

# STATE OF CONNECTICUT

## AUDITORS' REPORT

**CONNECTICUT CHILDREN'S MEDICAL CENTER  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 1996, 1997 and 1998**

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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August 7, 2000

**AUDITORS' REPORT  
CONNECTICUT CHILDREN'S MEDICAL CENTER  
FOR THE FISCAL YEARS ENDED JUNE 30, 1996, 1997 and 1998**

We have examined certain financial records of the Connecticut Children's Medical Center (CCMC) (formerly the Newington Children's Hospital). Our review was limited to verifying the amounts paid to that institution by the State Department of Public Health and Addiction Services (DPHAS) during the State's fiscal years ended June 30, 1996, 1997 and 1998; and a verification of payments made and reports submitted by the Medical Center to the State Comptroller's Retirement Division for Medical Center employees participating in the State's retirement plans. We have relied on the audits performed by the CCMC's independent public accounting firm. These audits covered the financial statements of the CCMC and the Center for Children with Special Health Care Needs grants for the fiscal years ended September 30, 1996, 1997 and 1998. The following report consists of Comments, Condition of Records and Recommendation based on our audit work.

**COMMENTS**

**FOREWORD:**

Connecticut Children's Medical Center is a wholly-owned, tax-exempt subsidiary of CCMC Corporation (formerly Newington Children's Hospital Corporation). The Board of the Medical Center, appointed by CCMC Corporation, controls the operations of the Medical Center.

Under an October 1986 Memorandum of Understanding, the Connecticut Children's Medical Center agreed to consolidate its acute and clinical pediatric services with the pediatric services of Hartford Hospital. In connection with this, the CCMC Corporation has become a participant in Connecticut Health Systems, Inc. The new medical center facility opened in April 1996 on a site leased from Hartford Hospital in Hartford.

Payments to the Connecticut Children's Medical Center were made by various State agencies, notably the DPHAS. Payments of contributions by employees of the Medical Center were made to the State Employees' Retirement Fund. These transactions are discussed in the following paragraphs.

**RÉSUMÉ OF OPERATIONS:**

**Payments by the State of Connecticut - Operating Subsistence:**

Section 17b-234 of the General Statutes provides that the Comptroller shall make a grant to the Hospital equal to the amount appropriated to the DPHAS for the purpose of such grant. During the State's 1995-1996 and 1996-1997 fiscal years, payments to the Hospital for operating subsistence were \$95 in each year. For the State's 1997-1998 fiscal year, the grant was eliminated in accordance with Public Act 97-8 enacted by the June 1997 Special Session of the General Assembly.

Section 19a-50 of the General Statutes provides the Commissioner of Public Health and Addiction Services with administrative responsibility for activities on behalf of "children who are crippled or suffering from conditions that lead to crippling or suffering from cardiac defect or damage" and authorizes the disbursement by the Commissioner of Public Health and Addiction Services of all funds available for such purposes, whether by State appropriation or Federal grant. The sums of \$32,152 and \$23,764 were expended for this purpose in the form of payments to the Medical Center in the 1995-1996 and the 1996-1997 State fiscal years. These payments were financed solely from State funds. In the 1997-1998 State fiscal year, the payments were consolidated with annual grant payments to CCMC for Children With Special Health Care Needs (CSHCN). Payments for these grants were as follows:

	<u>Grant Year</u>		
	<u>1/1/96 to 12/31/96</u>	<u>1/1/97 to 6/30/97</u>	<u>7/1/97 to 6/30/98</u>
Total Grants Received	\$418,500	\$395,005	\$940,010
Grant Expenditures	<u>393,616</u>	<u>270,498</u>	<u>830,307</u>
Excess of receipts over expenditures	<u>24,884</u>	<u>\$124,507</u>	<u>\$109,703</u>
Overpayment – Refunded	<u>\$24,884</u>	<u>\$124,507</u>	<u>\$109,703</u>

**Contributions to the State Employees' Retirement Fund:**

The benefits of the State Employees' Retirement System (SERS) were extended to the employees of the Connecticut Children's Medical Center under the provisions of Section 5-175 of the General Statutes. Tier I is a contributory pension plan with two benefit plans, referred to as Plan B and Plan C. Tier II is a noncontributory plan that provides a single level of benefits to all members. Under the provisions of Section 5-192nn of the General Statutes, only persons who were employed on December 31, 1992, and who were members of the State Employees'

Retirement System on that date continue to be eligible for State employee retirement benefits. Effective January 1, 1994, the Newington Children's Hospital adopted a defined benefit pension plan covering employees hired subsequent to January 1, 1993. This plan also covers employees hired prior to January 1, 1993, who had not yet become vested within the State Retirement Plan.

Payments of Tier I employee contributions to the SERS for the State fiscal years covered by this report and, for comparison, the amount paid during the 1994-1995 State fiscal year were as follows:

<b>Fiscal Years</b>	<b>Amount</b>
1994-1995	\$222,092
1995-1996	216,168
1996-1997	133,336
1997-1998	79,564

**Summary of Operations:**

A firm of independent public accountants has audited the financial statements of the CCMC Corporation and its subsidiaries for the fiscal years ended September 30, 1996, 1997 and 1998. The Connecticut Children's Medical Center is a subsidiary of the CCMC Corporation. In order not to duplicate its efforts we have accepted the financial statements as audited, after satisfying ourselves as to the professional reputation, qualifications and independence of the firm and verifying that generally accepted accounting principles and auditing standards were followed.

A summary of revenues and expenses as presented in the audited financial statements is presented below:

	<b>Fiscal Year Ended</b>		
	<b>September 30,</b>		
	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
Total Operating Revenues	\$34,530,890	\$49,788,140	\$59,672,342
Total Operating Expenses, Including Depreciation	<u>\$50,774,626</u>	<u>\$73,960,873</u>	<u>\$70,235,192</u>
Loss from Operations	(\$16,243,736)	(\$24,172,733)	(\$10,562,850)
Total Nonoperating Revenues, Net of Losses	<u>(\$ 4,347,520)</u>	<u>\$ 132,917</u>	<u>\$ 614,854</u>
Deficiency of Revenues Over Expenses	<u><b>(\$20,591,256)</b></u>	<u><b>(\$24,039,816)</b></u>	<u><b>(\$ 9,947,996)</b></u>

The Connecticut Children's Medical Center Foundation (formerly the Newington Children's Hospital Foundation), which is controlled by the CCMC Corporation, was established to solicit contributions from the general public and to support the Medical Center. The Foundation's revenue is primarily generated by contributions and investment income. During the Medical Center's fiscal years ended September 30, 1996, 1997 and 1998, the Foundation provided financial support to the Medical Center totaling \$19,530,442, \$19,000,000 and \$16,517,250 respectively.

**Audit by Independent Public Accountants:**

We noted that in conjunction with the Independent Accountants examination of the financial records for the fiscal years ended September 30, 1996, 1997 and 1998, a report on its internal control structure was issued. The report did not contain any recommendations that directly related to amounts paid to CCMC by the State of Connecticut or payments made and reports submitted by the Medical Center to the State Comptroller's Retirement Division for Medical Center employees participating in the State's Retirement System.

## CONDITION OF RECORDS

During our review of payments made and reports submitted by the Medical Center to the State Comptroller's Retirement Division for employees participating in the State's retirement plan we found the following:

### **Pensions:**

*Background:* The benefits of the State Employees' Retirement System (SERS) were extended to the employees of the Connecticut Children's Medical Center under the provisions of Section 5-175 of the General Statutes. The Retirement and Benefit Services Division of the State Comptroller's Office maintains the accounting records pertaining to the operations of the retirement system.

*Criteria:* Retirement wages are based on the average of the highest three years of earnings as reported to the State Comptroller. Good internal controls require reconciliation of control totals to subsidiary records. With regard to retirement contribution records, this would include reconciliation of weekly amounts reported, to annual amounts reported for tax purposes.

*Condition:* The Retirement and Benefit Services Division of the State Comptroller's Office relies on wage amounts reported by CCMC. Wages reported by CCMC to the State Comptroller were inaccurate resulting in overstated gross wages. Calendar year 1997 gross wages for four CCMC employees are overstated by a total of approximately \$122,300. The four employees are SERS Tier II participants. One of the employees has terminated employment. A review of records on file at the Comptroller's Office detailed that the terminated employee's 1997 wages as reported are overstated in the amount of \$37,600. Average wages for the terminated employee, if computed as reported to the State Comptroller would be overstated by approximately \$12,533.

*Effect:* The overstatement of average wages would potentially cause miscalculations and overpayment of pension benefits. Final retirement benefit computation is subject to audit by the State Comptroller's Office.

*Cause:* There is apparently a breakdown in controls over reporting accuracy by CCMC.

*Recommendation:* The Connecticut Children's Medical Center must correct wage amounts previously reported to the State Comptroller's Retirement and Benefit Services Division. In addition, controls over wage reporting should be improved at CCMC and reconciliation

procedures developed and implemented. (See Recommendation 1.)

*Response:*

“CCMC has recently submitted wage corrections to the State Retirement Division. Furthermore, in our recent conversion to a new in house payroll system the custom pension reporting module was reviewed in detail by systems support personnel. Changes have been made to the computer program to insure that all transactions which affect the gross weekly pay will be incorporated in both the weekly retirement report and the tape provided to the State Comptroller. This will ensure that each information source will contain the same data. Finally, the Payroll Department has enhanced its weekly reconciliation process to include balancing retirement wages to payroll control totals. This will enhance their ability to recognize any potential wage issues that may arise.”



**RECOMMENDATIONS**

*Status of Prior Audit Recommendations:*

Our prior audit did not result in any recommendations.

*Current Audit Recommendation:*

- 1. The Connecticut Children’s Medical Center must correct wage amounts previously reported to the State Comptroller’s Retirement and Benefit Services Division. In addition, controls over wage reporting should be improved at CCMC and reconciliation procedures developed and implemented.**

Comment:

Errors in reporting wages went undetected due to the lack of reconciliation procedures.

**CONCLUSION**

This report is intended for 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.

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the officials and employees of the Connecticut Children's Medical Center during our examination.

Josepha M. Brusznicki  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts

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