilities of that same fiscal year. The Department takes the ability to override the system to generate checks manually as an opportunity to match same year liabilities to resources.

It should be noted that the Department does not match the same year liabilities to resources related to services provided by foster or adoptive families because the number of handwritten checks that would have to be issued would be significant.

Recommendation: The Department of Children and Families should not override its Statewide Automated Child Welfare Information System, commonly known as LINK, to make board and care payments at the end of a fiscal year to avoid those funds from lapsing to the following fiscal year. (See Recommendation 11.)

Agency Response: "The Department disagrees with the Auditors' interpretation of Section 4-89, CGS [Connecticut General Statutes]. This statute does not require that the Department lapse funds rather than expend them for their appropriated purpose—rather, the statute requires that unexpended funds revert to the General Fund and not be retained by an agency for use in a subsequent fiscal period. By issuing manual checks before the end of the fiscal year rather than waiting for the first check run for the next fiscal year, the Department was able to align payments for dates of service incurred during the current year with the current year's appropriations. Further, it should be noted that the Auditors' interpretation of this statute does not incorporate an understanding of the budgeting and appropriations process: In any given year, payments may be delayed from one fiscal year to the next for various reasons (e.g., documentation issues, payment disputes, contract renegotiation) or may be related to previous fiscal periods (e.g., retroactive adjustments due to rate changes, claims lag), and the Department requests and receives appropriations that are predicated on these variable cash needs. The Department's actions are, therefore, prudent cash management efforts that smooth the payment process and help avoid inappropriate deficiencies or extraordinary lapses from one year to the next."

Auditors' Concluding Comments:

The Department only overrides its system to make handwritten checks to residential providers and does not align payments for dates of service incurred during the current year with the current year's appropriations for those services provided by foster or adoptive families because the number of handwritten checks that would have to be issued would be significant. Further, it would not be appropriate for the Department to budget expenditures so that providers may receive 13 monthly payments in a given year. In addition, the Department paid some of its providers for services prior to those services being rendered, which resulted in some providers being overpaid because payments were made on behalf of children who were discharged after the check was issued. If the Department continues to disagree, the Department should obtain a written decision from the Comptroller or discontinue this practice.

Payroll and Personnel Records:

Background: For the fiscal year ended June 30, 2002, we tested 25 biweekly payroll transactions to determine whether the biweekly payments made to the

25 respective employees were accurate. In addition, we used these 25 employees as our basis to determine whether the Department complied with other requirements related to payroll and personnel records. Our audit did disclose exceptions related to longevity payments, medical certificates, and holiday time.

Criteria:

State employees who have completed not less than ten years of service shall receive semi-annual lump sum longevity payments based on total service completed as of the first day of April and October. In addition, in accordance with the longevity rate schedules included in State employees bargaining units' contracts, the amount of longevity payment an employee receives would increase at 15, 20 or 25 years of completed State services absent any change in the employee's position or class during the period.

According to the Social and Human Services (P-2) Bargaining Unit contract, an acceptable medical certificate signed by a licensed physician is required of an employee to substantiate a request for the use of sick leave for any period of absence consisting of more than five consecutive working days.

The New England Health Care Employees Union District 1199 Contract states if an employee chooses compensatory time (holiday time) in lieu of payment for working a holiday, the employee should attempt to schedule this time off within six months of the holiday provided no overtime is required to release the employee.

Condition:

Our review of payroll and personnel records disclosed the following:

1. Seven of the 25 employees received at least one longevity payment during the fiscal year ending June 30, 2002. Our review disclosed three out of the seven employees were paid an incorrect longevity payment.

2. Four of the 25 employees used sick leave for more than five consecutive days. Our review disclosed a medical certificate was not on file for one of these four employees.

3. Four of the 25 employees earned Holiday time during the audited period. Our audit disclosed that for two of the four employees, the accrued holiday time was not used within a six-month period. This condition was also reported in the previous audit report.

Effect:

1. Two employees were underpaid a total of $17.25 in longevity payments, and one employee was overpaid $142.00 in longevity payments.

2. Abuse of sick leave by employees can occur and not be detected if

the required medical certificates are not submitted.

3. Employees are allowed to continuously accrue holiday time without any time frame of when it must be used.

Cause:

1. The longevity payments were not adjusted for salary upgrades to two employees, and the total State service for one employee was initially inputted into the BOSS/Payroll Interface incorrectly.

2. The employee was not aware or informed that a medical certificate is required for the use of sick leave for any period of absence consisting of more than five consecutive working days.

3. The Department did not require the employees to schedule the compensatory time off within the six-month time limit.

Recommendation: The Department of Children and Families should ensure that longevity payments are properly made, required medical certificates are obtained, and the compensatory time guidelines set forth in the New England Health Care Employees Union District 1199 Contract are followed. (See Recommendation 12.)

Agency Response: "The Department agrees."

Diverting State Revenue For Department Use:

Background: In 1996, a restricted Federal account (Special Identification Code) was established by the Comptroller with the support of the Governor. The Department initially requested the account to divert a sufficient amount of Foster Care-Title IV-E revenues from the General Fund for deposit directly into this account to cover contractual payments to a vendor. Further, the Department anticipated that the account would be necessary for approximately two years. The Department contracted with the vendor for the purpose of pursuing additional Federal revenue on behalf of administering the Foster Care-Title IV-E, Title IV-A Emergency Program, and Title XIX Medicaid programs.

During the audited period, this account continued to be used. The majority of the services provided to the Department during the last two fiscal years was for generating reports needed to prepare the Federal claims and gathering documentation needed to determine whether children met the eligibility requirements of the Foster Care-Title IV-E program.

Criteria: Chapter 3 Section 2.2 of the *State Accounting Manual* provides that specific appropriations are assigned a three-digit appropriation number commonly referred to as Special Identification Code (SID) for Federal and State appropriations. Further, the *State Accounting Manual* provides that SIDs in the 400 series are to be used for Federal appropriations. Section 4-69 of the General Statutes defines "appropriation" as an authorization by the General Assembly to make expenditures and incur liabilities for specific purposes.

Condition: The Department claims for Federal reimbursement administration costs and foster care maintenance payments expended by the Department with State funds on behalf of the Federal Foster Care-Title IV-E program. The Federal reimbursement, when received from the Federal government, is deposited into the General Fund except for a small portion of the reimbursement, which was deposited into a restricted Federal account established by the State Comptroller to be used for payments of certain contractual services. The restricted Federal account established by the Comptroller, and used by the Department to make these contractual payments and divert State funds, was SID 405.

During the audited period, the Department diverted Federal General Fund revenues into this SID to make payments to a vendor for contractual services. For the fiscal years ended June 30, 2001 and 2002, Department expenditures made from this SID totaled $215,188 and $287,560, respectively. The total funds reimbursed from the Federal government and deposited into this SID for each fiscal year were the same totals as the amount expended for each fiscal year. The funds that are being used to make these expenditures consist of reimbursements made by the Federal government for State funds previously expended by the Department on behalf of administering the Foster Care-Title IV-E program. Hence the use of this SID is not appropriate for these expenditures because the expenditures are not being made with Federal funds. Further, the expenditures were not included in the approved appropriations acts included in the State's approved annual budgets.

Effect: Expenditures totaling $215,188 and $287,560 made by the Department during fiscal years 2000-2001 and 2001-2002, respectively, were not included in the approved appropriations acts included in the State's annual budgets. In addition, the Department used an incorrect SID to account for State expenditures.

The Department's procedures initially did not include claiming the expenditures posted to SID 405 for Federal reimbursement. As a result of bringing this matter to the Department's attention, the Department began to claim these expenditures for Federal reimbursement.

Cause: We could not determine the cause for continuing to use this SID.

Apparently, not claiming these expenditures for Federal reimbursement was an oversight by the Department.

Recommendation: The Department of Children and Families should follow the guidelines for Special Identification Codes (SID) included in the *State Accounting Manual* to account for State appropriations and expend State funds only from appropriations that are approved in the State's annual budgets. (See Recommendation 13.)

Agency Response: "The Department disagrees. The provisions of the contract in question have been approved by the Office of Policy and Management."

Auditors' Concluding Comments:
The approval of a contract by the Office of Policy and Management should not be considered authoritative if the approval is in violation of State Statutes. Further, the expenditures made by the Department were not accounted for properly in the State financial records in accordance with the State Accounting Manual because the expenditures were accounted for as Federal expenditures but should have been accounted for as State expenditures.

Children's Trust Account:

Background: Under the provisions of Section 46b-129 of the General Statutes, the Commissioner of Children and Families may be appointed guardian of any uncared for, neglected or dependent child committed to the Commissioner by the Superior Court. Further, Section 46b-129(l) provides that the Commissioner may bill to, and collect from, the person in charge of the estate of any child or youth aided by the Commissioner, including his decedent estate, or the payee of such child's or youth's income, the total amount expended for care of such child or youth or such portion thereof as any such estate or payee is able to reimburse.

The Department of Children and Families maintains a bank account to account for receipts received on behalf of some children committed to its care. The majority of receipts come from Social Security disability and survivor benefits paid by the Social Security Administration on behalf of applicable children committed to the Department's care.

Criteria: Section 4a-12 of the General Statutes provides that the Department of Administrative Services shall be responsible for the billing and the collection of any money due to the State in public assistance cases and enforcement of support obligations of liable relatives in such cases.

Section 4-32 of the Connecticut General Statutes provides that each

State department receiving any money or revenue for the State shall, if the total of the sums received amounts to five hundred dollars or more, deposit the same in the name of the State in depositories designated by the Treasurer within twenty-four hours of its receipt.

The Department can become the representative payee of Social Security benefits on behalf of applicable children committed to the Department's care. To become the representative payee, the Department has to file an application with the Social Security Administration (SSA) notifying that the child is committed to the Department and that Department should become the representative payee of any Social Security benefits.

Per SSA instructions, the representative payee of Social Security benefits is required to submit to SSA written reports accounting for the use of the benefits received by the representative payee.

Condition: Our review of the Children Trust Account disclosed the following:

1. We noted that DCF did not transfer funds to the Department of Administrative Services (DAS) for the reimbursement of costs incurred by DCF on behalf of some children committed to DCF's care. As of June 9, 2003, the Department's last transfer made to DAS was for $159,118 on August 12, 2002, which was for costs incurred by DCF during July 2002 on behalf of some children committed to DCF. We were unable to determine the exact amount that DCF should have transferred to DAS during the months September 2002 through May 2003. However, the transfers made to DAS for the prior six months (March 2002 through August 2002) averaged $169,445. Based on this monthly average, the total amount that should have been transferred to DAS during the months September 2002 through May 2003 is $1,525,005. This matter was reported to the Governor and other State Officials on June 18, 2003, in accordance with Section 2-90 of the Connecticut General Statutes.

2. DCF did not file an application to become the representative payee of a child committed to its care. As a result, DCF did not receive Social Security benefits totaling $58,954. The child's mother improperly continued to receive these benefits even though the mother's parental rights were terminated in November 1992. DCF brought this matter to the attention of SSA, which is attempting to collect the money from the child's mother. It is uncertain whether any monies collected by SSA will be given to the Department or to the child's new adoptive parents.

3. We performed a cash count on March 4, 2003, at DCF's Central Office. Based on DCF documentation, DCF received 293 checks totaling $90,476 from SSA on February 28, 2003, and 140 checks totaling $72,008 from SSA on March 3, 2003. However, these checks were not deposited into the Children's Trust Account until March 7, 2003. As a result, the 293 checks received on February 28, 2003, were deposited four days late, and the 140 checks received on March 3, 2003, were deposited three days late. Further, we noted that checks were also not deposited in a timely manner throughout the audited period.

4. DCF informed us that since approximately July 2003 the Representative Payee Reports submitted to SSA were not accurately completed. The expenses reported on these reports were calculated by reporting that all benefits received were expended on behalf of the child except for the portion maintained by DCF on reserve for the child. However, the Department did not verify whether this was the case.

Effect:

1. DCF did not transfer collections received during the months August 2002 to May 2003, for some children committed to its care, to the Department of Administrative Services (DAS). Once the transfer is made to DAS, these funds would become available to be used in the General Fund.

2. The State may not be reimbursed $58,954 for costs incurred by DCF because DCF did not properly collect Social Security benefits paid on behalf of a child committed to DCF's care.

3. DCF did not comply with Section 4-32 of the General Statutes.

4. SSA cannot accurately determine if benefits paid on behalf of a child were used properly.

Cause:

1. The monthly transfers to DAS were not made because DCF was not able to efficiently determine the reimbursable costs that were incurred between August 2002 and May 2003 due to a computer system failure. A new system is currently being developed to account for Social Security benefits. However, the Department could have manually determined the reimbursable costs that should have been transferred to DAS. This would have been done by reviewing the board and care payments made on behalf of the children in which the Department receives checks from the Social Security Administration. There are approximately 500 such children.

2. An oversight by DCF resulted in an application to become the representative payee of the child not being filed.

3. DCF was not able to process and deposit checks in a timely manner.

4. The previous computer system failed during July 2002, and an efficient method to determine the expense amounts reported on the Representative Payee Report was not established.

Recommendation: The Department of Children and Families should maintain the Children's Trust Account in accordance with State and Federal laws and regulations. (See Recommendation 14.)

Agency Response: "The Department agrees with this recommendation in part. The funds in question are held in trust by the Department of Children and Families (DCF) on behalf of children or youths committed to our care. The majority of these funds come from Social Security disability and survivor benefits paid by the Social Security Administration, for which the Department is representative payee. The Department forwards funds to the Department of Administrative Services (DAS) as reimbursement for the cost of care provided to these children and youths, typically on a monthly or quarterly basis. As noted by the Auditors, the proprietary computer database program used to reconcile these trust funds with costs of care became inoperable in August 2002. The Department investigated whether the system could be repaired, but deemed such a fix too costly. Discussions were held with DAS regarding a possible transfer of the trust accounting function to that agency, as we believed there was a commonality with their mission and operations on behalf of other agencies. While we were unable to come to an agreement on such a realignment of responsibilities, DAS did offer their staff and computer expertise to DCF and provided a DAS-developed replacement program for our use free-of-charge. Unfortunately, that program required significant tailoring before it could be effectively implemented for DCF's use. We then began in-house development of an application that would streamline our work processes and take advantage of additional task automation and integration with our revenue generation function. Concurrently with these activities, we became aware of a change in Social Security Administration regulations regarding the handling of benefits that necessitated a review of our policy regarding children's trust accounts, as well as a requirement that we convert all of the accounts from paper checks to direct deposit (i.e., electronic funds transfer). We were also affected by layoffs and associated bumping, and then by early retirements, and have not been able to devote sufficient staff time to manually reconciling the accounts. In order to resolve the above issues, the Department undertook a four-pronged approach: 1.) We have streamlined our handling of funds through elimination of unproductive paper check handling and conversion to electronic funds transfer from the Social Security Administration to the state; 2.) We have implemented a new banking intermediary to handle these electronic transactions from SSA, and to provide an electronic file to DCF to be used in reconciling payments to cost of care in an automated fashion; 3.) We undertook in-house development of a replacement computer database program that will match up banking records to our child welfare database's cost of care information, reducing the required staff time for this function by nearly a full FTE accountant (doing more with less); and 4.) We are revising Departmental policy to conform to the updated Social Security Administration requirements. Steps one and two are complete, and steps three and step four are in process with an anticipated resolution in the next few months. Manual reconciliation of the accounts, as suggested by the Auditors, was simply not a feasible option given the complexity of the issues, and we did not have sufficient staffing to devote to an interim process given our efforts to implement a long-term solution with improved efficiency and effectiveness. As soon as the replacement database application is operational, all required cost of care reimbursements from the period August 2002, to current will be forwarded to DAS."

Capital Improvement Projects:

Background: During the audited period, the Department administered capital improvement projects at its facilities. Our review disclosed that the Department did not comply with Section 4b-52 of the General Statutes.

Criteria: Section 4b-52 of the General Statutes provides that no repairs, alterations or additions involving expense to the State of five hundred thousand dollars or less shall be made to any State building or premises occupied by any department or institution and no contract for any construction, repairs, alteration or addition shall be entered into without the prior approval of the Commissioner of Public Works. This Section also provides that repairs, alterations or additions, which are made pursuant to such approval, shall conform to all guidelines and procedures established by the Department of Public Works for agency-administered projects.

For projects up to $95,000, the guidelines established by the Department of Public Works permit State agencies to select contractors from the State contract for trade services without bidding, and the contract requires that no single job performed under the contract shall exceed $95,000.

Condition: Our review of a capital improvement project administered by the Department at the Connecticut Juvenile Training School (CJTS) disclosed that the required approval to alter CJTS was not obtained from the Department of Public Works. The Department is altering CJTS by converting 18 rooms in two buildings and 14 rooms in another building for a total of 50 rooms to offices for the staff of CJTS. These rooms were originally constructed to accommodate 50 children.

Our review of capital improvement projects administered by the Department at the High Meadows Residential Treatment Center disclosed purchase orders that were split to avoid the bidding threshold. We also noted that a contractor won several bids for capital improvement jobs prior to becoming a contractor on the State contract for trade services. Further, we found that High Meadows did not have adequate controls to monitor the contractor's compliance with the State contract for jobs awarded under the contract. Our review disclosed several instances when charges for certain materials appeared excessive and several other charges that were not itemized. However, High Meadows was paying the contractor based solely on the contractor's invoices and did not require documentation supporting the charges, which reduced the possibility of finding an overcharge. Also, High Meadows management was not aware that the contractor subcontracted certain of its jobs without written approval from the Department of Administrative Services, in violation of the State contract. The conditions at High Meadows were reported to the Governor and other State Officials on April 11, 2003, in accordance with Section 2-90 of the Connecticut General Statutes.

Effect: The capital improvement projects at CJTS and High Meadows were not made in accordance with Section 4b-52 of the Connecticut General Statutes.

Cause: We were informed by CJTS officials that they were not aware that the approval of the Department of Public Works was needed even when only General Fund appropriations are being used to make the alterations. The controls at High Meadows were not adequate.

Recommendation: The Department of Children and Families should administer its capital improvement projects in accordance with Section 4b-52 of the General Statutes and guidelines established by the Department of Public Works. (See Recommendation 15.)

Agency Response: "The Department agrees."

Cash Management:

Background: The Department expends funds on behalf of the Social Service Block Grant (SSBG), a Federal program. The SSBG is administered by the Department of Social Services (DSS). During the fiscal years ended June 30, 2001 and 2002, the SSBG funds appropriated to DCF totaled $3,525,909 and $4,407,386, respectively. Based on requests made by the Department of Children and Families, DSS would draw down SSBG funds from the Federal government and deposit those funds into an appropriation account to be used by the Department of Children and Families. The Department would transfer funds from the SSBG appropriation account into the Board and Care Checking Account to be used for board and care payments made to residential providers.

Criteria: The Agreement between the State of Connecticut and the United States Department of the Treasury (Cash Management Agreement) specifies the timing of drawdowns for Federal programs.

Condition: Our review disclosed that the Department did not request DSS to draw down Federal SSBG funds in a timely manner. The Cash Management Agreement allows the State to request SSBG funds such that the funds are deposited in the State account on the eighth day after the disbursement was made. The Department uses the SSBG expenditures for payments made to residential providers. The total expenditures related to residential providers are significantly more than the SSBG funds awarded to DCF. Therefore, the SSBG expenditures made by DCF should be considered to represent a percentage of each allowable payment that is made to the residential providers. The majority of the payments that are made to residential providers are processed on the 15th of each month. Based on the Cash Management Agreement, this would allow the Department to request funds so that the funds are deposited into the General Fund on the 23rd of each month. However, our audit disclosed that SSBG funds were not drawn down from the Federal government on a monthly basis as allowed by the Cash Management Agreement. For the fiscal years ended June 30, 2001 and 2002, there were only two deposits made into the General Fund by DCF that were related to SSBG program.

Effect: The State was financing the SSBG program for an extended period of time. This could result in the State foregoing the potential for earning interest or could result in the State paying interest on funds borrowed.

Cause: The cause could not be determined.

Recommendation: The Department of Children and Families should send the Department of Social Services requests to draw down funds of the Social Services Block Grant in a timely manner. (See Recommendation 16.)

Agency Response: "The Department disagrees with this recommendation. The State did not finance any programming funded through the Social Services Block Grant (SSBG) for an extended period of time, as the Auditors contend. The Department submits requests to draw down SSBG funding only when those funds can be expended in a timely manner, as per the Federal Cash Management Improvement Act. These funds are available on a Federal fiscal year period, which runs from October 1 to September 30, and the Department fully expects to expend its full SSBG allocation before the end of the Federal fiscal year."

Auditors' Concluding Comments:
Our audit noted that the Department expended State funds for the SSBG program without requesting reimbursement from the Federal government. SSBG funds are expended monthly. However, requests to draw down SSBG funds were not made monthly as allowed in the Cash Management Agreement.

Missing Fiscal Records:

Criteria: Section 11-8a of the General Statutes provides that if the State Librarian determines that such books, records, papers and documents are of no administrative, fiscal, or legal value, and the Public Records Administrator and State Archivist determine that they are of no historical value to the state, the State Librarian shall approve their disposal, whereupon the head of the State agency or political subdivision shall dispose of them as directed by the State Librarian.

The Connecticut State Library Retention Schedule for fiscal records of State agencies provides that State agencies may destroy records only after receiving approval in the form of a signed "Records Disposal Authorization" (RC-108). Fiscal records may be destroyed if they meet the minimum retention schedule and receive such permission from the Office of the Public Records Administrator. The minimum retention for fiscal records is three years, or until audited, whichever comes later.

Condition: The Department could not locate certain expenditure records for the fiscal year ended June 30, 1999. The Department informed us that these records could be in the former regional office located in Meriden or that it is possible that these records were destroyed. Our review disclosed that the records were not located in the Meriden Office. As of the time of this review (June 2003), the Department could have destroyed these records because the minimum retention requirement was met once the audit report for the fiscal years ended June 30, 1999 and 2000, was issued on March 14, 2002. However, our review of the "Records Disposal Authorizations" forms maintained by the Connecticut State Library disclosed that no approval was obtained from the Connecticut State Library to destroy such records. Further, the Department could not provide to us any documentation to support the disposal of these records.

Effect: Records were not properly safeguarded. Further, because the fiscal records requested could not be located, the Department may have destroyed such fiscal records without obtaining the required approval from the State Library.

Cause: The cause cannot be determined.

Recommendation: The Department should ensure that records are properly safeguarded and that records should be destroyed only with the written approval obtained from the Connecticut State Library. (See Recommendation 17.)

Agency Response: "The Department disagrees with this recommendation. The Auditors sought travel documentation for a former employee. Those records no longer needed to be retained, given that they were past the minimum retention point (three years or until audited, whichever is later). Due to early retirements, considerable efforts to implement CoreCT, a fiscal staff reorganization, and year-end closing activities, the Department was unable to devote staff time to search for the records as requested by the Auditors, but we did offer to provide access to materials kept in storage. While we cannot comment on the fruitfulness of any search for the records undertaken by the Auditors, and while this audit recommendation implies that the Auditors were unable to locate the records, we nevertheless cannot conclude that the records have been destroyed. We object to the Auditors' conclusion that the records "could have been destroyed" without any evidence supporting such a conclusion."

Auditors' Concluding Comments:
Our audit did not conclude that the fiscal records for the fiscal year 1998-1999 were indeed destroyed. Our conclusion that the records could have been destroyed was based on the fact that the records could not be located by us or the Department and that the Department informed us that such records could have been destroyed.

Inadequate Controls Related to Calling Cards:

Criteria: The Department of Information and Technology's (DOIT) policy requires each calling (phone) card holder to sign the Calling Card Report, certifying the accuracy of the report contents. In addition, effective for the June 2002 Calling Card Report, the employee's supervisor is required to sign the report.

Condition: Our review disclosed that the Department did not require all of its employees and supervisors to certify that the calls recorded on the Calling Card Reports were proper. Our review of the Active Calling Cards report provided to us by DOIT disclosed calling cards were not canceled for some employees who are no longer employed with DCF.

Effect: The Department did not discover the improper use of a calling card in a timely manner. As a result, the Department determined in May 2003 that $1,737 in improper phone calls were made since December 2000. In addition, failure to cancel calling cards in a timely manner could also result in additional improper calls being made on calling cards.

Cause: The Department's controls over calling cards were not adequate.

Recommendation: The Department should establish procedures to prevent the misuse of calling cards. (See Recommendation 18.)

Agency Response: "The Department agrees."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department should improve its system of controls to eliminate board and care disbursement errors and to ensure compliance with State laws and regulations. – Our current audit continued to disclose that board and care payments were made in error and were not made in compliance with State laws and regulations. This recommendation is being repeated.

- The Department should continue to take the necessary steps to properly reconcile the Board and Care Checking Account's cash balance to the State Treasurer's cash balance. – Our current audit continued to disclose that the Department did not properly reconcile the Board and Care Checking Account. This recommendation is being repeated.

- The Department should establish proper internal controls to provide assurance that miscellaneous expenditures from the Board and Care Checking Account are being made efficiently, economically, effectively and in accordance with Department policy. – Our current audit continued to disclose exceptions related to miscellaneous expenditures made from the Board and Care Checking Account. This recommendation is being repeated.

- The Department should prepare financial reports in accordance with the State Comptroller's requirements. – Our audit continued to note errors in the financial reports submitted to the State Comptroller. This recommendation is being repeated.

- The Department should establish an Internal Audit Unit that reports directly to either the Commissioner or Deputy Commissioner. – The Department established an Internal Audit Unit that reports to the Deputy Commissioner. This recommendation has been resolved.

- The Department should establish adequate procedures to obtain and review audit reports and to conduct ongoing monitoring of its grantees. – Our current audit disclosed that the Department established procedures to review audit reports and conduct ongoing monitoring of its grantees. This recommendation has been resolved.

- The Department should continue to take steps to control its overtime costs. – Our current audit continued to disclose excessive overtime costs. This recommendation is being repeated.

- The Department needs to improve the controls over its equipment, software and supplies inventories. Inventory records for the Department's equipment, supplies and software should be kept in a manner consistent with the State of Connecticut's *Property Control Manual*. – Our current audit continued to disclose deficiencies related to inventory. This recommendation is being repeated.

- The Department should enter the proper data into its Statewide Automated Child Welfare Information System, commonly known as LINK, to ensure that the Department's system has accurate and up to date information. – Our current audit continued to disclose data not entered into LINK in a timely manner. This recommendation is being repeated.

- The Department should continue its efforts to maintain the confidentiality of the children placed in its custody in accordance with the provisions of Section 17a-28 of the Connecticut General Statutes. – Our current audit continued to disclose that the confidentiality of the children placed in its care was not maintained. This recommendation is being repeated.

- The Department should follow the procedures set forth in the State's *Accounting Procedures Manual – Activity and Welfare Funds*, the *State Accounting Manual* and Section 4-32 of the Connecticut General Statutes. The Department should also establish standard procedures that should be used to ensure that these funds are being properly used and safeguarded. In addition, the Department should deposit receipts in a timely manner. – Our current audit continued to disclose deficiencies related to the Department's Activity, Welfare, and Petty Cash Funds. This recommendation is being repeated.

- The Revenue Enhancement Unit should notify the Business Office of any children that have been identified as having returned home so that receivables can be established for any identified overpayments. – Our current audit disclosed that receivables were established for identified overpayments as a result of children returning home. This recommendation has been resolved.

- The Department should promptly report surplus equipment to the Property Distribution Center in order to efficiently utilize and distribute State resources. The Department should store surplus equipment in a secured area to assure that the State's resources are safeguarded. – Our current audit did not identify a large amount of equipment that needs to be surplussed. This recommendation has been resolved.

- The Department should process expenditures in accordance with State laws and regulations and the *State Accounting Manual*. – Our current audit continued to disclose expenditures that were not made in accordance with State laws and regulations and the *State Accounting Manual*. This recommendation is being repeated.

- The Department should not override its Statewide Automated Child Welfare Information System, commonly known as LINK, to make board and care payments at the end of a fiscal year to avoid those funds from lapsing to the following fiscal year. – Our current audit disclosed that the Department continued to override its computer system to make board and care payments at the end of a fiscal year to avoid the lapsing of funds. This recommendation is being repeated.

- The Department should follow the compensatory time guidelines set forth in the New England Health Care Employees Union District 1199 Contract. – Our current audit disclosed that the Department continued not to follow the aforementioned compensatory time guideline. This recommendation has been restated to also include other payroll and personnel errors noted during our current audit.

- The Department should not purchase equipment until it is needed. – Our current audit did not disclose any purchases of equipment that is not being used. This recommendation has been resolved.

- The Department should establish written policies for handling situations concerning the misuse of State resources. – Our current audit did not disclose misuse of State resources that were not reported as required under Section 4-33a of the General Statutes. This recommendation has been resolved.

- The Department should review its business office functions at the regions, facilities and at the Central Office to determine if a centralized operation would be more cost effective and efficient. – The Department centralized the regional business office functions and reorganized the reporting responsibilities of the business office functions of the facilities. This recommendation has been resolved.

- We recommended that the Department, with the aid of the Department of Administrative Services, perform a review to compare actual job duties to what is required by the defined job descriptions and then classify all Business Managers with the same classification. – The Department centralized the regional business office functions and reorganized the reporting responsibilities of the business office functions of the facilities. This recommendation has been resolved.

Current Audit Recommendations:

1. **The Department of Children and Families should improve its system of controls to eliminate board and care disbursement errors and to ensure compliance with State laws and regulations.**

   Comment:

   Our review found that 15 percent of the transactions paid from the Department's Board and Care Checking Account that we tested were either made in error, were not properly documented, or the payment was not in compliance with State laws and regulations.

2. **The Department of Children and Families should take the necessary steps to properly reconcile the Board and Care Checking Account's cash balance to the State Treasurer's cash balance.**

   Comment:

   Our review of the Department's bank reconciliation found that, as of June 30, 2002, there was an unreconciled difference of $1,638,489. Amounts are being reported to the State Comptroller's Office for year end cash balances without the Department properly reconciling the account.

3. **The Department of Children and Families should establish proper internal controls to provide assurance that miscellaneous expenditures from the Board and Care Checking Account are being made efficiently, economically, effectively and in accordance with Department policy.**

   Comment:

   We noted during our review that the Department did not have procedures in place for miscellaneous payments made from the Board and Care Checking Account. Payments were being made for items that would normally be provided for in the foster care monthly allowance amount. The Department does not document the items to be purchased on the DCF Form 1027 prior to authorizing the purchases.

4. **The Department of Children and Families should prepare the Generally Accepted Accounting Principles (GAAP) Reporting Package in accordance with the State Comptroller's requirements.**

   Comment:

   The Department did not report complete and accurate information on the GAAP Reporting Packages submitted to the State Comptroller.

5. **The Department of Children and Families should take steps to control its overtime costs.**

   Comment:

   We noted that the overtime costs of the Department continued to be excessive during the audited period. We also noted that a number of employees received a significant amount of overtime.

6. **The Department of Children and Families needs to improve the controls over its equipment, software and supplies inventories. Inventory records for the Department's equipment, supplies and software should be kept in a manner consistent with the State of Connecticut's *Property Control Manual*.**

   Comment:

   The Department's Central Office, regional offices and facilities do not maintain adequate records to support amounts reported, in total, on the Annual Fixed Asset/Property Inventory Reports. The Department's equipment, software and supplies inventory records are not in compliance with the State of Connecticut's Property Control Manual.

7. **The Department of Children and Families should enter the proper data into its Statewide Automated Child Welfare Information System, commonly known as LINK, to ensure that the Department's system has accurate and up to date information and to ensure that proper payments are being made to the Department's providers.**

   Comment:

   Our review disclosed a number of payments from the Board and Care Checking Account that were made in error because the correct placement data was not entered into the LINK system.

8. **The Department of Children and Families should ensure that the confidentiality of the children placed in its custody is maintained in accordance with the provisions of Section 17a-28 of the Connecticut General Statutes.**

   Comment:

   Our review found that the Department was recording the names of children in its custody on certain forms that are given to vendors. This may be in violation of the Statute governing the children's confidentiality. In addition, other State agencies had access to confidential information that was placed on the Department's Intranet Website.

