STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF MENTAL RETARDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

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

Table of Contents

August 25, 2004

AUDITORS' REPORT
DEPARTMENT OF MENTAL RETARDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

We have examined the financial records of the Department of Mental Retardation for the fiscal years ended June 30, 2002 and 2003. 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.

During the audited period, the Department consisted of a Central Office located in Hartford, Southbury Training School and five regional offices as follows:

Northwest Region- Waterbury
North Central Region- Farmington
Eastern Region- Norwich
Southwest Region- Bridgeport
South Central Region- Wallingford

As of July 2003, the Department consolidated its five regional offices into three as follows:

North Region- Farmington
South Region- Wallingford
West Region- Waterbury

The client caseload of the Department was 14,580 as of June 30, 2002, and 14,667 as of June 30, 2003. 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,	
	2002	**2003**
Clients in public residential settings	2,076	2,028
Clients in private residential settings	4,697	4,706
Clients awaiting residential placement	1,665	1,770
Clients in public day programs	922	909
Clients in private day programs	7,152	7,110
Clients awaiting placement in day programs	150	156
Clients living at home	7,666	7,781
Families receiving support grants during the past year	1,146	1,143
Children receiving public Birth to Three services	920	727
Children receiving private Birth to Three services	4,056	5,367

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, 2003, the following were members of the Council:

David Hadden, Chairman
Stuart Brown, Vice Chairman
Cynthia Stramandinoli, Secretary
Philip K. Bondy, MD

Karen R. Hlavac

Fritzie Levine
Albert Lognin
Michael J. O'Toole, Sr.
Patti Silva
Edward D. Whalen
Robert Wood
Two vacancies

Others who served on the Council during the audited period were Richard C. Brown, T. Kevin Cleary, Ann Dougherty, Christine Hart, MD, Shiela S. Mulvey and Eleanor N. Steele.

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

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

Section 17a-215a of the General Statutes authorizes the Advisory Commission on Services and Supports for Persons with Developmental Disabilities. The Advisory Commission has 27 members and 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, 2003, the 27 members of the Advisory Commission were:

Steven Staugaitis, designee of the Commissioner of Mental Retardation, Co-Chairperson
Margaret Casciato, Co-Chairperson
Senator Catherine Cook
Senator Mary Ann Handley
Representative Theresa Gerratana
Janine Braun, Governor's representative
Ann Foley, designee of Secretary of the Office of Policy and Management
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
Terry Cassidy
Karen Charest
Ann Dandrow
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 for the two fiscal years covered by this audit are summarized below, with amounts for the 2000-2001 fiscal year presented for comparative purposes:

	Fiscal Year Ended June 30,		
	2001	**2002**	**2003**
Rental of land, cottages or residences	$ 143,995	$ 156,384	$ 149,009
Refunds of prior years' expenditures	175,957	146,297	185,543
Refunds of current appropriations	804,655	862,424	1,139,822
Restricted contributions, Federal	8,994,979	10,004,392	7,210,132
Restricted contributions, other than Federal	390,510	253,626	127,850
All other revenue	44,903	35,275	38,821
Total General Fund Revenue and Receipts	**$10,554,999**	**$11,458,397**	**$8,851,177**

The major portion of receipts during the audited period consisted of restricted grants and 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.

The increase of approximately $900,000 in total General Fund revenue and receipts for the 2001-2002 fiscal year was mainly due to an increase in funding under the Federal program, Grants for Infants and Families with Disabilities (CDFA#84.181). Funding for the program for the 2001-2002 fiscal year was approximately $4,100,000 as compared to nearly $3,500,000 for the preceding year.

The decrease of approximately $2,600,000 in General Fund revenue and receipts for the 2002-2003 fiscal year was due to the decrease in the receipt of Social Services Block Grant funds. There was an overall decrease in funding combined with a delay of approximately $1,700,000 in grant monies that was not received until the 2003-2004 fiscal year. SSBG funds received totaled, approximately, $4,800,000 and $1,700,000, respectively, for the audited period.

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 2000-2001 fiscal year presented for comparative purposes:

	Fiscal Year Ended June 30,		
	2001	**2002**	**2003**

Budgeted Accounts:			
Personal services	$260,799,441	$273,471,423	$271,410,925
Contractual services	360,547,651	394,259,191	413,045,509
Commodities	9,918,428	9,799,784	9,700,438
Workers compensation	11,923,620	11,108,144	12,990,098
Other sundry charges	1,213,267	1,905,302	1,773,229
Fixed charges	10,232,928	10,741,711	10,988,397
Equipment	63,164	57,860	55,459
Total Budgeted Accounts	654,698,499	665,343,415	719,964,055
Restricted Accounts:			
Federal accounts	9,837,148	8,845,301	9,037,951
Other than Federal accounts	243,737	307,204	226,246
Total Restricted Accounts	10,080,885	9,152,505	9,264,197
Total Expenditures	**$664,779,384**	**$710,495,920**	**$729,228,252**

Personal services increased by approximately $12,500,000 for the 2001-2002 fiscal year due to general wage increases. The slight decrease for the 2002-2003 fiscal year was the result of any wage increases offset by layoffs and the early retirement program which decreased the number of full-time filled positions from 4,367 as of June 2002, to 3,696 as of June 2003.

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. The increase in contractual services during the audited period can be attributed to provider rate increases and increases in placing clients in programs.

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, 2003, are summarized below:

	Average per Capita Costs			
	In-Patient		Group Homes	
	Daily	Annual	Daily	Annual
Northwest Region	$648	$236,520	$529	$193,085
North Central Region	703	256,595	592	216,080
Eastern Region	1,048	382,520	622	227,030
Southwest Region	593	216,445	583	193,450
South Central Region	626	258,055	599	218,635
Southbury Training School	726	264,990	(not applicable)	

Community Residential Facility Revolving Loan Fund:

The Community Residential Facility Revolving Loan (6851) Fund 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,	
	2002	2003
Loans outstanding, beginning of year	$9,567,847	$9,524,136
Add: New loans made	155,491	527,114
Add: Accrued interest	28,299	1,629
Less: Principal repayments	226,832	589,859
Loans outstanding, end of year	**$9,524,136**	**$9,463,020**

Revenues of the Fund consisted primarily of interest income and totaled $560,828 and $563,282 during the fiscal years ended June 30, 2002 and 2003, 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 totaled approximately $3,800,000 as of June 30, 2003.

Program Evaluation:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. The 2003 Session of the General Assembly passed Public Act 03-203, “An Act Concerning Criminal History Records,” effective October 1, 2003. The Act had two major parts. First it required applicants for employment in DMR programs to submit to a check of their State criminal background. The checks are specifically for applicants who have direct and ongoing contact with clients. Second, it required the Agency to prepare a report outlining certain issues regarding a proposal to require each applicant to submit to a national criminal history records check. We note that State and national criminal history checks are currently required for prospective employees of a child day care center or group home day care under Section 19a-80, subsection (c), of the General Statutes. The report was due to the General Assembly as of January 1, 2004. Our program evaluation reviewed the status of the Agency’s compliance with the above Act.

The Department issued a policy, effective July 1, 2002, requiring a documented review of criminal history records for all new employees who will have direct and ongoing contact with individuals who receive services or support from the Department. This includes both Agency employees and employees hired by private providers contracting with DMR. The policy details the factors to be considered and types of criminal offenses requiring special review before making a decision to hire an applicant. The above Act made the State criminal history check statutory law to avoid any legal challenges.

The Department currently runs its State criminal history checks through the "CTSAFEHIRE" system where an application must be filled out and the applicant must go to the Department of Public Safety (DPS) for fingerprinting. Providers using CTSAFEHIRE are not charged. The Department has been averaging 60 checks a month through its system consisting of new DMR employees and employees for a few private providers. Providers may also directly contact DPS or use a private company for background checks.

The Department's report on implementing national criminal history checks was not issued until April 2004. The Agency indicated that the delay was due to a lack of resources and other matters receiving priority.

The Department's report concluded that a National Criminal History Information (NCHI) check should become a part of the employment process for persons employed by programs involving direct contact with clients. However, implementation may take several years due to several issues. First would be the adoption of legislation requiring each applicant for employment to undergo a NCHI check and allow the Department to deny licensure or take action against any individual or provider that has a criminal record. Also, it was suggested that any legislation should be reviewed by the United States Department of Justice to ensure that accessing the NCHI data base for job applicants would be appropriate.

The report noted that the implementation of a NCHI may take about two years since it will rely on advanced technology. This begins with "Live Scan" technology replacing the manual taking of finger prints. Live Scan electronically records fingerprints and allows them to be transmitted to and from a national database. The report states that Live Scan is currently available in selected State Police Barracks as well as other locations. The next phase involves the implementation of the Automated Fingerprint Information System (AFIS) and the software and testing necessary to make it a reliable and responsive system for conducting employment screening. The system would be connected to the central FBI system in Washington. The AFIS will first be used for law enforcement purposes and discussions with the Department of Public Safety indicated it will take 12-18 months to get AFIS operational. After that, AFIS could be used for applicant checking.

The report also reviewed the fiscal impact on the State of an NCHI check system. It is projected that the number of employees needed would expand from one to at least four within DMR plus at least one additional employee at the Department of Public Safety. Once in service, it is estimated that the system would need to check 15,000 applicants per year. The Federal government charges a $24 fee for each NCHI check. At this time, there are several options regarding the fee; State payment, employee payment or payment as part of an applicant fee. The report estimates that the amount of NCHI fees for DMR would total some $173,000 annually. In addition, the report estimates if State processing fees were passed on for all applicants, the annual cost would be $180,000. As mentioned earlier, DMR is not assessed for State criminal history checks through the CTSAFEHIRE system currently used.

In conclusion, although several months late in issuing a report, it appears that the Department has taken appropriate action to comply with Public Act 03-203. The Act is a first step toward developing a more comprehensive, national check of all DMR applicants.

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. Section 4-213 of the General Statutes states that no State agency may hire a personal service contractor without executing a personal service agreement with such contractor.

2. Standard procedures for the State of Connecticut Purchasing Card Program require the maintenance of a monthly purchasing log for each card to record purchases. The log must be signed by the cardholder and their supervisor or an assigned reviewer.

3. Department of Administrative Services (DAS) General Letter 71 applies to purchases not on State contracts. It specifies purchases over $2,500 and under $10,000 must be based upon, whenever possible, at least three quotations or bid, from qualified and responsible sources of supply.

Conditions:

1. Contracts signed late - Our review of expenditures at the Department of Mental Retardation (DMR) showed numerous cases where personal services contracts were not properly executed until after the start of the contract. Our test sample for the DMR-Central Office, Southwest and Eastern Regions showed 22 out of 45 personal service agreement contracts were not signed by all parties until after the contract started. The start dates, as compared to the dates the contracts were signed by all the required parties, ranged from four days to almost six months. 13 of the 22 personal service agreement contacts were not completely signed within a month of the contract start date.

2. South Central Region - Our test check showed that a majority of approximately $30,000 in purchasing card expenditures, during August 2002, did not have a supervisor's required signed approval on the purchasing log sheet.

3. Eastern Region -

a. Incorrect Purchasing Authority Reference- The Region incorrectly referenced DAS General Letter 71 as the purchasing authority for several transactions. At the time of the purchases, the vendors were under a DAS State contract.

b. Lack of bids - A group home purchased a whirlpool bathtub directly from a vendor for $7,427 without obtaining three bids.

c. Lack of purchasing card log sheet signatures- Our test showed numerous cases where either the supervisor's or the employee's signature was missing from the purchasing log sheet. Also, we noted four receipts were missing to document purchasing card purchases totaling $1,601.

.

Effect: Expenditure transactions are not being documented in accordance with State policies and procedures. The lack of timely signed contacts also subjects the State to unnecessary risk regarding contractor compliance.

Cause: There appears to be a general lack of oversight to ensure complete and timely documentation and authorization for expenditure transactions.

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

Agency Response: "The Department will comply with all State statutes and policies for processing expenditure transactions. We will make every attempt to have our contracts signed prior to having services rendered. We will also utilize multi-year contracting in order to have signed contracts. However, there are some circumstances where we need to provide necessary services to the clients and in unique instances, a contract might not be able to be signed before services begin (although these should be only the exceptions, not the norm).

Our purchasing card procedures in the South Region (former South Central and southern portion of Eastern Region) have been revised and our public residential staffs have been in-serviced to the new procedures. We have also implemented a Business Office review of all submitted documentation which will monitor and address all procedural aspects of the problem (i.e. missing signatures).

The whirlpool tub that needed replacing had repeated repair issues due to the regular use with medically fragile individuals and due to too many special features on the tub that resulted in more frequent repair calls. The group home tried a demo tub which worked out well, but a height adjustable tub was needed. The Height Adjustable Tub met the home's needs; the price was reasonable; therefore we purchased the tub. The Region did not feel, after testing the replacement tub, that bidding would yield a better solution at a significant savings and that the Region would only further delay a potential health and safety issue. In the future, unless it is an emergent/urgent situation, the Department will follow General Letter 71 with respect to bidding for purchases."

Payroll and Personnel Records:

Criteria: 1. Leave records should be accurate and in accordance with State contracts.

2. Section 5-237-1 (a)(4) of the State Personnel Regulations requires for each permanent employee, an annual service rating at least three months prior to the employee's annual increase date.

Conditions: 1. Central Office - In testing for employee performance reviews, ten out of 15 employees sampled had not received a performance review within 15 months of the test date, November 2003. Seven of the ten were beyond two years without a review on file.

Three employees out of 20 in our sample had a balance of compensatory time that was continued beyond the six months specified in the P-1 Health Care contract.

2. North Central Region - Three out of 25 employees sampled had incorrect vacation accruals. We also noted that another employee incorrectly accrued vacation time for 28 months until the Agency detected and corrected it.

Effects: The attendance records were inaccurate and a lack of timely review of employee performance.

Cause: The causes for the above were not determined.

Recommendation: The accuracy of attendance records should be improved and employee performance reviews should be done on a timely basis. (See Recommendation 2.)

Agency Response: "The Department agrees with the finding. The issue of DMR Central Office employee evaluation program is an area that we recognized that needed improvement and that we have been working towards compliance with requirements in this area for the past two years. Supervisors have been provided with appropriate forms, have received training in performance evaluation processes, and have been issued ongoing reminders of evaluations needed for subordinate employees. We have re-directed our attention to the evaluation process with the goal of full compliance during the upcoming rating periods.

The issue of outstanding P-1 compensatory time balances due for payoff is being resolved at this time. *Article 13 Section Four (4) of the District 1199 contract states that In the event the employee fails to schedule the compensatory time, the Agency shall either schedule the time or, with permission of the Office of Policy and Management, pay the compensatory time within the fourth month.* The CORE-CT system now automatically tracks the compensatory time and will remove the balances when the required period of time to use expires. We are currently requesting permission to pay for the unused comp time balances that are currently owed, and will encourage managers to ensure that employees use any accrued compensatory time within the time periods designated.

During the audit review in DMR North Central Region, at the request of the Audit team, the Regional Payroll Supervisor conducted a review of the Auditors findings (which involved various questions for approximately 25 employees). Errors discovered in the audit for the three employees were corrected. The errors uncovered in the 2002/2003 audit were caused by a variety of factors, but mainly due to an inadequate system of controls. The former time and attendance system in CAMRIS neither tracked when accruals should be increased nor addressed the proper rates of accruals, which left the responsibility for monitoring these issues to a manual system. Now that CORE-CT has been implemented, there is a field in the system that will automatically increase vacation accruals at the appropriate time, based on standard rules processing built into the system. A service date audit will be completed over the next few months and from that point forward, accruals will be automated (which should eliminate posting errors in accrued leave balances)."

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.

Conditions: 1. Southwest Region - The Region was unable to provide the annual property control report and supporting documentation for the 2001-2002 and 2002-2003 fiscal years.

2. South Central Region - Seven out of ten items physically tested were not posted to inventory records, a physical inventory was not done for June 30, 2003, and the annual inventory report was submitted nearly two months late.

3. Northwest Region - Our review, as of February 2004, showed that current property control records were unavailable since the records had not been updated in over a year.

4. Eastern Region - Amounts reported on the annual inventory report were not completely documented. Nine out of 25 equipment items could not be located during our physical inspection of equipment items. One item, a sterilizer, costing $2,525 was found not tagged and in its original package.

5. Central Office - Annual property inventory reports were submitted over a month and four months late for the June 30, 2002 and June 30, 2003 reporting dates, respectively. We also noted that amounts reported under the Furnishings and Equipment and Stores and Supplies categories were not adequately supported.

Six out of ten purchases sampled from the 1872 Fund were not included on the property control record.

6. North Central Region - The annual property inventory report was submitted nearly four months late. Six equipment purchases in our expenditure test, totaling $64,696, were not recorded on the property control record.

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 continued to be 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 3.)

Agency Response: "The Department agrees with the finding. We will make every effort to comply with Section 4-36 of the General Statutes and the *Property Control Manual*. The Department is currently making every effort with the limited staffing resources that we currently have to make the property control system a priority. We are in the process of working on updating and transitioning the property control system from CAMRIS to CORE-CT. It is our expectation that, while CORE-CT may be labor intensive at the onset, the new system will enable us to be more pro-active in the property controls going forward."

Southbury Training School Foundation:

Criteria: Sections 4-37e to 4-37j of the Connecticut General Statutes contain certain compliance requirements for foundations that are affiliated with State agencies.

Condition: Southbury Training School has an affiliated foundation, The Southbury Training School Foundation, Inc. We found the following lack of statutory compliance after reviewing independent audit reports on the Foundation for the fiscal years ended October 31, 2001 and 2002:

1. There were no signed letters on file by the Southbury Training School's executive authority indicating review of the audit reports as required by Section 4-37g, subsection (b), of the General Statutes.

2. The financial statements in the audit reports were prepared on a cash basis which is not in accordance with generally accepted accounting principles as required by Section 4-37f, subsection (7), of the General Statutes.

3. The independent audit reports did not include a management letter as required by Section 4-37f, subsection (8), of the General Statutes.

4. The reports' audit opinions did not address conformance of the operating procedures of the Foundation with the provisions of Sections 4-37e to 4-37i, inclusive of the General Statutes, and any recommendations for corrective actions needed to ensure such conformance. This is required by Section 4-37f, subsection (8), of the General Statutes. A similar finding was presented in our prior report.

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

Cause: The cause was not determined.

Recommendation: The management of the Southbury Training School Foundation should ensure compliance with Sections 4-37e to 4-37i of the General Statutes concerning independent audits of the Foundation. (See Recommendation 4.)

Agency Response: "The Department has requested an informal opinion from the Attorney General's Office regarding if the Sections 4-37e to 4-37j of the General Statutes pertain to the Southbury Training School (STS) Foundation. Our question is how the STS Foundation is different from other non-profit organizations that the State contracts with. Also the statutes would appear to be applicable only to Higher Education State Agencies, such as the University of Connecticut, its branches, state colleges, technical schools, etc, and would not appear to be applicable to State agencies, such as DMR. We believe that the STS Foundation is not a "constituent unit" as defined in Sec 10a-1 and as referenced in Sec 4-37e, et seq."

Auditors' Concluding Comment: Unless a contrary opinion is presented by the Attorney General's Office, we continue to recommend that the Agency should ensure that the independent audits of the Foundation are in compliance with Section 4-37e to 4-37i of the General Statutes.

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: Our test check showed nine out of 200 attendance sheets sampled during the audited period 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 nine 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 Community Training Home providers that do not submit attendance sheets in a timely manner. (See Recommendation 5.)

Agency Response: "The Department is currently in the process of piloting an automated system for the submission of monthly census on the CTH program. We are planning to go live with the June 2004 reports which are submitted in July 2004. For the submissions as they were reviewed in fiscal year 2002 and 2003, the Department's case managers solely used phone contact only to reach CTH providers and subsequently report the attendance. The new automated system will allow timelier monitoring and follow-up on late submissions of attendance data. In the meantime, before implementing the automated system, the Department is concurrently reviewing the submission of attendance forms manually to ensure timely submission. "

Fiduciary Funds:

Criteria: 1. Section 2-90, subsection (g), of the General Statutes requires each State agency to make all records and accounts available to the Auditors of Public Accounts on demand.

2. The State Comptroller's Accounting and Procedures Manual for Activity and Welfare Funds requires the preparation of a comparative balance sheet for Activity Funds at the close of the fiscal year.

3. Client's monetary assets cannot exceed $1,600 in order to continue individual client Title XIX coverage.

4. Proper internal control requires a separation of duties over the depositing and reconciling of receipts

Condition: 1. South Central Region - The Region was unable to provide us with the Clients' Fund ledger for the 2001-2002 fiscal year. As of June 30, 2002, the balance of clients' funds was $65,383.

2. Eastern Region - A comparative balance sheet was not prepared for the Region's Activity Fund for the fiscal year ended June 30, 2003.

3. North Central Region - We noted that 38 out of 556 and 31 out of 572 clients as of June 30, 2002 and 2003, respectively, had Clients Fund savings balances in excess of $1,600.

4. Southwest Region - Our review of internal controls found a lack of separation of duties in that the same employee was responsible for receiving, depositing and reconciling all Fiduciary Fund receipts.

Effect: 1. The Agency did not comply with Section 2-90 of the General Statutes by not having certain records available for audit.

2. The Agency did not comply with the State Comptroller's procedures for financial reporting.

3. The Agency's lack of monitoring client assets could result in the loss of Federal funding for medical assistance for clients with assets in excess of $1,600.

4. A lack of separation of duties may result in undetected losses.

Cause: The causes for the above conditions were not determined.

Recommendation: The Department should improve oversight over Fiduciary Funds. (See Recommendation 6.)

Agency Response: "The Department agrees with the finding and takes the finding very seriously. The DMR North Region (former North Central Region and northern half Eastern Region) will revise and improve its monitoring procedures effective July 1, 2004. Client balances will be reviewed for clients with balances over $1,200 on a monthly basis. Case managers and Residential Management will be notified of clients meeting this criteria. A second list of clients will be shared with balances greater than $1,400, will be forwarded to staff with a request to develop a spending plan based on individuals needs. Clients with balances greater than $1,600 will brought below the cap by returning funds to the Department of Administrative Services towards cost of care, where applicable. The thorough review of client asset balances will be completed in all Regions to ensure that asset levels do not exceed the asset limit.

The South Region (former South Central Region and southern half of Eastern Region) has begun using QuickBooks for maintaining client funds, which will provide better monitoring than the manual ledger that was used previously. All records that include balance information will also be readily available upon request. All Regions are currently using QuickBooks to maintain the client funds which should provide a client funds accounting report. All manual ledgers previously used have been converted to computerized systems. The balance of the clients' funds included in the audit finding of $65,383 is an accurate balance total for the clients as of June 30, 2002, reconciles to the CAMRIS balance as of the same date, and individual client balances which total the $65,383 was available at the time of the audit.

Additionally the West Region (former Southwest Region and former Northwest Region) has reassigned/realigned fiscal staff to allow for the proper separation of responsibilities."

RECOMMENDATIONS

Our prior report on the Department of Mental Retardation covered the fiscal years ended June 30, 2000 and 2001 and contained ten recommendations. The following is a summary of those recommendations and the action taken by the Department of Mental Retardation.

Status of Prior Audit Recommendations:

- The Department should comply with State Statutes and policies for processing expenditure transactions. This recommendation is repeated. (See Recommendation 1.)

- Payroll and personnel records should be reviewed for accuracy and time sheets should be reviewed by supervisors. This recommendation has been repeated in a modified form due to current findings (See Recommendation 2.)

- More care should be used in completing the State Comptroller's financial reporting forms. This recommendation has been resolved.

- 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. This recommendation is repeated (see Recommendation 3.)

- The Department should improve its software inventory records. This recommendation has been resolved.

- Cost settlements for private provider contracts should be done in accordance with Department procedures. This recommendation has been resolved.

- 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. This recommendation is being repeated. (See Recommendation 4.)

- 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. This recommendation has been resolved.

- The Southwest Region should follow the Department's *Client Funds Management System Manual*. This recommendation has been resolved although we note another matter of concern concerning internal controls over the Region's fiduciary funds. (See Recommendation 6.)

- Management should follow-up on providers that do not submit attendance sheets in a timely manner. This recommendation is being repeated. (See Recommendation 5.)

Current Audit Recommendations:

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

   Comment:

   We noted numerous instances where contracts were not signed on a timely basis and a lack of signed approval of purchasing card transactions.

2. **The accuracy of attendance records should be improved and employee performance reviews should be done on a timely basis.**

   Comment:

   Employee performance reviews for the Central Office were not done on a timely basis and instances were noted of incorrect attendance accruals.

3. **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:

   Annual inventory reports were not always submitted on a timely basis to the Comptroller and amounts reported were not always documented. During our physical inventory, we were unable to locate equipment items.

4. **The management of the Southbury Training School Foundation should ensure compliance with Sections 4-37e to 4-37i of the General Statutes concerning independent audits of the Foundation.**

   Comment:

   The Foundation's audit report for the fiscal years ended October 31, 2001 and 2002, lacked compliance with Sections 4-37e to 4-37i of the General Statutes.

5. **Management should follow-up on Community Training Home providers that do not submit attendance sheets in a timely manner.**

   Comment:

   Our sample showed that several providers had not submitted attendance sheets in over four percent of the cases in our sample. The lack of attendance sheet documentation prevents the State from applying for Federal reimbursement.

6. **The Department should improve oversight over Fiduciary Funds.**

   Comment:

   We noted several deficiencies at the Regions concerning Fiduciary Funds This includes a missing Clients' Fund ledger at the South Central Region, lack of separation of duties at the Southwest Region and numerous clients at the North Central Region with balances in excess of $1,600 making them ineligible for Title XIX funds.

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, 2002 and 2003. 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, 2002 and 2003, 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, 2002 and 2003, 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 our findings regarding property control represents a reportable condition.

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 the reportable condition described above is not 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.

Donald Purchla
Principal Auditor

Approved:

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

41000-03.rpt