

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF ADMINISTRATIVE SERVICES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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

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July 23, 2003

**AUDITORS' REPORT
DEPARTMENT OF ADMINISTRATIVE SERVICES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

We have made an examination of the financial records of the Department of Administrative Services (DAS) for the fiscal year ended June 30, 2001.

This report on the examination consists of the Comments, Condition of Records, Recommendations and Certification which follow. Financial statements pertaining to the operations and activities of the Department of Administrative Services are presented on a Statewide Single Audit basis to include all State Agencies. This audit has been limited to assessing the Department of Administrative Services' compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Agency's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Administrative Services (DAS) operates primarily under the provisions of Title 4a, Chapter 57, of the General Statutes. A description of the major functions of the Department is presented below:

Office of the Commissioner:

The Office of the Commissioner provides support services for the respective business centers, including communications, affirmative action, legal guidance, and business planning.

Strategic Leadership Center:

The Strategic Leadership Center (SLC) provides leadership by overseeing the implementation of the business plan throughout DAS. The SLC is responsible for the development, implementation and monitoring of all performance measurement and customer feedback reviews. In addition, the Center's responsibilities include oversight of technology planning and infrastructure, project management, and internal auditing.

Human Resources Business Center:

The Human Resources Business Center provides personnel services within DAS and to other agencies, including recruiting and testing, personnel development, and workers' compensation administration.

Financial Services Center (FSC):

The Financial Services Center provides business support services to organizational units within DAS and to other State agencies. Also included within the FSC are the operations of the Collections Unit, which consists of the both the Information, Intake and Input unit and the Recovery unit. The Information, Intake and Input unit and Recovery unit are primarily responsible for billing and collecting for services rendered by the State health care institutions and support miscellaneous collection efforts of other State agencies. The Recovery unit also acts in a fiduciary capacity when designated to administer the funds of certain individuals.

Business Enterprises:

Business Enterprises provides services for the statewide operations of fleet, procurement, central printing, mail and courier services, State and Federal surplus property and Federal Food Distribution Program.

Barbara A. Waters served as Commissioner of Administrative Services during the audited period.

Significant Legislation:

One notable legislative change, which took effect during the audited period, is presented below:

- *Public Act 00-115* – This Act, effective October 1, 2000, amended Section 4a-12 of the General Statutes. The Act allows the Commissioner of the Department of Administrative Services, with the approval of the Attorney General, to refer the debt of State agencies that may be referred to licensed consumer collection agencies to attorneys admitted to the bar in this State who practice debt collection law.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts collected by the DAS Commissioner’s Office totaled \$1,745,655 for the fiscal year ended June 30, 2001. These receipts were comprised primarily of refunds of expenditures related to Worker’s Compensation Program recoveries.

General Fund collections made by the Collections Unit for the fiscal years ended June 30, 2000 and 2001, are presented below for comparative purposes:

	<u>Fiscal Year</u>	
	<u>2000-2001</u>	<u>1999-2000</u>
Recoveries of the costs of:	\$	\$
Public Assistance	32,483,802	35,663,272
Care of patients at State humane institutions:		
In-patient services	18,060,813	21,747,482
Out-patient services	464,169	468,740
Care and treatment provided by the		
Department of Children and Families	2,176,518	2,086,034
Miscellaneous recoveries	<u>402,852</u>	<u>100,077</u>
Total Receipts	<u>\$53,588,154</u>	<u>\$60,065,605</u>

The Collections Unit also performed claims submission for the Federal Medicaid (i. e., Title XIX) program billings. The Medicaid program, which was established pursuant to Title XIX of the Social Security Act, provides medically related care and services to needy persons. The State received fifty percent reimbursement from the Federal government for claims accepted and paid under the Title XIX program. During the 2000-2001 fiscal year, the Collections Unit reported Title XIX collections of \$599,044,336 from the following inpatient and outpatient medical assistance programs:

	<u>Fiscal Year</u>	
	<u>2000-2001</u>	
Inpatient Care:	\$	
State Facility Services	181,359,583	
Veteran’s Administration	10,421,351	
State Department of Education – School Based	33,573,036	
Department of Mental Health – Targeted Case Management	7,072,686	
Department of Mental Retardation – Targeted Case Management	8,686,470	
Department of Mental Retardation (DMR) – Birth to Three	6,369,010	
Home and Community Based Program (DMR) – Residential	277,100,303	
Home and Community Based Program (DMR) – Day Care	70,002,887	
Home and Community Based Program (DMR) – Other	<u>2,772,096</u>	
Total Inpatient Care Collections	597,357,423	
Outpatient Care Services	<u>1,686,913</u>	
Total Title XIX Collections	<u>\$599,044,336</u>	

Auditors of Public Accounts

A comparative summary of DAS expenditures from General Fund appropriations for the fiscal years ended June 30, 2000 and 2001 is presented below.

	<u>Fiscal Year</u>	
	<u>2000-2001</u>	<u>1999-2000</u>
Budgeted Appropriations:	\$	\$
Personal Services	17,320,521	17,991,521
Contractual Services	8,790,249	9,208,899
Commodities	422,970	381,420
Revenue Refunds	26,088	25,212
Sundry	1,174,341	1,265,396
Equipment	363,917	359,475
Other miscellaneous	-	(318)
Total from Budgeted Appropriations	<u>28,098,086</u>	<u>29,231,605</u>
Restricted Appropriations:		
Other-than-Federal	184,378	270,053
Federal	184,252	569,749
Total General Fund Expenditures	<u>\$28,466,716</u>	<u>\$30,071,407</u>

Workers' Compensation Claims:

In accordance with Section 4-77a of the General Statutes, appropriations for the payment of workers' compensation awards were made directly to the Departments of Mental Retardation, Mental Health and Addiction Services, Correction, Transportation, Public Safety, and Children and Families, while the appropriations for the payment of workers' compensation claims for all other budgeted State agencies were administered by the Department of Administrative Services.

A summary of net expenditures charged against the aforementioned seven agencies' workers' compensation appropriations for the fiscal years ended June 30, 2000 and 2001 is presented below:

	<u>2000-2001</u>	<u>1999-2000</u>
General Fund:	\$	\$
Mental Retardation	11,923,620	10,947,037
Mental Health and Addiction Services	7,144,709	6,268,353
Correction	19,574,931	13,904,424
Public Safety	2,915,687	2,452,075
Children and Families	3,948,116	3,341,591
Administrative Services	<u>14,490,152</u>	<u>11,941,017</u>
Total General Fund	<u>59,997,215</u>	<u>50,283,486</u>
Transportation Fund:		
Transportation	<u>2,455,979</u>	<u>3,084,252</u>
Total All Funds	<u>\$62,453,194</u>	<u>\$53,367,738</u>

Department of Administrative Service Revolving Fund:

During the audited period, DAS administered the Department of Administrative Services Revolving Fund. This Fund is authorized by Section 4a-75 of the General Statutes, and is used to defray the expenses for supplies, materials, equipment and contractual services incurred by the Department of Administrative Services in anticipation of the future requirements of State agencies and institutions. The working capital of the Fund is maintained by charges to agencies and institutions for commodities and services furnished to them by the various operations of the Business Enterprises Division. Cash receipts and disbursements for the Fund during the audited period were as follows:

	<u>2000-2001</u>
Cash Balance, Beginning of Year	\$ (20,577,313)
Receipts	<u>31,633,606</u>
Total	11,056,293
Disbursements	<u>37,478,970</u>
Cash Balance, End of Year	<u>\$ (26,422,677)</u>

Our review of the Department's Revolving Fund financial statements for the fiscal years ended June 30, 1998 through June 30, 2001, revealed that the Fund averaged a net operating loss of approximately \$500,000 per year over each of the fiscal years. Although the reported net losses for these fiscal years, in aggregate, resulted in a decrease of approximately 8.5 percent in the Fund's overall retained earnings from July 1, 1998 through June 30, 2001, the Revolving Fund's reported retained earnings was \$21,334,886, as of June 30, 2001.

It should be noted that the Department of Administrative Services Revolving Fund, as an internal service fund, is expected to operate on a "cost reimbursement basis"; however, it is recognized within generally accepted governmental accounting standards that user charges need not cover the full cost of providing goods or services to other State agencies or units, and that transfers from other funds or units to subsidize in part the operations of an internal service fund do not negate the use of this fund type.

Trustee Accounts in the Custody of the Commissioner of Administrative Services:

The Commissioner of Administrative Services has designated the Collections Unit to act as trustee for persons under the following categories:

Estate Administrator Accounts:

Pursuant to Section 4a-15 of the General Statutes, the Estate Administrator, appointed by the Commissioner of Administrative Services, may act in a fiduciary capacity in connection with the property of any minor, incapable, incompetent or deceased person who is or has been receiving financial aid from the State.

Legal Representative Accounts:

Pursuant to Section 4a-16 of the General Statutes, these accounts are established for deceased persons for whom a court has designated the Commissioner of Administrative Services to administer the funds of the deceased.

Representative Payee Accounts:

Pursuant to Section 4a-12, subsection (a) of the General Statutes, the majority of the accounts administered by the Financial Services Center Collections Unit are for patients and/or residents of State humane institutions, for whom the payer of funds due these persons has agreed to permit DAS to act as a conduit of those funds. These arrangements usually involve DAS being named representative payee for Social Security Administration, Veterans' Administration and other various payments. The primary distinction between accounts in this category and the other categories is that these accounts are the result of agreements while those in the Estate Administrator and Legal Representative categories have been designated by court proceedings.

The receipts for the Trustee Accounts in the Custody of the Commissioner totaled \$12,809,054 during the fiscal year ended June 30, 2001. This amount consisted primarily of revenues of \$12,463,843 derived from Social Security, pension and Veterans' benefits paid on behalf of individuals who were residents in State humane institutions. In addition, interest earned on deposits was a source of receipts for these accounts.

Disbursements from these Trustee Accounts totaled \$13,862,547 during the audited period. These disbursements were primarily expenditures for the costs associated with the board, care and treatment, personal expense allowance, funeral and other miscellaneous expenses on behalf of patients in State humane institutions.

The Trustee Accounts' assets totaled \$5,469,084 as of June 30, 2001. The assets consisted of a cash balance of \$1,509,021 and total investments of \$3,960,063 in the Treasurer's Short-Term Investment Fund. The liabilities and fund balance of the Trustee and Legal Representative Accounts were \$587,666 and \$4,881,419, respectively, as of June 30, 2001.

The Collections Unit also has custody of certain other noncash assets that are held in trust for accounts in the legal representative category. Legal Representative accounts' noncash assets found inventoried and on hand included stocks and bonds, insurance policies, savings account passbooks, as well as other personal property.

PROGRAM EVALUATION:

Commercial Drivers License Training Grant:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct a program evaluation of selected Agency operations.

For our performance review, we evaluated the Department's grant program with the Connecticut Employees Union Independent (CEUI), which was executed under the Memoranda of Understanding (MOU) between DAS, together with the State Employees Bargaining Agent Coalition's (SEBAC) Placement and Training Committee, and the CEUI. The purpose of this grant was to arrange and coordinate training for State employees who desire to obtain a Commercial Drivers License (CDL). Under the grant program, training is provided to participants who would subsequently be qualified to obtain a Class B CDL, a Class A CDL or both types of CDL. The objective of this examination was to assess whether the provision of

such training through the CEUI represented the most cost effective and efficient use of State resources.

The CDL training provided by the CEUI was funded under two separate grants during the audited period, in which the two grant periods overlapped the audited period. DAS' grant #99-484, executed on May 10, 1999, was for the grant period from January 1, 1999, through December 31, 2000. The second grant, #01-523, executed on February 16, 2001, was for the grant period from January 1, 2001, through July 1, 2002. Grant #99-484 provided for \$289,300 in initial funding for the CDL training program for the two-year grant period. The SEBAC Placement and Training Committee subsequently agreed to two amendments to grant #99-484, which increased the State's funding for the CDL training program from \$289,300 to \$664,300. The two amendments, which were executed in February 2000 and October 2000, increased the initial grant funding by \$100,000 and \$275,000, respectively.

The Department's second grant #01-523, which took effect during the audited period, provided for \$290,085 in funding to the CEUI for the CDL training program, during the 18 months grant period.

Scope and Methodology:

We inquired of the Department's staff responsible for oversight of the grant program and the grantee's staff responsible for the arrangement and coordination of the CDL training to obtain information relative to the administration and operation of the grant program. Relevant documentation was also reviewed to determine the amount of State funding provided for the CDL training under the two grants, the number of program participants and the per participant costs of training. We also inquired of and obtained relevant pricing information from the managers of three private sector CDL training schools in Connecticut.

In order to assess whether the DAS' grant program funding the CDL training through the CEUI represented the most cost effective and efficient use of State resources, we performed a comparative analysis between the cost of providing such training through the CEUI, during part of the first grant period, and the average cost of obtaining the equivalent CDL training through three of the private sector schools operating within the State.

Results:

Our review disclosed that, during the period from January 1999 through August 2000, the Department provided grant awards totaling approximately \$503,000 to the CEUI for the purpose of providing CDL training on behalf of 90 State employees, who were evenly divided between those training for either the Class B CDL or Class A CDL. The State's own analysis of the program cost determined that it cost approximately \$5,500 for each of the 90 State employees, who participated in the program during this time frame.

In comparison, our analysis of the cost information obtained from three private sector schools throughout the State that provided CDL training revealed that the average private sector cost per participant would have been approximately \$1,631 for each Class B participant and approximately \$4,031 for each Class A participant. Our analysis revealed that, on the basis of the average private sector cost per participant, it would have cost the State approximately

\$254,800 to obtain private sector CDL training for the same 90 participants. We determined that, for the grant period reviewed, the State paid an average of approximately \$248,200 more for the CDL training for these 90 participants under the grant with the CEUI than it would have paid for equivalent training at any of the three selected private sector schools. In addition, it appears that much of the excess cost paid by the State under the grant for the CDL training was attributable to the significant difference between the hourly rate paid to the CEUI's instructors and the average hourly rate paid to the instructors at the private sector CDL training schools. We found that the instructors for the CEUI were paid at a rate of approximately \$30 per hour compared to an average rate of approximately \$15 per hour for the instructors in the private sector schools.

In summary, it appears that, for the grant period reviewed, the State paid an average of approximately \$248,200 more for the CDL training provided by the CEUI on behalf of 90 participants under the grant program than it would have paid for equivalent training on behalf of these participants at any of the three selected private sector schools. We have concluded that the funding of the CDL training under the grant program through the CEUI was neither the most economical nor the most efficient use of State financial resources. However, it should also be noted the Department's Memorandum of Understanding that was executed to implement the grant program with the Connecticut Employees Union Independent expired and the State's funding of this grant program ended as of July 2002. Therefore, in consideration that the grant program has ended and that we do not expect or require any future corrective action(s) by the Department to address the aforementioned condition, we are presenting the following finding in this section rather than in the "Condition of Records" and "Recommendations" sections of this report:

Commercial Drivers License Training Grant:

Background: In evaluating the Department's grant program with the Connecticut Employees Union Independent (CEUI) to coordinate and arrange training for State employees who desire to obtain a Commercial Drivers License (CDL), we noted the following:

Criteria: Good business practices would dictate that the State procure services on behalf of its employees at the best prices reasonably available to ensure that resources are used in the most economical and efficient manner.

Condition: Our review disclosed that, during the period from January 1999 through August 2000, the Department paid an average of approximately \$248,200 more under its grant program with the CEUI to obtain Commercial Drivers License training for 90 State employees than it would have cost for equivalent training from any of three selected private sector schools. A comparative analysis of the cost of providing CDL training on behalf of these 90 State employees, during the identified time period, revealed that the State paid approximately \$503,000 under the grant program compared to an average costs of approximately \$254,800 to obtain

the equivalent training at any one of three selected private sector schools.

Effect: State financial resources were not used in the most economical and efficient manner.

Cause: It appears that the decision was arbitrarily made to provide the Commercial Drivers License training under a grant program with the Connecticut Employees Union Independent without any consideration of seeking or obtaining competitive bids or proposals from outside vendors.

Conclusion: The Department's Commercial Drivers License Training Grant program with the Connecticut Employees Union Independent was discontinued in July 2002. Therefore, the identified condition that State resources were not used in the most economical or efficient manner is no longer relevant and does not require corrective action(s). However, it is apparent that there is a potential for a significant costs savings to the State if such future in-house training programs are opened to private or outside sources on the basis of competitive bids or proposals.

CONDITION OF RECORDS

Areas warranting comments are presented below:

Human Resources Business Center:

The DAS Human Resources Business Center provides payroll processing and personnel support services to the various DAS bureaus and administers the provisions of the State Personnel Act across most State agencies.

Human Resources:

Automated Personnel System (APS) Controls:

Criteria: In accordance with Section 5-198, subsection (n), of the General Statutes, DAS has created the durational titles of Customer Service Program Developer, Durational Project Manager and Transitional Manager for the purposes of carrying out special projects or installations. The Automated Personnel System (APS) was designed to include two data fields critical to monitoring the appointments of durational positions. These fields include the position end date and an indicator as to whether such appointments are “durational” or “permanent”.

Condition: Three State jobs are designated as “durational” positions and have specific requirements regarding the term of the position. The Customer Service Program Developer position has been amended to allow for the extension of the term upon the approval of the Commissioner. The Durational Project Manager position has a maximum three-year duration unless there is a formal request documenting the need for an additional extension. The formal request must be approved by the Commissioner. The Transitional Manager position has a true three-year maximum duration.

Reports provided to us from the APS system revealed that one of the 22 durational positions examined did not have the position end date fields completed. Also, 15 of the 22 positions in our sample were coded as “permanent” rather than durational positions.

Effect: The lack of end dates and correct “durational” designations prevents the automated monitoring of those positions. It is necessary to place increased reliance on the periodic manual review by Human Resources staff. The result is an increased risk that incumbents could remain in their positions beyond the intended expiration dates without obtaining the requisite approvals.

- Cause:* During the audited period, there were insufficient controls on the APS to verify that the entries in these fields correspond to the specific characteristics of the positions. In addition, DAS did not verify the data at the time it was entered by the agencies.
- Recommendation:* DAS should improve controls over durational positions by requiring accurate completion of all corresponding data fields on the Automated Personnel System and the auditing of this data at the time of entry. (See Recommendation 1.)
- Agency Response:* “We agree with the findings in the condition. DAS took corrective action and believes the positions noted were in our system prior to our corrective action and new system edits.”

Approval of Managerial Position Designations:

- Criteria:* In accordance with Section 4a-2 of the General Statutes, the Commissioner of the Department of Administrative Services is responsible for the personnel administration of State employees. Section 5-270, subsection (g), of the General Statutes specifies the criteria for designating personnel positions as managerial.
- Condition:* Prior auditors’ reports criticized the fact that DAS had approved “managerial” position designations without documentation of having met the statutory criteria of Section 5-270. Our current review revealed that this reportable condition continued throughout the audited period and into the subsequent fiscal year.
- However, it should be noted that, subsequent to our audited period, DAS’ administration initiated and communicated new policy and procedures to State agencies to address the issue of noncompliance with Section 5-270, subsection (g), of the General Statutes. At the time of our review in May and June of 2002, we were unable to confirm or, otherwise, verify whether the new policy and procedures had been fully implemented and provided the necessary assurances that positions established or reclassified with the “managerial” designation met the statutory criteria of Section 5-270, subsection (g), of the General Statutes. There was a lack of sufficient current data available to allow for a conclusive determination of whether the new policy and procedures represented the corrective action necessary to address the reportable condition.
- Effect:* Designation of positions as “managerial” can have implications in the order of, and susceptibility to, transfers and layoffs. In addition, while managerial salaries are generally equivalent to the corresponding bargaining unit positions, the longevity payments and other fringe benefits are often greater with managerial

positions. Erroneous designations result in an increased expenditure of State resources without added benefit.

Cause: DAS does not have a consistent, documented methodology with which to compare agency requests for the “managerial” designation to the statutory criteria.

Recommendation: DAS should ensure, with appropriate supporting documentation, that its approvals and designations of positions as “managerial” are based on the criteria set forth in Section 5-270, subsection (g), of the General Statutes. All positions with managerial and bargaining unit equivalents should be considered bargaining unit positions unless a proper justification is given by the requesting agency. (See Recommendation 2.)

Agency Response: “We agree with the Auditor’s that we initiated and communicated new policies and procedures to address this issue. We also installed a system edit that will reject any agency request without appropriate information in the appointment code field.”

Use of Durational Project Managers:

Criteria: The Durational Project Manager designation was created as a personnel position in the unclassified service pursuant to Section 5-198, subsection (n), of the General Statutes. This statute allows for the use of unclassified service designation for “Persons employed to make or conduct a special inquiry, investigation, examination, or installation.”

Condition: Prior auditors’ reports criticized the Department for approving Durational Project Manager positions without requiring the elements necessary to evidence compliance with Section 5-198, subsection (n). Our current examination revealed that DAS continued this noncompliant practice throughout the audited period. Also, many of the positions in our sample appeared to be permanent.

The Durational Project Manager position has a maximum three-year duration unless there is a formal request documenting the need for an additional extension. The formal request must be approved by the Commissioner. However, we could not find any evidence that the Commissioner had approved the extension of the position duration beyond the maximum duration period for two Durational Project Manager positions in our sample.

It should be noted that, subsequent to our audited period, DAS’ administration initiated and communicated new policy and procedures to State agencies to address the issue of noncompliance

with Section 5-198, subsection (n), of the General Statutes and to monitor compliance with the maximum duration period for the Durational Project Manager position. However, at the time of our review in May and June of 2002, we were unable to confirm or, otherwise, verify whether the new policy and procedures have been fully implemented and provided the necessary assurance that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute because there was insufficient current data available to allow for a conclusive determination.

Effect: The position designation of Durational Project Manager provides a vehicle for circumventing established employment procedures, if the designation is not used for its intended purposes. Because the Durational Project Manager position is not within classified State service, individuals can be appointed non-competitively without regard to relevant experience and training. There is increased risk that durational employees could remain in their positions beyond the intended expiration dates without the requisite approvals.

Cause: During the audited period, there apparently was a lack of sufficient consideration as to whether the duties of the position will remain after the term of the defined project. Also, DAS lacked sufficient monitoring procedures to ensure that the positions did not exceed the maximum duration period unless properly approved.

Recommendation: DAS should ensure that the control procedures implemented provide the necessary assurances that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute and that all extensions beyond the maximum duration are properly approved. (See Recommendation 3.)

Agency Response: “We agree with the Auditors that we have initiated and communicated new policy and procedures to State agencies to address this issue. We also have installed an APS edit that will reject any agency request for a durational position without the appropriate information in the appointment code field.”

Monitoring of Dual Employment:

Criteria: According to Section 5-208a of the General Statutes, no State employee shall be compensated by more than one State agency unless the appointing authority of each agency involved certifies that the duties performed and the hours of work are not in conflict or duplicated. In addition, Section 5-208a of the General Statutes states that “no state employee who holds multiple job assignments within the same State agency shall be compensated for services

rendered to such agency during a biweekly pay period unless the appointing authority of such agency or his designee certifies that the duties performed are not in conflict with the employee's primary responsibility to the agency, that the hours worked on each assignment are documented and reviewed to preclude duplicate payment, and that there is no conflict of interest between the services performed." The revised General Letter 204, effective August 1, 1999, amends the procedures for handling dual employment compliance, including the procedure for annual post audits by DAS to insure compliance with both inter-agency and intra-agency dual employment guidelines.

Condition: Our review of the dual employment records relative to 20 DAS employees holding a second position within the Agency revealed three (3) instances in which the employee's second position certification document, the Request for Dual Employment – Form PER-DE-1 (PER-DE1) was not on file as required.

In addition, at the time of our review in May 2002, we found that the Department had not performed any of the annual post audits of dual employment services performed in calendar year 2001. Our tests revealed that none of the annual post audits of either inter-agency or intra-agency dual employment services at the other State agencies during calendar year 2001 were performed. Also, we determined that the annual post audit procedures implemented by DAS did not include specific procedures to ensure compliance with the dual employment guidelines set forth in General Letter 204 with respect to intra-agency dual employment situations.

Effect: There is decreased assurance that all of DAS' dual employment situations are identified and properly approved, and that DAS performs the annual post audits of dual employment at the other State agencies in compliance with General Letter 204.

Cause: Existing monitoring procedures are not adequate to ensure that both dual employment certification forms are properly completed and maintained on file for all of the Department's dual employees, and the annual post audits of both inter-agency and intra-agency dual employment at other State agencies are performed in compliance with General Letter No. 204.

Recommendation: DAS should improve its control procedures to ensure that all required dual employment certification forms are properly completed and maintained on file, and that the annual post audits of other State agencies to assess compliance with dual employment guidelines are performed in a timely manner to ensure compliance with General Letter No. 204. (See Recommendation 4.)

Agency Response: “There are two issues in this finding. The first issue is for DAS employees and the second issue is for State agencies.

- We disagree with this finding. The 20 DAS employees hold second positions within DAS as examination monitors. Most examinations occur on Saturdays and do not represent any conflict of hours worked. DAS does not consider the missing or incomplete documents to be an exposure or a control risk.
- We disagree with this portion of the finding. DAS did perform Human Resources Audits at State Agencies and the dual employment process was included.”

Auditors’ Concluding Comments:

General Letter No. 204, revised July 13, 1999, requires that a dual employment form must be completed by the secondary agency for each renewed period of dual services. With respect to *intra-agency* dual employment services, the unit in which the secondary duties are being performed is recognized as the secondary agency.

Our review revealed that the annual post audits of other State agencies for dual employment services were not completed in a timely manner. We found that the annual post audits of other State agencies for *inter-agency* or *intra-agency* dual employment services provided during the period from January 2001 through June 2001 were not initiated until August 2002.

Compilation of Employee Roster:

Criteria: Section 5-200, subsection (e), of the General Statutes states that the DAS Commissioner shall establish and maintain a complete roster of the employees and officers in the State service, whether under the classified service or not. Section 5-200d of the General Statutes specifies capabilities for a comprehensive automated personnel system (APS), including the ability to track employees’ history in the State service. The APS system, as designed, appears to meet these requirements.

Condition: The Human Resources Business Center receives a quarterly APS report, which lists all employees and officers in State service. This report, which is generated using employee information from the Comptroller’s payroll records, is an alphabetical listing of employees by the State agencies the employees work for. However, while this APS report appears to represent a comprehensive listing of all employees and officers in State service, the report does not include all of the categories of employee information required under the Statute.

- Effect:* The DAS is not in compliance with Section 5-200, subsection (e), of the General Statutes.
- Cause:* The one APS report currently available to DAS, which appears to represent a comprehensive listing of all employees and officers in State service, does not include all of the categories of employee information required by the applicable Statute.
- Recommendation:* DAS should continue its efforts to compile a complete roster of employees in State service in compliance with the requirements of Section 5-200, subsection (e), of the General Statutes. (See Recommendation 5.)
- Agency Response:* “We agree with this finding as we have in the past. We will not be able to have a full and complete roster of State employees until the Core Systems Project is completed.”

Quality Control Committee:

- Criteria:* The Quality Control Committee was established pursuant to Section 5-237b of the General Statutes. This statute calls for the committee to review and evaluate, on a continuing basis, the effectiveness of the implementation of incentive plans (established pursuant to Section 5-210 of the General Statutes) for State employees designated as managerial or confidential. DAS promulgates procedures relative to the Performance Assessment and Recognition System (PARS), which is an incentive program for managerial and confidential employees. The PARS handbook states that the PARS program is established in accordance with Section 5-210.
- Condition:* The Quality Control Committee has not met since 1991.
- Effect:* The ongoing evaluation of the PARS incentive program was not provided as intended by statute.
- Cause:* DAS’ efforts to ensure that the current management incentive plan evaluations are conducted by the Quality Control Committee have not been completely effective nor been given sufficient priority.
- Recommendation:* DAS should ensure that the current management incentive plan (PARS) evaluations are conducted by the Quality Control Committee pursuant to Section 5-237b of the General Statutes. (See Recommendation 6.)
- Agency Response:* “We agree with the finding and we will continue in our efforts to ensure a Quality Control Committee conducts evaluations of the management incentive plan (PARS).”

Utilization of Personnel Resources:

Criteria: In accordance with Section 5-206 of the General Statutes, the Commissioner of the Department of Administrative Services (DAS) establishes position classifications, including statements of duties and responsibilities exercised by those employees holding positions allocated to each class. Subsection (c) of this section requires the Commissioner of DAS to periodically review the work performed by employees in the classified service and to issue such orders as are necessary to have such employees assigned work in accordance with the classification of their positions or to have their classifications changed to comply with their work.

Condition: In the course of our audit, we noted that two of the Department's payroll officer positions are not being utilized in compliance with the job descriptions. In both instances, the incumbents did not supervise the appropriate number or level of staff.

Effect: The under-utilization of positions represents an inefficient use of resources.

Cause: We were unable to determine the cause for this condition.

Recommendation: The Department should periodically review the utilization of its human resources to ensure that its employees' job duties and responsibilities are commensurate with the titles and salaries associated with personnel positions. (See Recommendation 7.)

Agency Response: "We disagree with this finding. DAS has allowed individuals to move within the agency when opportunities for re-assignment have become available. With the hiring freezes of recent years moves of this type have been helpful in filling needs in other units. In some cases there has not been a comparable classification for which to place reassigned person in without reducing their compensation.

DAS will red circle the positions of the incumbents noted."

Auditors' Concluding

Comments: The Department should perform periodic reviews of the utilization of its human resources to ensure that its employees are assigned work in accordance with the classification of their positions or to have their classifications changed to comply with their work.

Medical Certificates for Extended Use of Sick Leave:

- Criteria:* According to employee bargaining unit contracts, a signed statement of the reasons for the absence is required of an employee to substantiate the use of sick leave for any period of absence in excess of five consecutive working days. Employees who are not covered by provisions of a collective bargaining unit are required to provide an acceptable medical certificate, signed by a licensed physician, to substantiate the use of sick leave in excess of five consecutive working days.
- Condition:* Our review of a sample of fourteen employees, who had taken sick leave in excess of five consecutive days, disclosed that two did not have the required medical statement or certificate on file.
- Effect:* Abuse of sick leave by employees can occur and not be detected if the required medical statements or certificates are not submitted.
- Cause:* The controls in place were not completely effective in ensuring the employees submitted the required statements or certificates.
- Recommendation:* The DAS should effectively enforce the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days. (See Recommendation 8.)
- Agency Response:* “We agree with this finding. We were able to obtain most of the medical certificates in question. We have instituted controls that will help in correcting the problem.”

Compensatory Time Procedures and Records:

- Criteria:* The Department of Administrative Service’s (DAS) “Management Personnel Policy No. 80-1, Section 2”, as amended, (MPP 80-1, Section 2) sets forth the criteria for the granting of compensatory time on behalf of Managerial and Confidential employees. The criteria for the granting of extra time off for extra time worked are: “the extra time worked must be authorized in advance by the Agency Head or his/her designee; the amount of extra time worked must be significant in terms of total and duration; the extra hours worked and compensatory time taken must be recorded on the appropriate time sheet; and, the compensatory time earned during the twelve months of the calendar year must be used by the end of the succeeding calendar year and cannot be carried forward.”

In addition, the Department’s written policies and procedures relative to overtime and compensatory time, which were applicable to the audited period, required that employees must receive written authorization for compensatory time in advance in order to receive

the extra time off for the extra time worked. The only exceptions to the requirement for advanced approval for compensatory time are related to “extreme emergency situations which threaten life, property and/or operations.”

Condition: Our current examination relative to ten employees, which included both managerial and non-managerial employees who were granted and used compensatory time, revealed deficiencies in the Department’s process for authorizing compensatory time for its employees. We found that two managerial employees were not authorized in advance to work the extra time by the Agency Head or her designee, as required by MPP 80-1, Section 2. In addition, seven of eight non-managerial employees in our sample, who were subject to collective bargaining agreements, did not receive the required written authorization in advance of working the extra time; these employees received authorization after the extra time was worked, which was contrary to the Department’s specific compensatory time policies.

Effect: The Department is not in compliance with its established guidelines relative to compensatory time for both its managerial and non-managerial employees. In addition, without proper oversight, the Department has less assurance that the services it has compensated its employees for have actually been received.

Cause: It appears that the failure to properly communicate established compensatory time policies and a lack of adequate administrative oversight contributed to the above condition.

Recommendation: DAS should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 80-1, Section 2, as amended, and its Department specific policies relative to the authorization of compensatory time. (See Recommendation 9.)

Agency Response: “We agree with the findings. We will review the Automated Time Processing functionality to determine how the system might assist with compensation time management.”

Payroll and Personnel – Payments at Termination:

Criteria: In accordance with Section 5-252 of the General Statutes, any State employee leaving State service shall receive a lump sum payment for accrued vacation time. Section 5-247 of the General Statutes requires that each employee who retires under the provisions of Chapter 66 shall be compensated, effective as of the date of his retirement, at the rate of one-fourth of such employee’s salary for sick leave accrued to his credit as of the last day on the

active payroll up to a maximum payment equivalent to sixty days pay. Section 5-213, subsection (b), of the General Statutes states that semiannual longevity lump-sum payments shall be made on the last regular day in April and October of each year, except that a retired employee shall receive, in the month immediately following retirement, a prorated payment based on the proportion of the six-month period served prior to the effective date of his retirement. Adequate internal controls include adjusting terminated employees' accrued leave records in order to properly reflect the payoff of accrued leave balances at termination.

Condition: Our examination of the accrued leave and other payments made to 17 employees, who terminated employment during the audited period, revealed the following deficiencies or errors:

- The Department's accrued leave records were not adjusted to reflect the payoff of all accrued leave balances at termination, with respect to 11 of the 17 terminated employees tested,
- One employee did not receive a prorated longevity payment due of approximately \$167;
- A second employee was overpaid \$481 for accrued vacation time.

Effect: The Department's accrued leave records for terminated employees are not accurate. A weakness in internal control over payments for accrued leave time and prorated longevity at termination could result in payments made in error remaining undetected.

Cause: It appears that the Department's time and attendance system does not allow for the close out of the accrued leave time balances for terminated employees that have been paid off. It also appears that there is inadequate administrative oversight of payment calculations before payments are made.

Recommendation: DAS should implement the controls necessary to ensure that the accrued leave records of terminated employees properly reflect adjustments for payments of accrued leave time at termination and that all calculations for payments at termination are reviewed for correctness. (See Recommendation 10.)

Agency Response: "This finding has three different issues.

- 1) We agree with this portion for accrued leave records. We did not adjust accrued leave records to reflect the pay off of accrued leave balance at separation. We do not believe there is any exposure in this area since we verify pay offs before any restoration of previous leave balances if an employee is rehired by a State agency. We began adjusting

(zeroing out) employee accrued leave balances in July 2001.

- 2) We agree with this finding that a prorated longevity payment of \$167 was not made.
- 3) We agree with this finding that a employee was overpaid \$481 but this was due to the late submission of timesheets by the agency to which this employee transferred.”

Other Payroll and Personnel Control Deficiencies:

Criteria: Section III-4 of the Department of Administrative Services’ “*Workers’ Compensation Manual*” outlines the guidelines for State employees relative to the use of accrued leave time for the period before a Workers’ Compensation check is received. According to the guidelines, a State employee, who elects to use accrued leave time while on Workers’ Compensation, must complete a Form CO-715, unless the employee is a member of a collective bargaining unit that does not require the completion of this Form. In addition, once the employee Workers’ Compensation award is paid, the employee must reimburse the employing State agency an amount equal to the net pay that would have been received during the interim period from the first check. Once the employee has reimbursed the employing State agency for the accrued leave time used during the interim period, the employee’s accrued leave time is restored on the employee’s accrued leave records.

Condition Our examination of a sample of ten employees, who filed Workers’ Compensation claims during the audited period, disclosed the following deficiencies:

- In one case, an employee failed to complete the required Form CO-715. In addition, this employee was only charged for 30 hours of accrued sick leave, despite having used 45 hours of accrued sick leave during the interim period prior to the receipt of the first Workers’ Compensation check.
- A second employee’s accrued sick leave balance was overstated by a net 111.50 hours. In this instance, the Agency failed to adjust the employee’s leave balance for the employee’s use of and reimbursement for sick leave hours while out on workers’ compensation. First, the Agency failed to deduct the employee’s use of 135.0 and 22.50 accrued sick leave hours during July and August 2001, respectively, from the employee’s accrued sick leave balance. Secondly, the Agency failed to restore 45.50 hours of sick leave to the employee’s accrued sick leave balance that the employee reimbursed the Agency as a

result of the settlement upon the receipt of the first Workers' Compensation check.

Effect: The Department is not in compliance with the guidelines set forth in the "*Workers' Compensation Manual*" relative to the use of accrued leave time while out on Workers' Compensation. The accrued sick leave balances for the identified employees are overstated by the hours that were used but not charged.

Cause: It appears that the identified condition was due to administrative oversight.

Recommendation: The Department should improve controls over the record keeping relative to accrued leave time to ensure that employees' accrued leave balances properly reflect accrued leave hours used and, if applicable, reimbursed by employees while on workers' compensation, and to ensure its compliance with the guidelines set forth in the Department's "*Workers' Compensation Manual*". (See Recommendation 11.)

Agency Response: "We agree with the Workers' Compensation findings and will correct the issues noted."

Auditors' Concluding Comments: While it appears that the Department has acknowledged the need to correct the specific errors cited in the finding, the Department also should improve its internal controls to ensure its compliance with the guidelines relative to an employee's use of accrued leave time while on Workers' Compensation, as set forth in the Department's "*Workers' Compensation Manual*".

Business Enterprises:

Procurement:

The Department of Administrative Services' Business Enterprises includes Procurement, which functioned as the centralized purchasing authority for budgeted State agencies during the audited period. In accordance with Section 4a-51 of the General Statutes, the Commissioner of Administrative Services shall purchase or contract for all supplies, materials, equipment and contractual services required by any State agency, except for emergency purchases and purchasing authority that has been delegated to others by legislation. We noted the following in our review of the DAS Procurement.

Evidence of Bidders' Insurance Coverage:

Criteria: DAS has adopted the principles of "customer service" within the Business Enterprises, Procurement. In doing so, DAS should take steps to extend the services it provides.

When it is deemed necessary, DAS requires bidders to have appropriate insurance coverage in place, including automotive and general liability, workers' compensation, and employee bond coverage. The purpose of the requirement is to protect the State in the event a contractor's employees are involved in accidents on or thefts of State property.

Condition:

DAS does not always require evidence of insurance prior to the award of a contract. It is anticipated that using agencies will obtain documentation of insurance prior to engaging the services of the contractor and at such times that coverage is renewable. In situations where multiple agencies may be using the same contract, duplication of effort is needed to permit each agency to document insurance coverage.

Since using agencies ("customers") may not have the resources needed to verify and evaluate the adequacy of coverage that is presented to them, customer service would be enhanced if DAS verified insurance coverage centrally.

Our examination, in June 2002, of 13 contracts (which we identified as two statewide and 11 agency-specific contracts) that warranted proof of insurance coverage from the vendors, revealed weaknesses and inadequacies in the Department's internal control procedures, as follows:

- The proof of insurance was not on file for all of the vendors associated with the two statewide contracts. In the first instance, we did not find the proof of insurance on file for the one vendor listed on the Statewide contract. In the second instance, only one of 37 vendors listed on the Statewide contract provided proof of insurance coverage.
- We did not find any proof of insurance coverage on file for any of the vendors associated with the 11 agency-specific contracts.

Effect:

The failure to verify insurance coverage prior to awarding a contract increases the risk that awards may be made to contractors with inadequate coverage. The duplication of effort by using agencies is an inefficient use of resources.

Cause:

The Department's control procedures are not adequate to ensure that proof of insurance coverage is obtained and maintained for vendors awarded statewide or multiple agencies contracts. The Department does not feel the need to obtain and maintain the proof of insurance coverage relative to vendors associated with agency-specific contracts.

Recommendation: DAS should ensure that control procedures are implemented to both verify and monitor the existence of insurance coverage with respect to vendors for Statewide and agency-specific contracts prior to the awarding of such contracts. (See Recommendation 12.)

Agency Response: “We are not in agreement. A central file system was implemented in February 2001 to maintain certificates of insurance for contracts used by multiple agencies. In addition, we have since implemented an ACCESS software based system to monitor receipt and expiration of certificates of insurance. DAS continues to believe that insurance for single agency contracts is best monitored by the individual agencies. Typically, these agencies have processes in place to accomplish this monitoring.”

*Auditors’ Concluding
Comments:*

Although the DAS has noted the implementation of a proof of insurance coverage procedures in February 2001 for Statewide contracts used by multiple agencies, including the implementation of software based system to monitor the receipt and expiration of such certificates of insurance, our review, in June 2002, disclosed that the current procedures were not adequate. The current audit testing disclosed instances in which the Department either did not obtain or maintain the proof of insurance coverage for all of the vendors associated with Statewide contracts.

In addition, in an on-going disagreement with the Department, it is our opinion that DAS’ position that proof of insurance coverage for agency-specific contracts should be monitored by the individual agencies would result in the duplication of effort by using agencies, which would result in a less effective and efficient use of resources.

Open Market Contract Awards:

Criteria: Section 4a-59, subsection (c), of the General Statutes requires that any open market contract be awarded to the “lowest responsible qualified bidder”, as defined in this section.

Condition: Our examination of 25 vendor contracts revealed one instance in which a contract was not awarded to the lowest responsible qualified bidder in compliance with the statutory requirement.

Effect: The Department may not be in compliance with the statutory requirements. Also, the State may incur higher costs for services than necessary.

- Cause:* It appears that a lack of sufficient administrative oversight procedures contributed to the reported condition.
- Recommendation:* The Department should implement procedures to ensure that all open market contracts are awarded to the lowest responsible qualified bidders, in compliance with Section 4a-59, subsection (c), of the General Statutes. (See Recommendation 13.)
- Agency Response:* “We are in agreement that in one instance of the twenty-five cases tested, a contract was not awarded to the lowest responsible qualified bidder. This was due to human error. We will continue to carefully review all future bids and our approval processes to ensure that this does not happen again.”

Inspections:

Criteria: Section 4a-51 of the General Statutes requires DAS to enforce the standard specifications that the Department has adopted in accordance with Section 4a-56 for all supplies, materials, and equipment purchased by the State. The Department’s Procurement Services Unit is responsible for inspecting goods and services received by the State and following up on complaints. Contract awards for the purchase of heating oil call for periodic laboratory tests to determine whether the fuel provided to the State meets specified standard specifications.

The four contract awards for the purchase of fuel oil, in place during the audited period, gave the State the right to obtain up to a maximum of 175 vendor-paid lab tests annually relative to all four grades of heating oil purchased.

Condition: Our examination of the Department’s inspections and testing of fuel oil purchases revealed that such inspections and testing were not being performed on a routine basis, during the audited period. We found that only ten samples of fuel oil were inspected and tested during fiscal year 2001, which were limited to just two grades of fuel oil, compared with 41 such samples during fiscal year 2000. Although there was no evidence of lack of compliance with the standard specifications, as set forth in the applicable contracts, with respect to the ten samples tested, such limited inspection and testing does not provide the necessary assurance that the standard specifications, as established by the Department, were consistently met or exceeded by the contractors.

While the Procurement Unit has two full-time inspectors who have been assigned to ensure that goods and services are being provided in accordance with the standards specified in purchasing contracts, the Department decided to change its procedure during the audited

period, which placed greater reliance on the assistance of the personnel from the user agencies to obtain the required samples for testing.

Effect: The lack of sufficient testing of purchased goods could result in the State accepting and paying for goods that may not comply with contract standard specifications and could have a negative impact on the operation of State government.

Cause: The controls in place with respect to the inspection and testing of fuel oil, which included a greater reliance on the personnel from the user agencies to obtain the necessary samples, were not effective.

Recommendation: The Department should improve its controls over the inspection and testing of fuel oil to ensure that it effectively enforces the standard specifications as set forth in the related contracts. (See Recommendation 14.)

Agency Response: “We are in agreement that DAS/Procurement should improve its controls over the inspection and testing of fuel oil to ensure that standard specifications are met. The Contract Specialist administering these contracts will be developing new procedures and controls for fuel testing by January 31, 2003.”

Financial Services Center:

Fiscal Management Unit:

The Fiscal Management Unit within the DAS Financial Services Center provides fiscal services in support of Departmental operations. These services include budget development and administration, purchasing, accounts payable/receivable, property management and grants administration.

Use of State Owned Vehicles:

Criteria: The Department of Administrative Services’ Fleet Operations has established policies to ensure that the State vehicle fleet is used in a manner that promotes its most efficient use.

Regarding the use of vehicles leased from State Fleet Operations for Department business, it is generally more cost-effective to rent a vehicle from the State motor pool on a monthly basis if the vehicle is used more than 1,000 miles per month. If use is less than 1,000 miles per month, the agency will incur less expense by obtaining vehicles, as needed, on a daily rental basis.

Condition: Our review of the mileage reports submitted by the DAS for the period from February 2001 through January 2002 relative to eight of its permanently-assigned vehicles disclosed that seven of the vehicles were not used in a cost-effective manner. Our analysis of the rental costs for these seven vehicles revealed that the Department expended \$19,057 in monthly rental fees, compared to the \$8,319 that it would have cost in daily rental fees.

Effect: All permanently assigned vehicles are not used in the most cost-effective manner. The Department expended approximately \$10,700 more than it should have for the rental of State owned vehicles. The cost of keeping underutilized State vehicles available is greater than the cost incurred by renting vehicles on a daily basis.

Cause: A lack of adequate administrative control contributed to this condition.

Recommendation: The DAS should review the usage of its permanently assigned State owned vehicles to ensure that the vehicles are being used in the most efficient and effective manner, and should, where possible, return underutilized vehicles to Fleet Operations. (See Recommendation 15.)

Agency Response: “We disagree with this finding. While it is true that some of the vehicles appear to be underutilized, it should be kept in mind that all of the vehicles are maintained on an "on call" basis. Procurement and Federal Foods typically respond to problems as they are notified. Unplanned trips, sometimes of a timely nature, are routine when complaints from customers or problems with contractors occur. It is a more economical use of time to have a car available rather than attempt to get a daily rental. In order to provide the highest level of customer service, we have made a conscious decision to incur this cost.

We continue to review the use of these vehicles to determine if we can provide excellent customer service at the lowest possible cost. As of November 1, 2002, we have reduced the number of permanently assigned vehicles to six (6). We are looking at the vehicle assigned to the Property Distribution Center (PDC) as the next possible to return to the Fleet, which would further reduce the number of permanently assigned vehicles at DAS.”

Maintenance of Accounts Receivable Records (Other Than FSC-Recovery Unit):

Criteria: Adequate internal controls over accounts receivable should ensure prompt billing and collection of amounts due to the State, and require periodic reconciliations of the receivable balances to cash receipts records and subsidiary records.

Section 3-7 of the General Statutes permits agencies to write off any uncollectible claim valued at one thousand dollars or less upon the authorization of the head of such department or agency. Approval of the Office of Policy and Management is required for the write-off of amounts exceeding \$1,000. In order to record receivable balances at realizable values, a periodic assessment needs to be done to consider writing off amounts deemed to be uncollectible.

Condition: Our review, in May 2002, of a sample of paid invoices for repairs made to State vehicles during the audited period disclosed that the repair costs were not being billed to responsible third parties in a timely manner. Of the total repair costs of \$94,785 included in our sample only \$89,822, or 95 percent, was actually billed to the liable State agencies or other liable third parties. Of the \$89,822 actually billed only \$85,908, or 96 percent, was collected as of the date of our review.

In addition, a review of the Fleet Operations' accounts receivable records, as of May 2002, disclosed that 392 accounts totaling \$410,798 were outstanding for more than 90 days. We also determined that \$66,110, or 50 percent, of the total receivables of \$131,902 related specifically to third party billings for accidents involving State vehicles was outstanding for more than one year.

Effect: The lack of adequate internal controls over third-party billings and accounts receivable increases the risk that amounts owed to the State will not be collected. The inclusion of apparently uncollectible amounts in the accounts receivable balances overstates the realizable value of the balances.

Cause: The Agency has apparently not implemented effective accounting controls over Fleet third-party receivables. DAS does not have a process in place to periodically evaluate the reasonableness of its receivable balances.

Recommendation: DAS should improve its internal control policies and procedures in order to ensure the prompt billing, collection, and periodic evaluations of amounts due to the State, and to ensure its compliance with Section 3-7 of the General Statutes when accounts are deemed to be uncollectible. (See Recommendation 16.)

Agency Response: “We agree with this finding. Our billing practices for third-party receivables were not very effective during the audited period. Since that time, with concerted efforts, we have improved in this area. New procedures are being developed and implemented to further our ability to identify and collect from responsible third parties, and to follow up on outstanding receivables.

We do periodically evaluate the reasonableness of our receivables balances.”

Software Inventory:

Criteria: The *State of Connecticut’s Property Control Manual*, issued by the State Comptroller under authority granted under Section 4-36 of the General Statutes, prescribes control policies and procedures relative to the establishment and maintenance of software inventory for State agencies. The software inventory procedures set forth by the State Comptroller are applicable to all State agencies. Among the specific procedures prescribed by the State Comptroller are the following: a) each State agency will produce a software inventory report on an annual basis and that these reports will be available to the Auditors of Public Accounts and, b) 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, with the comparison retained by the agency for audit purposes. In addition, the policy and procedures specifically states that software compliance is a legal responsibility for State agencies and non-compliance can impact an agency, as they may be held financially liable for the use of unlicensed copies of software.

Condition: The Agency does not maintain a current updated inventory of installed software applications. An annual software inventory report is not prepared and a physical inventory at the end of each fiscal year is not performed.

Effect: The Agency is not in compliance with the software inventory policy and procedures issued by the Office of the State Comptroller. The unauthorized duplication and/or use of software could occur that both constitutes copyright infringement and creates a financial liability for the State.

Cause: A lack of adequate administrative control contributed to this condition.

Recommendation: DAS should implement the internal controls necessary to ensure that its computer software inventory is maintained in accordance with the software inventory policy and procedures as set forth in the *State of Connecticut's Property Control Manual*. (See Recommendation 17.)

Agency Response: “We agree with this finding. We will prepare an annual software inventory and take a physical inventory starting this fiscal year which will end June 30, 2003. We do maintain a perpetual inventory of software based on purchase orders and this list is broken down for each business unit.

Currently, DAS Management Information Systems (MIS) has software that can identify and report on the software installed on each personal computer (PC) in the Agency. Management is dependent on MIS for information reporting because most software applications are licensed and downloaded from the Internet without a physical disk or any other type of hard media. We are confident that the new software capable of identifying applications installed on computers will alleviate this issue.”

Monitoring of Contractor for Conformance with Terms of Agreement:

Background: The Department of Administrative Services made significant expenditures to one personal services contractor for outside consulting and professional services relative to the implementation of an Owner Controlled Insurance Program relative to a new State Convention Center and Sports Complex and the implementation of a loss portfolio arrangement for the State’s Workers’ Compensation Program. The expenditures for the services provided by this personal services contractor amounted to approximately \$370,000 during the fiscal year 2000 –2001.

Criteria: Sound business practices dictate that the contract terms should be upheld on the premise that they exist to protect the parties involved in the procuring of goods and services. The terms of the Department’s personal services agreement (PSA) with one contractor requires that the contractor be paid upon the receipt and acceptance of an “itemized invoice outlining the days and hours worked.”

In addition, the terms of the agreement require the contractor to prepare, maintain and preserve all records with respect to the contract, and to grant authorized representatives of the State free and full access to the records maintained by the contractor. In

addition, any books and records that pertain to the contract “shall be made available to the Auditors of Public Accounts.”

Condition: Our examination of the 21 invoices submitted by one personal service contractor, during the audited period, revealed that most of the invoices were not sufficiently detailed or itemized to support the amounts billed, in compliance with the terms of the PSA. We noted particularly that the contractor did not usually identify the specific days worked that were associated with the hours billed. For example, the two invoices submitted by the contractor, covering the period from June 14, 2000 through August 31, 2000, for services related to the feasibility study for the Workers’ Compensation Program loss portfolio arrangement were not adequately itemized because the actual days worked relative to 1,281 out of the total 1,316 hours billed were not identified. As a result, we were unable to identify the actual days worked with respect to \$134,505, or 97 percent, of the related billings of \$138,180 for the period noted.

Our review also disclosed that the personal service contractor failed to maintain and preserve all of the records with respect to the contract in compliance with the personal service agreement. In our effort to obtain the supporting documentation for the amounts billed on the sampled invoices, we requested copies of the contractor’s employees’ time records. However, in the contractor’s response to our request, we learned that the contractor did not retain copies of the employees’ timesheets beyond one year; thus, the requested documentation was not available for review.

Effect: Internal controls over personal service agreements were weakened. In addition, assurance that services were provided and correct payments were made was lessened.

Cause: The controls in place were ineffective to ensure that invoices agreed with the contract terms prior to making payments and that all records were maintained and preserved by the contractor in compliance with the contract.

Recommendation: The Department should improve its controls related to personal service agreements to ensure that the contractors comply with all of the provisions of the agreements. (See Recommendation 18.)

Agency Response: “We are in agreement with the audit finding. The controls in place were ineffective and the contractor did not maintain and preserve all records beyond a period of one year. The internal control process has been strengthened and improved relative to this contract and has been in effect for a significant period of time. We

are unable to ensure a contractor keeps the appropriate records for the time period required but can only inform contractors of the requirement to do so.”

Inappropriate Use of State Purchasing Card:

Criteria: Section 4-98, subsection (c), of the General Statutes states, with respect to the use of purchasing cards, that no budgeted agency, or any official, employee or agent of a budgeted agency, shall incur any obligation using a card, except in accordance with procedures established by the Comptroller.

The State Comptroller, in conjunction with the Department of Administrative Services, has issued the *State of Connecticut Purchasing Card Cardholder Work Rules* (Cardholder Work Rules), which sets forth the State’s guidelines and procedures on the use of the purchasing cards by State employees. The most recent update of the Cardholder Work Rules was issued in April 2001. Among the guidelines included in the Cardholder Work Rules are that the Purchasing Card will have a single transaction purchase limit not to exceed \$1,000 for the purchase of commodities. In addition, the guidelines state that, if an employee determines that a transaction for commodities is not for \$1,000 or less, then the purchase must be processed in accordance with established procurement policy and procedures.

Condition: Our examination of the Department’s Purchasing Card (P-Card) purchases during the audited period revealed two instances in which a P-Card was not used in an appropriate manner. We found that one employee used a P-Card to make two separate purchases of commodities in excess of the \$1,000 per transaction limit with both transactions occurring on the same day and with the same vendor.

Effect: The Department did not comply with either the requirements in Section 4-98, subsection (c), of the General Statutes or the guidelines set forth in the *State of Connecticut Purchasing Card Program Cardholder Work Rules*, which the Department has issued in conjunction with the State Comptroller, relative to the use of Purchasing Cards.

Cause: The controls in place were not completely effective.

Recommendation: The Department should improve its controls over the use of Purchasing Cards to ensure that its employees use such cards in compliance with the requirements of Section 4-98, subsection (c), of the General Statutes and the guidelines set forth in the *State of*

Connecticut Purchasing Card Program Cardholder Work Rules.
(See Recommendation 19.)

Agency Response: “We do not agree with this finding. The two items in question were clearly acknowledged on the cardholder’s purchase log sheet. It should be noted the cardholder brought the two transactions to the Business Office attention. The cardholder has adhered to this limit as well as all other conditions in use of the P-Card since this error occurred.

Also, if there were inappropriate uses of the P-Card, our procedure is to contact the individual cardholder, require an explanation of the questionable use, and notify the cardholder that further misuse would not be accepted. We believe our internal controls of the P-Card program are sound and effective.”

*Auditors’ Concluding
Comments:*

Our review disclosed that the processing controls over the Department’s use of Purchasing Cards were not adequate to ensure its total compliance with the requirements in Section 4-98, subsection (c), of the General Statutes or with the guidelines set forth in the *State of Connecticut Purchasing Card Cardholder Work Rules*. Our testing disclosed two Purchasing Card (P-Card) transactions for commodities that exceeded the single transaction purchase limit of \$1,000. These two transactions should have been processed in accordance with established non-P-Card procurement policy and procedures.

Reconciliation of Expenditure Records:

Criteria: The Comptroller’s *State Accounting Manual* requires that each State agency must reconcile its records to the State Comptroller’s records.

The State of Connecticut *Property Control Manual* indicates that the “Capital Asset Expenditure Report” issued by the Comptroller, which summarizes each agency’s expenditures for capital purchases, is part of the Comptroller’s standard monthly reconciliation package and is a tool available for reconciliation purposes.

Condition: Our examination of the Department’s expenditure records disclosed that the Department did not complete the year-end reconciliation of its recorded equipment expenditures with the Comptroller’s records for the audited period. A comparison between the State Comptroller’s and the Department’s records relative to capital equipment purchases revealed that DAS recorded a net of \$12,556 more in equipment acquisitions than the

Comptroller and failed to reconcile this variance with the Comptroller's records.

Effect: The Agency is not in compliance with the requirements of the *State Accounting Manual*. Errors in the valuation of capital equipment could go undetected if the Agency's equipment expenditure records are not properly reconciled.

Cause: A lack of adequate administrative oversight contributed to the reported condition.

Recommendation: DAS should improve controls to ensure that all recorded expenditures are reconciled with the State Comptroller's records in compliance with the *State Accounting Manual*. (See Recommendation 20.)

Agency Response: "We agree with this finding. The Department has no record of receiving the June 2001 Capital Asset Expenditure Report from the Comptroller's Office, and therefore did not conduct the annual reconciliation. We have requested the reports for both FY2001 and FY2002 and will complete the reconciliations upon receipt."

Imprest Petty Cash Fund and Department of Administrative Services Revolving Fund

Petty Cash Fund:

Background: The Department operates both a General Fund Imprest Petty Cash Fund and the Department of Administrative Services Revolving Fund Petty Cash Fund.

Criteria: The Comptroller's *State Accounting Manual* provides guidance to agencies regarding the establishment and administration of petty cash funds.

In addition, adequate internal controls require that checks should not be signed without being completely filled out as to payee and amount.

Condition: Our examination, on April 29, 2002, of the petty cash funds related to the Department's General Fund and its Department of Administrative Services Revolving Fund revealed weaknesses in the check issuance process for each of the funds. A review of the respective checkbook for each of these petty cash funds disclosed one pre-signed blank check in each checkbook. We subsequently determined that these pre-signed checks were both filled out and issued on May 2, 2002.

In addition, our follow up procedures, on June 5, 2002, revealed continuing weaknesses in the check issuance process for each of the petty cash funds. We again found one pre-signed blank check in the Department of Administrative Services Revolving Fund Petty Cash Fund checkbook. We also noted that one check had been removed from the General Fund Petty Cash Fund checkbook that apparently had not been completely filled out prior to its removal because there was no information recorded on the check stub to indicate either the amount or reason for the issuance of the check.

Effect: The Department may not be assured that funds are being properly used or safeguarded if the practice of using pre-signed checks is permitted.

Cause: It appears that the blank checks were pre-signed in anticipation of emergencies during the expected absence of all the authorized signers.

Recommendation: DAS should improve its control procedures to ensure that petty cash funds are properly used and safeguarded. (See Recommendation 21.)

Agency Response: “We disagree with the details noted in this finding. There were two (2) pre-signed checks, one for the General Fund and one for the Revolving Fund. On the dates indicated, all Managers who are authorized to sign a check were at an offsite training session. In order to conduct “business as usual”, the checks were signed and locked in the safe, to be used in an emergency situation only, and only with notification to the applicable manager and their oral approval.

While at this training session, a need arose for a payment for an expense. The check was physically delivered to the site while the amount was being determined. A receipt was issued and all of the information was entered in the checkbook later on the same day. This was an emergency and not common practice.”

*Auditors’ Concluding
Comments:*

The Department’s management is responsible for ensuring that there is adequate supervision and administration of the petty cash funds so that resources are properly used and safeguarded at all times. The execution of petty cash fund transactions, including those for emergency purposes, using pre-signed checks reflects a lack of adequate administrative supervision to ensure that the petty cash fund resources are properly used and safeguarded.

Accounting Controls Over Receipts:

Our examination of receipts and deposits, is discussed below:

Criteria: Sound internal control procedures require the maintenance of records of monies received, including documentation of receipt date.

The State Comptroller's *State Accounting Manual* requires that the trial balance of open pending receipts should be reconciled monthly to the control account balance and the Comptroller's balance for the Agency Fund 7013 Available Cash Ledger balance. In addition, the *State Accounting Manual* requires State agencies to submit, by July 31 of each year, an annual report to the State Comptroller, reporting as of June 30 of each fiscal year, that the Agency Fund 7013, Funds Awaiting Distribution, has been reconciled and any required corrections by the State Comptroller have been requested.

In addition, the *State Accounting Manual* requires that accountability reports should periodically be prepared, where feasible, to compare the receipts that were actually recorded with the receipts that should have been accounted for.

Condition: Our examination of the Department's receipts revealed that the original receipt dates for four of the 34 receipts tested were not recorded in the receipts log or journal maintained for such purposes. As a result, in these four instances, we could not determine whether the prompt deposit requirements of the General Statutes were met.

Also, our examination revealed that the Department failed to perform the required monthly reconciliations of the month-end trial balance of open pending receipts with the related control account and the Agency Fund 7013, Funds Awaiting Distribution, Available Cash Ledger. In addition, the Department did not submit the required annual report to the Comptroller reporting that the balance of the Agency Fund 7013, Funds Awaiting Distribution, as of June 30, had been reconciled and that any corrections had been requested.

DAS does not prepare periodic accountability reports for its receipts, as recorded in the cash receipts journal, as required by the Comptroller's *State Accounting Manual*.

Effect: The identified control weaknesses reduce the Department's ability to determine whether the prompt deposit requirements are being met and that all receipts are accounted for, increasing the risk of loss or theft of funds.

Cause: The existing internal control procedures relative to the recording of receipts to the cash receipts journal were not completely effective.

It appears that a lack of adequate administrative control led to the Department's failure to prepare the required monthly reconciliation of the trial balance of open pending receipts to the control account balance and the Agency Fund 7013 Available Cash Ledger, and the fiscal year-end reconciliation of the Agency Fund 7013, Funds Awaiting Distribution.

The Department misinterpreted guidance from the State Comptroller's Office staff and incorrectly assumed that it had a waiver from the requirement to prepare periodic Accountability Reports.

Recommendation: The Department should improve its internal controls to ensure that all receipts are recorded in the cash receipts journal when received, that the required monthly reconciliations of the open pending receipts account are performed, that the annual report on the reconciliation of the Agency Fund 7013, Funds Awaiting Distribution, is prepared and submitted to the State Comptroller, and that the required accountability reports are periodically prepared, where feasible, in accordance with the requirements of the State Comptroller's *State Accounting Manual*. (See Recommendation 22.)

Agency Response: "This finding has three separate issues:

1) We agree with this finding that states, "the original receipt dates of four of the 34 receipts tested were not recorded in the receipts log or journal."

2) We have reconciled the pending receipts trial balance with the related control account and the Comptroller's Available Cash Ledger for the Account 1320. For Account 1323 receipts, the reconciliations were found to be out of date and we have now completed the reconciliation through June 2002. The annual report to the Comptroller was not needed because Account 1320 was zero balanced. If Account 1323, once verified, has a balance it will be reported to the Comptroller's Office.

3) We disagree with the finding about our accountability reports. We researched the need for the periodic Comptroller's Accountability report and found that it was not required if we had a proper Accounts Receivable System in place. Following discussion with the Comptroller's Office in June 2002, it was determined that our system was proper and the reports were not required."

*Auditors' Concluding
Comments:*

Our review of the Department's correspondence with the State Comptroller's Office in regard to the issue of accountability reports indicates that the Comptroller's Office did not grant the Department either an outright or unconditional waiver to the requirement. The State Comptroller's Office guidance suggested that accountability reports would not be required provided the Department had compensating controls in place, in the form of a "proper accounts receivable system". However, it is our opinion, based on the reportable findings that we have reported both in our prior and current audits of DAS, that the Department does not have adequate internal controls in place over its receipts and accounts receivable.

Department of Administrative Services Revolving Fund (4015):

Accounts Receivable Reconciliation:

Background: The Department of Administrative Services Revolving Fund is authorized under Section 4a-75 of the General Statutes. The name of this Fund was changed, effective October 1, 2000, as a result of the passage of Public Act 00-68.

Criteria: Basic accounting principles suggest that accounts receivable subsidiary accounts be reconciled on a regular basis to the respective control accounts.

Condition: Our review of the Department of Administrative Services Revolving Fund's General Ledger in May 2002 disclosed that the accounts receivable balance was overstated by \$1,638,533 when compared to the Agency's accounts receivable subsidiary record.

Effect: The Department of Administrative Services Revolving Fund financial statements do not accurately reflect the balance of the accounts receivable of the Fund.

Cause: The Agency has not implemented an on-going reconciliation process for the Department of Administrative Services Revolving Fund accounts receivable accounts.

Recommendation: The Agency should reconcile the Department of Administrative Services Revolving Fund accounts receivable subsidiary accounts to the respective control accounts on a regular basis. (See Recommendation 23.)

Agency Response: “We are in agreement with this finding. The Accounts Receivable balance and the accounts receivable subsidiary records have not balanced since the conversion of P2000 to the Great Plains System. The Budget Unit and the Accounting Service Unit are in the process of determining the correct accounts receivable balance. Beginning in July 2002, the monthly account receivable balance has been reconciled with the accounts receivable subsidiary records.”

GAAP Reporting:

Criteria: The submission of complete and accurate Generally Accepted Accounting Principles (GAAP) information is instrumental in producing a fairly stated State Comprehensive Annual Financial Report. DAS is required to submit both a balance sheet and operating statement for the Department of Administrative Services Revolving Fund as part of its GAAP reporting of “other financial information” to the State Comptroller per the *State Accounting Manual*.

Condition: Our examination of Department of Administrative Services Revolving Fund financial statements submitted as part of the Department’s GAAP closing package revealed that the statements were not accurate. Our analysis indicated that the reported amount of accrued payroll, as of June 30, 2001, was understated by approximately \$225,000. In addition, the financial statements did not reflect any accruals for either employees’ fringe benefits or compensated absences, which amounted to understatements of approximately \$1,012,000 and \$90,534, respectively.

Effect: The Department’s GAAP financial statements submitted for the Department of Administrative Services Revolving Fund were inaccurate and/or incomplete.

Cause: The Department lacks the procedures to ensure the timely review of the financial statement account balances for reporting purposes.

Recommendation: DAS should ensure that the Department of Administrative Services Revolving Fund financial statements submitted as a component of its GAAP reporting to the State Comptroller contain accurate and complete information. (See Recommendation 24.)

Agency Response: “We agree that the accrued payroll is understated. This is due to posting errors in prior periods. Entries have been prepared for the month of November to correct the posting errors.”

Allocation of Overhead Costs:

Criteria: The federal Office of Management and Budget (OMB) has issued regulations that apply to all internal service funds, including those which provide central services on behalf of other state agencies that receive federal funds. These regulations are contained in the OMB publication *OMB Circular A-87*. With regard to indirect costs, *OMB Circular A-87* stipulates that it may be necessary to establish a number of indirect costs pools in order to facilitate the equitable distribution of indirect expenses to the cost objectives served. In addition the *Circular* states that revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues.

Condition: We found that the Department’s current system for allocating overhead costs for the Department of Administrative Services Revolving Fund does not comply with all of the requirements set forth in *OMB Circular A-87*.

Our examination revealed that DAS’ current methodology for allocating the overhead costs for the Department of Administrative Services Revolving Fund activities does not ensure the equitable distribution of such overhead costs to the respective Fund enterprises. The current methodology for allocating the overhead costs for the Fund, which includes the costs related to payroll and financial services activities, is based on each individual Revolving Fund enterprise’s total expenditures. However, this methodology allows for both the allocation of payroll overhead on costs other than payroll and the allocation of financial services overhead costs on all costs, including payroll. In addition, we determined that one enterprise is not allocated any payroll or financial services related overhead costs, although it incurred its share of such costs as a result of its Revolving Fund activities. As a consequence, some Revolving Fund enterprises are allocated a disproportionate share of Fund’s overhead costs, while the allocation to others does not properly reflect the actual costs of resources used.

In addition, DAS currently does not identify and include all revenues generated as a result of the activities of the Department of Administrative Services Revolving Fund in its current methodology for determining overhead costs allocated to the Revolving Fund. We found that DAS does not properly recognize the imputed revenues generated by Fleet Operations related to unbilled repair costs.

Effect: The current method of allocating the payroll and FSC Fiscal Management unit overhead costs to the Department of Administrative Services Revolving Fund may not comply with *OMB Circular A-87* and does not reflect the actual costs of the resources used. Recipients of the Department of Administrative Services Revolving Fund services may be improperly charged for such services.

Cause: The current method of allocating the payroll and FSC Fiscal Management units' overhead costs to the Department of Administrative Services Revolving Fund does not provide for a reasonable or equitable allocation of such costs.

Recommendation: DAS should ensure that its methodology for allocating the overhead cost relative to the Department of Administrative Services Revolving Fund activities is in compliance with federal guidelines and properly reflects the actual costs of resources used. (See Recommendation 25.)

Agency Response: "As we have in the past, we disagree with the finding that our methodology does not comply with all of the requirements of *OMB Circular A-87*. We believe that our methodology for allocating overhead cost to the Revolving Fund is in compliance with federal guidelines and fairly represents the actual costs of resources used. Only ten (10) positions are allocated as business office overhead. Most business office employees, including managers, work on both general and revolving fund activities, and all recent time studies indicate that an equivalent of nearly eleven (11) full time employee-hours are spent on revolving fund activities, and the costs associated with the ten (10) allocated positions fairly represent actual costs. Overhead allocations are then made based on gross expenditures and cost of goods sold. Our existing methodology is adequate, our methods have been reviewed annually by the Comptroller's Office, and we believe they are in compliance with all federal guidelines."

*Auditors' Concluding
Comments:*

The tracking of the FSC Fiscal Management unit's personnel costs for the purpose of allocating overhead costs to the various activities or enterprises of the Department of Administrative Services Revolving Fund is not performed on a regular basis.

Information, Intake and Input Unit and Recovery Unit:

The Information, Intake and Input Unit within the DAS Financial Services Center is responsible for the investigation, billing and collection of charges for the support of persons cared for in facilities or programs operated or funded by the State. DAS may be designated to act as trustee for certain individuals in the collection of benefits and maintenance of trustee accounts.

The Recovery Unit within the DAS Financial Services Center is responsible for the billing and collection of money due to the State for overpayments of public assistance and performs collection services for other State agencies by mutual agreement.

The following findings relate to our review of these DAS units.

Valuation of Accounts Receivable/Maintenance of Accounts Receivable Records:

Criteria: Generally Accepted Accounting Principles (GAAP) require that reported values of accounts receivable reflect reasonable estimates of the amounts likely to be collected and that credits resulting from overpayments be reported separately as liabilities.

Sound internal control practices dictate that material adjustments to accounts receivable balances be approved by someone other than the person initiating the transaction.

The Comptroller's *State Accounting Manual* (SAM) sets forth procedures for the collection of accounts receivable. These procedures include the requirement that a record must be kept of each action taken to collect an account, the name of the person taking the action, and the date the action was taken in order to evidence the collection efforts to support classifying the account as uncollectible.

Section 3-7, subsection (b), of the General Statutes grants the Secretary of the Office of Policy and Management the authority to cancel any non-collectible claim in the amount greater than one thousand dollars due to a State department or agency.

Condition: Our prior reports have discussed significant departures from GAAP relating to the valuation of accounts receivable and the "absorbing" of credit balances. We found such departures to continue throughout the current audited period. Consistent with its past practices, DAS does not employ a reasonable method of estimating, recording, and reporting the probable value of uncollectible accounts. In our opinion, there likely exists a material difference between the Department's reported values of accounts receivable and the values that would reflect reasonable provisions for uncollectibles.

Accounts receivable ledgers are not always adjusted for valid billing denials. We also noted that the receivable ledger balances, while reflecting the amounts billed, in some cases do not reflect the amounts paid. We also noted that material adjustments are processed without any evidence of appropriate approval.

Our examination of delinquent accounts receivable revealed inconsistencies and deficiencies in the Department's process for maintaining and canceling such accounts. For instance, we noted that the Collections Unit does not always receive the final approval from the Office of Policy and Management (OPM) prior to formally canceling its accounts receivable. In contrast, the Department's Recovery Unit properly maintains the accounts receivable in an open status until OPM's cancellation approval is received.

In addition, our review of a sample of 21 non-collectable accounts receivable, 15 of which were maintained by the Collections Unit and six of which were maintained by the Recovery Unit, that had been cancelled by DAS revealed the following deficiencies:

- The relevant case files for seven of the 21 cancelled accounts were missing and could not be located. Thus, we could not determine the Department's justification for the write-off of these accounts;
- Three of the 21 accounts remained in an open status on the Department's Centaur system despite the fact that they had been cancelled;
- We found that the Department's Collections Unit cancelled one account for \$31,835 although the OPM only officially approved the cancellation of \$3,835 relative to the account.

Effect:

As a result of the aforementioned departures from GAAP, the reasonableness of the financial presentation of the accounts receivable balances is questionable.

The failure to maintain accounts receivable records that properly reflect appropriate approvals for and postings of adjustments to and/or cancellations of receivable balances increases the risk that erroneous entries may go undetected, records may be inaccurate and receivables due the State will not be collected.

Cause:

The accepted method for determining a reasonable provision for uncollectible accounts depends on aging reports, which cannot be provided by the current data processing systems.

The investigation and adjustment of the accounts receivable balances for payments received or amounts cancelled are not given the necessary priority to ensure the reasonableness and accuracy of the accounts receivable records.

The missing files relative to the accounts receivable that had been cancelled apparently had been sent to archive and could not be retrieved upon request.

Recommendation: The Department should conform to all relevant Generally Accepted Accounting Principles in the maintenance of accounting records. In addition, the Department should establish procedures to ensure that accounts receivable records are maintained on a current and accurate basis, and that the cancellation of amounts greater than one thousand dollars are properly authorized in compliance with Section 3-7, subsection (b), of the General Statutes. (See Recommendation 26.)

Agency Response: “This section contains two separate and distinct findings. Our first response is for GAAP principles (#1) and the second is Delinquent accounts receivables (#2).

- 1) We agree but as stated in previous responses, GAAP compliance is a major specific of AVATAR that went into service as of October 1, 2002. This new system does not absorb credit balances and is GAAP compliant relative to the valuation of accounts receivables. AVATAR does maintain a full audit trail including valid billing denials, amounts paid and adjustments made.
- 2) We agree and have corrected the timing of when accounts receivables will be cancelled. This will occur after OPM approval. As for the individual, noted deficiencies:
 - We agree that seven files are still missing.
 - The three accounts in open status in CENTAUR are now credited and closed.
 - The cancellation of one account of \$31,835, when OPM only officially approved a cancellation of \$3,835 is obviously a typing error that we have noted and advised OPM.”

Gathering of Information from Other Agencies:

Criteria: DAS is highly dependent on other agencies and facilities for the information needed to process billings to the Department of Social Services (DSS) for Title XIX reimbursement. Untimely or incomplete attendance reports delay the ability of DAS to bill and collect Federal reimbursements for programs.

Prior authorization must be received from DSS for the payment of psychiatric treatment services exceeding thirteen visits within a ninety-day period or twenty-six within a six-month period, in accordance with DSS' policy for hospital outpatient services.

Condition: Our review revealed that, for the period from July 2000 through December 2000, the Department of Mental Retardation (DMR) failed to submit the attendance reports required for billing in a timely manner. We found that an average of 27 of the providers in the community training home program failed to provide attendance reports for at least one month during the six-month period reviewed. We also determined that nine of the DMR providers in the program had not been assigned provider numbers to allow DAS to bill DSS for reimbursement.

In addition, our review, in July 2002, of 120 rejected Title XIX claims from the period August 2000 to February 2001, representing approximately \$909,000, revealed that approximately \$503,000, or 55 percent, of the claims were not resubmitted as of our review. These claims were rejected primarily because of errors in client eligibility determinations on the part of the DMR and the Department of Mental Health and Addiction Services.

In addition, while we noted a considerable improvement relative to the timely submission of billings for outpatient services provided during fiscal year 2001, we determined that approximately \$13,672 in billings for outpatient services provided during the audited period were rejected due to the lack of pre-authorization for visits exceeding the limits set by DSS, as a result of the delay in receipt of the required attendance reports.

Effect: The untimely submission of Medicaid claims may result in the loss of Federal reimbursements for up to fifty percent of the claim amount. Any delay in billing for these services hinders revenue collection and reduces cash flows to the State.

Billings to the Department of Social Services were unreasonably delayed.

We also observed that during a time of reduced personnel resources an excessive amount of time is spent by the Department's staff in attempting to resolve these issues.

Cause: DAS tracks the missing DMR attendance reports and the providers without valid provider numbers, but they have no authority to demand resolution of this condition. Attendance information is not received from DMR in a timely manner.

Due to difficulties in obtaining timely attendance data from DMHAS, the required pre-authorizations for all psychiatric services cannot be obtained from DSS in a timely manner.

Recommendation: DAS should continue to work with the appropriate social service agencies involved in the collection process to establish procedures that will both minimize delays in the receipt of attendance data and allow prompt correction of known billing errors. In order to compensate for any built-in deficiencies, DAS should utilize a database system to track psychiatric visits on a current basis to request the required authorizations as the visits occur. (See Recommendation 27.)

Agency Response: "We disagree with the findings noted in the condition.

As stated previously, we help the Department of Mental Retardation (DMR) by identifying any missed attendance reports. DMR communicates, regulates, and monitors providers directly. This is not a DAS responsibility.

We do not apply for or issue provider numbers. In the interim, we enter the services and when a number is issued, the claim is generated. There is no lost revenue due to this issue.

The 120 rejected Title XIX claims from August 2000 to February 2001 that were not resubmitted will not be because the claims are ineligible. We report to the appropriate agencies where clients are ineligible for Medicaid so the agencies can work on the eligibility.

As far as the outpatient services providers that were rejected due to a lack of preauthorization, the responsibility for a treatment plan and preauthorization rests with the Department of Mental Health and Addiction Services (DMHAS) and is beyond our ability to monitor and control."

Auditors' Concluding

Comments: Although improvement has been made in the posting of billing information by the Department, the collection of billing information requires additional improvement to ensure the timely filing of Medicaid claims.

Maintenance of Legal Representative Bank Account:

Criteria: Accepted internal control standards dictate that bank reconciliations be performed in a timely manner. Additionally, internal control standards require the identification and prompt resolution of reconciling items.

Condition: The Department did not complete bank reconciliations for the cash held in the Department's Legal Representative Account's checking account in a timely manner. Our review, in June 2002, of the bank reconciliations for the period beginning with the month of July 2000 through the period of our review revealed that the Department had not completed any of the monthly bank reconciliations after the month of December 2000. We also found that no adjustments were made for five voided checks, which also were not available for review.

Effect: Errors could occur and not be detected in a timely manner, and resources could be lost due to delays in completing bank reconciliations.

Cause: The lack of adequate internal control procedures, which include adequate administrative oversight, appears to have contributed to the reported condition.

Recommendation: The Department should implement adequate internal control procedures to ensure that the required bank reconciliations are completed and that all reconciling items are identified and corrective action taken in a timely manner.
(See Recommendation 28.)

Agency Response: "We agree with this finding. The Recovery Unit administers The Legal Rep bank account and Central Accounting Unit (CAU) is responsible for the account reconciliation. However, CAU did not have access to the information needed to reconcile the account. In June of 2002, the information was shared between Recovery and Central Accounting, which resulted in bringing the reconciliation to a current status through October 2002 including adjustments for the five voided checks."

RECOMMENDATIONS

Our prior report on the fiscal year ended June 30, 2000, contained a total of 22 recommendations. Of those recommendations, seven have been implemented, satisfied, or otherwise, regarded as resolved. The status of those recommendations contained in this prior report is presented below.

Prior Audit Recommendations:

- **DAS should improve controls over durational positions by requiring accurate completion of all corresponding data fields on the Automated Personnel System, and auditing this data at the time of entry.** This recommendation is being repeated. (See Recommendation 1.)
- **DAS should implement written policies and procedures for the review of requests for managerial positions. All positions with managerial and bargaining unit equivalents should be considered bargaining unit positions unless a proper justification is given by the requesting agency.** This recommendation has been repeated in a modified form to reflect current conditions. (See Recommendation 2.)
- **DAS should ensure that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute.** This recommendation is being repeated in a modified form to reflect current conditions. (See Recommendation 3.)
- **DAS should continue to consider alternative ways to compile a complete roster of employees in State service.** This recommendation is being repeated in a modified form to reflect current conditions. (See Recommendation 5.)
- **DAS should continue its efforts to ensure that the current management incentive plan (PARS) evaluations are conducted by the Quality Control Committee, pursuant to Section 5-237b of the General Statutes.** This recommendation is being repeated. (See Recommendation 6.)
- **The DAS should ensure that employee time sheets are properly verified and approved.** This recommendation has been resolved.
- **The DAS should effectively enforce the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days.** This recommendation is being repeated. (See Recommendation 8.)
- **DAS should continue its efforts to implement procedures to verify and monitor the existence of insurance coverage prior to the awarding of a contract as a service to its customers.** This recommendation is being repeated in a modified form to reflect current conditions. (See Recommendation 12.)

- **DAS should take more stringent steps to gather the mileage information necessary to effectively monitor the vehicles within Fleet Operations.** This recommendation has been satisfied.
- **DAS should implement the internal control policies and procedures necessary to ensure the prompt billing and collection of amounts due to the State.** This recommendation is being modified and repeated in part to reflect current conditions. (See Recommendation 16.)
- **DAS should improve its controls over the equipment inventory to ensure that inventory records are complete and accurate, and maintained in accordance with the Comptroller's Property Control Manual.** This recommendation has been satisfied.
- **The DAS should review the usage of its permanently assigned State owned vehicles to ensure that the vehicles are being used in the most efficient and effective manner, and should, where possible, return underutilized vehicles to Fleet Operations.** This recommendation is being repeated. (See Recommendation 15.)
- **DAS should establish adequate procedures to obtain and review required audit reports, and to conduct on-going monitoring of its grantees.** Our review, in April 2002, revealed that the reported condition from our prior audit finding continued to exist, with respect to the one grant administered by the Department, during the audited period. However, prior to completion of our review, we learned that the Department terminated its only grant program, which was the basis for our prior recommendation, in July 2002. Thus, in consideration of the fact that Department discontinued its only grant program in July 2002 and that we do not foresee, expect or require any future corrective action(s) by the Department with respect to this particular grant program, this prior recommendation will not be repeated.
- **The Agency should perform periodic routine and year-end reconciliations of the General Services Revolving Fund general ledger cash balance to the cash balance per the State Comptroller.** This recommendation has been satisfied.
- **The Agency should reconcile the General Services Revolving Fund accounts receivable subsidiary accounts to the respective control accounts on a regular basis.** This recommendation is being repeated in a modified form to reflect current conditions. (See Recommendation 23.)
- **DAS should ensure that the General Services Revolving Fund financial statements submitted as a component of its GAAP reporting to the State Comptroller contain accurate and complete information.** This recommendation is being repeated in a modified form to reflect current conditions. (See Recommendation 24.)

- **DAS should implement control procedures, including the regular tracking of personnel time, to ensure the reasonable and equitable allocation of the Financial Services Center Fiscal Management overhead costs to the General Services Revolving Fund in compliance with Federal guidelines.** Our review for the fiscal year ended June 30, 2001, disclosed that the Department had not complied with our prior recommendation. This recommendation will be repeated. (See Recommendation 25.)
- **DAS should implement control procedures for the General Services Revolving Fund to review and revise rates in a more timely fashion.** This prior recommendation was based on the belief that the Fund's user rates were too low. While the Department of Administrative Services Revolving Fund, as an internal service fund, is generally expected to operate on a "cost reimbursement basis", it is also recognized under current governmental generally accepted accounting principles that a long term, significant fund surplus should be avoided. Our current review has revealed that the Fund's rates, in previous fiscal years, apparently were in excess of the level necessary to reimburse the Fund for the costs of goods or services provided. As a result, the using State agencies were overcharged, as reflected in the Fund's significant current and significant amount of retained earnings. Therefore, in consideration of the fact that, as currently operated, the Fund is slowly reducing its current and significant retained earnings balance, we will not repeat this prior audit recommendation.
- **The Department should comply with established internal control procedures to ensure receipts are deposited promptly in compliance with statutory requirements.** This recommendation is being modified to reflect current conditions. (See Recommendation 22.)
- **DAS should conform to all relevant Generally Accepted Accounting Principles in the maintenance of accounting records, establish procedures to document the authorization of material adjustments affecting account balances and track the resolution of all known Title XIX billing differences with the DSS.** This recommendation is being modified and repeated in part to reflect current conditions. (See Recommendation 26.)
- **DAS should continue to work with the appropriate social service agencies involved in the collection process to establish procedures to minimize delays in the receipt of attendance data. In order to compensate for any built-in deficiencies, DAS should utilize a database system to track psychiatric visits on a current basis to request the required authorizations as the visits occur.** This recommendation is being repeated. (See Recommendation 27.)
- **DAS should conduct periodic reviews of all mortgage files to ensure all required information is current, complete and accurate, and to ensure compliance with Section 4a-13 of the General Statutes.** This recommendation has been resolved.

Current Audit Recommendations:

1. **DAS should improve controls over durational positions by requiring accurate completion of all corresponding data fields on the Automated Personnel System (APS), and the auditing of this data at the time of entry.**

Comment:

We found that certain data fields within the Automated Personnel System were inconsistent with the durational characteristics of the positions.

2. **DAS should ensure, with appropriate supporting documentation, that its approvals and designations of positions as “managerial” are based on the criteria set forth in Section 5-270, subsection (g), of the General Statutes. All positions with managerial and bargaining unit equivalents should be considered bargaining unit positions unless a proper justification is given by the requesting agency.**

Comment:

We noted that positions were approved with managerial designations without adequate documentation.

3. **DAS should ensure that the control procedures implemented provide the necessary assurances that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute and that all extensions beyond the maximum duration are properly approved.**

Comment:

A review of Durational Project Managers and similar positions found they were being used to provide normal administrative functions rather than projects of a defined duration, and extensions of position duration beyond the maximum duration period were allowed without proper approval.

4. **DAS should improve its control procedures to ensure that all required dual employment certification forms are properly completed and maintained on file, and that the annual post audits of other State agencies to assess compliance with dual employment guidelines are performed in a timely manner to ensure compliance with General Letter No. 204.**

Comment:

The Department did not have the second position certification form, the Request for Dual Employment – Form PER-DE-1, on file for three employees holding a second position within the Agency. In addition, the Department did not perform the annual post audits of both *inter-agency* and *intra-agency* dual employment services performed at other State agencies during calendar year 2001 in compliance with General Letter No. 204.

5. **DAS should continue its efforts to compile a complete roster of employees in State service in compliance with Section 5-200, subsection (e), of the General Statutes.**

Comment:

DAS relies primarily on the APS system to track the employment status of current State employees. The APS system does not include all State employees. A process designed to permit DAS to prepare a complete roster of State employees as required by Section 5-200, subsection (e) of the General Statutes was not in place.

6. **DAS should ensure that the current management incentive plan (PARS) evaluations are conducted by the Quality Control Committee pursuant to Section 5-237b of the General Statutes.**

Comment:

The Quality Control Committee has not met since 1991.

7. **The Department should periodically review the utilization of its human resources to ensure that its employees' job duties and responsibilities are commensurate with the titles and salaries associated with personnel positions.**

Comment:

We noted that the under-utilization of two positions within the Department which represented an inefficient use of resources.

8. **The DAS should effectively enforce the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days.**

Comment:

Two employees, who had taken sick leave in excess of five consecutive days, did not have the required statement or medical certificate on file.

9. **DAS should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 80-1, Section 2, as amended, and its Department specific policies relative to the authorization of compensatory time.**

Comment:

The Department did not in comply with its established guidelines relative to the granting of compensatory time for both its managerial and non-managerial employees. We found that two managerial and seven non-managerial employees did not receive the required authorization in advance of working the extra time.

- 10. DAS should implement the controls necessary to ensure that the accrued leave records of terminated employees properly reflect adjustments for payments of accrued leave time at termination and that all calculations for payments at termination are reviewed for correctness.**

Comment:

The accrued leave records for 11 employees, who terminated employment during the audited period, were not adjusted to reflect the payoff of all accrued leave balances at termination. The payments made to two employees at termination were incorrect.

- 11. The Department should improve controls over the record keeping relative to accrued leave time to ensure that employees' accrued leave balances properly reflect accrued leave hours used and, if applicable, reimbursed by employees while on workers' compensation, and to ensure its compliance with the guidelines set forth in the Department's "*Workers' Compensation Manual*".**

Comment:

The required Form CO-715 was not completed and on file, as required by the Department's "*Workers' Compensation Manual*", for one employee, who elected to use accrued leave time to supplement workers' compensation benefits. The accrued sick leave balances for two employees were overstated because the Department failed to properly adjust for the use of accrued leave time to supplement workers' compensation benefits.

- 12. DAS should ensure that control procedures are implemented to both verify and monitor the existence of insurance coverage with respect to vendors for Statewide and agency-specific contracts prior to the awarding of such contracts.**

Comment:

The DAS Procurement typically awards contracts stating that vendors must supply evidence of insurance to using agencies. Controls would be enhanced and duplication of effort eliminated if DAS assumed responsibility for verifying the adequacy of insurance coverage for both Statewide and agency-specific contracts.

- 13. The Department should implement procedures to ensure that all open market contracts are awarded to the lowest responsible qualified bidders, in compliance with Section 4a-59, subsection (c), of the General Statutes.**

Comment:

The Department did not award one contract to the lowest responsible qualified bidder in compliance with the statutory requirement.

- 14. The Department should improve its controls over the inspection and testing of fuel oil to ensure that it effectively enforces the standard specifications as set forth in the related contracts.**

Comment:

The Department's inspections and testing of fuel oil purchases were not being performed on a routine basis. We found that only 10 samples of fuel oil were inspected and tested during the audited period, compared with 41 such samples during fiscal year 2000.

- 15. The DAS should review the usage of its permanently assigned State owned vehicles to ensure that the vehicles are being used in the most efficient and effective manner, and should, where possible, return underutilized vehicles to Fleet Operations.**

Comment:

Seven permanently assigned vehicles were not used in a cost-effective manner. The Agency expended approximately \$10,700 more than it should have for the rental of these vehicles during the audited period.

- 16. DAS should improve its internal control policies and procedures in order to ensure the prompt billing, collection, and periodic evaluations of amounts due to the State, and to ensure its compliance with Section 3-7 of the General Statutes when accounts are deemed to be uncollectible.**

Comment:

The review of a sample of paid invoices for repairs made to State vehicles revealed that the Department's controls over billing and collection of amounts due from responsible third parties for Fleet vehicle collisions are not adequate. Also, the total amounts recorded as receivables appear to exceed realizable values.

- 17. DAS should implement the internal controls necessary to ensure that its computer software inventory is maintained in accordance with the software inventory policy and procedures as set forth in the *State of Connecticut's Property Control Manual*.**

Comment:

The Department failed to maintain a current updated inventory of installed software applications. An annual software inventory report is not prepared and a physical inventory is not performed at the end of each fiscal year.

- 18. The Department should improve its controls related to personal service agreements to ensure that the contractors comply with all of the provisions of the agreements.**

Comment:

An examination of invoices submitted by one personal service contractor revealed that the invoices were not sufficiently detailed or itemized to support the amounts billed, in compliance with the terms of the Personal Service Agreement. Particularly, it was noted that the contractor did not usually identify the specific days worked that were associated with the hours billed. In addition, the contractor failed to maintain and preserve all of the records related to the contract, including its employees' time records, as required by the contract.

- 19. The Department should improve its controls over the use of Purchasing Cards to ensure that its employees use such cards in compliance with the requirements of Section 4-98, subsection (c), of the General Statutes and the guidelines set forth in the *State of Connecticut Purchasing Card Program Cardholder Work Rules*.**

Comment:

The Department's processing controls over the use of Purchasing Cards (P-Cards) is not adequate. Two separate P-Card transactions were executed for commodities on the same day and with the same vendor that exceeded the \$1,000 per transaction limit as set forth in the State's guidelines and procedures.

- 20. DAS should improve controls to ensure that all recorded expenditures are reconciled with the State Comptroller's records in compliance with the *State Accounting Manual*.**

Comment:

The Department did not complete the year-end reconciliation of its recorded equipment purchases with the Comptroller's records for the audited period. A comparison between the Comptroller's and the Department's records for capital equipment purchases revealed an unreconciled variance of \$12,556.

- 21. DAS should improve its control procedures to ensure that petty cash funds are properly used and safeguarded.**

Comment:

Our examination revealed weaknesses in the check issuance process relative to both the General Fund and the Department of Administrative Services Revolving Fund petty cash funds. A review of the respective checkbook for each of these petty cash funds disclosed the existence of a pre-signed check, which was signed without being completely filled out as to payee and amount.

- 22. The Department should improve its internal controls to ensure that all receipts are recorded in the cash receipts journal when received, that the required monthly reconciliations of the open pending receipts account are performed, that the annual report on the reconciliation of the Agency Fund 7013, Funds Awaiting Distribution, is prepared and submitted to the State Comptroller, and that the required accountability reports are periodically prepared, where feasible, in accordance with the requirements of the State Comptroller's *State Accounting Manual*.**

Comment:

The original receipt date for four receipts was not recorded in the receipts log or journal maintained for such purposes. Also, the Department did not perform the required monthly reconciliations of the trial balance of open pending receipts with the related control account and the Comptroller's Available Cash Ledger and did not submit the annual report to the State Comptroller stating that the Agency Fund 7013, Funds Awaiting Distribution, has been reconciled. Lastly, the Department did not prepare periodic accountability reports of the total receipts, as recorded in the cash receipts journal that would allow for the comparison between the recorded receipts and the receipts that should have been received.

- 23. The Agency should reconcile the Department of Administrative Services Revolving Fund accounts receivable subsidiary accounts to the respective control accounts on a regular basis.**

Comment:

The Department of Administrative Services Revolving Fund accounts receivable balance as of June 30, 2000, was overstated by \$1,638,533 when compared to the Agency's accounts receivable subsidiary record.

- 24. DAS should ensure that the Department of Administrative Services Revolving Fund financial statements submitted as a component of its GAAP reporting to the State Comptroller contain accurate and complete information.**

Comment:

The Department of Administrative Services Revolving Fund financial statements, as of June 30, 2001, which were submitted to the State Comptroller for GAAP reporting purposes, were not accurate. The reported value for accrued payroll was understated by approximately \$225,000. In addition, the financial statements did not reflect any accruals for either employee fringe benefits or compensated absences, which amounted to understatements of approximately \$1,012,000 and \$90,534, respectively.

- 25. DAS should ensure that its methodology for allocating the overhead cost relative to the Department of Administrative Services Revolving Fund activities is in compliance with federal guidelines and properly reflects the actual costs of resources used.**

Comment:

The current methodology of allocating FSC Fiscal Management unit overhead costs to the Department of Administrative Services Revolving Fund does not comply with *OMB Circular A-87* and does not reflect the actual costs of the resources used.

- 26. The Department should conform to all relevant generally accepted accounting principles in the maintenance of accounting records. In addition, the Department should establish procedures to ensure that accounts receivable records are maintained on a current and accurate basis, and that the cancellation of amounts greater than one thousand dollars are properly authorized in compliance with Section 3-7, subsection (b), of the General Statutes.**

Comment:

We continue to note significant departures from GAAP relating to the valuation of accounts receivable and the “absorbing” of credit balances. DAS does not employ a reasonable method of estimating and reporting uncollectible accounts. The realizable value of these accounts is likely to be materially less than the recorded value. Accounts receivable ledgers are not always adjusted for valid billing denials. We also noted material adjustments were processed without any evidence of appropriate approval. The examination of delinquent accounts receivable revealed inconsistencies and deficiencies in the Department’s process for maintaining and canceling such accounts.

- 27. DAS should continue to work with the appropriate social service agencies involved in the collection process to establish procedures that will both minimize delays in the receipt of attendance data and allow prompt correction of known billing errors. In order to compensate for any built-in deficiencies, DAS should utilize a database system to track psychiatric visits on a current basis to request the required authorizations as the visits occur.**

Comment:

The Department of Mental Retardation failed to timely submit the attendance reports, for the period from July 2000 through December 2000, that were required to process the billings to the Medicaid program because an average of 27 of the providers in the community training home program failed to provide attendance reports for at least one month during this six-month period. Also, a review of 120 rejected Medicaid claims from the period of August 2000 to February 2001 revealed that approximately 55 percent of the claims, representing approximately \$503,000, were not resubmitted, as of July 2002. These claims were rejected primarily because of errors in the client eligibility determinations on the part of the Department of Mental Retardation and the Department of Mental Health and Addiction Services. Lastly, approximately, \$13,700 in billings for outpatient services provided during the audited period were rejected due to the lack of pre-authorizations for visits exceeding the limits set by the Department of Social Services.

- 28. The Department should implement adequate internal control procedures to ensure that the required bank reconciliations are completed and that all reconciling items are identified and corrective action taken in a timely manner.**

Comment:

The Department did not complete the bank reconciliations for cash held in the Legal Representation checking account in a timely manner. Our review, in June 2002, of the bank reconciliations for the months beginning with the month of July 2000 through the period of our review revealed that the Department had not completed any of the monthly reconciliations after the month of December 2000.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Administrative Services for the fiscal year ended June 30, 2001. 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 audit of the Department of Administrative Services for the fiscal year ended June 30, 2001, is included as a part of our Statewide Single Audit of the State of Connecticut for that fiscal year.

We conducted our audit in accordance with generally accepted government auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Administrative Services complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Administrative Services is the responsibility of the Department of Administrative Services' management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: departures from generally accepted accounting principles in the valuation of accounts receivable for the DAS Collections Unit; the lack of reconciliation of the Department of Administrative Services Revolving Fund subsidiary accounts to control accounts and the preparation of annual generally accepted accounting principles reporting package based on non-reconciled accounts; the failure to maintain a current updated inventory of installed software applications, or to prepare an annual software inventory report, or to perform a fiscal year-end physical inventory of the Agency's software applications; the lack of the year-end reconciliation of the Agency's recorded equipment expenditures with the State Comptroller's records; the practice of using pre-signed checks, which are not completely filled out as to amount and payee, for disbursements from the General Fund and Department of Administrative Services Revolving Fund Petty Cash Funds; the inconsistency in recording the original receipt date of all receipts in the cash receipts journal or log maintained for such purposes and the failure to perform the required monthly reconciliation of the Pending Receipts trial balance with the related control account and the Comptroller's Available Cash Ledger; and the failure to reconcile the Legal Representative Accounts checking account in a timely manner.

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

described above, we believe the following reportable conditions to be material or significant weaknesses: the departures from generally accepted accounting principles in the valuation of the accounts receivable for the DAS Collections Unit; the lack of reconciliation of General Services Revolving Fund subsidiary accounts to control accounts and the preparation of annual generally accepted accounting principles reporting package based on non-reconciled accounts; the failure to maintain a current updated inventory of installed software applications, or to prepare an annual software inventory report or to perform a fiscal year-end physical inventory of the Agency's software applications.

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

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

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Administrative Services during the course of this examination.

Robert G. Koch
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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