STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF VETERANS' AFFAIRS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006, 2007 AND 2008

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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December 21, 2009

AUDITORS' REPORT
DEPARTMENT OF VETERANS' AFFAIRS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006, 2007 AND 2008

We have examined the financial records of the Department of Veterans' Affairs for the fiscal years ended June 30, 2005, 2006, 2007 and 2008. This report on that examination consists of the Comments, Recommendations and Certification which follow.

Financial statement presentation and auditing have been done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Veterans' Affairs (or the Department) operates under the provisions of Title 27, Chapter 506, Parts I and Ia, Sections 27-102l through 27-137 of the General Statutes and provides comprehensive health, social and rehabilitative services to veterans in the State of Connecticut. The Department of Veterans' Affairs operates the Veterans' Home in Rocky Hill that includes a 350-bed hospital and a 519-bed domicile for eligible veterans. Previously known as the “Veterans’ Home and Hospital”, it was changed to the “Veterans’ Home” by Public Act 04-169 of the General Assembly, effective June 1, 2004. The Veterans’ Home receives annual inspections by the United States Department of Veterans’ Affairs and inspections by the State Department of Public Health every two years. The Department also operates the Office of Advocacy and Assistance that maintains offices throughout the State and provides advice, assistance, and formal representation to veterans and their dependents.

Linda S. Schwartz served as Commissioner during the audited period.

Under the provisions of Section 27-102n of the General Statutes, there is a Board of Trustees established to advise and assist the Commissioner in operating the Department. The Board consists of the Commissioner and sixteen members appointed by the governor. The Board members are not compensated for their services but may receive reimbursement for reasonable expenses in the performance of their duties. As of June 30, 2008, the following persons served on the Board:

William J. Benson
John G. Chiarella, Sr.
James W. Clynch
Angelo Fusco
James M. Hoover
Lennell Kittlitz
Frederick P. Leaf
John P. March, Jr.
Shane Matthews
Thomas R. Stough
Judith A. Torpey
Robert Wamester
Stanley F. Zebzda

There were three vacancies as of June 30, 2008. Edward Banas, James B. Hoffman, Elwood A.D. Lechausse, Robert Newman, William J. Pomfret and Steven Wilson also served during the audited period.

RÉSUMÉ OF OPERATIONS:

The Department's operations are accounted for within the General Fund and a Special Revenue Fund. Under Section 27-108, subsection (e), of the General Statutes, recoveries for the care and treatment of patients are deposited in the Institutional General Welfare Fund. The Department then transfers the moneys to a restricted contribution account (Institutional General Welfare Fund) within the Special Revenue Fund. These moneys are used to finance part of the Department's operating costs. Similar transfers were made from the Activity Fund to the Activity Fund restricted account within the Special Revenue Fund.

General Fund Revenues and Receipts:

A summary of General Fund revenues and receipts during the audited period is presented below:

	2004-2005	2005-2006	2006-2007	2007-2008
Medicare reimbursements	$63,806	$158,098	$303,010	$148,388
Federal aid for veterans	6,506,290	6,609,324	6,736,741	6,535,017
Federal aid-miscellaneous	62,400	79,100	57,114	45,000
Rents for cottages or residences	55,584	38,708	19,777	11,715
All other revenues and receipts	25,806	21,258	93,130	6.046
Total Revenues and Receipts	**$6,713,886**	**$6,906.488**	**$7,209,772**	**$6,746,166**

The category "Federal aid for disabled veterans" represents reimbursements from the Federal government for both domiciled veterans and veterans residing in the hospital. As of October 2007, such reimbursement was $33 per day for the domicile and $71 per day for the hospital.

General Fund Expenditures:

A summary of expenditures for the fiscal years ended June 30, 2005, 2006, 2007 and 2008 is presented below:

	2004-2005	2005-2006	2006-2007	2007-2008
Personal Services and Employee Benefits:				
Salaries and Wages	19,897,103	20,388,374	21,140,810	22,187,617
All other	47,633	45,868	43,766	51,218
Total Personal Services and Employee Benefits	19,944,736	20,434,242	21,184,576	22,238,835
Purchases and Contracted Services:				
Premises and Property Expenses	1,716,520	2,575,578	2,471,111	3,143,819
Purchased Commodities	3,280,488	3,310,629	2,994,281	3,142,539
Payments to Clients	1,432,330	1,560,657	1,678,965	1,636,620
Reimbursements		(8,545,843)		
All other	2,271,515	2,773,290	1,951,687	2,208,834
Total Purchases and Contractual Services	8,700,853	1,674,311	9,096,044	10,131,812
Total Expenditures	**28,645,589**	**22,108,553**	**30,280,620**	**32,370,647**

The Department's General Fund expenditures remained relatively stable during the four-year audited period with any increases mainly attributed to collective bargaining increases for personal services. As of June 30, 2008, the Department had 292 full-time and 79 part-time employees.

The significant decrease in expenditures for the 2005-2006 fiscal year, due to the offset of $8,545,843 categorized as reimbursements, resulted from Public Act 05-251, Section 60, subsection (a). The Act transferred the funds to the Department of Social Services for the purpose of maximizing Federal reimbursements.

Special Revenue Fund- Federal and Other Restricted Accounts:

Special Revenue Fund receipts, totaled $2,179,390, $2,230,960, $15,214,370 and $9,575,792 for the fiscal years ended June 30, 2005, 2006, 2007, and 2008, respectively. The large increases for the last two audited fiscal years were due to reimbursements received for two Federal grant projects at the State Veterans' Home in Rocky Hill, involving a new health care facility and water loop.

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

	2004-2005	**2005-2006**	**2006-2007**	**2007-2008**
New Health Care Facility			10,303,587	9,144,671
Water Loop			2,151,230	490,234
Institutional General Welfare Fund	2,141,518	2,229,636	2.496,788	1,571,444
Activity Fund	23,947	34,339	37,316	38,578
Total Expenditures	**2,165,465**	**2,263,975**	**14,988,921**	**11,244,927**

As noted above, the two projects were a significant portion of Special Revenue Fund expenditures for the 2006-2007 and 2007-2008 fiscal years. The health care facility, the Sergeant John L. Levitow Veterans Health Center officially opened on October 23, 2008.

The Institutional General Welfare Fund restricted account is used for Departmental operating expenditures. The decrease in 2007-2008 can be attributed to an overall effort to reduce operating costs due to budget constraints.

Per Capita Costs:

Annually, the State Comptroller computes the daily per capita cost of maintaining the residents and patients at the Veterans' Home. Included in these computations are expenditures of the Institutional General Welfare Fund, which are considered proper costs of maintaining the institution. Per capita daily costs, not including Federal reimbursement, for the domicile (outpatients) and hospital (inpatients) were $96 and $715, respectively for the 2007-2008 fiscal year.

Daily Census:

A daily census is produced of the veterans residing at the Veterans Home. As of June 30, 2008, there were 459 veterans at the Veterans Home, 342 in the domicile and 117 in the hospital. Of the 459 veterans, 43 (37 in the hospital, 6 in the domicile) are veterans of World War II, 39 (26, 13) of the Korean Conflict, 283 (42, 241) of the Vietnam Conflict, 7 (3, 4) of the Lebanon Conflict, 11 (2, 9) of Operation Desert Storm, three (1,2) of the Invasion of Grenada, 58 (4,54) of the Lebanon Peace Keeping Mission, 11 (1,10) of Operation Freedom (includes Operation Enduring Freedom-

Afghanistan and Operation Iraqi Freedom) , and four (1,3) of Operation Earnest Will.

Institutional General Welfare Fund:

The Institutional General Welfare Fund (IGWF) operates under the provisions of subsections (b) and (c) of Section 27-106 and subsection (e) of Section 27-108 of the General Statutes and is available to finance operations of the Veterans' Home. The Department has been using this Fund to supplement its General Fund appropriations.

As shown below, most of the revenue for the IGWF comes from patient billings. Under the revisions of Section 27-108, subsection (c), of the General Statutes, veterans who are able to pay, in whole or in part, for the Department of Veterans' Affairs' services shall receive a monthly bill for such services. The Department has a patient billing system to collect such moneys.

The IGWF also receives funds from estate collections. This is permitted under subsection (f) of Section 27-108 of the General Statutes, which states that in the event a veteran dies still owing money for services rendered by the Department of Veterans' Affairs, the Department may submit a claim against such veteran's estate.

A summary of the Institutional General Welfare Fund's revenue and receipts transactions follows:

	2004-2005	**2005-2006**	**2006-2007**	**2007-2008**
Revenues and Interfund Transfers				
Patient billings	$2,398,085	$2,702,017	$2,453,518	$2,259,143
Estate collections	180,580	191,392	83,358	96,830
All other	76,325	561,205	284,748	347,052
Total Revenues and Transfers	**$2,657,990**	**$3,454,614**	**$2,821,624**	**$2,703,025**

Expenditures amounted to $2,141,518, $2,229,637, $2,519,608 and $1,654,403 for the 2004-2005, 2005-2006, 2006-2007 and 2007-2008 fiscal years, respectively. These expenditures were made for the general operations of the Department out of the Special Revenue Fund. The "detail payroll" is paid through this Fund; residents are paid $3.00 an hour, up to 10 hours a week in return for performing various duties. This money is generally used for personal needs.

Activity Fund:

The Activity Fund operates under the provisions of Sections 4-52 through 4-55 of the General Statutes for the benefit of residents and patients of the Department of Veterans' Affairs. The major sources of fund receipts were sales of sodas and ice cream at the Winners Circle canteen. Revenues for the Activity Fund totaled $19,980, $21,351, $28,471 and $27,920 for the fiscal years ended June 30, 2005, 2006, 2007 and 2008, respectively.

As previously noted, moneys from the Activity Fund were transferred to the Special Revenue Fund. Section 4-53 of the General Statutes permits transfers of excess cash to the Welfare Fund; however, there were no such transfers during the audited period. According to the Department's financial statements, the Activity Fund's cash and cash equivalents balance was $35,231 as of June 30, 2008.

Fitch Fund:

The Fitch Fund, governed by Section 3-38 of the General Statutes, is a long-standing permanent trust fund whose assets are in the custody of the State Treasurer. The balance of the fund was $41,208 as of June 30, 2008. Interest earned by the fund is to be used for the benefit of the Department's clients through transfers to the Institutional General Welfare Fund. During the audited period, there were no transfers and interest earned totaled $5,952.

CONDITION OF RECORDS

Our review of the financial records of the Department of Veterans' Affairs revealed certain areas warranting attention that are discussed in the following findings.

Accounts Receivable System:

Background: Accounts receivable balances as of June 30th of each year are required to be reported on GAAP Form No. 2. Net accounts receivable at the Department of Veterans' Affairs result from charges for room, board and care less those charges estimated to be uncollectible. Net receivable amounts reported should be valid.

Criteria: The Comptroller's State Accounting Manual recommends that accounts receivable should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding. When feasible, an accountability report should be prepared to compare the moneys that were received to the number of those receiving services.

Condition: Our current review showed that the Department has made significant progress in making the reported accounts receivable balance more realistic. From March 2006 to April 2008, the Department wrote off $225,200,742 worth of account receivable balances with OPM approval. The write-offs consisted mostly of the balances of deceased veterans where collection efforts have been exhausted. In addition, accounts with negative balances were deleted along with balances less than $1,000. As of June 30, 2008, receivables reported on GAAP Form No. 2 were $72,795,308, of which, $69,155,542 were reported as uncollectible.

However, we found that further improvement is still needed. During the audited period, the patient billing system was unable to report the total amounts billed and the accounts billed monthly. This prevents any analytical review to verify the reasonableness of monthly invoice amounts to the number of residents at the facility. It also prevents verifying the reasonableness of the collection for current services by comparing the invoiced amounts to the collected amounts for patient billing in the accounting records.

In addition, the system was not able to generate a reliable aging schedule report for the Department's health care facility during the audited period. Without an aging schedule, the Department was unable to determine the accurate outstanding liability of hospital patients in order to proceed with the collection process.

Effect: The lack of reports prevents management from both monitoring whether monthly invoices represent collection of all billable services and following up on outstanding receivables.

Cause: As disclosed in our previous audit report, the patient billing system was poorly designed. Therefore, despite the Department's recent efforts, there is still need for improvement.

Recommendation: The Department's patient billing system should be modified to improve controls to produce essential monthly reports. (See Recommendation 1.)

Agency Response: "The agency has been waiting for the approval of authorized bond funding for an agencywide integrated enterprise computer system consisting of patient care/ billing components but has not received any funding support from the State as of the fiscal year ended June 30, 2009. However, the agency has invested great quantities of human capital/ resources toward the improvement of the Patient Billing System (PBS) since the last audit.

There is a "Non-Payment" report and other tools available which the agency has been using to routinely compare invoiced amounts to collected amounts for specific timeframes. Therefore, established procedures are in place whereby the agency has been and continues to follow-up on outstanding receivables. The agency has the capability to indicate the length the debt has been outstanding (aged) via an Account Summary Report. The agency has been following up on Delinquent Accounts and has been sending 30/60/90 Delinquency Letters to Domicile veterans with past due accounts and there are collection efforts procedures in place.

Additionally, there is an Accounts Receivable Aging Report readily available on PBS. The Department can also determine an outstanding current balance due by the hospital patients to proceed with the collection process.

In May 2009, the Billing Office was in the process of working with the Agency's Information Technology (IT) Department to create further reporting capability on the PBS system. So there is currently a new report titled "Monthly Patient Statements" available on PBS reflecting total amounts billed and accounts billed monthly. The report shows Past Due Balances, Current Charges, Credits and Current Balance Due. Therefore, the Department now has the capability to review monthly invoice statements to the number of residents in the facility as recommended by the Auditors."

Property Control:

Criteria: According to the State Comptroller's instructions, management must use Asset Management queries to complete the Annual Inventory Report (form CO-59). If the values recorded on the CO-59 do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy in an attachment.

Section 4-36 of the General Statutes requires each State agency to establish and keep an inventory account in a form prescribed by the State Comptroller. The State's Property Control Manual requires a detailed subsidiary record supporting each inventory category amount reported on the annual inventory report to the State Comptroller. Also, inventory records should be properly maintained with new acquisitions and any changes in location promptly recorded.

The Property Control Manual requires inventory records for software and licenses not owned by the State that include certain data including a software identification number, acquisition type and information, installation date, location and tag number of the computer, cost and disposal information.

Conditions: 1. Annual Inventory Reports-Explanations for additions and deletions for the category "GAAP Personal Property Group" were not submitted with the Annual Inventory Reports to the State Comptroller for June 30, 2006, 2007 and 2008. Such explanations would reconcile any differences between Core-CT and the amounts reported by the agency on the form CO-59.

2. Physical Inventory- A random physical inspection of 25 equipment items found that five were not tagged and five that were found in a location different from the inventory record. Our tests to physically locate 25 items on inventory records showed that five were not found in the location listed.

3. Software inventory- The Department's software and licenses property control records do not include certain required categories of data such as an identification number, initial installation date, cost, and disposal information.

Effect: The lack of accurate property control records increases the risk of loss and theft of State property.

Cause: In general, there was a lack of oversight in some areas to ensure complete compliance with State property control guidelines.

Recommendation: The Department should improve its property control records. (See Recommendation 2.)

Agency Response: "1. Annual Inventory Reports- For the record, "GAAP Group Personal Property reconciliations were performed at the agency for the 2005-2006, 2006-2007, and 2007-2008 fiscal years. However, until it was brought to our attention by the Auditors' staff, the agency was not aware of the requirement to submit the reconciliation report/data with the CO-59 to the State Comptroller, but has kept all reconciliation records and in fact did provide those records to the Auditor. Going forward, the Agency will now submit all future reconciliation records along with the CO-59 to OSC starting with the 2008-2009 fiscal year.

2. Physical Inventory- Since the last audit, the agency has implemented tighter property control policies with DVA-FMD-100 (Agency Property Control Form) to track the movement of equipment. In October 2008, the agency's Healthcare Department moved into a new facility. The Agency's Facility Management Department not only tagged $2,400,000 worth of equipment but also handled all the transfers of equipment from the old facility to the new facility. This was a daunting task to be completed in a short time. The agency recognizes and acknowledges "imperfections" in the current business process and will continue to work diligently to bring the Department into full compliance with State Property Control guidelines. The agency's Facility Management Department has also instituted a monthly internal random property check to insure that all assets are tagged and are located in the location listed in Core-CT.

3. Software Inventory- Since this deficiency was cited in the last Auditor's report, the agency's IT Department has been keeping records of

all software used in the agency. For older records, some of the information is not available. The agency currently captures all required data which started during the 2008-2009 fiscal year.

Expenditures:

Criteria: All purchases should be approved in advance and subsequent receipt of goods and services should be documented.

State agencies should only use vendors on State contracts to purchase goods and/or services and should seek prior approval from DAS before purchasing goods and/or services from a vendor on a Federal contract.

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

Department procedures require each veteran to initial their detail payroll timesheet to confirm their work hours.

Proper internal control would include documenting the names of those receiving any form of compensation.

The Department of Information Technology (DOIT) provides each agency with a detailed monthly report and an individual usage report. DOIT policies and procedures require that both the individual and the agency verify the accuracy of the bill and promptly report any discrepancies.

Conditions: 1. Test of Expenditures- Our test sample of 40 expenditure transactions totaling $54,036 noted the following:

a) Insufficient receipt documentation- We noted 19 transactions, totaling $35,645 that had receipt dates which were not consistent with the guidelines established in the State Accounting Manual. Eleven of the 19 had packing slips or invoices that were not signed and/or dated to acknowledge when the goods and/or services were actually received by the Department.

b) Use of vendor not on State contract- We noted a payment for $439 to a vendor for various plumbing supplies during June 2006. The applicable DAS contract for plumbing supplies did not include the vendor while several of the items purchased were available from another vendor on State contract. During the four fiscal years ended June 30, 2005 through 2008, the Department purchased $36,026 in supplies from the vendor.

c) Lack of DAS approval- We noted that the Department was using a vendor to purchase pharmaceutical drugs through a contract with the Federal General Services Administration from the 2004-2005 fiscal year to the 2007-2008 fiscal year. A total of approximately $4,300,000 was paid to the vendor for the four-year period. It appears that the Department did not obtain approval to use the Federal contract from DAS until after our inquiry.

2. Questionable use of the Capital Equipment Purchase Fund- During August 2005, the Department purchased 160 flat screen televisions through the Capital Equipment Purchase Fund, costing a total of $106,579. The televisions cost $634 each; $499 for the set and $135 for the mount, which is below the $1,000 threshold for qualifying purchases for using the Capital Equipment Purchase Fund. The televisions were purchased prior to the construction of the new health care facility.

During our review of the Department’s inventory during March 2009, we found 52 of the above televisions, mostly in their original boxes. The unused televisions had cost approximately $33,000. We were informed that, at the time of the purchase, a 250 bed facility was planned. However, after the televisions were purchased, the capacity of the new facility was downsized to 125 beds. The construction began in August 2006 and the 125 bed facility was officially opened during October 2008.

3. Institutional General Welfare Fund Petty Cash-

a) Detail payroll- Six of nine detail payrolls from January 2005 to February 2007 were missing veterans’ initials to verify the work hours. This represented approximately 28 percent of the veterans on the payroll, totaling $15,108 in payments.

b) Gift cards- During January 2007, the Department purchased 59 gift cards for $500 to pay veterans who participated in the vocational rehabilitation program. The Department could not provide a list of veterans that received the cards.

4. Cell phones- Our test check of agency cell phone statements for the 2006-2007 and 2007-2008 fiscal years showed an overall lack of monitoring. The agency did not sign all four monthly statements tested, certifying their accuracy. We also noted that employee statements for two months in fiscal year 2006-2007 were not signed by either the employee or the supervisor certifying they were reviewed. For the two months tested in fiscal year 2007-2008, 12 out of 47 employee statements were not available for our review and three were not signed by the supervisor.

Effect: The failure to follow established purchasing procedures can result in errors in payments or misuse of funds that may go undetected.

The advance purchase of televisions before the new health care facility project started resulted in the expenditure of $33,000 for equipment that was never used.

Cause: It appears that the Department lacked sufficient internal controls over some aspects of purchasing and accounts payable.

Recommendation: The Department needs to improve internal control over expenditures. (See Recommendation 3.)

Agency Response: "1. Test of expenditures-

a) Lack of receipt date documentation- The agency has taken corrective actions by implementing internal measures/ procedures for all deliveries, signature/date stamps on the delivery packing slips will accompany all voucher packages going forward. Additionally, the Core-CT online receiver will be completed on the same day that the packing slip is signed to signify proof of delivery and that the shipment was received.

b) Use of vendor not on State contract- The agency acknowledges this audit citing and has subsequently implemented corrective actions to be in compliance with the use of State contracted vendors.

c) Lack of DAS approval-. The agency procured pharmaceutical drugs through the Federal Contract for the best pricing. Department of Administrative Services Procurement Services has been aware of this practice and supported the agency's procurement efforts through the use of the vendor's Federal contract. The agency could not find the original approval letter from DAS, but has indicated and provided email reference validation from DAS' Director of Procurement, acknowledging that DVA is utilizing this contract in compliance with Connecticut General Statute 4a-66(b).

2. Questionable use of the Capital Equipment Purchase Fund- The agency procured 160 televisions for the new healthcare facility. These are special bedside televisions requiring special plugs which were part of the construction planning phase. The timing of purchasing these televisions, the quantities of televisions, and the usage of Capital Equipment Capital Fund were based on the directive from the agency's Project Manager.

3. Institutional General Welfare Fund Petty Cash-

a) Detail payroll- This has been rectified via internal procedural changes and there has been significant improvement in this area since. Supervisors and/or managers of patient workers have been advised to insure that proper procedures are adhered to and each detail worker initials the timesheet to confirm hours worked.

b) Gift cards- The agency implemented procedures to require that the petty cash custodian submit a list of veterans to whom gift cards were distributed when processing requests for petty cash reimbursement.

4. Cell phones- The agency started the cell phone bills verification process in 2006-2007 fiscal year. Currently, all cell phone holders are required to verify and validate all charges on the bill with his/her signature and his/her supervisor's signature. The agency's IT/Telecommunications Department will continue to improve controls and the monitoring of all future cell phone bills.

Payroll/Personnel:

Criteria: 1. Timesheet approval- Timesheets should be signed by the employee and supervisor at the end of each pay period to ensure hours included are accurate and reflect actual hours worked.

2. Work schedule- According to Article 18, Section Eleven, of the Maintenance and Service Unit (NP-2) contract, all employee work schedules shall be filed with and approved by the Office of Policy and Management, Office of Labor Relations.

3. Overtime- The Department's Employee Manual requires all overtime worked to have supervisory approval. In general, union contracts provide for voluntary overtime to be equally distributed among qualified volunteers with similar skills and duties.

4. Compensatory time- Employees earn and use compensatory time in accordance with their collective bargaining unit contract provisions or, in the case of managers, with DAS guidelines.

5. Medical certificates- Employees applying for leave under the Family Medical Leave Act (FMLA) must submit several forms according to Department of Administrative Services' procedures. These forms include a request for leave, a medical certificate and notification of the intent to return to work. The agency is required to prepare a form to approve the request.

6. Promotions through reclassification- The Department of Administrative Services' General Letter 226 provides the procedures and required documentation for promotions through reclassification under Section 5-227a of the General Statutes.

Conditions:

1. Timesheet approval- Seven out of 30 timesheets sampled were signed by the supervisor before the end of the pay period. Three of the seven did not work any hours after the supervisor signed the timesheet. We also noted two signatures that were not dated when signed.

2. Approval of work schedules- Department employees under the NP-2 union contract involved with facility maintenance work nine days (or 75 hours) each bi-weekly pay period. There are three days where they work 8.5 hours and six days they work 8.25 hours. Such employees are entitled to time and one-half for over eight hours a day according to the union contract. We note that the agency was unable to provide documentation that the above schedule allowing regular overtime work was approved by the Office of Labor Relations.

3. Overtime- Our review of overtime, consisting of a sample of 15

payments, found numerous instances where we were unable to verify overtime shifts worked due to a lack of documentation. We noted five cases where time request forms were not on file to document approval for overtime worked, documentation was not on file for three employees to support whether overtime was equally distributed, and sign-in sheets for two employees could not be located.

We also noted that "needs lists" were not on file for six nurses to document the need for overtime shifts. Once a month, the hospital administration sends out a "needs list" by date, job class, and shift for anyone who is interested in working the available shifts.

4. Compensatory time- Our review found compensatory time earned for six out of ten employees was not in accordance with bargaining unit contracts and guidelines in the DAS Manager's Guide. We noted that compensatory time was being awarded for hours that should have been considered normally required. In addition, documentation to support the hours earned, including the reason and approval, was not on file for all employees in our sample.

5. Medical certificates- Our test check of 20 employees for medical certificates disclosed the following:

a) Three employee files were missing the application form for leave under the Family Medical Leave Act (FMLA).

b) According to DAS' FMLA policies, an agency is required to respond to employee requests for leave within five days using Form HR2, "Agency Response". We found six cases where the agency's response did not appear timely, ranging from nine days to five months late.

c) Sufficient medical documentation was not on file to support leave time taken by three employees.

d) We noted eight of the 18 employees in our sample on FMLA leave that did not submit an "Intent to Work" form as required for those returning from FMLA leave.

6. Promotions through reclassification- Our review of eleven employees promoted through reclassification within the audited period noted a lack of sufficient documentation in accordance with the Department of

Administrative Service's (DAS) General Letter 226.
We found that applications required for promotions by reclassification were either not on file, not signed, or were not signed in a timely manner for four employees.

The requirements that statements should be on file (1) affirming that the employee's last two evaluations were satisfactory or above and (2) that the employee was at their current position for at least six months prior to the reclassification and that they successfully completed their working test period were not on file for the twelve reclassifications (for the eleven employees) reviewed.

A justification for reclassification, including a duties questionnaire and organization chart are required documentation. We noted eleven instances where the duties questionnaires were either not on file or incomplete. Seven were not signed by the agency head, two were not signed by the employee's supervisor and four were not on file. In addition, organizational charts were not on file for three out of 12 reclassifications. We also did not find any other written justification in the files of all twelve reclassification reviewed.

We also noted that official notification from DAS stating that the reclassification that was approved was not on file. We noted one instance where the approval was noted on a post it note within the employee's file. The approval was apparently received via telephone.

Effect:

1. Timesheet approval- The approval of timesheets prior to the end of the pay period can result in errors in payments for actual hours worked.

2. Approval of work schedules- The nine day work schedule results in employees getting paid 3 hours of overtime biweekly even though they work a regular schedule which averages less than 40 hours a week.

3. Overtime- The lack of documentation of overtime worked lessens the assurance that such time was actually earned.

4. Compensatory time- The use of compensatory time not properly earned results in payments to employees for time off which they may not have been eligible to receive.

5. Medical certificates- The lack of adequate documentation lessens the

assurance that the employee's absence was appropriate.
6. Promotion through reclassification- The agency was not in compliance with DAS General Letter 226 and the reclassification of employee positions lack documented support.

Cause: There appears to be an overall lack of oversight to ensure payroll and personnel transactions are sufficiently documented and are in accordance with State policies and procedures and collective bargaining agreements.

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

Agency Response: **"**1. Timesheet approval- The agency has since implemented corrective action. Employees and supervisors sign and date the time sheets on the last date of the pay period or later and in some cases, the last date worked on the time sheet.

2. Approval of work schedules**-** The agency's current facility maintenance employees' work schedule has been in place for over 20 years. Therefore, to the best of our knowledge the agency's Payroll department is following the Maintenance Union contract in regards to employee pay.

3. Overtime- The agency has implemented an "OT/ CT Approval Form" in the event that overtime (OT) or compensatory time (CT) is necessary. This new policy/ form provides the date, time, payroll type, and reason that OT or CT is needed and is required to be submitted along with the employee's timesheet. Additionally, overtime is equally distributed, based on union contract guidelines and the agency will continue to work diligently to reduce the use of overtime.

4. Compensatory time**-** The agency is not aware that any employee has used comp time that they were not entitled to. However, the agency has reiterated the DAS compensatory time policy to all agency managers. Subsequently, the implementation of the OT/CT Approval Form will provide all necessary supporting documentation as well as compliance with the DAS compensatory time policy going forward.

5. Medical certificates-

a.) Three employee files were missing the application form for leave under the Family Medical Leave Act (FMLA) –A request/application

for FMLA is not required to qualify the event.
b.) "Retroactive Designation" is limited but explicitly allowed for the times allotted for the agency to respond to the FMLA request.

d.) In many FMLA cases, the event is not foreseeable. Typically, when the event is foreseeable the "intent to work" form is received with the request.

In the spring of 2009, DAS supplied human resource departments with a "Timeline for Eligibility and Designation" as well as a "Tool Kit for the Family Medical Leave Act" to ensure consistency among agencies. Currently it is these guidelines that the DVA uses when processing FMLA. We treat each employee on an individual basis and evaluate the event accordingly.

6. Promotions through reclassification**-** The agency has implemented a reclassification check list effective July 1, 2009. The check list will ensure that all components of the Department of Administrative Service's (DAS) General Letter 226 have been followed.

Investigation of Computer Misuse:

Our prior audit noted the ongoing investigation of computer misuse at the agency under the direction of the Department of Administrative Services. The investigation began during the latter half of 2005 and was concluded during 2006. As a result of the investigation, an employee in the agency business office was terminated on October 29, 2005, for numerous instances of inappropriately using a State computer for personal affairs.

RECOMMENDATIONS

Our prior report on the Department of Veterans' Affairs covered the fiscal years ended June 30, 2001 and 2002, and contained eight recommendations. The following is a summary of those recommendations and the action taken by the Department of Veterans' Affairs.

Status of Prior Audit Recommendations:

- The Department of Veterans Affairs should develop a comprehensive policy, incorporating all of its administrative, statutory, and regulatory powers, to ensure that all veterans' accounts are brought into good standing, and kept in good standing as required by the General Statutes and Department regulations. This recommendation has been resolved.

- The Department's accounts receivable balances should reflect valid collectible receivable accounts. The accounts receivable system should be modified (or replaced) to provide for proper control and subsidiary accounts and to provide an audit trail, monthly reports and a user's manual. This recommendation has been modified due to substantial agency efforts in this area. (See Recommendation 1.)

- The Department should closely monitor the bank account balance of the Institutional General Welfare Fund to ensure that it does not routinely exceed an amount needed for on-going operations. This recommendation has been resolved.

- The Department should improve its property control records. (See Recommendation 2.)

- New programs or procedural changes should be implemented only after Departmental regulations have been amended in accordance with the General Statutes. This recommendation has been resolved.

- The Department needs to improve internal control over expenditures. (See Recommendation 3.)

- All receipts should be recorded and deposited in a timely manner as required by Section 4-32 of the General Statutes. This recommendation has been resolved.

- The Department should ensure that all patient worker timesheets are signed by both the supervisor and worker. This recommendation has been resolved.

Current Audit Recommendations:

1. **The Department's patient billing system should be modified to improve controls to produce essential monthly reports.**

   Comment:

   The Department's patient billing system lacks the ability to generate sufficient monthly reports to provide monitoring and accountability over accounts receivable.

2. **The Department should improve its property control records.**

   Comment:

   The Department was not submitting to the State Comptroller its required reconciliation of personal property additions to the additions reported on the Annual Inventory Report and to Core-CT. The additions and deletions reported for the category "Stores and Supplies" did not reflect the actual supplies purchased and used. Our physical test of inventory showed instances where items weren't tagged or recorded in the correct location. Also, the Department's software and licenses property control records do not include all of the required data.

3. **The Department needs to improve internal control over expenditures.**

   Comment:

   Our review found a lack of receipt documentation, lack of approved purchase orders, late payments, lack of review and documentation for cell phone usage, and a lack of documentation for veterans receiving compensation for rehabilitative work. We noted that the instances involving lack of approved purchase orders and late payments mainly occurred during the earlier part of the audited period and appeared to have been subsequently corrected. Also, there was a questionable use of the Capital Equipment Purchase Fund to buy televisions for the new health care facility prior to its groundbreaking. The televisions were less than $1,000 per unit and therefore not capital equipment. Also, changes in the capacity of the facility resulted in 52 televisions costing approximately $33,000 remaining unused.

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

Comment:

Our review of payroll and personnel transactions found pre-approval of times sheets, a lack of documentation for overtime, lack of documented approval of work schedules for some employees, incorrect accrual of compensatory time, lack of sufficient documentation for those on FMLA leave, and a lack of documentation that employees were properly promoted through reclassification in accordance with DAS policies and procedures.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Veterans' Affairs for the fiscal years ended June 30, 2005, 2006, 2007 and 2008. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Veterans' Affairs for the fiscal years ended June 30, 2005, 2006, 2007 and 2008 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 Veterans' Affairs complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

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

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

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

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

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

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Veterans' Affairs complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

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

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended our representatives by the officials and staff of the Department of Veterans' Affairs during the examination.

Donald R. Purchla
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts