

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
DEPARTMENT OF SOCIAL SERVICES  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2004 AND 2005***

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

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May 18, 2007

**AUDITORS' REPORT  
DEPARTMENT OF SOCIAL SERVICES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005**

We have made an examination of the financial records of the Department of Social Services (DSS) for the fiscal years ended June 30, 2004 and 2005. This report thereon consists of the Comments, Condition of Records, Recommendations and Certification that follow.

Financial statement presentation and auditing are done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Department's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Department's internal control policies and procedures established to ensure such compliance.

**COMMENTS**

**FOREWORD:**

The Department of Social Services (DSS) operates under the provisions of Title 17b of the General Statutes.

The Mission of the Department is to serve families and individuals who need assistance in maintaining or achieving their full potential for self-direction, self-reliance and independent living. In fulfilling this mission the Department was designated as the State agency for the administration of the following programs:

- The Medicaid program pursuant to Title XIX of the Social Security Act – Provides payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

- The Temporary Assistance for Needy Families (TANF) program pursuant to the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 - Provides time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; ends dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevents and reduces out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourages the formation and maintenance of two-parent families.
- The Child Care and Development Block Grant program pursuant to the Child Care and Development Block Grant Act of 1990 – Provides services for day care, day care training, parenting skills and counseling.
- The Connecticut Energy Assistance Program pursuant to the Low Income Home Energy Assistance Act of 1981 – Provides supplemental assistance consisting of payments for fuel and utility bills to needy persons.
- Programs for the elderly pursuant to the Older Americans Act – Provides social and nutritional services for the elderly.
- Programs for vocational rehabilitation services pursuant to Title I of the Rehabilitation Act of 1973 – Provides a wide range of individualized services. These services are specially designed to increase the availability of, and access to, training and job placement opportunities for eligible persons with disabilities.
- The State Children’s Insurance Program pursuant to Title XXI of the Social Security Act – Provides health insurance for children who are not eligible for Medicaid.
- The Food Stamps program pursuant to the Food Stamp Act of 1977 – Provides assistance to low-income households to purchase food.
- The Social Security Disability Insurance program pursuant to Title II of the Social Security Act – Provides disability benefits to individuals meeting Social Security Administration work history and/or medical requirements and provides referral to vocational rehabilitation services.
- The Child Support Enforcement program pursuant to Title IV-D of the Social Security Act – Locates absent parents, obtains child support orders and collects child support payments on TANF and non-TANF families. Child support services are available to all children deprived of parental support, regardless of income.
- The Social Services Block Grant program pursuant to Title XX of the Social Security Act – Provides prevention, intervention and treatment services to individuals and families.
- The Section 8 Housing Choice Vouchers program pursuant to the Housing Act of 1937 – Provides rental assistance to help very low income families afford decent, safe, and sanitary rental housing.

- The State Supplement program pursuant to Section 17b-104 of the Connecticut General Statutes. – Provides supplemental cash assistance to elderly, blind or disabled individuals. This program provides additional cash assistance to clients of the Supplemental Security Income Program pursuant to Title XVI of the Social Security Act.
- The Connecticut Homecare Program for Elders pursuant to Section 17b-342 of the Connecticut General Statutes and to Title XIX of the Social Security Act – Provides an array of home care services and helps eligible Connecticut residents age 65 and older continue living at home instead of prematurely going to a nursing facility.
- The Connecticut Pharmaceutical Assistance Contract to the Elderly and Disabled (ConnPACE) program pursuant to Sections 17b-490 through 17b-519 of the Connecticut General Statutes – Helps eligible senior citizens and people with disabilities afford the cost of most prescription medicines.
- The State-Administered General Assistance (SAGA) program pursuant to Sections 17b-190 through 17b-219 of the Connecticut General Statutes – Provides cash and medical assistance to eligible individuals and families who do not have enough money to meet their basic needs.
- Housing / Homeless Services pursuant to Sections 17b-800 through 17b-849 of the Connecticut General Statutes - Makes grants to develop and maintain programs for homeless individuals including programs for emergency shelter services, transitional housing services, on-site social services for available permanent housing, and for the prevention of homelessness.
- The Connecticut Medicare Assignment Program (CONNMAP) pursuant to Sections 17b-550 through 17b-554 of the Connecticut General Statutes – Ensures that beneficiaries of CONNMAP and of the pharmaceutical assistance program (CONNPACE) who receive Medicare-covered services will be charged no more than the rate determined to be reasonable and necessary by Medicare.

Patricia Wilson-Coker was appointed Commissioner on March 8, 1999, and continued to serve in that capacity during the audited period.

**Significant Legislation:**

There was no legislation that significantly impacted the Department.

**Medicaid Managed Care Advisory Council:**

The Medicaid Managed Care Advisory Council was established in accordance with the provisions of Section 17b-28 of the General Statutes. The Council was established to advise the Commissioner of Social Services on the planning and implementation of a system of Medicaid managed care and monitor such planning and implementation and to advise the Waiver Application Development Council on matters including, but not limited to, eligibility standards,

benefits, access and quality assurance. The Council membership consists of the chairpersons and ranking members of the joint standing committees of the General Assembly having cognizance of matters relating to human services and public health, or their designees; two members of the General Assembly; the Director of the Commission on Aging, or a designee; the Director of the Commission on Children, or a designee; two community providers of health care, two representatives of the insurance industry, two advocates for persons receiving Medicaid, one advocate for persons with substance abuse disabilities, one advocate for persons with psychiatric disabilities, two advocates for the Department of Children and Families foster families, two members of the public who are currently recipients of Medicaid, two representatives of the Department of Social Services, two representatives of the Department of Public Health, two representatives of the Department of Mental Health and Addiction Services, two representatives of the Department of Children and Families, two representatives of the Office of Policy and Management, one representative of the office of the State Comptroller, and the members of the Health Care Access Board, who shall be ex-officio members and who may not designate persons to serve in their place. The Council shall choose a chair from among its members, and the Joint Committee on Legislative Management shall provide administrative support to such chair.

**Council to Monitor Implementation of Temporary Family Assistance Program and the Employment Services Program:**

The Council, which is to monitor the implementation of the temporary family assistance program and the employment services program, was established in accordance with the provisions of Section 17b-29 of the General Statutes. Membership of the Council shall be composed of the chairpersons and ranking members of the joint standing committee of the General Assembly having cognizance of matters relating to human services, or their designees; the chairmen and ranking members of the joint standing committee of the General Assembly having cognizance of matters relating to labor, or their designees; one child care provider, one expert on child support enforcement, one representative of advocacy groups; two education and training specialists, one experienced in job training and one experienced in basic adult education; one member of the public who is a current recipient of benefits under the temporary family assistance program; and two members, one experienced in higher education programs and one experienced in teenage pregnancy issues. The Council shall elect a chairperson from among its members.

**Commission on Aging:**

The Commission on Aging was established in accordance with the provisions of Section 17b-420 of the General Statutes. The Commission was established to advocate on behalf of elderly persons on issues and programs of concern to the elderly including, but not limited to, health care, nutrition, housing, employment, transportation, legal assistance, and economic security. Membership of the Commission consists of eleven voting members who are knowledgeable about areas of interest to the elderly to be appointed as follows: five by the Governor, one by the President Pro Tempore of the Senate, one by the Speaker of the House of Representatives, one by the Majority Leader of the Senate, one by the Majority Leader of the House of Representatives, one by the Minority Leader of the Senate, and one by the Minority Leader of the House of Representatives. The Commission shall include the following ex-officio nonvoting members: the chairpersons and ranking members of the joint standing committee of the General

Assembly having cognizance of matters concerning the provision of services to the elderly and the Commissioners of Social Services, Public Health, Mental Health and Addiction Services, Mental Retardation, Economic and Community Development, Transportation, Insurance, and Labor. The Governor selects the chairperson of the Commission and the Commission appoints the executive director. The Commission is within the Department of Social Services for administrative purposes only.

**Independent Living Advisory Council:**

In accordance with Section 17b-615 of the General Statutes, the Governor appointed a Statewide Independent Living Council as required by Title VII of the Rehabilitation Act of 1973. Subsection (b) of Section 17b-615 of the General Statutes requires that the Council meet regularly with the Director of the Bureau of Rehabilitation Services and perform the following duties: (1) issue an annual report by January first, with recommendations regarding independent living services and centers, to the Governor and the chairpersons of the joint standing committee of the General Assembly having cognizance of matters relating to human services, and (2) consult with, advise, and make recommendations to, the Department concerning independent living and related policy and management and budgetary issues.

**Child Day Care Council:**

The Child Day Care Council was established in accordance with the provisions of Section 17b-748 of the General Statutes. The Council was established to recommend to the Commissioner of Public Health regulations, which shall effectuate the purposes of this Section and Sections 17b-733, 19a-77, 19a-79, 19a-80, 19a-82 to 19a-87, inclusive, and 19a-87b to 19a-87e, inclusive, including regulations relating to licensing, operation, program and professional qualifications of the staff of child day care centers, group day care homes, and family day care homes and shall make recommendations to the Commissioner of Public Health on the administration of said Sections. The Council shall also make recommendations to the Department of Social Services as the lead agency for day care on grants management and the planning and development of child day care services. The Council shall serve as an advisory committee to the Department of Social Services in the development of the State Child Care Plan required pursuant to the Child Care Development and Improvement Act of 1990 and shall conduct biennial public hearings on such State Plan. In addition, the Council shall provide guidelines for drop-in supplementary child care operations.

Members of the Council consist of the Commissioners of Public Health, Social Services, Children and Families, Education, Economic and Community Development or a representative of each, designated by him or her in writing to serve as such representative, and sixteen other persons appointed by the Governor. The chairperson and vice-chairperson of the Council shall be elected by the full membership of the Council from among the persons appointed by the Governor.

The Council shall be within the Department of Social Services for administrative purposes only.

## **RÉSUMÉ OF OPERATIONS**

### **Introduction:**

The operations of the Department, which were accounted for in the General Fund, five Special Revenue Funds, two Capital Projects Funds, and two Fiduciary Funds, are discussed below.

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of two new Special Revenue Funds relative to grants and restricted accounts. One of these funds established by the State Comptroller during the 2003-2004 fiscal year is the "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund. Thus, starting with the fiscal year ended June 30, 2004, Federal grants and other restricted funds that were formerly accounted for in the General Fund have been reclassified into this newly established Special Revenue Fund.

Receipts and expenditures or disbursements for the Department for the past three fiscal years are summarized below:

	<b>Fiscal Year 2002-2003</b>	<b>Fiscal Year 2003-2004</b>	<b>Fiscal Year 2004-2005</b>
General Fund:			
Total Receipts	<u>\$ 2,650,834,882</u>	<u>\$ 2,343,936,892</u>	<u>\$ 2,395,111,440</u>
Total Expenditures	<u>\$ 4,051,186,879</u>	<u>\$ 3,776,415,599</u>	<u>\$ 3,908,030,185</u>
Special Revenue Funds:			
Grants and Restricted Accounts Fund			
Total Receipts	<u>\$ 0</u>	<u>\$ 302,904,958</u>	<u>\$ 344,932,193</u>
Total Expenditures	<u>\$ 0</u>	<u>\$ 305,966,941</u>	<u>\$ 333,985,581</u>
Grants to Local Governments and Others Fund			
Total Receipts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 8,658,193</u>	<u>\$ 5,090,088</u>	<u>\$ 1,298,257</u>
Housing for Homeless Persons with Aids Fund			
Total Receipts	<u>\$ 16,205</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 970,000</u>	<u>\$ 320,000</u>	<u>\$ (13,557)</u>

Child Care Facilities Fund			
Total Receipts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ (59,194)</u>	<u>\$ 0</u>	<u>\$ 835,450</u>
Capital Equipment Purchase Fund			
Total Receipts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 1,460,891</u>	<u>\$ 246,119</u>	<u>\$ 816,976</u>
Capital Projects Funds:			
Community Conservation and Development Fund			
Total Receipts	<u>\$ 2,028</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 12,669,828</u>	<u>\$ 10,848,905</u>	<u>\$ 6,903,283</u>
Capital Improvements and Other Purposes Fund			
Total Receipts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 4,297,593</u>	<u>\$ 758,729</u>	<u>\$ 546,970</u>
Fiduciary Funds:			
Social Services Support Fund:			
Total Receipts	<u>\$ 23,904,471</u>	<u>\$ 27,150,978</u>	<u>\$ 23,829,334</u>
Total Disbursements	<u>\$ 26,287,417</u>	<u>\$ 26,137,554</u>	<u>\$ 24,795,790</u>
Funds Awaiting Distribution:			
Total Receipts and Transfers	<u>\$ 17,608,522</u>	<u>\$ 21,966,904</u>	<u>\$ 19,416,338</u>
Refunds and Net Transfers	<u>\$ 26,023,639</u>	<u>\$ 21,820,676</u>	<u>\$ 19,201,385</u>

**General Fund - Receipts:**

The Department's General Fund receipts for the past three fiscal years are summarized below:

	<u>Fiscal Year 2002-2003</u>	<u>Fiscal Year 2003-2004</u>	<u>Fiscal Year 2004-2005</u>
Federal Contributions:	\$	\$	\$
Medical Assistance (See Note 1)	1,691,594,212	1,783,377,740	1,850,711,242

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Dependent Children (See Note 2)	309,612,893	294,793,619	300,371,107
Collection of Federal Receivables	290,211,999		
Department of Mental Retardation - Intermediate Care Facilities (See Note 3)	79,364,537	106,412,998	75,228,892
Federal Administration (See Note 4)	104,124,620	79,871,100	84,952,157
Child Support Enforcement	26,562,107	31,738,797	27,784,838
State Children's Insurance Program	14,486,795	15,452,006	18,035,613
Other	1,042,636		
Transfers from Other State Agencies	7,972,184		
Total Federal Contributions	<u>2,524,971,983</u>	<u>2,311,646,260</u>	<u>2,357,083,849</u>

### State Receipts:

Refunds of Current Year Expenditures	4,203,704		
Restricted Contributions	20,770,913		
Recoveries	98,139,402	29,791,049	35,236,947
Miscellaneous Receipts	2,748,880	2,499,583	2,790,644
Total State Receipts	<u>125,862,899</u>	<u>32,290,632</u>	<u>38,027,591</u>
Total General Fund Receipts	<u>\$ 2,650,834,882</u>	<u>\$ 2,343,936,892</u>	<u>\$ 2,395,111,440</u>

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### Notes to above schedule:

- Note 1 These receipts represent reimbursement of Medicaid costs other than administration costs (Note 4) and costs incurred by the Department of Mental Retardation (Note 3).
- Note 2 These receipts represent reimbursement of expenditures incurred on behalf of administering and providing benefits under the Temporary Assistance for Needy Families program and the Child Care Development program.
- Note 3 These receipts represent reimbursement of costs of services related to the Medicaid program.
- Note 4 These receipts represent reimbursement of administrative costs incurred on behalf of administering Medicaid, Food Stamps, and the State Children's Insurance Program.
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Total revenue and receipts decreased by \$306,897,990 during the fiscal year ended June 30, 2004, and increased by \$51,174,548 during the fiscal year ended June 30, 2005. These changes resulted primarily from the following significant increases and decreases in individual accounts.

During the 2003-2004 fiscal year, increases of \$91,783,528 and \$27,048,461 were reflected in Medical Assistance and Department of Mental Retardation - Intermediate Care Facilities, respectively. These increases were offset by decreases of \$14,819,274, \$24,253,520, \$290,211,999, \$20,770,913, and \$68,348,353 in Dependent Children, Federal Administration, Collection of Federal Receivables, Restricted Contributions, and Recoveries, respectively.

The increase of \$91,783,528 in Medical Assistance can be primarily attributed to an increase in Medicaid expenditures claimed for Disproportionate Share Hospital Care and an increase in the Federal reimbursement rate from 50 percent to 52.5 percent for the majority of the expenditures incurred under the Medicaid program. The rate increase affected Federal

reimbursements for two of the four quarters. The increase of \$27,048,461 in Department of Mental Retardation - Intermediate Care Facilities can be primarily attributed to delays in billings during the fiscal year 2002-2003 to public providers, which resulted in an increase in Federal funds received during the fiscal year 2003-2004.

The decrease of \$14,819,274 in Dependent Children was primarily attributed to an increase in 2002-2003 Federal contributions because the Department received a significant amount of prior year Federal funds during that fiscal year. The decrease of \$24,253,520 in Federal Administration was primarily due to a decrease in administrative expenditures incurred under the Food Stamps and Medicaid programs, which reduced the amount of Federal reimbursements. The decreases of \$290,211,999 and \$20,770,913 were due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained in the above introduction to the *Résumé of Operations*. These receipts are being accounted for in the newly established Special Revenue Fund for the fiscal years ended June 30, 2004 and 2005. The decrease of \$68,348,353 in Recoveries was primarily attributed to a settlement between the State and the Centers for Medicare and Medicaid Services concerning third party liabilities. This settlement addressed skilled nursing services delivered as part of the home health benefit for dual eligible clients where the State appealed Medicare denials of coverage. The settlement resulted in an increase of \$66,600,000 in receipts during the fiscal year ended June 30, 2003.

During the 2004-2005 fiscal year, an increase of \$67,333,502 was reflected in Medical Assistance. This increase was offset by a decrease of \$31,184,106 in Department of Mental Retardation – Intermediate Care Facilities.

The increase of \$67,333,502 can be attributed to an increase in the Federal reimbursement rate from 50 percent to 52.5 percent for three of the four quarters during the fiscal year 2004-2005 and normal inflationary increases in costs, which resulted in increased Federal reimbursements.

The decrease of \$31,184,106 in the Department of Mental Retardation - Intermediate Care Facilities account was primarily attributed to a significant increase in Federal contributions during the fiscal year 2003-2004 due to receiving reimbursement of billings that should have been received during fiscal year 2002-2003 and delays in billing expenditures during fiscal year 2004-2005, which resulted in lower Federal contributions during the fiscal year.

**General Fund - Expenditures:**

The Department's General Fund expenditures for the past three fiscal years are summarized below:

	<b>Fiscal Year 2002-2003</b>	<b>Fiscal Year 2003-2004</b>	<b>Fiscal Year 2004-2005</b>
	\$	\$	\$
Budgeted Accounts:			
Personal Services	106,207,722	89,809,230	94,173,965

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Contractual Services	83,869,671	82,455,564	89,924,575
Commodities	991,786	732,586	781,628
Revenue Refunds	(43,106)	(135,765)	287,442
Sundry Charges	13,354,424		
State Grants	3,520,408,997	3,603,553,984	3,722,862,575
Total Budgeted Accounts	<u>3,724,789,494</u>	<u>3,776,415,599</u>	<u>3,908,030,185</u>
Restricted Accounts:			
Federal Accounts	303,264,302	0	0
Other than Federal Accounts	<u>23,133,083</u>	<u>0</u>	<u>0</u>
Total Restricted Accounts	<u>326,397,385</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$ 4,051,186,879</u>	<u>\$ 3,776,415,599</u>	<u>\$ 3,908,030,185</u>

Total expenditures decreased by \$274,771,280 during the fiscal year ended June 30, 2004, and increased \$131,614,586 during the fiscal year ended June 30, 2005. These changes resulted primarily from the following significant increases and decreases in individual accounts.

During the fiscal year 2003-2004, decreases of \$16,398,492, \$13,354,424, and \$326,397,385 were reflected in Personal Services, Sundry Charges, and Total Restricted Accounts, respectively. The decrease in personal services can be primarily attributed to the State's Early Retirement Incentive Program that was enacted at the end of the 2002-2003 fiscal year and layoffs that occurred during the middle of fiscal year 2002-2003. The decrease in Sundry Charges was attributed to a change in reporting the majority of these expenditures as State Grants for fiscal year 2003-2004. The decrease in Total Restricted Accounts was due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained in the above introduction to the Résumé of Operations. These expenditures are being accounted for in the newly established Special Revenue Fund for the fiscal years ended June 30, 2004 and 2005.

There were also significant increases in State Grants during the fiscal years 2003-2004 and 2004-2005. The State Grants are presented in the following analysis by the type of special appropriation for which they were expended.

	<b>Fiscal Year 2002-2003</b>	<b>Fiscal Year 2003-2004</b>	<b>Fiscal Year 2004-2005</b>
	\$	\$	\$
Medicaid	2,809,138,647	2,785,097,010	2,922,402,715
Disproportionate Share	98,275,000	201,489,824	201,210,000
Temporary Assistance to Families	113,405,573	127,563,728	127,855,121
Child Care Services	98,915,872	60,687,683	58,901,947
HUSKY B Program	18,059,835	23,243,556	27,009,353
General Assistance	122,435,907	133,816,908	130,113,918
Aid to the Disabled	55,422,841	54,394,846	54,376,731
Old Age Assistance	29,959,487	29,174,560	29,300,384
Child Day Care	6,685,778	6,693,800	6,693,800

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Housing – Homeless	21,213,285	22,361,509	22,664,841
ConnPACE	69,194,282	75,271,561	60,517,110
Connecticut Home Care Program	29,059,949	33,187,080	36,152,041
Other	48,642,541	50,571,919	45,664,614
Total State Aid Grants	<u>\$ 3,520,408,997</u>	<u>\$ 3,603,553,984</u>	<u>\$ 3,722,862,575</u>

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Note to above schedule:

A portion of the expenditures made under Medicaid, Disproportionate Share, Temporary Assistance to Families, Child Care Services, and HUSKY B are claimed for reimbursement under various Federal programs.

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The reasons for the major changes in expenditures for the above State programs and major restricted expenditure accounts are presented as follows:

- **Medicaid:** Program expenditures decreased \$24,041,637 and increased \$137,305,705 for the fiscal years ended June 30, 2004 and 2005, respectively. The decrease was primarily due to reassigning the expenditures incurred for Urban Hospitals in Distressed Municipalities, which were included in this line for fiscal year 2002-2003, to the Disproportionate Share line for fiscal years 2003-2004 and 2004-2005. The annual expenditure amount incurred for Urban Hospitals in Distressed Municipalities totaled \$105,935,000. The other increases that incurred during fiscal years ended June 30, 2004 and 2005, represent normal increases in costs and increased managed care clients.
- **Disproportionate Share:** Program expenditures increased \$103,214,824 for the fiscal year ended June 30, 2004. There was no significant increase for the fiscal year ended June 30, 2005. The increase in fiscal year 2003-2004 was primarily due to a change for reporting the expenditures in this schedule from the prior years. In the fiscal year 2002-2003, expenditures for Urban Hospitals in Distressed municipalities were included with the Medicaid line item. For the fiscal year 2003-2004 and 2004-2005, the expenditures incurred for these hospitals were included in this line item.
- **Temporary Assistance to Families:** Program expenditures increased \$14,158,155 for the fiscal year ended June 30, 2004. There was no significant increase for the fiscal year ended June 30, 2005. The increase in fiscal year 2003-2004 was primarily due to using the TANF High Performance Bonus received from the Federal government to pay for some of the assistance payments.
- **Child Care Services:** Program expenditures decreased \$38,228,189 and \$1,785,736 during the fiscal years ended June 30, 2004 and 2005, respectively. The decreases were primarily due to decreases in State appropriations combined with a change in the eligibility requirements of the program. The Department established a lower maximum income eligibility standard for families served.
- **HUSKY B Program:** Program expenditures increased \$5,183,721 and \$3,765,797 for the fiscal years ended June 30, 2004 and 2005, respectively. The increase in fiscal year 2003-2004 was mainly attributed to expenditures totaling approximately \$5,000,000 that were incorrectly coded as sundry charges during fiscal year 2002-2003. The increase in

fiscal year 2004-2005 was mainly attributed to an increase in the number of clients and increases in the monthly rates paid on behalf of each client.

- **General Assistance:** Program expenditures increased \$11,381,001 and decreased \$3,702,990 for the fiscal years ended June 30, 2004 and 2005, respectively. The fluctuations that incurred during these years were primarily attributed to an increase in program recipients and a subsequent decrease in program recipients, respectively.
- **Child Day Care:** There were no significant changes to Child Day Care services during the fiscal years ended June 30, 2004 and 2005.
- **Housing-Homeless:** There were no significant changes to Housing-Homeless services during the fiscal years ended June 30, 2004 and 2005.
- **ConnPACE:** Program expenditures increased \$6,077,279 and decreased \$14,754,451 for the fiscal years ended June 30, 2004 and 2005, respectively. The significant increase in fiscal year 2003-2004 reflects an increase in the number of clients. The large increase was a continuing effect of the Legislature’s expansion of the program to serve individuals up to 233 percent of the Federal poverty level. The decrease in fiscal year 2004-2005 was the result of a decrease in the number of clients. The decrease was due to new legislation that passed, which implemented a liquid asset test and allowed for estate recovery of benefits. These two legislative provisions have since been repealed.
- **Connecticut Home Care Program:** Program expenditures increased \$4,127,131 and \$2,964,961 during the fiscal years ended June 30, 2004 and 2005, respectively. The significant increases in expenditures during fiscal years 2003-2004 and 2004-2005 were mainly attributable to increases in the monthly average caseloads.
- **Other:** The increase in fiscal year 2003-2004 was primarily attributed to expending funds under the Work Performance Bonus grant netted with one time funding provided to hospitals during the fiscal year 2002-2003. The decrease in fiscal year 2004-2005 was primarily the result of a decrease in funds expended under the Work Performance Bonus grant.

**Special Revenue Funds - Receipts:**

The Department’s Special Revenue Funds receipts for the past three fiscal years are summarized below:

	<b>Fiscal Year 2002-2003</b>	<b>Fiscal Year 2003-2004</b>	<b>Fiscal Year 2004-2005</b>
	\$	\$	\$
Federal Contributions:			
Federal Aid, Restricted		271,295,574	305,873,770
Transfers from Other State Agencies		10,189,101	14,232,898
Total Federal Contributions	<u>0</u>	<u>281,484,675</u>	<u>320,106,668</u>

State Receipts:

Restricted Contributions	20,136,365	24,079,458
Transfers from Other State Agencies	1,283,918	746,067
Miscellaneous	16,205	
Total State Receipts	16,205	21,420,283
Total Special Revenue Fund Receipts	\$ 16,205	\$ 302,904,958
		\$ 344,932,193

Total revenues and receipts increased \$302,888,753 and \$42,027,235 during the fiscal years ended June 30, 2004 and 2005, respectively. The increase in fiscal year 2003-2004 was due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained in the above introduction to the *Résumé of Operations*. These receipts were accounted for in the General Fund during the fiscal year ended June 30, 2003. The increase in fiscal year 2004-2005 was primarily attributed to an increase of \$34,578,196 in Federal Aid, Restricted, which was attributed to an increase in expenditures to various Federal programs as explained below.

**Special Revenue Funds - Expenditures:**

The Department's Special Revenue Funds expenditures for the past three fiscal years are summarized below:

	<b>Fiscal Year 2002-2003</b>	<b>Fiscal Year 2003-2004</b>	<b>Fiscal Year 2004-2005</b>
	\$	\$	\$
Expenditure Accounts:			
Personal Services	1,000	21,821,523	24,862,729
Contractual Services	15,450	6,871,743	8,590,603
Commodities		816,049	220,773
Revenue Refunds		146,587	0
Sundry Charges		939	2,189
Equipment	1,444,441	276,293	339,351
Overhead		4,218,288	6,031,415
State Grants	9,568,999	25,481,583	25,273,341
Federal Aid Grants		251,990,143	271,602,306
Total Expenditures	\$ 11,029,890	\$ 311,623,148	\$ 336,922,707

Total expenditures increased \$300,593,258 and \$25,299,559 during the fiscal years ended June 30, 2004 and 2005, respectively. The increase in fiscal year 2003-2004 was due to a change in accounting procedures resulting from the implementation of a new State accounting system, as explained in the above introduction to the *Résumé of Operations*. These expenditures were accounted for in the General Fund during the fiscal year ended June 30, 2003. The increase in fiscal year 2004-2005 was primarily attributed to increases in expenditures related to the Social Security-Disability Insurance, Section 8 Housing Choice Vouchers, and Rehabilitation Services-

Vocational Rehabilitation Grants to States Federal programs and to increases in Medicare premiums paid under the Medicaid program.

The increases in fiscal years ended June 30, 2004 and 2005, were offset by decreases in expenditures totaling \$3,568,105 and \$3,791,831, respectively, which were incurred under the Special Revenue Fund Grants to Local Governments and Others Fund (see the Introduction to the Résumé of Operations on Page 6). The expenditures made from this Fund were grants-in-aid expenditures made under various Bond Acts passed by the Legislature. These grants-in-aid expenditures were primarily for the renovation and expansion of neighborhood facilities used as senior centers, day care facilities, emergency shelters, etc.

**Capital Projects Funds:**

Community Conservation and Development Fund grants-in-aid expenditures, which were made under various Bond Acts passed by the Legislature, totaled \$10,848,905 and \$6,903,283 for the fiscal years ended June 30, 2004 and 2005, respectively. During the fiscal year ended June 30, 2003, the Department expended \$12,669,828 from this Fund. These grants-in-aid expenditures were primarily for the renovation and expansion of neighborhood facilities used as senior centers, day care facilities, emergency shelters, etc. In addition, the Department expended \$758,729 and \$546,970, during the fiscal years ended June 30, 2004 and 2005, respectively, from the Capital Improvement and Other Purpose Fund that was established during the fiscal year 2002-2003 to provide funds for the Department to establish procedures to be in compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPPA). During the fiscal year ended June 30, 2003, the Department expended \$4,297,593 from this Fund.

**Fiduciary Funds:**

*Social Services Support Fund:*

The Social Services Support Fund, an agency fund, is used as a clearing account for payments received from persons in other states who were obligated to support children who were beneficiaries of public assistance in Connecticut. In addition, amounts recovered from the Internal Revenue Service's interception of tax refunds and withholding of State income tax refunds for delinquent support payors are also deposited in this Fund. These receipts are deposited into the Fund pending computation of amounts due other states and amounts refunded to child support obligors after deducting the delinquent child support which is then transferred to the General Fund. The disbursements primarily consisted of transfers to the State General Fund for the recovery of public assistance.

According to the records of the State Comptroller, the Fund's resources at June 30, 2004 and 2005, totaled \$1,201,146 and \$234,690, respectively.

*Funds Awaiting Distribution:*

The Department primarily used the Funds Awaiting Distribution Fund for the distribution of child support receipts as provided by the Federal Child Support Enforcement Program (Title IV-

D). The Federal Deficit Reduction Act of 1984 mandates that actual child support collected by the State for an active TANF case, up to a maximum of \$50 per month, be redirected to the TANF family. Deposits are made to the General Fund revenue account entitled "Recovery of Public Assistance." Transfers are then made monthly from the General Fund to the Funds Awaiting Distribution Fund for anticipated funding requirements. A payment list, in the amount of the transfer, is then drawn from the Funds Awaiting Distribution Fund for deposit in the DSS' Benefit Assistance checking account. Payments are then made to TANF families from this account. The Department also used this Fund to account for Food Stamp collections and DSS client overpayment collections recovered by the Department of Administrative Services Financial Services Center.

According to the records of the State Comptroller, the Fund's resources at June 30, 2004 and 2005, totaled \$2,080,620 and \$2,295,573, respectively.

**Other Funds and Accounts:**

*Burial Reserve Fund:*

Section 17-114 of the General Statutes, as it was formerly in effect, provided for the assignment of up to \$600 in personal property, including insurance policies to the State's Burial Reserve Fund by individuals who thereby became eligible for public assistance. Public Act 86-290, effective July 1986, repealed the aforementioned Section 17-114 of the General Statutes, but did not address the disposition of existing Burial Reserve accounts. A formal opinion, requested by the Department of Social Services was received from the Attorney General on November 25, 1996, relative to the appropriate disposition of existing Burial Reserve assets. In his opinion, the Attorney General states that, in the case of a deceased individual who assigned assets, the Department is required to release up to \$600 of the assigned funds for the direct payment by the Department of any unpaid funeral or burial expenses outstanding. After making this payment, or if there are no outstanding unpaid funeral or burial expenses to be paid, the Department should retain the balance of the assigned assets and any earnings which may have accrued thereon as reimbursement for prior grants of public assistance to the deceased individual. The Department completed the disposition of cash assigned to the Commissioner of the Department in October 1997. However, the Department still has on hand approximately 295 life insurance policies that have been assigned to the Commissioner.

*Initial Supplemental Security Income Benefits Account:*

Federal law provides that the Social Security Administration may, upon written authorization by an individual, reimburse states which have furnished interim assistance to recipients between the month the recipient files his claim for Supplemental Security Income benefits and the month in which benefits are paid. This provision has allowed the individual to receive prompt general assistance. For this consideration, the individual authorizes the State to receive his/her initial, and any retroactive, Supplemental Security Income payments. From the Supplemental Security Income received, the State retains the amount of general assistance provided to the individual and remits the balance of the Supplemental Security Income to the individual.

The cash balances at June 30, 2004 and 2005, were \$501,525 and \$190,567, respectively.

*Conservator Account:*

In accordance with Section 45a-651 of the General Statutes, the Commissioner of the Department of Social Services could be appointed, by a probate court, as conservator of the estate of certain persons with limited resources. The Commissioner may delegate any power, duty or function arising from the appointment as either conservator of the estate or of the person, respectively, to an employee of the Department.

The Department maintained a single checking account for the conservator program with computerized subsidiary records for each client's funds. In addition to cash balances of \$10,342 and \$18,024 at June 30, 2004 and 2005, respectively, the Conservator Account had investments in the State of Connecticut's Short Term Investment Fund of \$80,303 and \$82,118 on those respective dates.

## CONDITION OF RECORDS

Our review of the records of the Department of Social Services revealed several areas requiring improvement. Separate captions have been included for major areas of discussion.

### **Prompt Deposit of Receipts:**

*Background:* Each of the Department's 12 Regional/Sub Offices prepare a log of receipts. We selected a sample of 11 receipts from five of the 12 offices.

*Criteria:* Section 4-32 of the General Statutes requires that any State agency receiving any money or revenue for the State amounting to more than \$500 shall deposit such receipts in depositories designated by the State Treasurer within 24 hours of receipt. Total daily receipts of less than \$500 may be held until the total receipts to date amount to \$500 but not for a period of more than seven calendar days. The Treasurer is authorized to make exceptions to the limitations herein prescribed upon written application from the Department head stating that compliance would be impracticable and giving the reasons therefore.

The State Treasurer has granted the Department a two business-day waiver for checks totaling \$1,000 or more that were originally received at the Regional/Sub Offices. As a result, the Department has 72 hours to deposit these checks into a State account.

*Condition:* During our testing we noted that four checks totaling \$7,241 were not deposited within 72 hours as required by the waiver obtained by the State Treasurer. We found that these checks were on hand between one to three days in excess of the allowed time.

*Effect:* The lack of prompt deposits increases the opportunity for the loss or misappropriation of funds.

*Cause:* The Department's procedures for handling cash receipts at the Regional/Sub Offices prevents the Department from depositing the receipts in a timely manner. Specifically, the Department's Regional/Sub Offices send their receipts to the Department's Central Office for depositing, which creates a delay in depositing the receipts to a depository designated by the State Treasurer of greater than the allowed time.

*Recommendation:* The Department should develop procedures to ensure that receipts are deposited in accordance with the waiver obtained from the State Treasurer including the possibility of depositing to the Funds Awaiting Distribution Fund any monies received for which the disposition cannot be immediately determined. (See Recommendation 1.)

*Agency's Response:* "The Department agrees with this finding in part. Based on the Department's request and discussions at the time of the waiver, the Treasurer's approval added two business-days to the initial 24 hour deposit requirement for checks over \$1,000 and an additional four business-days beyond the 24 hour requirement for checks totaling under \$1,000.

Nevertheless, to continue efforts to ensure the Department remains in compliance with the deposit waiver as outlined above, we will issue a memo to all DSS regional office staff reminding them of the timely deposit requirements.

It should be noted that the Department receives payments from many different sources such as clients, Medical Providers, Federal Agencies, and others. The payments are received directly at Central Office and at each one of the regional offices throughout Connecticut. During FY 2004 and FY 2005, the Department received and processed over 17,500 payment receipts, including over 4,000 items over \$999.

All payment receipts are deposited at the Central Office in Hartford. Occasionally, deposits are not made as required by the State Treasurer's waiver due to the delay caused by the movement of funds from the Regions to the Central Office."

**Accounts Receivable – Aged Receivables:**

*Criteria:* Past due accounts receivable should be periodically reviewed to determine their collectibility. Receivables judged by management to be uncollectible should be written-off.

*Condition:* Our review of the Department's receivable records continued to disclose numerous delinquent accounts receivables as of June 30, 2005.

Medical receivables greater than one year old with no collection activity recorded in over one year totaled \$25,976,097 and were originally established as much as 24 years earlier.

Drug rebate receivables greater than one year old totaled \$1,604,187 and were originally established up to 15 years earlier.

*Effect:* Untimely collection efforts increase the risk that receivables will not be collected, and unnecessary staff resources are being used to account for receivables that are not collectible.

*Cause:* There were insufficient internal controls over receivables combined with a lack of a policy by management to aggressively pursue delinquent accounts.

*Recommendation:* The Department should establish internal controls over its significant receivable categories that provide for the timely identification and collection of delinquent receivables and subsequent write-off of the receivables if collection efforts prove unsuccessful. (See Recommendation 2.)

*Agency's Response:* "The Department agrees with this finding. The Department has prioritized its efforts to pursue newly established receivables to prevent the accumulation of inactive receivables and to maximize collections. Since July 2004, the Department has recorded 33,000 receivables. Of this amount, approximately 99 percent of these receivables have been collected with only 354 still open.

The Department is now turning its focus to address inactive aged receivables. A new Medicaid Management Information System (MMIS) is being implemented in October 2007 called "interChange". As we transition to "interChange", the Department will implement procedures that will bring the older outstanding receivables to a resolution, whether by means of collection or by writing off uncollectible receivables in accordance with State and Federal regulations.

In addition, we are currently reviewing grantee-based receivables and will similarly address these receivables to bring them to resolution."

**Payroll and Personnel – Payments at Separation from State Service:**

*Background:* There were 40 individuals who received payments for accrued vacation and sick leave during the period October 1, 2003 to June 30, 2005, because they left State service. We tested 15 employees to determine whether the payments made were calculated correctly.

*Criteria:* In accordance with Section 5-252 of the General Statutes, any State employee leaving State service shall receive a lump sum payment for accrued vacation time.

Section 5-247 of the General Statutes requires that each employee who retires under the provision of Chapter 66 shall be compensated, effective as of the retirement date, at the rate of one-fourth of such employee's salary for sick leave accrued to his credit as of the last day on the active payroll up to a maximum payment equivalent to sixty days.

Section 5-213, subsection (b), of the General Statutes states that semiannual longevity lump-sum payments shall be made on the last regular pay day in April and October of each year, except that a retired employee shall receive, in the month immediately following retirement, a prorated payment based on the proportion of the six-month period served prior to the effective date of the employee's retirement.

*Condition:* Our review of longevity payments made to employees who left State service disclosed that the incorrect pro-rated longevity percentage was used to calculate the longevity payment made to one employee, which resulted in an overpayment of \$48.

Our review disclosed that the accrued vacation, accrued sick, and longevity payments made to one employee's beneficiary were inaccurate. This employee's beneficiary was overpaid accrued vacation leave by \$410, overpaid sick leave by \$427, and underpaid longevity by \$283.

Our review of the worksheets used by the Department for computing the separation payments disclosed that the Department's payroll supervisor did not sign seven of the 15 worksheets sampled.

*Effect:* Improper payments were made to individuals who left State service.

*Cause:* In the first exception, the supervisor did not note the error prior to payment. In the second exception, the calculations were not reviewed by the payroll supervisor.

*Recommendation:* The Department should review its worksheets prepared for calculating separation payments for employees leaving State service for both accuracy and compliance with State regulations and/or collective bargaining contracts before such payments are made. (See Recommendation 3.)

*Agency's Response:* "The Department agrees with this finding. The Division of Financial Management and Analysis has implemented additional supervisory oversight to reduce the likelihood of errors.

The payroll staff preparing the separation worksheet now includes a screen print from the accrued leave pages of CORE-CT for sick and vacation balances as of the date of separation. They also include a screen print of the final pay period timesheet to reconcile any final leave time taken that had not been posted to the accrued leave pages at the time the separation worksheet is prepared. The completed package is submitted to the payroll supervisor for review and signature, and forwarded to the unit manager for final approval before the worksheet is entered for payment.

Payroll staff has also been instructed to double check data entry pages

before finalizing the computer data entry to transmit the separation payment.”

**State Supplemental Payments – Therapeutic Diet:**

*Criteria:* According to Section 4525.60 of the Department’s Uniform Policy Manual (UPM) the cost of a therapeutic diet is recognized as a recurrent special need in the following situation: (a) when the nutritional status of the assistance unit requires modification of the normal diet; (b) when the modification of the diet is a necessary part of medical care; and (c) when modification of the diet increases the cost of the food budget. A physician is required to submit a statement every six months indicating: (a) why this special need is a necessary part of medical care; and (b) whether or not it represents an increased cost to the unit member.

*Condition:* We reviewed 25 payments made to, or on behalf of, State Supplemental recipients for the fiscal years ended June 30, 2004 and 2005. Our review disclosed the following four cases in which recipients received therapeutic diet special need payments that were not supported by appropriate documentation.

- In two cases, there were no therapeutic diet request forms in the case files.
- In two cases, the request forms were not signed by physicians within six months of the benefit months tested.

*Effect:* Payments may have been made to recipients who were not eligible for therapeutic diet special need payments.

*Cause:* It appears that caseworkers are not following the Department’s Uniform Policy Manual.

*Recommendation:* The Department should follow its procedures to ensure that appropriate supporting documentation is obtained in a timely manner for State Supplemental therapeutic diet special need payments or should consider revising the six-month requirement in the Department’s Uniform Policy Manual. (See Recommendation 4.)

*Agency’s Response:* “The Department agrees with this finding. The Department has run an ad hoc report of cases with authorized therapeutic diets. A sample of cases will be reviewed to determine why the diets have been requested. For diets associated with a chronic condition, the Department may accept these cases as authorized. For those cases with an apparent temporary need for the special diet, in the interest of workload simplification the Department

will pursue an option regulatory change to review these cases at the next State Supplement redetermination.”

**Closed Cases – Improper Payments:**

*Background:* The Department of Social Services (DSS) contracts with two vendors to administer non emergency medical transportation for some recipients on public assistance. The vendors receive a monthly capitated rate for each client regardless of whether the client is provided actual transportation. Under the State Supplemental program, clients receive monthly cash assistance.

The Department provided us with a monthly report of cases closed due to the death of recipients. We sampled clients listed on the June 2005 report to determine whether payments made after the death of the recipients were appropriate. This report had 774 names listed. Twenty seven of the names listed were clients of the State Supplement program. The remaining names were clients of medical assistance programs.

*Criteria:* Section 1565.05 of the Department’s Uniform Policy Manual sets forth the ending date of assistance due to non-financial factors, including the death of a client. The Manual provides that when eligibility has been determined to no longer exist, the last day for which the assistance unit is entitled to the benefits of the program is the last day of the month in which a non-financial eligibility factor causes ineligibility, provided that eligibility existed on the first of the month. This includes the death of a recipient.

*Condition:* Our review of benefit payment histories of recipients listed on the “Closed Cases by Death of a Recipient” report for the June 2005 disclosed the following:

1. For ten out of 15 State Supplement Program recipients tested, we noted that monthly benefit payments were issued after the recipients’ deaths and subsequently cashed. In three of these ten instances, receivables totaling \$3,542 were not created so that the established procedures could be used to recoup the overpayments. There were excess payments made for five months in one case and for one month in two cases.
2. In all 15 State Supplement Program recipients tested, we noted that transportation payments totaling \$678 were paid on behalf of recipients for services in the months following the recipients’ deaths. The Department has not attempted to recover these overpayments. The number of improper monthly transportation payments consisted of

excessive payments of six months in four cases, two months in four cases, and one month in seven cases.

3. In seven out of the 12 Medicaid assistance recipients tested, we noted that transportation payments totaling \$352 were paid on behalf of recipients for services in the months following the recipients' deaths. The Department has not attempted to recover these overpayments. The number of improper monthly transportation payments consisted of excessive payments of nine months in one case, two months in four cases, and one month in two cases. It should be noted that a capitated rate would only be paid on behalf of some of the Medicaid clients listed on the June 2005 report.

*Effect:* Improper payments totaling \$4,572 were made for which the Department made no attempt to recover the payment.

*Cause:* For the improper monthly benefit payments, procedures were not followed to establish receivables in the Department's computer system for these overpayments. For the improper transportation payments, the Department has not yet developed a process to recoup transportation payments that are made after the death of a recipient. It should be noted that for four out of the 15 State Supplement Program cases tested, notifications of the clients' deaths were not received until five to six months after the actual date of death.

*Recommendation:* The Department should improve its procedures relative to cases closed due to death to ensure the discontinuance of benefit and transportation payments or the recovery of those payments issued after death. (See Recommendation 5.)

*Agency's Response:* "The Department agrees with this finding. The Department will remind staff to refer cases to the Fraud and Recoveries Unit if, subsequent to the client's date of death, monthly benefits have been issued and accessed or services were provided for transportation or other special needs.

At times the Department is not notified of the client's death until a significantly later date. There is existing logic in EMS Financial Processing to look back six months from when a date of death is entered into EMS to see if a payment was paid to a non-emergency transportation vendor subsequent to the client's death. A data processing work request has been submitted to Information Technology Services (ITS) to further strengthen this process by increasing the look back period to 3 years.

Furthermore, to improve the death notification process, ITS has also been requested to develop a file exchange with the Department of Public Health. Currently, the Department receives notification of a client's date

of death when reported by someone associated with the client.”

**Reporting Systems:**

*Background:* The Department of Social Services is mandated to submit 35 different reports under various Sections of the General Statutes or by individual legislative acts. The Governor, General Assembly as a whole and various joint standing committees of the General Assembly are included among the designated recipients of these reports. The information provided is necessary to facilitate both executive and legislative branch oversight of the assistance programs administered by the Department.

*Criteria:* In accordance with Section 11-4a of the General Statutes “...each State agency which submits a report to the General Assembly or any committee of the General Assembly, shall submit its report to the clerks of the Senate and the House of Representatives, and shall file with the State Librarian as many copies of such report as the agency and the librarian jointly deem appropriate and one copy with the Office of Legislative Research.”

An adequate system of internal control should include a method for management to track or otherwise monitor the submission of all mandated reports.

*Condition:* Our review disclosed that seven of nine mandated reports tested were not prepared for fiscal year 2003-2004 and seven of eight mandated reports tested were not prepared for fiscal year 2004-2005. In addition, one of the two reports prepared for fiscal year 2003-2004 was not on file with the State Library.

*Effect:* Executive and/or legislative oversight of the Department is diminished. Information relevant to the administration and/or operation of the various assistance programs may not be provided in compliance with legislative intent.

*Cause:* The Department lacks a system capable of monitoring and tracking the submission of mandated reports on a Department-wide basis.

*Recommendation:* The Department should institute procedures to ensure that all Department reports mandated by statutes or legislative acts are submitted as required. In those instances where the Department feels that the statutes are obsolete or no longer applicable, it should seek legislation to modify or repeal existing legislation. (See Recommendation 6.)

*Agency’s Response:* “The Department is reviewing this finding to determine appropriate corrective action.”

**Capital Project and Special Revenue Funds – Grants-In-Aid:**

- Background:* The Department made grants-in-aid expenditures totaling \$16,258,993 and \$9,023,433, during the fiscal years ended June 30, 2004 and 2005, respectively, under various Bond Acts passed by the Legislature. These grants-in-aid expenditures were primarily for the renovation and expansion of neighborhood facilities used as senior centers, day care facilities, emergency shelters, etc.
- Criteria:* Human service contracts for the capital development of neighborhood facilities require the contractor to provide project status reports on a quarterly basis.
- Condition:* Our review of 20 neighborhood facilities’ grant files revealed that the required quarterly and/or annual reports were not on hand for five of the files.
- Effect:* Controls are weakened in that the Department is not aware of the status of various projects funded by these grants-in-aid.
- Cause:* Adequate procedures are not in place to ensure that required reports are filed with the Department.
- Recommendation:* The Department should develop and follow procedures to ensure that progress reports are received for various grants-in-aid as required by contract. (See Recommendation 7.)
- Agency’s Response:* “The Department agrees with this finding. Procedures will be developed and implemented to ensure that those reports required by contract, which include financial, progress, and annual reports are received for the grants-in-aid. The procedures will include a log to track the receipt of reports.”

**Rental Assistance Program (RAP) – Monitoring of Contractor:**

- Background:* The State Rental Assistance Program funds tenant-based rental assistance for very low-income families. The Department contracts with a vendor to administer this program. The vendor subcontracts with housing authorities to administer the program in their areas.
- Expenditures are comprised of housing assistance payments and administrative costs of the Department of Social Services (DSS) and the vendor. The Department made payments of \$12,697,221 and \$12,254,870 during the fiscal years ended June 30, 2004 and 2005, respectively.
- The vendor is responsible for areas of compliance with requirements including:

- Eligibility
- Selection from the waiting list
- Reasonable rent
- Utility allowance schedule
- Housing quality standards inspections and enforcement
- Activities allowed and allowable costs

*Criteria:*

The Department has a contract with a vendor for the period of August 29, 2000, through December 1, 2006. That contract requires that the vendor shall:

- Administer the program in accordance with the Department's Administrative Plan and the Department's Agency Plan.
- Implement internal processes to ensure programmatic compliance including but not limited to independent audits of financial processes, independent audits of program functions, supervisory staff review of five to ten percent of reexaminations, five to ten percent review of new applications, five to ten percent review of HQS Inspections...
- Perform specific administrative tasks that ... assure efficient and effective program administration. To fulfill this requirement the contractor shall ... conduct independent programmatic audits of each subcontractor and a financial and programmatic audit of the program's check issuance process...

That contract also requires that the Department conduct quality control reviews of the vendor's performance. The Department of Social Services Administrative Plan for the Rental Assistance Program contains requirements for the compliance requirements listed above.

*Condition:*

The Department did not adequately monitor the activity of the vendor to ensure that the Rental Assistance Program was administered in compliance with State requirements.

We selected a sample of the Department's on-site inspections of ten tenant files and/or housing units. We found that the Department identified noncompliance in all of its reviews. However, the Department did not verify that the corrective action was taken for all of its findings for seven of those tenants. We also found that nine of the Department's on-site inspections did not reflect that the Department reviewed the compliance requirements for calculation of rental assistance amounts, utility allowance, and selection from the waiting list.

*Effect:*

The vendor may not have administered the Rental Assistance Program in compliance with State requirements.

*Cause:* We were informed that at one point the Department did not have the manpower to follow up on all its monitoring findings.

*Recommendation:* The Department should ensure that the vendor is monitored for compliance with all program requirements. Also the Department should take appropriate action when performance problems arise. (See Recommendation 8.)

*Agency's Response:* "The Department agrees with this finding. The Department has made improvements to the quality control monitoring process since FYE June 30, 2005. An exit interview is held after each subcontractor review. The Department monitoring staff, subcontractor staff, and the contractor's housing director are in attendance. The same group reconvenes in 30 days to verify that corrective action has been taken. A report is then issued to the contractor. If there are files that still require corrective action, the contractor's housing director works closely with the Department to follow-up with the subcontractors and close outstanding file findings. The Department's staff now crosschecks each other's work to ensure that every component of the monitoring tool has been completed."

**Rental Assistance Programs - Administrative Fees / Hold Report:**

*Criteria:* The Department pays administrative fees to the contractor (see Background Section Recommendation 8) for leased units (e.g. those units that the Department is paying landlords housing assistance payments, and those units that are on "Hold Status" because of factors such as housing quality standard violations, the tenant is searching for a new unit, or other factors). The Department's Administrative Plan requires that tenants be removed from the program if housing assistance payments have not been made for their benefit for 180 days. The Department should not be paying an administrative fee to the contractor for those tenants that should be removed.

*Condition:* We reviewed the Hold Report dated April 28, 2005, and found that the Department paid administrative fees to the contractor for tenants that apparently should have been removed from the State Rental Assistance Program. That Hold Report showed that there were 125 Rental Assistance Program tenants on "Hold Status". There were 8 tenants on the Hold Report with hold dates that were more than 180 days before the Hold Report date of April 28, 2005. The excess over 180 days ranged from one to 12 months. As of April 2005, administrative fees totaling \$1,415 were improperly paid to the contractor for these excess months.

We also reviewed the Hold Report dated May 27, 2005, in conjunction with our tests of Federal programs and found that the Department paid

administrative fees to the contractor for tenants that apparently should have been removed from the Federal Section 8 Housing Choice Voucher Program. That Hold Report showed that there were 393 Section 8 tenants on “Hold Status”. There were 21 tenants on the Hold Report with hold dates that were more than 180 days before the Hold Report date of May 27, 2005. The excess over 180 days ranged from two to 12 months. As of May 2005 administrative fees totaling \$4,320 were improperly paid to the contractor for these excess months.

*Effect:* There appear to be names on the Hold Report for households who are no longer participating in this Program. We identified \$5,735 in improper administrative fees paid to the contractor for 29 tenants on the Hold Reports tested.

If the Department removes nonparticipating households from the active Program records, new households may be eligible for housing assistance.

*Cause:* It appears that a lack of review of names on the Hold Report, both by the Department and by the contractor, contributed to this condition.

*Recommendation:* The Department should not pay administrative fees to the contractor used to administer the rental assistance programs for tenants on the Hold Report that should be removed from the programs. The Department should confirm that only valid names appear on the Hold Report and should remove those who are not participating in the programs. (See Recommendation 9.)

*Agency’s Response:* “The Department agrees with this finding, in part. Concerning the eight (8) RAP tenants that were on the list longer than 180 days, it is possible to have tenants on-hold longer than 180 days. Occasionally, a tenant with a disability will request and be granted an extension past the maximum 180 days to locate a unit that suits his or her needs. The Department will monitor the Hold Report regularly to ensure that the list accurately reflects only appropriate entries.

Concerning the Federal Section 8 Housing finding, this Federal program was already audited and was not cited in the recently completed Statewide Single Audit for the same period (SFY June 30, 2005).”

*Auditors’ Concluding Comments:*

The condition related to the Section 8 program was not reported in the Statewide Single Audit Report because the amount of questioned costs did not meet the threshold for reporting on Federal programs. However, the matter is being reported in this report because this condition affects the number of additional Connecticut residents who can receive rental assistance. Further, the Department should not be paying for services that

are not being provided regardless of whether the funds are Federal or State.

**Equipment Inventory:**

*Background:* Our prior audit disclosed deficiencies related to the Department's inventory records and the Fixed Assets/Property Inventory Report/GAAP Reporting Forms (CO59) submitted for fiscal years ended June 30, 2002 and 2003. Our review of the CO59 submitted for the fiscal year ended June 30, 2005, continued to disclose inventory deficiencies.

*Criteria:* Section 4-36 of the Connecticut General Statutes requires 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 30<sup>th</sup> of all real property and personal property having a value of one thousand dollars or more.

The Connecticut *Property Control Manual* provides guidance on standards and procedures for maintaining a property control system.

*Condition:* Our review of the Department's inventory revealed the following:

- The Department could not substantiate the amounts reported on the annual Fixed Assets/Property Inventory Report/GAAP Reporting Form (CO59) submitted for fiscal year ended June 30, 2005.
- The Department could not provide adequate documentation to substantiate all the deletions reported on the CO59 for the fiscal year ended June 30, 2005. The deletion amount reported on the CO59 totaled \$3,577,116. At the end of fiscal year ended June 30, 2005, the Department performed a complete physical inventory of all equipment. This was done because the Department was converting to a new State inventory system. As a result of the physical inventory, the Department adjusted the June 30, 2005, inventory balance, which caused the Department to use a "plug" number for the amount reported as deletions on the CO59.
- The expenditures coded as equipment in the State's accounting system for the fiscal year ended June 30, 2005, totaled \$339,351. However, total additions reported on the CO59 for the fiscal year ended June 30, 2005, was \$0.
- The inventory listing contained inaccurate and inadequate information.

- Our review of ten new equipment items purchased during fiscal years ended June 30, 2004 and 2005, disclosed that five were not tagged and two other items were not recorded on the inventory listing.

*Effect:* The Department does not have adequate control measures in place to safeguard its inventory. The figures reported on the CO-59 for the fiscal year ended June 30, 2005, were unsubstantiated and cannot be relied upon as an accurate assessment of the Department's equipment inventory.

*Cause:* The Department did not have adequate procedures to maintain inventory records.

*Recommendation:* The Department should improve controls over its equipment inventory. (See Recommendation 10.)

*Agency's Response:* "The Department agrees with this finding. The appropriate changes to systems and processes are being made. The record keeping deficiencies were due to layoffs and retirements of all the staff that previously had inventory experience coupled with outdated inventory recording equipment and software. The conversion to CORE-CT with the attendant accounting changes provides will help establish an appropriate inventory system."

### **Expenditures – Noncompliance with State Laws and Regulations:**

*Background:* Our prior audit disclosed deficiencies related to the processing of expenditures by the Department during the fiscal years ended June 30, 2002 and 2003. Our review of expenditures paid during the fiscal year ended June 30, 2005 continued to disclose deficiencies in processing expenditures.

*Criteria:* Section 4-98 of the Connecticut General Statutes requires the issuance of a purchase order and commitment prior to incurring a payment obligation.

The *State Accounting Manual*, issued by the Office of the State Comptroller, includes policies and procedures that State agencies should follow for processing expenditure transactions.

*Condition:* We reviewed 245 transactions that were expended during the fiscal year ended June 30, 2005. Our review disclosed 36 transactions in which a purchase order was not prepared prior to the start of the services being rendered. Our review also disclosed 47 contracts that were signed after the start of the contract service periods.

*Effect:* The Department did not comply with Section 4-98 of the Connecticut General Statutes and with the State Accounting Manual.

- Cause:* The controls in place were not completely effective.
- Recommendation:* The Department of Social Services should process expenditures in accordance with State laws and regulations and the *State Accounting Manual*. (See Recommendation 11.)
- Agency's Response:* "The Department is reviewing this finding to determine appropriate corrective action."

**Financial Reporting:**

- Background:* In conjunction with our audits of the State's Comprehensive Annual Financial Reports (CAFR) for the fiscal years ended June 30, 2004 and 2005, we reviewed the Department's Generally Accepted Accounting Principles (GAAP) Reporting Packages and the Schedule of Expenditures of Federal Awards (SEFA) submitted to the Comptroller.
- Criteria:* The submission of complete and accurate GAAP and Federal financial expenditure information are instrumental in producing a fairly stated CAFR and SEFA. Reports should be complete, accurate and in compliance with the State Comptroller's requirements as set forth in the State Accounting Manual and other instructions.
- Condition:* Our review of the Department's GAAP package for the fiscal years ended June 30, 2004 and 2005, disclosed various financial exceptions. As a result of our review, the Department resubmitted revised GAAP Forms to the State Comptroller.
- Our review of the Department's SEFA for the fiscal year ended June 30, 2004 and 2005, disclosed 14 financial reporting findings that required adjustments to the SEFA reported by the Department. These financial reporting findings resulted in expenditure amounts that were improperly reported for 16 Federal programs. These findings resulted in a net overstatement to the SEFA totaling \$131,029 and \$11,267,502 during the fiscal years ended June 30, 2004 and 2005, respectively. Revisions to the amounts reported were submitted by us to the State Comptroller.
- Effect:* These conditions, if not corrected, would have caused inaccurate and/or incomplete information to be reported on the State's CAFR and SEFA.
- Cause:* Failure to follow the instructions of the State Comptroller and clerical errors were the causes of these conditions.
- Recommendation:* The Department should prepare the Generally Accepted Accounting

Principles (GAAP) Reporting Package and the Schedule of Expenditures of Federal Awards in accordance with the State Comptroller's requirements. (See Recommendation 12.)

*Agency's Response:* "The Department agrees with all of the reporting adjustments recommended for the State fiscal year ended June 30, 2005. Concerning the State fiscal year ended June 30, 2004, the Department is in the process of reviewing the detail of these adjustments and will take the appropriate steps to correct the reports, if found necessary."

**Competitive Bid Process:**

*Background:* The Department of Social Services enters into a number of contracts with vendors to provide various services. Our review disclosed that the Department entered or amended three contracts without competitive bidding.

*Criteria:* Section 4-216 of the Connecticut General Statutes provides that all personal service agreements costing more than fifty thousand dollars or a term of more than one year shall be based on competitive negotiations or competitive quotations.

*Condition:* Our review disclosed three contracts in which the Department entered into, or amended, without obtaining competitive bids.. In all three cases, the Department, as provided in the State Statutes, did request from the Office of Policy and Management (OPM) waivers from the competitive bid requirement. All three waivers were approved by OPM. However, we believe that the Department should have not made such requests and should have sought competitive bids in all three contracts.

1. The Department entered into a contract with a vendor to determine client eligibility for the Care 4 Kids program. The contract was not the result of a competitive procurement. The total amount of the contract was \$20,640,032. The Department paid \$3,807,611 of this contract during the State fiscal year ended June 30, 2005. The Department also entered into another contract with this vendor for administration of the Department's information phone line. This contract also was not the result of a competitive procurement. The total amount of the contract was \$4,082,273. The Department paid the entire contract amount during the State fiscal year ended June 30, 2005.
2. In August 2000, the Department entered into a contract with a vendor to provide housing services. The total contract award related to administrative cost was \$11,262,942. The original contract was to expire on December 1, 2003. There were three amendments to the

original contract. The amendments increased the administrative fees of the contract and included additional services and costs that were not part of the original contract. The language included in the original contract does provide for a two-year extension, which allowed the contract to be extended to December 1, 2005, and for the increase of administrative fees. These three amendments increased the administrative costs to \$18,863,734. However, the Department has issued two additional amendments to the contract that resulted in extending the contract period to June 1, 2006, and again to December 1, 2006. These two additional amendments resulted in an increase in administrative fees and additional costs for other services to be provided. These two amendments were issued without using a competitive bid process. The total administrative costs were increased to \$22,825,882 as a result of these two amendments.

3. In March 1999, the Department of Social Services requested proposals from qualified organizations capable of: (1) developing a Random Moment Sampling (RMS) system; or (2) customizing an existing RMS software package to meet the State of Connecticut's needs with regard to Federal requirements to identify cost categories attributable to Federal and State programs; and (3) recommending and implementing strategies that will enhance the effectiveness and efficiency of Connecticut's RMS and Cost Allocation efforts.

The vendor who won the contract submitted a bid proposal to provide tasks included in the Request for Proposal (RFP) for \$57,100. The original contract issued by the Department was for \$550,000 for the period October 1, 1999 to December 31, 2000. The services to be provided under the contract were for the vendor to assist the Department in improving the Department's Cost Allocation Plan, including its Random Moment Sampling system, and to develop a plan for enhancing claiming and recovery under the Temporary Assistance for Needy Families (TANF) Federal program (TANF). The task related to the TANF program was not requested as part of the original RFP.

Since the original contract, the Department has issued 11 amendments that extended the contract period until July 30, 2007, and increased the contract amount to \$11,193,276. The Office of Policy and Management approved all of the amendments. The amendments included additional funds to be expended for the services provided in the original contract and for new services. The new services included revenue enhancements for Federal programs other than TANF, overseeing a subcontractor that is reviewing and making recommendations to design the Regional Offices to be more accessible to all people, performing a best practices review for the Department's

Regional Offices, ad hoc assistance, and other tasks apparently not related to the original RFP and/or contract. Although some of these tasks were an extension of the original contract, they were not included in the original RFP.

*Effect:* Since the contracts were not the result of competitive procurements, the Department might not have received services from the lowest cost vendor. Also, lack of competitive procurement eliminates the opportunity for qualified businesses to be considered for the contracts.

*Cause:* As provided in the State Statutes, the Department was granted a waiver from the competitive bid requirement by OPM. The Department did inform us that competitive bids are in the process of being obtained for two of the three aforementioned contracts.

*Recommendation:* The Department of Social Services should seek competitive bids prior to entering into contracts with prospective vendors. (See Recommendation 13.)

*Agency's Response:* "The Department does not agree with this finding. The Department agrees that Connecticut General Statute 55a, Part II provide that all personal service agreements costing more that fifty thousand dollars or a term of more than one year shall be based on competitive negotiations or competitive quotations. However, the same statute also provides a process through which a State agency may pursue a waiver of such requirement and enter into a contract or amend an existing contract absent a competitive bidding process. As the Auditors indicate, the Department used that process to request waivers from the competitive bidding requirement by sending the requests to OPM for approval. Also, as indicated by the Auditors, in all cases OPM approved the requests.

Although the Department is keenly aware of the benefits to a competitive bidding process, there are times when the benefits of such a process may be outweighed by various factors that make it more programmatically advantageous or cost effective to forgo that procurement method. That is exactly the reason Connecticut General Statutes provide a mechanism for State agencies to request a waiver of the competitive bidding requirement. If an agency, as in this case DSS, uses that mechanism for what it believes are legitimate reasons to forgo the use of competitive procurement and the agency's waiver request is approved by OPM using the process dictated in State Statute, there should be no reason for the Auditors to site that agency for not following the competitive bidding process. That agency simply used another, perfectly legal, method of procurement.

The Auditors may believe and DSS does not disagree, that in general the best procurement process is one that uses competitive procurement. They

cannot, however, ignore the fact that there are other procurement methods legally available to a State agency, and an agency would be remiss not to use those other methods if it believes it would best benefit the State and its constituents. The legitimate use of these other methods, absent any evidence of fraud or other improper actions by the agency, should not result in an audit citation.”

*Auditors’ Concluding  
Comments:*

The State Statutes does allow State agencies to request a waiver from OPM from the competitive bid process if it is determined that a sole source purchase is required. The contractors mentioned in the above condition are not the only contractors who can provide the applicable contracted services. Therefore these contracted services should not have been based on sole source purchases. Further, the Department did not provide to us any documentation that would adequately support its conclusions that the cost to the State of a competitive selection procedure outweighed the benefits of such a procedure.

**Recovery of Indirect Costs:**

*Background:*

Office of Management and Budget Circular A-87 allows for the recovery of indirect costs associated with the Department’s administration of Federally funded programs. Such recoveries represent revenues to the State.

The administrative costs incurred in operating the Department of Social Services (DSS) are allocable to Federal and State programs in accordance with benefits received, as specified in the Department’s Federally approved Cost Allocation Plan (CAP). Each expenditure transaction is assigned an expenditure code. The State’s accounting system accumulates the expenditures by the recorded expenditure codes and generates the reports that DSS uses to accumulate the expenditures in various cost pools. The costs accumulated in these cost pools are allocated to Federal and State programs as specified in the Department’s Federally approved CAP. The Department uses an automated cost allocation system to allocate costs to programs based on the allocation basis assigned to the respective cost pools. The cost allocation system and plan was developed by a vendor hired by the Department.

The Health Care Program allocation basis allocates costs based on the ratio of medical claims paid during the applicable period by benefiting programs. Current health care programs administered by DSS include the Federal Medical Assistance Program, the Federal State Children’s Insurance Program, the Federal Refugee and Entrant Assistance Program, the State Administered General Assistance (SAGA) program, the

Connecticut Home Care Program for Elders, the Connecticut Pharmaceutical Contract to the Elderly and Disabled (ConnPACE) program, and the Connecticut AIDS Drug Assistance Program (CADAP). The CADAP program consists of State funds and Federal HIV Care Formula Grants.

*Criteria:* The *Indirect Cost and Fringe Benefit Cost Recovery Manual* issued by the Office of the State Comptroller provides that indirect costs must be charged periodically (at least annually) to each eligible grant or program. State agencies are required to recover indirect costs, unless Federal program regulations specifically prohibit them or if a waiver is obtained from the Office of Policy and Management.

Title 45 Code of Federal Regulations Section 95 Subpart 7 states that claims must be submitted within two years after the calendar quarter in which the State made the expenditure to be eligible for Federal funding under the Medicaid program.

*Condition:* Our review of indirect cost recovery at the Department of Social Services disclosed the following conditions.

1. The Department did not claim indirect costs for 19 of the 48 Federal programs that it administered during the State fiscal year ended June 30, 2005, nor did the Department obtain waivers from the Office of Policy and Management (OPM) indicating that it was not required to claim administrative costs under these programs. During this fiscal year, the Department expended \$46,992,747 in Federal funds for these 19 Federal programs. Of these 19 Federal programs, 17 had funds available to which the Department could have charged indirect costs. We did not verify whether any of the programs prohibit the claiming of administrative costs; however, Federal programs normally do contain provisions that allow for the claiming of administrative costs.
2. The cost allocation system does not properly allocate costs to all benefiting programs. Some of the 19 programs referred to above are affected by the conditions noted below:
  - a. Costs accumulated in Department divisions are usually allocated to various Federal and State programs administered by the divisions based on the respective divisions' assigned cost allocation basis. However, there were three divisions that were not assigned with an adequate allocation basis. As a result, costs accumulated in these three divisions were not allocated to any of the applicable Federal programs administered by these divisions. The total costs included in these three divisions for the fiscal year ended June 30, 2005, were approximately \$1,400,000. We did not determine how much

of these costs should be allocated to Federal programs.

- b. For those divisions that have an assigned allocation basis, the Department is not charging some Federal programs with all its allowable costs. This is because the reports used by the Department to determine the amount of indirect costs for some Federal programs do not include all of the applicable costs allocated to the programs. Currently this specific condition affects three Federal programs. However, additional Federal programs would be affected if the other conditions included in this finding were resolved.
- c. Under the Health Care Program allocation basis, CADAP medical claim case counts are used to allocate costs to the State Funded Medical cost pool. However, the majority of the costs should be allocated to the Federal HIV Care Formula Grants. As a result, the Department failed to allocate \$18,884 to the HIV Care Formula Grants for the quarter ended December 31, 2004.
- d. The Department pays a vendor monthly fees for administrative services provided under various Federal and State medical programs. The Department coded a portion of the transactions so that monthly expenditures are charged directly to ConnPACE, a State funded program. The remaining portion of the transactions was allocated to all Federal and State medical programs through the Department's Cost Allocation Plan using the Health Care Program allocation basis. This basis allocated additional costs to ConnPACE. This resulted in ConnPACE being overcharged indirect costs and other medical programs being undercharged indirect costs. This coding error affected all monthly fees that were paid after July 1, 2003.

The Department was notified of this error, and it claimed the portion of the above costs associated with the Medicaid program on the financial report submitted for the quarter ended December 31, 2005. This allowed the Department to claim \$1,011,261 in Federal reimbursement for expenditures incurred during the period January 1, 2004 to December 31, 2005. However, the Department was unable to claim the portion of costs associated with the Medicaid program that occurred during the quarters ended September 30, 2003 and December 31, 2003, because these quarters exceeded the two-year limitation provided in the Federal regulations for claiming reimbursement under the Medicaid program. This resulted in the Department failing to claim \$281,458 for Federal reimbursement under the Medicaid program.

In addition, if the above Condition 2c was corrected, some of the costs related to the aforementioned administrative fees would have been allocated to the Federal HIV Care Formula Grants program and the Federal Refugee and Entrant Assistance Program. We determined that costs totaling \$7,181 and \$160 would have been allocated to the Federal HIV Care Formula Grants and the Federal Refugee and Entrant Assistance Program, respectively, if the allocation basis noted in Condition 2c distributed the costs to the proper programs and if the coding errors noted in Condition 2 were not made.

*Effect:* The Department of Social Services did not charge Federal programs with the proper amount of indirect costs. This resulted in a loss of revenue to the State.

*Cause:* Condition 1, 2a and 2c:  
The Department's cost allocation system does not include a process to allocate costs to all Federal programs. Additionally, the Department did not get waivers from the Office of Policy and Management for the programs for which it does not charge indirect costs.

Condition 2b:  
The reports used by the Department to claim indirect administrative costs for some Federal programs did not include all the allowable costs.

Condition 2d:  
The Department did not change the way it was coding costs included on the vendor invoices upon implementation of its new allocation system, which began on July 1, 2003.

*Recommendation:* The Department of Social Services should charge the appropriate indirect costs against all of its applicable Federal programs. For those Federal programs for which the Department does not claim indirect costs, the Department should obtain waivers from the Office of Policy and Management. (See Recommendation 14.)

*Agency's Response:* "The Department agrees with this finding in part.

Concerning the non-claiming of indirect costs to 19 programs; the Department does not agree with this finding. Indirect costs are allocated to these programs based on the amount of labor incurred. Since staff labor was not incurred on 18 of these programs, these programs were not allocated indirect costs.

Concerning "2a", the Department agrees with this finding. Based on interviews with program staff, the coding was updated effective July 1,

2005 to support the new organizational structure. All three (3) Department codes were inactivated effective July 1, 2005; accordingly, no further action is required.

Concerning “2b”, the Department agrees with this finding. The Department will make efforts to identify divisions that use different allocation bases that have costs allocated to them and include these costs in federal claims.

Concerning “2c”, the Department agrees with this finding. The Department will explore methods to allocate and charge all benefiting costs to respective programs or grants.

Concerning “2d”, the Department agrees with this finding. The Department changed coding procedures and filed a retroactive claim for MMIS costs from January 1, 2004 to December 31, 2005. This condition is directly impacted by the condition cited in “2c”. The Department will explore methods to allocate and charge all benefiting costs to respective programs or grants. It should be noted, based on this finding, it appears that the federal government will allow the Department to go beyond the traditional 2-year limitation and the Department will make a claim for the additional federal reimbursement.”

*Auditors’ Concluding*

*Comments:*

Condition 1: The Department had to incur some staff labor to administer these programs because the programs require the input of staff in order to execute the program services to be provided.

**Housing Services Contractor:**

*Background:*

The Department contracts with a vendor to perform various duties related to the administration of various State and Federal housing assistance programs. The Department transfers funds to the vendor on a monthly basis. The funds transferred are comprised of housing assistance payments used to pay landlords and administrative fees charged by the vendor. The vendor has a fiduciary administrator that maintains the checking account used to deposit the funds provided by the Department. This account is used to make the payments to the landlords. The administrative fees are subsequently transferred out of this account to the vendor’s business account. Our review disclosed that the Department is not adequately monitoring the activities of the vendor.

*Criteria:*

Adequate internal controls would include the proper monitoring of a vendor to ensure that the funds provided are being used for their intended purpose. The checks issued for rental assistance payments state that the

check is void if not cashed within 90 days.

*Condition:* Beginning in March 2005, the vendor began transferring cash, at the end of each weekday, from the account used to pay the landlords to a separate investment account. The funds were transferred back into the account with interest on the following weekday. The amount transferred was the entire cash balance except that \$1,250,000 was always maintained as the account's cash balance. This process was started by the vendor to earn interest income. However, the Department was not aware of the vendor transferring the funds in and out of the account.

Our review disclosed that as of April 30, 2005, the vendor had voided checks totaling \$1,475,091 that were not reported to the bank. These checks were issued between the period November 1, 2001 and April 30, 2005. These funds should be returned to the Department so that the funds can be deposited into the General Fund, sent back to the Federal government, or used by the State for housing services, as appropriate.

The vendor also has another bank account that is being used to maintain the activity of landlords who return overpaid funds. As of June 30, 2005, the balance in this account was \$336,531. Our review disclosed that there were no disbursements made from this account except for the daily transfers of the entire cash balances out of this account to another account to earn interest. The funds, with interest, were returned on the next business day. The Department was not aware that the vendor had these funds.

*Effect:* The vendor has funds on hand that the State could use to provide additional housing services to clients.

*Cause:* The Department is not adequately monitoring the vendor.

*Recommendation:* The Department of Social Services should establish procedures to adequately monitor the vendor contracted to administer the housing assistance programs. In addition, the Department should request that the vendor return the excess funds in the vendor's custody so that the funds can be deposited into the General Fund, sent back to the Federal government, or used by the State for housing services, as appropriate. (See Recommendation 15.)

*Agency's Response:* "The Department agrees with this finding, in part. Funds for three programs administered by the contractor are maintained in the same bank account but accounted for separately and reported to the Department separately. A settlement of the Section 8, Rental Assistance and Transitional Rental Assistance Program accounts was completed for SFY end 2001 - 2005. On March 17, 2006, the Department requested that

\$201,678.14 in combined State funds be returned and the contractor has complied. It should be noted that this settlement did not include a return of the interest income earned. The settlement did, however, include a reimbursement for voided checks and the Department is looking into the matter further to ensure the completeness of the credit for these items.

The Department is aware of the bank account containing \$336,531 in funds returned to the contractor through repayment of overpayments by tenants and landlords. The funds in this account are also a combination of Section 8 and Rental Assistance Program funds. Less than 20 percent of the funds in the account are recovered RAP money. The contract contains language on fraud recoveries that allow the contractor to retain 50 percent of recovered funds subject to HUD regulations. The Department will collect funds owed to the respective programs as appropriate.”

*Auditors’ Concluding  
Comments:*

It should be noted, as indicated above, the Department was not aware of the aforementioned conditions. The adjustment made in March 2006 was based on us notifying the Department of the amount of voided checks in which the vendor did not make appropriate adjustments. Our review of the Department’s documentation pertaining to the March 2006 settlement that was provided to us disclosed that the checks voided during the fiscal years ending June 30, 2004 and 2005, were returned to the State. However, the records do not indicate whether the checks voided during fiscal years ending June 30, 2001, 2002 and 2003, were returned.

**Monitoring of Subrecipients:**

*Background:*

During the Statewide Single Audit for the fiscal year ended June 30, 2005, we noted that the Department had control deficiencies related to monitoring subrecipients that were provided Federal funds. These subrecipients were also provided funds from State programs. The control deficiencies related to State funds is being reported below. In addition, we performed testing of subrecipients that expended funds that were not part of the population of subrecipients tested in conjunction with the Statewide Single Audit. The Department administered over \$107,000,000 in grants-in-aid from State funds to various nonprofit organizations during the fiscal years under review. By contract, grantees are required to maintain financial records and to report on their operations. Our review of the monitoring efforts made by the Department disclosed certain problems.

*Criteria:*

Section 7-396a of the Connecticut General Statutes requires State grants to be audited.

Adequate internal control includes monitoring subrecipients to ensure that

expenditures and activities are in accordance with State laws and regulations. Independent audit reports of grantees that are received do not provide a sufficient monitoring tool.

*Condition:* In conjunction with the Statewide Single Audit for the fiscal year ended June 30, 2005, we tested 43 subrecipients who received funds from the Department. Our review disclosed that financial audit reports were not on hand for nine of the subrecipients tested and desk reviews were not performed for two audit reports that were on hand. We noted that some financial status, programmatic and statistical, or monitoring reports, required by the contracts, were not on file or were not submitted to the Department within the time allotted by the provisions of the contracts for six subrecipients.

In conjunction with this Departmental audit, we tested 10 subrecipients that received funds under the Emergency Shelter Services grants to determine whether adequate monitoring was performed. The contracts between DSS and grantees require that the performance of the grantee, and any applicable subcontractors, shall be reviewed and evaluated at least annually by Department staff. Such reviews and evaluations may be performed by examination of documents and reports and site visits to funded facilities and program sites administered by the grantee, or by a combination of both. Our review disclosed that monitoring reports were not on file for four of the ten subrecipients.

*Effect:* Without adequate monitoring of the Department's grantees, errors and noncompliance could occur and not be detected in a timely manner.

*Cause:* The Department has not made the effective monitoring and audit of its grant awards a priority.

*Recommendation:* The Department should establish adequate procedures to obtain and review audit reports and to conduct ongoing monitoring of its grantees. (See Recommendation 16.)

*Agency's Response:* "The Department agrees with this finding. Concerning the review of audit reports, the Department routinely places phone calls to subrecipients to obtain a copy of financial audit reports that have not been submitted timely. In order to determine which subrecipients must submit an audit report, the Department relies on a listing of contracts that contains the associated Federal award information. If such listing fails to identify that a Federal award is associated with the contract, and the subrecipient did not voluntarily submit an audit report, it is possible that the Department did not follow-up with the subrecipient since the records would indicate that an audit report is not warranted. This will be remedied when the Federal award information is, without exception, listed with each contract.

In addition, concerning the instances where desk reviews were not performed on two sampled audits reports, it should be noted that desk reviews are performed on all audit reports. In the instances cited, the reviews were scheduled to be done but were not initiated at the time of the State Auditors' review.

It should be noted that the Department has followed-up on and received the cited missing audit reports and will complete the desk reviews of the two (2) audit reports.

Concerning the ongoing monitoring of its grantees; due to the reduced staffing and the large number of contracts assigned to the current staff it is not always possible to monitor every grantee. Accordingly, the Department attempts to prioritize the monitoring of contractors including, but not limited to, factors such as the receipt of complaints, known reporting or financial issues, and contractor history.”

**State Administered General Assistance – Client Eligibility:**

*Criteria:* Section 17b-191 of the Connecticut General Statutes provides that no individual shall be eligible for cash assistance under the State Administered General Assistance (SAGA) program if the individual is eligible for cash assistance under any other State or Federal cash assistance program.

Cooperation requirements under Section 8080.35 of the Department's Uniform Policy Manual provide that applicants for, and recipients of, SAGA cash assistance must apply for, or cooperate in applying for, potential benefits from any source including Social Security Insurance, and other cash programs administered by the Department.

*Condition:* Our review of the case files for ten recipients who received cash assistance under the SAGA program disclosed one instance in which the file did not contain documentation that the recipient had pursued benefits from other sources.

*Effect:* Benefits may have been provided to recipients who did not meet the eligibility requirements of the SAGA program because the clients should have received cash assistance from another source. We did not determine whether the client tested would have been eligible for Social Security Insurance or other cash assistance administered by the Department.

*Cause:* The Department caseworker did not obtain documentation to verify that the SAGA applicant had applied for cash assistance from other potential sources.

*Recommendation:* The Department of Social Services should verify and document that applicants have applied for benefits from other potential sources prior to granting State Administered General Assistance. (See Recommendation 17.)

*Agency's Response:* "The Department agrees with this finding. Staff will be reminded to verify and document that applicants who appear eligible for other State or Federal programs have applied for such other potential income sources prior to granting SAGA."

### **Payroll and Personnel – Medical Certificates:**

*Background:* There were 207 instances in which employees were out on sick leave for more than five consecutive working days during the fiscal years ended June 30, 2004 and 2005. We tested 15 instances to determine whether medical certificates were received in accordance with State laws and regulations.

*Criteria:* Section 5-247-11 of the Regulations of Connecticut State Agencies requires a medical certificate to be on file for employees who are on sick leave for more than five consecutive working days.

*Condition:* There were seven instances in which the Department did not have a medical certificate on file for those employees who were out on sick leave for more than five consecutive workdays.

*Effect:* The Department did not comply with the State regulation that requires a medical certificate to be on file for employees who are on sick leave for more than five consecutive working days.

*Cause:* The Department has not reinforced the requirement that employees who are out on sick leave for more than five consecutive workdays are to submit the required documentation.

*Recommendation:* The Department should obtain medical certificates for those employees who are out on sick leave for more than five consecutive workdays in accordance with Section 5-247-11 of the Regulations of Connecticut State Agencies. (See Recommendation 18.)

*Agency's Response:* "The Department agrees with this finding. The Human Resources Division will reinforce with its staff the need to ensure that a medical certificate is obtained for employees who are out on sick leave for more than five consecutive workdays."

**State Purchasing Card (P-Card):**

*Background:*

The State's Purchasing Card (P-Card) Program is designed to offer State agencies an alternative to the existing State procurement processes. It allows agencies to quickly and conveniently purchase approved items directly from a vendor that accepts credit cards. The State Comptroller, in conjunction with the Department of Administrative Services, has issued the *State of Connecticut Agency Purchasing Card Coordinator Manual*, which sets forth the State's guidelines and procedures on the use of the purchasing cards by State agencies. The following guidelines are included in the *State of Connecticut Agency Purchasing Card Coordinator Manual*.

- State agencies are required to pay the full amount of the P-Card invoice by the due date so no interest is accrued on the account. After the bill has been paid, the Department should review the amounts charged to the P-Card to determine whether they were appropriate State purchases and whether there is adequate documentation on hand to support the purchase.
- If the product or service being ordered is available from a State contract supplier, the order must be placed with the State contract supplier.
- No personal expenses such as meals, personal telephone charges and movie rentals should be charged to the P-Card.
- Travel expenses that are charged to the P-Card should be purchased through the State contracted travel agent and should be for State business only.

*Criteria:*

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

*Condition:*

We reviewed 25 randomly selected P-Card purchases that were made during the fiscal year ended June 30, 2005. Of the 25 purchases selected, 15 were for out-of-State travel expenditures and 10 were for purchases of other goods and services. Our review disclosed that some of the transactions tested were not made in accordance with the *State of Connecticut Agency Purchasing Card Coordinator Manual*. We noted the following two conditions:

1. The Department charged inappropriate expenditures to the P-Card.
  - A. For one transaction, the item was not purchased using a State contract supplier as required by State policy.
  - B. For one transaction, an employee left for a conference a day earlier than was needed. The hotel costs for the extra day were charged to

the Department's P-Card. Additionally, the employee charged a meal on a P-Card, which is not allowed per the *State of Connecticut Agency Purchasing Card Coordinator Manual*.

2. The Department did not adequately follow up on expenditures charged to the P-Card to verify that they were appropriate State purchases.
  - A. Adequate documentation was not on hand to support two payments that were made for the lodging costs of employees who attended out-of-State conferences.
  - B. One payment was for lodging for an employee to attend an out-of-State conference. The costs were charged to the P-Card and paid with State appropriations. However, the costs should have been paid with employee union funds. The Department did not follow up to ensure that the union reimbursed the Department for the expenditure. This expenditure is the same transaction noted in condition 1B above.
  - C. For one transaction, the daily lodging rate per the itinerary from the State's contracted travel agent for an employee to attend an out-of-State conference was \$30 less than the daily rate actually charged to the P-Card. It does not appear that the Department ever looked into the reason for this difference.

*Effect:* The Department did not comply with State regulations relating to the use of P-Cards.

*Cause:* The Department did not have adequate controls in place to monitor the use of P-Cards.

*Recommendation:* The Department of Social Services should process expenditures made with Purchasing Cards in accordance with the *State of Connecticut Agency Purchasing Card Coordinator Manual*. (See Recommendation 19.)

*Agency's Response:* "The Department agrees with this finding, in part. The condition mentioned in 1(A) of the Auditors finding is related to the purchase of a Portable CD Player with Playback and FM Radio. The purchase request was in response to the Middletown Office's need to play messages to clients when the phone lines were busy. The Department adheres to State purchasing procedures for the purchase of telecommunication equipment through a TSR using the DOIT contract supplier. This purchase was considered and allowed using the P-Card as an inexpensive and temporary fix until a more permanent solution could be implemented.

The conditions mentioned in 1 (B) and 2 (A) through (C) are related to out-of-state travel expenditures. The Department is in the final stage of development and implementation of an agency-wide travel policy guide to be used as a reference by all employees traveling or requesting

reimbursement for work related expenses. The travel policy guide will address all aspects of travel and reimbursement procedures and shall be made available to all staff via the agency intranet as well as hard copy.”

*Auditors’ Concluding  
Comments:*

The Department is required to use a State contract supplier to purchase products that are available on a State contract unless the vendor cannot meet the needs of the Department in terms of delivery time. At the time of the purchase the Department did not document that the State contract supplier could not meet the delivery needs of the Department. Further, guidance provided in the *Purchasing Card Cardholder Work Rules* provides that circumventing the use of contracts may result in some initial savings but repeated circumvention reduces the contract value, discourages vendors from bidding in the future, and eventually results in higher prices.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- The Department should develop procedures to ensure that receipts are deposited in accordance with Section 4-32 of the Connecticut General Statutes including the possibility of depositing to the Funds Awaiting Distribution Fund any monies received for which the disposition cannot be immediately determined. – Our current audit continued to disclose that receipts were not being deposited in a timely manner. This recommendation is being repeated. (See Recommendation 1.)
- The Department should establish internal controls over its significant receivable categories that provide for the timely identification and collection of delinquent receivables and subsequent write-off of the receivable if collection efforts prove unsuccessful. - Our current audit continued to disclose deficiencies related to its receivables. This recommendation is being repeated. (See Recommendation 2.)
- The Department should ensure that the information included in the State's computer system is up-to-date and should review all termination worksheets for both accuracy and compliance with State regulations and/or collective bargaining contracts before payment is made. – Our current audit continued to disclose deficiencies related to vacation accrued leave payments and prorated longevity payments made to employees who ended State service. This recommendation is being restated. (See Recommendation 3.)
- The Department should ensure that payments made to employees receiving workers' compensation benefits are in accordance with the Connecticut General Statutes and the State Payroll Manual. – Our current audit did not disclose any improper workers' compensation payments. This recommendation has been implemented.
- The Department should periodically conduct reviews of eligibility determinations made by its fiscal intermediary for the Connecticut Pharmaceutical Assistance Contract to the Elderly and the Disabled Program (ConnPACE) to determine whether program requirements are being followed as intended. – Our current audit disclosed that the Department is reviewing the eligibility determinations made by its fiscal intermediary. This recommendation has been implemented.
- The Department should establish internal controls over the identification and reporting of provider overpayments on the Medicaid Form CMS-64 that reasonably ensure that reported amounts contain accurate and complete information. – Our Statewide Single Audit for fiscal year ended June 30, 2005, includes a recommendation related to reporting errors on the CMS 64. The net effect of the reporting errors resulted in the Department over claiming Federal reimbursement. Therefore the recommendation was included in the Statewide Single Audit report and removed from this audit report.
- The Department should follow procedures to ensure that appropriate supporting documentation is obtained in a timely manner for State Supplemental therapeutic diet

special needs payments or should consider revising the six-month requirement in the Department's Uniform Policy Manual. – Our current audit continued to disclose that supporting documentation for State Supplemental therapeutic diet special needs payments was not obtained in a timely manner. This recommendation is being repeated. (See Recommendation 4.)

- Procedures relative to cases closed due to death should be improved to ensure the discontinuance of State Supplement benefits or recovery of those benefits issued after death. – Our current audit continued to disclose payments made after the death of clients and no attempt to recover the overpayments. This recommendation is being repeated. (See Recommendation 5.)
- The Department should follow established procedures for initiating the collection of life insurance proceeds in a timely manner and should establish procedures for performing appropriate follow-up action. – Our current audit disclosed that the Department did establish procedures for collecting life insurance proceeds. This recommendation has been implemented.
- The Department should institute procedures to ensure that the case files are appropriately maintained. – Our current audit disclosed that case files were properly maintained. This recommendation has been resolved.
- The Department should institute procedures to ensure that all Department reports mandated by statutes or legislative acts are submitted as required. In those instances where the Department feels that the statutes are obsolete or no longer applicable, it should seek legislation to modify or repeal existing legislation. – Our current audit continued to disclose that reports mandated by statutes or legislative acts were not submitted as required. This recommendation is being repeated. (See Recommendation 6.)
- The Department should develop and follow procedures to ensure that progress reports are received for various grants-in-aid as required by contract. – Our current audit disclosed that progress reports were not received for various grants-in-aid. This recommendation is being repeated. (See Recommendation 7.)
- The Department should ensure that the vendor contracted to administer the Rental Assistance Program performs all contracted services and is monitored for compliance with all program requirements. Also the Department should take appropriate action when performance problems arise. – Our current audit disclosed partial implementation of this recommendation. The vendor performed its contracted services during the fiscal year. However, our current review continued to disclose that the Department is not performing its required monitoring of the vendor. This recommendation is being restated. (See Recommendation 8.)
- The Department should ensure that monitoring of grantee procedures are followed, including the completion of required monitoring, reporting, and timely review of audit

reports. – Our current audit continued to disclose deficiencies related to monitoring of subrecipients. This recommendation is being restated. (See Recommendation 16.)

- The Department should not pay administrative fees to the contractor used to administer the Rental Assistance Program for tenants on the Hold Report that should be removed from the Program. The Department should confirm that only valid names appear on the Hold Report and should remove those who are not participating in the Program. – Our current audit continued to disclose that improper administrative fees were paid to the vendor. This recommendation is being repeated. (See Recommendation 9.)
- The Department should improve controls over its equipment, software and supplies inventories. Inventory records for the Department’s equipment, supplies, and software should be kept in a manner consistent with the State of Connecticut’s Property Control Manual. – Our current audit continued to disclose deficiencies related to inventory. This recommendation is being repeated. (See Recommendation 10.)
- The Department should ensure that its procedures for processing expenditures will prevent the duplicate payment of goods and services. – Our current audit did not disclose duplicate payments of goods and services. This finding has been resolved.
- The Department of Social Services should process expenditures in accordance with State laws and regulations and the State Accounting Manual. – Our current audit continued to disclose expenditures that were not processed in accordance with State requirements. This recommendation is being repeated. (See Recommendation 11.)
- Department personnel should follow established procedures for the timely disposition of Social Security Income payments received on behalf of clients. Also, reconciliations between the control account and the subsidiary ledger should be done on an ongoing basis. – Our current audit disclosed that the Department dispositioned Social Security Insurance payments received on behalf of clients and performed monthly reconciliations of its records. This recommendation has been implemented.
- The Department should prepare the Generally Accepted Accounting Principles (GAAP) Reporting Package and the Schedule of Expenditures of Federal Awards in accordance with the State Comptroller's requirements. – Our current audit continued to disclose reporting errors on the GAAP Reporting Packages and Schedule of Expenditures of Federal Awards prepared by the Department. This recommendation is being repeated. (See Recommendation 12.)

*Current Audit Recommendations:*

- 1. The Department should develop procedures to ensure that receipts are deposited in accordance with the waiver obtained from the State Treasurer including the possibility of depositing to the Funds Awaiting Distribution Fund any monies received for which the disposition cannot be immediately determined.**

Comment:

Our review revealed that some checks were on hand for between one and three days in excess of the allowed time, which was in violation of Section 4-32 of the General Statutes.

- 2. The Department should establish internal controls over its significant receivable categories that provide for the timely identification and collection of delinquent receivables and subsequent write-off of the receivables if collection efforts prove unsuccessful.**

Comment:

Our review of Department receivable records disclosed numerous accounts receivables as of June 30, 2005, that dated back several years and for which no recent collection activity had been recorded.

- 3. The Department should review its worksheets prepared for calculating separation payments for employees leaving State service for both accuracy and compliance with State regulations and/or collective bargaining contracts before such payments are made.**

Comment:

Our review of compensation paid to employees who left State service disclosed some improper payments of accrued vacation and sick leave and prorated longevity payments.

- 4. The Department should follow its procedures to ensure that appropriate supporting documentation is obtained in a timely manner for State Supplemental therapeutic diet special need payments or should consider revising the six-month requirement in the Department's Uniform Policy Manual.**

Comment:

Our review disclosed that some payments might have been made to recipients who were not eligible for special needs payments.

- 5. The Department should improve its procedures relative to cases closed due to death to ensure the discontinuance of benefit and transportation payments or the recovery of those payments issued after death.**

Comment:

Our review disclosed that some benefit payments were issued and cashed after the death of recipients. We also noted that some transportation payments were paid on behalf of recipients for services in the month following the recipients' death. Further, we noted some instances in which the Department did not attempt to recoup these overpayments.

- 6. The Department should institute procedures to ensure that all Department reports mandated by statutes or legislative acts are submitted as required. In those instances where the Department feels that the statutes are obsolete or no longer applicable, it should seek legislation to modify or repeal existing legislation.**

Comment:

Our tests revealed that most mandated reports were not prepared or appropriately filed with the State Library or the Legislative Library.

- 7. The Department should develop and follow procedures to ensure that progress reports are received for various grants-in-aid as required by contract.**

Comment:

Our review of 20 neighborhood facilities grant files revealed that the required quarterly and/or annual reports were not on hand for five of the files.

- 8. The Department should ensure that the vendor is monitored for compliance with all program requirements. Also the Department should take appropriate action when performance problems arise.**

Comment:

The Department did not verify that corrective action was taken for its identified noncompliance related to some on-site inspections of tenant files and/or housing units.

- 9. The Department should not pay administrative fees to the contractor used to administer the rental assistance programs for tenants on the Hold Report that should be removed from the programs. The Department should confirm that only valid names appear on the Hold Report and should remove those who are not participating in the programs.**

Comment:

The Department paid administrative fees to the contractor for 29 tenants that apparently should have been removed from the Rental Assistance Program. Identified improper administrative fees paid for the 29 tenants totaled \$5,735.

**10. The Department should improve controls over its equipment inventory.**

Comment:

The Department did not maintain adequate records to support amounts reported, in total, on the Annual Fixed Asset/Property Inventory Reports.

**11. The Department of Social Services should process expenditures in accordance with State laws and regulations and the State Accounting Manual.**

Comment:

Our review of expenditures disclosed that the Department did not always comply with Section 4-98 of the Connecticut General Statutes and with the *State Accounting Manual*. We noted that some purchase orders were not completed prior to receiving the services and some contracts were signed after the start of the contract service period.

**12. The Department should prepare the Generally Accepted Accounting Principles (GAAP) Reporting Package and the Schedule of Expenditures of Federal Awards in accordance with the State Comptroller's requirements.**

Comment:

The Department did not report complete and accurate information on the GAAP Reporting Packages and the Schedule of Expenditures of Federal Awards submitted to the State Comptroller.

**13. The Department of Social Services should seek competitive bids prior to entering into contracts with prospective vendors.**

Comment:

The Department entered into significant contracts or amended existing significant contracts without obtaining competitive bids.

**14. The Department of Social Services should charge the appropriate indirect costs against all of its applicable Federal programs. For those Federal programs for which the Department does not claim indirect costs, the Department should obtain waivers from the Office of Policy and Management.**

Comment:

The Department did not charge all the Federal programs it administered with the proper amount of indirect costs. This resulted in a loss of revenue to the State.

- 15. The Department of Social Services should establish procedures to adequately monitor the vendor contracted to administer the housing assistance programs. In addition, the Department should request that the vendor return the excess funds in the vendor's custody so that the funds can be deposited into the General Fund, sent back to the Federal government, or used by the State for housing services, as appropriate.**

Comment:

The vendor used by the Department to provide housing services to clients has excess funds on hand that the State could use to provide additional housing services to clients.

- 16. The Department should establish adequate procedures to obtain and review audit reports and to conduct ongoing monitoring of its grantees.**

Comment:

The Department did not adequately monitor its subrecipients to ensure that funds provided were expended for their intended purpose. We noted that audit reports were not on file for all the subrecipients tested, desk reviews were not performed for two audit reports that were on hand, and financial status, programmatic and statistical, or monitoring reports, required by the contracts, were not on file or were not submitted to the Department within the time allotted by the provisions of the contracts.

- 17. The Department of Social Services should verify and document that applicants have applied for benefits from other potential sources prior to granting State Administered General Assistance.**

Comment:

The Department did not document in one out of ten cases tested that the recipient had pursued benefits from any other sources. As a result, benefits may have been provided to the recipient that did not meet the eligibility requirements of the program because the client should have received cash assistance from another source.

- 18. The Department should obtain medical certificates for those employees who are out on sick leave for more than five consecutive workdays in accordance with Section 5-247-11 of the Regulations of Connecticut State Agencies.**

Comment:

There were seven out of 15 instances tested in which the Department did not have a medical certificate on file for those employees who were out on sick leave for more than five consecutive workdays.

- 19. The Department of Social Services should process expenditures made with Purchasing Cards in accordance with the *State of Connecticut Agency Purchasing Card Coordinator Manual*.**

Comment:

Our review disclosed that some of the transactions made using Purchasing Cards were not made in accordance with the State requirements. We also noted some transactions were not properly documented.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Social Services (DSS) for the fiscal years ended June 30, 2004 and 2005. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding, and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the DSS for the fiscal years ended June 30, 2004 and 2005, are included as a part of our Statewide Single Audits of the State of Connecticut for those 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 DSS complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance:**

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2004 and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the Department of Social Services is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgement, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the findings in the following areas represent reportable conditions: the timeliness of deposits, accounts receivable, payroll and personnel, benefit payments, program monitoring, expenditures, inventory and other reporting requirements.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following to be a material or significant weakness: accounts receivable that had no recent collection activity recorded.

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

**CONCLUSION**

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

Frank LaRosa  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts