STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF MENTAL RETARDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

AUDITORS OF PUBLIC ACCOUNTS

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September 15, 2003

AUDITORS' REPORT
DEPARTMENT OF MENTAL RETARDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

We have examined the financial records of the Department of Mental Retardation for the fiscal years ended June 30, 2000 and 2001. This report includes our audit of the records of the Central Office, all of the Department's Regional Offices and Southbury Training School. This report on that examination consists of the Comments, Recommendations and Certification which follow.

Financial statement presentation and auditing are being 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 evaluating internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Mental Retardation (DMR) operates, generally, under Title 17a, Chapter 319b of the Connecticut General Statutes. The Department is responsible for the planning, development and administration of a complete, comprehensive, and integrated Statewide program for persons with mental retardation. The Department is under the supervision of a Commissioner who is appointed by the Governor. The Department is responsible for the administration and operation of all State-operated community and residential facilities established for the diagnostic care and training for persons with mental retardation. It provides an array of residential, day service and family support programs. These programs may be provided directly by the Regions or Training School or through contracts with private provider organizations throughout the State.

The Department consists of the following regional districts, offices, centers and training school:

Northwest Region
Northwest Regional Office - located in Torrington
Torrington Center - located in Torrington
Waterbury Center - located in Cheshire
Danbury Office
North Central Region
North Central Regional Office - located in Farmington
Hartford Center - located in Newington
Eastern Region
Eastern Regional Office - located in Norwich
John N. Dempsey Center - located in Putnam
Mystic Center - located in Mystic
Southwest Region
Southwest Regional Office - located in Bridgeport
Ella T. Grasso Center - located in Stratford
Lower Fairfield County Center - located in Norwalk
South Central Region
South Central Regional Office - located in Wallingford
Central Connecticut Center - located in Meriden
New Haven Office
Southbury Training School
Central Office - located in Hartford

The client caseload of the Department was 13,812 as of June 30, 2000 and 14,207 as of June 30, 2001. A summary of client census statistics pertaining to the various services provided by the Department, for the two fiscal years covered by this audit, follows:

	As of June 30,	
	2000	**2001**
Clients in public residential settings	2,175	2,111
Clients in private residential settings	4,559	4,686
Clients awaiting residential placement	1,405	1,562
Clients in public day programs	1,013	957
Clients in private day programs	6,900	7,028
Clients awaiting placement in day programs	255	135
Clients living at home	6,979	7,273
Families receiving support grants during the past year	1,049	1,152
Children receiving public Birth to Three services	1,044	988
Children receiving private Birth to Three services	3,045	3,640

Council on Mental Retardation:

There is also a Council on Mental Retardation, which operates under the general provisions of Section 17a-270 of the General Statutes. The Council, which consists of thirteen members, acts in an advisory and consultative capacity to the Commissioner of Mental Retardation. The Council may also recommend legislation to the Governor and the General Assembly. As of June 30, 2001, the following were members of the Council:

Sheila S. Mulvey, Chairman
T. Kevin Cleary, Vice Chairman
Fritzie Levine, Secretary
Philip K. Bondy, MD
Richard C. Brown
Ann Dougherty
Christine Hart, MD
Albert Lognin
Michael J. O'Toole, Sr.
Eleanor N. Steere
Cynthia Stramandinoli
Two vacancies

Others who served on the Council during the audited period were John Andreini, Esq., Emmet L. Cosgrove, Esq., Margaret O. Lahda, Samuel R. Hyman and Lou Richards.

Mr. Peter H. O'Meara was appointed Commissioner on June 23, 1995 and has served in that capacity throughout the audited period.

Advisory Commission on Services and Supports for Persons with Developmental Disabilities:

Section 19 of Public Act 00-135 created the Advisory Commission on Services and Supports for Persons with Developmental Disabilities. The Act took effect October 1, 2000 and was codified at Section 17a-215a of the General Statutes. The 27 member Advisory Commission must advise the Commissioner of DMR on the needs of persons with developmental disabilities other than retardation, as it is defined in Section 1-1g of the General Statutes. Such disabilities include, but are not limited to, cerebral palsy, spina bifida, autism, muscular dystrophy, blindness, hearing impairment and brain injury. As of June 30, 2001, the 27 members of the Advisory Commission were:

Senator Catherine Cook
Senator Mary Ann Handley
Representative Ann Dandrow
Representative Theresa Gerratana
Janine Braun, Governor's representative
Ann Foley, designee of Secretary of the Office of Policy and Management
Steven Staugaitis, designee of Commissioner of Mental Retardation
Elizabeth D'Amico, designee of Commissioner of Mental Health and Addiction Services
Lou Ando, designee of Commissioner of Children and Families

Pamela Giannini, designee of Commissioner of Social Services
Roger Frant, designee of Commissioner of Education
Brian O'Rourke, designee of Director of the Office of Protection and Advocacy
Paul Hartleb, designee of Director of Council on Developmental Disabilities
John Halliday, Director of Bureau of Rehabilitative Services
Helen Bosch
Margaret Casciato
Terry Cassidy
Karen Charest
Karen Dillon
Janice Hasenjager
Stacy Hultgren
Marijke Kehrhahn
Joanne Miller
Lois Rosenwald
Ann Seigel
Linda Wallace
Larry Wood

RÉSUMÉ OF OPERATIONS:

General Fund Revenues and Receipts:

General Fund revenue and other receipts of the Department of Mental Retardation during the past two fiscal years are shown below:

	Fiscal Year Ended June 30, 2000	Fiscal Year Ended June 30, 2001
Rental of cottages or residences	$ 146,025	$ 143,995
Refunds of prior years' expenditures	322,814	175,957
Refunds of current appropriations	813,152	804,655
Restricted contributions, Federal	10,876,323	8,994,979
Restricted contributions, other than Federal	405,705	390,510
All other revenue	39,174	44,903
Total General Fund Revenue and Receipts	**$12,603,193**	**$10,554,999**

Rental revenue results from rental of staff housing and farmland at Southbury Training School. The major portion of receipts during the audited period consisted of restricted grants or reimbursements from Federal sources, principally, the Social Services Block Grant (CFDA# 93.667). These grants, in general, were received to assist the Department in its work of educating and training those persons having certain disabilities, or in providing special services to those clients. For comparative purposes, General Fund revenue and other receipts amounted to $8,587,572 in the 1998-1999 fiscal year. The increase of $4,015,621 in the 1999-2000 fiscal year is due to increased receipts of Federal grant contributions. And the decrease of $2,048,194 in total General Fund revenue and receipts from the 1999-2000 to the 2000-2001 fiscal years is attributed to a decrease of $1,881,344 in Federal grant contributions. A finding, *Failure to Deposit and Account* *for Receipts Promptly*, is presented in the "Condition of Records" section of this report.

General Fund Expenditures:

General Fund expenditures of the Department of Mental Retardation for the two fiscal years covered by this audit are summarized below, with amounts for the 1998-1999 fiscal year presented for comparative purposes:

	Fiscal Year Ended June 30,		
	1999	2000	2001
Budgeted Accounts:			
Personal services	$245,270,938	$261,748,918	$260,799,441
Contractual services	309,318,912	338,549,098	360,547,651
Commodities	11,034,331	10,671,923	9,918,428
Workers compensation	10,174,577	10,947,037	11,923,620
Other sundry charges	1,073,493	1,099,025	1,213,267
Fixed charges	2,045,942	4,347,147	10,232,928
Equipment	12,338	71,613	63,164
Total Budgeted Accounts	579,290,531	627,434,761	654,698,499
Restricted Accounts:			
Federal accounts	8,473,722	8,293,715	9,837,148
Other than Federal accounts	247,231	420,374	243,737
Total Restricted Accounts	8,720,953	8,714,098	10,080,885
Total Expenditures	**$588,011,484**	**$636,148,850**	**$664,779,384**

During the two fiscal years covered by this audit, expenditures for personal services increased by $15,508,503. The increase is due primarily to pay increases negotiated by collective bargaining units and the 1999-2000 fiscal year had 27 payrolls rather than the usual 26. The number of filled positions decreased slightly during the audited period, as shown in the following tabulation:

	Fiscal Year Ended June 30,		
	1999	2000	2001
Full time filled positions	4,610	4,570	4,444
Part time filled positions	1,600	1,595	1,621
Total Filled Positions	**6,210**	**6,165**	**6,065**

Expenditures for contractual services increased by $51,228,739 between the 1998-1999 and 2000-2001 fiscal years. Most of the contractual services category consists of payments to private providers for services to the Department's clients. Many DMR clients receive residential, employment and day services through the private providers. As shown in the client census statistics, there has been an increase in the number of clients placed in private provider residential settings and private provider day programs. The increases to fixed charges are due to state aid grants in the categories of community residential services and employment opportunities and day services.

The bulk of commodity expenditures were for food, maintenance supplies and medications. Sundry charges were comprised primarily of grant transfers. Several audit exceptions are noted in the finding *Expenditure Matters* in the "Condition of Records" section of this report.

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 for the care of all persons in State institutions. Costs for the in-residence population for the fiscal year ended June 30, 2001, are summarized below:

	Average per Capita Costs			
	In-Patient		Group Homes	
	Daily	Annual	Daily	Annual
Northwest Region	$685	$250,025	$621	$226,665
North Central Region	617	225,205	524	191,260
Eastern Region	661	241,265	635	231,775
Southwest Region	600	219,000	488	178,120
South Central Region	733	267,545	614	224,110
Southbury Training School	651	237,615	(not applicable)	

State Medicaid Reimbursement and Other Cash Receipts:

A significant percentage of the Department's clients are eligible for the Federal Medical Assistance (Medicaid, Title XIX) program (CFDA #93.778) under the Intermediate Care Facility/ Mental Retardation, the Targeted Case Management or the Home and Community Based Waiver provisions. The State's Department of Social Services receives Federal reimbursement of approximately 50 percent of the cost of providing certain services to these clients. Reimbursable costs amounted to approximately $543,029,300 for the fiscal year ended June 30, 2000 and $535,494,600 for the fiscal year ended June 30, 2001.

The Collections Services Business Center collected cash receipts of $9,283,688 and $10,361,046 during the fiscal years ended June 30, 2000 and 2001, respectively, as compared to $9,230,243 for the 1998-1999 fiscal year. Receipts were mostly in the form of board and care fees collected from resident clients who are employed and earn weekly wages above a threshold amount of $25. The collection of these fees is based on long-standing policies established by the Department of Administrative Services, Bureau of Collection Services and the Department of Mental Retardation. Also included in these receipts are those collected from legally liable relatives or other parties, such as insurance.

Community Residential Facility Revolving Loan Fund:

The Community Residential Facility Revolving Loan Fund (#6851) is authorized by Sections 17a-220 through 17a-225 of the Connecticut General Statutes. The Fund was established so that the Department could make loans for the construction, purchase or renovation of community based residential facilities. The Department can make loans up to $350,000 for this purpose; the loans bear interest at six percent. The first loans were made during the 1986-1987 fiscal year. A summary of loan transactions of the Fund for the audited period follows:

	Fiscal Year Ended June 30,	
	2000	**2001**
Loans outstanding, beginning of year	$6,074,125	$8,906,157
Add: New loans made	2,978,949	1,147,772
Add: Accrued interest	4,179	33,619
Less: Principal repayments	151,096	519,701
Loans outstanding, end of year	**$8,906,157**	**$9,567,847**

Revenues of the Fund consisted primarily of interest income and totaled $376,106 and $494,322 during the fiscal years ended June 30, 2000 and 2001, respectively.

Fiduciary Funds, Regions and Southbury Training School:

Fiduciary Funds include Institutional Activity and General Welfare Funds and Clients' Funds. The Activity and Welfare Funds were established and operated under the provisions of Sections 4-52 and 4-57 of the General Statutes and are used mainly for the operation of client workshops and for client recreation. The Clients' Funds constitute custodial accounts for clients' personal monies. The assets comprising the Department's Fiduciary Funds approximated $4,089,800 as of June 30, 2001.

CONDITION OF RECORDS

Our examination of the records of the Department of Mental Retardation disclosed the following matters, which require disclosure and Agency attention.

Expenditure Matters:

Criteria:

1. Department of Administrative Services (DAS) General Letter 71 specifies that vendor bids are not required for purchases of goods and services under $1,000.

2. Vendors should be promptly paid; Section 4a-71 of the General Statutes establishes an interest penalty when State agencies delay more than 45 days in paying vendors.

Conditions:

1.As a result of a complaint received under Section 4-61dd of the General Statutes, we reviewed allegations concerning purchases at Southbury Training School. We found that outdoor lounge furniture costing $2,273 had been purchased for the use of the Training School Director in his on-site, State-owned home. The purchase was made from the Volunteer Services Fund without obtaining three (3) bids. The guidelines for this Fund specify that it is for expenses of State employees participating with DMR clients or for clients who have no money of their own. We reported this matter to the Governor and other State officials on March 27, 2002.

2.During our test of 40 expenditure transactions for the Southwest Region (#4124), we noted two instances where payments were made excessively late. In the first instance, goods costing $1,317 were received in January 1999 but the vendor was not paid until September 1999. In the second instance, goods costing $1,785 were received in September 1999 but the vendor was not paid until October 2000, over a year later.

3.Repairs made in Southwest Region (#4124) costing $1,785 were not put out to bid because of erroneous reliance on DAS General Letter 71.

4. Also in Southwest Region (#4124), a duplicate payment in the amount of $240 was made during the 1999-2000 fiscal year.

Effects:

1. The Department has not complied with the bidding requirements of DAS General Letter 71.

2. Expenditures were made out of the following year's appropriation.

Causes: Unknown

Recommendation: The Department should comply with State statutes and policies for processing expenditure transactions. (See Recommendation 1.)

Agency Response: "The Department believes that generally it adheres to DAS General Letter 71 and pays vendors promptly. The Comptroller's internal reports will document DMR's overall timely payments to vendors. The conditions reported by the Auditors were isolated occurrences at the Department's Southbury Training School and at just one of the Department's five regions. The conditions reported were not systemic conditions found at all DMR Regions. These conditions were limited to just a small number of the upwards of tens of thousands of transactions processed at the DMR Southwest Region and the Southbury Training School during the two fiscal years audited.

The matter reported by the Whistle Blower was reviewed by the Department's Internal Auditors. It was determined that the $2,273 purchase of outdoor furniture was an appropriate use of the Volunteer Services Fund, that the furniture was used to benefit the environment at Southbury Training School, the furniture was in fact for, and is used by the individuals living at Southbury Training School, and that members of the Volunteer Services Fund oversight committee who were knowledgeable on the proper use of these funds were aware of this transaction in advance of the furniture being ordered.

The two instances of late payments were isolated events that occurred at the DMR Southwest Region. They were the result of delays by the Maintenance staff forwarding the invoices for payment. The $1,785 expenditure that was not put out to bid was applicable to an emergency repair; emergency repairs required for health and safety reasons are not required to be bid. The $240 duplicate payment was isolated instance of an oversight by an Accounts Payable staff member."

Auditors' Concluding Comments: While the furniture may benefit the environment at the Training School, it has little direct benefit for clients. Further, the lease agreement between the State and the Training School Director for on-site housing only provides for minimum basic home furnishings and does not appear to authorize the State to pay for the specific furniture that was purchased.

Failure to Deposit and Account for Receipts Promptly:

Criteria: Section 4-32 of the General Statutes requires that cash receipts be deposited and accounted for within 24 hours. Furthermore the State Treasurer specified in Memorandum T-88-BR2 that "accounted for" means the preparation of Deposit Slip, Form CO-39.

Condition: In the Northwest Region (#4121), we examined a sample of 40 deposit transactions. We noted that one check for $750 was more than a week late in getting deposited. The Governor and other State officials were notified of this matter on December 31, 2002.

Cause: The check for $750 was received in DMR's Waterbury office and then had to be sent by courier to the Torrington office for deposit.

Conclusion: The Department has addressed this condition and a recommendation is not necessary at this time.

Use of State Property:

Criteria: Item 20 in the DMR work rules specifies that employees may not use State equipment to conduct personal matters. Furthermore, the monthly cell phone bills contain an attestation that the calls are necessary for the performance of duties and not personal in nature.

Condition: An anonymous complaint was submitted to our Office under the provisions of Section 4-61dd of the General Statutes; the complaint alleged that the Director of Southbury Training School had been making excessive personal calls using his State cell phone. We investigated this matter and noted a large number of out-of-state calls. During the course of our investigation, the Director reimbursed the State $718 for such calls.

Cause: The Director misunderstood the policy regarding State cell phone usage and had not complied with item 20 in the DMR work rules.

Conclusion: The Department has responded to this incident and a recommendation is not necessary at this time.

Inaccurate Payroll and Personnel Records:

Criteria: 1. Payroll and personnel transactions should be computed accurately using correct rates of pay and executed in accordance with relevant State and Federal laws and regulations. Leave records should be accurate and current.

2. Section 5-208a of the General Statutes provides that individuals may be employed by more than one State agency simultaneously, provided that each agency certifies that no conflict of interest exists and that there is no duplicate payment for time. The certification is done on Form PER-DE-1, Dual Employment Request.

Conditions: 1. In our random sample of 40 employee payroll and personnel records in North Central Region (#4122), we noted four (4) instances where employees had different rates of pay on the MSA payroll system and Automated Personnel System (APS).

2. In our random sample of 40 employee timesheets in the South Central Region (#4125), we noted that two (2) were missing the employees' signature and one (1) was missing the supervisor's signature. Also, in the same sample, we found one (1) overpayment of $68.

3. In our random sample of 41 payroll transactions in the Southwest Region (#4124), we noted three (3) instances where employees had not signed their timesheets.

4. In the Eastern Region (#4123), we reviewed controls related to dual employment; out of 18 instances of dual employment, eight (8) of the PER-DE-1 forms were not on file. Furthermore, we noted that one employee had the required PER-DE-1 form on file but abused sick leave and received duplicate payments. In this situation, the employee, who also worked for University of Connecticut (UCONN), was paid by both DMR and UCONN for the same 10 hours and worked a double shift at DMR for 16 hours while reporting sick at UCONN.

5. In the Central Office (#4114), out of our sample of 40 payroll and personnel records, we noted one instance where compensatory time was continued beyond the six months specified in the P-1 Health Care contract.

Effects: The payroll records were inaccurate.

Cause: Unknown

Recommendation: Payroll and personnel records should be reviewed for accuracy and time sheets should be reviewed by supervisors. (See Recommendation 2.)

Agency Response: "The Department believes that overall, payroll and personnel transactions are computed accurately and correctly. The Department employs upwards of 4,100 full time employees, and occasionally errors and omissions may occur. The Auditors do not appear to have disclosed Department wide systemic problems within the payroll and personnel functions. Many of the circumstances reported by the Auditors will be resolved with the implementation of the CORE-CT financial and human resource systems. The errors reported by the Auditors have been corrected and recoveries were made where required. The Department will continue to make every attempt to have all timesheets signed by supervisors.

Of the 8 Eastern Region dual employment forms that the Auditors reported that were not on file, DMR was the "primary agency" for 7 of the employees. In accordance with General Letter 204 (Revised), the secondary agency must initiate the dual employment process. Therefore, the Eastern Region was not required by State policies to obtain these dual employment forms. For the one employee that the Eastern Region was the secondary agency, the Region has sent the form to the primary employer State agency. In addition, the employee that the Auditors report abused sick leave and received a duplicate payment, the abuse of sick leave and the duplicate payment was made by the University of Connecticut, not the DMR Eastern Region. The Eastern Region's payroll records disclose this employee actually worked the hours that were paid by the Eastern Region. To the extent there was any abuse of sick leave, or there was a duplicate payment, the abuse of leave, and the duplicate payment(s) were made by UConn, not DMR."

Inaccurate Reporting of Financial Information:

Criteria: The State Comptroller, through the *State of Connecticut Accounting Manual*, has directed agencies to provide certain year-end financial information; agencies provide this information on GAAP closing forms and other forms. A similar finding was presented in our prior report.

Conditions: 1. The June 30, 2000 cash in bank amount on GAAP Form 1 was understated by a combined total of $7,860 for three (3) accounts in the South Central Region (#4125).

2. In the Eastern Region (#4123), equipment belonging to the Activity and Welfare funds was incorrectly reported for both fiscal years.

3. The annual report of petty cash as of April 30, 2000 contained an unsupported amount for cash in the bank for Southbury Training School.

Effect: Financial information from the GAAP forms is used to prepare the State's Comprehensive Annual Financial Report (CAFR).

Cause: Unknown

Recommendation: More care should be used in completing the State Comptroller's financial reporting forms. (See Recommendation 3.)

Agency Response: "The two DMR Regions and the Southbury Training School will take the appropriate steps to properly complete the Comptroller's financial reporting."

Property Control Records:

Criteria: Section 4-36 of the General Statutes requires each State agency to keep property inventory records in the manner prescribed by the State Comptroller and submit by October first a detailed inventory, as of June thirtieth, of all property owned by that agency. The State of Connecticut's *Property Control Manual* provides further guidance for maintaining property inventory records; equipment reports should be accurate and timely and a complete physical inventory should be performed annually to verify the existence of assets. The detailed inventory report is submitted on Form CO-59. Items should be tagged as soon as they are received.

Conditions: 1. In the Southwest Region (#4124), we were unable to locate seven out of a sample of 25 equipment items listed on the Region's equipment inventory; this results in an error rate of 28 percent.

2. In the South Central Region (#4125), we found several exceptions. Out of a sample to ten (10) equipment items observed in the Wallingford regional office, four (4) were not recorded in the equipment inventory records. In addition, we selected 25 items from the equipment inventory records and we noted that one (1) item was missing its inventory tag and one (1) item could not be found.

3. In the Northwest Region (#4121), we attempted to preform a physical inventory on 14 items selected at random from the inventory records; we were unable to locate five (5) of the items. Also, we noted an excessive delay in tagging new equipment acquisitions; six (6) out of 12 items purchased during the audited period had not been tagged by April 2000; the delay in tagging ranged up to 21 months.

4. In the Eastern Region (#4123) we noted several exceptions. No supporting detail could be provided for "Site Improvements" or additions to "Furnishings and Equipment (Capitalized)" on the CO-59 inventory reports. We performed a physical inventory on a test basis of 40 items; one (1) item could not be located and one (1) item was missing its inventory tag.

5. In the Central Office (#4114), we performed a physical inventory; out of 14 items selected for inspection, we could not locate three (3) of them. Also, we noted that three (3) out of 13 acquisitions had not been tagged or recorded in the inventory records.

Effect: The amounts reported on the annual property inventory reports (Form CO-59) were not accurate. Also, when internal controls over property are weak, it is difficult to determine whether items are missing, stolen or scrapped.

Cause: The maintenance of property inventory records has been a low priority task.

Recommendation: The Department should comply with Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual* by improving its property control records. (See Recommendation 4.)

Agency Response: "The Department's Regions, Southbury Training School, and Central Office will take the appropriate steps to resolve these inventory disclosures and will review their procedures. However, the recent reduction of staff statewide, the early retirement program, and the consolidation of the Department of Mental Retardation from five to three Regions will continue to administratively strain the ability of the Department to maintain these records."

Inadequate Software Inventory:

Criteria: The State of Connecticut's *Property Control Manual* specifies that software inventory records should contain the following information: assigned identification number, title of software, description, version, manufacturer, software serial/registration number, acquisition type, acquisition detail, initial installation date, location and ID number of CPU device and cost. A similar finding was presented in our prior report.

Condition: In the Eastern Region (#4123), the software inventory records continued to be inadequate. The inventory listed only seven (7) programs and other information specified in the *Property Control Manual* was omitted.

Effect: The Department has not complied with the procedures specified in the manual.

Cause: Unknown

Recommendation: The Department should improve its software inventory records. (See Recommendation 5.)

Agency Response: "The Department completed its implementation of LAN system effective October 2002. All DMR Regions are now connected to this LAN. The Department's software is located and managed from a centralized server farm, which is maintained by the Department's Central Office Information Technology Division. The IT Division will be centrally maintaining the software inventory. This should address this inventory issue in the future."

Private Provider Monitoring:

Criteria: 1. The standard boilerplate language for DMR private provider contracts provides that State-awarded funds are subject to the standards of the State Single Audit Act, which is found at Chapter 55b of the General Statutes. The Act specifies, in Section 4-232 (b) of the General Statutes, that audit reports are to be filed within six months of the end of the fiscal year.

2. Each private provider that the Department contracts with is paid based upon an individually negotiated rate. A Consolidated Operational Cost Report is required from each provider to determine the actual cost to provide the programs under contract. If a provider's cost exceeds the contracted rate, then no additional funding is awarded. If a provider under spends and there is a surplus, the rate setting regulations require the Department to recover 50% of the surplus. Private providers are allowed to retain the 50% balance of the surplus. The final cost settlement is required after the audit has been completed.

Conditions: 1. In the Southwest Region (#4124), we reviewed the processing of six (6) private provider audit reports; in one (1) instance, the report was submitted over three (3) weeks late and no extension had been granted.

2. During calendar year 2001, private providers cost settlements were consolidated into the Central Office; previously, the cost settlements had been done at the regional level. We reviewed the fiscal year 2000 cost settlements for 22 programs and noted seven instances of miscalculations.

Effect: About half of DMR's funding is expended through private provider contracts. Monitoring these expenditures through audits and cost settlements is a key internal control.

Cause: The final cost settlement had not been done in accordance with DMR procedures.

Recommendation: Cost settlements for private provider contracts should be done in accordance with Department procedures. (See Recommendation 6.)

Agency Response: "The Department of Mental Retardation believes the computation of the cost settlement for contracts with private agencies are conducted in accordance with the current DMR procedures. The computation of the cost settlement has been centralized in the Department's Central Office. All calculations made by staff are reviewed by the Director of the Department's Operation's Center. In calculating the cost settlement, all contract amendments must be considered, and in some instances, the terms and conditions of the funding that was awarded through any amendments must also be considered. In some instances a 100% recovery is required when a "onetime amendment" is awarded. To put the cost settlement into some perspective, many of the private agencies the Department contracts with spend more on the DMR programs than the Department actually funds through the Department's awards. To the extent the Auditors review disclosed any instances of incorrect computations, it does not appear from the Auditors Report that these miscalculations resulted in uncollected amounts due the State."

Auditors' Concluding Comment: The instances noted of miscalculations resulted in one provider overpayment of $4,905, which was recovered. Steps should be taken to ensure that the cost settlement calculations are conducted in full agreement with the actual contract costs to avoid such miscalculations.

Foundation Audit Opinion:

Criteria: Sections 4-37e to 4-37j of the Connecticut General Statutes contain certain compliance requirements for foundations that are affiliated with State agencies. Furthermore, Section 4-37f of the Connecticut General Statutes requires that the audit opinion on the books and accounts of a foundation include a report on compliance with those requirements.

Condition: Southbury Training School has an affiliated foundation, The Southbury Training School Foundation, Inc. The independent certified public accountant's opinion, for the fiscal year ended October 31, 2000, failed to mention compliance with Sections 4-37e to 4-37i of the General Statutes. A similar finding was presented in our prior report.

Effect: The independent certified public accountant's opinion was not in compliance with Section 4-37f of the Connecticut General Statutes.

Cause: We could not determine the cause for the independent certified public accountant not including the report on compliance with Connecticut General Statutes Sections 4-37e to 4-37i in the Foundation's audited financial statements for the fiscal year ended October 31, 2000.

Recommendation: The management of the Southbury Training School Foundation should require their auditors to include the report on compliance with Sections 4-37e to 4-37i of the General Statutes in their audit report. (See Recommendation 7.)

Agency Response: "The Department has again advised the Southbury Training School Foundation, Inc. to provide the required compliance opinion from their independent certified public accountant, and has reminded the Foundation that future audits of the Foundation's financial statements must contain this compliance statement."

Failure To Report Losses in a Timely Manner:

Criteria: Section 4-33a of the General Statutes and the State of Connecticut's *Property Control Manual* require immediate notification of all losses/damages to State property upon discovery to the Auditors of Public Accounts and the State Comptroller. A 1998 DMR policy directive specifies that losses of client funds should be reported within 24 hours of discovery.

Condition: In the Eastern Region, we noted eight (8) instances where losses were reported late; the delays ranged from a few days to four (4) months. Of the eight (8) instances, four (4) instances involved thefts or losses of client property or money, which were not reported promptly. And there was one (1) instance where damage to a State-owned tractor was never reported; the cost to repair the tractor amounted to $2,001. Similar findings were presented in our prior report.

Effect: The Eastern Region did not comply with Section 4-33a of the General Statutes or the State of Connecticut's *Property Control Manual* regarding the timely reporting of losses.

Cause: Unknown

Recommendation: The Eastern Region should report promptly all losses to both the Auditors of Public Accounts and the State Comptroller as required by Section 4-33a of the General Statutes and the State of Connecticut's *Property Control Manual* and DMR policy. (See Recommendation 8.)

Agency Response: "The Department believes that generally, losses are reported in a timely manner. The Auditors have reported 8 instances of losses that occurred in the DMR Eastern Region were reported late. The Auditors did not report late filings at any of the other DMR Regions. The amounts of these losses ranged from $2.38 to $2,592. Five of the losses were less than $300. The remaining losses were $400, $600, and $2,592. Of the 8 instances of losses reported late by the Auditors, 5 of instances were filed with the Comptroller within 24 hours of the Business Office having been notified of the losses. Depending on the nature of the loss there is a level of review that must be undertaken to investigate and confirm that in fact a loss has occurred. The loss of $2.38 was referred to the Region's Human Resources Division. The employee was disciplined and the $2.38 was reimbursed to the State."

Fiduciary Funds:

Criteria: DMR procedures regarding the personal funds of clients are specified by the Department's *Client Funds Management System Manual*. Department procedures, stated in this manual, require a fund audit checklist to be completed, either monthly or bimonthly, for clients' personal moneys.

Condition: We noted significant variances between client accounts and bank account balances for the Ella Grasso Center Patients Fund from June 2000 through September 2001. These variances ranged from $513 to $7,226. Subsequently, reconciliations were done to resolve the variances.

Effect: Without adequate controls, thefts of clients' moneys could occur and go undetected for long periods of time.

Cause: Unknown.

Recommendation: The South West Region (#4124) should follow the Department's *Client Funds Management System Manual*. (See Recommendation 9.)

Agency Response: "The disclosure by the Auditors was limited to the accounting procedures at one DMR Region. As the Auditors report, reconciliations have been completed. The region reports that audits are done monthly, findings are reported to line supervisors, and the accounts are reconciled monthly."

Auditors' Concluding Comment: Completion of the required fund audit checklist would have disclosed the need to reconcile the variances in clients' funds records in a more timely manner.

Monitoring Community Training Homes Providers:

Criteria: Community Training Home (CTH) providers should complete and submit monthly attendance sheets for Medicaid eligible clients in accordance with the Home and Community Based (HCB) waiver guidelines. Also, DMR has a prescribed contract form for CTH providers.

Condition: Four (4) out of a possible 238 attendance sheets for the month of May 2001 had not been submitted and three (3) attendance sheets out of a possible 239 for the month of June 2001 had not been submitted.

Effect: Medicaid claims can not be processed for eligible providers who do not submit attendance sheets. Therefore the State did not receive Medicaid reimbursement for services in these homes in seven (7) instances. We did not attempt to compute the amount of lost revenue.

Cause: Management has determined that it is not cost effective to apply the limited personnel resources to follow-up on providers that did not submit attendance sheets.

Recommendation: Management should follow-up on providers that do not submit attendance sheets in a timely manner. (See Recommendation 10.)

Agency Response: "The Department is currently in the process of automating the CTH attendance function. Automation will allow more timely monitoring and follow-up by DMR Regional staff to identify Community Training Home providers that have not submitted their monthly attendance forms. Automation will also allow a more centralized monitoring by the Department's Central Office. This will resolve the relatively small percentage of CTH attendance that are not billed to the Medicaid Home and Community Based Waiver Program.

As disclosed in the Auditor's report, the Department already achieves a very high percentage of the attendance sheets from CTH providers. The report disclosed that based upon the Auditors tests, that only 4 out of 238 attendance sheets in the month of May 2001, and only 3 out of 239 for the month of June 2001 had not been submitted to the Department by CTH providers. As the Auditors report, only 7 of the 477 attendance sheets during this two month period were not received and could not be billed to the Medicaid Home and Community Based Waiver Program. Putting this into perspective, the Department's CTH billings annually only amount to $5 million. The CTH Program is a relatively small DMR program that is operated by individuals and families in their homes, not private organizations that have administrative offices and staff readily available to process attendance forms."

RECOMMENDATIONS

In our prior report, we presented 13 recommendations. Of these recommendations, three were implemented or no longer applicable, two prior recommendations have been combined leaving nine recommendations repeated from our prior report. One new recommendation is being presented as a result of our current audit.

Status of Prior Audit Recommendations:

- We had recommended that the Department move promptly to create the Ombudsman Office. The Department has implemented this recommendation; the ombudsman position was filled in June 2001.

- We had recommended that cash receipts be deposited and accounted for within the time limits specified in Section 4-32 of the General Statutes. While we noted one (1) instance where a receipt that had been sent to the wrong DMR Regional Office was not deposited within the required time limit, this appeared to be an isolated instance and we are not repeating this recommendation.

- We had recommended that payroll and personnel records be reviewed for accuracy and that time sheets be reviewed by supervisors. We continued to note instances where time sheets had not been signed. Also, there were discrepancies between the payroll (APS) and personnel (MSA) databases. The recommendation is repeated as Recommendation 2 below.

- We had recommended that the Department's policy of lapsing compensatory time should be enforced. We noted one (1) instance during our current audit of failure to lapse compensatory time. The recommendation is restated as Recommendation 2 below.

- We had recommended that more care be used in completing the State Comptroller's GAAP closing forms. We continued to note errors in the financial reports submitted to the State Comptroller; this recommendation is repeated as Recommendation 3 below.

- We had recommended that improvements be made in property control procedures in order to comply with Section 4-36 of the General Statutes and the State's *Property Control Manual*. We continued to note deficiencies which are detailed in the "Condition of Records" section of this report. This recommendation is repeated as Recommendation 4 below.

- We had recommended that the Department improve its software inventory records. We continued to note deficiencies in the software inventory for the Eastern Region, so the recommendation is repeated as Recommendation 5 below.

- We had recommended that cost settlements for private providers be done in accordance with Department procedures. We continued to note deficiencies in monitoring private provider contracts, so the recommendation is repeated as Recommendation 6 below.

- We had recommended that the audit report of the Southbury Training School Foundation include the report on compliance as required by Sections 4-37e to 4-37i of the General Statutes. The Foundation's audit report for the fiscal year ended October 31, 2000 did not contain any mention of compliance with those State statutes, so the recommendation is repeated as Recommendation 7 below.

- We had recommended that the Eastern Region report losses promptly in accordance with Section 4-33a of the General Statutes. We continued to note instances of late reporting of losses, so this recommendation is repeated as Recommendation 8 below.

- We had recommended that DMR case managers comply with the Title XIX asset limitation when making client eligibility determinations. In our testing of client balances during the current audit period, we did not notice any instances where clients had excess assets. The recommendation is not being repeated

- We had recommended that the Eastern Region comply with the Department's *Client Funds Management System Manual*. In our current audit, we noted variances in the client accounts at the Ella Grasso Center in Southwest Region (#4124). For this reason, the recommendation is repeated with slight modification as Recommendation 9 below.

- We had recommended that managers follow-up on community training home providers that do not submit attendance sheets in a timely manner. We continued to note that a few providers had not submitted attendance sheets, so the recommendation is repeated as Recommendation 10 below.

Current Audit Recommendations:

1. **The Department should comply with State statutes and policies for processing expenditure transactions**.

   Comment:

   We noted instances where bids were not obtained and vendor payments were made late.

2. **Payroll and personnel records should be reviewed for accuracy and time sheets**

should be reviewed by supervisors.

Comment:

We continued to note instances where time sheets had not been signed. Also, there were discrepancies between the payroll (MSA) and personnel (APS) databases.

3. **More care should be used in completing the State Comptroller's financial reporting forms.**

Comment:

We had noted errors in reporting petty cash, cash in bank and equipment inventory.

4. **The Department should comply with Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual* by improving its property control records.**

Comment:

During our physical inventory, we were unable to locate equipment items. Also, some items had not been tagged.

5. **The Department should improve its software inventory records.**

Comment:

The software inventory for the Eastern Region (#4123) was incomplete.

6. **Cost settlements for private provider contracts should be done in accordance with Department procedures.**

Comment:

We had noted seven (7) instances of miscalculations and one (1) private provider audit report submitted late.

7. **The management of the Southbury Training School Foundation should require their auditors to include the report on compliance with Sections 4-37e to 4-37i of the General Statutes in their audit report.**

Comment:

The Foundation's audit report for the fiscal year ended October 31, 2000 did not contain any mention of compliance with Sections 4-37e to 4-37i of the General Statutes.

8. The Eastern Region should report promptly all losses to both the Auditors of Public Accounts and the State Comptroller as required by Section 4-33a of the General Statutes and the State of Connecticut's *Property Control Manual* and DMR policy.

Comment:

There were instances where losses were not promptly reported.

9. The Southwest Region (#4124) should follow the Department's *Client Funds Management System Manual*.

Comment:

We had noted variances in the accounting for clients' money.

10. Management should follow-up on providers that do not submit attendance sheets in a timely manner.

Comment:

We sampled the months of May and June 2001 and noted that several providers had not submitted attendance sheets.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Mental Retardation for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Mental Retardation for the fiscal years ended June 30, 2000 and 2001, 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 Mental Retardation 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 Mental Retardation is the responsibility of the Department's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, 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 Mental Retardation is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Mental Retardation's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants.

We believe the following findings represent reportable conditions: payroll and personnel records were inaccurate; exceptions were noted in the expenditure process; errors were noted in reported financial information; and improvements were needed in monitoring community training home providers.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency'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

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Mental Retardation during the course of our examination.

Thomas Willametz
Administrative Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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