

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT CHILDREN'S MEDICAL CENTER
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 1999 and 2000**

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

Table of Contents

INTRODUCTION	1
COMMENTS	1
FOREWORD	1
RÉSUMÉ OF OPERATIONS	2
Payments by the State of Connecticut	2
Contributions to the State Employees' Retirement Fund	2
Summary of Operations	3
Audit by Independent Public Accountants	3
CONDITION OF RECORDS	5
Pension Contributions.....	5
RECOMMENDATIONS	7
CONCLUSION	8

August 30, 2001

**AUDITORS' REPORT
CONNECTICUT CHILDREN'S MEDICAL CENTER
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1999 and 2000**

We have examined certain financial records of the Connecticut Children's Medical Center (hereinafter referred to as "the Center") (formerly the Newington Children's Hospital). Our review was limited to verifying the amounts paid to that institution by various State agencies during the Center's fiscal years ended September 30, 1999 and 2000; and a verification of payments made and reports submitted by the Center to the State Comptroller's Retirement Division for Center employees participating in the State's retirement plans. The following report consists of Comments, Condition of Records and Recommendation based on our audit work.

COMMENTS

FOREWORD:

Connecticut Children's Medical Center is a wholly-owned, tax-exempt subsidiary of CCMC Corporation (formerly Newington Children's Hospital Corporation). The Board of the Medical Center, appointed by CCMC Corporation, controls the operations of the Medical Center.

Under an October 1986 Memorandum of Understanding, the Connecticut Children's Medical Center agreed to consolidate its acute and clinical pediatric services with the pediatric services of Hartford Hospital. In connection with this, the CCMC Corporation has become a participant in Connecticut Health Systems, Inc. The new medical center facility opened in April 1996 on a site leased from Hartford Hospital.

Payments to the Center were made by various State agencies, notably the Department of Public Health. Payments of retirement contributions withheld from employees of the Center were made to the State Employees' Retirement Fund. These transactions are discussed in the following paragraphs.

RÉSUMÉ OF OPERATIONS:

Payments by the State of Connecticut:

Section 19a-50 of the General Statutes provides the Commissioner of Public Health with administrative responsibility for activities on behalf of "children who are crippled or suffering from conditions that lead to crippling or suffering from cardiac defect or damage" and authorizes the disbursement by the Commissioner of Public Health of all funds available for such purposes, whether by State appropriation or Federal grant. Payments to the Center were consolidated with annual grant payments for Children with Special Health Care Needs (CSHCN). As recorded by the Center, payments received for these grants and from various other State agencies are shown below:

	<u>Fiscal Years Ended</u>	
	<u>9/30/99</u>	<u>9/30/00</u>
Department of Public Health		
Children with Special Health Care Needs	\$ 1,073,010	\$ 1,033,510
Department of Social Services		
Husky Plus Physical Program	223,708	548,435
Office of Policy and Management		
Keep Kids Safe Program	48,000	60,000
Department of Mental Health and Addiction Services		
Governor's Prevention Initiative for Youth	-	39,584
Department of Children and Families		
Foster Child Medical Screening	<u>29,495</u>	<u>-</u>
Total State Payments	<u>\$ 1,374,213</u>	<u>\$ 1,681,529</u>

Contributions to the State Employees' Retirement Fund:

The benefits of the State Employees' Retirement System (SERS) were extended to the employees of the Center under the provisions of Section 5-175 of the General Statutes. Tier I is a contributory pension plan with two benefit plans, referred to as Plan B and Plan C. Tier II is a noncontributory plan that provides a single level of benefits to all members. Under the provisions of Section 5-192nn of the General Statutes, only persons who were employed on December 31, 1992, and who were members of the State Employees' Retirement System on that date continue to be eligible for State employee retirement benefits. Effective January 1, 1994, the Newington Children's Hospital adopted a defined benefit pension plan covering employees hired subsequent to January 1, 1993. This plan also covers employees hired prior to January 1, 1993, who had not yet become vested within the State Retirement Plan.

Payments of Tier I employee contributions to the SERS for the State fiscal years covered by this report and, for comparison, the amount paid during the 1997-1998 State fiscal year were as follows:

State Fiscal Years	Amount
1997-1998	\$79,564
1998-1999	47,339
1999-2000	32,168

Summary of Operations:

A firm of independent public accountants has audited the financial statements of the CCMC Corporation and its subsidiaries for the fiscal years ended September 30, 1999 and 2000. The Connecticut Children's Medical Center is a subsidiary of the CCMC Corporation. A summary of the revenues and expenses as presented in the audited financial statements is shown below:

	Fiscal Years Ended September 30,	
	<u>1999</u>	<u>2000</u>
Total Operating Revenues	\$ 69,213,670	\$ 74,443,220
Total Operating Expenses, Including Depreciation	<u>77,424,647</u>	<u>82,842,913</u>
Loss from Operations	(8,210,977)	(8,399,693)
Total Nonoperating Revenues, Net of Losses	<u>3,392,207</u>	<u>3,689,248</u>
Deficiency of Revenues Over Expenses	<u>(\$ 4,818,770)</u>	<u>(\$ 4,710,445)</u>

The Connecticut Children's Medical Center Foundation (formerly the Newington Children's Hospital Foundation), which is controlled by the CCMC Corporation, was established to solicit contributions from the general public and to support the Center. The Foundation's revenue is primarily generated by contributions and investment income. During the Center's fiscal years ended September 30, 1999 and 2000, the Foundation provided financial support to the Center totaling \$3,931,398 and \$2,569,970 respectively.

Audit by Independent Public Accountants:

We noted that in conjunction with the independent public accountants' examination of the financial records for the fiscal years ended September 30, 1999 and 2000, reports on the internal control structure were issued. The reports did not contain any recommendations that directly related to payments made and reports submitted to the State Comptroller's Retirement Division for Center employees participating in the State's Retirement System. However, for fiscal year ended September 30, 1999 we noted the issuance of a State Single Audit finding pertaining to the Husky Plus Program under the Department of Social Services (DSS). Apparently, the Center

was not submitting quarterly income and expense reports to DSS within the required dates. We noted that the finding was not repeated in the following fiscal year.

CONDITION OF RECORDS

During our review of payments made and reports submitted by the Center to the State Comptroller's Retirement Division for employees participating in the State's retirement system we found the following:

Pension Contributions:

Background: The benefits of the State Employees' Retirement System (SERS) were extended to the employees of the Connecticut Children's Medical Center under the provisions of Section 5-175 of the General Statutes. The Retirement and Benefit Services Division of the State Comptroller's Office maintains the accounting records pertaining to the operations of the retirement system.

Criteria: Section 5-175 of the General Statutes indicates that employees of State-aided institutions who are members of the State Retirement System shall make a monthly retirement contribution in the amount determined under Section 5-161. Such institution shall deduct retirement contributions from employees and pay them to the State.

Condition: During State fiscal years 1999 and 2000, we noted numerous instances of apparent under-contributions to the State Comptroller for compensation earned by Center employees vested in the State Employee Retirement System under the Tier I plan.

Effect: Since the Office of the State Comptroller conducts audits of retirement contributions only upon an employee's retirement, any under-contributions by the Center result in a loss of potential investment income to the State.

Cause: The Center's retirement contributions reconciliation process was not effective in determining that deductions were not being taken on manual checks issued. Additionally, Center personnel informed us that they were not aware that contribution deductions had to be taken against certain supplemental earnings.

Recommendation: The Center should enhance internal controls to ensure that proper deductions are taken for employees vested in the Tier I plan and comply with Section 5-175 of the General Statutes. The Center should also address the under-contribution errors discovered directly with the Retirement and Benefit Division of the Office of the State Comptroller. (See Recommendation 1.)

Response: "CCMC has increased its internal controls with a formal policy and procedure regarding the contribution deductions and the

reconciliation of the weekly report submitted to the Retirement and Benefit Division of the Office of the State Comptroller. CCMC has addressed the under-contribution errors with the Retirement and Benefit Division of the Office of the State Comptroller. A letter containing names of all the individuals identified who were affected by under-contributions was sent to the Retirement and Benefit Division of the Office of the State Comptroller on June 4, 2001. The letter requested an audit of the individuals "account" to determine the under-contributions. It is CCMC understanding that the Retirement and Benefit Division of the Office of the State Comptroller will bill the individuals directly for the under-contributions."

RECOMMENDATION

Our prior audit included one recommendation. The status of that recommendation is presented below:

Status of Prior Audit Recommendation:

- The Connecticut Children’s Medical Center must correct wage amounts previously reported to the State Comptroller’s Retirement and Benefit Services Division. In addition, controls over wage reporting should be improved at CCMC and reconciliation procedures developed and implemented. This recommendation has been partially resolved. We have issued a revised recommendation. (See Recommendation 1.)

Current Audit Recommendations:

- 1. The Center should enhance internal controls to ensure that proper deductions are taken for employees vested in the Tier I plan and comply with Section 5-175 of the General Statutes. The Center should also address the under-contribution errors discovered directly with the Retirement and Benefit Division of the Office of the State Comptroller.**

Comment:

Errors in deducting and submitting retirement contributions went undetected due to an apparent lack of proper reconciliation procedures and a misunderstanding as to the types of compensation subject to retirement contribution.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the officials and employees of the Connecticut Children's Medical Center during our examination.

Dennis Collins
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

00090-00.rpt