9. **The Department of Children and Families should follow the procedures set forth in the *State's Accounting Procedures Manual – Activity and Welfare Funds* and the *State Accounting Manual*. The Department should also establish standard procedures that should be used to ensure that these funds are being properly used and safeguarded.**

   Comment:

   > Our review found that the Department had not established appropriate internal controls over its Activity, Welfare and Petty Cash Funds. Checks were being issued without proper documentation and/or authorization.

10. **The Department of Children and Families should process expenditures in accordance with State laws and regulations and the *State Accounting Manual*.**

    Comment:

    > Our review of expenditures disclosed that the Department did not always comply with Section 3-117 and Section 4-98 of the Connecticut General Statutes and with the *State Accounting Manual*.

11. **The Department of Children and Families should not override its Statewide Automated Child Welfare Information System, commonly known as LINK, to make board and care payments at the end of a fiscal year to avoid those funds from lapsing to the following fiscal year.**

    Comment:

    > Our audit noted that at the end of fiscal years 2001-2002 and 2002-2003, the Department hand wrote checks, which bypassed the check processing procedures established in the Department's computer system, to avoid the lapsing of funds. As a result, the Department paid for services prior to the rendering of these services and also for services that were never rendered.

12. **The Department of Children and Families should ensure that longevity payments are properly made, required medical certificates are obtained, and the compensatory time guidelines set forth in the New England Health Care Employees Union District 1199 Contract are followed.**

    Comment:

    > The Department paid some longevity payments at incorrect amounts, did not obtain medical certificates for employees out sick for more than five days, and did not require employees to schedule the compensatory time off within the six-month time limit set forth in the union contract.

13. **The Department of Children and Families should follow the guidelines for Special Identification Codes (SID) included in the *State Accounting Manual* to account for State appropriations and expend State funds only from appropriations that are approved in the State's annual budgets.**

    Comment:

    The Department diverted Federal General Fund revenues into a SID to make payments to a vendor for contractual services. The established SID should not have been used to make these expenditures. Further, the expenditures were not included in the approved appropriations acts included in the State's annual budgets.

14. **The Department of Children and Families should maintain the Children's Trust Account in accordance with State and Federal laws and regulations.**

    Comment:

    Our review disclosed transfers that were not made to the Department of Administrative Services; the Department did not file an application to become the representative payee of a child committed to its care; the Department did not deposit receipts in a timely manner; and reports submitted to the Social Security Administration were not accurately supported.

15. **The Department of Children and Families should administer its capital improvement projects in accordance with Section 4b-52 of the General Statutes and guidelines established by the Department of Public Works.**

    Comment:

    Our review disclosed that the required approval to alter the Connecticut Juvenile Training School was not obtained from the Department of Public Works. Our review also disclosed inadequate controls at the High Meadows Residential Treatment Center.

16. **The Department of Children and Families should send the Department of Social Services requests to draw down funds of the Social Services Block Grant in a timely manner.**

    Comment:

    Our review disclosed that the Department did not request the Department of Social Services to draw down Federal funds in a timely manner, which resulted in the State financing the Social Services Block Grant program for an extended period of time.

17. The Department should ensure that records are properly safeguarded and that records should be destroyed only with the written approval obtained from the Connecticut State Library.

Comment:

The Department could not locate fiscal year ended June 30, 1999, expenditure records. Further, the Department informed us that such fiscal records could have been destroyed without obtaining the required approval from the State Library.

18. The Department should establish procedures to prevent the misuse of calling cards.

Comment:

Our review disclosed that the Department did not require all of its employees and supervisors to certify that the calls recorded on the Calling Card Reports were proper. Our review of the Active Calling Cards report provided to us by the Department of Information and Technology disclosed calling cards were not canceled for some employees who are no longer employed with the Department of Children and Families.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Children and Families for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Department are complied with, (2) the financial transactions of the Department are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Children and Families for the fiscal years ended June 30, 2001 and 2002, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted 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 Children and Families complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to 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 Children and Families is the responsibility of the Department of Children and Families' management.

As part of obtaining reasonable assurance about whether the Department 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 Department's financial operations for the fiscal years ended June 30, 2001 and 2002, 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 Children and Families 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 Department. In planning and performing our audit, we considered the Department's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Department's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Children and Families' 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 Department'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 Department's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Department'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: weak accounting and administrative controls over the Board and Care Checking Account, accounting and administrative controls over the Department's property and equipment records, and weak accounting and administrative controls over the processing of administrative expenditures.

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 Department's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Department 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 Department'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 weakness in accounting and administrative controls over the Board and Care Checking Account and the weakness in accounting and administrative controls over the processing of administrative expenditures.

We also noted other matters involving internal control over the Department's financial operations and 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 Children and Families during the course of our examination.

Frank LaRosa
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts