September 7, 2007

AUDITORS' REPORT
DEPARTMENT OF MENTAL RETARDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005

We have examined the financial records of the Department of Mental Retardation for the fiscal years ended June 30, 2004 and 2005. 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 Mental Retardation (DMR) operates, generally, under Title 17a, Chapter 319b of the Connecticut General Statutes. The Department is responsible for the planning, development and administration of a complete, comprehensive, and integrated Statewide program for persons with mental retardation. The Department is under the supervision of a Commissioner who is appointed by the Governor. The Department is responsible for the administration and operation of all State-operated community and residential facilities established for the diagnostic care and training for persons with mental retardation. It provides an array of residential, day service and family support programs. These programs may be provided directly by the Regions or Training School or through contracts with private provider organizations throughout the State.

The Department 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 client caseload of the Department was 14,936 as of June 30, 2004, and 14,943 as of June 30, 2005. 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,	
	2004	**2005**
Clients in public residential settings	1,868	1,842
Clients in private residential settings	4,845	4,893
Clients awaiting residential placement	1,865	1,860
Clients in public day programs	844	799
Clients in private day programs	7,141	7,232
Clients awaiting placement in day programs	150	214
Clients living at home	8,083	8,058
Families receiving support grants during the past year	3,188	4,148
Children receiving public Birth to Three services	631	611
Children receiving private Birth to Three services	4,088	4,166

Council on Mental Retardation:

There is also a Council on Mental Retardation, which operates under the general provisions of Section 17a-270 of the General Statutes. The Council, which consists of thirteen members, acts in an advisory and consultative capacity to the Commissioner of Mental Retardation. The Council may also recommend legislation to the Governor and the General Assembly. As of June 30, 2005, the following were members of the Council:

David Hadden, Chairman
Stuart Brown, Vice Chairman
Cynthia Stramandinoli, Secretary
Karen R. Hlavac
Michael J. O'Toole, Sr.
Patti Silva
Edward D. Whalen
Robert Wood
Margaret Cataldi Embardo
Michael Keenan, MD
Chavis Chappell
Mr. Louis Richards
Jennifer Carroll

Others who served on the Council during the audited period were Joan Flynn and Albert Lognin.

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:

During the 2003-2004 fiscal year, Federal and other restricted account activity was no longer recorded in the General Fund. Rather, as a result of the implementation of a new State accounting system, such activity was recorded in a newly established Special Revenue Fund entitled "Federal and Other Restricted Accounts". Further comments on this Fund are presented in this section of the report.

General Fund Revenues and Receipts:

General Fund revenues and other receipts of the Department of Mental Retardation were $214,207 and $383,409 for the 2003-2004 and 2004-2005 fiscal years, respectively. The major portion of receipts, $135,718 and $195,553, respectively, was from the rental of cottages or residences.

General Fund Expenditures:

General Fund expenditures of the Department of Mental Retardation for the two fiscal years covered by this audit are summarized below.

	Fiscal Year Ended June 30,	
	2004	2005
Personal Services and Employee Benefits:		
Salaries and Wages	$258,170,134	$264,385,164
Workers' compensation	13,820,211	13,643,903
All other	670,269	662,774
Total Personal Services and Employee Benefits	272,660,614	278,691,841
Purchases and Contracted Services:		
Professional, scientific and technical services	8,253,467	8,728,704
Client services	409,708,526	438,557,842
Premises and property expenses	8,823,855	8,885,970
Purchased commodities	6,441,815	6,384,332
Fixed charges	7,612,242	5,509,539
All other	5,357,968	5,705,148
Total Purchases and Contracted Services	446,197,873	473,771,535
Total Expenditures	**$718,858,487**	**$752,463,376**

Total General Fund expenditures for the 2002-2003 fiscal year were $729,228,252. Since restricted account expenditures are accounted for in a Special Revenue Fund, beginning with the 2003-2004 fiscal year, such expenditures must be subtracted for comparative purposes. Thus, subtracting restricted account expenditures of $9,263,498, results in comparative "Total Expenditures" totaling $719,964,055 for the 2002-2003 fiscal year. Of the total, $284,460,585 was for personal services and employee benefits and $435,503,470 was for purchased and contracted services.

Adjusted personal services decreased from $284,460,585 to $272,660,614, or by approximately four percent, for the 2003-2004 and then increased by approximately $6,000,000, or by approximately two percent, for the 2004-2005 fiscal year. The decrease for the 2003-2004 fiscal year was primarily attributed to the continuing effect of layoffs that occurred during January 2003. The overall increase for the 2004-2005 fiscal year was mainly attributed to collective bargaining increases. As of June 2005, there were 3,742 filled full time-positions and 1,085 filled part-time positions.

The majority of expenditures for purchases and contracted services were for client services which mainly consist of payments to private providers for services to the Department's clients. DMR clients receive residential, employment and day services through the private providers. The increase in client services during the audited period can be mainly attributed to increases in placing clients with private providers.

Special Revenue Fund- Federal and Other Restricted Accounts:

As previously mentioned, beginning with the 2003-2004 fiscal year, Federal and other restricted account activity was recorded by the State Comptroller in a newly established Special Revenue Fund. Fund receipts, totaled $6,096,067 and $12,936,589 for the fiscal years ended June 30, 2004 and 2005, respectively.

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

	2003-2004	2004-2005
Personal Services and Employee Benefits	$2,814,945	$2,853,138
Purchases and Contracted Services:		
Board and care of clients	1,565,652	2,855,501
Client services-general	3,231,789	3,412,767
All other purchases and contracted services	891,425	1,136,522
Total Purchases and Contracted Services	5,688,866	7,404,790
Total Expenditures	**$8,503,811**	**$10,257,928**

The major source for fluctuations in Special Revenue Fund receipts and expenditures can be attributed to the timing of transfers of funds from the Department of Social Services for 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, 2005, are summarized below:

	Average per Capita Costs			
	In-Patient		Group Homes	
	Daily	Annual	Daily	Annual

West Region	$585	$213,525	$643	$234,695
North Region	858	313,170	681	248,565
South Region	905	330,325	692	252,580
Southbury Training School	842	307,330	(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, 2005, the Fund had an outstanding balance of $11,588,789 in loans for community residential facilities. New loans granted totaled $1,241,350 and $1,538,958 for the 2003-2004 and 2004-2005 fiscal years, respectively.

Revenues of the Fund consisted primarily of interest income on residential community loans which totaled $595,568 and $654,694 during the fiscal years ended June 30, 2004 and 2005, respectively. The Fund had a cash balance of $1,532,011 as of June 30, 2005.

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 $3,759,295 as of June 30, 2005.

CONDITION OF RECORDS

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

Expenditure Matters:

Criteria:

1. 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.

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- According to DMR procedures, rent subsidies for clients should be supported by applicable documentation such as wage stubs and monthly utilities invoices.

5. Fiscal Intermediaries- DMR contracts with private vendors to act as fiscal intermediaries to handle funds awarded by DMR to individuals and families. Such awards are called an Individual Support Agreement (ISA). Payments for an ISA must be supported by approved individual budgets, and cost settlement reports submitted by the fiscal intermediary. The reports show the funds received and expended for the client. Any unspent funds are applied to the next payment to the fiscal intermediary. DMR procedures require that cost settlements should be performed in a timely manner.

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 on an annual basis or more frequently on request. 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 more than three years from the date of purchase. The State Accounting 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) Contracts signed late - Our sample of ten personal service agreements revealed that six were not reviewed and approved by all involved parties before the contract start date. These six contracts totaled $81,200 and were signed between 48 to 300 days late.

b) Lack of contracts - Our test of expenditures found two vendors were repeatedly used for services without a contract. An educational institution was paid a total of $76,085 for renting space to hold 33 meetings during the audited period. The other vendor was paid $5,900 for duplicating and assembling digital videos for an Agency program.

c) Lack of purchase orders- Purchase orders were not created prior to receiving a vendor invoice for 14 out of 25 transactions tested.

d) Lack of documentation- There was no supporting documentation for two of the 25 transactions tested. In the first case, there was no personal services agreement to support the payment of $5,225 to a vendor for participation in a legal hearing. The other involved a transfer of $2,500 to another State agency for an event sponsorship. There was no documentation to support the payment other than an approved transfer invoice.

e) Lack of cell phone monitoring- The Central Office was not reviewing the monthly cell phone bill to ensure that invoice totals agree with amounts on individual statements in addition to other adjustments.

Individual cell phone statements for November 2003, December 2003 and February 2005 were missing. Also, nearly half of the individual statements for July 2004 were missing. We also found that statements were not promptly reviewed by the users and their supervisors. Statements for July 2004 were not reviewed until May 2005.

Statements for May and June 2005 were not reviewed until November 2005.

2. South Region-

a) Lack of contracts-

i. The Region paid $17,970 to a vendor for occupational therapy services from January through June 2004. The personal services agreement was not approved as required by DAS and the DMR Central Office.

ii. In an agreement dated July 2, 2003 with an out-of-State health care provider, the Region committed to services not to exceed $16,800 to treat a client. Subsequently, the provider decided to keep the client for a longer stay, incurring an additional charge of $48,600 without any additional agreement. Since there was no proper agreement, the Region withheld payment for services for 11 months until the appropriate Regional official signed off on the payment on July 11, 2004. In addition, we noted that the Region was sending other clients to the provider without any contract or justification for the lack of competitive bidding for these services. During the period from October 2003 through April 2005, the Region paid $308,050 to the provider for services provided to six clients. At that time, the provider would not accept the client's Connecticut Medicaid cards. We were informed that beginning July 2005, the provider agreed to bill Medicaid directly for services provided to DMR clients.

iii. During the period from January 2003 through June 2006, the Region purchased $17,906 in furniture from a vendor not on a DAS contract.

b) Lack of timely purchase orders- We noted four payments in our sample of 25 where the purchase order was created after the services were provided.

c) Lack of documentation and an improper advance- A Medicaid respite provider billed the Region $1,330 for seven days of respite service from June 21, 2005 to June 27, 2005. The provider was paid $7,790 which included an advance of $6,460 for 33 days of additional service from June 28, 2005 to July 31, 2005. According to the Medicaid provider agreement, payments can only be made for services provided; no advances are allowed. Also, DMR was unable to provide any proof of services provided for the billing period covering the 33 days paid in advance.

d) Lack of cell phone monitoring- During the audited period, the Region was not requiring its employees assigned cell phones to review and certify that their monthly billing statements were accurate and that no personal calls were on the billing. Our testing noted two individual statements for March 2005 showing 32 calls to out-of-State hotels, other cell phones and residential numbers. We could not determine whether any of these calls were for State business.

3. North Region-

a) Rent Subsidy Program- Our sample of North Region expenditures included four monthly payments to clients under the Rent Subsidy Program. For two of the four payments, we found that the required wage and utility payment documentation was not available for our review. The two monthly rent subsidy payments in the sample were $500 and $287, respectively.

b) Agreements signed late- Our sample showed all five respite agreements sampled were signed three to ten months late. In addition two services contracts were signed approximately one and three months late, respectively.

c) Payment for services not under contract-We noted payments to a vendor, totaling $9,065, from September 2003 to June 2005, for septic pumping service. The vendor was not on the existing contract for septic pumping services.

d) Fiscal Intermediary- Our test of expenditures included a payment of $77,155 to a fiscal intermediary during January 2004. We could not verify either the receipt of services or the accuracy of the sampled payment as detailed below:

i. Cost settlements totaling $63,652 for 12 individuals were not supported by any expenditure report from the fiscal intermediary. Cost settlements of $9,322 for three clients did not have verification signatures. Also, approved annual service plans were missing for three clients thus we could not verify whether the quarterly service budgets for the three clients, totaling $12,793, were correct.

ii. Cost settlements for the fourth quarter, for funds advanced in the 2002-2003 fiscal year, were not completed until January 31, 2004. This was well beyond the 120 day deadline which would have been October 28, 2003.

iii. 11 out of 14 ISA contracts reviewed were signed from one to six months after the effective service date.

e) ISA- Inappropriate Use of Funds- During April 2007, the Office of the Chief State's Attorney announced the arrest of three individuals for their participation in an alleged scheme to defraud the State by collecting payments for services never provided to a client under an ISA with DMR. The client was the son of one the individuals arrested, a former DMR employee. It was alleged that false documentation was submitted and that individuals were paid for services that were never provided. Questionable billings were originally noticed by DMR program staff which turned it over to the DMR internal audit section for review. In turn, their findings were turned over to the Agency's Investigations Unit. They contacted the Chief State's Attorney with their subsequent investigation resulting in the three arrests. Any repayments of misused funds will be known when the judicial process is completed.

4. West Region-

a) Contracts approved late- Our sample found two personal services agreements were approved by the Attorney General well over a month after the effective start date of the services. We also noted a contract for nursing services was signed late by all parties involved. The Agency informed us that it was an emergency situation due to a lawsuit; however, there was nothing in the agency's files to document that there was an urgent need to hire the service provider.

b) Lack of documentation- Complete supporting documentation was not on file for four of the 25 expenditure transactions sampled. In addition, we found an overpayment of $552 to a vendor because the timesheet supporting the vendor invoice was miscalculated.

c) Lack of timely purchase orders- Purchase orders for four of the nine transactions in our sample were dated after receipt of the goods or services.

d) Lack of controls over Individual and Family Grant Agreements- We found that the Region did not conduct occasional reviews to ensure that documentation of expenditures are maintained and that funds are used appropriately. West Region expenditures for Family Grants totaled slightly over $1,000,000 annually during the audited period.

e) Capital Equipment Purchase Fund- We found that five out of 16 Capital Equipment Purchase Fund expenditures tested were incorrectly charged to the Fund during the audited period. Three of the five expenditures were for items less than $1,000. One expenditure, for $5,612, involved numerous individual items costing less than $1,000. The other expenditure was $1,001 for a chair prescribed by a doctor for a client living at a provider residential setting. This chair was not included as part of the Region's inventory as required.

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. We implemented our Personal Service Agreements procedure on May 31, 2005 and we believe that we are in full compliance. However, there might be some unique circumstances where we need to provide necessary services for clients and the contract might not be able to be signed before services begin (although we recognize that these instances should be the exceptions and not the normal course of business). We have also implemented a DMR Purchasing Procedure on October 20, 2006, and are complying with it and State Statutes concerning all purchasing of commodities and services. Additionally, we implemented a protocol to ensure compliance with the DOIT Telecommunication Equipment Policy (version updated June 14, 2005) on October 24, 2005. Regional and Central Office staff have been trained on these procedures. As part of the Department's internal quarterly audits, we have been testing compliance to the Purchasing Procedure and will be testing the DOIT Telecommunication Policy compliance in our 2006-2007 fiscal year fourth quarter audit.

Numerous purchases were cited as conditions found. However, the Department uses General Letter 71 a and d where applicable and we believe that we use the General Letter appropriately to provide the purchasing authority in our general course of business.

Regarding the condition listed under the North Region-ISA-Inappropriate Use of Funds, the citation on the inappropriate use of funds was brought to the Audit Unit's attention from the North Region after concerns were made. The Audit Unit conducted an internal audit of the ISA expenditures and determined that there were numerous questionable transactions, but were unable to definitively determine any wrongdoing. Therefore the matter was turned over to DMR's Investigative Unit who, in turn, referred the matter to the Chief State's Attorney's Office for further investigation. It should be noted that any act of fraud against the State is an act that is impossible to protect against. The best controls that are currently in place identified the issues at hand and were acted upon. The DMR maintains that, when the issue was brought to our attention, we acted swiftly and appropriately to determine the outcomes that have been finalized."

Purchasing Cards:

Criteria: Standard procedures for the State of Connecticut Purchasing Card Program require the maintenance of a monthly purchasing log for each card to record purchases. The log must be signed by the cardholder and his/her supervisor or an assigned reviewer. Vendor invoices/receipts should be maintained to support any purchasing card transactions. The card should not be used for repetitive purchases which are available from vendors on State contract.

DMR policies for residential staff using purchasing cards requires each receipt for a purchase must be retained and signed by the purchaser and another staff member at the residential location who was present when the items arrived.

Budgets for purchasing cards are determined by the Department and adherence is expected.

Standard procedures also requires the Agency keep an up-to-date list of all active Department cards along with the names of those responsible for the card.

Conditions: 1. Central Office-

a) Lack of documentation- We found numerous instances where purchases were made without sufficient documentation. These included purchases involving travel costs and office supplies. Itineraries were not on file to document the travel costs and office supplies were only supported by a packing slip which did not indicate the cost.

b) Unapproved vendors- The Agency repeatedly used a nearby office supply store instead of State contract vendors. There was no indication that the supplies were rush orders or sole source items.

2. West Region-

a) Purchases not made by cardholder- We noted nine cases in the seven out of 18 monthly log sheets reviewed where an employee different from the cardholder made purchases.

b) Lack of documentation- Receipts for some items purchased on three out of 18 purchase card logs reviewed were missing. Documentation was lacking for three out of 13 employees reviewed.

c) Approvals after purchases- A review of one employee's purchase card logs for two months showed all eight purchases were approved by the supervisor after they had already occurred.

d) Excessive purchases- One employee had $5,000 in average monthly purchases, the maximum limit on the assigned card. There were numerous purchases for items possibly available on State contract. There were also numerous purchases on a daily basis to the same vendor. The employee was issued several letters of reprimand for exceeding his card balance, paying sales tax, not submitting receipts, allowing others to use his card and also using other employees' cards. There was no disciplinary action taken to either suspend or revoke his card privileges at the time of our review. After notifying the Central Office of our findings, the employee's card was cancelled on January 27, 2007.

Another employee had purchases averaging $5,000 a month, the maximum limit, for the months reviewed. There were numerous purchases of auto repair parts, occasionally more than one per day and not with vendors on State contract. We also noted one instance where the employee instructed the vendor to delay processing the charge for several days to avoid exceeding the card limit.

3. North Region-

a) Active list of cardholders- When we requested a list of active cardholders, the list provided by the agency also contained cardholders no longer active. Subsequently, we were informed the region distributed new cards during November and December 2006, reducing the number of active cardholders from 366 to 283.

b) Lack of documentation- Our testing found numerous cases where standard purchasing card logs weren't used. The tested logs that were used were often either incorrectly approved or not approved at all. Also, numerous receipts for purchases reviewed did not have the required signatures. For a particular group home operated by the State, receipts were either not signed or signed by a staff member who was not on duty when the purchaser returned.
c) Overspending of budget- For the 15 individuals sampled, further review showed four of the 11 group homes overspent their budget 11 times.

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 appears 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: "The Department implemented a Purchasing Card Procedure on April 1, 2006. Compliance to the DMR P-Card Procedure is tested as part of the Department's internal quarterly audit by monitoring by each Business Office in their day to day processing. On the quarterly basis, in a concerted effort to improve operations and oversight of Purchasing Card transactions, the Department's Audit Unit staff conducts compliance reviews of Central Office and each region, and the issues and responses are shared with the Office of the Comptroller."

Unapproved Use of Budgeted Appropriations:

Criteria: According to Section 4-87 of the General Statutes, when any specific appropriation becomes insufficient to pay its expenditures, the budgeted agency must obtain the Governor's approval to transfer funds from any other specific appropriation of such budgeted agency. No transfer to and from any specific appropriation of a sum or sums of the lesser of $50,000 or ten percent of the appropriation shall be made without the consent of the Finance Advisory Committee.

Condition: We noted that funds were being paid from the DMR South Region Community Residential Services State Grant appropriation for two separate DMR South Region appropriated accounts; the Rent Subsidy Program and Family Support Grant program. DMR did not obtain approval from the Governor to transfer funds between the above accounts. Such expenditures totaled $178,070, $372, 140 and $450,746 for the fiscal years ended June 30, 2004, 2005 and 2006, respectively.

Effect: The DMR South Region reallocated expenditures to a different appropriation account without approval from the Governor or the Finance Advisory Committee.

Cause: A Department official informed us that it has been the Department's interpretation that the definition of the Community Residential Services account allowed for purchases of rent subsidies, respite and family support. Such purchases are the specific purposes of the Rent Subsidy and Family Support Grant programs appropriations.

Recommendation: The Department should comply with Section 4-87 of the General Statutes before reallocating expenditures from its appropriated accounts. (See Recommendation 3.)

Agency Response: "The Department disagrees with the citation, based on a communication to OPM Secretary Genuario from our Chief Fiscal Officer proposing, through the budget process, to eliminate and consolidate SIDs used in our day and residential contracts. We proposed to eliminate five SIDs and have the funding transferred to the SID 16108 Employment Opportunities and Day Services and to SID 16122 Community Residential Services. However, we will make every effort to comply with State Statutes concerning the transfer of funds from appropriated accounts."

Auditors' Concluding Comments: We reiterate that the Department reallocated funds from two specific appropriations to a separate, different appropriation during the fiscal years ended June 30, 2004, 2005 and 2006 without approval as required by Section 4-87 of the General Statutes. Any current proposal to consolidate the involved appropriation accounts does not constitute a retroactive approval of the above.

State Grants:

Criteria: DMR contracts require the annual submission of either a Consolidated Operational Report (COR) or an Audited Consolidated Operational Report (ACOR) from the providers who are subject to State Single Audit standards (i.e. have contracts in excess of $100,000). The expenditures reported in COR must be reconciled to its audited financial statements. The comparison between the contract and expenditures results in a cost settlement if the provider's audited costs are less than the funds granted. DMR and the provider will split the remaining funds on a 50/50 basis.

DMR procedures for the review of the provider's COR/ACOR include verifying that the provider's reported operating revenues are equal to the grant amount received from DMR.

Condition: 1. Central Office- Our sample of ten provider cost settlements showed one provider did not reconcile expenditures and revenues reported on their COR to their audited financial statements.
2. South Region-

a) We found that the Region had not recovered contract surpluses, totaling $3,782, for three out of the 15 provider cost settlements reviewed until we notified the Agency of our findings.

b) We noted three providers reported operating revenue on their COR that was different from the amount paid by the Region. There was no reconciliation of the discrepancies available for our review.

3. North Region-

a) Our sample of 15 provider cost settlements found in one case, a surplus of $21,994 had not been recovered while in another case, it appeared that Region recovered $18,600 in excess of the correct amount.

b) Our test sample found operating revenues of four providers did not agree with payments made by the Region to the provider. The Region did not request revenue reconciliations from these providers to ensure the discrepancies were resolved.

4. West Region- Program revenues reported on the ACOR/COR did not correspond to the Agency's cost settlement for five out of 15 providers tested. There was also one case out of the 15 tested where program expenditures did not correspond to the amount reported on the Agency's cost settlement.

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. We would also note a contributing factor is personnel changes partly due to the consolidation of five regions to three.

Recommendation: The Department should ensure that all of its contracted providers' financial reporting is properly reconciled to audited financial statements. (See Recommendation 4.)

Agency Response: "The Operations Center underwent the loss of their contract manager, and the position remained vacant for a period of 10 months. After filling this position, in order to strengthen the process to ensure uniformity in approach and response, it was determined that the computation of cost settlements would be centralized and addressed solely by the Central Office Operations Center.

All non-profit private providers are required to reconcile their Annual Report of Residential and Day Services to their audited financial statements. On occasion, private providers may not submit the required reconciliation form, but the tracking is maintained by our Regional Resource Managers to ensure that all required documentation is submitted.

Additionally, in the Resource Manager's review of the Annual Report of Residential and Day Services (formerly known as the COR), they are comparing the contract funding to the operating revenue reported. In many of the instances, a variance was due to the private agency reducing the contract funding by a current or prior year cost settlement result. In the FY06 Annual Report, Central Office revised the Report to include a line solely to report the cost settlement results; therefore the instance of operating revenue being different for this reason should be eliminated. Also, as Resource Managers are finding variances, private agencies are required to document the difference and, if necessary, amend their Annual Report of Residential and Day Services to reflect the accurate funding received."

Filing Exemption for Private Provider:

Criteria: Section 17b-243 of the General Statutes states that rates paid to rehabilitation centers, including but not limited to centers affiliated with the Easter Seals Society of Connecticut, Inc., are set by the Department of Social Services (DSS) on forms prescribed by DSS. Therefore, they are exempt from COR/ACOR filing requirements. The exception has been in effect since 1989.

Those providers exempt from COR/ACOR filling requirements, such as Easter Seals, will file DMR form Schedule D to report expenditures. Generally, those providers filing a Schedule D have contracts under $100,000 and are exempt from State Single Audit filing requirements.

Condition: Our review found that DMR exempted the provider, Easter Seals, Inc., from COR/ACOR filing requirements in accordance with Section 17b-243 of the General Statutes. However, we note that although the above exemption is not limited to Easter Seals, DMR does not grant such an exemption to any other provider contracted for similar day services.

The Agency contracts with three providers affiliated with Easter Seals to provide day services. According to the Agency's cost settlement for the 2003-2004 fiscal year, expenditures for the three Easter Seals affiliates totaled $2,867,037, $2,041,924 and $1,802,754, respectively.

Effect: There is an inconsistency in reporting requirements for providers contracting for rehabilitative day services to DMR clients.

Cause: It appears the Agency interpreted Section 17b-243 as only exempting affiliates of Easter Seals, Inc. from COR/ACOR reporting requirements.

Recommendation: 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). (See Recommendation 5.)

Agency Response: “Section 17b-243 states that “The rate to be paid by the state to rehabilitation centers, including but not limited to, centers affiliated with the Easter Seal Society of Connecticut, Inc. for services to patients referred by any state agency, except employment opportunities and day services, as defined in section 17a-246 ...” The Statutes note Public Act 89-325 which notes that “the rate paid to rehabilitation centers, including but not limited to centers affiliated with Easter Seal Society of CT, Inc. for services to patients referred by any state agency, except employment opportunities and day~~s~~ services, as defined in Section 20 of this Act, shall be determined annually by the commissioner of income maintenance who shall prescribe uniform forms on which rehabilitation centers shall report their costs...” Section 20 of the Act defines “employment opportunities and day services” as supported employment, sheltered employment, community experience, adult day treatment and opportunities for older adults”. This unique legislation has been cause for some confusion over the years. Additionally, the limited financial data that is reported on the Attachment D does not provide the Department with enough information to be included in the Waiver Workgroup’s determination of rates for the services reported on the Attachment D. Therefore, based on the definition of employment opportunities and day services in the Public Act, and based on the limited financial reporting on the Attachment D, we believe that there should be no further exemption granted for COR/ACOR filings for a day program provider who contracts with DMR.”

Auditors Concluding Comments: While Section 17b-243 allows exemption from COR/ACOR filings for rehabilitation centers, it does not appear to provide for discretion in granting such exemptions.

Payroll and Personnel:

Background: Each of the three DMR regions separately process 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.Termination payments- Termination payments should be made in accordance with union contracts.

2. Payroll reconciliation- Since paychecks are generated by the Core-CT payroll module which is separate from the Core-CT financial module, it is a sound business practice to reconcile gross pay on the payroll register to total payroll journals posted to the general ledger for each bi-weekly pay period.

3. Workers’ Compensation- According to the State Accounting Manual’s workers’ compensation procedures, an adjustment check

should be issued to the employee within five days after receiving the first check from the third party administrator.

DMR procedures require certain documentation in order to be covered under workers' compensation.

4. Dual Employment- Section 5-208(a) of the General Statutes requires an employee working for more than one State agency to get approval from each agency, certifying the work hours and duties do not conflict with each other.

5. Proper internal control includes a segregation of duties between approving and recording attendance records.

Conditions:

1. Payroll reconciliation- We found that all three DMR Regions were not reconciling gross pay on the payroll register to expenditures posted to the general ledger during the audited period.

2. Termination payments-

North Region- Our sample of ten termination payments found three were inaccurate. Two employees were underpaid by $732 and $1,916, respectively, while another was overpaid by $825. We noted another terminated employee who did not receive sick or vacation accruals that he was otherwise entitled to resulting in an underpayment of $607.

West Region- Four out of ten termination payments sampled were calculated incorrectly. The overpayments were $23, $148, $357 and $6,933, respectively.

3. Workers' Compensation-

North Region- In our sample of ten, we noted six workers' compensation claims where adjustment checks were issued 11 to 51 days after the initial check from the third party administrator.

South Region- We noted two significant checks held in the petty cash fund as of January 2007. One was for $2,125 held since April 2005 under a court order for the third party administrator. Another was a check for $10,863 received in August 2006 from the third party administrator but not yet returned to the employee and/or the State.

West Region- Our sample of ten case files showed nine were missing one or more of the following required documents: (1) leave election form, (2) tax filing status form or (3) a medical certificate.

4. Dual Employment-

South Region- A DMR employee worked for another State agency from January until May 2005 without the approval of DMR Human Resources. During the period, the employee was paid $35,560 by DMR and $3,138 by the other agency.

5. Falsification of timesheets- Subsequent to our field review, the DMR West Region submitted a loss report dated May 4, 2007 disclosing the falsification of timesheets by an employee at the Southbury Training School. DMR determined that the employee had been overpaid $30,614, representing 849 hours, due to the submission of falsified timesheets over a three year period from 2004 through 2006. The overpayments were initially found by the payroll office which questioned the employee's claim of working on a holiday when the employee's position does not allow for it. A complete Agency review of the employee's attendance records was performed. In addition to falsely claiming to work on holidays, it was found that the employee would also alter his timesheet to reflect a full day of work when the sign-in sheet indicated he worked a partial day. As of May 2007, the matter has been turned over to the State Police for criminal investigation.

Effect: 1. Payroll reconciliation- The lack of timely payroll reconciliation can result in undetected discrepancies and incorrect charges to other departments.

2 Termination payments- Payments to terminated employees were incorrect.

3. Workers' Compensation- Adjustment checks were not issued to employees in a timely manner and a lack of documentation increases the risk of unjustified payments.

4. Dual employment- A lack of cross verification of hours worked at two agencies may result in undetected payments for identical hours or result in conflicts prohibiting the complete performance of the employee's assigned duties.

5. Falsification of timesheets- An employee was overpaid $30, 614 for 849 hours falsely submitted on timesheets.

Cause: 1. Payroll reconciliation- The Regions did not know how to reconcile the payroll during the audited period.

2. Termination payments- It appears the errors were due to both human error and flaws in the Core-CT system. We noted that the overpayment of $6,933 for a terminating West Region employee was caused by

entering the amount due, $178, as the number of hours to be paid. The employee had actually only accrued four and one-half hours vacation at termination.

3. Workers' Compensation- The North Region's delays in processing checks appear to be due to staff shortages. For the South Region, the delays are due to pending issues yet to be resolved. For the West Region, revised procedures resulted in documentation being sent directly to the third party administrator with no cross check to verify copies on such documentation is also kept at the agency.

4. Dual employment- A lack of oversight over dual employment between the two agencies.

5. Falsification of timesheets- Timesheets were altered after approval without detection by the supervisor due to a weakness in internal control procedures. Approved timesheets were returned to the employee altering his timesheet instead of directly going to the individual responsible for entering the time records into the payroll system. We were informed that Agency procedures had been revised to prevent reoccurrence of the above weakness.

Recommendation: The Department needs to improve its payroll and personnel operations. (See Recommendation 6.)

Agency Response: "Regarding payroll reconciliations, the Department will have finance and human resource staffs meet with representatives from Core-CT in order to develop acceptable protocols for the cited reconciliation of payroll register to the general ledger.

Since the advent of Core-CT Human Resource Management System in November 2003, many of the HR issues noted have been addressed and resolved; some were problems with the Core-CT software calculations themselves and needed to be worked out with Core-CT programmers; other problems were due to human error. Overall, we will continue to make every effort to comply with the Comptroller's Accounting Manual, Union Contracts, State Statutes, and Personnel Regulations. We will continue to be vigilant to be in compliance with all "rules".

The Southbury Training School employee in question is eligible to work on a holiday, but generally employees in his classification do not work on holidays. The West Region payroll staff first suspected a problem in January 2007 and reported it to the Human Resources Director, who immediately began a formal investigation. The full extent of the falsification was not determined until late April 2007, following interviews and a review of hundreds of documents. Once the misconduct was substantiated, steps were taken to file the Loss Report.

The employee in question retired from State service on May 1, 2007, and a report was made to the State Retirement Division as well as to the other required entities. The State Police is in the process of investigation this matters and DMR is fully cooperating. ”

Overtime Review:

Background: During November 2004, Governor Rell required all Commissioners and heads of State agencies to conduct an audit of the overtime policies and procedures within their agency. DMR complied with the request and issued a report dated December 30, 2004, that included several recommendations. We followed-up on the DMR’s responses to the recommendations and tested overtime payments for the top ten overtime earners for the West and North Regions as part of our audit review. The results of our review follow.

Criteria: 1. The North Region requires “Individual Overtime Verification” reports for staff working overtime at group home settings other than their assigned location.

2. According to Regional procedures issued in December 2004, employees should indicate the reasons for overtime when signing in on the standard staff sign-in sheet.

3. The current DMR North agreement with District 1199 requires distribution of overtime to volunteers with the least cumulative hours in the prior pay period. Two lists are to be maintained, preferred and non-preferred. Preferred are those regularly assigned to the group home, non- preferred for volunteers outside the group home. Priority is given to those on the preferred list.

4. Excessive work hours should be avoided to prevent adverse effects on quality of care. Overtime agreements with District 1199 also prohibit overtime volunteers from working triple shifts, or more than 16 consecutive hours per day without prior management approval. (These were the prior Eastern Region and North Central Region Overtime Agreements with District 1199.)

Conditions: 1. Test of timesheets- We sampled timesheets for the North Region’s ten highest overtime earners and noted the following:

a. The Region could not provide “Individual Overtime Verification” reports for five employees who earned overtime hours at several different public homes.

b. The hours and overtime codes on four timesheets did not agree with the sign-in sheets at the worksite. In total, 151 overtime hours could not be substantiated by records.

c. In our sample, we noted that for 18 of 21 group homes, the preferred and non-preferred overtime sign-up lists were not available for our review. 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 six employees working more than 16 consecutive hours per day on numerous occasions. It was also noted that these employees worked 7 days per week, with average work hours per day ranging from 13 to 15 hours.

2. Review of highest overtime earners- Upon analyzing the North Region's overtime spending for the fiscal years ended June 30, 2004, 2005 and 2006, we noted that overtime hours did not appear to be equally distributed among all eligible employees. The 20 highest overtime earners accounted for two percent of all employees earning overtime, however, their earnings totaled approximately 13 percent of the Region's overtime expenditures.

The North Region revised overtime monitoring procedures in December 2004 and have filled approximately 230 part-time and full-time direct care positions since July 2005. The combination of these efforts effectively halted the rate of increase of overtime expenditures for the 2005-2006 fiscal year and resulted in only a two percent increase, in comparison to an 11 percent increase for the 2004-2005 fiscal year. These efforts, however, did not successfully reduce the overtime earnings of at least nine of the highest overtime earners. These nine employees' overtime earnings continued to increase from eight to 21 percent while overall overtime increased just by two percent for the 2005-2006 fiscal year.

3. Follow-up on internal report recommendations- One of the recommendations in the DMR internal audit review of overtime, as requested by the Governor, stated that discrepancies found during the review should be reviewed and reconciled. The discrepancies included differences between timesheets and what was recorded on other documents such as unit schedules or logbooks. At the time of our review, approximately May 2006, the North Region had not followed-up to ensure any of the discrepancies had been reconciled.

Effect: Undetected errors may occur with overtime payments. Excessive work hours may compromise the quality of care, and overtime hours may not have been offered to those most eligible.

Cause: We were unable to determine the reason for timesheets not agreeing with other attendance records. There appears to be a lack of procedures for retaining Individual Overtime Verification Reports or reviewing overtime rotation. Also, supervisory staff will not take exception with the amount of overtime hours unless notified by the payroll department. Regarding the audit report recommendation, DMR believes that discrepancies noted during the internal audit, were thoroughly reviewed, however, they were unable to locate the documentation

Recommendation: The Department needs it to improve the monitoring and recordkeeping ~~for~~of overtime. (See Recommendation 7.)

Agency Response: “Regarding test of timesheets, “Condition 1a”, overtime verification logs are now required to be submitted with the employee’s timesheet for all “out of house” overtime.

For “Condition 1b”, audit practices have been established for an ongoing review to monitor the accuracy of all attendance reporting data. In response to auditor’s findings reported in an e-mail dated June 16, 2006, Human Resources Director requested Human Resources Specialist to conduct a bi-weekly audit of not less than 2 work sites per pay period to ensure accuracy of all attendance documents. This process includes the review of all employee timesheets, daily sign in sheets, bi-weekly schedules, and overtime logs. A written report of all findings is then forwarded to the residential manager for follow-up.

For “Condition 1c”, the agency has been negotiating with District 1199 to establish a new Overtime Agreement that would establish a single uniform agreement for the Region and prescribe specific procedures for the equitable distribution of overtime opportunities. There are currently two overtime agreements in effect – one for work sites located in the former North Central Region and one for work sites located in the former Eastern Region. Under the agreement covering work sites located in the former Eastern Region, each work site can determine its own method of distributing overtime as long as it is made available to employees on an equitable basis. There have been no grievances filed or other complaints from employees or staff claiming that overtime was not distributed equitably. We finalized the new agreement in February 2007 and are better able to ensure compliance with the overtime distribution procedures.

For “Condition 1d”, a bi-weekly audit review is conducted and violations are reported to the appropriate manager for disciplinary action. Payroll staff report any overtime agreement violations to the Human Resources Specialist who in turn reports the violations to the appropriate residential manager for either confirmation that the overtime in excess of 16 hours was approved (and an explanation as to why it was approved) or disciplinary action.

For "Condition 2", most overtime is voluntary – certain employees are more aggressive in seeking "volunteer opportunities" to work overtime. The overtime agreements establish procedures to ensure equitable distribution of overtime opportunities (as opposed to equitable distribution of overtime), and we are working (as described in the preceding response) to ensure better verification that procedures for equitable distribution are being followed; however, as long as some employees are more interested in working overtime than others, there will be variations.

Regarding the internal review of overtime, "Condition 3", internal procedures for documentation and monitoring of all time and attendance data including overtime procedures have been implemented and are reviewed for compliance and audit results are provided to residential managers. Effective with the 3/18-3/31/05 payroll period, the new procedures for bi-weekly schedules and daily sign-in sheets were implemented. A meeting was held to inform the residential managers of the new requirements regarding the standardization of time and attendance documents to be effective with the 3/18-3/31/05 payroll period."

Petty Cash Fund- South Region:

Criteria: Guidelines for operating petty cash funds are contained in the State Comptroller's Accounting Manual. Such guidelines state that the fund should be kept at the lowest amount possible. Also, proper internal control includes timely reconciliation of bank accounts and the periodic write-off of long outstanding checks.

Condition: 1. Failure to properly reconcile the checking account-The South Region had not been properly reconciling petty cash bank balances to the actual ledger balances during the audited period. The Region was using a calculated balance based on the prior month reconciliation instead of the actual ledger balance. For example, bank balances as of June 30, 2004 and 2005, were reconciled to the calculated book balances of $27,804 and $29,189, while the actual book balances were $35,554 and $37,692, respectively.

2. Failure to close out unused funds totaling $31,500- The Region's authorized petty cash balance was $34,500. Of that balance, $31,500 was used for a food program. With the introduction of purchasing cards, the Region no longer needed to use the petty cash fund for the food program. However, our review of the petty cash fund, as of January 3, 2007, found the Region had yet not closed out the $31,500 which had been inactive since October 2002. The remaining balance consists of $8,269 in voucher expenses to be reimbursed and $23,231 in

the checking account for the food program.

3. Failure to write-off outstanding checks-The Region's September 2006 bank statement listed 27 checks totaling $1,532 which were outstanding from one to two years.

4. Lack of accountability over cash on hand- The Region did not establish a set amount for cash on hand thus we were unable to reconcile petty cash. We noted that as of January 3, 2007, our cash count showed $646 on hand while the petty cash ledger indicated $698.

5. Unauthorized purchases- We noted four payments to an employee at a group home totaling $226. Of that amount, $133 was used for 33 purchases of coffee from June 30, 2004 to October 30, 2004.

Effect: The Agency failed to follow procedures established in the State Accounting Manual which greatly increases the risk of undetected losses.

Cause: There was a lack of oversight by Agency management to ensure the Petty Cash Fund was following established controls and procedures.

Recommendation: The Department needs to improve the controls and recordkeeping of the South Region Petty Cash Fund. (See Recommendation 8.)

Agency Response: "1) The South Region did complete monthly reconciliations of the business office petty cash checkbook ledger to the bank statement, but the food program ledger was not part of this reconciliation. When they solved the problem of the un-replenished and open status of the food ledger (see below) they were able to reconcile to the overall authorized petty cash fund of $34,500. They will review the bank reconciliation for the fund, bring it into balance, and return excess cash no longer needed. This was accomplished by April 30, 2007.

2) After review, it was determined that the region did not close out the petty cash food checking program and therefore could not reconcile the overall petty cash account. When we discovered the food ledger was still open, we replenished the final amount due the petty cash fund for the food program which now balances to the overall authorized limit of $34,500. We could not return excess cash until the fund was in balance.

3) We agree with auditor's finding on the failure to write-off outstanding checks and the cancellation of checks was completed by April 30, 2007. Procedures have been established and reviewed with staff.

4) Due to an oversight by the assistant accountant, one transaction was

not recorded in the ledger as of January 3, 2007. When recorded, the ledger exceeded cash on hand by $17.71. We made a credit entry to the ledger to balance to the cash box and we now reconcile the ledger to cash box daily and it has remained in balance.

5) Currently, all purchases are supported by receipts. Occasionally, a receipt will be lost or misplaced and we obtain a statement from the staff involved signed by staff and supervisor. We have required that all reimbursement requests be signed off and reviewed by that department's supervisor."

Property Control:

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

Conditions: 1. Central Office – The annual inventory report for June 30, 2005, had deletions of equipment totaling $45,420 without supporting documentation of approval. We were informed that the equipment was approved for disposal by DAS during fiscal years ending June 30, 1997 through 2000, but the documentation was not retained.

During our test of physical inventory, we noted two of 25 items sampled, totaling $9,200 were tagged but not included on the agency's inventory.

2. South Region – Building improvements totaling $56,089 and $146,143 for the 2003-2004 and 2004-2005 fiscal years, respectively, were not properly capitalized and included on the annual inventory report. Also for the fiscal year 2003-2004, 16 equipment items were included in capital additions with no dollar value. Upon further review, we found two items totaling $10,607 were active on the agency's inventory, five items could not be located and nine were disposed of, effective January 2007.

3. North Region – During our review of the annual inventory reports, we noted that additions to Furnishings and Equipment were understated by $131,810 for the 2004-2005 fiscal year. We also found that the following categories for 2003-2004 fiscal year were not supported: additions for Site Improvements, $70,053, Furnishings & Equipment, $457,660, Vehicles $29,600, and additions and the ending balance for

Other Property not owned by the State, $106,317 and $85,317, respectively.

4. West Region –

a) Annual inventory report- We found that for the 2003- 2004 fiscal year, all amounts reported on the annual inventory report were unsupported except for the beginning balances for Land, Art, and Stores and Supplies. For the 2004-2005 fiscal year, documentation was either lacking or nonexistent for amounts reported as additions, deletions, and the ending balances for all categories except Land. There were no amounts reported for "Other Property not owned by the State" to account for Fiduciary Fund assets for both fiscal years. Also, a transfer of property from the North Region, totaling $435,000, was not included on the region's inventory, nor reported on the 2004-2005 annual inventory report.

b) Test of inventory- During our physical inventory review of 25 equipment items, we were unable to locate three items, ten were found in a location other than that stated on the agency's inventory and one item could not be traced to the inventory because it was not tagged.

Our random inspection of 25 equipment items revealed that four could not be traced to the agency's inventory and the stated location was inaccurate for two items.

Effect: The agency's inventory and amounts reported on the annual inventory reports (Form CO-59) were incomplete and inaccurate.

Cause: 1. Central Office – The employee responsible for the disposed property retired and the Department was unable to retrieve the approval letters. The exclusion of equipment items from the inventory was an oversight.

2. South Region – With the merging of the former Eastern and South Central Regions, values of new purchases and transferred assets could not be determined. Also, the Business Office was not aware of the capitalization requirements regarding "Building Improvements".

3. North Region – Fiscal staff did not report the total cost for installation of a new telephone system in 2005. In the 2003-2004 fiscal year, the North Region merged with the former Eastern and North Central regions which may account for the lack of documentation.

4. West Region – Employees responsible for preparing the annual inventory report have since retired, therefore it is difficult to assess whether the information was misplaced or why the records are

incomplete. Also, personnel changes within the Business Office may have contributed to the lack of oversight. It appears as though the inventory is not updated in a timely manner to reflect changes in asset status or location. One item found during our random inspection was deemed lost.

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 9.)

Agency Response: "In order to ensure that fixed assets are handled in accordance with the State of Connecticut Property Control Manual, the Department issued a Fixed Asset Procedure (No.II.B.1.PR.005) on November 4, 2004. A subsequent revision was issued on January 30, 2006 to address a change in the definition of controllable items. Staff responsible for fixed asset administration have been in-serviced as well as those individuals who have been assigned the role of Asset Manager. These individuals are responsible for overseeing the fixed assets assigned to their location. The Department takes the responsibility of fixed assets very seriously and is performing quarterly internal audits to ensure that we maintain compliance with both our procedure and the State of Connecticut Property Control Manual.

With the fixed assets being implemented on Core-CT in the fixed asset module as of July 1, 2005, the Department reconciled the former fixed asset system balances to the Core-CT fixed asset system balances. Additionally, each quarter the Department's Audit Unit staff conduct compliance reviews of the fixed asset system, testing tagged assets to ensure that asset tracking to actual locations are being maintained and to ensure that purchases that should be tagged and added to inventory are being tagged and added to the Core-CT inventory. The results of these audits are shared with the Regional Directors and they in turn can provide valuable feedback to the asset managers on their handling of the fixed assets. Many staff report that positive feedback ensures continued compliance with the fixed asset procedures."

Late Deposits- West Region:

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. General Fund- Our test check found that we could not determine the receipt date for three of the 13 General Fund deposits due to a lack of receipt date documentation. Another deposit for $3,169 was a day late.

2. Welfare Fund- We reviewed a total of 47 receipts on the 15 deposits dates selected for testing. We noted eight instances where funds were not deposited within 24 hours of receipt. The late deposits ranged from $6 to $95,817 and were from one day to several months late. The $95, 817 deposit was two days late. Also, we were unable to verify whether 12 receipts were deposited in a timely manner due to a lack of receipt date documentation.

3. Activity Fund- Our sample review of receipts consisted of 15 deposits which included 45 individual receipts. We noted twenty instances where individual receipts were not deposited within 24 hours. Receipts ranged from $12 to $927 and were one to two days late. Also, we were unable to determine whether four individual receipts were deposited in a timely manner.

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

Cause: The delay for the General Fund was due to sending receipts received at Southbury Training School to the business office in Cheshire for deposit. Fiduciary fund deposit delays in the West Region were due to receipts received at many locations at the Southbury Training School that may not be forwarded to the business office in a timely manner.

Recommendation: The Department should deposit all receipts on a timely basis in accordance with Section 4-32 of the General Statutes. (See Recommendation 10.)

Agency Response: "Many of the cited late deposits were the result of regional sectors other than the Business Office receiving the deposits and not responding in a timely manner, which caused the West Region to be late with their depositing of funds. The West Region has revised its day to day operations, and all deposits are now only receipted in the Business Office to ensure that compliance with depositing the funds within 24 hours is maintained. This will ensure that the Department is in compliance with the Comptroller's Office State Accounting Manual and the CGS 4-32 for timely receipt of funds."

Fiduciary Funds:

Criteria: 1. The State Comptroller's Accounting Procedures Manual for Activity and Welfare Funds allows for loans to a client as long as the outstanding amount does not exceed $1,000. In the event the loan remains uncollectible, it may be written off in accordance with Section 3-7 of the General Statutes.

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

sheet for Activity Funds at the close of the fiscal year. Also, bank reconciliations should be completed, reviewed and retained for audit purposes on a monthly basis.

3. According to North Region Clients' Fund procedures, any unspent funds from advances should be returned to the business office within 15 days. For the West Region, funds are to be returned within five business days.

4. The Comptroller's Accounting Procedures Manual for Activity and Welfare Funds states payments for goods and services should be substantiated by vendor's invoices. Payments should also be supported by a purchase order or contract, when applicable.

Conditions: 1. South Region-

a) Welfare Fund- As of June 30, 2005, we noted seven loans listed as part of accounts receivable that exceeded the $1,000 limit for loans. These seven loans totaled $11,387. Also, we noted that a cash box with $475 kept by the Region office had no activity since November 2004 through the time we reviewed it during November 2006.

b) Clients' Fund- The June 30, 2004 Statement of Cash Receipts and Disbursements showed a net cash increase of $171,086 while according to the Balance Sheet, the actual cash increase totaled only $87,633. As a result, the Statement of Cash Receipts and Disbursements was overstated by $83,453.

2. North Region-

a) Bank reconciliations- The documentation of the monthly reconciliation of bank accounts for the Welfare, Activity and Clients' Funds was unavailable during the audited period. The details of outstanding checks for each month were not retained for our review and could not be retrieved from the accounting system.

b) Welfare Fund- Our test check showed four out of 15 disbursements, totaling $2,150, were not supported by vendor invoices/receipts.

c) Activity Fund- The Fund's balance sheets for June 30, 2004 and 2005, contained receivables totaling $44,409 which have remained uncollectible since June 30, 2002.

d) Clients' Fund- Our test of 15 disbursements showed three totaling $1,000 where remaining funds were not returned on a timely basis. In two cases, it took seven and eight months, respectfully, to return the funds while in the other case, the remaining $50 from monies advanced during June 2004 was retained as petty cash at the clients' group home.

3. West Region-

a) Activity Fund – Our review of 15 expenditures revealed two transactions totaling $4,407 where existing State contracts were not used to secure items purchased. Also, documentation to support three out of 15 transactions was incomplete.

b) Clients' Fund – During our review of expenditures, we noted two instances where receipts from funds received were not returned to Clients' Accounting within five business days as required by Region procedures.

Effect: South Region-

1. Welfare Fund- The Region failed to follow established loan limits which protect against the risk of uncollectible loans. Also, excess unused cash on hand increases the risk of loss.
2. Clients' Fund- A lack of reconciled financial statements can result in undetected losses.

North Region-

1. Welfare Fund – The lack of reconciled financial statements can result in undetected losses. Also, payments were not adequately supported.

2. Activity Fund – The balance sheet assets were overstated due to uncollectible amounts.

3. Client Fund – Non-compliance with operating procedures increases the risk of loss, and makes it difficult to safeguard and reconcile client funds in a timely manner.

West Region-

1. Activity Fund – The agency is not in compliance with purchasing regulations set forth by the Comptroller's Activity and Welfare Manual.

2. Clients' Fund – The agency is not in compliance with established procedures regarding client purchases and client accounts.

Cause: South Region- There was a lack of follow-up oversight after the departure of the individual responsible for handling the Welfare Fund. The erroneous cash receipts and disbursements statement was attributed to the lack of knowledge of staff regarding the particular automated accounting system used for recordkeeping.

North Region- The region erroneously relied on QuickBooks, the accounting software, to perform monthly reconciliations. Due to the nature of the system, information needed to complete the prior reconciliations cannot be retrieved. The lack of documentation was due to a departure from standard practices. Also, writing off uncollectible accounts receivable does not appear to have been a priority. Procedures regarding the timely return of unspent client funds were not observed by group home supervisors.

West Region- Funds received at various locations at the Southbury Training School are not always submitted to Client Accounting in a timely manner and documentation verifying the date received is not always maintained. For Activity Fund expenditures, it appears as though documentation to support the cost was not received or requested. Also, agency staff was not aware that purchasing regulations set forth in the Activity & Welfare Fund Manual applied to funds designated as Volunteer Services. In regards to Clients' Funds, employees in client residences do not always return necessary paperwork in a timely manner.

Recommendation: The Department should improve oversight and recordkeeping ~~for~~of its Fiduciary Funds. (See Recommendation 11.)

Agency Response: "The Department implemented our Personal Funds Financial Management Procedure effective February 1, 2007 for the maintenance and handling of client personal funds. All residential staff have been in-serviced on the procedure and forms. An important note to the Personal Funds Financial Management Procedure is the time period that residential staff must return receipts and/or change has been increased to 10 days. This will enable the staff and clients more time to access the community and conduct their financial transactions. This procedure will be incorporated into the quarterly audit that will be conducted in June 2007.

The Activity and Welfare Funds handling will be in accordance with the Comptroller's State Accounting Manual. Also, residential staff were in-serviced on the Welfare and Activity Funds policies and procedures that were revised.

Overall the Department will comply with the new DMR Procurement policy that state that all purchases, regardless of funding source, will adhere to standard state purchasing protocols and practices.

The Department has revised the protocol for the write-off of uncollectible receivables and all staff have been in-serviced on the updated protocol. The North Region has completed their write-offs and received approval as of May 15, 2007. The South Region is in the process of submitting their request to write-off their uncollectible receivables.

Additionally, North Region notes that the region did perform monthly reconciliation to the bank statement. All deposits and check withdrawal activity was validated monthly. We did not maintain a hard copy of the outstanding checks/adjusting entries to support our reconciliation. The computer software being used is not able to go back and reproduce these snapshots in time. Effective November 1, 2006, the region had produced the recommended accounting documentation."

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

Section 17a-215a of the General Statutes authorized an Advisory Commission on Services and Supports for Persons with Developmental Disabilities to advise the DMR Commissioner on the needs of persons with developmental disabilities other than mental retardation. The Advisory Committee completed its duties when it issued a final report on matters involving developmental disabilities during July 2002. We currently noted that the Advisory Commission was still authorized by the Statutes even though it was no longer functioning. We discussed the matter with the Agency and were advised they will seek to have the obsolete statute repealed.

RECOMMENDATIONS

Our prior report on the Department of Mental Retardation covered the fiscal years ended June 30, 2002 and 2003 and contained six recommendations. The following is a summary of those recommendations and the action taken by the Department of Mental Retardation.

Status of Prior Audit Recommendations:

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

- The accuracy of attendance records should be improved and employee performance reviews should be done on a timely basis. This recommendation has been restated due to additional findings. (See Recommendations 6.)

- The Department should comply with Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual* by improving its property control records. This recommendation is being repeated. (See Recommendation 9.)

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

- Management should follow-up on Community Training Home providers that do not submit attendance sheets in a timely manner. The Department has resolved this matter.

- The Department should improve oversight over its Fiduciary Funds. This recommendation is being repeated. (See Recommendation 11.)

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, lack of contracts, lack of purchase orders, lack of complete documentation, lack of cell phone monitoring and the incorrect use of the Capital Equipment Purchases 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 a documentation of transactions, using unapproved vendors, overspending of budgets, excessive card usage and allowing unauthorized employees to use the card.

3. **The Department should comply with Section 4-87 of the General Statutes before reallocating expenditures from its appropriated account.**

   Comment:

   During the audited period, the Department's South Region was using funds from the Community Residential State Grant Program appropriation for two separate South Region appropriated accounts without approval from the Governor as required by Section 4-87 of the General Statutes.

4. **The Department should ensure that all of its contracted providers' financial reporting is properly reconciled to audited financial statements.**

   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. We also noted cases where a surplus was not recovered.

5. **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)**.

   Comment:

   We note that Section 17b-243 of the General Statutes allows rehabilitation centers, including but not limited to Easter Seals Society of Connecticut, Inc. from COR/ACOR filing requirements. However, DMR has not granted the exemption to any provider except for Easter Seals.

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

Comment:

Our review found a lack of reconciling payroll ledgers to the general ledger, errors in termination payments and delays in processing workers' compensation checks, as well as incomplete files in the West Region.

7. The Department needs to improve the monitoring and recordkeeping of overtime.

Comment:

Our review found numerous errors and discrepancies in overtime recordkeeping.

8. The Department needs to improve the controls and recordkeeping of the South Region Petty Cash Fund.

Comment:

Our review of the South Region Petty Cash Fund found that the fund checking account was not properly reconciled, outstanding checks were not written off on a timely basis and $31,500 of the $34,500 authorized fund balance remained unused for over four years instead of being returned to the State.

9. 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:

Amounts reported on the Department's annual inventory reports were not consistently documented and/or supported by detailed records. Our physical tests of Agency inventory records showed numerous inaccuracies.

10. 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 Region had not been depositing State General and Fiduciary Funds receipts on a timely basis in accordance with Section 4-32 of the General Statutes.

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

Comment:

Our review found a lack of documentation of bank account reconciliations for North Region Fiduciary Funds, lack of documentation for several North Region Welfare Fund and West Region Activity Fund transactions, instances where remaining funds from Clients' Fund disbursements were not returned on a timely basis, and outstanding receivables not written-off 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 Mental Retardation for the fiscal years ended June 30, 2004 and 2005. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Mental Retardation for the fiscal years ended June 30, 2004 and 2005, 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 Mental Retardation complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Mental Retardation is the responsibility of the Department's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2004 and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Department of Mental Retardation is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Mental Retardation's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

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

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable conditions described above are not material or significant weaknesses.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

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

Donald R. Purchla
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts