STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF DEVELOPMENTAL SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007

AUDITORS OF PUBLIC ACCOUNTS

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October 2, 2009

AUDITORS' REPORT
DEPARTMENT OF DEVELOPMENTAL SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007

We have examined the financial records of the Department of Developmental Services for the fiscal years ended June 30, 2006 and 2007. This report includes our audit of the records of the Central Office and the Department's three Regional Offices. 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 Developmental Services (DDS) 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 of Developmental Services was formerly known as the Department of Mental Retardation until the Department's name was changed with the passage of Public Act 07-73, effective October, 1, 2007.

The Department is organized into three geographical regions and is administered out of the Central Office in Hartford. The three geographical regions and headquarters are as follows:

North Region- East Hartford
South Region- Wallingford
West Region- Waterbury

The West Region includes the Southbury Training School. The North Region includes the northeastern part of the State and the South Region includes the southeastern part of the State.

The client caseload of the Department was 15,018 as of June 30, 2006, and 15,148 as of June 30, 2007. 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,	
	2006	**2007**
Clients in public residential settings	1,790	1,744
Clients in private residential settings	4,982	5,036
Clients awaiting residential placement	1,921	1,986
Clients in public day programs	740	717
Clients in private day programs	6,952	6,887
Clients awaiting placement in day programs	228	248
Clients living at home	8,081	8,235
Families receiving support grants during the past year	3,525	4,123
Children receiving public Birth to Three services	542	467
Children receiving private Birth to Three services	3,959	4,649

Council on Developmental Services:

There is also a Council on Developmental Services, 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 Developmental Services. The Council may also recommend legislation to the Governor and the General Assembly. As of June 30, 2007, the following were members of the Council:

Stuart Brown, Chairman
David Hadden
Karen R. Hlavac
Dorothy P. Mobilia
Michael J. O'Toole, Sr.
Patti Silva
Edward D. Whalen
Robert Wood
Kevin Morey
Michael Keenan, MD
Chavis Chappell (deceased March 2008)
Louis Richards

Jennifer Carroll

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

RÉSUMÉ OF OPERATIONS:

General Fund Revenues and Receipts:

General Fund revenues and other receipts of the Department of Developmental Services were $324,629 and $361,702 for the 2005-2006 and 2006-2007 fiscal years, respectively. A major portion of receipts, $147,530 and $104,520, respectively, was from the rental of cottages or residences.

General Fund Expenditures:

General Fund expenditures of the Department of Developmental Services are summarized below:

	Fiscal Year Ended June 30,		
	2005	**2006**	**2007**
Personal Services and Employee Benefits:			
Salaries and Wages	$264,385,164	$272,582,708	$285,730,312
Workers' compensation	13,643,903	13,160,121	14,012,761
All other	662,774	919,864	846,562
Total Personal Services and Employee Benefits	278,691,841	286,662,693	300,589,635
Purchases and Contracted Services:			
Professional, scientific and technical services	7,823,575	6,154,067	9,378,994
Client services	438,557,842	490,964,391	526,431,075
Premises and property expenses	8,885,970	11,244,976	11,149,085
Purchased commodities	6,384,332	7,110,169	7,152,074
Fixed charges	5,509,539	8,976,988	4,815,473
All other	6,610,277	9,137,025	11,083,466
Total Purchases and Contracted Services	473,771,535	533,587,616	570,010,167
Total Expenditures	**$752,463,376**	**$820,250,309**	**$870,599,802**

Overall Department General Fund expenditures increased by $67,786,933 and $50,549,493, or approximately nine and six percent for the 2005-2006 and 2006-2007 fiscal years, respectively. The above increases can mainly be attributed to increases in salaries and wages and client services.

Personal services increased by approximately three and five percent for the 2005-2006 and 2006-2007 fiscal years, respectively, while client services increased by 12 and seven percent respectively for the same period.

The increases in personal services were the result of annual collective bargaining increases and the refilling of certain positions and additional funding for settled contracts during the 2006-2007 fiscal year. As of June 30, 2007, there were 3,995 filled full-time positions and 612 filled part-time positions.

Client services consist of payments to private providers for services to the Department's clients. DDS clients receive residential, employment and day services through the private providers. The increase in client services during the audited period can mainly be attributed to cost of living increases for private provider employees. An additional factor for increasing costs was from the Voluntary Services Program (VSP) which serves children with intellectual disabilities. In July 2005, the Department of Children and Families (DCF) and DDS signed an interagency agreement to transition children with intellectual disabilities from DCF to DDS and also for DDS to serve any new children entering into the program.

Special Revenue Fund- Federal and Other Restricted Accounts:

Special Revenue Fund receipts, totaled $11,093,044 and $8,766,950 for the fiscal years ended June 30, 2006 and 2007, respectively.

A summary of the Department’s Special Revenue Fund expenditures follows:

	2004-2005	2005-2006	2006-2007
Personal Services and Employee Benefits	$2,853,138	$2,945,675	$3,177,711
Purchases and Contracted Services:			
Board and care of clients	2,855,501	1,898,607	1,497,449
Client services-general	3,412,767	2,642,289	3,580,793
All other purchases and contracted services	1,136,522	1,679,997	1,410,230
Total Purchases and Contracted Services	7,404,790	6,220,893	6,488,472
Total Expenditures	**$10,257,928**	**$9,166,568**	**$9,666,183**

The major sources of receipt and disbursement activity in the Special Revenue Fund are from two Federal programs, Grants for Infants and Families with Disabilities (CDFA#84.184) and the Social Services Block Grant (CDFA#93.667).

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, 2007, are summarized below:

	Average per Capita Costs			
	In-Patient		Group Homes	
	Daily	Annual	Daily	Annual
West Region	$763	$278,495	$670	$244,550
North Region	920	335,800	782	285,430
South Region	1,169	426,685	807	294,555
Southbury Training School	952	347,480	(not applicable)	

Community Residential Facility Revolving Loan Fund:

The Community Residential Facility Revolving Loan Fund is authorized by Sections 17a-220 through 17a-225 of the Connecticut General Statutes. The Fund was established for the Department to 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 a rate of six percent.

As of June 30, 2007, the Fund had an outstanding balance of $13,810,684 in loans for community residential facilities. New loans granted totaled $1,302,218 and $1,964,160 for the 2005-2006 and 2006-2007 fiscal years, respectively.

Revenues of the Fund, consisting primarily of principal and interest income on residential community loans, totaled $1,540,471 and $1,280,955 during the fiscal years ended June 30, 2006 and 2007, respectively. The Fund had a cash balance of $1,087,059 as of June 30, 2007.

Fiduciary Funds:

The Department's 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 $3,593,930 as of June 30, 2007.

CONDITION OF RECORDS

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

Expenditure Matters:

Criteria:

1. Personal Service Agreements- 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. In addition, Office of Policy and Management (OPM) policy for personal service agreements requires State agencies to prepare a written evaluation of the contractor's performance on a form prescribed by OPM.

2. Department of Administrative Services (DAS) General Letter 71- General Letter 71 specifies that purchases over $2,500 and under $10,000 must be based upon, whenever possible, at least three quotations or bids, from qualified and responsible sources of supply. Emergency purchases exceeding $10,000 must be directed to DAS or DOIT for processing through a Standardization Transaction Request or a waiver of the competitive procurement process. The authority is not intended for repetitive purchases; those needs should be obtained by using a State contract.

3. Purchase Orders- Section 4-98 of the General Statutes states that "except for such emergency purchases as are made by a budgeted agency…no budgeted agency…shall incur any obligation, by order, contract or otherwise, except by the issue of a purchase order…"

4. Rent Subsidy- Rent subsidies for clients should be calculated in accordance with DDS procedures for the Community-Based Housing Subsidy Program and be supported by applicable documentation such as wage stubs and monthly utilities invoices.

The Department's application form for the Community-Based Housing Program requires all rent subsidy recipients to apply to the Department of Social Services (DSS) for cash assistance. The residential service provider may be required to submit proof of application for DSS cash assistance or documentation from DSS that cash assistance has been denied.

5. Fiscal Intermediaries (FI) - DDS contracts with private vendors to act as fiscal intermediaries to handle funds awarded by DDS to individuals and families. Such awards are called Individual Support Agreements (ISA).

All ISA contracts should be available on file and approved before the service start date.

Sound internal control procedures require documenting that clients actually received the services billed to their budgets and reports submitted by the fiscal intermediaries be reviewed. Expenditures reported on the cost settlement report should be supported by the corresponding FI expenditure ledgers. Any discrepancies between the two reports must be reviewed and documented. In addition, cost reconciliation reports should be standardized to reduce the risk of errors.

Section 4-231 of the General Statutes requires each non-State entity, which expended a total amount of State financial assistance equal to or in excess of $100,000 in any fiscal year, have either a single audit or a program-specific audit conducted for such fiscal year.

6. Individual and Family Grant Agreements- The Department's Individual and Family Grant Agreements stipulate that documentation must be maintained for the items and services purchased with grant funds. Failure to provide documentation of expenditures will result in ineligibility for future grants.

7. Cell phones- According to the Department of Information Technology (DOIT) telecommunications policies and procedures, it is the responsibility of the employee and the agency to verify the accuracy of phone billings and to confirm that the usage was appropriate. Discrepancies or errors should be promptly reported to DOIT.

8. Capital Equipment Purchase Fund- Section 4a-9 of General Statutes states that the Capital Equipment Purchase Fund shall be used for the purpose of acquiring capital equipment with an anticipated useful life of not less than five years from the date of purchase. The State of Connecticut's *Property Control Manual* defines capital equipment as an item with a value of $1,000 or more and a useful life of one year or more.

Conditions: **1. Central Office-**

a) <u>Contracts signed late and lack of contract evaluations</u> - Our sample of ten personal service agreements revealed that four were not reviewed and approved by all involved parties before the contract start date. The four contracts totaled $566,490 and were signed between 18 to 75 days late. In addition, there were five agreements in the same sample where DDS did not complete and submit a personal service evaluation form to

OPM when the contractor's work was completed.

b) Lack of purchase orders- Purchase orders were not created prior to receiving a vendor invoice for nine out of 25 transactions tested.

c) Lack of cell phone monitoring- We continued to note that the Central Office was not completely documenting the review of monthly cell phone bills with instances where the bill was not signed or contained inaccuracies.

2. South Region-

a) Community Training Home (CTH) payments-

A CTH provider submitted an invoice for $8,300 but was paid $8,500 resulting in a $200 overpayment.

A CTH provider was paid $3,776 during July 2006 which included the monthly provider rate and a payment adjustment of $3,099. At the time of our review, the employee responsible for approving the payment was unable to provide the reason or source for the adjustment. We were subsequently informed that it was not an overpayment. It was an adjustment to the stipend rate due to the client having significant challenges that required additional enhanced support.

b) Lack of contract- The Region continued to lease a copier from a vendor after its State contract expired on May 31, 2004. Monthly payments to the vendor totaled $30,733 for the 2005-2006 and 2006-2007 fiscal years and the Region continued to use the vendor without a contract until December 2008.

c) Individual and Family Grant Agreements- Three grant subsidy payments were not supported by reports showing how the grants were spent or the purchase receipts from grantees. We note that, effective May 15, 2008, DDS revised their policies and procedures to require that grantees keep their purchase receipts for three years

3. North Region-

a) Rent Subsidy Program- Five out of 11 rent subsidy payments sampled were not calculated correctly resulting in erroneous payments. The errors resulted in a net overpayment of $1,217 (or seven percent of $16,999 in tested payments).

b) Incorrect Use of Purchasing Authority- Our sample showed the Region incorrectly used General Letter 71A as the purchasing authority for two vendors providing repetitive goods and/or services. One vendor provided a monthly supply of feeding pumps and tubes while the other regularly serviced oil burners. Payments to the vendors for the two year audit period totaled $17,445 and $31,838, respectively.

c) Fiscal Intermediary-

i. Internal Control-

Our review showed internal control weaknesses in the Department's policies and procedures for monitoring entities providing ISA services.

Providers submit monthly invoices for services without verification from the client's family or the DDS case manager.

DDS did not require audited financial statements from the private entities providing residential services to ISA clients. At least approximately 90 percent of the total ISA budgets were for private residential services. The total ISA budgets were $9,877,950 and $14,681,800 for the 2005-2006 and 2006-2007 fiscal years, respectively.

Each of the three fiscal intermediaries had their own cost settlement report format. With the increase in the number of ISAs from 433 to 702 for the fiscal years ended June 30, 2006 and 2007, it is increasingly difficult and time consuming to review the three separate formats.

During the audited period, one of the fiscal intermediaries was required to submit pending payment reports in addition to reports of interest payable. We did not find any evidence that these reports were received or reviewed.

ii. Testing- During our test of ten ISAs, two agreements were approved two months after the service start dates and another agreement was missing and thus, unavailable for review. In reviewing cost settlements of the ten ISAs sampled, we noted a discrepancy where a cost settlement indicated zero dollars while the fiscal intermediary expenditure ledger showed $24,796.

4. West Region-

a) Approval for appropriation transfers- A rent subsidy payment in June 2006, totaling $1,702, including rent for June and July 2006 was charged to the Community Residential Program appropriation instead of the Rent Subsidy Program appropriation. Prior approval was not obtained, as required by Section 4-87 of the General Statutes, to use funds from an appropriation that is unrelated to the cost incurred due to unavailable funds in the proper account. We note that subsequent to our prior audit recommendation on this matter, DDS received approval for such transfers during the 2007-2008 fiscal year.

b) Expenditures lacking documentation or request for cash assistance- Five expenditures in our sample, two for rent subsidy and three for family grants were not in compliance with agency procedures. For the two rent subsidy cases, there was no evidence that the agency applied for cash assistance from DSS for rental expenses. For the three family grants, $3,170 of the $3,400 grant was not supported by receipts on file. Also, the Agency could not locate the original grant application and approval for one of the three.

c) Lack of timely payments- Four out of 25 transactions, totaling $2,197 were not paid within 45 days of receipt of invoice as required by Section 4-71a of the General Statutes.

One of the above four payments, for $65, was for the monthly rental of a storage container that cited General Letter 71a, for purchases under $2,500, as the purchasing authority. That determination was based on cost per location rather than the total paid to the vendor. Payments to the vendor totaled $5,830 and $6,120, for the fiscal years ended June 30, 2006 and 2007, respectively, which would make General Letter 71b applicable, requiring bids or quotations from three vendors.

d) Capital Equipment Purchase Fund- We found that 11 out of 19 Capital Equipment Purchase Fund expenditures tested were incorrectly charged to the Fund during the audited period. Of the 11 questionable expenditures, eight were for repairs or replacement parts to existing equipment while the other three were for items less than $1,000.

There were two other expenditures where we could not determine if they were an appropriate use of the Fund. The agency was unable to determine whether a purchase for an item listed as an "oxygen detection unit", costing $1,406, was either a replacement or new unit. The Agency also purchased an item described as a "booster elect", costing $1,932, but was unable to determine the item's purpose.

Effect: Expenditure transactions are not being documented in accordance with State policies and procedures. This increases the risk of erroneous or improper payments. The lack of timely signed contracts also subjects the State to unnecessary risk regarding contractor compliance. Also, the improper use of the Capital Equipment Purchase Fund is a violation of Section 4a-9 of the General Statutes.

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.

1. Personal Service Agreements (PSA)- We implemented our Personal Service Agreements procedure on May 31, 2005 and updated the procedure effective April 1, 2009 and we believe that we are in full compliance. Many of the issues noted with the PSA timing of approvals was the result of change in the supervising attorney who was primarily responsible for reviewing and approving our PSAs at the Attorney General's Office. The Department's General Counsel and Chief Fiscal Officer met with the Attorney General staff to resolve the issues in format and language and we've implemented a DDS PSA Checklist and created a DDS Terms and Conditions document which was approved by the Office the Attorney General in September 2008. Based on the agreed upon changes, we believe that we are in compliance with the procedure as of October 1, 2008.

2. General Letter 71- Three purchases (in North and West Regions) were cited as conditions found pertaining to General Letter 71a. We disagree with the North Region finding, that General Letter 71a was the appropriate purchasing authority, based on guidance from the DAS Director of Procurement who indicated that our current use of GL 71a was correct for recurring purchases that do not exceed $2,500 and do not exceed $10,000 annually. Each purchase for the two vendors cited did not exceed $2,500.

Additionally, we disagree with the finding in the West Region concerning the payment for leasing containers using General Letter 71a rather than 71b. We have leases for 6 storage trailers in the Region, with date the leases were put into place of 12/11/87, 7/31/97, 5/23/02, 11/5/04, 2/23/05, and 12/5/07. Each lease was developed individually and a separate purchase order is maintained by location. We believe that we used the General Letter appropriately to provide the purchasing authority in our general course of business, since each lease is less than $2,500 annually.

3. Purchase Orders: We agree with the Central Office finding of purchase orders not created prior to receiving the invoice. We

implemented the DDS Purchasing Procedure on October 20, 2006, in compliance with State Statutes referencing purchasing of commodities and services. In an effort to assist management in addressing purchasing issues, the Quarterly Spectrum Audits are done to identify any weaknesses and assist management with instituting corrective measures.

4. Lack of contract in South Region for copier lease-We disagree with the finding, as the machine was leased from a vendor who was on contract when the copier was acquired (and who is no longer on contract). We kept the copier once the lease expired on a month-to-month basis. In cases where a lease is agreed to and then during the term of that lease the vendor comes off State contract; there is no requirement for that agreement to be terminated by virtue of the vendor's subsequent contract status change. The Department believes this applied to the month-to-month continuation of those agreements. However, upon the citation, we turned in the copiers and replaced the units from a vendor currently on contract and the Business Office will monitor the agreement and replace once terms expire.

5. South Region Community Training Home (CTH) payments- We agree with the finding of the overpayment totaling $200, and this amount was recovered in May 2009.

6. Rent Subsidy- We agree with the citations concerning Rent Subsidy. In February 2009, the Department began working to establish a comprehensive, standardized rent subsidy program. The draft is being reviewed by our General Counsel and full implementation will be completed by September 30, 2009.

7. Fiscal Intermediary Internal Control- We agree with the findings. We do not require families to review private agency invoices, but DDS Quality Management Services Division will develop and implement a (spectrum) audit function within the Quarterly Service Review to review services rendered by providers and match payments by Fiscal Intermediaries.

All private providers who receive more than $100,000 from FIs and are non-profit organizations will be required to submit audited financial statements for the 2008-09 fiscal year. The Fiscal Intermediary Contract Management Procedure (PR012) was revised in January 2009, and establishes a standard format and procedure for the cost settlement process. The interest payable is now reported each quarter, and is part of a standard reporting process under Procedure PR012. The pending payment report was requested of the former FI was due to numerous issues they had in making provider payments, and was not a report required from the other two FIs.

8. Testing of Fiscal Intermediaries- We agree with the findings. A copy of the missing Individual Support Agreement was located for the period ending July 1, 2006 and was authorized on July 29, 2005. The 2005-2006 fiscal year was the last year that the Self Determination Director was the sole budget reviewer/approver for all ISAs. The budget reviews and approvals function was transferred to Resource Management Division on April 1, 2006, with Resource Managers reviewing the ISA and approval by the Resource Administrator. We have developed an electronic individual budget database that eliminated paper processing and streamlines the approval process.

10. Individual and Family Support Grants- We agree with the finding. Until fiscal year 2007-2008, DDS did not require families to send documentation or list on the Expenditure Report how the money was spent. As of May 15, 2008, South Region requires families to list, on the Expenditure Report, how the money was spent and to keep receipts/other documentation for the money. Also, DDS Regions are now doing audits of the grant recipients, which will review the compliance with the submission of receipts requirement.

12. Central Office cell phones- We concur with the finding. Due to a change in supervisory staff, we were not always consistent in our oversight. However, since October 2007, we believe that we have been in compliance with our monitoring responsibilities.

13. Capital Equipment- During these audited fiscal years, the Department used the Capital Equipment Fund in instances when funds for operating expenses should have been used to purchase equipment. We agree with the findings, and have instructed all staff in the definitions of controllable and capital (cost) thresholds and appropriate appropriation code spending."

Purchasing Cards:

Criteria: Standard procedures for the State of Connecticut Purchasing Card Program require the maintenance of a monthly purchasing log for each card. The log must be signed by the cardholder and his/her supervisor or an assigned reviewer. Purchases must be made by the cardholder and may not be over the varying limits established for the particular employee. The card should not be used for purchases which are available from vendors on State contract.

Vendor invoices/receipts should be maintained to support any purchasing card transactions. DDS policies for residential staff using purchasing cards requires each receipt for a purchase must be retained and signed by the purchaser. Also, the purchase should be signed by another staff member at the residential location who is present when the items arrive.

Conditions: **1. South Region-**

a. <u>Lack of signed receipts</u>- Our test check showed numerous instances where receipts for purchases were not signed by both the purchaser and another employee on duty as required by DDS procedures.

b. <u>Purchase from a vendor not on State contact</u>- During April 2007, Region employees bought $3,926 in floor covering materials from a vendor not on State contract. The materials were available on a State contract with other vendors.

2. North Region-

<u>Lack of signed receipts</u>- Our test check showed numerous instances where receipts for purchases were not signed by both the purchaser and another employee on duty as required by DDS procedures.

3. West Region-

a) <u>Purchases not made by cardholder</u>- We noted five instances in two out of 16 log sheets reviewed where someone other than the cardholder appears to have made the purchase.

b) <u>Lack of documentation</u>- Receipts for some items purchased on three out of 16 purchase card logs reviewed were missing. Documentation was lacking for three out of 13 employees reviewed.

c) <u>Purchase approvals</u> - We noted two instances where purchasing card request forms were not approved by the employee’s supervisor until after the purchase had been made. Also, four were missing the supervisor’s signature authorizing the purchase.

d) <u>Split purchases</u>- We noted four instances with three employees where purchases were split to avoid the $1,000 per purchase limit.

Effect: The failure to adhere to regulations and procedures for the use of State Purchasing Cards can result in incorrect, improper, and/or unauthorized expenditures.

Cause: There appeared to be a general lack of management oversight and enforcement over the Department's Purchasing Cards.

Recommendation: The Department should improve its oversight over the use of State Purchasing Cards by its employees. (See Recommendation 2.)

Agency Response: "We agree with the finding on the South Region's purchase of flooring from a non-contracted vendor. The flooring at Camp Harkness was cited by inspectors for its poor condition and DDS maintenance staff was attempting to get the floor replaced before camp opened. They were not aware that the flooring was available on contract. All maintenance staff was trained in this area to ensure that this type of mistake will not occur again.

West Region- We agree with the findings on missing receipts. However, each Region business office has a process to follow-up on missing receipts when they reconcile the p-card transactions to the p-card billing statements. We believe that the process established in each Region has addressed the follow-up of missing receipts.

Additionally, the Quarterly Spectrum Audits are conducted in an effort to aid/assist management to identify and address issues with compliance to the DDS Purchasing Card Procedure. The results of the audits are shared with Regional Directors, Business Managers, and Comptroller's Policy Services Division. We believe that the quarterly audits have greatly improved our compliance with the P-Card Procedure and have provided a tool for management to review compliance and any issues that need further attention.

State Grants:

Criteria: DDS contracts require the submission of an annual report formerly known as a Consolidated Operational Report (COR) or an Audited Annual Report (AAR) from the providers who are subject to State Single Audit standards (i.e. have contracts in excess of $100,000). The expenditures reported on an annual report must be reconciled to audited financial statements. Also, DDS procedures include verifying that the provider's annual report of operating revenues are equal to the grant amount received from DDS according to the contract.

The Department contracts with three fiscal intermediaries to handle funds awarded to individuals and families. Each intermediary is selected through a bidding process.

Effective July 1, 2004, DDS Cost Accounting Standards set the criteria for allowable rental costs to the extent that they are reasonable in light of comparable property, market condition and available alternatives. After January 1, 2007, OPM Cost Standards also require allowable costs to be reasonable for the performance of a State award.

Conditions:

1. Central Office-

a) Luxury car rental- We noted a provider leased a luxury vehicle in addition to two mini-vans for the 2004-2005, 2005-2006 and 2006-2007 fiscal years which appears to be an excessive expense. The annual lease of the luxury car costs from $5,977 to $6,480 during the period, roughly twice as expensive as the annual leasing cost of the two min-vans, $2,834 and $3,451.

b) Override of bidding process- The competitive bidding process was overridden when the Department amended a provider's residential contract for fiscal intermediary services. The amended contract, totaling $2,316,933 covered a three year period from July 1, 2005 through June 30, 2008. The provider had an existing contract for supported living services but did not participate in the competitive bidding process to provide fiscal intermediary services which started July 1, 2005. However, the provider was contracted when a family insisted on using the provider to provide FI services for its 15 clients.

c) Reconciliations- We found that one of 15 providers reviewed did not reconcile their annual report to audited financial statements. The provider's audited total expenditures for the 205-2006 fiscal year was $1,874,190 which was different by $2,960 from their financial statements.

2. South Region-

Two of ten providers reported program operating revenues that differed from contract amounts by $2,308 and $27,099, respectively.

3. North Region-

Our review of ten provider contracts for the two year audited period found:

a) Contract surpluses for three providers, totaling $51,717, were netted out of the monthly payments for June, July and August 2006 instead of being coded to the proper expenditure account "Grant Funds Returned".

b) The statement of revenue for one provider's annual report was understated by $5,960 due to the exclusion of two payments. Also, we could not trace $20,586 in other program costs on the provider's contract to the same statement of revenue.

4. West Region-

Program operating revenues reported on the annual report did not correspond to the contract amounts for two of 15 providers.

Effect: The above lack of reconciliations and/or follow-up of discrepancies can result in undetected payment errors and/or losses of State grant funds.

Cause: There appears to be a lack of consistent management oversight over the reconciliation process.

Recommendation: The Department should verify the reconciliation between providers' annual reporting to their audited financial statements and their compliance with applicable cost standards. Also, the Department should award contracts in accordance with State purchasing regulations. (See Recommendation 3.)

Agency Response: "Central Office luxury car rentals- For the 2009-2010 fiscal year, DDS will be limiting lease expenses for administrative vehicles to $4,200 per year. A request for the cost limitation was sent to OPM for approval on May 13, 2009.

Central Office override of bidding process- There were unique circumstances with the lack of bidding; however, we do agree with the finding. DDS had identified the problem and discontinued the practice at the time of the audit. In the future, DDS will adhere to the Procurement Standards issued by OPM.

Central Office reconciliations- We agree with the finding for the provider.

South Region reporting of operating revenues- We agree with the citations for the two providers not matching reported revenues to the contract.

We do concur with the North and West Region citations on operating revenues reported on the Annual Reports not matching contract values. In order to bring clarity in understanding revenue summary on the Annual Report, DDS has added another line to the revenue summary page on the Annual Report to itemize separately any cost settlement. This has made matching the revenue summary to the contract simpler and easier for resource managers to review. The instructions to resource managers during training on September 9, 2008 and November 4, 2008 made clear that the contract and revenue summary on the Annual Report should be the same. It is our belief that the fiscal year 2007-2008 Annual Reports will be reporting the contract revenue in an accurate manner.

Payroll and Personnel:

Background: Each of the three DDS regions separately processes its payroll. The Central Office is processed as part of the North Region, while the Southbury Training School is processed as part of the West Region.

Criteria: 1. Payroll Transactions-

a. An employee's gross pay should correctly reflect the actual hours worked in accordance with collective bargaining agreements. Proper internal control requires prompt correction of any payroll errors detected.

b. Per Memorandum of Agreement with District 1199, the P-1 Flexible Work Schedule Program must be approved by the Human Resources Director and limits the employee to a maximum of ten hours per day.

c. Employees in the District 1199 bargaining unit hired after July 1, 1997, are allowed a maximum accumulation of 60 vacation days.

d. Accurate recordkeeping requires that timesheets should be signed and approved only after all recorded hours are actually worked and verified against any supporting documentation.

2. Overtime-

a. In general, each Region has its own overtime verification procedures with different forms. Employees are required to sign in and out of their worksites. In addition, North and South Region employees with overtime hours are required to record such time on the "Bi-weekly Overtime Verification Log" so that their residential supervisor can verify the time sheet for accuracy.

b. The North and South Regions have agreements to limit the work hours of District 1199 employees to ensure effective client services. The North Region limits employee hours to no more than 16 consecutive hours for a 24 hour period. The South Region requires employees to take a 24 hour break after seven consecutive work days or three days with a double shift.

c. The overtime agreement with District 1199 is designed so that the opportunity for overtime can be equally distributed among employees. Documentation of the preferred overtime volunteer list and non-preferred overtime volunteer list should be maintained and regularly updated so that the overtime rotation procedure can be followed and verified.

3. Termination payments- Termination payments should be made in accordance with union contracts and complete documentation should be maintained for all payroll transactions in accordance with Section 2-90, subsection (g), of the General Statutes.

4. Medical certificates- State personnel regulations and union contracts require a medical certificate or signed statement for employees on sick leave for more than five consecutive days.

According to Department of Administrative Services' procedures, an employee must complete a request form when applying for family/medical leave.

5. Workers' Compensation- In compliance with the Department of Administrative Services requirements, the Department has various forms that must be completed in order to file a workers' compensation claim along with medical documentation during the duration of the leave.

6. Jury duty- Department procedures require employees to submit evidence of jury duty attendance. Proper internal control includes procedures to ensure prompt collection of jury fees paid to employees.

Conditions: *1. **Test of Payroll Transactions**-*

South Region-

a. Our test of 20 payroll transactions found six employees with payment errors involving overtime resulting in a net overpayment of $128. In addition, we could not trace a total of 52.5 hours recorded on two employees' timesheets to sign in sheets.

b. Two employees' work schedules violated the union agreement by not having an approved flexible work schedule while frequently exceeding the limit of working ten hours per day without breaks.

c. Vacation accruals for three employees in our sample exceeded the 60 day limit on numerous occasions. By using the additional vacation hours, the employees were paid a total of $3,435 for the ineligible time off.

North Region-

Six of 20 timesheets in our sample were signed or approved prior to the end of the pay period, ranging from one to 14 days early.

West Region-

Vacation accruals for two employees in our sample exceeded the 60 day limit on numerous occasions. By allowing the employees to accrue and use vacation time in excess of the allowable limit, the employees were paid a total of $1,924 for the ineligible time off.

2. <u>Overtime</u>-

Our review of overtime consisted of sampling records for each of the top ten overtime earners in each of the three regions for fiscal year 2007.

South Region-

a. An employee was overpaid $2,511 (or 74.25 hours) for overtime during one pay period in March 2006.

b. We could not substantiate 52.75 overtime hours for three employees since the worksite logs showed that the employees' names were either crossed out or not recorded.

c. We could not verify whether the opportunity for overtime was equally distributed in accordance with the union agreement. Preferred and non-preferred overtime volunteer lists were not retained during the audited period.

North Region-

a. We found numerous cases where hours reported on timesheets did not correlate to the individual overtime report or the work site sign-in sheets.

b. We found instances where each of the ten employees did not have proper signed verification for overtime worked on either the individual overtime report or sign-in sheet.

c. The preferred and non-preferred overtime sign-up lists were not available for all 23 group home locations worked at by the ten employees in our sample. Therefore, we could not verify that the voluntary overtime rotation procedure was properly followed.

d. We noted employees working hours in excess of the collective bargaining agreement. Our sample disclosed five employees working more than 16 consecutive hours per day. Four of the five had two or three instances of such excessive hours.

West Region-

We were unable to verify overtime shifts worked for four of ten employees reviewed. Overtime logs could not be found for three employees while the logs for the fourth employee contained discrepancies.

3. <u>Termination payments</u>-

We sampled ten termination payments for each of the three regions and found the following:

South Region-

None of the personnel files reviewed had a "Separation Data" form to document the return of State properties before termination. A terminated employee was erroneously paid twice due to a Core-CT system error resulting in an overpayment of $879.

North Region-

We noted one case where an employee terminated during July 2006 but continued to accrue sick and personal leave on the Core-CT system.

West Region-

Four out of ten termination payments sampled were calculated incorrectly resulting in a net overpayment of $256.

4. <u>Medical certificates</u>-

South Region-

Four of ten employees sampled did not have medical certificates on file.

North Region-

Two of ten employees did not have any documentation on file to support their absence. Another seven did not have sufficient documentation to cover their complete period of absence.

West Region-

Six of ten employees were lacking sufficient documentation for their absence. Three were missing medical certificates, two were missing the application for family medical leave and one did not have documentation specifying a date to return to work.

5. Workers' Compensation-

South Region-

Our review showed that a workers' compensation file was missing and another one did not include a medical form authorizing the employee's return to work. We also noted that an employee continued to receive sick and vacation leave accruals after they had been on workers' compensation leave for more than 12 months.

North Region-

Nine of ten files reviewed had from one or several of the required Workers' Compensation forms on file missing. Three employees did not have medical documentation to support a part of their leave under Workers' Compensation.

6. Jury Duty-

Our review showed instances at the South and West Regions where fees paid to employees for their jury services were not collected. We also noted several instances for all three Regions where certificates of attendance for jury duty were not on file after our initial inquiry.

7. System overtime errors-

During 2006, it was found that there was a problem with the Core-CT system that resulted in payment errors for mandatory overtime hours. Our current review showed that as of January 2009, the South Region had yet to notify those employees with payment errors to begin the reimbursement process. The net total amount of payment errors was not available.

8. Incidents of allegations of timesheet falsification-

The Department reported the following incidents under Section 4-33a of the General Statutes during the 2007 and 2008 calendar years:

a. Our prior audit disclosed the falsification of timesheets by an employee at the Southbury Training School over a three year period from 2004 through 2006. The employee, arrested on June 27, 2007, was subsequently granted accelerated rehabilitation, agreeing to repay $26,205 through monthly payments deducted from his retirement pay.

b. A supervising developmental services worker allegedly received a total of $207,837 in fraudulent overtime pay for a period from 2005 through 2007 while working at a group home in southeastern Connecticut. The employee was accused of forging signatures to document additional shifts not actually worked. The employee was terminated on June 6, 2008. The employee was arrested during January 2009 as the case proceeds in the court system. In addition, the employee's direct supervisor, a residential program supervisor, was terminated on January 27, 2009, for a lack of oversight in this matter. We are not aware of any criminal charges filed against the supervisor.

c. A developmental services worker in the North Region was found to have been falsifying overtime records from March until October 2008. The employee allegedly was forging signatures to falsely claim approval of overtime. The employee had transferred to the Department of Mental Health and Addiction Services during October 2008, prior to the detection of the above. After being placed on administrative leave in January 2009, the employee was terminated on March 21, 2009, agreeing to pay restitution in the amount of $3,448 for receiving false overtime payments.

Effect: 1. Test of Payroll Transactions-

a. The rate of payroll errors found for the South Region, six out of 20 transactions or 30 percent, indicates that there may be a significant number of payroll transactions with undetected errors. Since the errors may be either under or over payments, we did not attempt to quantify the net overall effect of the possible errors.

b. The failure in the West and South Region to adhere to vacation accrual limits resulted in incorrect payments totaling $5,359 to five employees.

c. Pre-signing/approval of timesheets can result in inaccuracies and/or unauthorized alterations of actual hours worked.

2. Overtime-

a. The lack of properly approved attendance and overtime records which conflict with other records and/or are unsubstantiated significantly increases the risk of undetected losses.

b. The lack of documentation of the distribution of overtime amongst employees lessens the assurance that overtime was fairly assigned to all staff in accordance with the union agreement.

c. Employees working hours in excess of established limits may impair employee performance and threaten the safety of the clients.

d. An error in entering overtime hours resulted in a South Region employee receiving an overpayment of $2,511 during March 2006.

3. Termination payments- Four West Region termination payments were calculated incorrectly resulting in a net overpayment of $256. A duplicate payment of $879 was made in the South Region due to an error with the Core-CT system.

Terminated employees still accruing leave time could result in inaccurate liabilities for GAAP reporting purposes.

Any missing documentation for terminated employees lessens the assurance that no improprieties have occurred or that all State property was properly returned.

4. Medical certificates- The validity of employee absences for more than five consecutive sick days can not be verified without a medical certificate.

5. Workers' Compensation- The lack of complete workers' compensation file documentation increases the risk of unjustified payments.

6. Jury Duty- The employees' attendance at jury duty can not be verified without an attendance certificate from the court.

7. System overtime errors- There are overtime amounts which were overpaid and still due to the State.

8. Incidents of Fraud- Two employees are reimbursing the State for $3,448 and $26,205, respectively, for fraudulent overtime payments. In the other case, an employee allegedly received $207,837 in fraudulent overtime payments.

Cause: 1. Test of Regular Payroll-

South Region- The payroll discrepancies were due to a lack of supervisory oversight when approving timesheets.

North Region- There was a lack of supervisory oversight to ensure timesheets are being verified for accuracy at the end of the pay period.

There was a flaw in the Core-CT system that allowed employees to accumulate and use vacation time in excess of the 60 day limit. The system was corrected as of May 2008.

West Region- The flaw noted above resulted in the use of excess vacation time prior to May 2008.

2. Overtime-

South Region- The $2,511 overpayment appeared to be a data entry error. The excessive work hours appears to be a lack of supervisory review to prevent such occurrence. The reason for 52.75 hours in unsubstantiated overtime hours for three employees was not determined. Also, there were no procedures regarding the retention of overtime sign-up lists.

North Region- There appeared to be general lack of supervisory oversight to ensure accurate attendance records and prevent excessive work hours. Also, there were no procedures regarding the retention of overtime sign-up lists.

West Region- Supervisors were not able to provide overtime logs for three employees. For the fourth employee, we were unable to resolve the discrepancies between the attendance record and overtime log.

3. Termination payments-

South Region- Obtaining "Separation data" form to document the return of property was neglected as part of the Region's procedures for the termination process. The $879 overpayment appeared to be an error in the Core-CT system.

North Region- There appeared to be a lack of oversight to ensure all payroll/personnel documentation is obtained and kept on file. Also, there was a failure to complete the processing of an employee's termination allowing them to continue to accrue leave.

West Region-The four payment errors appeared to be due to clerical errors.

4. Medical certificates- There was an overall general lack of oversight to ensure medical certificates were on file. Apparently for the South

Region, this may have been due to a transition period between personnel officers while in the West Region the missing documentation was believed to be misfiled.

5. Workers' Compensation- There was a lack of agency oversight to ensure employees submitted all required documentation while on workers' compensation.

6. Jury Duty- There was a lack of agency oversight to document employees leave for jury duty and ensure any fees paid were promptly collected.

7. System overtime errors- There were initial problems with the Core-CT system that resulted in errors in mandatory overtime payments.

8. Incidents of Fraud- In general, forged signatures were used to obtain approval of timesheets. In one case, the employee's supervisor was fired due to negligent review of attendance records.

Recommendation: The Department needs to improve its payroll and personnel operations. (See Recommendation 4.)

Agency Response: "Due to the number of conditions cited, responses are provided for each condition. However, the responses below will be reviewed with all Regions to ensure that standardized systems and procedures are implemented to address all conditions no later than July 1, 2009.

1. Test of Payroll Transactions – South Region- The agency concurs with Condition 1a. As of May 1, 2009, four overpayments have been recovered, one underpayment has been paid retroactively, and recovery of the other overpayment has been initiated. In addition to the above individual corrections, the Region has instituted a payroll auditing system.

With respect to the approval of flexible work schedules, the agency acknowledges that an employee was notified on November 6, 2008 that she was working an unauthorized schedule and, effective November 28, 2008, her work day was not to exceed 10 hours per day. As of July 1, 2009, no other eligible flex schedule employees will be allowed to work more than 10 hours per day.

Regarding Condition 1c, vacation accruals for three employees exceeded the 60 day limit due to Core-CT programming issues. A new process has been created that will reset the Maximum Vacation balance for each employee after the first of the month accrual process is run. This process will allow employee balances to temporarily go over the maximum by one month's accrual in order to process time taken during the last days of the month. Once time taken is processed, balances will be reset to the appropriate maximum balance. This new process will begin to run with the accrual process date May 22, 2009, the date the new process started in the Core-CT system.

North Region – Regarding signing and approving of timesheets, payroll has instituted a review of the date the employee and supervisor sign the timesheets into the biweekly audits of selected time card groups.

West Region- The agency disagrees with this finding concerning overpayments to two employees due to exceeding the 60 day vacation accrual maximum. A detailed audit of each employee's accruals was completed and determined that neither had in fact been overpaid.

2. Overtime- South Region- Under Condition 2a, an employee was overpaid 74.25 hours of overtime due to a data entry error. On February 20, 2009, the employee was notified of the overpayment and a repayment agreement was initiated. The overpayment recovery began with deductions in the pay period ending March 13, 2009.

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During February through August 2008, standardized protocols were established for payroll review with the time sheets for accuracy in both North and South Regions. As of July 1, 2009, the standardized protocols will be fully implemented in the West Region. The agency has instituted a more rigorous review of time sheets and supporting documentation at the level of the immediate supervisor and manager.

3. Termination Payments- South Region- Effective July 1, 2009, the Human Resources staff responsible for processing a separation in Core-CT will be responsible for ensuring receipt of a properly completed Separation Data Form. Supervisors and managers will be advised that the form must be completed and submitted to Human Resources prior to the employee's separation. Human Resources will be responsible for ensuring completion of the form prior to release of the employee's final paycheck. The employee who was paid twice due to a Core-CT systems error was sent a letter, dated May 1, 2009, requesting reimbursement.

North Region:- We agree with the finding of the instance of an employee continuing to accrue sick and personal leave has been remedied by Core-CT initiating a process as of January 29, 2009 to zero out accrued balances for terminated employees and it should be noted the employee was not paid these accrual balances.

West Region: As of July 1, 2009, procedures will be implemented to audit accrual balances prior to processing an employee's final paycheck. In addition, the agency will begin utilizing a Core-CT query to identify terminated employees with active leave plans.

4. Medical certificates- Effective July 1, 2009, the South Region will establish a tracking system by running attendance reports from Core-CT on a biweekly basis to identify employees who have been out of work for five consecutive days. Employees are being notified that a medical certificate is needed in order for their time out of work to be authorized sick leave. Additionally, all dates of absences substantiated with medical documentation are listed on a spreadsheet and distributed to all supervisors, schedulers and payroll on a daily basis to ensure that documentation exists to support all absences.

5. Workers' Compensation- Systems will be in place by August 31, 2009, to maintain workers' compensation file organization and to facilitate information retrieval.

6. Jury Duty- Effective July 1, 2009, all three Regions will implement a standardized procedure that when a code of "LJURY" is used and no documentation has been attached to the time sheet payroll staff is to call the employee and or the supervisor to submit said documentation. Payroll staff will make a copy of the document for the personnel file.

South Region- The Human Resources Department continued to follow-up on the remaining employee who had not submitted the jury fee payment as of the time of the audit. This audit revealed that Wallingford payroll office was utilizing the procedure, however, the same protocols were not being utilized in the Norwich payroll office, which resulted in the appropriate paper work and fees not being submitted. Effective November 6, 2008, the South Region Payroll Officer 2 implemented protocols to be utilized in both the Norwich and Wallingford payroll offices.

West Region- Payroll completed an audit on both employees and the necessary corrections have been made and all monies have been recouped. Effective July 1, 2009, staff that is responsible for payroll will be provided with written directives regarding how Jury duty needs to be handled.

7. System overtime errors- The South Region has completed the mandatory overtime audit and, based on the findings, the Union and individual employees have been notified of the overpayments and proposed repayment schedules beginning May 1, 2009. The recovery of overpayments will be monitored and reported to the Director of Human Resources.

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8. Incidents of allegations of time sheet falsification- As acknowledged by the Auditors, following discovery of falsification by a former employee at Southbury Training School, the employee was arrested in June 2007 and is currently making restitution as ordered by the court. It is noted that the incident cited involving a North Region employee occurred outside the time frame of the audit; nonetheless, the employee was promptly placed on administrative leave, dismissed, and arrested. She subsequently was allowed to resign in return for agreeing to make full restitution.

The incident cited which involved South Region employees is by far the most serious one in terms of the amount of dollars involved. Following discovery of the suspicious payroll activity, the employee in question was placed on administrative leave in January 2008, DDS South Region initiated an administrative investigation, and the State Police were notified. The employee in question resigned, not in good standing, effective June 6, 2008. As indicated above, she was arrested on January 22 on felony charges of first degree larceny and first degree forgery. She is currently released on bond with a next court date of June 29th. Through the judicial process, we hope to receive restitution as well as invoke the public employee pension revocation statute that the Governor signed into law last year.

In July 2008, the Commissioner directed our agency Human Resources Administrator to convene a group to develop a plan and methods to detect and prevent employee payroll and timesheet fraud and other forms of misappropriation of funds and/or goods from the agency and / or individuals to whom we provide supports and services. The committee included Payroll Officers from each region, a Supervising Accounts Examiner who is our principal liaison to the State Auditors, the Regional Director from South Region, the current Director of Southbury Training School, our Director of Investigations (who is a State Police Captain), and others. The committee identified a number of measures that would strengthen our internal control procedures and issued a report in February outlining steps that have been or are being implemented in each region. Our goal is to have these measures fully implemented by July 1, 2009."

Property Control:

Criteria: 1. Section 4-36 of the General Statutes requires each State agency to keep property inventory records in the manner prescribed by the State Comptroller. The State of Connecticut's Property Control Manual provides further guidance for maintaining property inventory records.

a) Site improvements that increase the original value of State property require a separate property control record with the dollar value and a brief description of the improvements.

b) Property control records must be kept in an orderly manner on a current basis.

c) Agency may not cannibalize, recover or remove parts, accessories or components of property that have been declared surplus without written approval from the Department of Administrative Services Property Distribution Center.

2. Sound business practice requires planning and establishing the necessary technology before incurring major purchases of computer equipment.

Conditions: **1. Central Office-**

Our review of the Capital Equipment Purchase Fund expenditures found that 19 of 125 desktop computers purchased in February and May 2006 were still in storage and had not been tagged or entered into the inventory record as of September 2008. We also noted that most computers were intended for group homes but installations were delayed because of a lack of Internet monitoring capability.

2. West Region-

a) <u>Annual inventory report</u>- There was no documentation on file to support site improvements totaling $7,386,500 reported on the annual inventory (CO-59) report as of June 30, 2006 and 2007.

b) <u>Test of inventory</u>- At the time of our physical inventory review of 25 equipment items, we were unable to locate three computers costing a total of $3,309. The Agency indicated that they were moved without documentation and were subsequently located.

c) <u>Retired assets</u>- Our test check showed there was no documentation on file to support the proper disposal of six of ten assets reported as retired.

Effect: 1. Central Office- The inability to utilize computers purchased in 2006 was essentially a loss of State funds.

2. West Region- The accuracy of the Region's inventory reported for the category "Site Improvements" could not be verified. Inaccurate inventory records and the lack of documentation for the disposal can result in undetected losses.

Cause: 1. Central Office – There appeared to be a lack of oversight to ensure all computers were tagged and recorded. Also, the Department did not anticipate that some group homes would have problems establishing Internet access through DOIT.

2. West Region – The Region has continued to bring forward the site improvement total year after year. The Comptroller has suggested using past purchase orders to try to recreate an accurate list. We were unable to determine the reason for the three computers being missing and the Region could not locate their documentation for the disposed assets.

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 5.)

Agency Response: "We agree with the finding for Central Office on the timeliness of tagging the computers. The computers were purchased by Central Office to be deployed to the regions. Due to the large number of personal computers purchased, a decision was made to have the Regions tag and enter the assets into Core-CT fixed assets system when they were received. The deployment was delayed and some computers remained at Central Office longer than anticipated; these computers have been tagged and inventoried by Central Office.

West Region Annual Inventory Report- We agree with the finding on the CO-59 site improvements lacking documentation for the 2005-2006 and 2006-2007 fiscal years. However, we have reviewed our capital projects file and have determined the proper balances for site improvements and will file revised CO-59's for the fiscal years 2004-2005 through 2007-2008 to properly reflect the site improvements able to be documented by internal files. The revised CO-59's will be submitted to the Comptroller's Office by Wednesday June 3, 2009. Going forward, all CO-59 values will be properly documented.

The West Region computers were moved without proper documentation, but they were not missing. All staff has received retraining on inventory control (included in this training was a review of proper paperwork to be completed before any disposal, cannibalization, or transfer). Training occurred on July 16, 2007, August 1, 2007, August 10, 2007, March 2008, and January 12, 2009.

We agree with the finding on the West Region retiring assets without paperwork. All staff has received retraining on inventory control and included in this was training to ensure that proper paperwork is completed before any disposal, cannibalization, or transfer. Training occurred on July 16, 2007, August 1, 2007, August 10, 2007, March

2008, and January 12, 2009. Since late in fiscal year 2007, the Business Office has only been retiring assets from Core-CT with an approved disposal form from the location and the approval from the Property Disposal Center; copies are retained in the Business Office."

Late Deposits:

Criteria: According to Section 4-32 of the General Statutes, receipts of $500 or more should be deposited within 24 hours. Total daily receipts of less than $500 may be held until the total receipts to date amount to $500, but not for more than a period of seven calendar days.

Condition: **1. North Region-**

Our sample of General Fund receipts showed discrepancies in 15 out of 25 sampled. Eight of the 15, totaling $8,097 were deposited from one to ten days late. We could not determine the date of receipts for the other seven which totaled $8,459.

2. West Region-

a) <u>Welfare Fund</u>- We reviewed a total of 77 receipts for the 12 dates selected for testing. We noted 13 instances where funds were not deposited within 24 hours of receipt. The late deposits ranged from $1 to $13,000 and were from one day to several weeks late. The $13,000 deposit was one day late. Also, we were unable to verify whether 8 receipts were deposited in a timely manner due to a lack of receipt date documentation.

b) <u>Activity Fund</u>- Our sample review of receipts consisted of 12 deposits which included 55 individual receipts. We noted ten instances where individual receipts were not deposited within 24 hours. Receipts ranged from $197 to $3,000 and were one to three days late. Also, we were unable to determine whether 12 receipts were deposited in a timely manner due to a lack of receipt date documentation.

c) <u>Clients' Funds</u>- Five out of ten deposits, for amounts from $3 to $266, were deposited from five days to five months late.

Effect: The untimely deposits violate Section 4-32 of the General Statutes.

Cause: The late deposits were due to funds received at locations other than the business office that were not forwarded to the business office in a timely manner. Also, the North Region did not have a consistent policy to date stamp and/or log receipts initially received at locations outside of the business office.

Recommendation: The Department should deposit all receipts on a timely basis in accordance with Section 4-32 of the General Statutes. (See Recommendation 6.)

Agency Response: "The Department concurs with the finding. We implemented a procedure for timely deposits which stated that we would consider deposits to be timely if deposited within 24 business hours (if over $500) from the date they were received in the Business Office; if amounts were under $500, then the deposit could be held for up to seven calendar days. However, in a further effort to be in compliance with Section 4-32 of the General Statues, our Chief Financial Officer met with the Treasurer's Office and is preparing a request to finalize an agreement for an exception to the Section 4-32 requirements. It is our goal to implement the agency protocol approved by the Treasurer's Office by August 15, 2009. This agreement would cover all deposits by DDS (fiduciary funds, client funds, trustee funds, and general funds). The request will be based on the physical location receiving the funds in relationship to the Business Offices and will have deposits due between four to ten days after receipt at offsite locations."

Access to EDP Records:

Criteria: Department procedure requires that the immediate supervisor of an employee separating from the agency complete a DDS Network Access and Services Request Form to be submitted to the DDS Help Desk to revoke all of the employee's access to electronic records. An additional procedure is that the Department's security office should make periodic reviews of terminated employees to ensure access has been disabled.

Condition: The Department's list of computer users as of April 2008 included 49 former employees. This represents nearly two percent of a total of 2,583 on the list.

Effect: There is a possibility that individuals no longer working for the State may have unauthorized access to the Department's data files, some of which may contain confidential or sensitive information.

Cause: There appeared to be a lack of management oversight in this area.

Recommendation: The Department should ensure access to electronic records is promptly revoked when an employee separates from the Department. (See Recommendation 7.)

Agency Response: "Current agency procedures call for supervisors and managers to complete a Separation Data Form and updated Network Access and Services Request Form for all separating employees. In addition, effective July 1, 2009, Human Resources staff in each region and Central Office will be responsible for forwarding a list of separating employees to Information Technology each pay period. This will ensure that Information Technology staff has the information needed to promptly revoke network access for separated employees."

Fiduciary Funds:

Criteria:

1. According to the State Comptroller's Activity and Welfare Fund Manual, prior approval must be obtained for (1) any single expenditure from the Activity or Welfare fund in excess of $1,000 or (2) any combination of expenditures in excess of $1,000 for any single project, contract or event within a 12 month period. Department procedures also require any expenditure from $1,000 to $5,000 to be approved by the Regional Director, and any above $5,000 by the Central Office. The State Comptroller's Manual also allows for loans to a client as long as the outstanding amount does not exceed $1,000.

2. Department procedures for fiduciary fund withdrawals require that supporting documentation, such as receipts, and any remaining funds from disbursements must be returned to the business office within ten calendar days. Prior to February 2007, the limit for returning funds and supporting documentation was within five business days.

3. The Comptroller's Accounting Procedures Manual for Activity and Welfare Funds states that purchases should be made at the best prices obtainable. Competitive bids should be obtained for major purchases. Payments for goods and services should be substantiated by vendor invoices and also be supported by a contract, when applicable.

4. Proper internal control would include the preparation of accountability reports. These reports provide reconciliations that compare moneys that were actually recorded with amounts that should have been accounted for.

Conditions:

1. South Region-

a) <u>Activity Fund</u>- A disbursement of $2,253 during June 2007 for employee recognition awards was not approved by the State Comptroller or the Regional Director.

b) <u>Welfare Fund</u>-

i. Two disbursements over $1,000 were not approved by the State Comptroller or Regional Director. One of the payments, during September 2006, was $1,678 for clients to attend an outdoor camp. The other was a payment during November 2006, for $1,910, for a holiday party.

ii. During a license inspection in April 2006, an inspector found that clients' funds at a group home were used to pay for parties, food and coffee totaling $584. The Region subsequently approved the use of the Welfare Fund to compensate the clients' funds for $584 without holding any employee(s) responsible.

iii. We noted that the Region made two loans for rent subsidy for $1,600 and $1,260 which exceeds the $1,000 limit established by the State Comptroller. This was due to higher rental costs in the southern part of the State.

c) Clients' Fund- We found $400 was paid during December 2005 for a mail order of tax-free cigarettes from an out-of-State vendor. The vendor does not appear to be a legitimate cigarette supplier who was exempt from State and Federal cigarette taxes.

2. North Region-

a) Welfare Fund- We noted three clients had loan balances that exceeded the $1,000 limit during the audited period. Our test of disbursements included three client loans totaling $2,600. Two of the agreements were not signed by the clients, while the other appeared to be signed by an employee on behalf of the client. Two of the three loans were not paid back within the timeline of the loan agreement. We also found that eight out of 15 disbursements in our sample, totaling $2,915, were not spent or remitted to the business office on a timely basis.

b) Clients' Fund- Supporting documentation for six out of 15 disbursements in our sample, totaling $780, was not returned to the business office on a timely basis.

3. West Region-

a) Activity Fund- Our test of expenditures showed two out of 17 were not in compliance with purchasing procedures. One was a payment to a contractor for renovations totaling $14,751 without obtaining any bids or quotes. The other was for the purchase of a wireless intercom system totaling $3,656 without obtaining any bids or quotes.

There are two thrift shops at Southbury Training School that sell donated clothing, craft and household items with the profits going to the Activity Fund to be used for the benefit of clients. Revenues for the thrift shop were $207,970 and $224,543 for the fiscal years ended June

30, 2006 and 2007, respectively. We note that there are no internal controls, formal policies or procedures over thrift shop operations. The cashiers are volunteers with limited experience and any shortages or discrepancies between cash receipts and the cash register tapes are left unresolved.

b) Clients' Fund- Supporting documentation for seven out of ten disbursements in our sample, totaling $2,348, were not returned to the business office in a timely manner, ranging from four days to four months late.

Effect: 1. South Region- There was one Activity Fund disbursement for $2,253 that was not properly approved and two Welfare Fund loans exceeding the Comptroller's $1,000 limit by a combined $860. The Welfare Fund was charged $584 for the misuse of client funds without holding any employees responsible. Also, the Clients' Fund paid $400 to an out-of-State cigarette supplier, apparently circumventing paying tobacco sales taxes.

2. North Region- The lack of signed Welfare Fund loan agreements lessens the assurance that the transactions were proper and that all parties have accepted the terms of the agreements. The lack of timely return of supporting documentation with unused funds increases the risk of the misuse or loss of funds.

3. West Region- The Agency is not in compliance with purchasing regulations set forth by the Comptroller's Activity and Welfare Manual. The lack of timely return of supporting documentation with unused funds increases the risk of the misuse or loss of funds. The lack of internal controls at the thrift shop could result in continuing undetected losses.

Cause: There appeared to be an overall lack of oversight and awareness of procedures to ensure fiduciary fund purchases were proper and comply with existing regulations and procedures. We would add that the Department's policies appear outdated as they were established prior to the consolidation of DDS into three Regions.

Recommendation: The Department should improve oversight over the expenditure of its Fiduciary Funds. (See Recommendation 8.)

Agency Response: "DDS is in the process of finalizing the Trustee Accounts Policy/Procedure, which will be in full compliance with the Comptroller's Accounting Procedures Manual, Activity and Welfare Funds, and have it fully implemented by September 30, 2009 The DDS Procedure does not authorize/allow provisions for loans or grants made by the Trustee Accounts.

DDS agrees with the findings.

South Region Welfare Fund- Reimbursement client funds from Welfare Funds for inappropriate use of client funds for parties, take-out, donuts and coffee was done to make the clients whole for expenses that the Region determined should not have been made from their personal funds. This has been the process used in the South Region for any inappropriate use of client personal funds.

South Client Funds-We agree with the finding concerning cigarettes ordered from a mail order supplier. Staff was assisting the client to save money by buying in bulk through mail order and was unaware that the client should have paid sales tax. The Business Office no longer allows such purchases.

North Welfare Fund- We agree with the finding regarding loan agreements not signed or signed by someone on client's behalf: The new DDS Procedure does not allow for loans, so this will not occur in the future.

West Region- We agree with this finding concerning the inadequate controls at the Thrift Shops. The Thrift Shops are run by the Volunteer Services Committee. In the fall of 2002, STS developed Volunteer Services Account Restrictions for the Thrift Shops. However, these restrictions would not constitute policies/procedures and as the Thrift Shops are a subsidiary of the Activity Fund, they will be required to follow the newly implemented Trustee Accounts Procedure."

Southbury Training School Foundation:

The Department of Developmental Services' Southbury Training School (STS) has an affiliated foundation, the Southbury Training School Foundation, Inc. Our review showed that audits of the STS Foundation's financial statements performed by a CPA firm for the fiscal years ended October 31, 2006 and 2007, found conditions considered to be material weaknesses. The management letter dated January 28, 2008, for the 2007 audit period, stated, "The Foundation does not have a system of internal controls that would enable the (STS) Board of Directors to conclude that the financial statements and related disclosures are complete and presented in accordance with generally accepted accounting principles." Similar conditions were found in the audit for the fiscal year ended October 31, 2006.

The above finding violates Section 4-37f, subsection (7), of the General Statutes which requires foundations affiliated with State agencies to use generally accepted accounting principles in its financial recordkeeping and reporting. According to the financial statements for the Foundation for the fiscal year ended October 30, 2007, revenues and expenses for the fiscal year were approximately $147,000 and $200,000, respectively. Net assets as of October 31, 2007, totaled

$946,465, consisting mainly of $929,625 in investments.

RECOMMENDATIONS

Our prior report on the Department of Developmental Services covered the fiscal years ended June 30, 2004 and 2005, and contained eleven recommendations. The following is a summary of those recommendations and the action taken by the Department of Developmental Services.

Status of Prior Audit Recommendations:

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

- The Department should improve its oversight over the use of State Purchasing Cards by its employees. This recommendation has been repeated (See Recommendation 2.)

- The Department should comply with Section 4-87 of the General Statutes before reallocating expenditures from its appropriated account. This recommendation has been resolved.

- The Department should ensure that all of its contracted providers' financial reporting is properly reconciled to audited financial statements. This recommendation has been repeated in a modified form to include additional issues. (See Recommendation 3.)

- The Department should take steps to remedy the inconsistency of its sole rehabilitative services provider exemption for a Consolidated Operational Report (COR) or an Audited Consolidated Operational Report (ACOR). The Department has resolved this recommendation.

- The Department needs to improve its payroll and personnel operations. This recommendation has been repeated. (See Recommendation 4.)

- The Department needs to improve the monitoring and recordkeeping of overtime. Any findings regarding overtime were merged into our recommendation concerning payroll and personnel (See Recommendation 4.)

- The Department needs to improve the controls and recordkeeping of the South Region Petty Cash Fund. 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 has been repeated. (See Recommendation 5.)

- The Department should deposit all receipts on a timely basis in accordance with Section 4-32 of the General Statutes. This recommendation has been repeated. (See Recommendation 6.)

- The Department should improve oversight and recordkeeping of its Fiduciary Funds. This recommendation has been repeated. (See Recommendation 8.)

Current Audit Recommendations:

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

   Comment:

   We noted numerous deficiencies in expenditure transactions throughout the Department including contracts signed late, several questionable payments, lack of purchase orders, lack of complete documentation, lack of cell phone monitoring, incorrect calculation of rent subsidy payments, lack of internal control over payments to fiscal intermediaries, and the incorrect use of the Capital Equipment Purchase Fund.

2. **The Department should improve its oversight over the use of State Purchasing Cards by its employees.**

   Comment:

   Our review found numerous instances where Agency employees were not following State and/or agency procedures for the use of State Purchasing Cards. This included a lack of signed receipt for purchases, lack of supervisory approval or approval after the purchase, split purchases to avoid transaction limits and allowing unauthorized employees to use the card.

3. **The Department should verify the reconciliation between providers' annual reporting to their audited financial statements and their compliance with applicable cost standards. Also, the Department should award contracts in accordance with State purchasing regulations.**

   Comment:

   Our review showed numerous instances where the providers' financial reporting did not agree with the audited financial statements or amounts granted to the providers. Also, we noted a provider incurred costs for a vehicle which appeared excessive and a provider contact was amended to provide financial services already contracted with other vendors.

4. **The Department needs to improve its payroll and personnel operations.**

   Comment:

   Our review found employees working in excess of work hour limits set by collective bargaining agreements, errors in termination payments, a lack of medical certificates in several cases, incomplete workers' compensation files, advance approval of timesheets, errors in overtime payments, a lack of documenting voluntary overtime rotation, several discrepancies between timesheets and sign-in sheets, lack of documentation of jury duty and timely collection of jury fee payments.

5. **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:

   Our review found from a large purchase of desktop computers in 2006 that 19 computers were still in storage and had not been not tagged or entered into inventory records as of September 2008. Our review of West Region inventory records found no documentation to support $7,386,500 in site improvements reported on the annual inventory report, three desktops listed on the Region's inventory costing a total of $3,309 that could not be found, and numerous cases where there was no documentation to support the proper disposal of retired assets.

6. **The Department should deposit all receipts on a timely basis in accordance with Section 4-32 of the General Statutes.**

   Comment:

   Our test check found numerous instances where the Department's West and North Regions were not depositing State General and Fiduciary Funds receipts on a timely basis in accordance with Section 4-32 of the General Statutes.

7. **The Department should ensure access to electronic records is promptly revoked when an employee separates from the Department.**

   Comment:

   The Department's list of computer users as of April 2008 included 49 former employees. This represents nearly two percent of a total of 2,583 on the list.

8. The Department should improve oversight and recordkeeping of its Fiduciary Funds.

Comment:

Our review found several purchases over $1,000 not approved by the State Comptroller, several disbursements that were questionable and/or lacked bids or quotes, several client loans exceeding the $1,000 limit, and instances where supporting documentation and change from disbursements were not returned on a timely basis.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Developmental Services for the fiscal years ended June 30, 2006 and 2007. 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 Developmental Services for the fiscal years ended June 30, 2006 and 2007, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial 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 Developmental Services 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.

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

In planning and performing our audit, we considered the Department of Developmental Services' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1- concerning certain expenditure matters and Recommendation 4- payroll and attendance errors and allegations of fraudulent attendance reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Developmental Services complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Department of Developmental Services' response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Department of Developmental Services' response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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 Developmental Services during the course of our examination.

Donald R. Purchla
Principal Auditor

Approved:

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