

STATE OF CONNECTICUT



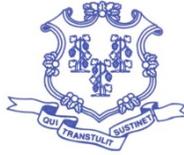
*AUDITORS' REPORT
DEPARTMENT OF REHABILITATION SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2012, 2013 AND 2014*

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

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AUDITORS OF PUBLIC ACCOUNTS

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October 29, 2015

AUDITORS' REPORT DEPARTMENT OF REHABILITATION SERVICES FOR THE FISCAL YEARS ENDED JUNE 30, 2012, 2013 AND 2014

We have audited certain operations of the Department of Rehabilitation Services (DORS) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2012, 2013 and 2014. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Rehabilitation Services.

COMMENTS

FOREWORD

The Bureau of Rehabilitative Services was created by Public Act 11-44 and later changed its name to the Department of Rehabilitation Services pursuant to Public Act 12-1 of the June Special Session of the General Assembly. The department operates primarily under the provision of Title 17b, Part II of Chapter 319mm of the General Statutes.

The department's mission is to maximize opportunities for people with disabilities to live, learn, and work independently in Connecticut. The department provides a wide range of services to individuals with disabilities, children, families, and individuals who need assistance in maintaining or achieving their full potential for self-direction, self-reliance, and independent living.

Organization Structure

During the fiscal year 2011-2012, the Department of Social Services and the Department of Administrative Services provided personnel, payroll, affirmative action, and business office functions for the divisions within DORS. During the fiscal years 2012-2013 and 2013-2014, the DORS Commissioner's Office, which is now located at 55 Farmington Avenue in Hartford, organized its own legal counsel, human resources and affirmative action offices. The department is organized into four major divisions:

1. The Bureau of Rehabilitation Services (BRS) administers the Title I Vocational Rehabilitation and Title VI Supported Employment programs of the Rehabilitation Act of 1973, as amended. Within BRS, the Vocational Rehabilitation Bureau directs all vocational rehabilitation program services through three regional offices: Northern in Hartford, Southern in New Haven, and Western in Bridgeport. The Community Living Bureau oversees services for individuals who are deaf or hard of hearing, independent living, Workers' Rehabilitation Program and the Driver Training Program.
2. The Bureau of Education and Services for the Blind (BESB) provides resources, comprehensive low vision services, specialized education services, life skills training, case management, and vocational services to individuals of all ages who are legally blind and to children who are visually impaired.
3. The Bureau of Organizational Support includes the fiscal office, information technology, asset management and facility management functions.
4. The Bureau of Disability Determination is responsible for deciding eligibility for the Social Security Disability Insurance and Supplemental Security Income programs. These programs provide cash benefits to individuals who are unable to maintain employment due to the severity of their disabilities.

Upon the implementation of Public Act 11-6 on July 1, 2011, the Department of Social Services' Commissioner Roderick Bremby was appointed acting director of the Bureau of Rehabilitative Services. Amy Porter was appointed director of the Bureau of Rehabilitative Services by the Governor on January 13, 2012 pursuant to Sections 4-7 and 4-19 of the Connecticut General Statutes. With the implementation of Public Act 12-1 of June Special Session, Ms. Porter became the commissioner of the Department of Rehabilitation Services on July 1, 2012. Commissioner Porter continued to serve throughout the audited period.

Significant Legislation

Public Act 11-44 created the Bureau of Rehabilitative Services and consolidated all administrative and programmatic functions of the Board of Education and Services for the Blind (BESB) and the Commission on the Deaf and Hearing Impaired (CDHI), the Bureau of Rehabilitation Services, previously within the Department of Social Services, the Workers' Rehabilitation Program of the Workers' Compensation Commission, and the Driver Training Program for People with Disabilities of the Department of Motor Vehicles into the newly established agency effective July 1, 2011.

Public Act 12-1 of the June Special Session changed the name of the Bureau of Rehabilitative Services to the Department of Rehabilitation Services and required the Department of Social Services to provide administrative support to DORS until June 30, 2013, or until receiving a request for cessation of support services from the DORS commissioner, whichever was earlier.

Public Act 13-7 replaced most statutory reporting requirements with an annual report to the Governor and the Human Services and Appropriations Committees on services provided to individuals who are blind or have a visual impairment, to individuals who are deaf or hard of hearing, and other vocational rehabilitation services. This act also eliminated a per-person expense cap per year that DORS may spend to provide employment assistance to individuals who are blind. This act increased the amounts that DORS may spend on purchases of wheelchairs and certain equipment and also expanded eligibility for the Assistive Technology Revolving Fund Loan Program. The act allowed the commissioner to adopt regulations to implement the department's provisions. This act went into effect on July 1, 2013.

Boards and Commissions

Board of Education and Services for the Blind (BESB) – Pursuant to Section 10-293 of the General Statutes, the Board of Education and Services for the Blind serves as an advisor to DORS in fulfilling its responsibilities in providing services to individuals in the state who are blind or visually impaired. The advisory board members as of June 30, 2014, consisted of the following members with one vacancy.

Ex-officio Member:

Roderick L. Bremby, Commissioner, Department of Social Services – represented by Astread Ferron-Poole

Appointed Members:

Alan N. Sylvestre, Chairman
Eileen Akers
Christine Boisvert
Patrick J. Johnson, Jr.
Darcy Jones
Cary Perry
Elizabeth Rival
Stephen Thai
Randa Nesman Utter
Betty Woodward

Jay Kronfield also served on the board during the audited period.

Auditors of Public Accounts

Board of the Deaf and Hard of Hearing (DHOH) – Pursuant to Section 46a-28 of the General Statutes, the board consists of twenty-one members, three of which are ex-officio. Additionally, there are seven voting members representing other state agencies and eleven members appointed by the Governor. The board members as of June 30, 2014 were:

Ex-officio Members:

Sandra McGee: President, Connecticut Council on Services for the Deaf
Edward Peltier: Executive Director, American School for the Deaf
Vacant: Consultant, Hearing Impaired Programs (State Board of Education)

Voting Members:

William Rivera, Department of Children and Families
Patricia Rehmer, Department of Mental Health and Addiction Services
Jane Whitehead, Department of Developmental Services
Amy Mirizzi, Department of Public Health
Astread Ferron-Poole, Department of Social Services
Colleen Hayles, Department of Education
Bernice Zampano, Department of Labor

Appointed Members:

Luisa Gasco-Soboleski, Chairperson
Jeffery Bravin
Raymond DeRosa
Mary Lynch
Matt Ranelli
Mary Silvestri
Gloria White
Harvey Corson
Lucy Trusock
Vacancy

RÉSUMÉ OF OPERATIONS

The operations of the department, which were mostly accounted for in the General Fund, the Worker's Compensation Fund and the Federal and Other Restricted Accounts Fund, are discussed below.

General Fund

General Fund Receipts

General Fund receipts, which consisted primarily of refunds of expenditures in the audited period, together with those of the preceding fiscal year, are summarized below:

	Fiscal Years Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Refunds of Expenditures	\$ 44,977.86	\$ 9,134.32	\$ 28,617.45
Others	140.56	246.95	10,399.04
Total Receipts	<u><u>\$ 45,118.42</u></u>	<u><u>\$ 9,381.27</u></u>	<u><u>\$ 39,016.49</u></u>

In addition, the department collected fees from business customers for deaf and hard of hearing interpreting services. These fee collections were coded directly as reductions to current expenditures as authorized by Section 46a-33b of the General Statutes and amounted to the following.

	Fiscal Years Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Collections	\$2,324,191	\$2,241,447	\$2,294,934

General Fund Expenditures

A summary of General Fund expenditures during the audited period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Personal Services	\$ 7,206,623	\$ 7,880,143	\$ 9,127,384
Contractual Services	828,459	676,797	654,181
Others	825,179	800,409	1,688,179
Client Services	844,811	1,549,885	1,593,199
Purchased Commodities	905,051	878,630	852,028
Reimbursements for			
Indirect Costs and Others	(478,975)	(458,234)	(473,240)
State Grants	10,248,271	9,424,870	8,022,219
Capital Outlays-			
Equipment	21,025	146,357	179,686
Total Expenditures	<u><u>\$ 20,400,444</u></u>	<u><u>\$ 20,898,857</u></u>	<u><u>\$ 21,643,636</u></u>

The number of full-time employees funded by the General Fund increased from 75 employees in fiscal year 2011-2012 to 91 employees in fiscal year 2013-2014. The increase in personal services expenditures was partially due to the filling of vacancies, but was also caused by a change in the coding of administrative overhead costs from various federal programs to personal services accounts in the General Fund. In fiscal year 2011-2012, administrative salaries were split amongst various state and federal funding sources. Beginning in fiscal year 2012-2013, the accounting for these positions was changed to using one hundred percent state funds and charging the applicable federal programs for their portions of the salaries as indirect costs. Similarly, the declines in state grant expenditures were not caused by programmatic changes, but rather by a different

determination of accounting codes. The decreases in state grants were caused by expenditures being allocated to client services accounts and to personal services accounts.

Worker's Compensation Fund

Worker's Compensation Fund Receipts

Receipts totaled \$1,453, \$1,187 and \$3,290 for the fiscal years ended June 30, 2012, 2013 and 2014, respectively. These receipts consisted primarily of refunds from prior years' expenditures.

Worker's Compensation Fund Expenditures

During the audited period, expenditures were to fund six full-time positions and vocational rehabilitative services.

	Fiscal Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Personal Services & Fringe Benefits	\$ 699,647	\$ 820,606	\$ 813,952
Other Expenses	22,627	24,500	24,460
Rehabilitative Services	<u>1,027,636</u>	<u>1,143,097</u>	<u>1,143,337</u>
Total Expenditures	<u>\$ 1,749,910</u>	<u>\$ 1,988,203</u>	<u>\$ 1,981,748</u>

Federal and Other Restricted Accounts Fund

Federal and Other Restricted Receipts

Federal and Other Restricted Accounts Fund receipts consisted primarily of federal grants and vending machine commissions. Receipts for the three fiscal years examined and the prior fiscal year are summarized below:

	Fiscal Year Ended June 30,		
Account	<u>2012</u>	<u>2013</u>	<u>2014</u>
Investment Interest	\$ 850	\$ 570	\$ 756
Federal Aid, Restricted	51,346,755	48,346,063	51,384,672
Other than Federal			
Vending Operation	1,985,736	1,936,737	2,005,162
Miscellaneous	1,233,614	2,061,077	789,054
Federal Grant Transfer - Restricted	<u>-</u>	<u>15,000</u>	<u>-</u>
Total Receipts	<u>\$ 54,566,955</u>	<u>\$ 52,359,448</u>	<u>\$54,179,645</u>

While the department was under the administrative support of the Department of Social Services (DSS), indirect costs charged to restricted federal aid were based on the DSS cost allocation plan. Upon the cessation of DSS administrative support on June 30, 2012, the department did not receive an approved indirect cost rate from the federal cognizant agency in order to allocate the applicable share of administrative overhead

costs to fiscal year 2012-2013 expenditures. Federal expenditures in fiscal year 2013-2014 included the allocation of indirect costs. Revenues from the vending operation of the Business Enterprise Program for blind individuals was comprised mostly of vending machine commission fees and had remained steady during the audited period. Miscellaneous revenues were mostly comprised of reimbursements from the U.S Social Security Administration for certain successful rehabilitative services.

Federal and Other Restricted Expenditures

Expenditures from the Federal and Other Restricted Grants Fund accounted for approximately 70 percent of the department's total expenditures. The most significant federal grants were for the vocational rehabilitation programs, which totaled approximately \$26 million and \$28.5 million in fiscal years 2012-2013 and 2013-2014, respectively. The second largest federal funding source was for the Disability Determination Program, which totaled \$20.5 million and \$23.5 million in fiscal years 2012-2013 and 2013-2014, respectively.

	Fiscal Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Federal	\$ 58,189,574	\$ 49,726,886	\$53,924,957
Other than Federal			
Vending Facility Program	2,260,970	1,835,003	1,929,895
Others	<u>126,292</u>	<u>118,798</u>	<u>70,431</u>
Total Expenditures	<u><u>\$ 60,576,836</u></u>	<u><u>\$ 51,680,687</u></u>	<u><u>\$55,925,283</u></u>

Decreases in federal program expenditures in fiscal year 2012-2013 were caused by the expiration of American Recovery and Reinvestment Act funds and the termination of funding for the Connect to Work Medicaid Infrastructure Grants. As discussed in the revenue section above, the department did not allocate indirect costs to federal programs in fiscal year 2013 because a provisional indirect rate was not approved by the U.S Department of Education, its federal cognizant agency, until the beginning of fiscal year 2014.

Under Section 10-303 of the General Statutes, authority is granted to BESB to operate food service facilities, vending stands, and vending machines on property owned or leased by the state or any municipality. The primary purpose of this program is to provide entrepreneurial opportunities to blind individuals by providing vending facility sites for their use under BESB's Business Enterprise Program (BEP). The majority of expenditures were to fund personal services and fringe benefits of employees and vending facility operators enrolled in the program. The number of filled positions in the Business Enterprise Program for the blind was also decreased from 13 positions in fiscal year 2011-2012, to 10 positions in fiscal year 2013-2014. As of June 30, 2014, 40 vending facility operator sites were in operation.

Other Funds' Receipts and Expenditures

The department recorded receipts totaling \$7,909, \$7,789 and \$6,094 in the Vending Facility Operation Fringe Benefits Fund during the fiscal years ended June 30, 2012, 2013 and 2014, respectively. Expenditures totaling \$18,064 were recorded in the Vending Facility Operation Fringe Benefits fund in fiscal year 2011-2012 and none in fiscal years 2012-2013 and 2013-2014.

Capital Equipment Purchase Fund expenditures totaled \$6,241 in the fiscal year 2012-2013 and none in fiscal years 2011-2012 and 2013-2014.

The department was given approval to spend \$193,898 from the bond fund for Capital Improvement and Other Purchases in fiscal year 2013-2014 to upgrade its information system of client vocational rehabilitation case records.

Program Review – Business Enterprise Program

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to examine the operation of state agencies to determine the effectiveness in achieving a legislative purpose. We have conducted such a review of the Business Enterprise Program, which was established under Sections 10-303 and 10-304 of the Connecticut General Statutes for the development of high quality business ventures for participants who desire to become entrepreneurs. Under permits with host agencies, entrepreneurs operate businesses that range from gift shops to full scale restaurants. The entrepreneurs derive the full profits from their operations. This program also provides these entrepreneurs training and business consultation on an ongoing basis.

Our objective was to determine whether the program was complying with its statutory responsibilities and stated policies in providing proper training and support to the facility operators. We followed up on a prior audit recommendation that the program should maintain printed or electronic copies of potential operator preliminary assessment results and training information as well as all licenses and agreements. We also reviewed the program's books and records to ensure that revenues and receivables were supported and recorded accurately.

Facility operators are allowed to retain all of their business earnings, enroll in the state employee health insurance program, and participate in the state employee retirement programs. The program's earnings from vending machine commission fees are used to pay for the state share of the operators' health insurance premiums and fringe benefits.

Our recommendation regarding this program is detailed under State Auditors' Findings and Recommendations as Recommendation 6.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

We believe that the following matters require disclosure and management's attention.

Inadequate P-2 Bargaining Unit Contractual Terms regarding Travel Time Claims Submitted by Part-Time Interpreters for the Deaf and Hard of Hearing

Background: The department provided deaf and hard of hearing interpreting service to Connecticut businesses through its staff of approximately 39 part-time interpreters. During the audited period, the majority of the department's interpreting staff submitted service hours and travel time using a new automated scheduling system called AVIANCO, which generated a service assignment profile report for each interpreting assignment. A few interpreters opted not to submit their time using AVIANCO and continued to prepare their claims using the old interpreter service report. Both the AVIANCO service assignment profile report and the interpreter service report served dual purposes as the document used to support the calculation of the employee's compensation and the invoice billed to the customer.

The contract between the state and the Social and Human Services (P-2) Bargaining Unit governed the state's obligations and the employee's responsibilities. Sections 5 and 6 of the Supplemental Letter of Agreement to the P-2 Bargaining Unit Contract indicate that requests for interpreting services shall be billed at a minimum of two hours. The department paid the interpreters for their service claims, and then billed business customers for their services.

Criteria: A sound bargaining contract agreement should not obligate the department to pay its interpreters twice for the same time-frame when consecutive back-to-back interpreter assignments do not run their allotted time. As an employer, the department should be able to review and reject excessive mileage and travel claims.

Condition: The bargaining contract was not clear as to whether payments should be limited by the number of actual hours in a time period or strictly by assignment. When two consecutive assignments were cancelled or did not last as long as scheduled, there was a possibility that the interpreter could submit a payment claim twice for the same time period - in the claim for the first assignment and once again in the claim for the second assignment. During the audited period, the department monitored ongoing instances in which certain interpreters claims included overlapping hours and

excessive travel time and/or mileages. We reviewed the department's records of 20 pay periods, which disclosed a total of 9,495 minutes, or 158.25 hours of overlapping billing hours and excessive travel time. However, it did not appear that the department was able to either deny or adjust these claims. Under the most recent arbitration award in October 2014, a part-time interpreter was awarded for 9.5 paid work hours for a 7 hour time period from 7:00am to 2:00pm.

Our review of ten interpreters claims disclosed that four out of ten employees had instances of excessive mileage claims. These four employees submitted reimbursement for eight trips totaling 452 miles. Our review determined that approximately 81 miles, or 18%, were excessive and could not be substantiated by distances generated by MapQuest.

Four out of ten employees had instances of excessive travel time claims totaling 10.58 hours, or 48%, of the 22 claimed travel hours.

Effect: When an interpreter was paid twice for the same time frame or for excessive travel time, business customers had to pay an artificially higher price for deaf interpreting services, and the General Fund was used for a portion of the interpreter's salary and fringe benefits that the department could not bill and collect from business customers.

Cause: The P-2 bargaining unit contract, which is in effect until 2016, does not adequately address certain recurring scheduling contingencies. While both the department and the Office of Labor Relations were aware of the time overlap claims by a few interpreters, no successful negotiation efforts could be reached with the P-2 bargaining unit to prevent additional claims for payment of overlapping hours.

Recommendation: The Department of Rehabilitation Services should continue to work with the Office of Labor Relations to negotiate an amendment to the current agreement with the P-2 bargaining unit so that neither the state nor business customers are responsible for paying interpreters' duplicate or excessive travel claims. (See Recommendation 1.)

Agency Response: "The agency agrees and will continue to work with the Office of Labor Relations to attempt to negotiate language changes in the Side Letter of the P-2 bargaining unit contract. The agency agrees

that there should be clear parameters around payment for claims, including travel.”

Payroll and Personnel

Criteria: According to collective bargaining agreements, performance evaluations are to be completed on an annual basis and filed prior to an employee’s annual increment date. State policy requires agencies to maintain personnel records in accordance with the Connecticut Personnel Files Act, Connecticut General Statutes Section 31-128a et seq., and in accordance with the State Library Records Retention Schedule.

Section 5-247-11 of the State Personnel Regulations provides that an acceptable medical certificate signed by a licensed physician or other practitioner will be required of an employee by the appointing authority to substantiate a request for any absence consisting of more than five consecutive working days. If the medical certificate is incomplete or insufficient, the Human Resources office will notify the employee in writing of the deficiencies.

Core-CT leave plans should be terminated upon an employee’s termination so that no additional accruals are added after an employee is terminated. Sound internal control procedures require the department to implement a written procedure to ensure that state properties are returned and all employee access to the state’s information system and buildings are promptly disabled upon employment termination.

Condition: Our review of 20 payroll transactions disclosed that ten employees received annual increments without performance evaluations on file covering the audited period. Nine personnel files were missing required documentation such as the acknowledgement of receipt of DORS and/or State of Connecticut employment policies/procedures, the verification of employment (I-9) form, copies of identification or application for employment forms. One out of 20 selected paychecks could not be traced to the timesheet signed by the employee and the supervisor.

Medical certificates were not on file for two out of ten employees who were on sick leave for more than five consecutive days during the time of our review. A medical certificate for an employee on maternity leave was incomplete. In another situation, the department granted eight weeks of sick leave when the medical

certificate showed that the employee could be back to work within six weeks from the day of disability.

Our review of 10 terminated employees disclosed two minor payout errors totaling \$50. Two employees continued to accrue leave time in Core-CT subsequent to their termination dates. The agency did not have written termination procedures to ensure that state properties were returned and access to the state's information system were promptly terminated. During the audited period, there were 25 instances of terminated employees who maintained access to Core-CT for several days subsequent to termination.

Effect:

Without the annual performance evaluations, we could not determine whether the employees met the requirements to receive annual salary increases. Missing personnel documents increased the risk of falsification of employment records. The missing timesheet increased the risk of the employee being paid without having actually worked.

Sick leave benefits could be used for unqualified time off when sick leave was granted based on incomplete medical certificates.

Employees could be overpaid when leave benefits were not promptly terminated. The security of the state's information system was at risk when access was not immediately disabled. Without a written procedure, the department could not ensure that state properties were returned and proper exit procedures were carried out.

Cause:

Personnel files were managed by several different state agencies before they were transferred to the department's Human Resources division in June 2013. The department's recent relocation to a new building could also have led to the condition that those personnel files were not scanned or moved to a designated storing location.

The department's Human Resources division was not fully staffed during the transition of duties from other state agencies.

The department was facing other work priorities during the agency consolidation process.

Recommendation:

The Department of Rehabilitation Services should improve controls over medical certificates, granting of sick leave benefits, and employment termination procedures. Personnel documents should be maintained in accordance with the State Library Records Retention Schedule. (See Recommendation 2.)

Agency Response: “The agency agrees with this finding, and has implemented or is in the process of implementing changes as follows:

1. The agency has implemented procedures that require return to work documentation for all medical leaves including maternity leaves. Employees are charged with unauthorized leave if appropriate documentation is not submitted.
2. The agency will develop a termination procedure that will include a checklist to be completed by the supervisor and provided to Human Resources upon separation of an employee.
3. Personnel files are being developed for all new employees that include documents such as their Application for Employment (HR-12), original transcripts if required for the position and I-9 forms. Additionally tax and retirement forms are kept in Payroll files. Documents for current employees, such as service ratings and policy acknowledgements are kept in their original files. As indicated in the Audit Report, missing documents were not provided to Human Resources upon transfer from other agencies. Processes are being implemented for document maintenance in accordance with the State Records Retention Policy.”

Purchasing and Expenditures

Criteria: Sound business practice requires the department to have a written agreement with the contractor regarding specific service categories and associated billing rates.

The state contract with community rehabilitation providers requires the providers to maintain specified insurance coverage. The providers are required to indemnify, defend, and hold harmless the state of Connecticut and its officers against all claims arising directly or indirectly in connection with the contract.

Condition: We reviewed 25 expenditure transactions and could not verify the accuracy of five payments. Hourly service rates for the Employment Opportunities Program were not specified in any agreements between the department and the contractors. Our review included five payments totaling \$1,658 made to four contracted community rehabilitation providers. Each provider had

a different hourly rate ranging from \$43.79 an hour to \$63.52 an hour. A similar condition is noted for all Employment Opportunities Program payments totaling \$761,464 in the fiscal year 2012-2013 and \$761,464 in the fiscal year 2013-2014.

Insurance certificates of two community rehabilitation providers were not available in the state's BizNet site, an electronic data vault established by the Department of Administration Services for state contractors to upload standard contract documents. As a result, we could not determine whether the providers carried sufficient insurance coverage as required by the contracts.

Effect: The risk of contract dispute and payment errors increased when the hourly rates could not be traced to written agreements between the department and the providers.

The lack of evidence of insurance coverage may present an increased risk to the state.

Cause: Agency officials explained that the hourly rate for the Employment Opportunities Program was built into the Department of Social Services (DSS) Central Service System when the Bureau of Rehabilitative Services was under DSS administration. Because these hourly rates have not increased for several years, the department continued to use these rates without specifying them in the contracts.

Contract and fiscal staff were not certain which agency staff should be responsible for monitoring the provider's compliance with submitting insurance certificates in the BizNet site.

Recommendation: The Department of Rehabilitation Services should improve its oversight of contract compliance monitoring and ensure that services and billing rates are clearly included in agreements with its contractors. (See Recommendation 3.)

Agency Response: "The department agrees with this recommendation and effective immediately the Community Rehabilitation Providers (CRP) that are utilized to provide Employment Opportunity (EOP) services will receive a letter referencing the approved rate they will be paid for EOP services."

Management of Receivables

Background: Prior to transferring billing responsibility to the Department of Administrative Services in February 2005, the Board of the Deaf and Hard of Hearing (DHOH), formerly known as the Commission on the Deaf and Hearing Impaired (CDHI), used a legacy automated billing and receivable system to track receivables, receipts and other management reports. However, no accounts receivable information from the legacy system was transferred to the Department of Administrative Services. The prior audit report included a finding that DHOH did not properly manage the accounts receivable balances in the legacy system. These receivable balances totaled \$140,013, as of June 2010.

When the billing functions were transferred from the Department of Administrative Services (DAS) Smart Unit to the DORS fiscal office in July 2012, DAS zeroed out all the open receivable balances in June 2012. The DORS fiscal office was responsible for re-entering these invoices into Core-CT under the DORS business unit coding.

Criteria: According to the State Accounting Manual, accounts receivable records should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding. The State Records Retention and Disposition Schedule S-3 requires state agencies to maintain accounts receivable records for three years or until audited whichever is later. Sound business practice requires the former responsible state agency to transfer all records related to receivable accounts to the new state agency to ensure complete collection efforts.

According to the instruction for GAAP Form No. 2, receivables are defined as amounts owed to the state for claims against individuals, private organizations, or other governments that arose on or prior to June 30th. When total receivables exceed \$300,000, the agency should complete and submit GAAP Form No. 2 to the Office of the State Comptroller.

Condition: Our review disclosed two instances of non-compliance with the state records retention schedule in which records of open receivable accounts could not be located.

- When the department assumed the receivable accounts, its fiscal office did not receive any records of the aforementioned DHOH's outstanding receivable balances

totaling \$140,013. As a result, there was no record of collection efforts or write-off requests.

- The listing of the receivable balances as of June 30, 2012, which was transferred from the DAS Smart Unit to the DORS fiscal office, was also missing. A Core-CT report showed receivable accounts totaling \$44,375 that were zeroed out, citing the reason of agency consolidation. We reviewed 10 closed-out accounts totaling \$14,114 to determine whether the open invoices were properly carried over to the receivable ledger of the new business unit. Our review showed that three out of ten receivable accounts totaling \$11,087 could not be located.

The department did not determine whether year-end receivables from the billing of DHOH interpreter service exceeded the GAAP reporting threshold of \$300,000. As of June 30, 2014, receivables in Core-CT from state and non-state entities totaled \$318,997.

Effect: The state records retention policy was not followed. Missing records of open receivable accounts increased the risk of undetected loss of revenues.

The department may have missed reporting receivables exceeding \$300,000 to the State Comptroller for GAAP reporting purposes.

Cause: The state did not seem to have a written procedure and coordination to allow proper transfers of fiscal records. The list of open receivable balances was lost when the former DHOH executive director retired at the end of fiscal year 2010-2011. Similarly, when DAS closed out receivable balances in June 2012, there was no record of whether DAS provided DORS with a list of open receivables and other billing documentation sufficient to follow up with collection efforts.

It was an oversight that year-end receivable balances from non-state entities were not considered during the year-end GAAP reporting process.

Recommendation: The Department of Rehabilitation Services should improve its oversight of receivable balances and work with the Office of Policy and Management and the Office of the State Comptroller to improve statewide procedures regarding the transfer of fiscal records among state agencies. (See Recommendation 4.)

Agency Response: “The department agrees with this recommendation and will work with the Office of Policy and Management and the Comptroller’s Office on their initiatives for the development of statewide procedures regarding the transfer of fiscal records among state agencies.

With regards to the conditions identified in 1a), as noted, this agency did not receive any outstanding accounts receivable documentation from DAS or CDHI and therefore was unable to follow applicable records retention schedules. As a result of this lack of documentation, this agency was unable to pursue any collection efforts and promptly followed write-off procedures to have the \$140,013 balance removed as anticipated accounts receivable; 1b) as noted, this agency did not receive a listing of receivable balances as of June 30, 2012 from DAS. However, a reconciliation document was prepared by this agency and found a total of \$10,953.88 in receivable accounts that were not billed, of which \$8,612.75 were from other state agencies and \$2,341.13 were from non-state agencies.”

Asset Management

Criteria: Section 4-36 of the Connecticut General Statutes states that each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June 30th, of all of the following property owned by the state and in the custody of such agency: (1) real property, and (2) personal property having a value of one thousand dollars. The State Property Control Manual requires state agencies to capitalize intangible assets such as computer software meeting the definition found in Governmental Accounting Standards Board Statement No. 51.

Chapter 3 of the State Property Control Manual specifies the criteria for capital and controllable assets. Assets with a useful life greater than one year and costing \$1,000 or more should be tagged and recorded in Core-CT as capital assets. Controllable property is property with a unit value less than \$1,000, an expected useful life of one or more years and/or, at the discretion of the agency head, requires identity and control. It is mandatory that each agency maintain a written listing of controllable property that has been approved by the agency head or designee. Such assets must be identified and controlled because of their sensitive, portable, and theft-prone nature. Chapter 2 of the State Property Control Manual

instructs state agencies to follow up on equipment out on loan until the equipment is returned.

Condition:

Our review of the department's annual inventory reports (CO-59 report) disclosed that 203 computers located in the building occupied by the Disability Determination Services division were not tagged and recorded in a manner consistent with the requirements prescribed in the State Property Control Manual. An integrated printing system, costing \$63,154 was purchased in fiscal year 2012-2013, but was not recorded nor reported in the department's annual inventory reports. Licensed software, which totaled \$7,154 and \$1,051 in the fiscal years 2012-2013 and 2013-2014, respectively was misclassified as Software Owned by the State (SOFT). The Licensed Software (LSOFT) category was also understated. The department has purchased several new software items but did not tag or record them in Core-CT. We could not determine the amount of understatement because the agency did not have a current software inventory listing. Since becoming an agency in July 2011, the department purchased 300-400 computers. Expenditures coded to the IT software license/rental account and the IT software maintenance and support account totaled \$413,114 in fiscal year 2013 and \$488,045 in fiscal year 2014.

We performed a random inspection of equipment and found that the department did not tag three component units of an audio/visual system costing \$21,914. A mail sorting machine, costing \$16,894, was tagged and entered into Core-CT five months after being placed into service. The department spent \$14,837 to purchase 27 iPads during the audited period but did not designate them as controllable inventory. As a result, these iPads were not tagged and recorded in Core-CT as controllable items. A review of five out of 153 items with descriptions such as "replace bad asset location," "out for repair," or "client others" (temp loans) showed that two on-loan equipment agreements had been expired for 351 days and two years.

Effect:

The annual inventory reports submitted to the Office of the State Comptroller were understated. Assets not included in the annual inventory report were excluded from insurance coverage which in turn increased the department's risk of loss in the case of theft or damage.

The current inventory list was incomplete. Assets susceptible to theft and loss were not being monitored.

Cause: The department could not fill several positions within its information technology unit until the second half of fiscal year 2013-2014. The department has taken steps to prepare a list of software inventory; however, its completion also depended on the assistance of information technology staff members at the Department of Social Services. Other work priorities were also factors in causing the oversight.

The storekeeper indicated that only items costing greater than \$600 were tagged as controllable assets. Each iPad was purchased for less than \$600; therefore, they were not entered into Core-CT as a controllable item. The expired loan agreements were an oversight.

Recommendation: The Department of Rehabilitation Services should improve its controls over the preparation of annual inventory reports and the recording of capital and controllable assets. (See Recommendation 5.)

Agency Response: “The department agrees with this recommendation and effective immediately any items purchased directly by the Social Security Administration for the Disability Determination Services division will be treated as donations to the agency and will be added manually to Core-CT. The department has corrected the software misclassifications identified and will utilize Core-CT for tracking the agency’s software inventory in the future. The department will develop an agency wide property control policy to identify controllable inventory, which will include iPads purchased for employees.”

Business Enterprise Program

Criteria: Section 2.2 of the State Accounting Manual states that agencies shall be responsible for the periodic preparation of an accountability report or cash proof of the total receipts as recorded in the agency’s cash receipts journal. These reports are prepared to compare the monies that were actually recorded with the monies that should have been accounted for.

The State Comptroller’s Memorandum 2011-05, dated November 14, 2011, instructs agencies that all employees must contribute to the Retiree Health Fund for ten years or until they retire, whichever comes first. Exempt employees are employees who are not eligible to participate in the state employee retirement plans, or those having retirement coverage in their own right. Section 10-

303(c) of the General Statutes requires DORS to maintain a non-lapsing account for the payment of fringe benefits of vending facility operators. Page 13 of the Comptroller's Fringe Benefits Cost Recovery Manual defines fringe benefits to include "Retirement Contributions and Retirees' Medical Insurance Premiums."

According to the State Accounting Manual section for management of receivables, state agencies are required to adhere to minimum collection procedures unless the Office of the State Comptroller approves an agency's alternative collection procedure. At a minimum, all accounts more than 30 days past due must be subjected to collection procedures. A record must be kept for each action taken to collect an account, the name of the person taking the action, and the date the action was taken. At least three documented efforts should be made to collect all delinquent accounts over \$25. Accounts \$25 and under require only one documented attempt. When an account becomes 60 days past due, further credit should be denied until the account is returned to a current status. The state's right to offset debts owed the state against state payments due such debtors should be utilized.

Core-CT is the state's official accounting system. If the department chooses to monitor receivable balances outside of Core-CT, the alternative accounting system should provide sound internal control procedures to ensure that balances are accurate and provide an audit trail for all write-offs or adjustments to the receivable balances.

Condition:

The revenue subsidiary ledgers maintained by the Business Enterprise Program (BEP) were incomplete and were not reconciled to revenues recorded in the Core-CT Sales and Services account (SID 35149). Our reconciliation of cash receipts revealed discrepancies that could be caused by different timing of the revenue entries or by BEP's omissions of certain revenues from the subsidiary cash receipts ledger during the audited period. In fiscal year 2012-2013, BEP's cash collection ledger was \$50,177 less than revenue recorded in Core-CT totaling \$1,936,829. In fiscal year 2013-2014, BEP's cash collection ledger was \$15,734 more than the revenues recorded in Core-CT totaling \$2,005,297. The department did not prepare an accountability report or cash proof for its various revenue sources.

We observed that the department did not require facility operators who participated in the State Employee Retirement System to contribute three percent of their annual earnings to the Retiree

Health Fund. The department did not obtain official guidance from the Office of the State Comptroller as to whether these operators were exempt from the Retirees Health Fund contribution requirements. According to the cash receipts log maintained by the program supervisor, 25 and 22 operators participated in the State Employee Retirement System in fiscal years 2012-2013 and 2013-2014, respectively. Based on the available information on the operators' annual earnings in the calendar years 2010 through 2013, we estimated that contributions totaling \$61,406 were owed to the Retiree Health Fund.

Facility operators were allowed to participate in the state employee health insurance plan and were required to pay monthly health insurance premiums. Our review of ten receivable accounts found that four accounts had outstanding balances greater than 30 days, but no collection efforts were documented. There was no documentation that the department considered suspending health insurance benefits of these facility operators.

The program's receivables included operator health insurance premiums, operator contributions for participation in the state employee retirement plans, and inventory balances that the program provided to the operators. These receivables were kept outside Core-CT, in various Excel spreadsheets that function as subsidiary ledgers. We do not believe that these Excel spreadsheets provided a valid audit trail for receivable write-offs and adjustment entries. Receivable items could be deleted without being detected. Our review of 10 receivable accounts showed that two account balances contained computational errors. An account should have had a prepaid balance of \$57 instead of \$116. Another account was understated by \$120.

Effect:

Without reconciliation to revenues recorded in Core-CT, there was no assurance that revenues used to reduce receivable balances kept in various BEP's Excel spreadsheets were valid.

When non-state employees entitled to retirement benefits are not required to contribute toward the Retiree Health Fund, the State of Connecticut could be financing a disproportionate share of retiree health insurance benefits.

Non-compliance with the state's minimum collection procedures increased the risk of loss and decreased the ability to collect receivable balances.

Using Excel spreadsheets to monitor receivable balances augmented the risk that the department could not detect computational errors or unapproved receivable write-offs in a timely manner.

Cause: The program manager was not aware that reconciliations of revenues in the Excel cash ledger and Core-CT should have been performed.

The department made inquiries to various divisions within the Office of the State Comptroller and received conflicting responses regarding whether facility operators participating in state employee retirement plans should contribute three percent of their annual earnings to the Retiree Health Fund. Without official guidance from the Office of the State Comptroller, the department assumed that the facility operators are exempt from the three percent Retiree Health Fund contribution requirements.

The program managers were concerned that facility operators would not have alternative health insurance coverage if collection procedures were strictly followed.

Excel spreadsheets have been used to monitor receivables prior to the audited period. The department did not explore whether other accounting software could be a better fit for its accounting of receivable balances.

Recommendation: The Department of Rehabilitation Services should consider whether Core-CT can be used to monitor receivable balances of the Business Enterprise Program. If a different accounting system is used, the department should reconcile revenues recorded off Core-CT to the revenues recorded in Core-CT. The department should obtain official guidance from the Office of the State Comptroller to determine whether facility operators should contribute three percent of their annual earnings to the Retiree Health Fund. (Recommendation # 6)

Agency Response: “The agency partially agrees with this finding. With respect to the use of Core-CT, the agency agrees and will use Core-CT as the exclusive mechanism for monitoring receivable balances of the Business Enterprise Program. As for the contribution by vending facility operators to the Retiree Health Fund, BEP participants have not historically been considered employees for the following the reasons:

- a. They are granted health care benefits in retirement pursuant to Connecticut General Statutes section 5-259 (e). If BEP participants were state employees, there would be no need for a separate statute granting them these benefits.
- b. They are not hired into state service, but merely granted permits to operate vending stands. The BEP participant is paid no salary by the state and is entitled only to any profits from the vending stand operation.

The genesis of the three percent retiree healthcare contribution comes from the 2011 SEBAC agreement, which was applied to all “nonrepresented classified and unclassified officers and employees” of the state by Section 165 of Public Act 11-61, as amended by Section 11 of Public Act 11-1 of the June 2011 Special Session. Since BEP participants are not employees, they are not required to contribute the 3% toward retiree healthcare.

DORS has found nothing to indicate that the Comptroller is the appropriate authority to determine whether BEP participants are employees.”

Auditor’s Concluding Comments:

Within the Office of the State Comptroller, the Healthcare Policy and Benefit Services Division administers the Retiree Health Contribution Program. The division’s legal counsel and assistant director indicated to us in an interview that any state retirement plan member expecting to receive retiree health benefits from the state should be contributing as specified under the 2011 State Employees Bargaining Agency Coalition agreement.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

The audit report for the Department of Social Services for the fiscal years ended June 30, 2010 and 2011 did not disclose any recommendations related to the Bureau of Rehabilitation Services or the Division of Disability Determination Services.

The audit report for the Commission on the Deaf and Hearing Impaired for the fiscal years ended June 30, 2010 and 2011 disclosed two recommendations.

- There should be sustained monitoring of interpreter service and service-related claims. Regardless of the determined cause(s), all questionable claims should continue to be challenged and documented. Additionally, all such claims should be systematically recorded, categorized and aggregated to support a statement of potential cost savings that would result from addressing the various deficiencies of the existing P-2 Bargaining Unit labor agreement contract. Lastly, administrative policy and procedures should be adopted to address the manner in which questionable interpreter service and service-related claims are to be managed. This recommendation will be modified and repeated. (See Recommendation 1.)
- A final review should be performed of all receivable accounts maintained on the commission's legacy system and all such accounts should then either be collected or properly written off. This recommendation will be modified and repeated. (See Recommendation 4.)

The audit report for the Bureau of Education and Services for the Blind for the fiscal years ended June 30, 2010, 2011, and 2012 included four recommendations.

- The Bureau of Education and Services for the Blind should improve controls over applying and processing payroll and personnel benefits in order to be in compliance with the bargaining unit agreements as well as state laws and regulations. This recommendation was resolved.
- The Bureau of Education and Services for the Blind should strengthen controls to ensure that the proper receipt date is recorded on the payment vouchers processed through Core-CT and that funds are committed prior to the purchase of goods and services and that the correct contract pricing is used when making a purchase. This recommendation was resolved.
- The Bureau of Education and Services for the Blind's internal control questionnaire should be completed in its entirety by those responsible for each section. This recommendation was resolved.

- The Business Enterprise Program should maintain hard or electronic copies of potential operator preliminary assessment results and training information as well as all licenses and agreements. This recommendation was resolved.

The audit report for the Workers' Compensation Commission for the fiscal years ended June 30, 2010 and 2011 did not disclose any findings related to Vocational Rehabilitation Services.

Current Audit Recommendations:

1. **The Department of Rehabilitation Services should continue to work with the Office of Labor Relations to negotiate an amendment to the current agreement with the P-2 bargaining unit so that neither the state nor business customers are responsible for paying interpreters' duplicate or excessive travel claims.**

Comment:

The department has been monitoring bi-weekly interpreting service claims, which included overlap hours or questionable travel claims. However, the department was not able to deny or adjust these claims due to a recent arbitration award as well as other pending grievances.

2. **The Department of Rehabilitation Services should improve controls over medical certificates, granting of sick leave benefits and employment termination procedures. Personnel documents should be maintained in accordance with the State Library Records Retention Schedule.**

Comment:

Important personnel documents were not on file. There was no written service termination procedure, and the granting of sick leave was based on verbal information rather than complete medical certificates.

3. **The Department of Rehabilitation Services should improve its oversight of contract compliance monitoring and ensure that services and billing rates are clearly included in agreements with its contractors.**

Comment:

Hourly rates of the state-funded employment opportunities program could not be traced to contracts with the providers. Provider insurance certificates were not submitted to the state BizNet site.

4. **The Department of Rehabilitation Services should improve its oversight of receivable balances and work with the Office of Policy and Management and the Office of the State Comptroller to improve statewide procedures regarding the transfer of fiscal records among state agencies.**

Comment:

The list of open receivable balances as of June 30, 2011 of the Commission on the Deaf and Hearing Impaired was not provided to the department when the agencies merged. Similarly, the department did not receive a list of open receivable balances that were closed out by the DAS Smart Unit in June 2012.

5. **The Department of Rehabilitation Services should improve its controls over the preparation of annual inventory reports and the recording of capital and controllable assets.**

Comment:

Our review of the annual inventory reports identified understatements and overstatements in various asset categories. Electronic items susceptible to theft were not included on the department's list of controllable inventory.

6. **The Department of Rehabilitation Services should consider whether Core-CT can be used to monitor receivable balances of the Business Enterprise Program. If a different accounting system is used, the department should reconcile revenues recorded off Core-CT to the revenues recorded in Core-CT. The department should obtain official guidance from the Office of the State Comptroller to determine whether facility operators should contribute three percent of their annual earnings to the Retiree Health Fund.**

Comment:

Revenues used to offset receivable balances kept outside Core-CT were not reconciled to the total revenues recorded in Core-CT. There was no official determination as to whether BEP facility operators were exempt from the required three percent state employee contributions to the Retiree Health Fund. The use of Excel spreadsheet did not allow timely detection of unapproved receivable write-offs.

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 Rehabilitation Services during the course of this examination.



Thu-Anh Phung
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts