

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF CHILDREN AND FAMILIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 and 2004**

**AUDITORS OF PUBLIC ACCOUNTS
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January 5, 2007

**AUDITORS' REPORT
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We have examined the financial records maintained by the Department of Children and Families for the fiscal years ended June 30, 2003 and 2004. This included the records maintained for the Central Office, the regional offices, and the facilities operated by the Department and the Children's Trust Fund Council.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts, and grants and to evaluating internal control policies and procedures established to ensure such compliance. This report on our examination consists of the Comments, Recommendations, and Certification, which follow:

COMMENTS

FOREWORD:

The Department of Children and Families (DCF) operates primarily under the provisions of Title 17a, Chapter 319, Sections 17a-1 through 17a-83 of the Connecticut General Statutes. In addition, under Sections 17a-90 through 17a-185 of Title 17a, Chapter 319a, and Section 17b-23 of Title 17b, Chapter 319o of the Connecticut General Statutes, the Commissioner and the Department are charged with specific responsibilities in regard to overseeing the welfare of children.

The Department operates as a comprehensive, consolidated agency serving children (under age 18) and families. Its mandates include child protective and family services, juvenile justice services, mental health services, substance abuse related services, prevention and educational services (acting in the capacity of a school district for the children in their care). Its programs and services are administered through a network of offices and sites located throughout the State consisting of a Central Office, 14 local area offices and four facilities.

During the audited period the Department underwent a major reorganization of its operations. It transitioned from a five regional office service model to 14 area offices located throughout the State for the purpose of providing services in a more timely manner and to tailor to the needs of individual families and to build stronger partnerships with families and communities. At the same time, the Department's Central Office assumed business operations formerly performed at the regional offices. Business operations of the Department's four facilities continued to be administered by Department personnel located at each of the respective facilities.

The Department's four facilities are High Meadows, Riverview Hospital for Children, Connecticut Children's Place (CCP) and the Connecticut Juvenile Training School (CJTS). High Meadows, located in Hamden, is a 42-bed residential treatment facility for severely emotionally disturbed adolescents (ages 12 to 17) who require intensive and comprehensive services, but do not require the most restrictive environment available. High Meadows residential treatment program is for those whose behavioral and emotional disturbances are such that treatment can only be effected in a setting that protects the youth and/or community in a structured program 24-hours a day.

CCP, located in East Windsor, is a 54-bed residential diagnostic center for children and youth ages 10 to 18 in need of protection due to abuse, neglect, abandonment, unmanageable behavior or sudden disruption in their current placement or residence. An emergency component responds to those in need of immediate removal from their current setting and for whom there are no interim placement resources. CCP's bed count includes 12 beds for adjudicated girls committed to the Department by the juvenile justice system.

Riverview Hospital for Children and Youth, located in Middletown, is the only State supported psychiatric hospital for children and adolescents ages 5 through 17 in Connecticut. Patients are admitted to Riverview when their emotional disturbances, mental illness and/or personality disorder is so severe that they are at high risk or a danger to themselves or others, and intensive 24-hour care and treatment is necessary in a protected environment. Riverview has 98 beds.

CJTS, located in Middletown, is a 240 bed facility for male adjudicated delinquents committed to the Department by the Superior Court. The facility includes an assessment unit, parole revocation unit, special needs unit, general population buildings and extensive space for education, vocational and recreational programming. All youth receive a comprehensive assessment when they arrive at CJTS including medical, mental health, substance abuse and educational assessments. Reintegration planning and activities occur throughout the youth's stay at the facility. All youth, upon return to the community, participate in the Aftercare program providing ongoing supervision and continuation of services in keeping with each youth's risk and needs assessment.

The Department also operates the Wilderness School. The Wilderness School, located in East Hartland, provides therapeutic wilderness challenge programs for male and female adolescents who exhibit unacceptable behavior or have family difficulties. The program is designed to teach self reliance and responsibility as well as improve self-esteem. The Wilderness School serves Connecticut adolescents between the ages of 13 and 16 referred by Department social workers, school systems, youth service bureaus, counseling agencies, residential programs and other youth-servicing agencies. The adolescent must choose to attend.

Consent Decree:

In December 1990, the Department entered into a consent decree to avoid litigation in response to a lawsuit filed in Federal Court by clients of the Department and others. The decree mandated specific changes to Department management, policies, practices, operations and funding. A court appointed monitor is responsible for overseeing implementation of mandates in the decree. In December of 2003, the Federal Court approved an Exit Plan which established 22 outcomes for the State to achieve by November 2006 in order to improve services for children and families and to end the Court's jurisdiction.

Kristine Ragaglia served as Commissioner of the Department until March of 2003. Darlene Dunbar was appointed Commissioner in March 2003, and currently serves as Commissioner.

Hotline:

Hotline is a unit located in the Department's Central Office. Hotline receives all telephone calls or written information alleging that a child has been abused, neglected, or is in danger of being abused, and other types of calls related to services for children. Based on information received, appropriate action is initiated.

Hotline received more than 200,000 calls during the audited period. These included 90,752 reports of suspected abuse or neglect, of which 64,732 were accepted for investigation. Hotline is open 24 hours/7 days a week.

Census Statistics:

A summary of client census statistics, as of June 30, 2004, by placement type were as follows:

<u>Placement Category:</u>	
Relative Care	1,145
Foster Care	3,411
Adoption	4,263
Subsidized Guardianship	1,248
Residential Care	1,167
Juvenile Justice	289
Group Homes	235
Temporary Shelters	91
Independent Living Program	123
Connecticut Juvenile Training School	155
Riverview Hospital for Children and Youth	47
High Meadows Residential Treatment Center	41
Connecticut Children's Place	<u>32</u>
Total	<u>12,247</u>

Per Capita Costs:

Under the provisions of Section 17b-223 of the General Statutes, the State Comptroller is required to determine annually the per capita costs per diem for the care of all persons in State institutions. The average per capita in-patient costs per diem for the 2002-2003 and the 2003-2004 fiscal years are summarized below:

	Fiscal Year <u>2002-2003</u>	Fiscal Year <u>2003-2004</u>
Connecticut Juvenile Training School	\$ 891	\$ 774
Connecticut Children's Place	930	843
High Meadows Residential Treatment Center	1,251	1,382
Riverview Hospital for Children and Youth	1,348	1,466

State and Regional Advisory Councils:

Section 17a-4 of the General Statutes provides that the Governor shall appoint a State Advisory Council on Children and Families consisting of 17 members. The duties of the Council include: recommending programs, legislation or other matters which will improve services for children and youth; reviewing and advising on the Commissioner's annual budget; interpreting to the community at large the policies, duties and programs of the Department; and, issuing reports it deems necessary to the Governor and Commissioner. The membership of the Council is to include at least five persons who are child care professionals, one child psychiatrist, and at least one attorney. The balance of the advisory council shall be representative of young persons, parents, and others interested in the delivery of services to children and youth. Members serve without compensation except for the reimbursement of necessary expenses. The Commissioner serves as an ex-officio member of the Council without a vote.

Section 17a-30 of the General Statutes provides that the Commissioner shall create in each region, a regional advisory council to advise the Commissioner on the development and delivery of services in the region and to facilitate the coordination of services in the region. Each council is to consist of no more than 21 members appointed by the Commissioner for terms ranging from one to three years.

Children's Trust Fund Council:

Section 17a-50(b) of the Connecticut General Statutes established a Children's Trust Fund Council, which is within the Department of Children and Families (DCF) for administrative purposes only. The Council administers a Children's Trust Fund established under Section 17a-50(a) to fund programs aimed at preventing child abuse and neglect and family resource programs.

RÉSUMÉ OF OPERATIONS:

Department of Children and Families:

During the fiscal years under review, funding for the general operations of the Department was provided by budgeted appropriations from the State General Fund and restricted contributions in the form of Federal grants and other restricted contributions.

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of a new special revenue fund relative to grants and restricted accounts. During the 2003-2004 fiscal year, the State Comptroller established the "Grants and Restricted Accounts Fund" to account for certain receipts and expenditures that are restricted from general use and were previously accounted for in the General Fund as "Federal and Other Grants". Thus, starting in the fiscal year ended June 30, 2004, Federal grants and other private restricted contributions that were formerly accounted for in the General Fund, have been reclassified into this special revenue fund.

A significant amount of the Department's operating expenditures are reimbursed by the Federal government under the Foster Care-Title IV-E and Adoption Assistance programs. The Foster Care Title IV-E program provides assistance on behalf of eligible children who are placed away from their families in foster care under the administration of the State. The Adoption Assistance program provides assistance on behalf of eligible children who are adopted through the State.

These programs reimburse the State for board and care costs, adoption subsidies, and administrative costs incurred by the Department of Children and Families on behalf of eligible children.

General Fund:

Revenue/Receipts

General Fund revenues and receipts for the past three fiscal years are summarized below:

	<u>Fiscal Year</u> <u>2001-2002</u>	<u>Fiscal Year</u> <u>2002-2003</u>	<u>Fiscal Year</u> <u>2003-2004</u>
Budgeted Accounts	\$97,634,318	\$47,143,980	\$86,554,889
Restricted Contributions	<u>19,383,679</u>	<u>20,430,005</u>	<u>0</u>
Total Revenue and Receipts	<u>\$117,017,997</u>	<u>\$67,573,985</u>	<u>\$86,554,889</u>

Total revenue and receipts decreased by \$49,444,012 in the fiscal year ended June 30, 2003 compared to the fiscal year ended June 30, 2002. The decrease in receipts was primarily attributable to the Department's inability to implement in a timely manner a new Foster Care regulation requiring that states obtain annual judicial determinations (court orders) stating that it made reasonable efforts to finalize a child's permanency plan as a condition for eligibility. Failure to obtain the court orders prevented the Department from claiming Federal reimbursement for these children. The increase of \$39,410,909 in budgeted account receipts for the fiscal year ended June 30, 2004, compared to the fiscal year ended June 30, 2003, was mainly the result of obtaining the necessary court orders not obtained in the previous year thus enabling the Department to claim Federal reimbursement. The decrease of \$20,430,005 in restricted contributions from the fiscal year ended June 30, 2003, to the fiscal year ended June 30, 2004, was due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained above. Restricted contributions received during the fiscal year ended June 30, 2004, are summarized below under Special Revenue Funds, Grants and

Restricted Accounts Fund.

Expenditures

General Fund expenditures applicable to the Department of Children and Families for the past three fiscal years are summarized below:

	Fiscal Year <u>2001-2002</u>	Fiscal Year <u>2002-2003</u>	Fiscal Year <u>2003-2004</u>
Personal services	\$197,876,880	\$207,474,737	\$210,207,306
Contractual services	32,062,787	32,123,087	31,092,452
Commodities	7,067,728	6,497,491	5,553,467
Revenue refunds	16,283	(5,946)	0
Sundry charges	13,531,187	13,332,322	10,402,480
State Grants	98,071,520	119,482,946	113,663,805
Board and Care payments	206,258,374	207,987,771	235,642,863
Capital outlay	<u>648,891</u>	<u>59,644</u>	<u>27,804</u>
Total Expenditures	<u>\$555,533,650</u>	<u>\$586,952,052</u>	<u>\$606,590,177</u>

Total General Fund expenditures increased by \$31,418,402 and \$51,056,527 during the fiscal years ended June 30, 2003 and 2004, respectively. The increases were mostly attributable to increases in personal services expenditures, State grants and board and care payments made on behalf of foster care and adopted children.

Personal services expenditures increased by \$12,330,426 from the fiscal year ended June 30, 2002. The increases were mainly attributable to the hiring of additional staff, collective bargaining increases and increased overtime costs.

State grant expenditures increased by \$15,592,285 from the fiscal year ended June 30, 2002. Increases in State grant expenditures were mostly attributable to increases in General Fund appropriations used to fund various Department programs and services provided by grantees.

Board and care payments increased by \$29,384,489 from the fiscal year ended June 30, 2002. These expenditures primarily consisted of board and care payments made to foster homes, adoptive homes, and other private providers on behalf of DCF placed children. These expenditures were disbursed through a checking account maintained by the Department. The increases in expenditures were attributable to increases in child placements in each of the placement categories noted above.

Special Revenue Funds:

Revenue/Receipts

Special Revenue Fund revenues and receipts during the audited period are summarized below:

	Fiscal Year <u>2002-2003</u>	Fiscal Year <u>2003-2004</u>
Grants and Restricted Accounts Fund	\$ 0	\$24,669,885
Tax Exempt Bond Proceeds Fund	1,484,077	0
Capital Equipment Purchase Fund	<u>8,437</u>	<u>0</u>
Total Revenue and Receipts	<u>\$1,492,514</u>	<u>\$24,669,885</u>

As previously explained, beginning in the 2003-2004 fiscal year, certain Federal and other revenues restricted from general use that were previously accounted for in the General Fund were accounted for in a new special revenue fund. Restricted revenues and receipts increased by \$4,239,880 in the fiscal year ended June 30, 2004, compared to the fiscal year ended June 30 2003. The increase in receipts was primarily attributable to an increase in Federal receipts of \$7,593,299 when compared to the earlier year, offset in part, by a decrease of \$3,353,419 in non-Federal restricted receipts compared to the fiscal year ended June 30, 2003. Receipts received in the Tax Exempt Bond Proceeds Fund represented transfers from capital project funds.

Expenditures

Special Revenue Fund expenditures during the audited period are summarized below:

	Fiscal Year <u>2002-2003</u>	Fiscal Year <u>2003-2004</u>
Personal services	\$ 87,600	\$ 1,740,130
Contractual services	520,785	5,940,413
Commodities	7,972	489,125
Revenue refunds	26,250	0
Sundry charges	3,593,203	23,509,109
Capital outlay	<u>1,978,228</u>	<u>118,817</u>
Total Expenditures	<u>\$6,214,038</u>	<u>\$31,797,594</u>

Total Special Revenue Fund expenditures increased by \$25,583,556 in the fiscal year ended June 30, 2004, compared to the fiscal year ended June 30, 2003. The increase was mostly attributable to the change in accounting for Federal and Non-Federal grants recorded in the Grants and Restricted Accounts Fund (\$20,192,739) and an increase in grants paid out of the Grants to Local Governments Fund (\$7,751,372) to Department providers for capital improvements on provider facilities, offset in part, by decreased expenditures (\$1,859,411) for capital outlay.

Capital Projects Funds:

Expenditures from various Capital Projects Funds totaled \$2,171,454 and \$669,748 during the fiscal years ended June 30, 2003 and 2004, respectively. These amounts included \$1,484,077 transferred to the Tax Exempt Bond Proceeds Fund from the Department of Public Works in the fiscal year ended June 30, 2003. The related expenditures associated with these transfers are summarized in the Special Revenue Funds Section above. Capital project expenditures excluding transfers were primarily for minor construction and renovation and repair of

Department facilities, consultant services and grants.

Fiduciary Funds:

The Department administered a number of funds/accounts in a fiduciary capacity during the audited period. A brief description of the funds/accounts and their purpose follows:

Children's Trust Accounts:

Under the provisions of Section 46b-129 of the General Statutes, the Commissioner of Children and Families may be appointed guardian of any uncared for, neglected or dependent child committed to the Commissioner by the Superior Court. Further, Section 46b-129(l) provides that the Commissioner may bill to, and collect from, the person in charge of the estate of any child or youth aided by the Commissioner, including his decedent estate, or the payee of such child's or youth's income, the total amount expended for care of such child or youth or such portion thereof as any such estate or payee is able to reimburse.

A child's income is derived primarily from Social Security benefits, survivor benefits, and other contributions received on behalf of some children placed in the Department's care. The Department establishes individual trust accounts for children receiving benefits. These accounts are used to account for the child's income and the cost of care provided by the Department. The Department makes periodic disbursements from these accounts to the Department of Administrative Services (DAS) for the cost of the child's care. Disbursements made to DAS in the two-year period ending June 30, 2004, totaled \$4,250,829.

Welfare Funds and Activity Funds:

These funds were established to account for private gifts, donations, and revenue derived from operations that pertain to activities of the children. Funds are used for the welfare and activities of children under the care of the Department. Individual welfare fund accounts are maintained at the Connecticut Juvenile Training School, Connecticut Children's Place and the Central Office. Individual activity fund accounts are maintained at the Connecticut Juvenile Training School, Riverview Hospital and High Meadows.

Donation Fund – Connecticut Juvenile Training School:

The Donation Fund was originally established from unexpended public donations and legacies at the time the State acquired the institution from private interests. The purpose of the Fund is to provide recreational, educational and other advantages for the residents at the Connecticut Juvenile Training School.

Assets of the Fund consist of real estate and short-term investments. Total assets of the Fund as of June 30, 2003 and 2004, were \$639,604 and \$628,034, respectively.

Residents' Cash Fund (Connecticut Juvenile Training School)/Children's Allowance Fund (Connecticut Children's Place):

These funds are maintained to control the custodial accounts of individuals residing at these

facilities. Assets belonging to the residents, such as monies in their possession at admission, monetary gifts, and wages earned through the work pay programs, comprise the major source of receipts for these funds.

Children’s Trust Fund Council:

Section 17a-50 of the Connecticut General Statutes established the Children's Trust Fund Council, which is within the Department of Children and Families for administrative purposes only. The Council administers a Children's Trust Fund to fund programs aimed at preventing child abuse and neglect and family resource programs. The council is composed of sixteen members as follows: the Commissioners of the Departments of Social Services, Education, Children and Families, and Public Health, or their designees; four representatives of the business community with experience in fund-raising; three parents; two persons with expertise in child abuse prevention; two staff members of a child abuse prevention program; and a pediatrician.

For the fiscal years ended June 30, 2003 and 2004, funding for the general operations of the Children’s Trust Fund Council was provided by budgeted appropriations from the State General Fund. This funding was supplemented by restricted contributions in the form of Federal and State grants and private donations.

General Fund

Revenues/Receipts:

General Fund revenue and receipts applicable to the Children’s Trust Fund Council for the past three fiscal years are summarized below:

	<u>Fiscal Year</u> <u>2001-2002</u>	<u>Fiscal Year</u> <u>2002-2003</u>	<u>Fiscal Year</u> <u>2003-2004</u>
Budgeted Accounts	\$ 150,192	\$ 118,889	\$ 180
Restricted Accounts	<u>421,687</u>	<u>389,166</u>	<u>0</u>
Total Revenue and Receipts	<u>\$ 571,879</u>	<u>\$ 508,055</u>	<u>\$ 180</u>

Total revenue and receipts decreased \$63,824 and \$571,699 during the two year period ended June 30, 2004, compared to the fiscal year ended June 30, 2002. The decrease in revenue during the fiscal year ended June 30, 2003, was primarily due to less Federal and non Federal grants received in the fiscal year compared to the fiscal year ended June 30, 2002, and less refunds of expenditures. The decrease in revenue during the fiscal year ended June 30, 2004, was due to the change in accounting for grant funds described earlier in this report. Restricted funds of \$576,774 formerly accounted for in the General Fund were instead accounted for in the new Special Revenue Fund discussed below.

Expenditures:

General Fund expenditures applicable to the Children’s Trust Fund Council for the past three fiscal years are summarized below:

	<u>Fiscal Year 2001-2002</u>	<u>Fiscal Year 2002-2003</u>	<u>Fiscal Year 2003-2004</u>
Personal services	\$ 210,492	\$ 181,412	\$ 429,547
Contractual services	340,983	644,257	144,747
Commodities	58,056	49,945	33,733
Revenue refunds	5,325	0	0
Sundry charges	4,929,420	5,180,547	4,894,939
Capital outlay	<u>2,569</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$ 5,546,845</u>	<u>\$ 6,056,161</u>	<u>\$ 5,502,966</u>

Total General Fund expenditures increased by \$509,316 in the fiscal year ended June 30, 2003, when compared to the fiscal year ended June 30, 2002, and decreased by \$553,195 during the fiscal year ended June 30, 2004, when compared to the fiscal year ended June 30, 2003. The increases in the fiscal year ended June 30, 2003, were mostly attributable to increases in contractual services and expenditures made from Federal and private grant accounts. The decrease in expenditures in the fiscal year ended June 30, 2004, was due to the change in accounting for grant expenditures. Restricted expenditures of \$482,858 formerly accounted for in the General Fund were instead accounted for in the new Special Revenue Fund discussed below. When considering expenditures for both funds in the fiscal year ended June 30, 2004, the Council's expenditures remained fairly level when compared to the early fiscal year. However, significant changes in the personal services and contractual services expenditure categories occurred during the fiscal year ended June 30, 2004. The Children's Trust Fund Council filled 11 full time positions and one part time position during the fiscal year ended June 30, 2004. The Council had two filled full time positions as of June 30, 2002. With the addition of several new staff members, the Children's Trust Fund Council significantly reduced contractual service expenditures that were formerly used to pay contractors to administer the Council's programs.

Special Revenue Fund – Federal and Other Restricted Accounts:

As noted above, Special Revenue Fund receipts totaled \$576,774 for the fiscal year ended June 30, 2004. Receipts were primarily for grants received from the Federal government. Expenditures from this Fund for the same year are summarized below:

	<u>2003-2004</u>
Personal Services	\$ 119,970
Contractual Services	46,200
Commodities	79,682
Sundry Charges	<u>237,006</u>
Total Expenditures	<u>\$ 482,858</u>

CONDITION OF RECORDS

Our examination of the records of the Department of Children and Families identified several areas requiring improvement or further attention as discussed below:

Board and Care Disbursements: Care and Maintenance Payments

Background: Section 17a-17 of the Connecticut General Statutes permits the Commissioner of Children and Families to make direct payments for reasonable expenses necessary for the care and maintenance of children in the Commissioner's custody. The Department has established a Board and Care Checking Account to disburse payments to foster care and adoptive families and private providers. Payments are processed through the Department's Statewide Automated Child Welfare Information System (LINK). Much of the authority and control over the payments, including entering them into the system, is vested in the local area offices.

Criteria: Section 31-8-7 of the Department's Policy and Procedures Manual requires the establishment of a uniform case record for each case.

Section 17a-114 of the Connecticut General Statutes provides that no child in the custody of the Commissioner of Children and Families shall be placed with any person, unless the Department licenses such person for that purpose.

Section 45a-727 of the Connecticut General Statutes requires that for each adoption, an application and a written agreement of adoption be filed in duplicate, one in a court of probate and the other with the Commissioner of Children and Families.

Section 46b-129 of the Connecticut General Statutes provides that the Court may commit a child to the Department and that the commitment of a child to the Department would be documented by a court order.

Condition: The Department made payments totaling \$207,987,771 and \$235,642,863 from its Board and Care checking account in the fiscal years ended June 30, 2003 and 2004, respectively. These payments represented monthly board and care payments made to foster homes and private providers, payments for miscellaneous expenses not covered by the monthly foster care payment, and monthly adoption subsidy payments made to adoptive parents.

We selected 194 transactions from the payments noted above totaling \$215,511 to test internal controls and compliance with State laws and Department policy. The results of our review identified 115 exceptions in 94 of the 194 transactions tested. A summary of the

types of exceptions follows:

- Child case files for six transactions were not provided for our review because the Department could not locate them.
- We were unable to verify if required criminal history checks were performed for 56 transactions because the Department was unable to locate the provider case file.
- The required criminal records check documentation, a licensing requirement, was not located in the provider case file for either the service period tested or the date of the adoption decree for 40 transactions.
- Documentation of a valid license was not found in the provider file and/or in LINK for seven transactions.
- The adoption decree was not found in the child's case file for two transactions.
- Permanency plan orders were not found in case files for service dates tested for four transactions.

Effect: The Department has lessened assurance that board and care payments were made in accordance with State laws and Department policy and procedures.

Cause: Administrative controls relative to obtaining and maintaining all required documentation were not completely effective.

Recommendation: The Department should ensure that required documentation is obtained and on file prior to making board and care payments. The Department should also review its administrative controls relative to the custody and control of Department records. (See Recommendation 1.)

Agency Response: "The Department agrees with this finding."

Clothing Allowance Payments

Background: An initial clothing allowance is an adequate supply of seasonal clothing to provide for necessary changes at the time of a child's first placement into the Department's care. The cost standard represents the maximum amount that may be allowed for a child who comes into care without an adequate supply or no clothing at the time of placement.

Criteria: Sections 36-55-25.5 and 39-10 of the Department's Policy Manual

provides for an adequate supply of seasonal clothing to be purchased in an amount not to exceed \$300 when the child is first placed in the Department's care. The initial clothing allowance is supplemented by a monthly clothing allowance, which is provided for the child on a monthly basis, and is included in the foster or residential reimbursement rate paid to the family or facility care provider.

Condition: The Department expended \$1,333,702 for initial clothing allowances during the audited period. Our review of 10 payments made on behalf of 10 children disclosed that four of the children received one or more clothing allowances on separate occasions, the sum of which exceeded \$300.

Effect: The Department is paying for some clothing that should be paid for by the foster family or residential provider.

Cause: The Department's social workers appear to misunderstand and/or disregard the policy. Social worker supervisors are not sufficiently reviewing initial clothing allowances requested by workers prior to approving such requests.

Recommendation: The Department should review its policy on initial clothing allowances to determine whether the policy continues to meet its objectives. If the Department determines that no changes are in order, it should clarify to its staff how such policy should be administered and applied. Supervisory controls should be developed and implemented that provide reasonable assurance that Department policy is being administered in accordance with management's objectives. (See Recommendation 2.)

Agency Response: "The Department agrees with this finding and has assembled a group to review the policy to determine whether changes are needed. Whether changes are made or not, a clarifying memo will be sent to all staff to explain the financial limits of the policy and the purpose of the clothing purchases."

Payments Made At Year End

Background: As noted earlier in this report, the Department operates a board and care checking account that makes disbursements on behalf of children under their supervision. The operation of the account is funded from various State appropriations. The Department estimates the funding needs of each of the appropriation accounts and transfers the funds into the checking account as needed.

All payments are essentially processed through the Department's LINK computer system. Payments are based upon pre-established

service and/or provider rates entered into LINK. LINK automatically calculates the payment amount based on information in LINK.

Payment batch processing is performed monthly and weekly. Monthly payments are generated by LINK based on placement information entered in LINK. Once entered, LINK automatically issues subsequent monthly payments to foster care providers until placement information in LINK is changed and/or updated.

Weekly payments are made for non-recurring or one-time expenses such as clothing, transportation, petty cash reimbursements and retroactive payment adjustments based on amended placement information.

The Department also issues hand written checks that are not processed on LINK. The majority of hand written checks are issued in emergency situations whereby a payment cannot wait for the batch process or situations involving information needed that cannot be included in the batch process (i.e. payments that need to be accompanied by vendor invoice or bill, such as utility bills, application for a camp or education program that must have the check attached).

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. Effective internal controls for an entity ensure that reliable data is obtained, maintained and consistently reported.

Condition: Our review of hand written checks issued in June of 2003 and 2004 disclosed a significant increase in the dollar amount of these checks when compared to amounts issued in the previous 11 months in each of the respective years. We noted that six handwritten checks totaling \$1,375,837 were issued on June 30, 2003, and 14 handwritten checks totaling \$1,949,411 were issued on June 29, 2004, to residential providers. The procedures established in the computer system would have automatically generated these payments on July 15th in the following fiscal year. Nine of the 20 providers issued handwritten checks in June received 13 payments in one or both years.

Effect: The financial activity of the board and care account is not consistently reported.

Cause: The Department intentionally overrode its LINK computer system in order to avoid lapsing the funds. The override of the system is unnecessary because of the State's GAAP closing reporting. State agencies report liabilities for goods and services performed as of June 30 that will be paid in the ensuing fiscal year. The GAAP reporting does not result in any payment of monies, rather, its purpose is to accurately match and report current year expenses with current year

resources.

Recommendation: The Department should discontinue the practice of overriding its LINK computer system to make board and care payments at the end of a fiscal year. (See Recommendation 3.)

Agency Response: “The Department disagrees with this finding. We find no requirement that the Department end the fiscal year with outstanding liabilities equal to the average level throughout the year. While CGS 4-89 prohibits the Department from pre-paying any future-year expenditure, no such pre-payment is alleged in this finding. Furthermore, the fact that the Department provides manual intervention to supplement the automated claims payment engine does not mean those payments are improper. In fact, Department is required to manually override the payment logic in its claims payment system in order to ensure that expenditures do not exceed available allotments.

The Department does agree with the auditors that processing large numbers of handwritten checks may slightly increase the likelihood of an error, however given the small number of payments in question, the Department believes its controls are adequate to support this process.”

Auditors’ Concluding Comments:

We are not recommending nor suggesting that the Department is required to end the fiscal year with outstanding liabilities equal to the average level throughout the year. Rather, the condition noted by us illustrates the effect of management’s override of internal controls on the consistent reporting of board and care expenditures and future funding levels. This “use it or lose it” practice distorts board and care expenditure reporting and increases future funding levels because this practice erroneously indicates the necessity for more funding for the current year’s time period.

Legacy/CoreCT System Disbursements:

Internal Controls and Compliance with Laws, Regulations and Policies

Criteria: Management personnel of State agencies are responsible for establishing and maintaining an effective internal control structure. Internal control is a process, effected by an entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations.

In addition, management is responsible for adhering to the prescribed accounting policies and procedures as promulgated by the Office of the State Comptroller.

Condition:

We tested 213 expenditure transactions, other than payroll transactions or transactions charged to Federal grant programs, totaling \$6,384,939 that were expended in the fiscal years ending June 30, 2003 and 2004. The audit universe from which these transactions were selected totaled \$830,393,557 for the same two-year period. The results of our testing noted the following:

- Sixteen (16) transactions were not adequately documented evidencing receipt of goods and/or services. These transactions were not supported by receiving reports and/or other receipt documents that reasonably ensured that the goods and services were actually received.
- Seventeen (17) transactions were not adequately supported. Purchase orders, vendor invoices or other expenditure documentation was not provided in support of these transactions because the documentation could not be located by the Department.
- Purchase orders were prepared after receipt of the vendor's invoice or were not prepared at all for 35 transactions.
- Twelve (12) payments were made to providers who did not have fully executed contracts in place.
- Ten (10) contractual payments were made to providers who did not submit required programmatic and/or financial reports as a condition for payment.
- One (1) purchase order for over \$1,000,000 was issued without State Comptroller approval.
- Three (3) payments were paid in incorrect amounts.
- Three (3) transactions were recorded in the wrong fiscal year.

Effect:

The Department did not comply with Sections 3-117(a) and 4-98 of the Connecticut General Statutes and State accounting policies and procedures.

Section 3-117(a) requires State agencies to pay for goods and services to the extent that such goods or services have been received or performed or, if not received or performed, are covered by contracts properly drawn and executed. Section 3-117(a) further requires State agencies to retain supporting documentation in support of such payments.

Section 4-98 requires State agencies to issue a purchase order prior to incurring a payment obligation. Purchase orders of \$1,000,000 or more must be approved by the State Comptroller (Comptroller Memorandum 2004-06).

Failure to obtain required contractor reports lessens the Department's assurance that providers are administering contracts in accordance with contract requirements.

Cause: Internal controls in place were not completely effective.

Recommendation: The Department should improve their internal controls over the processing of expenditure transactions. (See Recommendation 4.)

Agency Response: "The Department agrees with this finding."

Cellular Telephone Usage

Criteria: The Department of Information Technology's (DOIT) *Telecommunications Equipment Policy* prescribes statewide policy applicable to the acquisition and use of cellular phones issued to State agencies. Each agency is responsible for determining whether the acquisition and use of cellular phones is appropriate for its employees. State agencies are responsible for maintaining adequate documentation supporting all use and should periodically audit their records to ensure that equipment is used by authorized users for official State business only.

Condition: Our review of cellular phone usage for the months of April, May and June of 2005 indicated that, on average, 75 percent of employees' assigned cellular telephones used 500 minutes or less in each of the months.

Further review of specific cellular phone usage from January 2005 through June of 2005 disclosed 194 occurrences of a cellular phone number using 1,000 or more minutes. We reviewed the ten highest occurrences (ranging from the highest occurrence of 6,311 minutes to the tenth occurrence of 3,167) and determined that a significant amount of the minutes were being used when the employee was not at work.

Effect: The Department has lessened assurance that employees are appropriately using State telecommunications equipment in an efficient and effective manner.

Cause: The Department does not have adequate internal controls in place to monitor cell phone usage.

Recommendation: The Department should implement internal controls that reasonably ensure that cellular phone equipment is being appropriately used by its employees. (See Recommendation 5.)

Agency Response: “The Department agrees with this finding. During FY 2005 the Department did begin to require user and supervisor sign-off for each call for those individuals with more than 1,000 minutes used per month. In addition, the Department is exploring expanding the criteria for reviewing and monitoring cell phone bills.”

Gas Credit Cards

Criteria: State agencies are responsible for safeguarding gas credit cards at all times and are responsible for ensuring that the cards are used only by authorized users for official State business. State-issued gasoline credit cards issued to State employees may only be used to refuel assigned state vehicles at State-owned stations throughout Connecticut except under certain exceptions (State of Connecticut Credit Card Use Policy).

Condition: On September 29, 2004, the Department reported to our Office the misappropriation of State funds in the amount of \$21,141.86 by a former employee. On August 19, 2004, the Department contacted the State Police reporting a missing/stolen gas credit card. An ensuing State Police investigation concluded that the credit card was used 420 times from March 1, 2004 through August 17, 2004, for total purchases of \$21,141.86.

Additional audit procedures performed as the result of the above misuse of the gas credit card disclosed instances whereby employees used commercial gas stations during hours when State-owned gas stations were available. For the vendor-billing period June 2005, the Hartford/Central Office locations overpaid for fuel charges in the amount of \$113.34.

Effect: The Department has lessened assurance that gas credit card purchases are made by authorized users at the most economical price.

Cause: The Department’s procedures and internal controls for monitoring fuel and oil credit cards were inadequate.

Recommendation: The Department should improve its internal controls over gas credit card purchases by ensuring that credit card purchases are made only by authorized users and that employees utilize State-owned gas stations whenever possible. (See Recommendation 6.)

Agency Response: “The Department agrees with the finding. While the Department’s controls in this area were already sufficient to detect the misuse of the credit card in August 2004, following the incident the Department further strengthened its oversight in this area by replacing its commercial credit cards with an account offering on-line oversight capability for viewing utilization at any time. These reports are reviewed monthly by Business Office staff, at a minimum, and reports indicating excessive use during daylight hours or potential misuse are sent to the Area Directors/Division Directors for further investigation.”

Procurement Integrity

Criteria: The State’s procurement program is a vehicle through which a significant amount of State taxpayer’s dollars are spent; therefore the integrity of the State procurement program is paramount. The integrity of the State procurement program is dependent upon sound procurement practices and procedures that are consistently applied by all employees purchasing on behalf of the State. Any improper actions or the appearance of improper actions, by State personnel or vendors can compromise that integrity and should be questioned by those involved and/or reported to the appropriate oversight State agencies.

Condition: During the audited period, the Connecticut Juvenile Training School (CJTS) upgraded its closed circuit television system at a cost of \$599,981. In December of 2002, CJTS submitted a State purchase requisition to the Department of Administrative Services (DAS) to solicit bids for an upgrade to the system. Included on the requisition was a proposal from the vendor who originally installed the security equipment. CJTS asked the vendor to come to the facility to do a walk through and prepare a proposal to perform the upgrade. The cost proposal submitted by the vendor amounted to \$338,435.

We were informed by CJTS staff that DAS did not act on the requisition because it needed Department of Public Works (DPW) approval. CJTS personnel informed us that personnel at DPW instructed CJTS to use a vendor who was currently on State contract. The proposal submitted by the vendor and accepted by the State totaled \$535,868. Additional charges incurred as the result of change orders and further upgrades added an additional \$64,113 in equipment and labor charges.

Effect: It appears that the State significantly overpaid for the upgrade of the closed circuit television security system.

Cause: CJTS staff informed us that DPW personnel authorized the use of the higher priced vendor, which DPW refutes and that CJTS followed State procurement procedures. However, in our opinion, CJTS

personnel did not make reasonable efforts to determine why the State was willing to pay significantly more for the cost of the installation when comparable prices for the purchase and installation were available at significantly lower cost.

Recommendation: The Department should question, or if appropriate, report to responsible oversight State agencies, aspects of procurement transactions that appear unusual or appear inconsistent with State procurement practices. (See Recommendation 7.)

Agency Response: “The Department disagrees with this finding. The Department is required to recognize DPW as the purchasing authority for the CJTS project and acted based on direction from DPW. Department staff questioned DPW regarding both the qualifications and price of the ADT system, however the Department was informed that ADT was the only vendor on contract and the Department needed to use them. Furthermore, it is not unusual for a State-authorized vendor’s price to exceed the price of a non-contract vendor, but the Department is nevertheless required to use vendors on State contract.”

Auditors’ Concluding Comments:

State agencies have an inherent responsibility to question and report procurement situations that appear to significantly increase the cost of the goods or services to the State.

Agency Administered Projects

Background: The Department of Public Works (DPW) has delegated to State agencies the authority to administer and/or award a contract for construction, renovations and repairs to State facilities.

DPW has issued the “*Guidelines and Procedures Manual for Agency Administered Projects*” to inform State agencies of legislation that affects agency administered projects and to assist State agencies in the bidding and construction phase of a project. The manual incorporates the provisions of the Connecticut General Statutes that relate to remodeling, repairs or renovations to State buildings or premises.

Criteria: The Connecticut General Statutes (CGS) and DPW’s Guidelines and Procedures Manual for Agency Administered Projects require that State agencies adhere to the following requirements and procedures for self-administered projects:

- No repairs, alteration or addition involving expense to the State of \$500,000 or less shall be made to any State building or premises occupied by a Department or institution and no contract for any construction, repairs, alteration or addition be entered into without

the prior approval of the Commissioner of Public Works. (CGS 4b-52)

- State agencies, administering a major capital improvement project, that do not have professional design (licensed architects/engineers) employees on staff should request such services when requesting approval from the DPW to administer the project.
- Contractors are required to pay prevailing wages as published by the State Labor Commissioner for renovation projects with construction costs greater than \$100,000. (CGS 31-53) It is the responsibility of the agency administering the project to obtain prevailing wage certifications and scales from all potential bidders. (Guidelines and Procedures Manual)
- Contractors for all projects involving labor and material must submit to the administering agency a certificate of insurance form covering public liability and workers' compensation prior to the commencement of work. (Guidelines and Procedures Manual)

Condition:

Our review of a Department administered construction project to renovate a dormitory at its High Meadow Residential Treatment facility and related renovation projects disclosed the following:

- Drawings and specifications used to construct an addition to the existing dormitory were not prepared by a licensed architect or engineer.
- Prevailing wage certifications and scale forms were not included in bid packages sent to bidders. The low bid received for the project was \$189,000.
- The Department did not have a certificate of insurance form on file from the contractor covering public liability and worker's compensation.
- Approval for alterations and renovations made to a High Meadows administration building to temporarily house children displaced by the renovation was not obtained from the DPW. Most of the renovations were completed by facility personnel.

Effect:

The effects of the above conditions are as follows:

- The State's liability exposure is increased in the event of damage or injury caused by faulty design or uninsured and/or underinsured contractors.

- The Department was not in compliance with Section 4b-52 requiring prior DPW approval for altering or renovating State buildings.
- Persons employed by the contractor might not have been paid prevailing wages.

Cause: Department internal controls over agency administered projects were inadequate.

Recommendation: The Department should improve its internal controls over agency administered projects that reasonably ensure that construction projects are administered in accordance with State laws and DPW guidelines. (See Recommendation 8.).

Agency Response: “The Department disagrees with this finding.

- While DPW regulations require the use of a licensed architect or engineer for major capital projects, the Department must exercise its judgment in determining whether the complexity of minor agency-administered projects requires plans to be developed by an architect. We believe the Department exercised appropriate judgment in determining that the scope of the questioned project was sufficiently uncomplicated to allow for design of the 735 SF addition to be done in-house. Following completion of the shell of the addition, the Department did seek-out and use a professional architecture firm to complete the design work for the more complex phase of the boys’ dormitory project.
- Regarding the requirement to pay prevailing wages; the requirement for projects over \$100,000 refers to renovations. DPW determined this project to be new construction, for which prevailing wages are only required for projects over \$400,000.
- Regarding the Insurance Certificate; the Department has the insurance certificate on file.
- Regarding DPW approval; the Department submitted a B-100 to DPW which was authorized. The Department was then directed by DPW to meet with the Department of Public Health and the Office of the State Fire Marshal for site inspection and approval, both of which were obtained. The agency was then informed by DPW that with these approvals in hand, it could proceed with the project.”

Auditors’ Concluding Comments:

The decision to determine whether professional design services are required for an agency-administered capital project rests with the DPW.

We discussed the above project with a wage enforcement agent from the Department of Labor. We described the above project to him and were informed that the project should have been considered a renovation/alteration.

The Department obtained the certificate of insurance from the contractor in May of 2005 after we identified that the certificate was not in the Department's bid files.

The approval provided by the Department was to temporarily utilize the building for sleeping accommodations. No approval was provided to alter the building.

**Payroll/Personnel:
Overtime Costs**

Background:

The Department's overtime costs continued to increase during the audited period and through the fiscal year ended June 30, 2005. In our prior audit, we noted overtime costs of \$11,172,365 and \$11,726,609 for the fiscal years ended June 30, 2001 and 2002, respectively. Our current review noted overtime costs of \$13,296,562 and \$16,053,746 for the fiscal years ended June 30, 2003 and 2004, respectively, an increase of 13 and 21 percent. Overtime costs for the fiscal year ended June 30, 2005 totaled \$17,155,806, an increase of seven percent.

Criteria:

Good internal control regarding overtime costs should involve several elements (Principles of Auditing, Meigs, Larsen & Meigs, Sixth Edition, 1977). The existence of a good forecasting program is a vital element in controlling overtime costs. A good forecasting program requires involvement of top management, unit heads, middle managers and supervisors who authorize overtime to effectively plan, monitor and control such costs. Unit heads and supervisors should be assigned the responsibility for submitting forecasts of estimated overtime costs for each budget period. Forecasts of overtime costs should be supported with the anticipated reasons for such overtime. Forecasts of overtime should be reviewed and approved by top management. As actual overtime costs are compiled, reports to management should be prepared comparing actual overtime costs to the forecasted overtime costs. The effectiveness of this process depends largely upon the extent that management involves itself in this process from approving the forecast on the front end to comparing such forecasts to actual overtime costs and taking action upon variances identified between the forecasts and actual costs.

Condition:

Our review of the Department's procedures to control overtime costs disclosed that the Department does not use sufficient forecasting techniques to control overtime costs. We noted that the Department

began preparing spreadsheets comparing actual overtime costs to overtime costs of the corresponding month for the preceding year. While this procedure would be an effective step in the overall forecasting process, it does not by itself, constitute an adequate method for controlling overtime costs. Also, it was not clear to us what use the Department was making of the spreadsheets as a means to control overtime costs.

Effect: Management has lessened assurance that overtime costs are being economically and efficiently expended and utilized.

Cause: The Department has insufficient internal controls in place to successfully manage and control overtime costs. The Department's Policy Manual at Section 8-5, "*Authorization for Overtime*" does provide the Department a mechanism to identify reasons for overtime. The policy requires that reasons for overtime be indicated on an employee's time sheet. However, our review of employee timesheets indicated that this was not the practice and that the Department has not enforced the use of this policy, thus eliminating a tool to identify the reasons for overtime.

Recommendation: The Department should establish internal controls over overtime costs by implementing a forecasting program that management can effectively use to monitor and contain such costs. (See Recommendation 9.)

Agency Response: "The Department agrees with this finding."

Workers' Compensation Accrued Benefits Election Forms and Medical Certificates

Background: The State of Connecticut has various statewide administrative policies and procedures that State agencies are required to follow. The significance or materiality of these policies varies among State agencies. Based on our review of the Department of Children and Families, we identified two significant policy areas that we tested, the results of which are described below.

Criteria: State employees who sustain an injury in the course of their employment shall be paid compensation in accordance with the Workers' Compensation Act. The injured State employee may elect to receive, in addition to the benefits due them, as Workers' Compensation, an amount which will result in them receiving their full salary or wages by using their accumulated leave balances. The employee is required to complete Form CO-715 "*Request For Use Of Accrued Leave With Worker's Compensation*" which requires the employee to explicitly elect or not elect the use of accrued benefits.

State regulations and several collective bargaining contracts require the submission of an acceptable medical certificate from a licensed physician to substantiate the use of sick leave for a period of more than five consecutive working days.

- Condition:* Our review of payroll/personnel records disclosed the following:
- Two out of 10 employees tested did not have the accrued benefit election Form CO-715 on file.
 - Six out of 10 employees tested did not have a medical certificate on file substantiating a medical absence of more than five consecutive work days.

Effect: Employees wishing to supplement their Workers' Compensation benefits may have been deprived of the opportunity to do so.. Employees could be abusing their sick leave benefits.

Cause: Administrative controls are insufficient.

Recommendation: The Department should ensure that required medical certificates and Workers' Compensation elections for the use of accrued benefits are obtained. (See Recommendation 10.)

Agency Response: "The Department agrees with this finding.

With regard to the issue of employees not submitting Form CO-715, the Agency makes a concerted effort to enforce the need to submit this form. However, in many cases employees refuse to complete the form when they do not lose time from work. The Department will continue to request completion of the form and will begin to document the Workers' Compensation case file with a memo stating that the employee refused to complete the requested form.

Regarding the medical certificates, the Department's Human Resources division is in the process of implementing a specialized Family Medical Leave Assistance unit that will help to ensure receipt of this form."

Ethics Exit Interviews

Background: Executive Order Number 1 required the Special Counsel for Ethics Compliance to conduct an ethics compliance audit to identify potential improvements in ethics laws, training, compliance monitoring and enforcement. The Special Counsel for Ethics Compliance reported the results of her audit on September 1, 2004, to the Governor. The ethics compliance audit report identified 14 recommendations for

improvement ranging from the way ethics policies are communicated to new and existing employees to requirements for keeping policies of individuals up-to-date with changes in state law. The audit was to be used as the basis for developing a comprehensive Ethics Compliance Plan mandating measures each state agency of the Executive Branch must adopt in order to foster compliance with state ethics laws. However, completion of the plan was never finalized and implemented by the Governor.

Criteria: Recommendation 3 of the Ethics Compliance Audit Report recommended that State agencies conduct exit interviews with employees separating from State service to once again explain the ethics rules for post-State employment.

Condition: The Department does not conduct exit interviews with employees leaving State service to remind the individual of potential issues relating to future employment opportunities.

Effect: The State has lessened assurance that individuals leaving State service understand post employment prohibitions.

Cause: The cause was not determined.

Recommendation: The Department should conduct exit interviews with employees separating from State service making them aware of post-State employment rules. (See Recommendation 11.)

Agency Response: “The Department agrees with this finding. While the Department is not required to provide an ethics exit interview, the Department does address post-State employment issues in its resignation letter which is distributed to all separating employees. In addition, the Department is currently revising its procedures for conducting exit interviews and will incorporate the distribution of necessary ethics materials in those procedures.”

Reporting Systems: GAAP Closing

Background: The State of Connecticut prepares financial statements on both a budgetary (legal) and GAAP (generally accepted accounting principles) basis. The budgetary basis statements report the results of operations and other financial information consistent with budgetary enactments and legally required reporting. GAAP reporting provides interested parties with comprehensive financial reporting of the governmental entity in a manner directly comparable to other states using accounting and disclosure conventions established by a national standards body. Since GAAP reporting supplements rather than replaces statutory accounting and budgetary accounting, GAAP

reporting is performed annually.

Criteria:

State agencies are required to maintain their financial records in a manner which will enable them to provide the required adjustments to legal balances and other information necessary for the State Comptroller to prepare a GAAP annual report. The State Comptroller's Office provides State agencies year end GAAP closing packages and instructions as a means of assembling and reporting such information. GAAP information obtained from State agencies is used by the State Comptroller to produce a Comprehensive Annual Financial Report (CAFR) in conformance with GAAP. A CAFR is a governmental unit's official annual report intended to satisfy the information requirements of the many users of the CAFR.

Condition:

Our review of the Department's GAAP closing packages for the fiscal years ended June 30, 2003 and 2004, disclosed the following:

- Accounts receivable were understated by \$642,123 for the fiscal year ended June 30, 2004. The Department did not provide documentation in support of reported amounts. Our analysis identified accounts receivable of \$2,167,530 versus \$1,525,407 reported by the Department.
- Accounts receivable estimated to be uncollectible were understated by \$844,425 for the fiscal year ended June 30, 2004. The Department reported zero dollars as uncollectible for accounts receivable (\$969,785) reported for overpayments paid to former foster care and adoption families. Our review of the age of the accounts concluded that a more realistic estimate for uncollectible amounts was \$844,425.
- Grant receivables collected through August 31st were understated by \$1,964,715 for the fiscal year ended June 30, 2003. Grant receivables were overstated by 1,286,292 (net) for the fiscal year ended June 30, 2004. The understatement was caused by administrative oversight. The overstatement was caused by the erroneous postings of revenue transactions between the Department's accounts and accounts of the Children's Trust Fund Council.
- Other liabilities were understated by \$1,003,959 for the fiscal year ended June 30, 2004. The Department did not report balances due certain providers (\$428,058) as of June 30, 2004. Providers are advanced funds each quarter. The providers bill the Department for services actually performed at the end of the quarter. The difference between the advance and the billings are adjusted against future advances. Our testing of grant receivable balances

for two grants (\$575,901) noted negative balances. A negative amount indicates a positive cash balance indicating that the Department drew down or collected grant funds in advance of expending the grant funds thus creating a payable to the grantor entity.

- Hours reported for compensated absences (vacation, sick leave) were overstated (13,849) for the fiscal year ended June 30, 2003 and understated (87,781) for the fiscal year ended June 30, 2004. The overstated amount was due to an error in the placement of a decimal point. The understated amount was due to not reporting employees leave balances whose personal services costs were charged to grant accounts and by not making manual adjustments of accrued time used from June 25, 2004 through June 30, 2004. The CoreCT report available to State agencies for reporting compensated absences reflected compensated absences through June 24, 2004.

Effect: These conditions have the effect of providing inaccurate and/or incomplete information on the Department's GAAP Reporting Package. If not corrected this would cause inaccurate and/or incomplete information to be reported in the State's CAFR.

Cause: Procedures are not in place that reasonably ensure that GAAP reported amounts are complete and accurately reported.

Recommendation: The Department should develop and implement internal control procedures over its GAAP closing preparation that reasonably ensures that reported amounts contain accurate and complete information. (See Recommendation 12.)

Agency Response: "The Department agrees with this finding, although the Department disagrees with the auditor's statement that the correct value for uncollectible accounts receivable at 6/30/04 is \$844,425, since a portion of this receivable has been collected.

The Department has either corrected the issues noted above or developed procedures to properly report amounts on future GAAP reports."

Property Control: Equipment Inventory and Reporting

Background: The Department's Central Office and four facilities maintain their own inventory records and prepare separate annual Fixed Assets/Property Inventory Report/GAAP Reporting Forms (CO-59). Prior to July 1, 2003, the Department's five regional offices also maintained their own inventory records and prepared separate inventory reports. Business

operations of the regional offices were centralized and assumed by the Central Office during the fiscal year ended June 30, 2004.

Criteria:

Section 4-36 of the Connecticut General Statutes requires State agencies to establish and maintain inventory accounts in a form prescribed by the Comptroller and to report annually to the Comptroller a detailed inventory of real property and personal property having a value of \$1,000 or more. State agencies are required to establish and keep a list of personal property having a value of less than \$1,000 and defined as “controllable property” in the property control manual published by the Comptroller. Controllable property is tangible property with a unit value of less than \$1,000, has an expected useful life of one or more years and/or, at the discretion of the State agency head, requires identity and control.

The Comptroller’s *Property Control Manual* provides policies and procedures to State agencies to account for and report upon the value of all property owned by or in the custody of each State agency. Specific policies and procedures delineated in the manual include the following:

- Each State agency’s property system should include a control account for each reportable category on the CO-59 form and a detailed subsidiary record for each individual item in the category.
- Each fixed asset owned by the State must be tagged with a unique identification number.
- Each State agency must maintain a listing of controllable property that has been approved by the agency head. Such items must be tagged and maintained on the agency’s perpetual inventory.
- Separate perpetual (continuous) inventories should be maintained for all stores and supplies if the estimated value is over \$1,000.
- A complete physical inventory of all property must be taken annually.
- A software inventory must be established to track and control all agency software media, licenses or end user license agreements, certificates of authenticity, documentation and related items.

Condition:

Our review of Fixed Assets/Property Inventory Reports prepared by the Department’s Central Office, regional offices and facilities and related inventory records disclosed the following:

- The Central Office did not submit a Fixed Asset/Property

Inventory Report for the fiscal year ended June 30, 2004.

- The Central Office did not perform a physical inventory during the fiscal year ended June 30, 2004.
- We were informed by Central Office staff that the Fixed Assets/Property Inventory Reports prepared by the regional offices for the fiscal year ended June 30, 2003, were not supported with detailed subsidiary records.
- Stores and supplies inventories maintained by the facilities were not current and/or units and corresponding values were misstated based on physical counts made by us. Changes in supply inventory values from the previous years were “plugged (unsupported)” to arrive at the current year ending balances.
- Controllable property items were not approved by the agency head. Controllable property records were incomplete, inconsistently maintained or not maintained at all.
- Several fixed assets did not contain tag numbers and/or could not be traced to property inventory records.
- Several assets identified on property inventory records could not be located.
- The Department’s software inventory was incomplete.

Effect: The above conditions adversely affect the Department’s ability to record, process, summarize and report property inventory data consistent with the assertions of the State of Connecticut in its financial statements. In addition, the opportunity for fraud and/or abuse is increased.

Cause: Internal controls over fixed assets and personal property were inadequate.

Recommendation: The Department should improve its internal controls over the custody and reporting of its property inventory. (See Recommendation 13.)

Agency Response: “The Department agrees with this finding.”

Budgetary Procedures: Revenue Availability

Background: The Department receives specific line item budgeted State appropriations to administer the Federal Foster Care Title IV-E program. The Foster Care program is a gross budgeted program. A

gross budgeted program is where all expenditures are initially paid from State appropriations for a program and whose expenditures are subsequently reimbursed, in part, by payments from another source, in this case, the Federal government. Such reimbursements are treated by the State as general revenue of the State and thus is not available for expenditure.

The Department claims Federal reimbursement for administrative costs and foster care maintenance payments expended through these appropriations. The Federal reimbursement, when received from the Federal government, is deposited into the General Fund except for a small portion of the reimbursement, which is deposited into a restricted Federal account which was established by the Department to pay certain administrative costs to a particular vendor.

The Federal account was established in 1996. The Department initially requested the account to use an amount of Foster Care-Title IV-E revenues from the General Fund for deposit directly into this account to cover contractual payments to the same vendor. The Department anticipated that the account would be necessary for approximately two years.

Criteria: Federal payments to reimburse the State for specific expenditures that are made from budgeted General Fund appropriations become General Fund revenue unless there is specific statutory authority to the contrary. (State Accounting Manual)

Condition: The Department continued to deposit General Fund revenues into this Federal account during the audited period, which revenues were used to make payments to a vendor for contractual services. For the fiscal years ended June 30, 2003 and 2004, Department expenditures made from this account totaled \$573,400 and \$206,118, respectively.

Effect: The diversion of General Fund revenues to fund State agency operations circumvents State budgetary financial control procedures.

Cause: The cause was not determined.

Recommendation: The Department should deposit all Federal Foster Care program revenues in the State's General Fund. All expenditures of the program should be made from State budgeted appropriations authorized for the program. (See Recommendation 14.)

Agency Response: "The Department disagrees with this finding. The provisions of the current contract have been approved by the Office of Policy and Management. The Department is currently in the process of negotiating a contract to replace the current Title IV-E eligibility system and the Department agrees that this successor contract will be

funded through General Fund appropriations. The Department will also confirm with the Office of Policy and Management how to handle any extension of the existing contract during the conversion period.”

Auditors’ Concluding Comments:

The Department does not have to wait until a successor contract is entered into to fund the current contract through General Fund appropriations.

Cash Management: Interest Liability

Background:

The Federal Cash Management Improvement Act (CMIA) of 1990, as amended, was passed to improve the transfer of Federal funds to States. Each year, the Federal Treasury Department and States negotiate a Treasury-State agreement. The agreement documents the accepted funding techniques and methods for calculating interest agreed upon by the Federal Government and a State. State or Federal interest liability may or may not accrue when mutually agreed to funding techniques are applied, depending on the terms of the Treasury-State agreement.

Federal Foster Care IV-E and Adoption Assistance program awards are awarded quarterly to the Department based on the Department’s estimated need for the quarter. The Department receives separate awards for maintenance and administrative costs. The Department uses a payment schedule funding technique identified in the Treasury-State agreement (Section 6) to draw down maintenance funds. The Department uses a pro-rated draw funding technique, also identified in the Treasury-State agreement (Section 6), to draw down administrative funds based on the number of pay periods in a given quarter.

The Department files its quarterly Foster Care/Adoption Assistance program report within 30 days after the end of a quarter. Supplemental awards are granted by the Federal Government based upon the difference between actual expenditures reported on the quarterly report and amounts previously awarded based on estimates. In situations where actual costs exceed the estimated award, the Department receives a supplemental award for the difference. When the Department receives the supplemental award letter from the Federal Government, it draws down the entire award. In situations where actual costs are less than the initial estimated award, a negative supplemental award is issued by the Federal Government. The Department adjusts its draws in the current period by the negative award by delaying and/or reducing the number/amount of draws.

Criteria:

Section 8.1.1 of the Treasury-State agreement states, in part, where payment schedules are applied, the State (Connecticut) and the Secretary (Treasury Department) agree that no interest liabilities be

incurred for the transfer of funds made in accordance with funding techniques agreed to in Section 6 of the Treasury-State agreement.

Condition: Our review of cash management in the Federal Foster Care IV-E and Adoption Assistance programs disclosed that the Department calculated a net State interest liability of \$89,121 on Federal funds received in the fiscal year ended June 30, 2003. Our review found that while the Department did not deviate from the funding techniques identified in the Treasury-State agreement, interest liability was calculated by the Department on the difference between actual reported expenditures and initial estimated award amounts.

Effect: The State incorrectly calculated and paid the Federal government interest it was not entitled to.

Cause: The Department misinterpreted the Treasury-State agreement. We were informed by Department personnel that the Federal government has historically been slow to pay supplemental awards owed to the State and that the State has routinely had to pay out of its own funds first until such awards were paid by the Federal government. The calculation of interest liability by the Department in the past has usually resulted in a Federal interest liability and if discontinued would cause the State to lose interest income on funds it pays out. We contacted the State Comptroller's Office for clarification on our interpretation of the Treasury-State agreement. We were informed by representatives of that Office that they concurred with our interpretation of the agreement and were informed that the Federal government did not pay the Federal interest liability calculated by the Department for the fiscal year ended June 30, 2004.

Recommendation: The Department should discontinue calculating interest liability on transactions that are processed in accordance with funding techniques approved in the Treasury-State agreement. If the Department believes that the terms of the agreement are unfavorable to the State, it should arrange with the State Comptroller to negotiate specific interest liability terms with the Federal Treasury Department that are equitable to both parties. (See Recommendation 15.)

Agency Response: "The Department agrees with the recommendation that the language in the Federal/State agreement be clarified to reflect the intention of the interest liability application."

**Children's Trust Accounts:
Cost of Care**

Background: The Department secures benefits to which children in its care may be entitled. The most common benefit available to children is Social

Security benefits. If a child is already receiving benefits when placed, the Department applies to the Social Security Administration (SSA) to become the representative payee for the benefits. The Department uses the benefits to offset the cost of care of the child. If benefits have not been established, the Department files an application on behalf of the child so that the Social Security Administration can determine if benefits are available.

A trust account is established for each child receiving benefits. Benefits received by the Department are put into the child's account. The Department periodically recovers the cost of care provided to the child from their account and forwards the proceeds of the reimbursements to the Department of Administrative Services (DAS). Annual representative payee reports are prepared by the Department and sent to SSA indicating how benefits received were expended. When a child leaves the Department's care, a final accounting is performed and the balance of the account is paid to the Social Security Administration and/or the Department of Administrative Services and the trust account is closed.

Criteria: Section 46b-129(1) of the General Statutes authorizes the Department to collect income received by children in its care to offset the cost of care provided to such children. Representative payees are required to complete written reports accounting for the use of benefits (SSA Representative Payee Program).

Condition: Our review of 25 payments made from trust accounts noted the following.

1. Payments totaling \$6,135 were returned to the Social Security Administration instead of being paid to the Department of Administrative Services.
2. One child had a balance of \$7,203 in his account as of February 28, 2005. The Department ceased being the child's representative payee in July of 2003. The Department returned supplemental security income payments to the Social Security Administration received on behalf of the child for the benefit months of August and September of 2003 in December of 2003. No further payments from the child's account have since been made.
3. Representative payee reports were not provided to us for review by the Department.

Effect:

1. The Department forfeited \$6,135 in cost of care reimbursements.
2. Approximately \$6,589 of the \$7,203 was available for cost of care reimbursements that should have been transferred to the

Department of Administrative Services in calendar year 2003.

3. We could not determine whether the Department provided accurate information to the SSA.

Cause:

Department personnel assigned the responsibility to administer the trust accounts were inexperienced relative to determining cost of care amounts reimbursable to the Department and therefore tended to be conservative when calculating the recoupment of such costs.

1. Payments totaling \$1,720 were not claimed as cost of care payments and returned to the Social Security Administration because the child was missing for an extended period of time. It was the practice of the Department at that time to determine cost of care on a month to month basis. The Department would recover the cost of care in a given month up to the amount of income received on behalf of the child for that benefit month. The Department did not consider the cumulative cost of care accrued by the child. In this particular instance the child had accrued cost of care expenses in excess of \$1,720 prior to running away.

In one instance, the Department did not apply a portion (\$283) of the payment to cost of care expenses accrued by the child in prior months. In the second instance, the entire retroactive benefit was returned to Social Security because the client was incarcerated for a period of time. Individuals receiving supplemental security income who are incarcerated are not eligible to receive benefits for any month that they are imprisoned. In this particular case the individual was imprisoned for a period covering three benefit months. The retroactive payment covered 15 benefit months for which the Department was entitled to receive \$1,945 in cost of care expenses.

The remaining payment of \$2,187 was not applied to cost of care expenses due to administrative oversight and miscalculation.

2. The Department indicated that cost of care expenditures were not transferred to DAS because the Department was unable to document whether reimbursements were made to the Department of Mental Retardation for the care of the child. The monies in question (\$6,589) were subsequently transferred to DAS in April of 2006.
3. We were informed by the Department that the representative payee reports requested were for clients whose cases had been closed. The cases were archived and stored off-site. The reports were never provided by the Department.

Recommendation: The Department should amend their procedures for the recovery of cost of care expenses to include prior accrued expenses incurred on behalf of a child and retroactive benefit payments. In addition, representative payee reports should be maintained until audited. (Recommendation 16).

Agency Response: “The Department agrees with the finding and has made several revisions to its procedures since July 2004.”

Fiduciary and Petty Cash Funds: Inadequate Internal Controls and Non-Compliant Accounting Policies and Practices

Background: The Department maintains and administers a multitude of accounts and/or funds at its various locations in an administrative or fiduciary capacity. The Department’s offices and facilities maintain their own petty cash, activity and/or welfare funds. Accounting policies and procedures for the administration of these funds are issued by the State Comptroller. In addition to the aforementioned funds/accounts, the Department’s Central Office also maintains children’s trust accounts that account for income received on behalf of the child and the cost of care provided by the Department.

Criteria: The *Accounting Procedures Manual for Activity and Welfare Funds* includes procedures for maintaining all activity and welfare funds operated by State agencies. The *State Accounting Manual* (SAM) includes procedures for maintaining petty cash funds. Many of the accounting policies and procedures noted in the SAM would also apply to the administration of the trust accounts. Both manuals prescribe fundamental accounting practices and procedures that State agencies should use when administering these types of funds. Internal control procedures identified either explicitly or implicitly in these manuals include the following:

- Payments for goods and services should be substantiated by invoices or receipts.
- Petty cash purchases should be made to facilitate agency purchases of small items, not to exceed \$50.
- Funds should only be used for intended purposes.
- Petty cash funds should reconcile to authorized petty cash advances from the State Comptroller.
- There should be adequate segregation of duties.
- Monies received by the State should be accounted for and

deposited within 24 hours when receipts total \$500 or more. Receipts of lesser amounts may be held until they equal \$500, but for not more than 7 calendar days.

- New bank accounts must have prior written permission from both the State Treasurer and Comptroller.
- Bank account statements should be reconciled monthly.

Condition:

Our review of the various funds maintained by the Department noted the following:

- Ledgers were not maintained in accordance with the *Accounting Procedures Manual – Activity and Welfare Funds*.
- There was inadequate segregation of duties in the Central Office’s administrative petty cash, “Our Kids” accounts, children’s trust accounts and the Connecticut Children’s Place (CCP) allowance account. The individual administering the petty cash and “Our Kids” accounts makes deposits, records transactions, reconciles bank account statements and is an authorized signatory on the checking accounts. The manager responsible for trust account administration reconciles the checking account bank statements and is the authorized signatory on the checking account. The individual that performs bank reconciliations on the allowance account also signs checks.
- Several transactions were not documented or insufficiently documented in our review of the Central Office’s administrative petty cash and “Our Kids” accounts and the Connecticut Juvenile Training School’s (CJTS) administrative petty cash and Welfare Fund accounts. Certain petty cash ledgers for the New Haven and Hartford regional offices could not be located by the Department.
- We noted instances of intermingling of funds between accounts/funds. The Central Office’s administrative petty cash fund was used to make three disbursements that should have been made from the “Our Kids” accounts, child welfare petty cash or the Department’s board and care checking account. A deposit belonging to the “Our Kids” accounts was made to the administrative petty cash account in order to split and distribute the check to three “Our Kids” accounts. We also noted one disbursement for travel made from the CJTS’s activity fund that should have been made from the school’s administrative petty cash fund.
- Authorized General Fund petty cash advances accounted for by the

Department totaled \$38,650. Authorized General Fund petty cash advances per the State Comptroller totaled \$43,200.

- Three administrative petty cash disbursements exceeded \$50.
- Five receipts totaling \$506 deposited in the “Our Kids” accounts were deposited late. Three receipts (\$201) were deposited on the eightieth calendar day after receipt, one receipt (\$105) was deposited on the thirteenth calendar day and one receipt (\$200) was deposited on the forty-seventh calendar day.

Nine receipts for meal tickets at Riverview Hospital totaling \$45 were deposited late. Receipts collected between April 15, 2005 and April 22, 2005 were deposited on April 29, 2005.

Our review of the Department’s internal controls over the administration of the children’s trust accounts noted that paper checks received by the Department are not promptly recorded as to the date received.

- The Department opened new bank accounts for the “Our Kids” accounts and trust accounts without the State Treasurer’s or State Comptroller’s permission.
- Monthly bank statement reconciliations were either not performed, incorrectly performed, or were not performed in a timely manner for the “Our Kids” accounts, Riverview’s administrative petty cash and activity fund accounts and CCP’s general welfare fund.
- The Department currently maintains two checking accounts for its Central Office administrative petty cash fund and three checking accounts for their “Our Kids” accounts.
- CCP’s allowance account balance exceeded its authorized amount by \$6,056 as of May 31, 2005. Several duplicate replenishments were processed and never corrected.
- Balance sheet amounts reported on CCP’s general welfare fund for the fiscal years ended June 30, 2003 and 2004, did not agree with amounts recorded in ledgers by \$1,588 and \$991. Cash receipts and disbursement statements were not prepared on CCP’s general welfare fund for the fiscal years ended June 30, 2003 and 2004.

Effect: The Department has lessened assurance that funds are being properly used and transacted in accordance with State accounting policies and procedures.

Cause: Supervisory/managerial oversight of these accounts/funds was

inadequate.

Recommendation: The Department’s supervisory/managerial staff should take a more active role in the monitoring of Fiduciary/Petty Cash accounts/funds to ensure that these accounts/funds are being administered in accordance with State accounting policies and procedures. In addition, the Department should administer its Central Office administrative petty cash and “Our Kids” accounts using one checking account for each and reconcile its authorized petty cash advanced from the State Comptroller. (See Recommendation 17.)

Agency Response “The Department agrees with this finding.”

Internal Audit: Duties and Functions

Criteria: The Internal Audit Division (IAD) is entrusted with the responsibility of appraising fiscal policies, procedures and management controls within the Department to ensure that these activities are properly managed, and to promote effective controls at a reasonable cost. (DCF Policy Manual, Chapter 13, page 5-2)

Condition: Our review of the IAD’s duties and responsibilities disclosed that IAD was not performing internal audit functions as described in its policy. The Unit’s time was basically applied to three areas: State single audit monitoring (30 percent), whistle blower matters (30 percent) and external audits (40).

Effect: Management is not effectively utilizing its resources.

Cause: The cause was not determined.

Recommendation: The Department should more effectively utilize its internal audit unit by focusing the unit’s resources on the review and appraisal of the Department’s various accounting and administrative controls. (See Recommendation 18.)

Agency Response: “The Department agrees with this finding and is currently reviewing the role of the Internal Audit Division.”

Voluntary Placement Policy

Criteria: The Department’s Policy Manual is a management and staff tool utilized as a guide to informed decision making. The Policy Manual provides standardized, uniform and specific instructions and guidance to employees to assist them in effecting their responsibilities.

- Condition:* In a performance audit conducted by our office dated October 30, 2002, we recommended that the Department should obtain court orders for children placed in its care by voluntary placement agreements within 180 days of the agreements and file the orders in the case records to ensure the maximum allowed Federal reimbursement can be claimed. In its correction action response to this audit finding, the Department indicated that it modified its voluntary placement policy to more clearly articulate the documentation needed for IV-E purposes. However, the policy remains in draft form and was never formally published in its policy manual.
- Effect:* The Department has lessened assurance that court orders are being obtained for voluntary placements within the timeframes required for Federal reimbursement.
- Cause:* The cause was not determined.
- Recommendation:* The Department should publish its voluntary placement policy in its Policy Manual. (See Recommendation 19.)
- Agency Response:* “The Department agrees with this finding and is currently in the process of finalizing its Voluntary Services policy for inclusion in the Department’s Policy Manual.”

Supervisory Approval of Relicensing Forms

Background: The Department’s licensing responsibilities include the licensing and re-licensing of child care facilities, including foster and adoptive families, relative homes who will care for children under the custody of the Department, in-state child placing agencies, permanent family residences, and extended day treatment programs. The Department also approves out-of-state child placing agencies who place children with Connecticut families.

The primary purposes of licensing are to: protect children in out-of-home care from abuse and neglect; assure parents and the community that the person, facility or agency meets specific requirements; improve the quality of child care through regulation and consultation and; ensure that all service providers meet established standards of quality.

Criteria: The Department uses a comprehensive standard relicensing form that documents the information and review process. This form, “Recommendation for License Renewals” is submitted and signed by the assigned social worker. The supervisor of the social worker, as well as the program supervisor responsible for the licensing at each respective office, must then approve it.

- Condition:* Our testing of five licenses issued in the current period disclosed that three of the licenses were approved by supervisors after the effective date of the licenses.
- Effect:* The Department has lessened assurance that responsible program staff are reviewing relicensing information in a timely manner.
- Cause:* The cause was not determined.
- Recommendation:* Relicensing forms should be approved/signed by all responsible staff prior to the effective date of the license. (See Recommendation 20.)
- Agency Response:* “The Department agrees with this finding.”

Untimely Licensure of Relative Placement Foster Homes

- Criteria:* With the completion of a “basic assessment”, foster care homes with relative children in placement could generally remain unlicensed for a period up to 90 days. This is allowed, as specified in Section 17a-114(b) of the Connecticut General Statutes. Within that time period, a more detailed and thorough assessment to affect licensure must be completed.
- Condition:* Our review of five relative foster homes that were licensed in the current period disclosed that, for three of the licenses tested, the number of days between the initial placement of the child and the license effective date exceeded 90 days. The number of days to complete licensing for the licenses that exceeded 90 days were 97, 129 and 144 days.
- Effect:* Children placed by the Department with relatives were allowed to remain in unlicensed homes longer than what is statutorily allowed.
- Cause:* The cause was not determined.
- Recommendation:* The licensing units throughout the local area offices need to obtain information concerning new foster parent placements in a more timely manner and complete the process of assessing relative foster homes within the timeframes required by Section 17a-114 of the General Statutes. (See Recommendation 21.)
- Agency Response:* “The Department agrees with this finding.”

Lapsing of State Funds

- Background:* Lapsing means the cancellation of all or part of the authorization to make expenditures and/or incur liabilities which is represented by an appropriation. The unexpended balances of appropriations revert to the unappropriated surplus of the fund from which such appropriation was made. Continuing (carried forward) means bringing all or part of the unexpended balance of an appropriation forward on the appropriation ledger of the State Comptroller so that expenditures and liabilities may continue to be incurred in the subsequent fiscal year. In general, annual budgeted appropriations lapse at fiscal year end and Federal grant accounts continue.
- Criteria:* “No officer, department, board, commission, institution or other agency of the state shall, after the close of any fiscal year, incur, or vote or order or approve the incurring of, any obligation or expenditure under any appropriation made by the General Assembly for any fiscal year that had expired at the time the obligation for such expenditure was incurred.” (Section 4-89 of the Connecticut General Statutes)
- Condition:* Our review of year end accounting adjustments relating to the fiscal year ended June 30, 2004, identified one accounting adjustment that was processed on July, 12, 2004, for \$190,002. The accounting adjustment changed the funding source of certain expenditures initially charged to a Federal grant restricted account to a General Fund budgeted account.
- Effect:* The Department did not comply with Section 4-89 of the Connecticut General Statutes.
- Cause:* The purpose of the adjustment was to avoid lapsing state funds.
- Recommendation:* The Department should not process accounting adjustments for the sole purpose of avoiding the lapsing of state funds. (See Recommendation 22.)
- Agency Response:* “The Department agrees with this finding.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department should improve its system of controls to eliminate board and care disbursement errors and to ensure compliance with State laws and regulations. – Our current audit continued to disclose instances of board and care payments that were not properly documented and/or were not made in compliance with State laws and regulations. Thus, this recommendation is being repeated, as amended. (Recommendation 1)
- The Department should continue to take the necessary steps to properly reconcile the Board and Care Checking Account’s cash balance to the State Treasurer’s cash balance. – Our current audit indicated that the Department is properly reconciling the Board and Care Checking Account to the State Treasurer’s cash balance. Thus, the recommendation has been resolved.
- The Department should establish proper internal controls to provide assurance that miscellaneous expenditures from the Board and Care Checking Account are being made efficiently, economically, effectively and in accordance with Department policy. – Our current audit disclosed that the Department continued to make initial clothing allowance payments in excess of maximum amounts allowed for in policy. Thus, this recommendation is being repeated, as amended. (Recommendation 2)
- The Department should prepare the Generally Accepted Accounting Principles (GAAP) Reporting Package in accordance with the State Comptroller's requirements. – Our current audit continued to note errors in the GAAP financial reports submitted to the State Comptroller. Thus, the recommendation is being repeated, as amended. (Recommendation 12)
- The Department should take steps to control its overtime costs. – Our current audit noted that the Department did not take the necessary steps to control its overtime costs. Thus, this recommendation is being repeated, as amended. (Recommendation 9)
- The Department should improve controls over its equipment, software and supplies inventories. Inventory records for the Department’s equipment, supplies and software should be kept in a manner consistent with the State of Connecticut’s *Property Control Manual*. – Our current audit continued to disclose deficiencies related to inventory. Thus, this recommendation is being repeated, as amended. (Recommendation 13)
- The Department should enter the proper data into its Statewide Automated Child Welfare Information System, commonly known as LINK, to ensure that the Department's system has accurate and up to date information. – Audit work performed in connection with our Comprehensive Annual Financial Report audits and Statewide Single Audits did not identify any erroneous payments made because of incorrect placement data in LINK. Thus, the recommendation has been resolved.
- The Department should ensure that the confidentiality of the children placed in its

custody is maintained in accordance with the provisions of Section 17a-28 of the Connecticut General Statutes. – The Department addressed part of this recommendation by preventing other State agencies from having access to confidential information on its Intranet in October of 2001. The other part of the recommendation questioned the appropriateness of identifying the names of children in its custody on certain forms when purchasing clothing on behalf of the children. We reviewed this finding again and concluded that the mere disclosure of the child's name on the form does not in of itself constitute a confidentiality breach. Thus, the recommendation has been resolved.

- The Department should follow the procedures set forth in the State's *Accounting Procedures Manual – Activity and Welfare Funds* and the *State Accounting Manual*. The Department should also establish standard procedures that should be used to ensure that these funds are being properly used and safeguarded. – Our current audit continued to disclose deficiencies related to the Department's Activity, Welfare, and Petty Cash Funds. Thus, the recommendation is being repeated, as amended. (Recommendation 17)
- The Department should process expenditures in accordance with State laws and regulations and the *State Accounting Manual*. – Our current audit continued to disclose expenditures that were not made in accordance with State laws and regulations and the *State Accounting Manual*. Thus, this recommendation is being repeated, as amended. (Recommendation 4)
- The Department should not override its Statewide Automated Child Welfare Information System, commonly known as LINK, to make board and care payments at the end of a fiscal year to avoid those funds from lapsing to the following fiscal year. – Our current audit disclosed that the Department continued to override its computer system to make board and care payments at the end of a fiscal year to avoid the lapsing of funds. Thus, this recommendation is being repeated, as amended. (Recommendation 3)
- The Department should ensure that longevity payments are properly made, required medical certificates are obtained, and the compensatory time guidelines set forth in the New England Health Care Employees Union District 1199 Contract are followed. – Our current audit did not identify misapplication of compensatory guidelines or incorrect longevity payments. Our audit did, however, disclose that the Department did not obtain medical certificates in several instances and did not obtain employee workers' compensation accrued leave election forms. Thus, the recommendation has been restated to include current audit exceptions and remove items that were resolved. (Recommendation 10)
- The Department should follow the guidelines for Special Identification Codes (SID) included in the *State Accounting Manual* to account for State appropriations and expend State funds only from appropriations that are approved in the State's annual budgets. – Our current audit disclosed that the Department continued to use General Fund revenues to make payments to a vendor for contractual services. Thus, this recommendation is being repeated, as amended. (Recommendation 14)
- The Department should maintain the Children's Trust Account in accordance with State and Federal laws and regulations. – Our current audit indicated that three of the four

exceptions identified in our previous audit were resolved. The Social Security reporting exception that was not resolved is presented in a current audit finding based on testing performed during our current audit. Thus, this recommendation has been resolved.

- The Department should administer its capital improvement projects in accordance with Section 4b-52 of the General Statutes and guidelines established by the Department of Public Works. - Our current audit continued to disclose internal control deficiencies and non-compliance relative to Department administered projects. Thus, this recommendation is being repeated, as amended. (Recommendation 8)
- The Department should send the Department of Social Services requests to draw down funds of the Social Services Block Grant in a timely manner. – Our current audit indicated that the Department did request the Department of Social Services to draw down funds in a timely manner. Thus, the recommendation has been resolved.
- The Department should ensure that records are properly safeguarded and that the records should be destroyed only with the written approval obtained from the Connecticut State Library. – This recommendation related to a specific situation in which expenditure records were not located by the Department that pertained to the fiscal year ended June 30, 1999. Thus, this recommendation has been resolved.
- The Department should establish procedures to prevent the misuse of calling cards. – Our current audit disclosed that the Department discontinued using calling cards in December of 2004. Thus, the recommendation has been resolved.

Status of Prior Audit Recommendations: Performance Audits:

Report Issued April 25, 2003:

- The Department should review adoption assistance subsidy payments that are not being claimed for Federal reimbursement to determine whether adequate documentation can be obtained that would allow for a correction, if appropriate, to the eligibility determinations to ensure that the maximum Federal reimbursement can be claimed. The Department reviewed a sample of cases and concluded that a more extensive review of cases would result in additional Federal reimbursement to the State. However, we were informed by the Department that the Office of Policy and Management declined to provide the additional funds necessary to review the cases. The period to claim Federal reimbursement has since past. Thus, the recommendation has been resolved.
- The Department should establish procedures to apply for Supplemental Security Income (SSI) benefits prior to adoption, as applicable, to ensure that adoption subsidy payments made on behalf of children that are eligible for SSI are claimed for Federal reimbursement under the Adoption Assistance program. The Department's Policy Manual at Section 16-6-1 was amended in April of 2004 requiring social workers to apply for SSI benefits for medically fragile children. Thus, the recommendation has been resolved.

- The Department's case workers should document effectively in a child's case record whether the child was deprived of parental support so that a complete eligibility determination could be made. Consideration should be given to documenting this information, as well as any other necessary information, in a specific location to allow the Revenue Enhancement Unit to perform more effective and efficient eligibility determinations. Area office Foster Care IV-E liaisons have been assigned the responsibility to track the dissemination and receipt of the IV-E determination/re-determination forms in area offices. These forms are a standardized tool to collect eligibility information e.g., deprivation wages and living arrangements prior to removing a child from the home. This effort to facilitate the gathering of IV-E determinations and missing documentation should improve documentation in a child's case record. Thus, this recommendation has been resolved.
- The Department's case workers should document effectively in a child's case record whether the child was living with a specified relative within six months of the child's removal from the home so that a complete eligibility determination could be made. Consideration should be given to documenting this information, as well as any other necessary information, in a specific location to allow the Revenue Enhancement Unit to perform more effective and efficient eligibility determinations. See corrective action taken above. Thus, the recommendation has been resolved.
- The Department's case workers should document effectively in a child's case record the wages of the child's parents so that a complete eligibility determination could be made. Consideration should be given to documenting this information, as well as any other necessary information, in a specific location to allow the Revenue Enhancement Unit to perform more effective and efficient eligibility determinations. See corrective action taken above. Thus, the recommendation has been resolved.
- The Department should perform eligibility determinations in a timely manner so that those children eligible for Federal reimbursement are properly identified to ensure the maximum allowed Federal reimbursement can be claimed. The eligibility determination process was modified in June of 2002 to identify children re-entering the Department's care as initial eligibility determinations. Prior to this modification, re-entering children were set up as re-determinations rather than initial determinations which are prioritized. Thus, this recommendation has been resolved.

Report Issued October 30, 2002:

- The Department should review unlicensed homes in a timely manner so that the necessary corrections to the foster home licenses can be made, if appropriate, to ensure the maximum allowed Federal reimbursement can be claimed. Our review of current Link reports and activity reports compiled by local area Foster and Adoption Services Units indicated improvement in the timely processing of licenses. Thus, this recommendation has been resolved.
- The Department should immediately review court orders to determine whether the court orders contain the proper language concerning "reasonable efforts" so that revisions to the court orders can be made, if necessary and appropriate, to ensure the maximum

allowed Federal reimbursement can be claimed. In April of 2002, the Judicial Branch, the Attorney General's Office and the Department implemented a standardized court order review process and distribution procedure. We reviewed the policies and procedures issued by the Juvenile Matter's Court Clerk's Office and determined that implementation of these policies and procedures should ensure that proper reasonable effort language is contained in court orders in order for the State to claim Federal reimbursement. Thus, this recommendation has been resolved.

- The Department should obtain copies of court orders for children placed in its care and file the orders in the children's case records so that a proper eligibility determination can be performed to ensure the maximum allowed Federal reimbursement can be claimed. In September of 2004, the Department contracted with a vendor to pick up and hand deliver court orders from the Juvenile Court to the local area offices and the Revenue Enhancement Unit on a weekly basis. Thus, the recommendation has been resolved.
- The Department should obtain court orders for children placed in its care by voluntary placement agreements within 180 days of the agreements and file the orders in the case records to ensure the maximum allowed Federal reimbursement can be claimed. In its corrective action response to this audit finding, the Department indicated that it modified its voluntary placement policy to more clearly articulate the documentation needed for IV-E purposes. However, the policy was never published in its policy manual. Thus, the recommendation is amended and restated. (Recommendation 19)
- The Department should establish procedures to ensure that children placed in its care by the Probate Court can be claimed, if appropriate, for Federal reimbursement. Amended court documents now contain language to the effect that the child's remaining at home would be contrary to his or her welfare and that reasonable efforts have been made to prevent the removal and to make it possible for the child to safely return to home. Thus the recommendation has been resolved.

Report Issued October 24, 2001:

- The Department's Bureau of Quality Management (Licensing Unit) should expand its involvement in the licensing process and establish a system to monitor the individual licensing units within the Regional Offices. No corrective action was taken. The Department's Director of Administrative Law and Policy Division responsible for the Licensing Unit indicated to us that licensing of foster care homes is the responsibility of the local area Foster and Adoption Assistance Units. He stated that it would be impractical and inefficient for his unit to oversee this process due to inadequate resources and a disruption of an otherwise well functioning process. Based on the Department's response, this recommendation will not be implemented. Therefore, this recommendation has been resolved.
- The Department should complete the sections of its Policy Manual which address specific licensing and relicensing responsibilities, and issue the updated manual to Department staff. The Department updated its Policy Manual incorporating licensing and relicensing issues. Thus, the recommendation has been resolved.

- The Department needs to improve its efforts to accumulate and process relicensing information in a timely manner. Our review of current Link reports and activity reports compiled by local area Foster and Adoption Services Units indicated improvement in the timely processing of licenses. Thus, this recommendation has been resolved.
- Relicensing forms should be approved/signed by all of the individual regional program supervisors responsible for foster home licensing. Our testing of five licenses issued in the current period disclosed that three of the licenses were approved by supervisors after the effective date of the licenses. Thus, the recommendation is repeated, as amended. (Recommendation 20)
- The Department should improve efforts to only place children in homes that have available capacity. The reason for additional placements in homes that are at full capacity should be identified and summarized. Since 2003, outcome measure 14 under the *Juan F.* consent decree has required the Department to focus its practice on licensed capacity issues and Department reports demonstrate improved performance in this area of practice. Thus, this recommendation has been resolved.
- The Licensing Units within the Regions need to obtain information concerning new foster care placements in a more timely manner, and complete the process of assessing relative foster homes within the timeframes required by Section 17a-114 of the General Statutes. Our review of five relative foster homes that were licensed in the current period disclosed that for three of the licenses tested, the number of days between the initial placement of the child and the license effective date exceeded 90 days. Section 17a-114 requires licensure of relative foster homes within 90 days of placement of a child in the home. Therefore, the recommendation is repeated, as amended. (Recommendation 21)
- The Licensing Units within the Regions should document the review of information that is present within a licensing file when it is “negative” in nature. Our review of provider licensing files in statewide single audits performed subsequent to this finding have not identified “negative” information significant enough to raise concerns over the licensing of a foster parent. Thus, the recommendation has been implemented.

Current Audit Recommendations:

- 1. The Department should ensure that required documentation is obtained and on file prior to making board and care payments. The Department should also review its administrative controls relative to the custody and control of Department records.**

Comment:

We noted numerous instances of missing client/provider case files or the absence of required documentation/information in files that were provided and reviewed.

- 2. The Department should review its policy on initial clothing allowances to determine whether the policy continues to meet its objectives. If the Department determines that no changes are in order, it should clarify to its staff how such policy should be administered and applied. In addition, supervisory controls should be developed and implemented that provide reasonable assurance that Department policy is being administered in accordance with management's objectives.**

Comment:

Our review of 10 payments for initial clothing allowances disclosed that four children received clothing allowances in excess of the maximum clothing allowance allowed by policy. This finding has been identified and reported upon in our audit reports for several years.

- 3. The Department should discontinue the practice of overriding its LINK computer system to make board and care payments at the end of a fiscal year.**

Comment:

We noted that the Department issued a total of 20 handwritten checks to providers totaling \$3,325,248 in June of 2003 and 2004 in order to avoid lapsing State funds in its child welfare checking account. Nine of the 20 providers which were issued handwritten checks in June received 13 payments in one or both years. The override of the system is unnecessary because of the State's GAAP closing reporting.

- 4. The Department should improve its internal controls over the processing of expenditure transactions.**

Comment:

Our review of expenditure transactions identified several instances of noncompliance with State laws, regulations and accounting policies and procedures relative to the processing of expenditure transactions.

- 5. The Department should implement internal controls that reasonably ensure that cellular phone equipment is being appropriately used by its employees.**

Comment:

Our review of cellular telephone usage disclosed several instances of excessive minutes used by employees during periods employees were not at work.

- 6. The Department should improve its internal controls over gas credit card purchases by ensuring that credit card purchases are made only by authorized users and that employees utilize State-owned gas stations whenever possible.**

Comment:

The Department reported that a former employee used a stolen gas credit card to make unauthorized purchases in excess of \$21,000 before the Department realized that the card was missing/stolen. Our testing identified instances whereby employees purchased gas at commercial gas stations when State-owned stations were available.

- 7. The Department should question, or if appropriate, report to responsible oversight State agencies, aspects of procurement transactions that appear unusual or appear inconsistent with State procurement practices.**

Comment:

Our review of the procurement of an upgrade to the closed circuit television system at the Connecticut Juvenile Training School (CJTS) indicated that the Department significantly overpaid for the upgrade based on a cost proposal submitted by the vendor who originally installed the equipment. CJTS personnel informed us that personnel at the Department of Public Works authorized the use of the higher priced vendor and that CJTS followed State procurement procedures. However, the Department did not make reasonable efforts to determine why the State was willing to pay significantly more for the cost of installation when comparable prices were available at significantly lower cost.

- 8. The Department should improve its internal controls over agency administered projects that reasonably ensure that construction projects are administered in accordance with State laws and DPW guidelines.**

Comment:

We identified several violations of State laws and/or non-compliance with State guidelines and procedures for agency administered projects in regards to the administration of a construction project to renovate a dormitory at the Department's High Meadow Residential Treatment facility.

- 9. The Department should establish internal controls over overtime costs by implementing a forecasting program that management can effectively use to monitor and contain such costs.**

Comment:

We noted that the Department continued to incur significant overtime costs during the audited period and through the fiscal year end June 30, 2005. We also determined that the Department did not have procedures in place to monitor and contain such costs.

- 10. The Department should ensure that required medical certificates and Workers' Compensation elections for the use of accrued benefits are obtained.**

Comment:

We noted that medical certificates were not obtained in six of 10 situations tested and employee's Workers' Compensation election forms were not obtained in two of ten situations tested.

- 11. The Department should conduct exit interviews with employees separating from State service making them aware of post-State employment rules.**

Comment:

We noted that the Department does not conduct exit interviews with employees leaving State service to make them aware of post-State employment rules.

- 12. The Department should develop and implement internal control procedures over its GAAP closing preparation that reasonably ensures that reported amounts contain accurate and complete information.**

Comment:

The Department's GAAP closing package required several adjustments to reported amounts.

- 13. The Department should improve its internal controls over the custody and reporting of its property inventory.**

Comment:

We noted that reported amounts were not adequately supported. Physical counts performed by us identified several fixed assets that did not contain tag numbers and/or could not be traced to property inventory records.

14. The Department should deposit all Federal Foster Care program revenues in the State's General Fund. All expenditures of the program should be made from State budgeted appropriations authorized for the program.

Comment:

The Department continued to use certain General Fund revenues received from the Federal Foster Care program to pay a vendor for contractual services. This practice circumvents State budgetary financial control procedures.

15. The Department should discontinue calculating interest liability on transactions that are processed in accordance with funding techniques approved in the Treasury-State agreement. If the Department believes that the terms of the agreement are unfavorable to the State, it should arrange with the State Comptroller to negotiate specific interest liability terms with the Federal Treasury Department that are equitable to both parties.

Comment:

We noted that the Department was calculating interest liability on Federal funds received from the Foster Care and Adoption Assistance programs that were interest neutral. The Department informed us that the Federal government has historically been slow to provide supplemental awards to the Department and that the State would be unfairly penalized if it was no longer able to recover interest costs from the Federal government.

16. The Department should amend their procedures for the recovery of cost of care expenses to include prior accrued expenses incurred on behalf of a child and retroactive benefit payments. In addition, representative payee reports should be maintained until audited.

Comment:

The Department forfeited \$6,135 in cost of care reimbursements by not considering a child's cumulative accrued expenses and/or retroactive benefit payments. An additional \$6,589 remains in a child's trust account that should have been transferred to the Department of Administrative Services in December of 2003 for deposit in the General Fund.

- 17. The Department’s supervisory/managerial staff should take a more active role in the monitoring of Fiduciary/Petty Cash accounts/funds to ensure that these accounts/funds are being administered in accordance with State accounting policies and procedures. In addition, the Department should administer its Central Office administrative petty cash and “Our Kids” accounts using one checking account for each and reconcile its authorized petty cash advanced from the State Comptroller.**

Comment:

We noted numerous instances of inadequate documentation in support of transactions, intermingling of funds between accounts, inadequate segregation of duties, late depositing of receipts, opening of unauthorized bank accounts, unnecessary use of multiple checking accounts and were unable to reconcile to petty cash totals advanced from the State Comptroller.

- 18. The Department should more effectively utilize its internal audit unit by focusing the unit’s resources on the review and appraisal of the Department’s various accounting and administrative controls.**

Comment:

We noted that the Department’s internal audit unit was not performing the internal audit functions explicitly stated in its policy manual.

- 19. The Department should publish its voluntary placement policy in its Policy Manual.**

Comment:

In its corrective action response to this prior performance audit finding, the Department indicated that it modified its voluntary placement policy to more clearly articulate the documentation needed for IV-E purposes. However, the policy remains in draft form and was never formally published in its policy manual.

- 20. Relicensing forms should be approved/signed by all responsible staff prior to the effective date of the license.**

Comment:

Our testing of five licenses issued in the current period disclosed that three of the licenses were approved by supervisors after the effective date of the licenses.

- 21. The licensing units throughout the local area offices need to obtain information concerning new foster parent placements in a more timely manner and complete the process of assessing relative foster homes within the timeframes required by Section 17a-114 of the General Statutes.**

Comment:

Our review of five relative foster homes that were licensed in the current period disclosed that for three of the licenses tested, the number of days between the initial placement of the child and the license effective date exceeded 90 days.

- 22. The Department should not process accounting adjustments for the sole purpose of avoiding the lapsing of state funds.**

Comment:

We noted that the Department processed an accounting adjustment for \$190,002 after the close of the fiscal year in order to avoid lapsing state funds.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Department of Children and Families for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Department are complied with, (2) the financial transactions of the Department are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Children and Families for the fiscal years ended June 30, 2003 and 2004, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Children and Families complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal controls 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 Children and Families is the responsibility of the Department of Children and Families management.

As part of obtaining reasonable assurance about whether the Department 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 Department's financial operations for the fiscal years ended June 30, 2003, and 2004, 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 Controls over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Children and Families is responsible for establishing and maintaining effective internal controls over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and

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

However, we noted certain matters involving the internal controls over the Department'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 controls over the Department's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Department'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: missing client/provider case files and/or the absence of required documentation/information in files; intentionally overriding the LINK computer system to make board and care payments at the end of a fiscal year; weak internal controls over the processing of expenditure transactions and; inadequate controls over the safeguarding and reporting of property inventory.

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 Department's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions by the Department 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 controls over the Department's financial operations and over compliance would not necessarily disclose all matters in the internal controls 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: missing client/provider case files and/or the absence of required documentation/information in files; weak internal controls over the processing of expenditure transactions and; inadequate controls over the safeguarding and reporting of property inventory.

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

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

CONCLUSION

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

Joseph Faenza
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts