

# STATE OF CONNECTICUT



**AUDITORS' REPORT  
DEPARTMENT OF PUBLIC HEALTH  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011**

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT



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October 30, 2013

**INTRODUCTION**

**AUDITORS' REPORT  
DEPARTMENT OF PUBLIC HEALTH  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 and 2011**

We have examined the financial records of the Department of Public Health (DPH) for the fiscal years ended June 30, 2010 and 2011. Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all state agencies.

This examination has therefore been limited to assessing DPH compliance with certain provisions of laws, regulations, contracts and grants, and evaluating DPH internal control policies and procedures established to ensure such compliance. This report on that examination consists of the Comments, Recommendations and Certification that follow.

**COMMENTS**

**FOREWORD:**

DPH operates primarily under the provisions of Title 19a, Chapters 368a through 368l, 368r, 368v, 368x, and Title 20, Chapters 369 through 388, 393a, 395, 398, 399, 400a and 400c of the General Statutes.

DPH states in its statutory responsibility statement, that it “is the center of a comprehensive network of public health services, and is a partner to local health departments for which it provides advocacy, training and certification, technical assistance and consultation, and specialty services such as risk assessment that are not available at the local level.” DPH provides health information to the state government and local communities that is “used to monitor the health status of Connecticut’s residents, set health priorities and evaluate the effectiveness of health initiatives.” “The agency is a regulator focused on health outcomes, maintaining a balance between assuring quality and administrative burden on the personnel, facilities and programs

regulated.” According to its Health Care Systems Branch Statement, DPH “regulates access to health care professions and provides regulatory oversight of health care facilities and services.”

The Commissioner of Public Health is responsible for the overall operation and administration of the department, as well as administering the state’s health laws and public health code. Under the provisions of Section 19a-14 of the General Statutes, DPH is also responsible for all administrative functions relating to various boards and commissions and licensing of the regulated professions. The duties of the various boards and commissions consist of assisting the department in setting standards for the various professions, examining applicants for licensure, and taking disciplinary action against any license holder who has been found to engage in illegal, incompetent, or negligent conduct.

Robert Galvin, M.D. was appointed commissioner in December 2003 and served in that capacity until his retirement in January 2011. Jewel Mullen, M.D. was appointed commissioner in February 2011 and served throughout the remainder of the audited period.

Public Act 09-3, effective October 2009, established the Office of Health Care Access (OHCA), as a division within DPH. Prior to October 2009, OHCA operated within DPH for administrative purposes only. OHCA was audited under separate cover for the fiscal years ended June 30, 2010 and 2011.

Also, during the audited period, the Commission on Medicolegal Investigations operated within DPH for administrative purposes only.

**Significant Legislative Changes:**

Sections 1 through 38 of Public Act 09-3, September Special Session, effective October 6, 2009, “makes a number of changes, primarily technical, to merge the existing OHCA with DPH. It establishes an OHCA division, in DPH and under the direction of the DPH commissioner, as a successor to the former, independent OHCA. OHCA will no longer have its own commissioner.”

Public Act 09-12, effective upon passage, “allows money in the Clean Water Fund's drinking water federal revolving loan account to be used in specific ways to provide financial assistance for the construction of eligible DPH approved drinking water projects and for other federally authorized purposes.”

Public Act 09-95, effective October 1, 2009, “authorizes DPH and UConn Health Center (UCHC), within available appropriations, to develop a Connecticut Health Information Network (CHIN) plan. This plan is to integrate state health and social services data within and across UCHC, OHCA, DPH, the Department of Developmental Services (DDS), and the Department of Children and Families (DCF).”

Public Act 09-232, effective October 1, 2009, “makes numerous substantive and minor changes to laws governing DPH programs and health professional licensing. DPH program changes relate to funeral home practices and death records, the Connecticut Tumor Registry, mass gatherings, home health agency inspection schedules, water company lands and geothermal wells, health information technology, emergency medical services, and day care licensing.

The professional licensing changes affect physicians, physician assistants, nursing home administrators, dental hygienists, physical therapists, veterinarians, barbers and cosmeticians, audiologists, speech and language pathologists, and radiographers.”

Public Act 10-117, effective October 1, 2010, “makes numerous substantive and minor changes to laws governing DPH programs and health professional licensing and certification.” Certain sections of Public Act 10-117 made the following changes: “the transfer of the Drinking Water State Revolving Fund administration to DPH, a new DPH laboratory in Rocky Hill, establishment of the “Health Information Technology Exchange of Connecticut” as a quasi-public agency for health information technology (HIT) and health information exchange (HIE) in the state.”

Public Act 10-179, effective July 1, 2010, “reserves \$3 million of a \$6 million bond authorization to (1) DPH for grants for hospital-based emergency service facilities and (2) community health centers and primary care organizations for equipment purchases and facility improvement and expansion, including land or building acquisition, for enhancements to the accessibility and efficiency of health care services in Hartford.”

**RÉSUMÉ OF OPERATIONS:**

**General Fund Receipts:**

General Fund receipts of DPH totaled \$39,615,522 and \$41,751,541 for the 2010 and 2011 fiscal years, respectively. A comparative summary of General Fund receipts, as compared to the previous fiscal year, is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Revenues and Receipts:</b>			
Licensure, Registration and Inspection Fees	\$24,910,844	\$30,908,423	\$32,346,966
Title XIX State Survey and Medicaid Funds	3,757,127	2,471,807	3,867,504
Expenses Recovered, Hospitals	-	2,276,207	3,083,546
Fees for Laboratory Services	977,736	1,198,826	1,488,799
Birth, Marriage and Death Certificates	134,864	208,436	230,055
Fines, Civil Penalties, and Court Costs	459,887	392,526	299,143
Miscellaneous	17,900	(32,812)	(74,533)
Refunds of Prior Year Expenditures	<u>698,876</u>	<u>2,192,109</u>	<u>510,061</u>
<b>Total General Fund Receipts</b>	<b><u>\$30,957,234</u></b>	<b><u>\$39,615,522</u></b>	<b><u>\$41,751,541</u></b>

Due to the previously mentioned OHCA merger with DPH, expenses recovered from hospitals to fund the operations of OHCA were included in the revenues shown by DPH for the audited period.

Public Act 09-3, effective October 6, 2009, increased many of the licensure fees for the various health professionals under its regulation, resulting in the significant increase in revenues for licensures during the two fiscal years under review.

Title XIX State Survey and Medicaid funds were appropriated to DPH for the survey and inspection of nursing facilities and intermediate care facilities. Expenditures were reported to the Department of Social Services, and matching federal funds were drawn down and deposited as revenue of the department.

General Fund expenditures totaled \$83,600,190 and \$82,878,542 for the 2010 and 2011 fiscal years, respectively. A comparative summary of General Fund expenditures, as compared to the previous fiscal year, is presented below:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>
<b>General Fund Expenditures:</b>			
State Aid and Other Grants	\$ 44,081,749	\$ 32,913,906	\$ 33,708,051
Salaries and Wages	38,145,227	35,285,975	34,765,854
Purchased Commodities	10,688,291	10,173,808	10,424,164
Information Technology	3,009,133	1,310,945	528,008
Professional Services	2,650,239	1,955,210	1,610,216
Other Services	1,154,346	898,387	922,380
Rental and Maintenance - Equipment	445,243	428,688	385,208
Other Miscellaneous Expenditures	<u>884,345</u>	<u>633,271</u>	<u>534,661</u>
<b>Total General Fund Expenditures</b>	<b><u>\$101,058,573</u></b>	<b><u>\$83,600,190</u></b>	<b><u>\$82,878,542</u></b>

State Aid and Other Grants and Salaries and Wages represent over 80 percent of total expenditures during the audited period. State Aid and Other Grant expenditures decreased significantly over the audited period primarily due to decreases in funding for the following programs: AIDS services, breast and cervical cancer detection and treatment; community health services and local and district departments of health. The decrease in Salaries and Wages during the audited period reflects the loss of staff due to the 2009 Retirement Incentive Program.

**Federal and Other Restricted Accounts:**

DPH's Federal and Other Restricted account receipts, as recorded by the State Comptroller, totaled \$152,741,351 and \$170,535,872 for the fiscal years ended June 30, 2010 and 2011, respectively. The largest federal programs comprising these receipts were: The federal Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Ryan White Program. The two programs averaged approximately \$45,000,000 and \$15,000,000 over the two fiscal years under review, respectively. The increase in revenues between fiscal year 2010 and 2011 is made up of a number of new programs and increases in existing programs.

Expenditures from this account, as recorded by the State Comptroller for the fiscal years ended June 30, 2010 and 2011, totaled \$161,248,654 and \$160,551,225, respectively. A summary of these expenditures is presented below:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>
<b>Federal and Other Restricted:</b>			
Grants and Grant Transfers	\$ 55,758,788	\$ 69,852,375	\$ 76,724,178
Purchased Commodities	38,429,458	39,068,668	28,602,207
Personnel Services and Employee Benefits	32,127,845	32,387,102	36,287,455
Other Charges	8,995,610	6,290,636	6,394,755
Information Technology	2,711,493	2,622,532	4,718,552
Other Services	2,018,916	4,023,527	3,107,679
Professional, Scientific, & Technical Services	1,987,015	5,892,422	2,792,961
Other Miscellaneous Expenditures	<u>1,381,628</u>	<u>1,111,392</u>	<u>1,923,438</u>
<b>Total Federal and Other Restricted</b>	<b><u>\$143,410,753</u></b>	<b><u>\$161,248,654</u></b>	<b><u>\$160,551,225</u></b>

The increase in expenditures for Grants and Grant Transfers primarily reflects funding increases during the audited period for the Stem Cell Research program, ARRA Construction, and the Ryan White Program. Purchased Commodities is comprised mainly of food and beverage charges of the Special Supplemental Nutrition Program for the Women, Infants, and Children grant (WIC). The decline in Purchased Commodities line, related to the WIC program, corresponds with the decline in average total participation in the program, from an average of 60,148 participants in fiscal year 2009 to approximately 56,083 participants in fiscal year 2011.

**Capital Equipment Fund:**

Capital Equipment Fund expenditures totaled \$311,194 and \$1,486,297 during the fiscal years ended June 30, 2010 and 2011, respectively. Most of these amounts were used to purchase medical, laboratory, and data processing equipment.

**Special Revenue Fund - Grants to Local Governments and Others:**

Grant expenditures to nonprofit providers and community health agencies for facility improvements amounted to \$5,063,390 and \$2,691,570 for the fiscal years ended June 30, 2010 and 2011, respectively. These grants are from the Small Town Economic Assistance Program (STEAP) fund to support economic development, community conservation and quality of life projects for localities. STEAP funds can only be used for capital projects and cannot be used for programmatic expenditures or recurring budget expenditures. As a result, fiscal year expenditures vary based upon approved, eligible projects.

**Capital Projects Fund – Capital Improvements and Other Purposes:**

Capital Projects Fund expenditures were \$0 and \$27,786 during the fiscal years ended June 30, 2010 and 2011, respectively.

**Biomedical Research Trust Fund:**

Biomedical Research Trust Fund expenditures were \$1,896,776 and \$1,716,487 during the fiscal years ended June 30, 2010 and 2011, respectively.

**Drinking Water Federal Loan:**

Drinking Water Federal Loan expenditures were \$2,998,467 and \$4,414,872 during the fiscal years ended June 30, 2010 and 2011, respectively.

## **PROGRAM EVALUATIONS:**

### **I. Accountability of Pharmaceuticals:**

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. The Department of Public Health has a Sexually Transmitted Diseases Control Program. The program's mission as described on the Department of Public Health website, "is to reduce the occurrence of sexually transmitted diseases (STD), through disease surveillance, case and outbreak investigation, screening, preventive therapy, outreach, diagnosis, case management, and education." Similarly, the mission of the department's Connecticut Tuberculosis (TB) Control Program is to "interrupt and prevent transmission of TB, prevent emergence of drug-resistant TB, and reduce and prevent death, disability, illness, emotional trauma, family disruption, and social stigma caused by TB." Questions arising from our standard audit procedures for equipment inventory and supplies resulted in further inquiry and review of the department's accountability over pharmaceuticals for the treatment of tuberculosis and sexually transmitted diseases. Our extended audit procedures resulted in the following related findings that have been included in this audit report as a program evaluation.

### **Returns and Reconciliations of Pharmaceuticals (inclusive of those for Tuberculosis and Sexually Transmitted Diseases):**

*Background:*

DPH orders and receives a number of pharmaceuticals, including those for tuberculosis and sexually transmitted diseases, from a sole supplier. A significant portion of those pharmaceuticals are distributed to health care providers throughout the state based upon provider requisitions. The remaining inventory is retained by DPH as a safety margin to prevent stock outages.

Many pharmaceuticals, including those for tuberculosis and sexually transmitted diseases, have expiration dates. The expiring or expired pharmaceuticals held by health care providers are returned to DPH by mail or retrieved by DPH outreach workers. Expired pharmaceuticals, including those that expired in the custody of the department, are moved to boxes for pick up by a returns vendor that specializes in these returns.

The returns vendor sorts the expired pharmaceuticals based upon whether they can be returned to the original manufacturer for credit or are non-returnable and need to be disposed of. The returns vendor then issues a report to DPH on the breakdown of the pharmaceuticals into returnable and non-returnable categories. The report includes the amount of credits to be issued to the department's sole supplier of the pharmaceuticals.

The supplier in turn issues a credit memorandum to the department. The credits are then applied to the department's open supplier invoices.

*Criteria:* The State Property Control Manual states that “a separate perpetual inventory should be maintained for all stores and supplies if the estimated value of the entire inventory is over \$1,000. Due to the rapid rate of turnover, strong internal control is especially important. A perpetual inventory system can provide the strongest possible internal control over the inventory of merchandise.”

The Office of the State Comptroller’s Internal Control Guide has internal control questionnaires applicable to all state agencies. The applicable property internal control questions for segregation of duties is as follows:

- Are responsibilities for the procurement function segregated from the project accounting and property records functions? Are physical inventories of all property taken annually by persons not involved in maintaining property records?

Pharmaceuticals that are returned and either restocked or expired, as well as those that expired on the shelf, should be individually counted and recorded prior to being turned over to the returns vendor.

The department’s physical count of expirations turned over to the returns vendor should be reconciled with the amount reported by the returns vendor as received. In addition, the credit memorandum issued by the supplier to DPH should be reconciled to the report issued by the returns vendor of returnable and non-returnable pharmaceuticals.

*Condition:* Our review of the controls over the return of expired pharmaceuticals during the audited period found the following:

- The recording function and custody of asset function are often performed by the same employee.
- The department does not perform a count nor does it keep a record of returned and shelf expired pharmaceuticals that are periodically turned over to the returns vendor. As a result, no department record is available to reconcile to the amounts reported as received by the returns vendor.
- The department does not reconcile the credit memorandum issued by the sole supplier to the report issued by the returns vendor of returnable and non-returnable pharmaceuticals.
- The credit memorandum from the supplier is retained for a nonspecific period of time before it is discarded.

*Effect:* The quantity of pharmaceuticals released to the returns vendor cannot be verified because the department failed to keep accurate records. Consequently, the department is forced to accept the expired pharmaceutical counts reported by the returns vendor. In the absence of reconciliations between the supplier credit memoranda and the returns vendor reports, it is uncertain whether the department received all applicable credits for the expired and returnable pharmaceuticals.

*Cause:* Inventory recordkeeping controls over pharmaceuticals are insufficient when accounting for expired pharmaceuticals returned to the manufacturers. The credit memorandum issued by the supplier is not reconciled to the report of returnable and non-returnable pharmaceuticals. There is not a separation of duties between those responsible for the custody of pharmaceuticals and those who record their receipt, distribution, and return.

*Recommendation:* The Department of Public Health should establish controls, in accordance with the State Property Control Manual, that reinforce the separation of duties between those responsible for the custody of pharmaceuticals and those who record the receipt, distribution, and return of pharmaceuticals.

All pharmaceuticals, whether received, distributed, or returned, should be accounted for in the department's inventory records. A record of all expired pharmaceuticals turned over to the returns vendor should be kept and reconciled to the quantity of pharmaceuticals that the returns vendor reported as received. In addition, the credit memoranda, issued by the supplier to DPH, should be reconciled to the returns vendor reports. Those reports detail the returnable and non-returnable pharmaceuticals. (See Recommendation 1.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. Periodically the STD and TB programs will have pharmaceuticals that expire and are sent to a "returns" 3rd party vendor. This vendor disposes of the medications and arranges for the Department of Public Health to receive manufacturer credits. The Department of Public Health is in the process of implementing a perpetual inventory system for these pharmaceuticals in Core-CT. The 3rd party returns vendor has been added in the system as a user. This will allow the Department of Public Health to reconcile the credit memorandum issued by the supplier to the report issued by the returns vendor.

Core-CT security roles are being reassigned so that an individual that is issuing the products cannot receive items nor do inventory adjustments. A new inventory system has been in production since July 1, 2013 using the Core-CT financial system. Improvements are continually being made to refine the system."

**Program Management:**

*Criteria:* Connecticut General Statutes Section 19a-7j requires DPH to:

“(B) purchase, store and distribute (i) vaccines to prevent hepatitis A and B in persons of all ages, as recommended by the schedule for immunizations published by the National Advisory Committee for Immunization Practices, (ii) antibiotics necessary for the treatment of tuberculosis and biologics and antibiotics necessary for the detection and treatment of tuberculosis infections, and (iii) antibiotics to support treatment of patients in communicable disease control clinics, as defined in section 19a-216a.”

Connecticut General Statutes Section 19a-216a states that:

“(a) For the purposes of this section: (1) “Communicable disease control clinic” means a state or local health department funded clinic established for the purpose of providing readily accessible treatment of persons with possible sexually-transmitted diseases and their sexual contacts or persons with possible tuberculosis and their contacts.”

Purchases of pharmaceuticals should be based on the health service provider’s actual demand, and should be made in such a way that prevents under ordering, as well as over ordering that results in excess carrying costs and increased numbers of expirations. Throughout the fiscal year, order points, with built-in safety margins, should be established for each pharmaceutical based upon actual usage by service providers. Pharmaceutical inventory adjustments, due to book-to-physical differences, should be analyzed, explained, reviewed and approved by management before they are recorded in the department’s records.

*Condition:* Our review of tuberculosis and sexually transmitted diseases pharmaceutical management found the following:

- Typically, the department orders tuberculosis and sexually transmitted disease pharmaceuticals based upon internal data such as prior year requests from providers and existing inventory levels. In addition, orders are affected by forecasted changes in preferences by health care providers.
- Our analysis of the department’s inventory records found some pharmaceuticals that were expired or unaccounted for. These pharmaceuticals appeared to have been included in the records as distributed to health care providers rather than management approved adjustments to ending inventory.

- The department does not establish order points, with built-in safety margins, throughout the fiscal year for any of its pharmaceuticals. As a result, holding periods are not minimized to reduce expirations.
- The department does not monitor the amount of pharmaceuticals the health care providers actually have on hand or the amount that they have returned to the department as expired or unused. In the absence of such data, there is an increased risk of excess carrying costs and expirations from purchasing pharmaceuticals too far in advance.
- Requisitions for TB pharmaceuticals are not reviewed by management prior to approval for purchase.

In support of the conditions noted above, we present the following instances of STD and TB pharmaceutical purchases in excess of need:

- Purchases of the STD drug MetroGel increased from 360 units in fiscal year 2010 to 5,184 units in fiscal year 2011. The reported distributions in fiscal years 2010 and 2011 for MetroGel increased from 372 to 3,036 units, a factor of eight. However, the reported distributions for fiscal year 2011 combined the distributed units with returned or expired units without a breakdown by type.
- The TB drug Cycloserine in fiscal year 2010 had 108 units ordered with 168 units on hand and distributions of 34 units. Based upon those reported values the ending inventory for this drug should have been 242 rather than the 128 indicated on the department's worksheet. The department could not account for the 114 unit difference (distributed, expired, returned) valued at approximately \$22,152.
- The TB drug Cycloserine in fiscal year 2011 had 173 units ordered with 128 units on hand and distributions of 77 units. Based upon those reported values the ending inventory for this drug should have been 224 rather than the 20 indicated on the department's worksheet. The department could not account for the 204 unit difference (distributed, expired, returned) valued at approximately \$39,523.
- The STD drug Cefixime (Suprax) in fiscal year 2010 had 144 units ordered with 26 units on hand. Fiscal year 2011 orders were 192. The reported distributions to providers in fiscal years 2010 and 2011 increased from 26 to 238 units, a factor of nine. However, the reported distributions for fiscal year 2011 combined the

distributed units with returned or expired units without a breakdown by type.

*Effect:* Without established order points, based upon the actual needs of health care providers, inventory is ordered and maintained at excessive levels resulting in expirations occurring at a rate and in amounts greater than necessary.

*Cause:* The department has not established a perpetual inventory system for tracking its pharmaceutical inventory. It does not collect data from health care providers concerning their pharmaceutical inventory, returns, and expirations. The department doesn't use order points for making its purchases of pharmaceuticals. Requisitions for TB pharmaceuticals are not reviewed by management. Pharmaceutical inventory adjustments, due to differences between year-end physical inventories and the calculated year end values, are not reviewed and approved by management.

*Recommendation:* The Department of Public Health should establish policies and procedures to ensure that purchases of pharmaceuticals are based on the actual demand of health service providers. The purchases of pharmaceuticals should be made in such a way that prevents under ordering, as well as over ordering that results in excessive carrying costs and increased numbers of expirations. Also, the department should develop order points throughout the fiscal year for making its purchases of pharmaceuticals. Adjustments to pharmaceutical inventory should be analyzed, explained, reviewed, and approved by management before they are recorded in the department's records. (See Recommendation 2.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. The Department of Public Health is in the process of implementing a perpetual inventory system in Core-CT to allow program staff to manage their inventory in a much more efficient manner. Returns of pharmaceuticals from providers will be "returned to inventory" in the Core-CT system. This creates a record of receipt and enables the Department of Public Health to better reconcile end of year inventory amounts. This will help the Department of Public Health to better monitor usage and trends.

The Core-CT Inventory system allows the establishment of minimum and maximum inventory quantities. This offers staff the ability to set pre-established ordering points based on current inventory quantities. The orders for all medications are created in the eProcurement module of Core-CT and must be approved by the program supervisor prior to the orders being sent to the pharmaceutical vendor.

A new inventory system has been in production since July 1, 2013 in the Core-CT financial system. Improvements are continually being made to refine the system”

### **Pharmaceutical Inventory Controls**

*Criteria:* The State Property Control Manual states that “a separate perpetual inventory should be maintained for all stores and supplies if the estimated value of the entire inventory is over \$1,000. Due to the rapid rate of turnover, strong internal control is especially important. A perpetual inventory system can provide the strongest possible internal control over the inventory of merchandise.”

“The record card or system should contain the following data: 1. Item Type; 2. Location; 3. Maximum Number - that should be on-hand; 4. Minimum Number - that should be on-hand before reordering; 5. Date Column; 6. Purchased Column, a. Quantity received, b. Unit Cost, c. Total Dollar Value; 7. Distributed Column, a. Units Distributed, b. Unit Cost, c. Total Dollar Value; 8. Balance Column, a. Units available, b. Unit Cost, c. Total Dollar Value.

*Condition:* It appears that the STD and TB programs have significant amounts of inventory unaccounted for as identified in our review of their inventory records. Unaccounted inventory is the difference between the calculated balance of inventory (beginning inventory, add purchases, less distributions, expirations, returns and shrinkage equals ending inventory) that should be on hand at fiscal year-end versus the actual amount on hand determined by a physical inventory count:

- In fiscal year 2009, the amount of unaccounted TB and STD program inventory was approximately \$237,072 and \$141,295, respectively. For fiscal year 2010, the amount of inventory unaccounted for in the TB and STD programs was approximately \$104,314 and \$30,061, respectively. In fiscal year 2011 the TB program had inventory valued at \$112,456 that could not be identified as distributed, expired or returned. The valuation of STD expirations in 2011 could not be calculated as distributions and expirations were combined in their inventory worksheet.

Other conditions noted as part of our review include:

- There is no perpetual inventory system in place for the inventory of TB and STD pharmaceuticals stored at the department. They currently maintain a logbook of receipts and an Access file of disbursements.

- There is no record of drugs that have been returned to the department from providers or that have expired. The records kept do not meet the data requirements of the State Property Control Manual.
- The amount of pharmaceuticals reported as distributed by the TB program did not match the count recorded in the corresponding Access file for fiscal year 2010. The difference was approximately 600 items.

*Effect:* The inventory records for the TB and STD pharmaceutical programs are incomplete and inaccurate. The department has incurred costs for pharmaceuticals that could not be accounted for.

*Cause:* The department has not established a perpetual inventory system to track and account for its pharmaceutical inventory. As such, it was not possible to determine the disposition of the unaccounted for pharmaceutical inventory (distributed, expired, returned, shrinkage).

*Recommendation:* The Department of Public Health should establish a perpetual inventory system for its pharmaceutical inventory in accordance with the requirement's found in the State Property Control Manual. (See Recommendation 3.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. The Department of Public Health is in the process of implementing a perpetual inventory system in Core-CT. The implementation tracks the receipt, distribution, and any returns from end users using a First In First Out inventory method. This allows the STD and TB Programs to more efficiently track, monitor and reconcile end of year inventories for reporting to the Office of the State Comptroller. A new inventory system has been in production since July 1, 2013 in the Core-CT financial system. Improvements are continually being made to refine the system."

### **Contract Terms and Deliverables:**

*Background:* During the audited period, the department contracted with approximately 11 local health care providers of treatment and prevention programs for sexually transmitted diseases and tuberculosis.

*Criteria:* Contractors agree to comply with the terms and conditions set forth in its contract with DPH, including but not limited to the requirements and measurements for scope of services, contract performance, quality assurance, reports, terms of payment and budgets.

- The key provision in the contract applicable to this recommendation is as follows: “The contractor shall utilize the standardized department’s STD medical record as provided by the STD Control Program, enter the data from the medical record into the established database, provided by the department and provide the department with monthly clinic activity reports no later than 30 days following the end of each reporting month.”
- The collection and analysis of contractor data is essential to measure performance against intended outcomes. The Office of Policy and Management procurement requirements specifies that completed contracts must include a contractor evaluation.
- Activity report data collected and maintained by contractors in a standardized database should be transmitted to the department using web-based data links.

*Condition:* Our observations and testing of the STD/TB Unit contracts for the key provision noted above found the following:

Prior to January 2011, the department did not collect the monthly clinic activity data from contractors. We were informed that subsequent to that date, the department began collecting clinic activity data on a quarterly basis from most of the health care providers. The clinic activity data was collected by a department employee who drove to the local health care providers where the data was downloaded onto a flash drive.

We were informed that only the data collected for two cities selected by the Centers for Disease Control (CDC) was used to meet CDC reporting requirements. The collected data was not formally used by DPH to measure program outcomes.

During the period under review, we were informed that no program monitoring site visits had been performed.

*Effect:* In the absence of a review and analysis of activity data and without the benefit of site visits, the department has fewer tools to properly evaluate contractor performance.

*Cause:* Department officials indicated that insufficient staffing is the reason for the conditions noted above.

*Recommendation:* The Department of Public Health should develop and use the tools necessary to properly evaluate contractor performance. Those tools may include but are not limited to the collection and review of clinic activity data and program site visits. (See Recommendation 4 and Program Evaluation III on Contract Management for related recommendations.)

*Agency Response:* “The department agrees with the finding. The STD program will review and revise the contract language to more closely align with the scope of work necessary to operate and monitor the programs. The “clinic activity report” described in the current contract language provides data that is already available to the STD program through the STD MIS system and laboratory records related to the services provided by each of the contracted clinics. The “clinic activity report” provides additional data that is not available through the STD MIS system and laboratory reports, but some of that information is not necessary for the operation of the program. Therefore, contract language will be reviewed and revised as appropriate to reflect deliverables that are more meaningful and appropriate. The important data elements of the current deliverables (total number of client visits to each clinic, total number of gonorrhea and chlamydia tests conducted at each clinic, total number of positive chlamydia, gonorrhea, and syphilis cases identified at each clinic, the total number of people treated at the clinic and the timeline for that treatment) are available through alternate data sources. The STD program will review and revise language to align with current operations and needs by December 31, 2013.”

## **II. Emergency Medical Services Data Collection System:**

As noted previously, Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. We reviewed the DPH Emergency Medical Services (EMS) data collection system created by Public Act 00-151.

Questions arising from our standard audit procedures for equipment inventory and supplies resulted in further inquiry and review of the department's emergency medical services data collection system. Our extended audit procedures resulted in the following findings that have been included in this audit report as a program evaluation.

### **Emergency Medical Services Data:**

*Background:* Connecticut General Statutes Section 19a-177(8) established that a data collection system would be developed by October 1, 2001 that would follow a patient from their entry into the EMS system to their arrival at the emergency room.

In order to assist EMS providers with the data collection and reporting requirements, DPH began providing laptops to EMS providers in September 2006. The department issued 625 laptops to EMS providers throughout the state at an approximate cost of \$1,724,800 through calendar year 2011.

*Criteria:* Per Connecticut General Statute Section 19a-177(8), if a licensed ambulance service does not submit the information required for a period of six consecutive months, or if the commissioner believes that such licensed ambulance service knowingly or intentionally submitted incomplete or false information, the commissioner shall issue a written order directing such ambulance service to comply with the provisions. If the ambulance service fails to comply, it will be subject to a hearing and disciplinary measures as decided by the commissioner.

The Department of Public Health requires that EMS providers sign two forms upon taking receipt of the laptop(s). The first is an accountability form that transfers responsibility for the laptop from the state to the provider. It also states that the provider will utilize NEMESIS Gold software for its data collection and reporting and that it will maintain the security of patient data in accordance with HIPAA regulations. The second form is a data agreement form that stipulates that the provider will submit electronic data to DPH in a secure manner. The data will be in the format prescribed by the department's Office of Emergency Medical Services and will be sent in a timely fashion not to exceed every 24 hours.

The EMS data collection system is useful because it allows personnel to see system effectiveness, improve service quality, conduct research, and enhance efficiencies in resource allocation.

*Condition:* A review of the data collected by EMS for calendar years 2009, 2010, and 2011 showed the following results:

Calendar Year	Total Laptops Distributed	EMS Providers	Reporting					
			Fully	%	Partially	%	Not	%
2009	534	152	117	77%	11	7%	24	16%
2010	572	172	137	80%	7	4%	28	16%
2011	625	172	147	85%	1	1%	24	14%

By the end of calendar year 2009, the department had established that 152 EMS providers should be reporting their data electronically. Of these, 117 services (77 percent) were reporting electronic data in full, 24 services (16 percent) were not reporting any electronic data, and 11 services (7 percent) were reporting data electronically but with a six-month gap. The six-month gap is the length of time that requires the commissioner to issue a written order to the provider by statute. Among those not reporting data electronically, some did provide paper reports to the department. The paper quarterly activity report only has 14 of the 367 data elements that are part of the state database.

The department had 172 providers that should have been reporting data at the end of 2010. This consisted of 167 services that had received laptops from the department and five providers that began reporting electronically using their own equipment. The amounts and percentages of those reporting, not reporting, and reporting with a six-month gap were: 137 (80 percent), 28 (16 percent), and 7 (4 percent) respectively.

As of the end of 2011, the department was aware of 172 providers that should have been reporting. There were 147 providers reporting, or 85 percent of the population. There were 24 (14 percent) services that were not reporting. Finally, there was 1 provider (.5 percent) that was submitting data with a gap in their reporting time of at least 6 months.

The review of EMS data collection shows a positive trend in both the number and percentage of providers reporting data. The number of providers reporting has grown from 117 in 2009 to 147 in 2011, and the percentage reporting has increased from 77 percent to 85 percent. However, many of those that did not report in 2009 still do not report in 2011.

New providers are issued laptops or asked to report data and manage to do so, however, there are some services that have received laptops and still do not report their EMS data electronically. Approximately fifteen of the providers out of the 24 that did not report their data in 2011 had received their laptops between October 2006 and October 2008.

*Effect:* Not having all EMS providers in the state report their data reduces the effectiveness of the system and diminishes the value of the data that is collected. There is a significant difference in the amount of data provided by paper versus electronic reporting. Those that report their data electronically are reporting 367 unique data elements to the state, and 84 elements to the national database. The formatting of the paper reports consists of only 14 data elements. The disparity in information collected highlights the need for transitioning all providers to electronic reporting.

*Cause:* The department has not used available sanctions against EMS providers that do not report on their activities as defined under Connecticut General Statute Section 19a-177(8)(C). Instead, the department has sent out written reminders to providers when they do not submit their activity reports. However, they have not summoned a non-compliant provider to a hearing or invoked any disciplinary measures.

*Recommendation:* The Department of Public Health should take the necessary steps to ensure that all EMS providers submit their required activity reports. The department should make use of its enforcement powers for EMS providers who fail to submit their required activity reports in a timely and complete manner. (See Recommendation 5.)

*Agency Response:* “The Department of Public Health agrees with this audit finding. The agency has taken steps to assure that the number of EMS services that are not reporting data electronically has been reduced to 11, from 24. All EMS services that submit data submit all mandated NEMESIS data elements. (Future steps will include utilization of enforcement power as outlined in CGS 19a-177(8)(c).) Date of expected completion is June 30, 2014.”

### **EMS Data Reporting and Analysis:**

*Criteria:* As noted above, Public Act 00-151, codified as Section 19a-177(8) of the Connecticut General Statutes, established that a data collection system would be developed by October 1, 2001 that would follow a patient from their entry into the EMS system to their arrival at the emergency room.

In addition to the data collection system, Section 19a-177 subsection (10) requires the data to be refined into a report on appropriate quantifiable outcome measures for the state’s emergency medical services system and

submitted to the joint standing committee of the General Assembly having cognizance of matters relating to public health on or before July 1, 2002. After that date, the department was required to annually report on progress toward the development of outcome measures and after such outcome measures were developed, an analysis of emergency medical services system outcomes.

*Condition:* As part of our review, we requested the department's annual reports to the General Assembly on the state's emergency medical services system. We were informed that no reports have been submitted to the General Assembly.

*Effect:* The department has not developed and submitted the appropriate quantifiable outcome measures for the state's emergency medical services system to the General Assembly. Without access to these measures, the General Assembly does not have all of the tools it should possess when formulating public policy decisions regarding the EMS system.

*Cause:* As noted in the previous recommendation, the department has not been able to collect all the necessary data from the emergency medical service providers. We were told that due to the inconsistency in the patient care data, the department has not had sufficient data to publish its results.

*Recommendation:* The Department of Public Health should take the necessary steps to ensure compliance with the statutory requirements for developing and reporting on emergency medical services system outcomes. (See Recommendation 6.)

*Agency Response:* "The Department of Public Health agrees with this audit finding. As of February 2013, OEMS has been tabulating and submitting statewide EMS data to the National EMS Information System. The agency also is working with its external data aggregator to assure we will have the capability to submit the aforementioned annual reports to the General Assembly by June 30, 2014."

### **III. Contract Management:**

As noted previously, Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. Questions arising from our standard audit procedures for expenditures related to contracts, resulted in further inquiry and review. Our extended audit procedures resulted in the following findings that have been included in this audit report as a program evaluation.

#### **Contract Management Process:**

According to the Department of Public Health's website, "the mission of the department is to protect and improve the health and safety of the people of Connecticut." In order to meet that mission, the department contracts with various health care providers and other entities to provide goods and services necessary to help ensure the health and wellbeing of the residents of the state.

The Department of Public Health contract management process involves the coordinated efforts of the Contracts and Grants Management Section, Fiscal Services Section and various program services units. For the purpose of the recommendations found in this area of the audit report, contract management refers to the combined work activities of these sections. The individual sections are described as follows:

The Department of Administrative Services' 2011 Digest of Administrative Reports describes the Contracts and Grants Management Section of the Department of Public Health as providing "oversight and administration of approximately 700 contracts, grants and loans totaling approximately \$310 million, \$110 million annually, in state and federal funds. The Contracts and Grants Management Section prepares, issues, and manages contracts, grants and low interest loans in support of for-profit and non-profit service providers, federal and local governments, and individuals. The services funded by these contracts and grants provide otherwise unavailable health and/or support services to underserved residents of Connecticut and improve the Connecticut healthcare service infrastructure. The Fiscal Services Section administers budget planning and preparation, monitoring of state and federal grant expenditures, revenue accounting, accounts payable/receivable, and purchasing, including emphasis for procurement activities from small and minority-owned vendors."

The Department of Public Health funds a wide range of program services. Each program has its own state and/or federal requirements. Service providers contract with DPH to provide those services and must report on their activities through expenditure reports, program activity reports and program deliverables. Program personnel review the reports and perform site visits to monitor program activities and outcomes.

**Contract Management:**

*Criteria:* A holistic business process focuses on aligning all aspects of an organization with the wants and needs of clients. It promotes business effectiveness and efficiency while striving for innovation, flexibility, and integration with technology. The business process should include a mechanism with which it continuously assesses its operations and seeks to improve them where deficient.

Proper file maintenance is an important part of contract management in order to ensure that contract files are maintained in a way that provides a useful audit trail.

*Condition:* Our observations and testing of the department's management of the contracting process found the following:

- The department utilizes a highly manual contracting process which results in duplication of effort, delays in processing, disputes between operating units, and customer dissatisfaction.
- The recordkeeping of the contracting process is distributed among three separate operating units, each maintaining its own records with portions of those records existing in one or more of the other areas (part or the entire contract can be found in each location). One unit separates its records into as many as three separate files.
- It is difficult to know the status of the contract at any given time without access to the separate files located in different parts of the agency.
- The fiscal contract review process takes place at the end of the process which often creates delays, customer service problems and pressure to override controls on receipt of deliverables.

*Effect:* The current contracting process is subject to a higher risk of delays in payment processing, payments made in the absence of deliverables, disputes between operating units, and customer dissatisfaction.

*Cause:* The department uses a highly manual, compartmentalized approach to its contracting process rather than a holistic business process approach.

*Recommendation:* The Department of Public Health should perform a complete review of its existing contracting process with the objective of eliminating duplicative records and converting the various manual contract records into one integrated electronic system. (See Recommendation 7.)

*Agency Response:* “The department agrees with the finding. The department has been participating on the State Health and Human Services Purchase of Services Project Efficiency Office (Project Office) in conjunction with the Office of Policy and Management (OPM) and the other human service agencies since the beginning of 2012. Additionally, the department has pursued its own analysis to improve contract process efficiencies including the implementation of Lean Project for Contracts. A number of recommendations emerged from these processes that standardized contract processes. At the direction of OPM, the department is in the process of implementing process changes that will consolidate contract activities within the Contracts and Grants Management Section (CGMS), consolidate contract files, and transition to electronic documents to the fullest extent possible during the first quarter of FY 2014”

**Managing Service Provider Complaints:**

*Criteria:* According to the 2011 Digest of Administrative Reports, the Contracts and Grants Management Section, “prepares, issues, and manages contracts, grants and low interest loans in support of for-profit and non-profit service providers, federal and local governments, and individuals. The services funded by these contracts and grants provide otherwise unavailable health and/or support services to underserved residents of Connecticut and improve the Connecticut healthcare service infrastructure.”

With such a large number of service providers, it is important that the department has a system for responding fairly and efficiently to provider complaints.

Written complaint management procedures improve the ability of an entity to respond uniformly to complaints, correct problems, and monitor complaints from grantees and contractors for trends that require additional consideration. Such procedures provide a clearly defined process for all employees to follow when responding to complaints.

A complaint management system must be visible and readily accessible to grantees and contractors. That is, grantees and contractors need to know where and how to file complaints. The complaint process should be publicized on contracts, websites, and mailings. A successful system for tracking service provider complaints and outcomes is actively monitored by top management. These systems range from a paper notebook to a web based management system.

*Condition:* Our review of the department’s contracting process and a sample of contract files found the following:

- The department does not have a complaint management system.
- Two complaints received by the department lacked documentation supporting that the complaints had been actively pursued to a satisfactory resolution. Also, the follow-up outcomes were not approved by top management.

*Effect:* There was insufficient documentation to determine whether the department actively pursued two service provider complaints to a satisfactory resolution. There is no evidence that top management was aware of the two complaints received by the department and approved the final disposition of those complaints.

*Cause:* The department does not have a complaint management system in place.

*Recommendation:* The Department of Public Health should develop a complaint management system and related procedures. The procedures should describe how the complaint management system will document the efforts of the department to respond fairly and efficiently to service provider complaints. The complaint management system should provide assurance to the public that service provider concerns about the public health infrastructure and health care to underserved residents are heard and resolved. (See Recommendation 8.)

*Agency Response:* “The department agrees with this finding. The department plans to modify contract terms and conditions to include a provision to state where feedback about a program is to be sent. The department’s CGMS Section will receive the feedback letters and notices and distribute the information to the appropriate administrative manager for their review and/or action. CGMS will track the status of the feedback. This new process is expected to be incorporated into contract language as contracts are renewed. A notice will also be sent to all providers by the second quarter of 2014 notifying them of the address for sending comments or concerns.”

### **Contractor Evaluation and Contract Processing:**

*Criteria:* According to the Office of Policy and Management (OPM) Procurement Standards, an agency must prepare a written evaluation of a contractor’s performance not later than 60 days after the contractor has completed their work. The agency must use the OPM Personal Service Contractor Evaluation form for this purpose. Evaluations of contractors focus on their performance with respect to service delivery (quality of work, reliability, cooperation).

Section 4-98 of the General Statutes requires that a valid commitment must be in place prior to incurring an obligation. In addition, a record of all commitments should be maintained within the accounting system.

*Condition:*

We reviewed a sample of thirteen contracts with a combined contract value of approximately \$57,000,000. Of these thirteen contracts, five were sole-source, four were non-competitive and the remaining four were competitively bid. Our review of these contracts found the following:

- Of the thirteen contracts reviewed, four were closed contracts that required a contractor evaluation and one could not be verified because the file was shredded. The department was unable to provide the evaluation forms for the five closed contracts, nor could it provide evidence that the forms had been submitted to OPM in accordance with the procurement standards.
- Eleven of thirteen contracts in our sample were executed after the service start date identified in the contract and one could not be verified because the file was shredded. Due to the nature of the department's contracts, it is likely that many contractors provided services without the proper approvals and before a commitment for the obligation was recorded.

*Effect:*

The contractor evaluation is intended to provide evidence that the contractor met the conditions of the contract to the satisfaction of the department and the clients to whom the contractors provide service. The contractor evaluation is particularly important when awarding and renewing non-competitive or sole source contracts. In its absence, the department may be renewing agreements with contractors who have under-performed or failed to perform the contracted activities.

Allowing contractors to provide services during a period in which there is no legal agreement in place could lead to difficulties establishing contractor responsibility in the event of a dispute.

*Cause:*

Over time, the department stopped preparing and submitting contractor evaluations to OPM and OPM has not required the department to provide them.

Contractors are hesitant to sign off on contracts prior to the assurance of funding. This can delay the final execution of the contract.

*Recommendation:*

The Department of Public Health should perform contractor evaluations to better assess their service delivery (quality of work, reliability, cooperation), as required by the Office of Policy and Management. Furthermore, the department should work with its contractors to

streamline the contracting process to ensure that contracts are executed prior to the commencement date of the contract. (See Recommendation 9.)

*Agency Response:* “The department agrees in part with the finding. The department has been working with OPM through the Project Office on contracting issues including the historical requirement for contractor evaluations. OPM is undecided on what should be collected, if anything, and has placed the issue under review with a possible outcome that the requirement may be modified or eliminated. In the interim and until OPM’s decision is made, the department will perform contract evaluations on a regular basis commencing July 1, 2013. The department is also in the process of implementing process changes to streamline contract activities and improve efficiency/timeliness of those activities, in conjunction with OPM and other human service agencies as described in the Agency Response to Finding 7.”

**Cost Allocation:**

*Criteria:* The Office of Policy and Management Cost Standards includes the following with respect to cost allocation:

- The total cost of the state award is the sum of the allowable direct costs, allocable as direct costs, and allocable administrative and general (A&G) costs, less any applicable credits.
- It is essential that each item of cost be treated consistently in like circumstances as a direct, allocable as direct, or A&G. The guidelines for determining direct, allocable as direct, and A&G costs charged to state awards are provided by OPM.
- Direct costs are those that can be specifically identified with a particular final cost objective (program or activity) of the organization. Costs identified specifically with state awards are direct costs of the awards and are to be assigned directly thereto.
- Any cost allocable as direct to a particular award or other cost objective under these principles must not be shifted to other state awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the state award.
- Any A&G costs to a particular award or other cost objective under these standards must not be shifted to other state awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the state award. Amounts not recoverable as A&G under one state award must not be shifted to another state

award, unless specifically authorized by state legislation or regulation.

- Specific methods for allocating A&G costs are determined by the organization receiving funding from the state. The methodology utilized by the organization must result in an allocation that is reasonable and equitable based upon the benefits received by the state-funded program and other activities.

*Condition:*

Our review of contracts selected for testing found that the department does not obtain and review the contractor's underlying data to support allocable as direct costs and A&G costs. As support for this, we offer the following:

- Of the thirteen contracts sampled, none of the files contained a review, or request to review, the contractor Cost-Allocation Plan (CAP).
- Of the thirteen contracts sampled, none of the files contained a methodology to allocate A&G costs to the state funded program.
- Of the thirteen contracts, none of the files contained a review of fringe benefit calculations.

Multiple contract deliverables in the form of expenditure reports from the sample tested contained what appeared to be exceptions to the established cost standards without evidence of follow-up by the department. A sampling of these exceptions includes:

- Three instances of separate contractors including indirect A&G employees as direct employees without evidence of follow-up by the department.
- One contract contained questionable A&G costs without evidence of follow-up by the department.
- One instance of the state paying the salary and fringe benefits for the employee of a contractor on maternity leave without evidence of follow-up by the department.
- One instance in which a School Based Health Center (SBHC) contractor was allowed to budget an 18 percent A&G expenditure while other SBHC contractors do not have budgeted A&G expenditures.

*Effect:*

Costs may be shifted to state funded programs that do not directly support those programs.

*Cause:* The department's records do not contain evidence that it obtained and reviewed the contractors' cost allocation plan for reasonableness of allocated costs. The department's contract files do not show evidence of follow-up of questionable A&G expenditures.

*Recommendation:* The Department of Public Health should obtain and review each contractor's cost allocation plan for reasonableness and retain the review in their records. Furthermore, the department should ensure that contract deliverables in the form of expenditure reports include only those administrative and general costs that are consistent with the approved cost allocation plan. (See Recommendation 10.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. The department will institute a new contracts administrative process beginning August 30, 2013. The new contracts process requires that an electronic DAR (Department Agreement Request) is sent to the Contracts Section by Program. After CGMS receives the E-DAR, Program sends a contract budget, contract language and the contractor's Cost Allocation Plan to CGMS. These documents are reviewed by the CGMS Section for reasonableness and appropriateness prior to the contract being signed."

**Contract Deliverables:**

*Criteria:* The Office of Policy and Management Procurement Standards includes the following with respect to deliverables:

- An agency must develop an outline of work that describes in detail what the agency wants the future contractor to do, provide, or accomplish. At a minimum, the outline of work must include information about the contract's purpose, scope, activities, deliverables, outcomes, and timeline.
- In its exercise of due diligence, an agency must assign an employee to review and approve deliverables.

The department's Plan for Procurement of Health and Human Services states in part that:

- The department must ensure that adequate and appropriate health care services are provided to clients obtaining contracted services.
- The department employs ongoing performance monitoring activities to ensure that services are being provided in accordance with contractual and operational requirements.

- All Purchase of Service (POS) contracts include observable and documentable service deliverables, outcomes, and substantiated measures of achievement.

*Condition:*

We reviewed a sample of thirteen contracts to determine whether the stated deliverables were received in accordance with the outline of work in each contract as well as reviewed by the department to determine if the desired outcomes had been achieved.

Of the thirteen contracts in our sample we found the following:

- Multiple deliverables were required for each contract. In six of the thirteen (46 percent) contracts, the department could not substantiate receipt of some contracted deliverables.
- For the deliverables that were substantiated, such as activity reports, the department received contract deliverables after the contracted due date in thirteen of the thirteen contracts.

The following describes in greater detail a sampling of the variances found:

One contract for \$745,288 to establish a public health related network resulted in the following conditions:

- The contractor failed to establish the public health network.
- The final contract deliverable which was a component of the public health network project was due December 2009 at contract expiration but was delivered two years late in December 2011.
- A key deliverable did not meet the criteria listed in the contract.

One contract for \$1,111,218 to provide a screening program resulted in the following conditions:

- The contractor only completed 389 of 1300 (30 percent) contracted screenings and 262 of 600 (44 percent) contracted procedures.
- Early quarterly progress reports received by the department showed it was likely that the contractor would not meet contracted outcomes.

One contract for \$681,500 to coordinate a public preparedness initiative resulted in the following conditions:

- The department accepted a deliverable that appeared to demonstrate limited activity by the contractor.
- Department program personnel eliminated at least one deliverable and delayed delivery for other contracted deliverables without modifying the contract.

One contract for \$44,412,890 for a research grant program, found the following conditions:

- The department does not have personnel assigned to monitor the contractor for compliance with the contract terms.
- The department does not actively monitor the contractor for compliance with any contracted duties.
- Contract deliverables (semiannual fiscal reports) were not logged when received, reviewed when received, nor retained during the contract period.
- The department has never performed any site visits with the contractor.
- The department was aware of deliverable non-compliance since fiscal year 2008, beginning with the fiscal year 2006 expenditure reports, and had continued issuing payments without reviewing expenditure reports during the audited period.

One contract for \$1,720,101 to operate three health care sites, and another for \$1,842,744 with a different contractor to operate twelve sites found the following:

- Quarterly activity reports do not contain accurate information and are not used to evaluate service delivery, measure outcomes, or substantiate achievements.
- Quarterly activity reports cannot be used to match expenditures to services performed.
- Both contractors received no site visits in 2012. The second contractor with twelve sites received only 1 site visit in FY2010 and 1 in FY2011.

- The clinical activity data, the only accurate measure of performance for the sites, for FY2010, 2011 and 2012 is unavailable, incomplete, or not received.

One contract for \$560,195.89 to operate a STD and TB clinic, found the following related to deliverables:

- The department did not start to collect the required monthly Clinic Activity Reports until sometime in 2011 and then only on a quarterly basis.
- The STD/TB unit does not require the contractor to submit quarterly progress and activity reports as outlined in the contract.
- Site visits have never been performed on any TB clinic in the state and no site visits have been performed on STD clinics in the last 5 years.

*Effect:* In the absence of the receipt and review of the contractually required deliverables, there is limited assurance that contracting activities are completed.

*Cause:* The department does not uniformly perform monitoring activities that include collecting and verifying deliverables, measuring outcomes and substantiating achievements.

*Recommendation:* The Department of Public Health should uniformly perform monitoring activities that include the receipt and review of contract deliverables, the measurement of outcomes and the substantiation of achievements to ensure that adequate and appropriate health care services are provided to clients. (See Recommendation 11.)

*Agency Response:* “The department agrees with the finding. The department is in the process of reorganizing and revising contract processing procedures to improve efficiency and effectiveness of contract activities (see Agency Response to Finding #7). A revised review process for the cited Research Grant contract, which no longer had a supporting program, was implemented in mid-2012 when the issue was brought to the Administration’s attention. With the reorganization, planned for early FY 2014, all formal fiscal reviews are being centralized within CGMS as part of the re-organizational activities to expedite the reviews and to improve the follow-through and resolution of problems. The department’s administration will also work with program areas in the early part of FY 2014 to implement standardized procedures and processes for review of program level data, information, and deliverables to ensure adherence with OPM recommendations and contract requirements.”

**Fiscal Monitoring:**

*Criteria:* Fiscal monitoring is an examination of the contractor's financial statements, records, and procedures. Fiscal monitoring includes, but is not limited to:

- Reviewing the contractor's bills;
- Comparing budgets and budget limits to the actual costs;
- Obtaining reasonable documentation that services billed were actually delivered according to the contract; and
- If necessary, comparing bills with supporting documentation to determine whether costs were allowable, necessary and allocable.

The contract manager assigned to the project must do what it takes to ensure that the vendor meets the requirements of the contract and that the financial and other interests of the state are protected.

Payments should not be made to a vendor unless the agency has some assurance that the vendor is making satisfactory progress in fulfilling the contract. An agency should hold the vendor responsible for meeting all contractual requirements for quality, quantity, and timeliness.

Agency personnel have a responsibility to protect the interests of the state, and under the appropriate circumstances, it may be necessary to withhold payment from vendors.

*Condition:* We reviewed a sample of thirteen contracts to determine whether the department performed adequate fiscal monitoring prior to the release of payments to contractors. Our review found the following conditions:

Of the thirteen contracts in our sample we found the following:

- The department received required expenditure reports after the contractual due date in thirteen of the thirteen contracts
- At least four contracts in the sample contained instances of a non-standard override of internal controls related to the review of expenditure reports by the Contract Monitoring and Audit unit prior to the disbursement of contract payments

The following describes in greater detail a sampling of the exceptions found:

One contract for \$745,288 to establish a public health related network resulted in the following conditions:

- The final expenditure report for the contract period July 2008 to December 2009 was not received until April 2012.
- The department did not collect an outstanding refund in the amount of \$44,277 from the contractor until May 2012 for the contract period of July 2008 to December 2009.
- DPH submitted a request to OPM for a substantial increase in funding without an evaluation of need.

One contract for \$1,111,218 to provide a screening program resulted in the following condition:

- The contractor was paid substantially more than expenditures claimed. As a result, the contractor issued a refund to the department for \$423,315.

One contract for \$681,500 to coordinate a public preparedness initiative resulted in the following conditions:

- The department did not reduce contractor payments after reducing contracted activities.
- Contractor payments were authorized without delivery of contracted activities.

One contract for \$44,412,890 for a research grant program, found the following conditions:

- Current payment process bypasses department review prior to authorizing disbursement of funds.
- The department was aware of deliverable non-compliance beginning with FY06 expenditure reports. For the entire contract period the department continued to issue payments without review of expenditure reports.

One contract for \$1,720,101 to operate three health care sites found the following:

- Instances of payments processed without expenditure report review and sign-off by the department.

- Expenditures claimed in quarterly expenditure report cannot be matched against activities performed using current activity reporting tools.
- The inclusion of indirect (A&G) employee salaries and fringe, in direct cost salary line expenditure.
- The department authorized payment on expenditure reports with photocopied signatures.

One contract for \$1,842,744 to operate twelve health care sites, found the following:

- The department attested to an expenditure report that, based upon our review, appeared to have significant personnel expenditure variances between quarters that were not questioned.
- Expenditures claimed in quarterly expenditure reports cannot be matched against activities performed using current activity reporting tools.
- The department paid for the maternity leave of a contractor's employee. The department also paid for the site to continue offering medical services even though those services were suspended through the end of the school year.
- One instance in which a school based health center contractor was allowed to budget an 18 percent A&G expenditure while other SBHC contractors do not have budgeted A&G expenditures.

One contract for \$3,859,381 to operate a WIC center, found the following:

- The department issued payments prior to the receipt and acceptance of monthly cash flow statements and expenditure reports.
- Our review of an expenditure report found what appeared to be a number of unexplained costs and personnel expenditure variances that were not questioned by the department.
- Drawdown of cash significantly exceeded sub-recipient expenditures.
- Budget revisions submitted by the contractor were not approved by the department. Those revisions included amounts for overhead,

renovations and computer equipment. Further, we noted a significant increase in other expenditures (i.e. legal, recruitment, facility renovation) on consecutive monthly expenditures reports that went unquestioned by the department.

- Our review found several instances where indirect (A&G) employee salaries and fringe were included in the direct cost salary line expenditures.

*Effect:* The exceptions noted above increase the risk that contractors are not meeting the requirements of the contract and that the financial and other interests of the state are not protected.

The exceptions noted above increase the risk that payments are made to vendors without assurance that the vendor is making satisfactory progress in fulfilling the provisions of the contract.

The agency may not be withholding payments to contractors when it is appropriate to do so in order to protect the interests of the state.

*Cause:* The department does not always obtain and review reasonable documentation that services billed were actually delivered according to the contract.

*Recommendation:* The Department of Public Health should examine the contractor's financial statements, records, and procedures to provide assurance that the contractor meets the requirements of the contract and that the financial and other interests of the state are protected. (See Recommendation 12.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. A pilot began April 1, 2013 where by a group of providers receive monthly payments based on actual expenses. Providers are required to submit monthly expenditure reports for review and payment. This new policy will eliminate or drastically reduce the need to seek reimbursement from providers for unspent funds since payments are based on actual expenses. The policy and monthly reviews also creates a proactive approach to ensure that providers are delivering the services that the Department of Public Health is contracting for. The department is planning on rolling this out to all federally funded contractors by the end of Fiscal Year 2014. Also, the department is implementing a 12 Point Contract Efficiency Plan which also addresses this audit finding. The Contracts Section will be organized into teams including the Expenditure Report and Budget Revision Review Team. This team will be the exclusive reviewer of the expenditure reports and follow new DPH guidelines in completing the review. This plan is expected to be implemented by August 31, 2013."

**Records Retention:**

*Criteria:* The records retention schedule issued by the Connecticut State Library's Office of the Public Records Administrator requires state agencies, at a minimum, to retain fiscal records for three years, or until audited, whichever is later, in order to provide assurance that the competitive procurement process and contract monitoring activities proceeded in accordance with the Office of Policy Management's Procurement Standards.

*Condition:* Our review of the records held by the Department of Public Health found the following:

- Two of the five request-for-proposal (RFP) files reviewed were incomplete or not available.
- One of the thirteen contracts in our sample was destroyed prior to the release of the audit report.

*Effect:* Without proper documentation, it is not possible to assure that the competitive procurement process and contract monitoring activities proceeded in accordance with the Office of Policy Management Procurement Standards.

*Cause:* The department relies on individual units to retain hard copies of RFP and contract files instead of utilizing an electronic filing room.

*Recommendation:* The Department of Public Health should improve records retention of procurement documentation in order to assure they are maintained in accordance with state policies. (See Recommendation 13.)

*Agency Response:* "The Department agrees with the finding. The RFP process is conducted by individual Program Units and, in the past, RFP related documentation was retained within those units. As part of the reorganizational consolidation discussed in the Agency Response to Finding #7 the department will include the RFP documentation within the CGMS unit to assure retention of all contract related files in accordance with the record retention schedule. This will be effective by August 1, 2013."

**Conflict of Interest:**

*Background:* The Department of Public Health contract management process involves the coordinated efforts of a significant number of department employees in the Contracts and Grants Management Section, Fiscal Services Section, and various program services units.

<i>Criteria:</i>	<p>The quality of the procurement and contract process performed by the Department of Public Health is enhanced when effective controls are in place to ensure best efforts on the part of employees (program personnel, contract managers, and fiscal support staff) to identify real or perceived conflicts of interest.</p> <p>Effective policies and procedures should be established to help employees identify conflicts. Management should periodically request and review employee disclosures of conflicts in order to properly assess those disclosures and mitigate conflicts.</p>
<i>Condition:</i>	<p>Our review found that the department does not have formal policies and procedures to prevent, detect and resolve conflict of interest situations. We noted that independent reviewers of the submitted RFP bids are required to attest to the absence of a conflict of interest. However, there is no comparable process for non-competitive and sole source contracts.</p> <p>Further, at no point during the life of the executed contract, is there any formal consideration of conflicts of interest for the departmental personnel involved with the contract.</p> <p>In view of the conditions noted in the previous recommendations for this program evaluation, this particular condition takes on additional substance. That is, the complementary controls necessary to mitigate the conflict of interest risk described in this recommendation are absent.</p>
<i>Effect:</i>	<p>Employees may have a real or perceived conflict of interest that could result in their disqualification from certain procurement and contracting functions. Management may not be aware of conflict of interest situations that require assessment or mitigation.</p>
<i>Cause:</i>	<p>The department does not have formal policies and procedures to prevent, detect and resolve conflict of interest situations related to procurement and contract management.</p>
<i>Recommendation:</i>	<p>The Department of Public Health should develop formal policies and procedures to prevent, detect and resolve conflict of interest situations related to procurement and contract management. The policies and procedures should include guidelines to assist employees in identifying real or perceived conflicts of interests. Documentation should be retained as evidence that management assessed and addressed any conflict of interest disclosures. (See Recommendation 14.)</p>
<i>Agency Response:</i>	<p>“The department agrees with the finding. As stated, the department does follow a procedure for identification and resolution of conflicts of interest for competitive procurements, as required by OPM and outlined in the</p>

OPM Procurement Standards. The department will create a customized form based on the current OPM Ethics and Confidentiality Endorsement form for use with non-competitive procurements. A published policy and procedure will be developed to guide employees involved in such procurements during the first quarter of FY 2014.”

## CONDITION OF RECORDS

Our examination of the records of the Department of Public Health disclosed the following matters of concern:

### **System-wide Accountability and Control:**

The following recommendation describes a condition that extends beyond a single operational area. The recommendation describes the need to identify operational and reporting risks on an ongoing basis and to take steps to mitigate those risks. The continual process of risk assessment and mitigation expands in importance as the department's operations grow in size and complexity.

### **Risk Management:**

*Background:* The Department of Public Health is the lead agency in the protection of the public's health, and in providing health information, policy and advocacy.

The agency is the center of a comprehensive network of public health services and is a partner to local health departments for which it provides advocacy, training and certification, technical assistance and consultation, and specialty services such as risk assessment that are not available at the local level.

The department has approximately 800 employees organized into a number of branches, sections, and offices. The department prepares, issues and manages over 650 contracts, grants and low interest loans that fund services intended to improve the Connecticut healthcare service infrastructure and provide otherwise unavailable health and support services to underserved residents of Connecticut.

As noted in a previous section of this audit report, the department had approximately \$82 million in General Fund expenditures and approximately \$160 million in Federal and Other Restricted expenditures for the fiscal year ended June 30, 2011.

*Criteria:* Risks must be managed through a system of controls. Effective risk management requires that risks be identified through an ongoing risk assessment process undertaken by staff skilled in such processes, that a plan is developed and implemented to mitigate identified risks, and that the implemented plan elements be monitored and reviewed to determine its level of success. Risk assessment includes management's assessment of the risks relating to the safeguarding of the agency's assets and fraudulent reporting.

The information obtained through this process may then be incorporated into the risk assessment process to determine if plan modifications are required.

Control activities are defined as the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.

*Condition:* The department does not have a dedicated and ongoing risk assessment and mitigation function nor does it have formal monitoring procedures in place.

Many of the new and repeated recommendations found in this report describe internal control and monitoring activities with significant deficiencies or material weaknesses that interfere with the department's ability to achieve its objectives.

*Effect:* The department is exposed to a higher risk that it will not achieve its operational objectives. Risks that could have been anticipated and avoided by periodic assessments may result in operational ineffectiveness, additional costs and liabilities, and exposure to fraud.

*Cause:* The department does not have a formal, dedicated risk assessment and mitigation process. The necessary and appropriate resources were not allocated by the department to ensure that a risk assessment and mitigation process was performed during the audited period. Many of the recommendations found within this report are of the type that could have been prevented or detected by an internal risk assessment and mitigation process.

*Recommendation:* The Department of Public Health should develop or acquire a formal risk assessment and mitigation process with the objective of identifying and addressing risks that could impact its operational and reporting objectives. The risk assessment and mitigation process should be independent, formal, and ongoing. (See Recommendation 15.)

*Agency Response:* "The department agrees with the finding. Funding is not presently available to establish and staff a formal, dedicated, and independent internal audit risk assessment and mitigation function. Therefore, a budget option must be submitted to OPM to establish an internal audit function at DPH. Many factors including availability of state financial resources, Governor and legislative budget priorities, and OPM approval contribute to being successful in securing funds for this budget option."

**Payroll and Human Resource:**

The Payroll and Human Resources office provides comprehensive personnel management to the department, including labor relations for various bargaining units, managerial, and confidential employees. The recommendations in this section address conditions related to payroll and human resource functions.

**Compensatory Time:**

*Criteria:* All overtime work or compensatory time, except in emergency situations, must receive prior management approval.

When emergency compensatory time is frequent and predictable over time, blanket pre-approvals should be issued by management. Blanket pre-approvals allow management to plan and budget for such time.

*Condition:* After testing the department's procedures for granting compensatory time, it was found that:

- Seven of 20 (35 percent) employees sampled had not been pre-approved for their compensatory time earned, which amounted to 1260.25 hours over fiscal years 2010 and 2011.
- Four of 20 (20 percent) employees sampled had approvals after the fact for emergency events rather than blanket pre-approvals.

*Effect:* The department is not in compliance with its own guidelines concerning the process of earning compensatory time. In addition, without proper oversight, the department has less assurance that the services it has compensated its employees for have been performed.

*Cause:* The department did not make use of proper administrative oversight to ensure that compensatory time was pre-approved and that sufficient documentation was retained in support of those approvals.

*Recommendation:* The Department of Public Health should strengthen its controls over compensatory time. Pre-approvals should be issued before any compensatory time is accrued. (See Recommendation 16.)

*Agency Response:* "The department agrees with the audit finding. In response, HR will develop and issue a procedure and form to standardize the pre-authorization process and recordkeeping procedure for compensatory time and overtime. The procedure and form will be in effect by September 30, 2013."

**Dual Employment:**

*Criteria:* Section 5-208a of the General Statutes states that no state employee shall be compensated for services rendered to more than one state agency during a biweekly pay period unless the appointing authority of each agency or their designee certifies that the duties performed are outside the responsibility of the agency of principal employment, that the hours worked at each agency are documented and reviewed to preclude duplicate payment and that no conflicts of interest exist between services performed.

Department Administrative Services (DAS) General Letter 204 states that, “the secondary agency must initiate the dual employment process by completing the secondary agency portion of the dual employment form and forwarding it to the primary agency. The primary agency then completes its portion of the form, returns the original copy to the secondary agency and keeps a copy for their files. A dual employment form must be completed by the secondary agency for each renewed period of dual services.”

*Condition:* Four out of the ten (40 percent) employees tested did not have dual employment forms on file with the department. DPH requested copies of these forms from the secondary employer at the time of our audit, but they were not provided.

The department does not have a process in place to identify and assess employees working at more than one state agency for potential overlapping duties or conflicts in schedules.

*Effect:* Overlapping duties or conflicts in time schedules could occur resulting in overpayments to employees with dual employment. Conflicts of interest could exist for the services provided by the employees at two or more state agencies.

*Cause:* The secondary agency did not notify the department of dual employment situations as required of them by General Letter 204.

During the audited period, the department did not have a process in place to periodically identify employees working at more than one state agency and to assess those employees for overlapping duties, conflicts in schedules, and conflicts of interest.

*Recommendation:* The Department of Public Health should establish a process to periodically identify any employees working at other agencies and assess those employees for overlapping duties, conflicts in schedules, and conflicts of interest. (See Recommendation 17.)

*Agency Response:* “The Department of Public Health disagrees with the audit finding and recommendation. Although the audit text does not specify, it is almost certain that in all of the test cases, DPH is the primary agency. As noted in the *Criteria* section above, General Letter 204 states that, “the secondary agency must initiate the dual employment process by completing the secondary agency portion of the dual employment form and forward it to the primary agency [emphasis added].” Also, in the *Condition* section above, it is noted that “DPH tried to receive copies of these forms at the time of our audit from the secondary employer, but they were not provided.” DPH has no control over secondary agency actions and cannot force agencies to comply. DPH Human Resources responds quickly when it receives a dual employment request from secondary employers.

Additionally, the agency does not receive regular reports from the Department of Administrative Services regarding employees who are dually employed, which would allow DPH to audit records and pursue missing documentation appropriately.”

*Auditors’ Concluding  
Comments:*

The statute and general letter cited in the *Criteria* section of this recommendation on dual employment are complementary. The statute, as the governing principle state agencies are required to follow, carries the greater weight. The department’s disagreement with the recommendation addresses the more passive procedural aspects of the dual employment process found in General Letter 204 but ignores the active directives found in Section 5-208a of the General Statutes. The appointing authority of each department must certify that, “the hours worked at each department are documented and reviewed to preclude duplicate payment and that no conflicts of interest exist between services performed.” Contrary to its response, the department is not a passive recipient of the dual employment requirement, but must be an active certifier concerning dual employment. In order to comply with Section 5-208a, the department should establish the necessary controls, “to periodically, identify any employees working at other agencies and assess those employees for overlapping duties, conflicts in schedules and/or conflicts of interest.”

**Medical Certificates:**

*Criteria:* Section 5-247-11 of the Regulations of State Agencies, the department’s employee handbook, and the applicable collective bargaining contracts each establish a requirement for the submission of an acceptable medical certificate to substantiate the use of sick leave for a period of more than 35 consecutive work hours.

- Condition:* Testing of employees that had absences of more than five days showed that five out of ten (50 percent) employees sampled had not provided a medical certificate upon their return to work.
- An employee that resigned from the department took approximately 70 hours of sick time in the final two weeks before they left after exhausting their vacation time. There was no medical certificate provided by the employee.
- Effect:* The department is not in compliance with state or agency guidelines concerning the process of allowing employees to return to work after a significant use of sick time. DPH is susceptible to sick time abuse.
- Cause:* There was a lack of managerial oversight regarding employee use of sick time and the procedures for an employee to return to work.
- Recommendation:* The Department of Public Health should strengthen its controls over medical certificate collection and review. (See Recommendation 18.)
- Agency Response:* “The department agrees with the finding and recommendation. Currently, payroll generates a report identifying employees who are using sick leave use in excess of five days. HR staff will send a notification to the employees and their supervisor explaining the obligation to provide a medical certification, and also explaining that they may be eligible for FMLA. This procedure is expected to be established by September 1, 2013.”

### **Physical and Electronic Asset Controls:**

The recommendations in this section address the controls over physical and electronic assets. Physical controls relate primarily to the safeguarding of assets. Mechanical and electronic controls safeguard assets and enhance the accuracy and reliability of the accounting records.

### **Vehicle Rentals and Allocable Costs:**

- Criteria:* OMB Circular A-87, “establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally recognized Indian tribal governments.” Attachment A to the Circular includes a section on basic guidelines concerning allocable costs. “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

“Any cost allocable to a particular federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons.”

*Condition:* The rental charges for two out of the five (40 percent) sampled vehicles were coded to two federal programs but were used by employees charged to other federal or General Fund programs. There was insufficient documentation to determine whether employees coded to the General Fund provided services chargeable or assignable to the federal programs that the vehicles were coded to.

*Effect:* Costs were allocated to two federal programs that should have been distributed to other federal programs or considered for distribution to the general fund: One sample vehicle had its rental costs charged to CFDA 93.069 Bioterrorism Preparedness while two employees who used the vehicle had their time coded to CFDA 66.701 Asbestos and CFDA 10.561 Supplemental Nutrition Program. Another sample vehicle had its rental costs charged to CFDA 93.116 TB Control while two employees who used the vehicle had their time coded to CFDA 93.943 HIV and CFDA 93.940 AIDS Prevention.

*Cause:* Recordkeeping and processing procedures were not sufficient to ensure that only costs allocable to a particular federal award were charged to that award.

*Recommendation:* The Department of Public Health should implement recordkeeping and processing procedures to ensure that only vehicle rental costs allocable to a particular federal award are charged to that award. (See Recommendation 19.)

*Agency Response:* “The Department of Public Health agrees with this finding and recommendation. The fiscal office will work with the various units involved with maintaining the use of these vehicles to develop and implement a new procedure. This new procedure may entail the use of a new supplemental form, in addition to the DAS monthly usage report form CP-40, to collect pertinent information including appropriate funding codes of employees using designated vehicles. The purpose is to properly allocate rental costs of the vehicles to the appropriate cost centers that use the vehicles. This procedure is expected to be established by October 1, 2013.”

## **Equipment Inventory and Reporting:**

*Criteria:* The State Property Control Manual states:

Acquisition by Purchase - When assets are purchased, record purchase price and, if applicable, any ancillary charges necessary to place the asset in its intended location and condition for use.

The cost of personal property acquired through purchase should include ancillary costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal claims directly attributable to asset acquisition.

*Condition:* During our review of the department's Asset Management Inventory Report CO-59 for fiscal years 2010 and 2011, we saw that they did not balance the value of inventory reported to their physical inventory. It remained out of balance by \$101,672 and \$1,742, respectively. The following were noted as problems in their reconciliation process that may affect the reported difference:

- The department does not use any of the Core-CT queries required by the Office of the State Comptroller to calculate asset additions and deletions. The only query used by DPH totaled capital expenditures during the period, not assets added into Core-CT.
- For the two years under review, we tested twenty-seven purchases. Eight of those tested (or 29 percent) did not have their ancillary costs included in the cost of the asset. The total understatement amounted to \$20,999. Two purchases tested showed 36 items that were not added to the asset management module that had a combined cost of \$84,150.
- One of the purchase orders tested showed that there were 30 monitors entered at a nominal value of \$1 each instead of their actual cost of \$123 each. A search of other assets in Core-CT recorded at nominal values found an additional 261 items recorded at \$5 or less.
- Deletions totaling \$96,942 recorded in Core-CT Asset Management module during fiscal year 2010 had actually been disposed or lost by the department in prior fiscal years. DPH uses a hybrid approach to calculate and report equipment inventory (proprietary query for additions, loss reports and surplus reports) rather than Core-CT. As a result, the Core-CT Asset Management module, which serves as the state's "book of record", does not accurately reflect the proper period of the deletions.

- Assets totaling \$77,147 were reported as missing in FY 2010, but have not been retired in Core-CT. Assets totaling \$105,543 that were reported as missing on the CO-853 report for fiscal year 2010 were still in service and found during the subsequent physical inventory in fiscal year 2011. The balance for equipment inventory is not accurate.

The department was not in compliance with the guidelines of the property control manual regarding locational and custodial information for assets tracked in Core-CT:

- Custodians of certain selections of inventory, including the mobile field hospital and the satellite telecommunications system, track inventory using a different tag and outside Core-CT's Asset Management module. This causes communication problems within the department and asset locations in Core-CT to be incorrect.
- Testing required a visit to an offsite location in an attempt to locate water trailers valued at \$138,857. We did locate one of the two that were sampled but it did not have a tag number on it.
- We attempted to trace 20 assets from Core-CT to their physical location and vouch 15 to Core-CT. 15 of these 35 (45 percent) either did not have a custodian listed at all or the person listed was incorrect. Seventeen of the 35 (49 percent) were not in the correct location.

The department has not implemented a uniform policy on whether it should inventory assets that it purchases and distributes to providers within the state:

- Department records show that 185 laptops have been removed in stages from their asset management module in Core-CT at a combined cost of \$569,850. For fiscal year 2011, \$144,800 should have been deleted from the department's Asset Management Inventory Report (CO-59). They removed these laptops and have not capitalized any additional purchases of laptops as they are sent out of the department to EMS providers as part of a data collection program. There are 63 of these laptops remaining in Core-CT at a total cost of \$194,550. (See the Performance Evaluation II – EMS Data Collection, Recommendations 4 and 5.)

- The department includes equipment that is part of its MEDSAT program distributed to hospitals and dispatchers throughout the state in its asset management module. This equipment is valued in the asset management module at \$437,202.
- There were significant exceptions noted within the Stores and Supplies costs related to STD and TB inventory. (See Performance Evaluation I – Accountability of Pharmaceuticals, Recommendations 1, 2 and 3.)

*Effect:* The department is not reporting the accurate valuation of their inventory on their Asset Management Inventory Report CO-59 to the Office of the State Comptroller.

*Cause:* There is a lack of compliance with the State Property Control Manual. The agency does not make use of the integration between the Asset Management, Purchasing, and Accounts Payable modules of Core-CT. It uses the Basic Add feature on more than an exception basis. Our testing noted that the department doesn't use the Core-CT receipt required function when completing a purchase order.

*Recommendation:* The Department of Public Health should make use of the integrated features of Core-CT as the basis for reporting its equipment inventory in order to comply with the requirements of the State Property Control Manual. (See Recommendation 20.)

*Agency Response:* “The Department of Public Health agrees with this finding and recommendation. The Department of Public Health has instituted a new Policy and Procedure effective July 1, 2013 to address inefficiencies within our asset management system. The procedure covers how the department receives, tracks and disposes of state equipment. Functions that were once carried out by several staff have been consolidated. In doing so, the Department of Public Health has significantly reduced the opportunities for errors in the disposal of state owned property.

In addition the department has trained purchasing and accounts payable staff in the proper definition of assets and to incorporate any ancillary charges to the value of the asset (i.e. shipping charges).

Preparation of the Annual Inventory Report now includes back-up documentation and queries from Core-CT that show the original balance, capital purchases and surplus property data.”

**Core-CT Roles:**

*Criteria:* According to the Core-CT Human Resource Management System (HRMS) Security Guidelines:

In an effort to maintain a segregation of duties between the HRMS responsibilities, agencies should not be requesting the Agency HR Specialist role be assigned to an employee who has either the Agency Payroll Specialist or Agency Time and Labor Specialist roles in Core-CT. Access to any combination of those roles could allow an individual to hire and pay someone inappropriately and without oversight.

Core-CT FIN Security Guidelines state:

Accounts Receivable - A Billing Processor should not be an Accounts Receivable Processor.

Asset Management - A General Buyer and General Receiver cannot have the roles of Agency Asset Processor or Agency Financial Asset Processor. An Asset Processor should not be able to approve a voucher or purchase order. A user with either PO Amount Approver role or Budget Approver role should not also have Voucher Approver role services.

*Condition:* Testing found nine employees had Core-CT access to the Human Resources Specialist and the Time and Labor Specialist roles. Two of those employees also had access to the Payroll Specialist role.

All employees that hold the Receivable Processor role also hold the Billing Processor role.

Two employees hold the roles of Financial Asset Processor and General Receiver. One of these employees also holds a General Buyer role. The other employee also holds the PO Amount Reviewer 1 and 2 roles, PO Budget Reviewer, and Voucher Approver. Additionally, the employee has roles for the Requisition Amount Approver and Requisition Budget Approver.

There are 50 employees in the department that can approve requisitions up to \$1,000,000. There was one requisition for more than \$1,000,000 in FY 2010 and no requisitions over \$1,000,000 in FY 2011.

There are also 39 employees with the Requisition Budget Approver role. These roles are to be assigned to very few individuals as specified in the liaison guide.

- Effect:* The department is not in compliance with the Core-CT security guidelines and has a heightened control risk because it has not implemented proper internal controls.
- Cause:* There was a lack of managerial oversight for the assignment and monitoring of Core-CT role assignments distributed to employees of the department.
- Recommendation:* The Department of Public Health should strengthen its controls over Core-CT role assignments and be more active in its review of role assignments. (See Recommendation 21.)
- Agency Response:* “The Department of Public Health does not agree with this finding and recommendation. The Department of Public Health is audited on an annual basis by the Comptroller’s office to verify if a Department of Public Health Core-CT user has roles in the Core-CT HR/Financial systems that would constitute a conflict of interest. The Office of the State Comptroller has approved all Core-CT roles as of July 1, 2013. Regardless of OPM approval of DPH roles, DPH is reviewing PO and budget approver roles to reduce the number of individuals who are assigned to perform these tasks.” The review will be completed by September 1, 2013.”

**Software Inventory:**

- Criteria:* The State Property Control Manual states that:
- A physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report. This comparison will be retained by the agency for audit purposes.
  - The property control record must contain the following minimum data:
    - Assigned Identification Number
    - Title of Software
    - Description - software name or functional application
    - Version
    - Manufacturer
    - Software Serial/Registration Number (if available)
    - Acquisition Type - purchased, leased, or donated (gift)
    - Acquisition Detail - purchase order number, donation source or gift source
    - Initial Installation Date

- Location and ID# of CPU device
- Cost - the cost of the purchased software
- Disposal - upgraded (list new serial number), transferred, sold or destroyed”
- Disposition of Surplus Software - Disposal of Software - When it is determined that software is no longer needed by an agency, the software will then be removed from the inventory as follows:
  - Authorized personnel will make the final determination on disposal and will provide a procedure to remove any licensed copies of that software from the corresponding hardware. All disposal of software must conform to the software publisher's or manufacturer's license or copyright agreements.
  - The software media and associated documentation will then be removed from the agency software inventory.
  - It is the agency's responsibility to remove all software from a computer's CPU before surplusing the equipment at the Property Distribution Center.

*Condition:*

Our review of the department’s software inventory controls found the following conditions:

- An annual physical software inventory was not conducted by the department during the audited period.
- Approximately 49 percent of the lines on the software inventory listing are missing one or more data elements required by the State Property Control Manual (i.e. cost, acquisition details, serial numbers, or location).
- The agency has several employees that are buyers of IT equipment and software; the IT department is not always notified when purchases are made. This can result in duplicate purchases and understated inventory balances. (See the related Recommendation 21 – Core-CT Roles.)
- The agency purchased 194 licenses of Microsoft Office 2003 Pro for \$57,348 from June 2004 through December 2005. As of April 2011, the IT department knew the exact location of only six of the licenses purchased.
- The agency does not dispose of software inventory as it is upgraded. For example, it still carries licenses for Adobe 3.0, Windows 95, and Office 2000.

*Effect:* The department does not have accurate records or controls over its software inventory. The failure to dispose of software inventory that is no longer in use overstates the valuation of software inventory and reduces the effectiveness of the State Surplus Property Distribution Center.

There is no reconciliation between the department's recorded software inventory and the amount listed as on hand, resulting in unsupported balances.

*Cause:* The department did not perform an annual inventory of software during the audited period. Also, their software inventory listing is incomplete, with missing data on many lines.

*Recommendation:* The Department of Public Health should perform an annual software inventory and maintain its software inventory records in manner consistent with the requirements found in the State Property Control Manual. (See Recommendation 22.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. The Department of Public Health will develop and implement a policy for the purchase, disposal and tracking of software. Fiscal will work with the Information Technology Section to implement the procedure by January, 2014."

### **Clearance Procedures for Terminated Employees:**

*Criteria:* Rights and privileges assigned to employees in state service should not be continued after their employment by the department ends. This includes possession of equipment such as laptops and cell phones, network access to databases, and access to state buildings.

Sound business practice dictates that the department should establish effective clearance procedures when employees separate from state service. The procedures should be designed to ensure that state assets, both physical and intellectual, do not leave the possession of the state; that all outstanding obligations and financial indebtedness to the department are recovered; and that appropriate exit conferences have been conducted. The conferences should include the use of a checklist, applicable to the position, for the clearance of items such as: records, files, computer system passwords, keys, credit cards, and equipment.

*Condition:* Our review of the rights and privileges assigned a sample of 25 employees that left state service during the audited period found the following conditions:

- The keycard access to the Department of Public Health's building had not been deactivated for five terminated employees out of twenty five tested (or 20 percent). One of the keycards had a security feature that caused it to be deactivated after 30 days of nonuse.
- Three out of twenty-five (12 percent) terminated employees tested did not have their network access disabled by the department until notified by the auditors. At that point, the gap between termination and deactivated network access for the three employees was approximately 490, 615 and 1,057 days, respectively. An additional three of the twenty-five terminated employees (12 percent) had their access disabled by the department after their termination date by 129 days, 36 days, and 30 days, respectively.
- We attempted to test whether the sampled employees that had been assigned cell phone lines had them cancelled. The department's records could not be reviewed prior to calendar year 2011. We were informed, that in late 2010, the department cancelled approximately 96 cell phone plans, or 35 percent, of the active lines at that time.
- In February 2012, the department discovered that a laptop returned by a terminated employee, and held in storage for several months after the employee's departure, was missing its hard drive and not operable. Due to the use of encryption technology, it was the opinion of the department's IT division that if there was data on the missing hard drive, it was secure. However, at the time this occurred, it was not uncommon for employees to leave without the IT division being informed. As such, the IT division was not able to examine the laptop prior to the employee's departure to ensure that the equipment was returned intact and that all data was secured.

*Effect:*

The department did not implement effective clearance procedures. Some of the terminated employee user rights had stayed active even until the time of our audit. Others took an excessive amount of time to be removed from the network. Computers are not routinely examined to ensure that they are functional and that all data is accounted for prior to the departure of terminated employees. There is an increased risk that sensitive data may be exposed to misappropriation or misuse.

*Cause:*

The department does not utilize its formal clearance procedures for employees separating from state service. The agency has developed a checklist for processing employee separation or transfer.

However, it is not used as a checklist for clearance procedures performed and cleared. Furthermore, there are no follow-up monitoring procedures to ensure that terminated employees have had their rights and privileges removed.

*Recommendation:* The Department of Public Health should establish clearance procedures for employees separating from state service and apply those procedures to its separating employees.

The procedures must ensure that all state assets are returned intact, that data is secured and computer system passwords and access cards have been deactivated immediately upon the termination of an employee. (See Recommendation 23.)

*Agency Response:* “The Department of Public Health agrees with this audit finding. Human Resources contacts employees prior to separating from DPH to schedule an exit interview and they are advised that they are required to bring state property or items that have been issued to them (for example – parking hang tag, state photo ID, proximity card and/or cell phone) to be turned in at the time of the exit interview. Procedures will be written by September 1, 2013. DPH Employees will receive a copy of the Procedure.”

### **Revenues, Expenditures and Accounts Receivables:**

The recommendations in this section address matters related to the department’s revenues, expenditures and accounts receivables. The Fiscal Services Section administers budget planning and preparation, monitoring of state and federal grant expenditures, revenue accounting, accounts payable/receivable, and purchasing, including emphasis for procurement activities from small and minority-owned vendors.

### **Drinking Water State Revolving Fund Consent Signatures:**

*Criteria:* The department oversees the distribution of grant funds for projects meant to enhance the quality of drinking water in the state. Because of the technical nature of the projects involved, each request for payment must be reviewed and approved by an authorized signer in the Drinking Water Section. These subject matter experts examine and certify that the costs identified in a proposed project are allowable and reasonable under federal guidelines.

*Condition:* We noted during our examination that four replicated electronic signatures were used for the authorized signer of the program consent forms. When meeting with Drinking Water managers it was disclosed that all certifications were signed using the same electronic signature which unit members applied to program consent forms themselves.

*Effect:* Payments were made on projects that may not be allowable or reasonable without authorization that can be authenticated. No audit trail exists to the personnel performing the program examination.

*Cause:* It appears that because signature authority is delegated to one person who is often in the field, the consent form with an electronic signature was developed to complete the review process within the prescribed review period established in the contract. After presenting their findings, unit members would receive verbal confirmation from the authorized signer to submit the certification with the electronic signature to the business office for further processing.

*Recommendation:* The Department of Public Health should eliminate the current electronic signature process in use in the Drinking Water Section and develop policies and procedures that balance the need for expedient review against adequate internal controls to ensure payments are only made on allowable and reasonable costs and an adequate accountability for reviews performed is maintained. (See Recommendation 24.)

*Agency Response:* “The Department of Public Health agrees with this finding and recommendation. The Drinking Water Section immediately discontinued using the electronic signature to authorize payments for DWSRF projects on the Program Consent Form after meeting with the auditors to discuss this matter during the audit. The procedure has been modified and original signatures are now used to authorize and authenticate each DWSRF project payment.”

**OSC Approval of Purchase Orders of \$1 Million or More:**

*Criteria:* Under Memorandum 2004-06, the Accounts Payable Division of the Office of the State Comptroller (OSC), as of February 17, 2004, would perform a pre-audit of all purchase orders of \$1 million or more. In accordance with Memorandum 2004-06, payments will not be processed until the completion of the audit and the approval of the purchase order is granted.

DPH is responsible for forwarding the purchase order and all supporting documentation to receive OSC approval prior to issuing payment.

*Condition:* We found the following instances of DPH issuing payments of over \$1 million dollars without a pre-audited purchase order.

- The one qualifying expenditure tested from the initial sample resulted in an exception totaling \$5,929,684.

- During further audit testing we noted out of 24 purchase orders tested, 24 exceptions were found totaling \$44,999,313.
- The extent of non-compliance is expected to exceed the \$50,928,997 in identified exceptions. The entirety of non-compliance is beyond the scope of this audit.

*Effect:* The agency is issuing payments in violation of OSC policies and procedures.

*Cause:* The fiscal unit at the department had been waiting to submit purchase orders to OSC until the payments issued against the purchase order would exceed a \$1 million dollar threshold. In addition, no internal controls were in place to prevent payments being issued when a purchase order lacked an OSC pre-audit approval.

*Recommendation:* The Department of Public Health should establish and monitor compliance with policies and procedures which ensure no payments are made against purchase orders at or exceeding \$1 million dollars without first obtaining an OSC pre-audit approval. (See Recommendation 25.)

*Agency Response:* “The Department of Public Health agrees with this finding and recommendation. Historically the Department of Public Health created purchase orders to encumber only the funds that were required to pay for each invoice and change orders were created for each additional invoice against that same contract, once the purchase order reached the \$1 million threshold it was sent to the Office of the State Comptroller for approval.

Effective July 1, 2013, purchase orders for contract payments are being created to obligate the entire amount and purchase orders in excess of \$1 million are easily identified. These purchase orders are being sent to the Office of the State Comptrollers for pre-approval and no payments will be made prior to their approval. Training will be provided by July 1, 2013 to purchase order approvers to make them aware of this policy and verify all purchase orders in excess of \$1 million have the necessary Office of State Comptroller approval.”

### **Purchase Order Approvals Prior to Purchasing of Goods or Services:**

*Criteria:* Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller.

Proper internal controls related to purchasing require that commitment documents be properly authorized prior to receipt of goods or services.

Good business practices dictate that agencies comply with the terms and conditions of fully executed and binding contracts.

*Condition:* Our review of forty-eight CAFR related expenditure transactions for fiscal year 2011 disclosed in eight (or 17 percent) instances that purchase orders were created after goods or services were received.

Our review of twenty-one CAFR related expenditure transactions for fiscal year 2012 disclosed in 14 (or 67 percent) instances that purchase orders were created after goods or services were received.

*Effect:* When expenditures are incurred prior to the commitment of funds, there is less assurance that agency funding will be available at the time of payment.

*Cause:* The department's internal controls were not sufficient to ensure that all purchase orders are completed prior to the purchase of goods and services.

*Recommendation:* The Department of Public Health should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services, and ensure compliance with state contracts.. (See Recommendation 26.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. Purchase orders are created after receiving information regarding contract finalization. When contracts are finalized after the contract start date, purchase orders are not created in a timely manner. The department will be implementing a more efficient contracting process August 30, 2013. This process should result in timelier execution of contracts so that funds are committed prior to the purchase of service. The department will continue to monitor the process for improvements.

For the purchase orders not related to contracts, the Department of Public Health intends to address the issue by being more pro-active in the creation of blanket PO's for services and commodities immediately."

#### **Late Deposits - Section 4-32:**

*Criteria:* Per Office of the Comptroller Memorandum 2011-5, each agency is responsible to post their deposits in the Core-CT system as soon as the confirmation process is complete or no later than four (4) business days from the accounting date of the deposit. In addition, all deposits of an accounting period must be posted before the close of the AR module, which is usually five days after the end of the month.

Section 4-32 of the General Statutes generally requires that any state agency receiving money or revenue for the state amounting to five hundred dollars or more, must deposit it within 24 hours of receipt.

*Condition:* We tested five deposits for each fiscal year under review totaling \$391,393 and \$414,571 for fiscal year 2010 and 2011, respectively. Our review found the following:

Deposits within 24 Hours:

- Fiscal Year 2010: Three sample transactions could not be traced to the supporting documentation. The department claimed that these three deposits were not renewed in fiscal year 2010, although the transactions selected came from their lockbox report.
- Fiscal Year 2010: The supporting documentation for three sample transactions selected from the department's lockbox report, could not be located by the department.
- Fiscal Year 2010: Our review of one Daily Cash Transmittal Slip, found 19 instances in which there were two days between the receipt date, per the agency's date stamp, and the bank deposit date (accounting date).

Post to Core-CT within Four Business Days:

- Fiscal Year 2010: Two of the five deposits took longer than 4 business days to process through Core-CT. The exception amount is \$131,702.00.

*Effect:* Late deposits and posting to Core-CT increase the risk that these items will be lost, stolen or unrecorded.

*Cause:* The department did not always retain sufficient documentation to support deposits.

*Recommendation:* The Department of Public Health should develop the necessary internal controls to ensure that sufficient documentation is retained for all receipts and that those receipts are deposited in accordance with Section 4-32 of the General Statutes and in accordance with the Office of the State Comptroller's directives. (See Recommendation 27.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. The Fiscal Office has improved on its process of monitoring pending deposits to ensure that they are promptly journalized

in Core-CT within the required four day period. This process involves a daily check of Core-CT receivable system to monitor and identify pending deposits that need to be promptly processed and journalized. Furthermore, the Fiscal Office will work with various programs involved with agency receivables to identify ways of improving on the 24 hour policy requirement for check deposits.” A new process will be implemented by October 1, 2013.”

**Laboratory Delinquent Accounts Receivable:**

*Criteria:* All accounts receivable should be billed monthly. A concerted effort should be made to collect amounts due on all accounts. Follow-up notices should be sent on delinquent accounts. An account should be considered delinquent if it is at least 60 days in arrears and no arrangements have been made by the debtor to satisfy the obligation.

Interest may be accrued on outstanding accounts receivable when the amount of the outstanding receivable is not paid in full by the established due date. Interest receivable may continue to accrue until the receivable is paid in full or otherwise resolved through compromise, waiver of the charges, or termination of collection action.

Section 3-7 subsection (a) of the General Statutes requires that any uncollectible claim for an amount of one thousand dollars or less may be cancelled with the authorization of the department or agency head. According to subsection (b), the Secretary of the Office of Policy and Management may authorize the cancellation upon the books of any state department or agency of any uncollectible claim for an amount greater than one thousand dollars due to such department or agency.

*Condition:* The average, monthly accounts receivable balances for the department’s laboratory were \$451,025 and 469,972 for the fiscal years ended June 2010 and 2011, respectively. The department’s Record of Dunning Letters (accounts 60, 90, and 120 or more days past due) for July 2010 and July 2011 showed delinquent amounts of \$73,969 and \$78,470, respectively or approximately 16 percent of the average accounts receivable. Many of the same accounts are shown as delinquent on the two reports. The department has not assessed an interest penalty on these persistently late paying accounts to cover the state’s long term financing cost associated with their unpaid balances.

We also noted that the department’s aged trial balance contains approximately 7 to 9 accounts valued at approximately \$16,600 that appear to be inactive and uncollectible.

*Effect:* The department has a high percentage of persistently delinquent accounts as a percentage of its average accounts receivable. In effect, the department is bearing the financing cost of interest free loans on the unpaid accounts receivable balances for the slow paying vendors.

The accounts receivable balance for the laboratory is overstated for those accounts that are inactive and have no possibility of collection.

*Cause:* The department has chosen to not charge interest for its delinquent accounts. It could not be determined why the department did not remove the inactive and uncollectible accounts.

*Recommendation:* The Department of Public Health should take steps to improve its collection efforts to reduce the high percentage of persistently delinquent accounts as a percentage of its average accounts receivable. Those efforts should include consideration of the use of interest penalties on overdue balances. Accounts that are determined to be inactive and uncollectible should be written-off and removed from the accounts receivable records. (See Recommendation 28.)

*Agency Response:* “The Department of Public Health agrees with this finding and recommendation. During the transition period of moving from the Gemini system to the LIMS system, some tests could not be billed. As of January 2012, invoices for all accounts are mailed once monthly. After fully running on the LIMS system, many corrections were necessary; therefore, collection letters were not mailed out from December 2011 through November 2012. Since December 2012, collection letters and statements are mailed once per month.

Interest on outstanding accounts receivable will be considered by the Department of Public Health.

Uncollectible claims for amounts less than one thousand dollars have been cancelled with the authorization of the department agency head. Requests have been made to the Department of Administrative Services to cancel uncollectible claims over one thousand dollars.”

### **Controls Over Licensing Applications and Renewals:**

*Background:* The department is responsible for issuing, renewing, and administering over 70 different licenses in accordance with Sections 19a-14, 19a-80 and Title 20 of the General Statutes.

The Department of Public Health has a lock box arrangement with Webster Bank for processing renewals where licensure renewal payments are directly received and processed by the bank. The bank generates a bank report that

details the payments by practitioner. The Fiscal Office uses the daily report to journalize the total receipt. The Licensing and Investigations Unit uses the detail to track the renewals of the individual practitioners.

*Criteria:* Section 19a-14, of the General Statutes requires the department to “develop and perform all administrative functions necessary to process applications for licenses and certificates,” including determining the eligibility of all applicants “based upon compliance with the general statutes and administrative regulations.” It also provides that the department may deny eligibility for a permit or license if, among other things, an applicant “has been found guilty or convicted as a result of an act which constitutes a felony....” Therefore, the department requires applicants to disclose any felony convictions as part of the application form and to attach adequate supporting documentation to the application.

Certain sections of Title 20 of the General Statutes and the corresponding regulations establish the requirements for initial licenses and renewals that are administered by the department. Based on the type of license, applicants are required to meet varying combinations of educational, examination, certification, and work experience requirements.

*Condition:* Our review of 18 licensure renewals found the following conditions:

- The department could not locate the renewal cards for six of our samples selected from the Webster Bank Report for review.
- Three renewal payments were returned and accepted by the department without the practitioner’s signature. The signature attests to the practitioner’s review of the information provided and verifies that it is accurate and satisfies the requirements listed on the renewal.

*Effect:* In the absence of signed and dated renewal cards, the department’s ability to adequately determine an applicant’s eligibility is reduced.

*Cause:* The department’s processing controls over the receipt and review of the high volume of licensure renewal cards are not sufficient to prevent the acceptance of unsigned renewal cards.

We were not able to determine the cause for the renewal cards that could not be located.

*Recommendation:* The Department of Public Health should ensure that all licensure renewal cards have been accurately and completely filled out, signed, and dated by the practitioner. In addition, the renewal cards should be retained for a

minimum of three years, or until audited, whichever is later. (See Recommendation 29.)

*Agency Response:* “DPH agrees in part with this finding. Section 19a-14 of the General Statutes governs the Department’s authority to determine eligibility of applicants for *initial licensure* (including licensure by examination, endorsement or reciprocity) or for *reinstatement of a license* that was voided pursuant to subsection (f) of Section 19a-88. The license renewal process is actually governed by Section 19a-88 of the General Statutes.

Section 19a-88 requires practitioners to renew licenses upon payment of a fee on blanks furnished by the department, giving such person’s name in full, residence and business address and such other information as the department requests.

Webster Bank processes renewal payments and sends DPH electronic transaction files on a daily basis which automatically update the license status. The department cannot deny or delay a renewal on the basis of failure to sign the renewal card; formal action against the license would need to be pursued. A follow-up letter is sent to licensees when license renewal applications are incomplete to obtain the necessary information for PLIS to determine whether further action is warranted. We are unsure as to why 6 of the renewal cards requested could not be located at the time. It is possible that they were on a staff member’s desk for follow up but were not in the cabinet at the time of request.

The department had already instituted a revised process to track incomplete renewal cards and now tracks them in the eLicense system. Additionally, effective November 2012, Webster Bank began sending an electronic file of renewal cards (front and back of the cards) that are processed each day.

The department agrees that we will comply with the record retention schedule of maintaining renewal cards for a period of 3 years or until audited.”

### **GAAP Reporting:**

*Background:* The GAAP Closing and Reporting procedures refer to the process employed by agencies to gather financial information to make adjustments and additions to the state’s statutory accounting records. The purpose of those adjustments and additions is to produce the state’s Comprehensive Annual Financial Report (CAFR) on a basis consistent with Generally Accepted Accounting Principles (GAAP).

*Criteria:* The State Accounting Manual and other instructions to all state agencies require the submission of timely, complete, and accurate GAAP information.

*Condition:* Our prior and current audits of the department have noted (over)/understatements in the department’s GAAP closing packages:

GAAP Reporting Understatements  
Fiscal Year Ending June 30,

	<u>2010</u>	<u>2011</u>	<u>2012</u>
WIC Cash Held	-	\$(10,951,389)	\$(2,515,626)
Receivables	\$ (190)	\$ (94,580)	\$ 724,031
Grants Receivable	\$ 60,909	\$ 117,680	-
Contractual Obligations	\$(110,786)	\$ (2,194,646)	\$(9,747,728)

*Effect:* There is an increased risk of an undetected material misstatement of the state’s financial statements.

*Cause:* The department uses a highly manual and clerical process to calculate its GAAP adjustments. This process is subject to errors. Also, the department relies upon multiple discreet and disparate accounting systems rather than on the full functionality of the state’s automated accounting system.

*Recommendation:* The Department of Public Health should prepare the Generally Accepted Accounting Principles Reporting Package in accordance with the State Comptroller’s instructions. Also, the department should explore opportunities for automating its more manual GAAP calculations that contribute to the repetitive errors noted on its GAAP forms. (See Recommendation 30.)

*Agency Response:* “The Department of Public Health agrees with this finding and recommendation. The department will develop and implement a new protocol for preparing the GAAP report. This procedure will include a new GAAP checklist to ensure that all the steps necessary in preparing the report are followed to avoid inadvertent errors resulting in the (over)/under statements reported on the GAAP package. Furthermore, the fiscal office is currently reviewing how the agency processes the civil penalty receivables in order to ensure that updated and accurate information is available for use in preparing the agency’s annual GAAP report package. This procedure is expected to be established by August 31, 2013 in concert with the GAAP reports due in September 2013.”

**Travel Expenditures:**

*Criteria:* Disbursements for travel should be made based upon a recognized liability and be appropriately authorized by management in accordance with established statutes and regulations. The liability should be supported by a complete voucher package.

The voucher package should include documentation such as detailed receipts, invoices, contracts, and an explanation of the business purpose of any expenses.

Section 5-141c-8 of the Regulations of State Agencies states in part that, state expenses related to attendance at all seminars, meetings, or conferences shall receive prior approval for reimbursement by the agency head. Requests should be supported by literature published by the sponsoring organization including pertinent dates and expenses. Attendance by more than one representative from any one department or agency shall be requested individually and be supported by appropriate documentation to justify the need.

Also, Section 5-141-11 of the Regulations of State Agencies requires in part that, “(c) If the cash advance was more than the total expenditure the employee shall return the excess amount to the agency within five business days following return from travel.”

In addition, the department requires its employees to sign a travel advance request that contains a clause requiring them to submit a request for reimbursement of expenses with all receipts within five business days after their return from travel.

Sec. 3-117 of the Connecticut General Statutes states that, “Each claim against the state shall be supported by vouchers or receipts for the payment of any money exceeding twenty-five dollars at any one time, and an accurate account, showing the items of such claim, and a detailed account of expenses, when expenses constitute a portion of it, specifying the day when and purpose for which they were incurred.”

*Condition:* We reviewed fourteen instances of employee travel during the audited period. Our focus was on the completeness of the voucher packages supporting the travel authorizations and related payments.

- At the time of our review, the justification documentation for 6 employees from one unit to attend the same conference was not filed in the voucher package. Without this key documentation in the voucher package, the department’s decision to authorize the travel and approve subsequent payments was not properly

supported. Subsequent to our review, the department was able to satisfy our request for justification of the travel with other documents not included in the voucher package.

- In four of 14 travel instances, the submitted travel voucher package did not include a registration receipt confirming attendance at a conference. We noted that of the six employees who attended the same conference, two provided the registration receipts.
- In one of 14 travel instances, the travel voucher contained conflicting information concerning whether certain meals were included as part of the conference. That is, it was unclear whether the reimbursement for those meals should have been paid by the department. While the department's verbal explanation for the questioned meal costs was reasonable, it was no substitute for a complete and unambiguous voucher package.
- In 12 of 14 (or 86 percent) travel instances, the employee did not submit receipts within five business days.

*Effect:* In the absence of a complete and unambiguous voucher package, travel may not be fully justified, employees may be reimbursed for charges that they did not actually incur or that were unallowable, or reimbursed for more than they are actually entitled.

*Cause:* The voucher packages that we examined as part of our review of travel did not always contain enough supporting documentation to verify that authorized travel was justified and the related costs were complete and free from error.

*Recommendation:* The Department of Public Health should ensure that all travel voucher packages are complete and free from error prior to their authorization and approval for payments. (See Recommendation 31.)

*Agency Response:* "The Department of Public Health agrees with this finding and recommendation. The department will be implementing a variety of policy and procedure changes that includes justification documentation with every travel package for multiple employees traveling to the same conference; requires a registration receipt confirming attendance or comparable supporting documentation before the employee reimbursement can be processed; requires written documentation supporting the meals included in the travel and requires employee's to submit receipts within a timely fashion. The new policy will be effective September 1, 2013."

**Miscellaneous:**

The recommendations in this section address matters that could not be categorized with any of the preceding recommendations.

**Public Health Foundation of Connecticut:**

*Background:* Executive Order No. 33 issued by Governor John G. Rowland in March 2004 created the Public Health Foundation of Connecticut. The foundation was established for the purpose of soliciting, receiving and distributing private funds for charitable, scientific, educational or related purposes to enhance the department's efforts to protect and promote the health and safety of the people of Connecticut.

*Criteria:* Statutory provisions governing foundations affiliated with state agencies are included in Sections 4-37e through 4-37j of the General Statutes. Section 4-37f subsection (8) requires that a full audit be completed if receipts and earnings from investments total one hundred thousand dollars per year or more, but if receipts and earnings are less than one hundred thousand dollars, the foundation should be audited once every three years.

*Condition:* In a June 2010 meeting, the Public Health Foundation of Connecticut suspended its activities and entered into a state of dormancy. The reason given for the suspension of activities was the depletion of its available funds. Since its inception and continuing through its state of dormancy, the Public Health Foundation has never complied with the full audit requirement of the statutory provisions governing foundations.

*Effect:* The Public Health Foundation of Connecticut has not complied with the statutory requirement for an audit of its operations. As a result, the department has no independent assurance concerning the sources and uses of foundation resources.

*Cause:* The Public Health Foundation has few resources remaining and has been functionally dormant for several years. It did not obtain the required audit.

*Recommendation:* Since the Public Health Foundation has never complied with its audit requirement under Section 4-37f of the General Statutes, the Department of Public Health should consider formally severing its relationship with the Foundation. (See Recommendation 32.)

*Agency Response:* "The department agrees with this recommendation and will consider formally severing its relationship with the Foundation."

**Child Care Facilities – Employee Background Checks:**

*Background:* The department is responsible for the administration of the child day care and youth camp licensing programs. Family day care homes, group day care homes and child day care centers are required to be licensed. The Community Based Regulation Section licenses more than 4,000 child day care facilities.

Required background checks are sent to the department’s legal office for processing. Background checks that generate legal “hits” which represent certain criminal convictions and other matters are entered into a database and forwarded to the department’s Community Based Regulation, Child Day Care Unit. That unit performs the necessary background check follow-up with the child care providers.

*Criteria:* According to 45 CFR Section 98.41, “each Lead Agency shall certify that there are in effect, within the state (or other areas served by the Lead Agency), under state, local or tribal law, requirements designed to protect the health and safety of children that are applicable to child care providers of services for which assistance is provided under this part.”

Section 19a-80 subsection (c) of the General Statutes states that, “The Commissioner of Public Health, within available appropriations, shall require each prospective employee of a child day care center or group day care home in a position requiring the provision of care to a child to submit to state and national criminal history records checks. The criminal history records checks required pursuant to this subsection shall be conducted in accordance with Section 29-17a. The commissioner shall also request a check of the state child abuse registry established pursuant to Section 17a-101k. ...”

For all categories of care, except for in-home day care where the caregiver provides service in the recipients home, background checks (i.e. Child Abuse Registry, State/Territory Criminal Background, and FBI Criminal Background) are required for all program staff upon initial entrance into the system as well as all individuals residing in a family home daycare.

*Condition:* Our prior audit report included a recommendation that, “the department develop and implement policies and procedures regarding criminal background checks that are required for the licensing of child day care centers.” This stemmed from a review of the background checks for three of the five day care centers that were newly licensed during the 2009 fiscal year. That review noted that two centers were licensed even though three employee background checks were not completed.

Our Statewide Single Audit of the department's federal programs for fiscal year ending June 30, 2012, included extended audit procedures that served the dual purpose of satisfying certain required compliance testing and determining the status of this prior departmental audit recommendation.

We reviewed the department's ongoing monitoring and enforcement activities designed to ensure that all program staff entering the child care system have been identified and submitted for background checks. We also reviewed a sample of new program staff whose background checks by the department's legal office identified legal matters requiring follow-up.

- Our review of the department's licensing files that document site visits to child care facilities found that the files do not contain documented evidence that the department verified all new child care employees had the required background checks. Furthermore, we were informed that provider employees selected for review may not be checked against the database of completed background checks for confirmation that the required checks had been completed.
- We reviewed a sample of ten new program staff or household members whose background checks by the department's legal office identified certain legal matters that required follow-up by the department:
  - In one instance, a referral from the department's legal office dated November 2010 was not found in the licensing file, nor was there any evidence of follow-up on the matter until after our inquiry in January 2013.
  - In one instance, a referral from the legal office dated June 2012 was not found in the licensing file, nor was there any evidence of follow-up on this latest referral.
  - In five instances, referrals from the legal office appeared to have been acted upon. However, there was no evidence in the licensing files that management had reviewed and accepted the actions taken by the provider in response to the department's follow-up.
  - In one instance, a request for information was sent directly to the provider employee in June 2012. The employee responded in August 2012. The department did not evaluate the response until December 2012 at which time they requested additional documentation which remains outstanding as of February 2013.

- Our review noted that some background checks identify new program staff with pending legal charges. We noted that the department does not track these pending cases to determine if subsequent resolution of the legal charges requires follow-up action by the department.

*Effect:* Child care providers and their employees may be operating without the required completed background checks. As a result, children in licensed child care facilities are at an increased risk of coming into contact with unsuitable individuals.

*Cause:* The department does not have a unified monitoring and enforcement system capable of ensuring that all program employees entering the child care system in Connecticut are identified, that they have received background checks and follow-up has taken place in all instances where a background check reveals legal matters of concern.

The department relies on a highly manual process that does not provide management with real time feedback of background check activity. The legal office communicates background check “hits” to the Child Care Unit by paper memoranda. The Child Care Unit uses several different manual systems for tracking and documenting their follow-up activities with respect to background checks.

The department does not currently have the capacity to track pending legal matters identified as part of their background check procedures. In the absence of this capacity, individuals with potentially disqualifying pending legal matters may not be identified or may not be identified in a timely manner for follow-up.

The department currently relies upon the good faith of providers to report convictions as required by statute. For those entities that may choose to ignore the law, the department has no process in place to identify noncompliance and exercise appropriate enforcement. As such, it remains the department’s responsibility to act upon existing information already in its possession, such as the record of pending legal matters from the completed background checks.

*Recommendation:* The Department of Public Health should establish a uniform system for monitoring and enforcement that ensures all program employees working in child care in Connecticut have completed background checks. All background checks that reveal legal matters of concern, pending or otherwise, should be acted upon by the department in a full and timely manner and all provider responses should be evaluated and approved by management. (See Recommendation 33.)

*Agency Response:* “The DPH agrees with the findings. DPH is carefully reviewing all options to improve the process, including legislation, and improved policies and procedures. The DPH will continue to examine its process for conducting background checks and will take steps to improve such process within available appropriations. Since this audit was conducted, the manual process for following up on background checks that reveal a “hit” has been standardized among the Child Care Licensing Supervisors. All background checks that reveal a protective services or criminal conviction history requiring follow-up will include documentation of a final review and any responsive action taken by a manager. The inspection process and forms will be reviewed and modified as necessary to document the review of background checks during licensing visits.”

## RECOMMENDATIONS

Our prior auditors' report on the department contained 17 recommendations, 9 of which are being repeated.

*Status of Prior Audit Recommendations:*

- **The Department of Public Health should improve its regulatory process over the investigation of licensees'.** This recommendation will not be repeated.
- **The Department of Public Health should improve controls over the awarding of human service and personal service agreements.** This recommendation will be repeated in modified form as part of Recommendation 9.
- **The Department of Public Health should properly pay for overtime. An assessment of the need for on-call pay should be made. Policies, procedures, and schedules for the assignment of on-call duties should be implemented.** This recommendation will not be repeated.
- **The Department of Public Health should improve administrative controls to ensure compliance with the various state laws and regulations governing payments to peer reviewers.** This recommendation will not be repeated in the current audit.
- **The Department of Public Health should follow sound recordkeeping and business practices regarding the monitoring of employees and personnel file documentation.** This recommendation will not be repeated in the current audit.
- **The Department of Public Health should develop and implement policies and procedures regarding criminal background checks that are required for the licensing of child day care centers.** This recommendation will be repeated in modified form as part of Recommendation 33.
- **The Department of Public Health should improve controls over its various accounts receivable. The business office should take a more active role. When appropriate, Core-CT should be used to manage accounts receivable.** This recommendation will be repeated in modified form as part of Recommendation 28.
- **The Public Health Foundation of Connecticut, Inc. and the Department of Public Health should comply with the audit requirements of Section 4-37f of the General Statutes.** This recommendation will be repeated in modified form as part of Recommendation 32.
- **The Department of Public Health should seek a formal opinion from the Attorney General's Office to determine if the Public Health Foundation, Inc. was properly established.** This recommendation will not be in the current audit.

- **The Department of Public Health should improve controls and recordkeeping over equipment inventories toward the goal of producing accurate and timely reports. Also losses should be reported in accordance with Section 4-33a of the General Statutes.** This recommendation will be repeated in modified form as part of Recommendation 20.
- **The Department of Public Health should improve administrative controls to ensure compliance with the various state laws and regulations governing board, council, and commission member attendance, member composition, and frequency of meetings.** This recommendation will be not be in the current audit.
- **The Department of Public Health should finalize its EDP disaster recovery plan.** This recommendation will be not be in the current audit.
- **The Department of Public Health should adequately monitor invoices for appropriateness and accuracy before making payments.** This recommendation will be not be in the current audit.
- **The Department of Public Health should maintain security over its information systems by promptly terminating employees' system access upon their separation from employment.** This recommendation will be repeated in modified form as part of Recommendation 23.
- **The Department of Public Health should prepare the Generally Accepted Accounting Principles Reporting Package in accordance with State Comptroller's instructions.** This recommendation will be repeated in modified form as part of Recommendation 30.
- **The Department of Public Health should develop policies and procedures to ensure that sufficient documentation is retained for all receipts and that those receipts are deposited in accordance with Section 4-32 of the General Statutes.** This recommendation will be repeated as Recommendation 27.
- **The Department of Public Health should obtain and retain medical certificates in compliance with state regulations and applicable bargaining unit contracts.** This recommendation will be repeated as Recommendation 18.

*Current Audit Recommendations:*

- 1. The Department of Public Health should establish controls, in accordance with the State Property Control Manual, that reinforce the separation of duties between those responsible for the custody of pharmaceuticals and those who record the receipt, distribution, and return of pharmaceuticals.**

All pharmaceuticals, whether received, distributed, or returned, should be accounted for in the department's inventory records. A record of all expired pharmaceuticals turned over to the returns vendor should be kept and reconciled to the quantity of pharmaceuticals that the returns vendor reports as received. In addition, the credit memoranda, issued by the supplier to DPH, should be reconciled to the returns vendor reports. Those reports detail the returnable and non-returnable pharmaceuticals.

Comments:

Inventory recordkeeping controls over pharmaceuticals are insufficient when accounting for expired pharmaceuticals returned to the manufacturers. The credit memorandum issued by the supplier is not reconciled to the report of returnable and non-returnable pharmaceuticals. There is not a separation of duties between those with custody over pharmaceuticals and those who record the receipt, distribution, and return of pharmaceuticals.

- 2. The Department of Public Health should establish policies and procedures to ensure that purchases of pharmaceuticals are based on the actual demand of health service providers. The purchases of pharmaceuticals should be made in such a way that prevents under ordering, as well as over ordering that results in excessive carrying costs and increased numbers of expirations. Also, the department should develop order points throughout the fiscal year for making its purchases of pharmaceuticals. Adjustments to pharmaceutical inventory should be analyzed, explained, reviewed and approved by management before they are recorded in the department's records.**

Comments:

The department has not established a perpetual inventory system for tracking its pharmaceuticals. It does not collect data from its health care providers concerning their pharmaceutical inventory, returns, and expirations. The department doesn't use order points for making its purchases of pharmaceuticals. Requisitions for TB pharmaceuticals are not reviewed by management. Pharmaceutical inventory adjustments, due to differences between year-end physical inventories and the calculated year end values, are not reviewed and approved by management.

- 3. The Department of Public Health should establish a perpetual inventory system for its pharmaceutical inventory in accordance with the requirement's found in the State Property Control Manual.**

Comments:

The department has not established a perpetual inventory system to track and account for its pharmaceutical inventory. The department has incurred costs for pharmaceuticals that could not be accounted (distributed, expired and or returned) for.

- 4. The Department of Public Health should develop and use the tools necessary to properly evaluate contractor performance. Those tools may include but are not limited to the collection and review of clinic activity data and program site visits.**

Comments:

In the absence of a review and analysis of activity data and without the benefit of site visits, the department has fewer tools to properly evaluate contractor performance.

- 5. The Department of Public Health should take the necessary steps to ensure that all EMS providers submit their required activity reports. The department should make use of its enforcement powers for EMS providers who fail to submit their required activity reports in a timely and complete manner.**

Comments:

Not having all EMS providers in the state report their data reduces the effectiveness of the system and diminishes the value of the data that is collected. The department has not used its enforcement powers over EMS providers that do not report on their activities as defined under Section 19a-177(8)(C) of the General Statutes.

- 6. The Department of Public Health should take the necessary steps to ensure compliance with the statutory requirements for developing and reporting on emergency medical services system outcomes.**

Comments:

The department has not developed and submitted the appropriate quantifiable outcome measures for state's emergency medical services system to the General Assembly. Without these measures, the General Assembly does not have all the information it needs to make informed public policy decisions regarding the EMS system.

- 7. The Department of Public Health should perform a complete review of its existing contracting process with the objective of eliminating duplicative records and converting the various manual contract records into one integrated electronic system.**

Comments:

The department utilizes a highly manual contracting process which results in duplication of effort, delays in processing, disputes between operating units and customer dissatisfaction.

- 8. The Department of Public Health should develop a complaint management system and related procedures. The procedures should describe how the complaint management system will document the efforts of the department to respond fairly and efficiently to service provider complaints. The complaint management system should provide assurance to the public that service provider concerns about the public health infrastructure and health care to underserved residents are heard and resolved.**

Comments:

The department does not have a complaint management system in place.

- 9. The Department of Public Health should perform contractor evaluations with respect to their service delivery (e.g., quality of work, reliability, cooperation), as required by the Office of Policy and Management. Furthermore, the department should work with its contractors to streamline the contracting process to ensure that contracts are executed prior to the commencement date of the contract.**

Comments:

Contractor evaluations are intended to provide evidence that the contractor has met the conditions of the contract to the satisfaction of the department and the clients the contractor serves. The evaluations are particularly important when awarding and renewing non-competitive or sole source contracts. Without the evaluations, the department may be renewing contracts with contractors who have underperformed or failed to perform the contracted activities.

- 10. The Department of Public Health should obtain and review each contractor's cost allocation plan for reasonableness and retain the review in their records. Furthermore, the department should ensure that contract deliverables in the form of expenditure reports include only those administrative and general costs that are consistent with the approved cost allocation plan.**

Comments:

Department records do not contain evidence that it has obtained and reviewed every contractor cost allocation plan to determine the reasonableness of allocated costs for each program. This may lead to costs being shifted to state funded programs.

- 11. The Department of Public Health should uniformly perform monitoring activities that include the receipt and review of contract deliverables, the measurement of outcomes and the substantiation of achievements to ensure that adequate and appropriate health care services are provided to clients.**

Comments:

The department does not uniformly perform monitoring activities that include collecting and verifying deliverables, measuring outcomes, and substantiating achievements.

- 12. The Department of Public Health should examine the contractor's financial statements, records, and procedures to provide assurance that the contractor meets the requirements of the contract and that the financial and other interests of the state are protected.**

Comments:

The department does not always obtain and review reasonable documentation that services billed were actually delivered in accordance with the contract.

- 13. The Department of Public Health should improve records retention of procurement documentation in order to assure they are maintained in accordance with state policies.**

Comments:

The department relies on individual units to retain hard copies of request for proposal and contract files instead of utilizing an electronic filing room.

- 14. The Department of Public Health should develop formal policies and procedures to prevent, detect and resolve conflict of interest situations related to procurement and contract management. The policies and procedures should include guidelines to assist employees in identifying real or perceived conflicts of interests. Documentation should be retained as evidence that management assessed and addressed any conflict of interest disclosures.**

Comments:

Employees may have a real or perceived conflict of interest that should result in their disqualification from certain procurement and contracting functions. Management may not be aware of conflict of interest situations that require assessment or mitigation.

- 15. The Department of Public Health should develop or acquire a formal risk assessment and mitigation process with the objective of identifying and addressing risks that could impact its operational and reporting objectives. The risk assessment and mitigation process should be independent, formal, and ongoing.**

Comments:

The department is exposed to a higher risk that it will not achieve its operational objectives. Risks that could have been anticipated and avoided by periodic assessments may result in operational ineffectiveness, additional costs and liabilities and exposure to fraud.

- 16. The Department of Public Health should strengthen its controls over compensatory time. Pre-approvals should be issued before any compensatory time is accrued.**

Comments:

The department is not in compliance with its own guidelines concerning the process of earning compensatory time. In addition, without proper oversight, the department has less assurance that the services it has compensated its employees for have been performed.

- 17. The Department of Public Health should establish a process to periodically identify any employees working at other agencies, and assess those employees for overlapping duties, conflicts in schedules and conflicts of interest.**

Comments:

The existing monitoring procedures were not adequate to ensure that both employee dual employment certification forms are properly completed and maintained on file.

- 18. The Department of Public Health should strengthen its controls over medical certificate collection and review.**

Comments:

The department is not in compliance with the state or agency guidelines concerning the process of allowing employees to return to work after a significant use of sick time.

- 19. The Department of Public Health should implement recordkeeping and processing procedures to ensure that only vehicle rental costs allocable to a particular federal award are charged to that award.**

Comments:

Recordkeeping and processing procedures were not sufficient to ensure that allocable costs to a particular federal award were charged to that award.

- 20. The Department of Public Health should make use of the integrated features of Core-CT as the basis for reporting its equipment inventory in order to comply with the requirements of the State Property Control Manual.**

Comments:

There is a lack of compliance with the State Property Control Manual. The agency does not make use of the integration available in Core-CT using the asset management, purchasing, and accounts payable modules.

- 21. The Department of Public Health should strengthen its controls over Core-CT role assignments and be more active in its review of role assignments.**

Comments:

The department is not in compliance with Core-CT Security Guidelines and has heightened control risk because it has not implemented proper internal controls.

- 22. The Department of Public Health should perform an annual software inventory and maintain its software inventory records in manner consistent with the requirements found in the State Property Control Manual.**

Comments:

The department did not perform an annual inventory of software during the audited period. As a result, there was no physical verification and reconciliation of the actual software inventory to the software inventory listing. Also, nearly half of the lines on the software inventory listing were missing one or more data elements required by the State Property Control Manual (i.e. cost, acquisition details, serial numbers, or location).

- 23. The Department of Public Health should establish clearance procedures for employees separating from state service and apply those procedures to its separating employees. The procedures must ensure that all state assets are returned intact, that data is secured and computer system passwords and access cards have been deactivated immediately upon the termination of an employee.**

Comments:

The department does not utilize formal clearance procedures for employees separating from state service. There are no follow-up monitoring procedures to ensure that terminated employees have their rights and privileges removed.

- 24. The Department of Public Health should eliminate the current electronic signature process in use in the Drinking Water Section and develop policies and procedures that balance the need for expedient review against adequate internal controls to ensure payments are only made on allowable and reasonable costs and an adequate accountability for reviews performed is maintained.**

Comments:

Payments were made on projects that may not be allowable or reasonable because authorization could not be authenticated. No audit trail exists to document that department personnel performed the required program examination.

- 25. The Department of Public Health should establish and monitor compliance with policies and procedures which ensure no payments are made against purchase orders at or exceeding \$1 million dollars without first obtaining an OSC pre-audit approval.**

Comments:

The Fiscal Services Section at the department had been waiting to submit purchase orders to OSC until the payments issued against the purchase order would exceed a \$1 million dollar threshold. In addition, no internal controls were in place to prevent payments being issued when a purchase order lacked an OSC pre-audit approval.

- 26. The Department of Public Health should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services, and ensure compliance with state contracts.**

Comments:

When expenditures are incurred prior to the commitment of funds, there is less assurance that agency funding will be available at the time of payment.

- 27. The Department of Public Health should develop the necessary internal controls to ensure that sufficient documentation is retained for all receipts and that those receipts are deposited in accordance with Section 4-32 of the General Statutes and in accordance with the Office of the State Comptroller's directives.**

Comments:

Late deposits or postings to Core-CT increase the risk that these items will be lost, stolen or unrecorded. The department did not always retain sufficient documentation to support deposits.

- 28. The Department of Public Health should take steps to improve its collection efforts to reduce the high percentage of persistently delinquent accounts as a percentage of its average accounts receivable. Those efforts should include consideration of the use of interest penalties on overdue balances. Accounts that are determined to be inactive and uncollectible should be written-off and removed from the accounts receivable records.**

Comments:

The department has a high percentage of persistently delinquent accounts as a percentage of its average accounts receivable. In effect, the department is bearing the financing cost of interest free loans on the unpaid accounts receivable balances for the slow paying vendors. The accounts receivable balance for the laboratory is overstated for those accounts that are inactive and have no possibility of collection.

- 29. The Department of Public Health should ensure that all licensure renewal cards have been accurately and completely filled out, signed, and dated by the practitioner. In addition, the renewal cards should be retained for a minimum of three years, or until audited, whichever is later.**

Comments:

The department's processing controls over the receipt and review of the high volume of licensure renewal cards are not sufficient to prevent the acceptance of unsigned renewal cards. In the absence of signed and dated renewal cards, the department's ability to adequately determine the eligibility of its applicants is reduced.

- 30. The Department of Public Health should prepare the Generally Accepted Accounting Principles Reporting Package in accordance with the State Comptroller's instructions. Also, the department should explore opportunities for automating its more manual GAAP calculations that contribute to the repetitive errors noted on its GAAP forms.**

Comments:

The department uses a highly manual and clerical process to calculate its GAAP adjustments. This process is subject to errors.

- 31. The Department of Public Health should ensure that all travel voucher packages are complete and free from error prior to their authorization and approval for payments.**

Comments:

The voucher packages that we examined, as part of our review of travel, did not always contain supporting documentation to verify that authorized travel was justified and the related costs were complete and free from error.

- 32. Since the Public Health Foundation has never complied with its audit report requirement under Section 4-37f of the General Statutes, the Department of Public Health should consider formally severing its relationship with the Foundation.**

Comments:

The Public Health Foundation of Connecticut has not complied with the statutory requirement of an audit of its operations. As a result, the department has no independent assurance concerning the sources and uses of foundation resources. The Public Health Foundation has few resources remaining to it and has been functionally dormant for several years.

- 33. The Department of Public Health should establish a uniform system for monitoring and enforcement that ensures all program employees working in child care in Connecticut have completed background checks. All background checks that reveal legal matters of concern, pending or otherwise, should be acted upon by the department in a full and timely manner and all provider responses should be evaluated and approved by management.**

Comments:

Child care providers and their employees may be operating without the required completed background checks. The lack of background checks increases the risk that unsuitable individuals may come in contact with children in licensed child care facility.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Department of Public Health (DPH) for the fiscal years ended June 30, 2010 and 2011. This audit was primarily limited to performing tests of DPH's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of DPH's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to DPH's are complied with, (2) the financial transactions of DPH's are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of DPH's are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Public Health for the fiscal years ended June 30, 2010 and 2011, 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 Public Health complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements, and to obtain a sufficient understanding of the internal controls 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:**

Management of Department of Public Heal is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department of Public Health's 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 DPH's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of DPH's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of Department of Public Health's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Condition of Records and Recommendations sections of this report, we identified deficiencies in internal control over financial operations, safeguarding of assets, and compliance

with requirements that we consider to be a material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any assets or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non-compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to DPH's financial operations will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be a material weakness:

2. Program Management
3. Tuberculosis and Sexually Transmitted Infection Controls
6. EMS Data Reporting and Analysis
9. Contractor Evaluation and Contract Processing
11. Contract Deliverables
12. Fiscal Monitoring
15. Risk Management
20. Equipment Inventory and Reporting
33. Child Care Facilities – Employee Background Checks

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies:

1. Returns and Reconciliations of Pharmaceuticals
5. Emergency Medical Services Data
8. Managing Service Provider Complaints
10. Cost Allocation
23. Clearance Procedures for Terminated Employees
24. DWSRF Program Consent Signatures
26. Purchase Order Approvals Prior to Purchasing of Goods or Services
28. Laboratory Accounts Receivable Delinquent Accounts
29. Controls over Licensing Applications and Renewals
30. GAAP Reporting

**Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Department of Public Health 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 DPH 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Condition of Records and Recommendations sections of this report as the following items:

- 6. EMS Data Reporting and Analysis
- 9. Contractor Evaluation and Contract Processing
- 11. Contract Deliverables
- 33. Child Care Facilities – Employee Background Checks

We also noted certain matters which we reported to agency management in the accompanying Condition of Records and Recommendations sections of this report.

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

This report is intended for the information and use of Department of Public Health's 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 Public Health during the course of our examination.



Michael Adelson  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts