

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF PUBLIC HEALTH
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007*

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

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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September 14, 2011

AUDITORS' REPORT DEPARTMENT OF PUBLIC HEALTH FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007

We have examined the financial records of the Department of Public Health (Department) for the fiscal years ended June 30, 2006 and 2007. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification which follow.

Financial statements pertaining to the operations and activities of the Department of Public Health are presented on a Statewide Single Audit basis to include all state agencies. This audit examination has been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

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

The Department has adopted an incident command organizational structure. The goal of this structure is to ensure that division management is prepared to coordinate their efforts in the event of a disaster. The key divisions are Regulatory Services, Health Care Systems, Laboratory, Operations, Administration, Planning, Public Health Initiatives, and Local Health Administration.

The Commissioner of Public Health is responsible for the overall operation and administration of the Department, as well as administering state health laws and the State Public Health Code. Under the provisions of Section 19a-14 of the General Statutes, the Department is also responsible for all administrative functions relating to various boards and commissions and licensing the regulated professions. The duties of the various boards and commissions consist of assisting the Department in setting standards for the various professions, examining applicants

for licensure, and taking disciplinary action against any license holder who exhibits illegal, incompetent, or negligent conduct.

Robert Galvin, M.D. was appointed Commissioner in December 2003 and served throughout the audited period. Norma D. Gyle served as Deputy Commissioner throughout the audited period.

The Office of Health Care Access and the Commission on Medicolegal Investigations both operate within the Department of Public Health for administrative purposes only. Our related examinations are reported upon separately.

Significant Legislative Changes:

Sections 1 and 2 of Public Act 05-175, effective October 1, 2005, transfers responsibility for the oversight of milk laboratories from the Department to the Department of Agriculture and the elimination of the Department's \$1,000 registration fee.

Sections 1 of Public Act 05-80, effective October 1, 2005 amended Section 19a-253 of the General Statutes, respectively, by taking the responsibility for deciding whether or not to admit a chronically ill patient to a chronic disease hospital from the Department and giving it to the medical director of the facility.

Public Act 05-149, codified as Sections 19a-32d through 19a-32g of the General Statutes, effective June 15, 2005, established a stem cell research program with an initial appropriation of \$20,000,000. The act also banned human cloning in Connecticut. The following discusses notable sections of the General Statutes in greater detail:

- Section 19a-32e of the General Statutes established the "Stem Cell Research Fund," a non-lapsing account used for the Department's activities relating to stem cell research, including the receipt of donations and payments of grants. This section also established guidelines for grant applications and their evaluation. Beginning June 30, 2006, the amount of \$10,000,000 per year for ten years is allocated for these grants.
- Sections 19a-32f and 19a-32g of the General Statutes established the Stem Cell Research Advisory Committee and the Stem Cell Research Peer Review Committee, respectively. Both sections establish requirements for the member composition of each committee, the length of members' terms, and attendance requirements. Members of both committees are deemed public officials who must adhere to the code of ethics. The goal of each member of the Advisory Committee is to "advance embryonic and human adult stem cell research" through a variety of means including awarding grants and monitoring the resulting research. The Peer Review Committee rates and scores grant applications and makes recommendations to the Department and the Advisory Committee for awarding grants.

Public Act 05-172, amended Section 19a-497 of the General Statutes, effective October 1, 2005, by permitting the Department to impose a \$10,000 civil penalty per day on any nursing home that fails to file a strike contingency plan within five days of a scheduled strike.

Public Act 05-251, effective July 1, 2005, provides \$575,000 from the Tobacco and Health Trust Fund for an Easy Breathing Program and an Asthma Education Awareness Program.

Public Act 05-272 made various additions and revisions to Titles 19a and 20 of the General Statutes. Most notably, Section 36 of the act, effective July 13, 2005, codified as Section 19a-32d of the General Statutes, imposed a penalty of no more than \$50,000, or imprisonment of no more than five years, against any person who conducts research involving embryonic stem cells in violation of the statute.

Public Act 05-280, effective July 1, 2005, made various additions and changes to Titles 19a and 20 of the General Statutes. Most notably, Sections 57, 59, and 67 of the act are codified as Section 19a-487, 19a-487a, and 19a-487b, respectively. These acts established a critical access hospital. The Department of Social Services was given responsibility for the hospital's financial operations while the Commissioner acts as the chairman of a board of directors to advise the Department on the operation of the hospital. The board meets as often as the Commissioner deems necessary. The Commissioner must also adopt regulations to implement policies and procedures for critical access hospital isolation care and emergency services.

Public Act 06-33, effective April 24, 2006, amended Section 19a-32f of the General Statutes. The act increased the membership of the Stem Cell Research Advisory Committee from eight to 16 members and clarified that a member of the advisory committee can have a financial interest in an organization applying for a stem cell research grant, but that the member cannot participate in the affairs of the committee regarding the application.

Certain sections of Public Act 06-186 made the following changes:

- Section 19, effective July 1, 2006, allowed the Department to use \$200,000 of the amount allocated for stem cell research for administrative expenses associated with the program.
- Section 27, effective July 1, 2006, provides \$7,500,000 from the Tobacco and Health Trust Fund to be allocated as follows: \$500,000 for the Easy Breathing Program, \$150,000 for an adult program within the Easy Breathing Program, \$150,000 for asthma awareness and prevention in Bridgeport, \$1,000,000 for cervical and breast cancer, \$5,500,000 for the Connecticut Cancer Partnership, and \$200,000 for the Health Professions Partnership Initiative to the University of Connecticut Health Center.
- Section 54, effective May 7, 2006, made the Breast and Cervical Cancer Detection and Treatment account a nonlapsing account and transferred to it \$645,000 from the AIDS Services account.

Certain sections of Public Act 06-188 made the following changes:

- Section 20 of the act, effective July 1, 2006, amended Section 19a-55a of the General Statutes by increasing the amount of receipts to be deposited to the newborn screen account from \$345,000 to \$500,000.

- Section 47 of the act, effective May 26, 2006, was codified as Section 19a-45b of the General Statutes. This section established a medical home pilot program for children. The Department is permitted to receive private funds for the program. Effective October 1, 2006, Section 48 of the act, codified as Section 19a-45c of the General Statutes, established requirements for the Department to evaluate and report the outcomes of the pilot program.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts of the Department totaled \$25,186,999 and \$27,203,009 for the 2005-2006 and 2006-2007 fiscal years, respectively. A comparative summary of General Fund receipts, as compared to the previous fiscal year, is presented below:

	<u>2004-2005</u>	<u>Fiscal Year</u> <u>2005-2006</u>	<u>2006-2007</u>
Revenues:			
Licensure, registration, and inspection fees	\$ 19,911,941	\$ 20,187,685	\$ 20,816,115
Title XIX State Survey and Medicaid funds	3,459,624	2,860,478	4,213,742
Fees for laboratory services	1,128,716	1,076,858	980,882
Birth, marriage, and death certificates	28,025	84,074	140,878
Fines, civil penalties, and court costs	962,141	564,102	638,800
Miscellaneous	18,389	29,785	17,919
Refunds of prior year expenditures	350,943	384,017	394,673
Total Revenues	25,859,779	25,186,999	27,203,009
Refunds of expenditures (applied to expenditures)	387	-	-
Total Receipts	<u>\$ 25,860,166</u>	<u>\$ 25,186,999</u>	<u>\$ 27,203,009</u>

The five percent increase in receipts during the audited period is primarily attributable to an increase in Title XIX State Survey and Medicaid funds. Public Act 06-188, effective July 1, 2006, caused the amount of General Fund lab fee revenue to decrease by \$155,000 by allocating this additional amount to the restricted Newborn Screening Account.

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

General Fund expenditures totaled \$76,514,361 and \$82,860,472 for the 2005-2006 and 2006-2007 fiscal years, respectively. A comparative summary of General Fund expenditures, as compared to the previous fiscal year, is presented below:

	<u>Fiscal Year</u>		
	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Personal services	\$ 29,466,365	\$ 32,998,378	\$ 36,224,406
Contractual services	4,300,454	4,052,207	3,447,740
Commodities	8,988,829	8,781,587	10,875,275
Sundry charges	11,043,584	12,523,422	2,694,853
Grants-in-aid	16,322,213	18,121,717	29,600,250
Equipment	19,778	37,050	17,948
	<hr/>	<hr/>	<hr/>
Total Expenditures	<u>\$ 70,141,222</u>	<u>\$ 76,514,361</u>	<u>\$ 82,860,472</u>

Personal services represented over 40 percent of total expenditures during the audited period. Increased expenditures for drugs and pharmaceuticals are reflected in the increase in commodities. The decrease in Sundry Charges is due to a change in the accounting treatment for sundry grants that are now properly recorded as Grants-in-aid, thereby resulting in a comparable increase to the Grants-in-aid account.

Special Revenue Fund – Federal and Other Restricted Account:

The Department’s federal and other restricted account receipts, as recorded by the State Comptroller, totaled \$136,758,758 and \$131,804,524 for the fiscal years ended June 30, 2006 and 2007, respectively. These receipts were primarily from the federal Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA #10.557). Total fund receipts decreased in the 2006-2007 fiscal year mainly due to a decrease in HIV Care Formula Grant funding (CFDA #93.917).

Expenditures of this account, as recorded by the State Comptroller for the fiscal years ended June 30, 2006 and 2007, totaled \$117,491,644 and 130,638,019, respectively. A summary of these expenditures is presented below:

	<u>Fiscal Year</u>		
	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Personal services	\$ 29,495,830	\$ 30,302,685	\$ 29,339,510
Contractual services	6,921,716	5,623,877	5,397,053
Commodities	35,739,095	27,342,108	34,714,989
Revenue refunds	171,977	178,693	60,928
Sundry charges	55,749,653	58,101,380	59,483,757
Grants-in-aid	145,354	298,049	265,846
Equipment	1,063,528	1,083,724	1,185,736
Building and improvements	(8)	-	-
Prior period adjustments	-	(5,438,872)	190,200
	<hr/>	<hr/>	<hr/>
Total Expenditures	<u>\$ 129,287,145</u>	<u>\$ 117,491,644</u>	<u>\$ 130,638,019</u>

Commodities are comprised mainly of food and beverage charges of the Special Supplemental Nutrition Program for the Women, Infants, and Children grant (WIC) (CFDA # 10.557). Sundry Charges were mainly for grant expenditures.

Special Revenue Fund – Capital Equipment Fund:

Special Revenue Fund expenditures for equipment purchases totaled \$511,122 and \$759,886 during the fiscal years ended June 30, 2006 and 2007, respectively. These amounts were spent to purchase medical, lab, and data processing equipment.

Special Revenue Fund – Grants to Local Governments and Others Fund:

Special Revenue Fund expenditures for grants-in-aid to Department nonprofit providers and community health agencies for facility improvements amounted to \$2,999,515 and \$9,684,006 for the fiscal years ended June 30, 2006 and 2007, respectively.

Capital Projects Fund – Capital Improvements and Other Purposes:

Capital Projects Fund expenditures were \$(134,782) and \$42,015 during the fiscal years ended June 30, 2006 and 2007, respectively. An accounting correction of (\$143,044) resulted in the presentation of negative expenditures during the fiscal year ended June 30, 2006. Actual expenditures (before adjustments) were \$8,262.

Fiduciary Funds - Biomedical Research Trust Fund:

Biomedical Research Trust Fund expenditures were \$517,714 and \$1,013,251 during the fiscal years ended June 30, 2006 and 2007, respectively. These amounts were spent solely on grants.

CONDITION OF RECORDS

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

Awarding of Grant and Human Service Contracts:

Criteria: The Department utilizes human service contracts to document most of its grant awards. In accordance with Section 4-70b, subsection (c), of the General Statutes, the Secretary of the Office of Policy and Management (OPM) issued suggested guidelines to state agencies regarding the use of human service contracts that appear to be designed to ensure that state contracts are awarded in an atmosphere of open competition. Accordingly, they include provisions for the solicitation and review of competitive proposals. In order to provide integrity to the process, adequate documentation should be retained.

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

Condition: Our testing of grant and human service contracts noted the following concerns:

- Due to a lack of adequate documentation, we could not sufficiently evaluate the Department's contractor selection process. We were unable to verify whether or not the Department considered all contractor proposals because a log of proposals was not maintained. In addition, review committee member notes and scoring sheets were not retained. Although we were told that reviewer scoring sheets had been shredded, the Department was able to provide us with copies for one of the three contractors in our sample.
- Our sampling noted that seven contractors began working without an approved contract. Through analytical procedures, we calculated that the Department approved 970 contracts totaling \$179,867,571 during the audit period. Based on the Department's contract log, only 1 percent of these contracts were approved before the contractual start date. Most notably, 473 of these contracts were approved between 91 and 432 days after the start date. Due to the nature of the Department's contracts, it is likely that many contractors provided services without the proper approvals and before a commitment for the obligation was recorded.

- Effect:* Failure to retain sufficient documentation to support the proposal evaluation process prevents independent parties from determining if the process was carried out properly and without undue influence.
- Incurring an obligation prior to committing the appropriate funds violates Section 4-98 of the General Statutes and may reduce the effectiveness of established budgetary controls.
- Cause:* The Department regards individual proposal rating sheets as draft documents, and thus does not require them to be retained. A lack of administrative control is the general cause of these conditions.
- Recommendation:* The Department should improve controls over the awarding of human service and personal service agreements. (See Recommendation 1.)
- Agency Response:* “We agree with this finding in part:
- Consideration of all contractors’ proposals: The Department centralized oversight of the competitive bid process within the Contracts and Grants Management Section (CGMS) in July of 2010. This has allowed the Department to ensure that all required documentation is completed properly. A listing of the proposing vendors is now maintained in the resulting contract file in addition to a summary of the evaluation process that details the rating criteria and basis for selection of the individual contractor. Because CGMS retains contract files for six years after contract end, there is reasonable assurance that this information will be retained for the required retention period and/or until any audit for the affected contract year has concluded.
 - Incurring an obligation prior to committing appropriate funds: Transitioning to stricter control of the contract approval process in conjunction with Office of Policy and Management (OPM) has resulted in contract requests being recorded in the Department’s Fiscal Office records and sent to the Office of Policy and Management also for recording in its financial records. An approval request is then transmitted to OPM through an automated system. The information from the transmitted request is reconciled by the OPM budget analyst against the financial information forwarded by the Department’s Fiscal Office prior to approval. Two additional reviews are conducted by OPM to prevent approval of a contract with a start date earlier than the OPM approval date.”

Weaknesses in Controls over Licensing:

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

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

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

Section 19a-80, subsection (c), of the General Statutes states that, “... each prospective employee of a child day care center or group day care home in a position requiring the provision of care to a child [shall] submit to state and national criminal history records checks.”

Effective administrative controls over licensing data include monitoring manual changes to electronic records to prevent and detect errors or fraud. The licensing system produces periodic History Audit Reports of such manual changes.

Condition: We noted the following control weaknesses over the licensing function at the Department that relate to issuing new licenses, renewals, and data security.

- In our sample of 25 new licenses, three applicants may not have been screened sufficiently before the Department issued licenses. The first applicant’s exam scores were not documented in the applicant’s file. The second applicant submitted a letter instead of the required official transcript. The third applicant disclosed a felony on the application; however, there was no documentation attached and we could not

determine whether the Department considered the felony before issuing the license.

- In our sample of 25 license renewals, we noted that the Department failed to follow up on one renewal application that was submitted blank. As a result, the Department lacked relevant information to evaluate the renewal application such as, had continuing education requirements been met, had disciplinary actions occurred, and had the applicant been convicted of a felony since the last renewal or initial license was issued.
- Our review of day care licenses noted that, during the 2006 state fiscal year, the Department issued a license to a day care center where a new director's FBI background check could not be completed because the FBI determined that the fingerprints were unreadable. As a result, the Department requested a second set of fingerprints, but never received them. In addition to issuing the original license, the Department renewed the facility's license in 2008. The Department does not have formal policies and procedures in place for background checks relating to licensing of day care facilities.
- The Department's controls over changes to licensing data provide monthly History Audit Reports of manual changes to the electronic license records. In our sample of 12 such reports, only five had been reviewed by a supervisor. This condition also impacts licensing accounts receivable and is included in our finding, *Controls over Accounts Receivable*.

Effect:

Licenses may have been issued or renewed for ineligible individuals thereby putting the public, including children, at risk. Without supervisory review of the manual changes made to licensee data, the reliability of the data is compromised and there is an increased risk that errors or fraud could occur and not be detected.

Cause:

Errors in processing license applications have occurred.

The Department does not have formal documented policies and procedures in place regarding day care facility licensing and criminal background checks. When making licensing decisions, it relies on multiple application forms and checklists that are completed by the applicant.

Adequate information system controls have not been implemented to detect errors or fraud that could occur when manual changes are made to licensing records.

Recommendation: The Department should improve controls over the licensing function so that the integrity of the licensing data is maintained and only eligible applicants are licensed, especially with regard to criminal background checks in compliance with Section 19a-80, subsection (c), of the General Statutes. (See Recommendation 2.)

Agency Response: “We agree with this finding.

Section 19a-80(c) requires the Commissioner, within available appropriations, to require each prospective employee of a child day care center or group day care home in a position requiring the provision of care to a child to submit to state and national criminal history records checks. The Department currently permits a license to be issued upon submission of the fingerprint cards; results of the checks do not have to be received prior to license issuance. Likewise, if a new staff is hired, fingerprints must be submitted within 12 days of working in the program. The Department has determined that the existing Access database is incapable of tracking the return of rejected prints. Transition of the current Access child day care databases to eLicense is expected to be complete by the summer of 2011. Subsequent to this transition, opportunities to enhance the tracking of returned fingerprints may be identified. Additionally, the Department recently received a federal grant to implement a background check program on staff in nursing homes. This initiative may provide some enhancements to the overall system utilized for all providers where DPH conducts background checks. When conducting routine spot inspections of licensed facilities, a sample of staff records are reviewed to evaluate compliance with the regulations including whether fingerprints for criminal background checks were submitted. If a particular concern arises which brings into question the criminal background of a staff person in a program or a program’s record keeping practices, receipt of background check results is verified. The activities noted above in regards to the processing criminal background checks are activities that may be performed within available appropriations. Documentation of our policies and procedures in regard to the processing of criminal background checks will be accomplished by 2013.”

Controls over Accounts Receivable:

Criteria: In order to provide assurances that receivable balances and receipts are properly recorded and reported, there should be an adequate segregation of duties over the assessment, recording, and collection of amounts due. In addition, timely reconciliation of subsidiary records to control accounts should be performed on a regular basis.

The statewide accounting system, Core-CT, provides agencies with an automated system for managing accounts receivable.

Effective administrative controls over licensing accounts receivable include monitoring manual changes to the licensing system to prevent and detect errors or fraud. The licensing system produces periodic History Audit Reports of such manual changes.

Condition:

Receipts generated by various units at the Department totaled approximately \$21.9 and \$22.5 million during the fiscal years ended June 30, 2006 and 2007, respectively. Each unit is independently responsible for assessing, recording, and collecting the amounts due. We noted the following concerns:

- The business office has taken limited responsibility for accounts receivable by only depositing funds, recording the receipts in Core-CT, and combining each unit's accounts receivable for the year-end GAAP closing package. In most cases, the various operating units periodically transmitted receivable data to the business office, but there was no evidence that the information was reviewed by management.
- Customized accounts receivable systems are used to manage the Department's larger sources of revenue. We noted that, for the licensing system, the propriety of manual adjustments to accounts receivable were not monitored by an appropriate level of staff through monthly reviews of system-generated Audit History Reports. This condition also impacts licensee data and is included in our finding, *Weaknesses in Controls over Licensing*.
- The State of Connecticut's Core-CT system is not being used to manage a variety of smaller sources of revenue such as civil penalties. As a result, the amounts due for such accounts receivable are not recorded in Core-CT until the receipt is deposited.
- With the exception of the laboratory, periodic trial balances were not maintained.

Effect:

The absence of centralized controls increases the risk that errors will go undetected.

Cause:

This recommendation is repeated from our prior audit report. The Department's response to that recommendation indicated that they were unable to address our concerns due to increases in workload coupled with staff attrition.

Recommendation: The Department should improve controls over its various accounts receivable. The business office should take a more active role. When appropriate, Core-CT should be used to manage accounts receivable. (See Recommendation 3.)

Agency Response: “We agree with this finding. The various operating units are now transmitting the necessary data through monthly subsidiary accounts receivable spreadsheets to Accounts Payable/Receivable section. The section has developed a master accounts receivable spreadsheet to capture all monthly subsidiary accounts receivable spreadsheets. However, because of the loss of employees through the early retirement program and layoffs and then the additional workload as the result of Core-CT, the monthly review and reconciliation of the information had to be suspended. Unless additional staff can be assigned to Accounts Payable/Receivable section or Core-CT responsibilities are streamlined, the Department is unable to resume this activity.”

Public Health Foundation of Connecticut:

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

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

Condition: Based on unaudited financial statements, an annual audit was required for fiscal years ending June 30, 2006 and 2007 for the Public Health Foundation of Connecticut, but none was obtained.

Effect: The Public Health Foundation of Connecticut did not comply with statutory requirements that are designed to help ensure compliance with applicable state requirements and restrictions and to provide the Department with adequate information to monitor its activities.

Cause: The Public Health Foundation did not obtain the required audit.

Recommendation: The Department should comply with the audit requirements of Section 4-37f of the General Statutes. (See Recommendation 4.)

Agency Response: “The Department agrees with this finding and is working with the Foundation to ensure that the required audit is completed and submitted to the Department, consistent with applicable statutory reporting requirements.”

Vehicle Assignments:

Criteria: Department of Administrative Services (DAS) General Letter Number 115 states that vehicles are to be parked within five miles of the assigned individuals’ official duty station.

Comptroller’s Memorandum No. 2006-03, 2007-02, and 2008-05 state that an individual will not have a taxable benefit if three stipulations are met: “(a) vehicle usage and parking location must make “good business sense” to the employer, (b) overnight parking location must be approved by the employer, and (c) if the driver transports one or more passengers from their home(s) to the work site, such passengers are subject to taxation on the derived benefit.” The memorandum also states that, “...Federal Public Law 99-44 mandates that an employee’s personal use of an employer-owned or leased vehicle must be reported to the Internal Revenue Service [IRS] as taxable income [on form W-2]. ‘Personal use’ is defined as any non-business use, including commuting from an employee’s home to his or her worksite.”

Condition: The Department allowed five employees to use their assigned vehicles more than 46 percent for commuting purposes. DAS General Letter Number 115 specifically states that a vehicle must be parked within five miles of the primary driver’s assigned work station. These vehicles were parked within ten miles of the primary driver’s home, and a significant distance from their work station. The yearly Comptroller’s memorandum specifically states that the vehicle can be parked near the employee’s home, even if it is not close to the official duty station, if that makes good business sense for the employer. The parking location of the five vehicles appears to have benefited the employees, not the State. This benefit should have been added to the employees’ IRS form W-2 as a fringe benefit. However, none of the employees had it included in their W-2.

In one case, the vehicle assignment appeared to be unnecessary, as it was used on average 67 percent for commuting purposes. This was confirmed when the vehicle was taken away the day after the Governor issued Executive Order Number 22 which stated “...the resulting budgetary shortfall necessitate that we eliminate all expenses associated with excessive, unnecessary and improper use of State vehicles...”. This order also resulted in all state

commissioners returning their vehicles to the state vehicle pool. The fringe benefit derived from the individual's commuting mileage over a two year period was calculated to be \$18,136, using the applicable IRS mileage reimbursement rates for business travel.

Effect: The Department did not comply with DAS policy or the Comptroller's memorandum, therefore, some employees received excessive benefits. These benefits were not included in the income reported on form W-2 as mandated by the IRS.

Cause: It appears that a lack of understanding of policies and procedures contributed to this condition.

Recommendation: The Department should re-evaluate vehicle assignments to ensure compliance with all applicable policies and procedures. In addition, the Department should recover the costs for using a state vehicle for commuting purposes from the individual who turned their vehicle in as a result of Executive Order Number 22. For the remaining four individuals, corrected W-2s should be issued. (See Recommendation 5.)

Agency Response: "Upon inspection, we discovered that the travel logs utilized by DPH (provided by the Dept. of Administrative Services) ask for the towns stopped at during the day and the ending point town. This was interpreted at face value and did not include the actual work locations that the employee visited. For example, there are in-house forms utilized by at least one section that has detailed information for each day showing that although the person was in Hartford, for instance, that they were not at the Capitol Avenue location but were in the field in Hartford performing inspections. Therefore, we question the interpretation of the travel logs as a basis for determining a commuting benefit. The other sections have backup information in various forms such as calendars, etc. pointing to the fact that the employees were scheduled in the field at particular locations other than the Capitol Avenue building.

DPH sections have provided documentation as to why the parking locations made 'good business sense' and were in compliance with the DAS memo referenced above. In addition, the DPH has personnel with vehicles who have critical roles in responding to Public Health emergencies which do not always occur during regular business hours. This implies that the employee will need almost immediate access to a vehicle to respond to these emergencies during other than business hours and the location near their home would be the preferred location for emergency response purposes.

Going forward, the department will instruct the staff to add the points visited during the visit to the log, thus providing sufficient detail to determine compliance with this finding.”

*Auditor’s Concluding
Comments:*

We sampled six employees and determined one employee had sufficient state business using these logs that only require a beginning and ending town to be listed. We did request additional information and there were no in-house logs or calendars provided. All personnel that were deemed to be using the cars to commute to the Capitol Avenue office have desks at this location and their official duty station was deemed to be Capitol Avenue. In fact, one of the employees issued a vehicle manages staff at Capitol Avenue. Management is the employee’s prime duty assigned. The justifications submitted to Department of Administrative Services (DAS) for the vehicles did not make good business sense and did not justify parking the vehicles close to the employees’ homes. The lack of need is reinforced when one employee lost the vehicle after an executive memorandum was issued by the governor and again when one employee retired and the car was not assigned to the employee’s replacement. The Departments’ claim that the employees’ duties included responding to public health emergencies is not supported by their job descriptions or the units they work for. There are individuals whose assigned duties include responding to public health emergencies and we are not questioning their use of a state car or their mileage. In fact, one employee parks the state vehicle in his driveway, with permission from DAS, and this is not questioned.

Calculation of per Capita Grants to Local Area Health Departments:

Criteria: The amounts of grants provided to each health district are calculated based on each district’s population statistics in accordance with Section 19a-245 of the General Statutes.

Condition: Our review of five per capita grant payments to health districts noted that one district was overpaid \$1,426 and a second was underpaid \$100. The Department did not detect the calculation errors, in part because published population statistics were manually entered into a spreadsheet that was not designed to prevent or detect clerical errors through the use of control totals. Appropriations for this grant were \$4,195,374 during each of the fiscal years ending June 30, 2006 and 2007.

Effect: Under or over funding of a health district could occur.

- Cause:* The Department did not establish controls to prevent errors or verify calculations in the process of making per capita grants to health districts.
- Recommendation:* The Department should improve controls over grant calculations so that health districts receive the correct amount of per capita grants. (See Recommendation 6.)
- Agency Response:* “We agree with this finding. The staff performing the calculations transposed the population numbers resulting in an incorrect payment amount. Staff are now double checking figures so that this error does not reoccur.”

Equipment Inventory and Reporting:

Criteria: Section 4-36 of the General Statutes requires each state agency to establish and keep property inventory records in the manner prescribed by the State Comptroller and submit by October 1st a detailed inventory, completed as of June 30th, of all property owned by that agency.

The State of Connecticut Property Control Manual, issued by the State Comptroller prescribes the inventory records and procedures, including the requirement that only capitalized assets be reported on the Form CO-59. Capitalized assets are defined as individual assets with a value or cost over \$1,000. It also provides further guidance on internal controls for most facets of inventory management, including that equipment reports should be accurately prepared and filed in a timely manner. Furthermore, when an item is used at a location other than that to which it was assigned, the responsible employee must sign a Record of Equipment on Loan Form or a similar form prepared by the agency. This form documents that the individual takes responsibility for theft or other cause and/or any damage to the equipment.

In addition to the Property Control Manual, the State Comptroller’s Core-CT Manager Guide to Asset Management requires all capital and controllable assets to be listed in the Core-CT Asset Management System (AMS), and sets forth policies and procedures to follow in maintaining assets in Core-CT AMS to enable accurate control and reporting.

Section 4-33a of the General Statutes requires agencies to promptly notify the Comptroller and the Auditors of Public Accounts of any illegal, irregular, or unsafe handling or breakdowns in safekeeping of any resources of the state.

Good business practice requires that the responsibility for periodic physical inventories of capitalized assets should be assigned to responsible officials who have no custodial, recordkeeping or annual reporting responsibilities.

Condition:

The Department has not established and kept property inventory records in full compliance with the Property Control Manual and the Core-CT Manager Guide for Asset Management. The Department did not fully implement the Core-CT Asset Management System (AMS) as is required by the Comptroller and relied mainly on an older AMS during the audit period. We noted the following:

- The annual Fixed Assets/Property Inventory Report (Form CO-59) for the fiscal years ending June 30, 2006 and 2007 were submitted 79 and 56 days late, respectively.
- We could not verify the completeness of the amounts reported on both years' Form CO-59 because the Department based the amounts on its older, inaccurate property control system and incomplete physical inventory records that had not been reconciled to addition and deletion activity that is recorded in Core-CT as required by the Property Control Manual. Based on the Department's older property control system, the total cost of items added to and deleted from the Department's perpetual inventory record during the fiscal year ending June 30, 2007 did not agree with the amounts reported on the Form CO-59. We noted variances of \$357,773 and \$22,682, respectively.
- During the fiscal year ended June 30, 2006 an initial purchase of items for the Mobile Field Hospital, totaling \$1.42 million, was neither added to the Department's older Asset Management System nor Core-CT's Asset Management module, causing the Form CO-59 for the year to be understated. Subsequently, our Statewide Single Audit for the fiscal year ended June 30, 2007, found that additional purchases for the Mobile Field Hospital, costing \$4.27 million, were also excluded from both records. As a result of our audit findings, the Department added the items to the total reported on the Form CO-59 for the 2007 state fiscal year. However, they did not add the items to Core-CT AMS inventory records until February and December 2008. These entries do not comply with the requirements as they incorrectly reflect the average cost of individual items, the wrong acquisition dates, and incorrect account coding.
- The tuberculosis drug inventory and other supplies were omitted from both years' Form CO-59 report, resulting in

understatements of \$335,975 and \$206,099 for the 2006 and 2007 fiscal years, respectively.

- We noted several concerns regarding the Department's annual physical counts of inventory.
 - The same person who maintains the inventory record is also responsible for taking the annual physical inventory, resulting in an insufficient segregation of duties.
 - The pre-printed inventory sheets used by the Department during the annual physical inventory count were not pre-numbered.
 - Transfer document CO-862 was not completed for any asset location reassignment in the Core-CT AMS resulting from the annual count.
 - Capital assets that were located without a tag number affixed to them were not always appropriately researched before being given a tag number and added to AMS, resulting in duplications of costs.
 - The agency-prepared property control inventory records were not reconciled to Core-CT AMS. Since no reconciliation to Core-CT was performed, an audit trail to source documents was not created.
 - When not personally inspecting items during the physical count, only verbal confirmation of the assets' existence was sought from the custodian.

- No loss report was filed for equipment that could not be located during the 2007 fiscal year's annual physical inventory totaling \$124,506. Included in this list, with a null value, was equipment with an actual cost of \$23,703. As many of the items on this list were recorded as having a null or insignificant cost, we could not readily determine the actual cost of missing items.

- Our testing of 31 vouchers for 227 assets noted that only four of the items were added to the Core-CT AMS inventory in a timely manner. Of the remaining 223 assets, five were never added, 123 were added during the first physical inventory cycle and the remaining 95 were added between 589 and 1,524 days after the items were received. This means that annual physical inventory counts failed to detect the 100 items that were omitted from the Core-CT AMS records. The Core-CT AMS is understated by \$90,347 for the costs of the assets that were never added and shipping charges. We also noted that 22 items were overstated in Core-CT AMS by \$138,544 due in part to the duplication of costs and the inclusion of items not

considered controllable and costing less than \$1,000 such as maintenance agreements and software.

- Our physical inspection of 17 assets noted that two items, costing less than \$1,000 each, were overstated by a total of \$96,660.
- We noted a lack of accountability over 200 Toughbook laptops costing \$631,000 that were purchased during the fiscal year ending June 30, 2007. Only 195 of these laptops were added to the Department's old AMS, of which 46 were subsequently added to the Core-CT AMS. The Department claims that because a vendor distributed the laptops directly to Emergency Medical Service (EMS) organizations when they were purchased, the state does not own them and does not need to include them in their annual physical inventory count. Regardless, our audit noted that 195 laptops were included in the 2007 year-end inventory report (Form CO-59.) The Department was unable to explain why the items were added to the inventory and included in the report since they claim that they do not own them. We were unable to determine who owns the laptops and is responsible for the confidential medical data they contain because there is neither a contract between the Department and EMS organizations nor a signed equipment loan form. More recent distributions of similar laptops have required EMS organizations to accept ownership of laptops and responsibility for the data by signing an accountability form. Based on these forms, it would appear that the state does not have responsibility for the laptops. However, we noted that even with the form, one laptop was still included in Core-CT AMS. In addition, the Department has not maintained a listing of laptop recipients and has no knowledge of how many laptops an organization has received. When we asked for such a list, we were directed to contact the vendor who both sold the laptops to the Department and distributed them to recipients.
- The Core-CT AMS data includes 8,378 items. An analysis of this data shows that the following required information was not recorded by the Department. It should be noted that, for many of these assets, much of this information was included in the Department's older AMS.

<u>Missing Data</u>	
No Serial #	8,029
No Manufacturer ID	7,967
No Asset Description	20
No Tag #	10
No Location	1
No Amount	2,970

Effect: Late submissions of reports to the State Comptroller impede the ability to produce accurate and timely statewide financial reports.

Inefficiencies occur and inaccuracies are more likely because the Department is running two asset management systems simultaneously.

The Department does not have an accurate listing of its equipment inventory. Losses cannot be investigated in a timely manner without filing the loss reports.

Without adequate controls, Toughbooks could be distributed to organizations where they are not needed or could be lost or stolen without detection. Unclear ownership increases the Department's risk of liability if confidential medical data is disclosed or if replacement or repairs are needed.

The physical inventory count does not provide sufficient assurance that assets have not been lost or stolen.

Cause: It appears that the errors occurred, in part, due to delays in recording transactions and a lack of administrative oversight.

Recommendation: The Department should improve controls and recordkeeping over equipment inventories toward the goal of producing accurate and timely reports. Also, losses should be reported in accordance with Section 4-33a of the General Statutes. (See Recommendation 7.)

Agency Response: "We agree with this finding. We have instituted monthly reviews of all purchase orders that are issued for capital equipment and controllable assets. This process will identify all equipment purchases that must be added to the inventory in Core-CT Asset Management. This information will be reconciled to the actual entries for discrepancies. As of July 1, 2009, the Department has fully implemented the Core-CT Asset Management System (AMS) as required by the Comptroller and all losses are being reported in accordance with Section 4-33a of the General Statutes on a timely basis."

Boards, Councils, and Commissions:

Criteria: In accordance with Sections 19a-4k, 19a-7g, 19a-14, 19a-32f, 19a-32g, 19a-178a, and 19a-487, of the General Statutes, the Department is responsible for most administrative functions of 21 regulatory and advisory boards, councils, and commissions. The following requirements apply to their members:

Section 4-9a, subsection (c), of the General Statutes provides that the term of each member of each board and commission within the executive branch shall be coterminous with the term of the Governor or until a successor is chosen, whichever is later.

Section 19a-178a, subsection (d), of the General Statutes provides that the term of each member of the Emergency Medical Services Advisory Board shall be coterminous with the appointing authority.

Section 19a-8 of the General Statutes indicates that public members shall constitute not less than one-third of the members of each of the 15 boards and commissions identified within Section 19a-14, subsection (b), of the General Statutes.

Title 20 of the General Statutes requires that members of each of the 15 boards and commissions identified within Section 19a-14, subsection (b), of the General Statutes are deemed to have resigned after missing three consecutive meetings or fifty percent of all calendar year meetings.

The frequency of meetings is established by Sections 19a-4k and 19a-7g, and 19a-14 of the General Statutes. The Advisory Commission on Multicultural Health must meet quarterly, the Childhood Immunization Advisory Council must meet twice annually and the 15 Boards and Commissions identified within Section 19a-14, subsection (b), of the General Statutes must meet at least quarterly.

Condition: Our examination of the composition of the 21 boards, councils, and commissions noted that requirements relating to membership and the frequency of meetings were not met.

Membership

- Due to vacancies, the membership of ten boards did not meet the requirements for the number of licensed practitioners and public members.
- A total of six members of six boards were not deemed to have resigned when they either failed to attend three consecutive meetings or fifty percent of the meetings in a calendar year.

- Documentation for the Emergency Medical Services Advisory Board was incomplete. As a result, we were unable to verify whether it met the statutory requirements regarding its composition of board members. It appears that many of the 41 appointed member terms have expired.

Frequency of Meetings

- The Advisory Commission on Multicultural Health only met three times during the fiscal years ended June 30, 2006 and 2007.
- The Childhood Immunization Advisory Council only met once during the fiscal years ended June 30, 2006 and 2007.
- There were four boards that did not meet at least quarterly.

Effect:

Boards that do not have a full complement of participating members may not benefit from the intended representation of various public and private sector groups. Inordinate lengths of time since the expiration of the member terms appear to suggest that the members have been reappointed without regard to the term limits of the original appointments. Boards may not be able to satisfy their mission if they do not meet as frequently as the statute requires.

Cause:

The Department periodically notifies the Governor's office of vacancies. However the Governor's office has not replaced members in a timely manner.

A lack of administrative oversight may have contributed to there being fewer meetings held than are required by statute.

Recommendation:

The Department should improve administrative controls to ensure compliance with the various requirements over board, council, and commission member attendance, member composition, and the frequency of meetings. (See Recommendation 8.)

Agency Response:

"We agree in part with this finding. The Advisory Commission on Multicultural Health scheduled quarterly meetings that were cancelled due to a lack of participation. Subsequently, the Commission was abolished and in 2008, the legislature established the Commission on Health Equity, in which the Department participates.

With regard to the Childhood Immunization Advisory Council, meetings were scheduled and cancelled due to a lack of participation and vacancies on the Council. While the Department attempted to staff this Council, those efforts were generally unsuccessful. This Council no longer exists.

With one exception, the professional licensing boards and commissions met at least quarterly, with the Medical Board meeting monthly and the Nursing Board meeting twice monthly. The only Board that did not meet quarterly during relevant time period was the Board of Examiners for Homeopaths. That board did not meet during the first and second quarter of 2006, due to a lack of a quorum, resulting in the Board chair cancelling the meetings. When Board meetings are cancelled, the Department advises the Board chairperson of the statutory requirements.

From time to time, the professional licensing boards and commission may have less than a full complement of members as a result of resignations. When there is a resignation or when a board member misses three consecutive meetings, the Office of the Governor is immediately notified. The Office of the Governor is also notified on a regular basis of vacancies on boards.

The Department communicates frequently with the Office of the Governor regarding board composition and attendance. Board members are also reminded of attendance requirements if they are in danger of failing to meet requirements.”

EDP Disaster Recovery Planning:

- Criteria:* Sound business practices include provisions that organizations have current disaster recovery plans in place to enable critical operations to resume activity within a reasonable time after a disaster.
- Condition:* The Department has identified only its lab operations as requiring a disaster recovery plan. We were provided with a draft plan for the lab, dated December 6, 2007, but not all of the Information Technology staff was aware of it. As of June 2011, there was uncertainty as to whether a final version was ever developed, but some staff indicated that the draft represents the final version.
- Effect:* The lack of a formal disaster recovery plan increases the vulnerability of the Department in the event of a disaster.
- Cause:* The Department has not developed a final disaster recovery plan.
- Recommendation:* The Department should finalize its EDP disaster recovery plan. (See Recommendation 9.)
- Agency Response:* “We agree with this finding and are working on updating our records/procedures.”

User Access to Information Systems:

- Criteria:* The Department's policies and procedures include terminating employees' information system access upon separation from the Department.
- Condition:* In our sample of fifteen former employees, we noted that three separated employees still had active logon IDs that provided read and write access to many files.
- Effect:* The effectiveness of information system access controls is compromised and confidential data may not be adequately protected from unauthorized use or modification.
- Cause:* The Department did not terminate former employees' user access.
- Recommendation:* The Department should maintain security over its information systems by promptly terminating employees' system access upon their separation from employment. (See Recommendation 10.)
- Agency Response:* "We agree with the recommendation. HR will make every effort to inform appropriate parties when employees are leaving service"

GAAP and SEFA Financial Reporting:

- Background:* In order to prepare the Comprehensive Annual Financial Report (CAFR) and Schedule of Expenditures of Federal Awards (SEFA), the State Comptroller's Office annually requires each state agency to submit Generally Accepted Accounting Principles (GAAP) reporting packages and the federal Schedule of Expenditures of Federal Awards.
- Criteria:* The State of Connecticut's State Accounting Manual and other instructions to all state agencies require the submission of timely, complete, and accurate GAAP and federal financial expenditure (SEFA) information.
- Condition:* We noted the following regarding the DPH's GAAP closing package for the fiscal years ending June 30, 2006 and 2007:
- Contractual obligations were understated by \$2,325,889 for the fiscal year ending June 30, 2006.
 - Receivables were understated by \$220,899 for the fiscal year ending June 30, 2006. Both receivables and the related collections were overstated by \$226,883 and \$320,010, respectively, for the fiscal year ending June 30, 2007.
 - Grants receivable were understated by \$1,507,328 for the fiscal year ending June 30, 2006.

- GAAP reports were filed over two months and two weeks late during the fiscal years ending June 30, 2006 and 2007, respectively.

The SEFA report was filed 80 and 27 days late for the fiscal years ending June 30, 2006 and 2007, respectively.

Effect: The State's GAAP basis financial statements could contain misstatements.

Cause: Contractual obligations were mainly understated because the Department excluded prior year agreements from its calculation of the liability. Grants receivable were understated because the Department did not realize that the report applied to federal receivables.

Recommendation: The Department should prepare the Generally Accepted Accounting Principles Reporting Package and the Schedule of Expenditures of Federal Awards in accordance with the State Comptroller's instructions. (See Recommendation 11.)

Agency Response: "We agree with this finding and have made improvements. A lack of office staff due to hiring freeze led to this issue."

Late Deposits:

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

Condition: Our testing of the timeliness of deposits of 25 checks noted that one check in our sample, in the amount of \$5,835 was deposited 55 days late. In addition, we could not verify the timeliness of deposits for 13 checks, totaling \$276,065 because of a lack of sufficient supporting documentation.

Effect: Late deposits increase the opportunity for loss or misappropriation of funds.

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

Recommendation: The Department should develop policies and procedures to ensure that sufficient documentation is retained for all receipts and that those receipts are deposited in accordance with Section 4-32 of the General Statutes. (See Recommendation 12.)

Agency Response: “We agree with this finding. The Department has instructed various units at the Department to forward all receipts to the Business Office for deposit within 24 hours, including those that administer civil penalties. The copies of the checks must be utilized to create bills in Core-CT for reconciliation of the Accounts Receivable (Licensing, Legal Office, Day Care, Drinking Water, Sewer and Asbestos).”

Employee Medical Certificates:

Criteria: Section 5-247-11 of state regulations and several collective bargaining unit contracts establish the requirements for the submission of an acceptable medical certificate to substantiate the use of sick leave for a period of more than five consecutive working days.

Condition: Medical certificates were not on file for two of the 11 employees in our sample who used sick time in excess of five consecutive days.

Effect: The Department did not fully comply with the requirement.

Cause: The Department did not obtain and retain medical certificates for all employees who used in excess of five consecutive sick-leave days.

Recommendation: The Department should obtain and retain medical certificates in compliance with state personnel regulations and applicable bargaining unit contracts. (See Recommendation 13.)

Agency Response: “We agree with this finding. In the 4 to 5 years since the absences noted in the exception occurred, the HR Section has improved its system for monitoring attendance of agency employees. Payroll staff regularly generate reports on employees using sick leave codes in excess of 5 days, and provide to HR staff for follow up. Every effort is being made to comply with regulation and contract requirements.

The agency was unable to locate the medical certificates for 1 person in the test group.”

RECOMMENDATIONS

Our prior auditors' report on the Department contained 16 recommendations, 9 of which are being repeated.

Status of Prior Audit Recommendations:

- **The Department should obtain clarification of the apparent conflict between the opinions of the Office of the Attorney General and the former State Ethic's Commission before continuing the practice of executing consent orders that include contributions to the Children's Trust Fund, Connecticut Head Start State Collaboration, and Connecticut Public Health Foundation.** The Department has indicated that they no longer negotiate consent orders that stipulate contributions to other organizations. The recommendation will not be repeated.
- **The Department should maintain accrued leave balances and medical certificates in compliance with state personnel regulations and applicable bargaining unit contracts.** This recommendation is being repeated in part. (See Recommendation 13.)
- **The Department should consider implementing policies and procedures to improve accountability over the time spent by employees that are regularly assigned to the field.** The Department implemented such policies and procedures so the recommendation will not be repeated.
- **The Department should ensure timely reporting by reducing the need for labor-intensive account analysis and adjustment through improved controls over recordkeeping.** Although the implementation of the Core-CT projects module has significantly reduced the need for adjustments, delays in reporting were still noted. This recommendation is being repeated in a modified form. (See Recommendation 11.)
- **The Department should consider obtaining independent verification of applicants' criminal backgrounds to improve assurances that licensees have not been found guilty or convicted of felonies that are relevant to the license in accordance with Section 19a-14 and 46a-80 of the General Statutes.** During the audit period the Department determined that it would be cost prohibitive to obtain criminal background checks for additional categories of licensees. This recommendation will be repeated in a modified form. (See Recommendation 2.)
- **The Department should ensure that the state is fully reimbursed for transactions covered by the Federal Cash Management Improvement Act by improving its policies and procedures to prevent and detect errors.** The Department has implemented project accounting which has improved policies and procedures over federal cash management. No similar conditions were noted during the current audit period. This recommendation will not be repeated.
- **The Department should improve controls over its various accounts receivable. The business office should take a more active role. When appropriate, Core-CT should**

be used to manage accounts receivable. This recommendation is being repeated. (See Recommendation 3.)

- **The Department should establish an appropriate laboratory fee schedule. If they cannot comply with Section 19a-26 of the General Statutes, then legislative revisions should be sought.** The Department has implemented a new fee schedule. Therefore, this recommendation will not be repeated.
- **The Department should strengthen controls over licensing revenue by periodically preparing revenue accountability reports.** The Department has implemented a revenue accountability process. Therefore, this recommendation will not be repeated.
- **The Department should establish policies and procedures to ensure that receipts are deposited in accordance with Section 4-32 of the General Statutes.** This recommendation is being repeated. (See Recommendation 12.)
- **The Department should improve controls over human service and personal service agreements.** This recommendation is being repeated. (See Recommendation 1.)
- **The Department should improve controls and recordkeeping over equipment inventories toward the goal of producing accurate reports. The loaning of equipment should be properly documented. In addition, losses should be reported in accordance with Section 4-33a of the General Statutes.** This recommendation is being repeated. (See Recommendation 7.)
- **The Department, in consultation with the Department of Information Technology, should determine the specific action that needs to be taken by the Department of Public Health to develop a more comprehensive EDP disaster recovery plan.** This recommendation is being repeated. (See Recommendation 9.)
- **The Department should maintain security over its information systems by promptly terminating employees' system access upon separation from employment.** This recommendation is being repeated. (See Recommendation 10.)
- **The Department should improve administrative controls to ensure compliance with the various requirements over Board, Council, and Commission term limits, attendance, member composition, and the frequency of meetings. The Department should also continue to notify the Governor's Office of all vacancies.** This recommendation is being repeated. (See Recommendation 8.)
- **The Department should perform an internal control self-assessment, as required by the State Comptroller's Accountability Directive Number 1.** The Department has performed a self-assessment so this recommendation will not be repeated.

Current Audit Recommendations:

- 1. The Department should improve controls over the awarding of human service and personal service agreements.**

Comments:

Insufficient documentation prevents an independent review of the contractor selection process. Contractors provided services to the Department without signed agreements resulting in delays in recording commitments in Core-CT.

- 2. The Department should improve controls over the licensing function so that the integrity of the licensing data is maintained and only eligible applicants are licensed, especially with regard to criminal background checks in compliance with Section 19a-80, subsection (c), of the General Statutes.**

Comments:

The Department may not have been sufficiently evaluating the educational and criminal eligibility of individuals applying for or renewing licenses. Manual changes to the licensing system are not sufficiently monitored to detect errors or fraud.

- 3. The Department should improve controls over its various accounts receivable. The business office should take a more active role. When appropriate, Core-CT should be used to manage accounts receivable.**

Comments:

Accounts receivable are recorded and collected by various units at the Department. The business office has not implemented sufficient controls for central oversight of those accounts receivable.

- 4. The Department should comply with the audit requirements of Section 4-37f of the General Statutes.**

Comments:

An audit of the Public Health Foundation was not completed.

- 5. The Department should re-evaluate vehicle assignments to ensure compliance with all applicable policies and procedures. In addition, the Department should recover the costs for using a state vehicle for commuting purposes from the individual who turned their vehicle in as a result of Executive Order Number 22. For the remaining four individuals, corrected W-2s should be issued.**

Comments:

The Department allowed five employees to use their assigned vehicle on average more than 46 percent for commuting purposes with one employee receiving an estimated benefit of \$18,136 over the two-year audit period. These taxable benefits were not reported to the Internal Revenue Service.

- 6. The Department should improve controls over grant calculations so that health districts receive the correct amount of per capita grants.**

Comments:

Due to a lack of controls, clerical errors in the calculation of the per capita grants occurred, resulting in an underpayment of \$100 and overpayment of \$1,426. The effect of these errors was pro-rated among the remaining grantees. The total grant appropriation was \$4,195,374.

- 7. The Department should improve controls and recordkeeping over equipment inventories toward the goal of producing accurate and timely reports. Also, losses should be reported in accordance with Section 4-33a of the General Statutes.**

Comments:

The Department did not fully implement the Core-CT Asset Management System. Assets were either omitted, misstated or lacked complete and accurate information. There is a lack of segregation of duties between the recordkeeping and physical inventory process. The physical inventory process was insufficient and failed to provide adequate assurances that assets were not lost or stolen. Loss reports were not prepared for items not found during the annual physical inventory. The annual "Fixed Assets/Property Inventory Report" was filed late in both fiscal years.

- 8. The Department should improve administrative controls to ensure compliance with the various requirements over board, council, and commission member attendance, member composition, and the frequency of meetings.**

Comments:

The Department did not comply with requirements over board, council, and commission term limits, attendance, member composition, and the frequency of meetings. In addition, vacancies were not filled in a timely manner.

9. The Department should finalize its EDP disaster recovery plan.

Comments:

The Department has identified its critical applications, but only a draft disaster recovery plan has been developed.

10. The Department should maintain security over its information systems by promptly terminating employees' system access upon their separation from employment.

Comments:

At the time of our audit, three of the 15 former employees in our sample had active logon IDs.

11. The Department should prepare the Generally Accepted Accounting Principles Reporting Package and the Schedule of Expenditures of Federal Awards in accordance with the State Comptroller's instructions.

Comments:

In addition to delays in reporting, various over and understatements were noted in each year's reports.

12. The Department should develop policies and procedures to ensure that sufficient documentation is retained for all receipts and that those receipts are deposited in accordance with Section 4-32 of the General Statutes.

Comments:

We could not verify the timeliness of deposits for 13 of the 25 checks in our sample. One check was deposited 55 days late.

13. The Department should obtain and retain medical certificates in compliance with state personnel regulations and applicable bargaining unit contracts.

Comments:

Medical certificates were not on file for two of the 11 employees in our sample who used sick time in excess of five consecutive days.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Department of Public Health (Department) for the fiscal years ended June 30, 2006 and 2007. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Department are complied with, (2) the financial transactions of the Department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department for the fiscal years ended June 30, 2006 and 2007 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 complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct unauthorized, illegal or irregular transactions on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal

control over the Department's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report to be significant deficiencies: Recommendation 1 – Awarding of Contracts, Recommendation 3 – Controls Over Accounts Receivable, Recommendation 4 – Audit Requirements for the Foundation, Recommendation 7 – Controls Over Equipment Inventory and Reporting, and Recommendation 12 – Timeliness of Deposits. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

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

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

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

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

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department during the course of our examination.

Ramona Weingart

Ramona Weingart
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts

Robert M. Ward

Robert M. Ward
Auditor of Public Accounts