

STATE OF CONNECTICUT



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

AUDITORS OF PUBLIC ACCOUNTS

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March 25, 2009

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

We have made an examination of the financial records of the Department of Social Services (DSS) for the fiscal years ended June 30, 2006 and 2007. 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 designed to increase the availability of, and access to, training and job placement opportunities for eligible persons with disabilities.
- The State Children’s Health 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 served in that capacity until January 31, 2007. Michael P. Starkowski was appointed Commissioner on February 1, 2007, and continued to serve in that capacity throughout the remaining audited period.

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.

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.

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. The Commission is within the Legislative Branch 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. The Council shall be within the Department of Social Services for administrative purposes only.

RÉSUMÉ OF OPERATIONS

Introduction:

The operations of the Department for the fiscal years ended June 30, 2006 and 2007, which were accounted for in the General Fund, five Special Revenue Funds, two Capital Projects Funds, and two Fiduciary Funds, are discussed below.

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

	Fiscal Year 2004-2005	Fiscal Year 2005-2006	Fiscal Year 2006-2007
General Fund:			
Total Receipts	\$ 2,395,111,440	\$ 2,436,017,713	\$ 2,502,376,431
Total Expenditures	\$ 3,908,030,185	\$ 4,181,893,406	\$ 4,221,641,396
 Special Revenue Funds:			
Grants and Restricted Accounts Fund			
Total Receipts	\$ 344,932,193	\$ 373,085,590	\$ 365,700,108
Total Expenditures	\$ 333,985,581	\$ 373,683,442	\$ 353,198,085
 Grants to Local Governments and Others Fund			
Total Receipts	\$ 0	\$ 0	\$ 0
Total Expenditures	\$ 1,298,257	\$ 3,178,147	\$ 4,493,253
 Housing for Homeless Persons with Aids Fund			
Total Receipts	\$ 0	\$ 0	\$ 0
Total Expenditures	\$ (13,557)	\$ 0	\$ 0
 Child Care Facilities Fund			
Total Receipts	\$ 0	\$ 0	\$ 0
Total Expenditures	\$ 835,450	\$ 0	\$ (7,802)
 Capital Equipment Purchase Fund			
Total Receipts	\$ 0	\$ 0	\$ 0
Total Expenditures	\$ 816,976	\$ 1,264,626	\$ 931,942

Capital Projects Funds:

Community Conservation and
Development Fund

Total Receipts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 6,903,283</u>	<u>\$ 4,142,198</u>	<u>\$ 3,615,000</u>

Capital Improvements and Other
Purposes Fund

Total Receipts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 546,970</u>	<u>\$ 671,481</u>	<u>\$ 107,779</u>

Fiduciary Funds:

Social Services Support Fund:

Total Receipts	<u>\$ 23,829,334</u>	<u>\$ 44,069,902</u>	<u>\$ 47,680,129</u>
Total Disbursements	<u>\$ 24,795,790</u>	<u>\$ 43,919,712</u>	<u>\$ 47,714,627</u>

Funds Awaiting Distribution:

Total Receipts and Transfers	<u>\$ 19,416,338</u>	<u>\$ 21,372,360</u>	<u>\$ 46,635,018</u>
Refunds and Net Transfers	<u>\$ 19,201,385</u>	<u>\$ 23,540,358</u>	<u>\$ 44,723,525</u>

General Fund - Receipts:

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

	<u>Fiscal Year 2004-2005</u>	<u>Fiscal Year 2005-2006</u>	<u>Fiscal Year 2006-2007</u>
	\$	\$	\$
Federal Contributions:			
Medical Assistance (See Note 1)	1,850,711,242	1,846,578,829	1,914,403,237
Dependent Children (See Note 2)	300,371,107	289,560,824	291,506,174
Department of Developmental Services - Intermediate Care Facilities (See Note 3)	75,228,892	112,665,311	82,567,698
Federal Administration (See Note 4)	84,952,157	106,632,194	116,571,641
Child Support Enforcement	27,784,838	26,914,001	35,915,873
State Children's Health Insurance Program	<u>18,035,613</u>	<u>17,191,220</u>	<u>21,442,475</u>
Total Federal Contributions	<u>2,357,083,849</u>	<u>2,399,542,379</u>	<u>2,462,407,098</u>

State Receipts:

Recoveries	35,236,947	34,084,935	34,423,442
Miscellaneous Receipts	<u>2,790,644</u>	<u>2,390,399</u>	<u>5,545,891</u>
Total State Receipts	<u>38,027,591</u>	<u>36,475,334</u>	<u>39,969,333</u>

Total General Fund Receipts	<u>\$ 2,395,111,440</u>	<u>\$ 2,436,017,713</u>	<u>\$ 2,502,376,431</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 Developmental Services (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 for services related to the Medicaid program incurred by the Department of Developmental Services.
- Note 4 These receipts represent reimbursement of administrative costs incurred on behalf of administering Medicaid, Food Stamps, and the State Children's Insurance Program.

Total revenue and receipts increased by \$40,906,273 and \$66,358,718 during the fiscal years ended June 30, 2006 and 2007, respectively. The overall increase in fiscal year 2005-2006 was due to a timing difference that occurred in receipts related to the Department of Developmental Services - Intermediate Care Facilities. The increase that occurred in fiscal year 2006-2007 was mainly attributed to an increase in total expenditures incurred under the Medicaid program. It should be noted that there is a delay between when the funds are expended and when Federal reimbursement is received.

General Fund - Expenditures:

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

	<u>Fiscal Year 2004-2005</u>	<u>Fiscal Year 2005-2006</u>	<u>Fiscal Year 2006-2007</u>
	\$	\$	\$
Budgeted Accounts:			
Personal Services	94,173,965	100,355,045	106,865,291
Contractual Services	89,924,575	96,473,381	101,460,497
Commodities	781,628	887,990	882,533
Revenue Refunds	287,442	267	0
State Grants	3,722,862,575	3,984,173,443	4,012,433,075
Capital Outlay - Equipment	<u>0</u>	<u>3,280</u>	<u>0</u>
Total Expenditures	<u>\$ 3,908,030,185</u>	<u>\$ 4,181,893,406</u>	<u>\$ 4,221,641,396</u>

Auditors of Public Accounts

Total expenditures increased by \$273,859,941 and \$39,751,270 during the fiscal years ended June 30, 2006 and 2007, respectively. These changes resulted primarily from the significant increases in State Grants during the fiscal years 2005-2006 and 2006-2007. The State Grants are presented in the following analysis by the type of special appropriation for which they were expended.

	Fiscal Year 2004-2005	Fiscal Year 2005-2006	Fiscal Year 2006-2007
	\$	\$	\$
Medicaid	2,922,402,715	3,134,588,757	3,142,508,916
Disproportionate Share	201,210,000	204,664,843	195,010,000
Temporary Assistance to Families	127,855,121	120,001,380	112,377,937
Child Care Services	58,901,947	73,205,244	82,731,390
HUSKY B Program	27,009,353	29,049,920	30,936,105
General Assistance	130,113,918	144,086,756	162,549,571
Aid to the Disabled	54,376,731	53,273,310	54,055,427
Old Age Assistance	29,300,384	29,564,747	30,549,110
Child Day Care	6,693,800	10,461,552	10,618,475
Housing – Homeless	22,664,841	23,694,360	27,731,587
ConnPACE	60,517,110	64,279,927	20,466,404
Connecticut Home Care Program	36,152,041	41,187,918	49,574,894
Connecticut Children’s Medical Center	6,750,000	7,020,000	13,020,000
Medicare Part D Supplemental Needs	0	5,000,000	26,246,466
Other	38,914,614	44,094,729	54,056,793
Total State Aid Grants	<u>\$ 3,722,862,575</u>	<u>\$ 3,984,173,443</u>	<u>\$ 4,012,433,075</u>

Notes 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.

The expenditures amounts made under Medicaid, Temporary Assistance to Families, Child Care Services, and HUSKY B, do not include any payroll or other administrative costs allocated to the programs. In addition, expenditures incurred by some other State agencies that are also claimed under the Medicaid and Temporary Assistance to Families programs are not included in the above amounts.

The reasons for the major changes in expenditures for the above programs during the fiscal year ended June 30, 2006, are presented as follows:

- Medicaid: Program expenditures increased by \$212,186,042. The increase in expenditures can be attributed primarily to increases in expenditures related to nursing homes and the managed care program. The increases in these two areas were attributed to rate increases.
- Child Care: Program expenditures increased by \$14,303,297. The increase was due to the Child Care Subsidy account being opened to qualified enrollments in which families

who had income at or below 50 percent of the State medium income could remain in the program until their income levels reach 75 percent of the State medium income. As a result, there was a significant increase in caseload.

- General Assistance: Program expenditures increased by \$13,972,838. The majority of the increase was due to an increase in pharmacy expenditures.
- The remaining fluctuations were the result of changes due to increases and decreases in client participation. There were no significant changes in the programs that caused these increases or decreases to occur.

The reasons for the major changes in expenditures for the above programs during the fiscal year ended June 30, 2007, are presented as follows:

- ConnPACE: Program expenditures decreased \$43,813,523. The decrease in ConnPACE expenditures was the result of a decrease in ConnPACE participants. The decrease in participants was mainly attributed to the enactment of Public Act 05-280 and Public Act 05-3, which requires as a condition of eligibility for participation in the ConnPACE program that a ConnPACE client who is Medicare Part A or Part B eligible, must be enrolled in a Medicare Part D Prescription Drug Plan (PDP). This new eligibility condition became effective January 1, 2006. As a result prescriptions that were normally paid by the ConnPACE program are now being paid by Medicare.
- Medicare Part D: Program expenditures increased by \$21,246,466. Medicare Part D Supplemental Needs was a new program established by Public Act 05-2 to help Medicare Part D beneficiaries who are also ConnPACE participants who cannot pay for medically necessary non-formulary drugs that are not covered under the Medicaid Part D.
- General Assistance: Program expenditures increased by \$18,462,815. The increase was primarily due to increases in hospital expenditures and primary/medical expenditures.
- The remaining fluctuations were the result of changes due to increases and decreases in client participation. There were no significant changes in the programs that caused these increases or decreases to occur.

Special Revenue Funds - Receipts:

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

	Fiscal Year 2004-2005	Fiscal Year 2005-2006	Fiscal Year 2006-2007
Federal Contributions:	\$	\$	\$
Federal Aid, Restricted	305,873,770	340,774,194	347,151,992

Auditors of Public Accounts

Transfers from Other State Agencies	<u>14,232,898</u>	<u>15,519,164</u>	<u>14,043,997</u>
Total Federal Contributions	<u>320,106,668</u>	<u>356,293,358</u>	<u>361,195,989</u>
State Receipts:			
Restricted Contributions	24,079,458	15,708,885	3,231,535
Transfers from Other State Agencies	746,067	1,074,262	1,259,667
Miscellaneous		9,083	12,917
Total State Receipts	<u>24,825,525</u>	<u>16,792,230</u>	<u>4,504,119</u>
Total Special Revenue Fund Receipts	<u>\$ 344,932,193</u>	<u>\$ 373,085,588</u>	<u>\$ 365,700,108</u>

Total revenues and receipts increased \$28,153,395 during the fiscal year ended June 30, 2006, and decreased \$7,385,480 during the fiscal year ended June 30, 2007. The fluctuations were primarily attributed to increases and decreases in expenditures as explained below.

Special Revenue Funds - Expenditures:

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

	<u>Fiscal Year</u> <u>2004-2005</u>	<u>Fiscal Year</u> <u>2005-2006</u>	<u>Fiscal Year</u> <u>2006-2007</u>
	\$	\$	\$
Expenditure Accounts:			
Personal Services	24,862,729	27,345,145	28,691,700
Contractual Services	8,590,603	13,545,661	13,479,375
Commodities	220,773	373,179	894,612
Revenue Refunds	0	126,558	87,399
Sundry Charges	2,189	0	(946)
Equipment	339,351	1,235,683	929,032
Capital Improvement		598	52,006
Overhead	6,031,415	5,007,143	4,748,284
State Grants	25,273,341	18,532,294	6,424,281
Federal Aid Grants	271,602,306	311,959,954	303,309,735
Total Expenditures	<u>\$ 336,922,707</u>	<u>\$ 378,126,215</u>	<u>\$ 358,615,478</u>

Total expenditures increased \$41,202,909 during the fiscal year ended June 30, 2006, and decreased \$19,562,144 during the fiscal year ended June 30, 2007. The increase in fiscal year 2005-2006 was primarily attributed to increases in expenditures related to the Low-Income Energy Assistance program and increases in Medicare premiums paid under the Medicaid program. The increase in fiscal year 2005-2006 was offset by a decrease in psychiatric reinsurance payments. The decrease in fiscal year 2006-2007 was mainly attributed to additional decreases in psychiatric reinsurance payments and an overall decrease in Federal expenditures. The decrease in Federal grants was attributed to various insignificant changes that occurred during the fiscal year.

Capital Projects Funds:

Community Conservation and Development Fund grants-in-aid expenditures, which were made under various Bond Acts passed by the Legislature, totaled \$4,142,198 and \$3,615,000 for the fiscal years ended June 30, 2006 and 2007, respectively. During the fiscal year ended June 30, 2005, the Department expended \$6,903,283 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 \$671,461 and \$107,779 during the fiscal years ended June 30, 2006 and 2007, respectively, from the Capital Improvement and Other Purpose Fund. During the fiscal year ended June 30, 2005, the Department expended \$546,970 from this Fund. This Fund was established to provide funds for the Department to establish procedures to be in compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPPA).

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, 2006 and 2007, totaled \$197,159 and \$162,661, 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, 2006 and 2007, totaled \$127,575 and \$2,039,068, 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, as of December 27, 2007, the Department still has on hand 287 life insurance policies that have been assigned to the Commissioner valued at \$387,117.

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, 2006 and 2007, were \$55,299 and \$64,044, 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 \$9,441 and \$26,874 at June 30, 2006 and 2007, respectively, the Conservator Account had investments in the State of Connecticut's Short Term Investment Fund of \$80,678 and \$85,144 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 seven checks totaling \$39,463 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. On March 6, 2008, the Division of Financial Management and Analysis issued a memo to regional management and staff reiterating the requirement that all deposits must be forwarded to central office in a timely manner to meet the deposit deadlines. The memo also requested that the regional offices review their procedures concerning receipts and make them available to the Division of Financial Management and Analysis and to Quality Assurance. The Department will follow-up with the regions to identify actions taken to review their processes in this area."

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, 2007.

Medical receivables greater than one year old with no collection activity recorded in over one year totaled \$25,195,435 and were originally established as much as 26 years earlier.

Drug rebate receivables greater than one year old totaled \$1,310,890 and were originally established up to 17 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 adjusted its procedures in order to satisfy the OPM policy for Uncollectible Accounts issued on May 28, 2008. The Department has initiated a formal process of issuing letters to providers with account receivables in order to

document three attempts to collect the receivable. After the third documented attempt, the Department will then refer the case to the DAS, Delinquent Accounts Unit. DAS maintains contracts with collection agencies and referral of delinquent accounts to DAS is a pre-requisite for the write-off of an account receivable.

The Department has written-off two groupings of uncollectible medical accounts receivables. One grouping included 640 outstanding accounts (\$141,813) that were less than \$1,000 each and over three years old. The second grouping included 25 outstanding accounts (\$6,010,103) that was approved by OPM since they were over \$1,000 each. The Department is in the process of developing additional write-off requests that will be forwarded to OPM over the next several months.”

Payroll and Personnel:

Criteria: Bargaining unit members (NP-3) may donate their accrued vacation and/or personal leave to a fellow bargaining unit member who is suffering from a long term or terminal illness or disability and who has exhausted his/her own accrued paid time off.

Section 5-213 of the Connecticut General Statutes provides that each employee in State service who has completed not less than ten years of State service shall receive semiannual lump-sum longevity payments based on service completed as of the first day of April and the first day of October of each year. Longevity payment schedules are outlined in the various bargaining unit contracts.

Section 5-213 of the Connecticut General Statutes also provides that any State employee leaving State service shall receive a lump-sum payment for accrued vacation time as prescribed under rules and regulations to be promulgated by the Commissioner of Administrative Services, which rules and regulations shall be approved by the Secretary of the Office of Policy and Management. Section 5-252 provides that a retired employee shall receive, in the month immediately following retirement, a prorated longevity lump-sum payment based on the proportion of the six-month period served prior to the effective date of his retirement.

Adequate internal control policies should ensure that any manual calculations prepared by Department staff that result in non-reoccurring payments made to employees should be reviewed and approved by an individual in a supervisory position.

Section 5-247-11 of the Connecticut State Regulations provides that an acceptable medical certificate, which must be on the form prescribed by

the Commissioner of Administrative Services and signed by a licensed physician or other practitioner whose method of healing is recognized by the State, will be required of an employee by his appointing authority to substantiate a request for any absence consisting of more than five consecutive working days.

Section 5-248i of the Connecticut General Statutes provides that any employee of a State agency may be authorized to participate in a telecommuting or work-at-home assignment with the approval of his appointing authority and with the approval of the Commissioner of Administrative Services. Approval of such assignment may be granted only where it is determined to be cost effective. Any assignment shall be on a temporary basis only, for a period not to exceed six months and may be extended as necessary.

Condition:

A member of the NP-3 bargaining unit donated 40 hours of sick leave to an employee in need of accrued leave. However, per the NP-3 bargaining unit, only vacation and personal leave may be donated. The Department attempted to rectify the error by adjusting the donor's accrued leave balances. The adjustments resulted in 40 hours of sick leave being returned to the donor and no vacation leave was removed from the donor's balance. Further, the employee in need still received 40 hours of accrued leave.

Two of the longevity payments made to one employee in the audit sample were not made in accordance with the payment schedule outlined in the applicable bargaining unit contract.

We reviewed the separation payments made to ten employees who left State service. For three separation payment worksheets reviewed, the worksheet was not approved by the payroll supervisor. In addition, for one of the ten separation payout calculations, the vacation hours used exceeded the maximum accumulation amount per the bargaining agreement. In another case, the Department did not use the correct percentage to calculate an employee's pro-rated longevity payment upon separation.

The Department did not have medical certificates for two out of the ten employees reviewed that were on sick leave for more than five consecutive working days.

The Department has one telecommuting employee in which the telecommuting program agreement for this employee expired.

Effect:

An employee's accrued vacation leave balance was overstated by 40 hours.

One employee was overpaid \$184 for longevity on two separate occasions.

The likelihood of errors in payouts made to employees who separated from State service is increased without a proper review being performed by the payroll supervisor. Our audit did note that the Department overpaid an employee \$91 for 2.5 hours of vacation leave in excess of the maximum allowed and overpaid an employee \$59 for the final prorated longevity amount.

The Department does not have documentation to support the leave of absences as required by State regulation 5-247-11.

The employee has continued to participate in the telecommuting program without the approval of the Department of Administrative Services in violation of State Statutes.

Cause: The Department's procedures did not prevent these errors from occurring.

Recommendation: The Department should process personnel information in accordance with the State laws and regulations included under the State Personnel Act. (See Recommendation 3.)

Agency's Response: "For the most part, the Department agrees with this finding.

Concerning the longevity payments; the employee's payout appeared on an exception report, requiring manual review of dates of services. The dates utilized were incorrect resulting in the overpayments, accordingly collection of the overpayments will be initiated upon completion of a review by the Division of Human Resources.

Concerning the lack of supervisory approval of separation payments; two files were unavailable for review at the time of audit and the worksheets were reprinted, thus contained no signatures. We agree that the third file did not contain evidence of supervisory approval. There are procedures in place for supervisory and management review of all separation payment worksheets.

Concerning the vacation hours exceeding the maximum; the Department has added controls to have the supervisor ensure that payments do not exceed the maximum. Furthermore payouts are subject to review at the worksheet level as previously indicated.

Concerning the incorrect percentage to calculate prorated longevity; staff was using an outdated chart based on a copy file versus a master file. The master file is now in use by all staff.

Concerning the lack of medical certificates on file and the lack of an updated approval for the telecommuting program agreement; the Department will remind the specific Human Resources Officers of the requirement to obtain a medical certificate before the employee returns to work and to obtain an updated telecommuting program agreement approved by the Commissioner of Administrative Services.

The Department will continue to review its procedures for processing payments to employees at separation from State service. As noted, there are currently procedures in place for supervisory and management review of separation payment worksheets to reduce the likelihood of error. The Payroll Unit supervisor also periodically reviews established procedures with staff to ensure that payouts are calculated correctly and are in accordance with State laws and regulations included under the State Personnel Act.”

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, 2006 and 2007. Three of the recipients tested received therapeutic diet special need payments. Our review disclosed the following two cases in which recipients received therapeutic diet special need payments that were not supported by appropriate documentation.

- In one case, there was no therapeutic diet request form in the case file.
- In one case, the request form was not signed by a physician 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 will issue a reminder to all eligibility staff regarding the need to secure the appropriate documentation to support the granting of this special need item and to set appropriate ticklers to review the client’s eligibility for this item every six months. The Department will also revise its policy to not require a review of this need item if the physician indicates that the recipient has a chronic condition requiring the therapeutic diet indefinitely. For those without such chronic conditions the revised policy will provide for a review at the annual redetermination or an earlier date if the physician indicates the diet is only needed for a temporary period of time.”

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 the State Supplemental program and Medicaid. 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 also 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 2007 report to determine whether payments made after the death of the recipients were appropriate. This report had 804 names listed. Twenty-four of the names listed were clients of the State Supplement program.

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 June 2007 disclosed the following:

1. For six out of the 24 State Supplement Program recipients tested, we noted that monthly benefit payments totaling \$2,633 were issued after the recipients’ deaths and subsequently cashed. In all six instances, receivables were not created so that the established procedures could be used to recoup the overpayments. There were excess payments made for two months in one case and for one month in five cases.
2. In 23 out of 24 State Supplement Program recipients tested, we noted that transportation payments totaling \$732 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 four months in one case, three months in one case, two months in six cases, and one month in 15 cases. The process for making capitated transportation payments under Medicaid is the same as the process used under the State Supplement program. However, it should be noted that a capitated rate would only be paid on behalf of some of the Medicaid clients listed on the June 2007 report.

Effect: Improper payments totaling \$3,365 were made for which the Department made no attempt to recover.

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.

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 issue a reminder to staff to take action to discontinue benefits immediately upon being notified of a recipient’s death in order to minimize the occasions of benefits issued to deceased individuals. The Department will also issue an instruction to residential care homes and other rated housing providers advising them that they must not deposit the benefit checks of deceased boarding home residents. Finally, a procedure will be established as part of the closed case review done by the Department’s resources and recovery staff that will include a review of any payments issued after

death to assure the immediate initiation of recovery of any improperly cashed checks.

Concerning the NEMT [non emergency medical transportation] payments which were made for deceased clients; EMS [Eligibility Management System] produces a report of deceased clients in fee-for service. This report is then used by Medical Care Administration staff to calculate the reimbursement amount for each NEMT contractor. This is then sent to the Division of Financial Management and Analysis (FMA) so that the reimbursement can be pursued. In order to improve this process, Medical Care Administration staff will be responsible for communicating directly to the NEMT brokers (with a copy to FMA) the amount that is to be reimbursed to the Department. This will improve the timeliness which the brokers are notified of the overpayments and will eliminate the possibility of omissions when involving a third party in the billing process.”

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 three of the seven mandated reports tested were not prepared for the fiscal year 2005-2006 and five of the seven mandated reports tested were not prepared for the fiscal year 2006-2007. In addition, the reports that were prepared were 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 agrees with this finding."

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 the fiscal year ended June 30, 2005. Our review of the CO59 submitted for the fiscal year ended June 30, 2007, 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 30th 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 total equipment amount reported on the annual Fixed Assets/Property Inventory Report/GAAP Reporting Form (CO59) submitted for the fiscal year ended June 30, 2007, was \$11,658,687. However, the equipment amount on the detailed inventory report was \$11,398,071.
- The Department could not provide adequate documentation to substantiate all the deletions reported on the CO59 for the fiscal year ended June 30, 2007. The deletion amount reported on the CO59 totaled \$4,357,859.

- The expenditures coded as equipment in the State’s accounting system for the fiscal years ended June 30, 2006 and 2007, totaled \$1,235,683 and \$929,032, respectively. However, total additions reported on the CO59 for the fiscal year ended June 30, 2006, were \$2,899,169 and \$1,199,828, respectively. In addition, expenditures totaling \$52,006 that were coded as site improvements in the State’s accounting system for the fiscal year ended June 30, 2007, were not included in total additions on the CO59.

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, 2007, 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 7.)

Agency’s Response: “The Department agrees with this finding. During the last fiscal year the strengthening of the asset management team has been a priority. Staff has received additional training and procedures were improved. In addition, in June 2008 the Department hired an individual with experience in asset management. We believe that the ongoing improvements and this dedicated staff position will result in record keeping in accordance with the Comptroller’s requirements.”

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 year ended June 30, 2005. Our review of expenditures paid during the fiscal years ended June 30, 2006 and 2007, 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 260 and 256 transactions that were expended during the fiscal years ended June 30, 2006 and 2007, respectively. Our review disclosed 96 and 78 transactions, respectively, in which a purchase order

was not prepared prior to the start of the services being rendered. Our review also disclosed 20 and 17 contracts, respectively, 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 8.)

Agency's Response: "The Department agrees with this finding. In February 2008 the Office of Contract Administration issued a memo to remind staff of the process when requesting the purchase of goods and/or services. This memo was also posted to the Department's intra-net and is available at all times. Publication of the process has improved compliance with Section 4-98 of the Connecticut General Statutes and the State Accounting Manual. Instances of non-compliant transactions are brought to the attention of the Deputy Commissioner and/or Commissioner and the situation is handled on a case by case basis.

Concerning the execution of contracts after the start of the contract service period, this usually can be attributed to delays in the contracting process by the Department as well as delays by the Contractor in the submission of documentation. Program staff and the contractors are reminded to improve the timeliness of the contracting process. A contracting task force has been established to review the process and to document processes that will ensure compliance with all laws and regulations. It should be noted, however, that despite the start date of the contract, the Department does not process any payments until the contract has been fully executed and, if required, approved by the Office of the Attorney General."

Financial Reporting:

Background: In conjunction with our audits of the State's Comprehensive Annual Financial Reports (CAFR) for the fiscal years ended June 30, 2006 and 2007, 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 is 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, 2006 and 2007, disclosed various financial exceptions. Revisions to the amounts reported for the fiscal year ended June 30, 2006, were submitted by us to the State Comptroller. As a result of our review, the Department resubmitted revised GAAP Forms for the fiscal year ended June 30, 2007, to the State Comptroller.

Our review of the Department's SEFA for the fiscal years ended June 30, 2006 and 2007, disclosed eight and four financial reporting findings, respectively, that required adjustments to the SEFA reported by the Department. These financial reporting findings resulted in expenditure amounts that were improperly reported for 11 and four Federal programs, respectively. These findings resulted in a net understatement to the SEFA totaling \$12,635,000 and \$1,502,126 during the fiscal years ended June 30, 2006 and 2007, 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 9.)

Agency's Response: "The Department agrees with this finding. The Department has changed or will change the reporting for all of the items cited. Extensive details of the changes have been supplied to the State Auditors."

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 Health 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 25 of the 48 Federal programs that it administered during the State fiscal year ended June 30, 2007, 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 \$47,688,507 in Federal funds for these 25 Federal programs. Of these 25 Federal programs, 21 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 21 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. 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 costs to the HIV Care Formula Grants.

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.

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 10.)

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

The Department's approved Public Assistance Cost Allocation Plan (PACAP) specifies a methodology for the allocation of all Department costs. Within the structure of the PACAP, indirect costs are assigned to programs based upon the level of full-time equivalents that support each program. Federal restricted accounts that do not fund positions are not allocated indirect costs. This is based on an approach which recognizes that general overhead costs such as space, supplies, telephone and other similar activities are primarily associated with staffing levels. For programs which staff are not assigned, the level of indirect support is relatively minimal and, as a result, do not get allocated general overhead costs.

There is no mechanism within our current system to assign these costs to grants without any staff assigned to them. To do so would be counter to our approved PACAP. However, we are now seeking the advice of our consultants to see if there are other methodologies that might address this situation.

The Department historically has only sought waivers for Federal restricted programs that are unable to fund allocated indirect costs for various reasons. In response to this issue, we have requested waivers from OPM for all Federal restricted accounts that do not fund positions and thus do not get indirect costs assigned.

Concerning items 2a, 2b, and 2c, the Department agrees with these items. Generally these issues arise by the use of a Miscellaneous Grantee Department when allocating costs. The Department will have the PACAP contractor review the option of creating separate Grantee Departments for all grants to replace the Miscellaneous Grantee Department."

Monitoring of Subrecipients:

Background: During the Statewide Single Audit for the fiscal years ended June 30, 2006 and 2007, 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 \$140,000,000 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 deficiencies.

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 years ended June 30, 2006 and 2007, we tested 44 and 45 contracts, respectively, under which grantees received funds from the Department. Our review disclosed that financial audit reports were not on hand for four and three, respectively, of the contracts tested and desk reviews were not performed for 20 and 40 audit reports, respectively, 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 State grants to determine whether adequate monitoring was performed. The audit population was 191 grantees. 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 two 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 11.)

Agency's Response: "The Department agrees with this finding. Concerning the monitoring reports that were not on file; the Department's Community Service Division has been unable to hire additional staff to address its workload. Furthermore, as staff has retired, the positions are not filled immediately and in some instances the positions have gone vacant for over six months. Individual staff assignments exceed 65 contracts per worker. Their top priorities are fiscal reporting and contract processing. Therefore, while the monitoring of grantees is being performed, at times it is delayed due to these competing priorities.

Concerning the receipt and review of audit reports; the seven audit reports "not on hand" have now been received by the Department. Also, the Department has completed desk reviews of 13 additional audit reports and continues to review the remaining inventory as staffing allows."

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.

Section 17b-194 of the Connecticut General Statutes provides that when making determinations concerning disabilities or impairments which are expected to last a period of six months or longer such determinations are based on the recommendations made by a medical review team. The Department has contracted with a vendor for the purpose of determining the "disability" and/or "unemployability" status of individuals requesting SAGA cash benefits by reviewing medical packets.

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: We reviewed case files for 25 transactions totaling \$28,712 made under the SAGA program. This sample was selected from SAGA payments totaling \$313,510,720 made during fiscal years ended June 30, 2006 and

2007. Our review disclosed the following exceptions:

1. One instance in which the SAGA client was also eligible for cash assistance under the SSI program.
2. Two instances in which the clients received benefits for a period that the Department's contracted medical review team did not make a determination as to their disability and/or unemployability status.
3. Three instances in which the client information included in the Department's Eligibility Management System (EMS) file or hard copy case files did not contain support that the recipients applied for, or cooperated in applying for, potential benefits from any other sources.
4. Two instances in which both Condition 2 and Condition 3 were noted.
5. In one case, a client received benefits for two months after it was determined that the client was not disabled or unemployable. These two payments were not part of our sample of transactions.

Effect: In one case, the benefit payment sampled (\$196) was provided to a recipient who did not meet the eligibility requirements of the SAGA program because the client should have received cash assistance from another source (Condition 1). In seven cases benefits may have been provided to recipients who did not meet the eligibility requirements of the SAGA program (Condition 2, 3 and 4). Two payments totaling \$400 were improperly paid to a client (Condition 5).

Cause: The caseworkers did review or obtain the proper information to determine client eligibility.

Recommendation: The Department of Social Services should verify and document that applicants have met the requirements of State Administered General Assistance. (See Recommendation 12.)

Agency's Response: "The Department agrees with this finding. The Department does have an automated process in place whereby the Department's Eligibility Management System (EMS) automatically identifies SSI [Social Security Insurance] recipients through the SDX data exchange with SSA [Social Security Administration] and excludes such individuals from the SAGA program. The Department will review how the single incidence of dual receipt of benefits occurred and if changes are required to EMS to ensure it does not occur again.

Regarding the other items cited; existing policies and procedures were not adhered to. The Department will follow-up to assure the specific staff

involved are aware of the proper procedures to follow. In addition, a reminder will be issued to all staff that they must not grant SAGA cash assistance benefits without first establishing that the applicant meets the SAGA unemployability criteria and they must assure that any individual applying for SAGA cash assistance based on a disability has applied for SSI or SSDI [Social Security Disability Insurance] benefits from SSA before granting benefits.”

Internal Audit:

Background:

During the late 1990’s the Department of Social Services had an internal audit unit of ten staff members. Since then there has been a gradual depletion in the staffing of the unit. In 2002 the internal audit unit consisted of four auditors. The following year the unit was downsized to three auditors. Since February 2005, the internal audit unit has consisted of two auditors.

Criteria

Internal audit is a control which functions by examining and evaluating the adequacy of current controls throughout the organization. An adequately designed internal audit function can measure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with laws and regulations.

Risk management identifies, analyzes, and responds to those risks that could potentially impact the organization’s ability to realize its objectives. Internal auditing professional standards require the function to monitor and evaluate the effectiveness of an organization’s risk management.

By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help organizations achieve accountability and integrity, and improve operations.

Condition:

The Department of Social Services’ Internal Audit Unit does not adequately monitor the efficiency of operations, the reliability of financial reporting and effectiveness of risk management:

- In the 2006 State fiscal year, the Department expended approximately 4.56 billion dollars. A majority of the Department’s expenditures, approximately 4.15 billion, were processed through the agency’s cashbook. The Department’s internal audit unit does not monitor the use of the cashbook.
- The Internal Audit Unit does not audit the Department’s administrative functions. Areas such as rate setting, contract administration,

monitoring of subrecipients and accounts receivable are not monitored by the internal auditors of the Department. These functions have a direct relationship to the expenditures made by the Department.

- The Department conducts Federally mandated reviews of the Food Stamp Program (7CFR275) and Medicaid Eligibility Quality Control Reviews (42CFR431.800). These mandated reviews do not capture a broad scope of the Department's overall operations. The Department of Social Services administers numerous other programs where the client's eligibility for program services is determined through functions such as application screening and eligibility re-determinations. These eligibility functions have a heavy reliance on regional office personnel. Because of the heavy reliance on regional office personnel, the eligibility function is considered a high risk area. Other than the Federally mandated reviews, the Internal Audit Unit does not conduct any programmatic audits of the controls concerning the eligibility of clients enrolled in DSS programs.

Effect: Without an adequately designed internal audit function, it is unlikely that the Department has the ability to identify improper, inefficient, illegal, fraudulent or abusive acts that have already transpired as well as the conditions that will allow these acts to continue without detection.

Cause: The internal audit unit only has one Accounts Examiner remaining along with a Supervisory Accounts Examiner. These employees are mainly doing the gathering of the Medicaid Eligibility Quality Control dollar values to determine the Title XIX Quality Control Error Rate, which is a Federally required review. In addition to the Medicaid Eligibility Quality Control Reviews the internal audit unit conducts reviews of the safeguarding of Internal Revenue Services information and accessibility of confidential information on the Department's Eligibility Management System.

Recommendation: The Department of Social Services should implement a more balanced internal audit function. This implementation would increase management's view as to what is really happening inside the Department and help management look forward by identifying trends and bringing attention to emerging challenges. (See Recommendation 13.)

Agency's Response: "The Department agrees with this finding. The Governor's Recommended Budget included two new positions to enhance staffing in the internal audit unit. The budget was not approved; accordingly the Department has not been able to increase its audit staff. Without the additional staffing, the internal audit unit cannot expand reviews beyond its current scope. However, the Department will resubmit a request for additional positions in the next budget period."

Paid Leave of Absence:

Criteria:

Section 5-240-5a(f) of the Connecticut State Regulations states that an appointing authority may place an employee on leave of absence with pay for up to fifteen 15 days to permit investigation of alleged serious misconduct which could constitute just cause for dismissal under Regulations Section 5-240-1a(c). (Section 5-240-1a (c) provides the definition for “just cause” and lists examples of conduct that would be considered just cause for suspending, demoting, or dismissing an employee.) Such leave shall only be utilized if the employee’s presence at work could be harmful to the public, the welfare, health or safety of patients, inmates or state employees or state property. Following a decision to place the employee on such leave, the appointing authority shall provide written notice to the employee stating the reasons for the leave, effective date of the leave and the duration of the leave which shall not exceed fifteen (15) days.

Section 5-240-5a (h) of the Connecticut State Regulations states that an appointing authority may, pending disposition of criminal charges, the pendency of which would hamper the completion of an independent administrative investigation and which, upon conviction of an employee, would constitute just cause for dismissal under Section 5-240-1a(c) of these regulations, place the employee on leave of absence with pay for up to thirty (30) days. Such leave shall only be utilized if the employee’s presence at work could be harmful to the public, the welfare, health or safety of patients, inmates or state employees or state property. Following a decision to place the employee on such leave, the appointing authority shall provide written notice to the employee stating the reasons for the leave, effective date of the leave, and the duration of the leave, which shall not exceed thirty (30) days. The leave may be extended for an additional thirty (30) day period upon request of the appointing authority and approval of the Commissioner of Administrative Services based on a showing that the pendency of the criminal charges prevents the completion of an independent administrative investigation of the underlying conduct.

Section 5-240-5a(i) of the Connecticut State Regulations states that the appointing authority shall immediately report placement of an employee on leave of absence under this section to the Commissioner of Administrative Services by sending a copy of the notice given the employee.

Condition:

Our review disclosed that four employees were placed on paid administrative leave under Section 5-240-5a (f) of the State Regulations and remained on leave for a period in excess of 15 days. The days beyond the maximum 15 days ranged from one to 93.75 days. Additionally, one

employee was placed on paid administrative leave under Section 5-240-5a (h) of the State Regulations and remained on leave for 52 days beyond the 30 days permitted by the aforementioned regulation, with no evidence of a written extension approval

Moreover, the Department of Administrative Services was not provided a copy of the notice given to the five employees upon the Department placing the employees on leave of absence, as required by Section 5-240-5a(i) of the State Regulations.

Effect: The Department did not comply with State Regulations.

The total salary expense incurred by the Department during the days beyond what was allowable per the Connecticut State Regulations for these five employees was \$75,975.45. Of this amount, \$31,820.94 represented charges to a Federal program for one employee. Salary expenses for the remaining four employees were charged to the State's General Fund. Some of these expenses would be allocated to Federal programs in accordance with the Department's Cost Allocation Plan.

Cause: The Director of the Department's Human Resources stated that it is not always possible to complete an investigation within the timeframe permitted by the Regulations, and therefore there is no choice but to extend the paid leave. The Director also argued that DAS is properly notified when the earning code is entered into Core-CT.

Recommendation: The Department of Social Services should comply with requirements concerning employees placed on paid leave as provided under Sections 5-240-5a(f), 5-240-5a(h), and 5-240-5a(i) of the Connecticut State Regulations. This includes sending to the Department of Administrative Services a copy of the notice given to the employee. (See Recommendation 14.)

Agency's Response: "The Department agrees with this finding. The Department will remind the specific Human Resources Officers of their responsibility for monitoring the length of time an individual is on paid administrative leave and requesting written extension approval in compliance with Connecticut State Regulations."

Burial Reserve Fund – Assigned Life Insurance Policies:

Background: 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. When an individual stopped receiving assistance, an amount equal to the value of the assigned property could be released to them.

In 1986, Public Act 86-290 repealed Section 17-114 of the General Statutes but did not address the disposition of existing Burial Reserve accounts.

The Department of Social Services (DSS) requested and received a formal opinion from the Attorney General dated November 25, 1996, as to the appropriate disposition of existing Burial Reserve assets.

Criteria: The Attorney General’s opinion dated November 25, 1996, states that, in the case of a deceased individual who assigned assets pursuant to Section 17-114, the Department is required to release up to \$600 of the assigned funds for the direct payment 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.

Condition: We reviewed five out of 287 life insurance policies listed as of December 2007 to determine whether the Department should initiate the recovery of the proceeds. Our review disclosed that three of the five clients listed as being alive on the Department’s assigned life insurance policy listing were deceased.

Effect: The Department did not initiate the collection of life insurance proceeds it is entitled to as reimbursement for prior grants of assistance.

Cause: The Central Office is not notified of a client’s death in a timely manner and therefore does not initiate the recovery of funds in a timely manner.

Recommendation: The Department of Social Services should implement procedures to ensure that the Central Office is notified of a client’s death in a timely manner to initiate the collection of life insurance proceeds. (See Recommendation 15.)

Agency’s Response: “The Department agrees with this finding. The Department has a procedure in place to address this item. A “REMARKS” page has been added to the “AST1” screen on EMS [Eligibility Management System] of each recipient for which an assigned insurance policy is held. This is to alert regional resource workers conducting a “closed case review” that the recipient has assigned a policy to the Department and that Central Office must be notified upon the recipient’s death. The Department will issue a reminder to all regional resource unit staff responsible for conducting “closed case reviews” to ensure that proper procedures are followed.”

Petty Cash – Travel Advances:

Criteria: The State Accounting Manual requires that an employee receiving a travel advance must sign a statement acknowledging the amount of cash advanced and, within five working days after returning, submit a completed Employee Payroll Reimbursement Form (CO-17XP) with the necessary supporting documentation to the Department.

Condition: Our review of eight travel advances disclosed the following:

- For four transactions the CO17XPs were not submitted in a timely manner.
- For one transaction the Department could not locate the CO-17XP or the supporting receipts.
- For two transactions the CO-17XPs were not dated by the employee and therefore we are unable to determine if it was submitted in a timely manner. The CO-17XPs were also not approved by a supervisor.
- For one transaction the CO-17XP was not dated by the employee and therefore we are unable to determine if it was submitted in a timely manner. The CO-17 was also not approved by the supervisor or supported by receipts.

Effect: If the petty cash procedures are not properly followed, misappropriation of the petty cash fund may occur and not be detected.

Cause: The Department is not enforcing procedures for the submission of the required paperwork for travel advances and reimbursements.

Recommendation: The Department of Social Services should follow the procedures set forth by the Office of the State Comptroller regarding the timely submission of the necessary documentation for travel advances and reimbursements. (See Recommendation 16.)

Agency's Response: "The Department agrees with this finding. In May 2007 staffing reassignments were made within the Purchasing Unit to take advantage of the skills of the individuals. As a result, the tracking of outstanding travel advances has been improved via a new tickler system which helps to ensure more timely compliance. Nevertheless, the process is still dependent on the timeliness which employees submit the travel reimbursement request along with the necessary documentation. The Purchasing Unit diligently reminds employees of the deadlines but there are times when compliance is still not attained.

In addition, the Department has developed travel guidelines and procedures that will be posted to the Department's intranet for information and use by staff. The travel guidelines currently are under review."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. – 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 receivables 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 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. – Our current audit continued to disclose deficiencies related to vacation accrued leave payments and prorated longevity payments made to employees who ended State service. We also noted additional conditions related to payroll and personnel matters. This recommendation is being restated. (See Recommendation 3.)
- 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. – 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.)
- 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. – 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 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 are being received. This recommendation has been resolved.
- The Department should ensure that the vendor contracted to administer the Rental Assistance Program is monitored for compliance with all program requirements. Also the Department should take appropriate action when performance problems arise. – Our current audit disclosed that the vendor was monitored for compliance with program requirements. This recommendation has been resolved.
- 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. – Our current audit disclosed that tenants were not on Hold Report for an extensive period of time. This recommendation has been resolved.
- The Department should improve controls over its equipment inventory. – Our current audit continued to disclose deficiencies related to inventory. This recommendation is being repeated. (See Recommendation 7.)
- 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 8.)
- 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 9.)
- The Department of Social Services should seek competitive bids prior to entering into contracts with prospective vendors – Our current audit disclosed that the Department obtained competitive bids. This recommendation has been resolved.
- 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. – Our current audit continued to disclose that not all Federal programs were charged indirect costs. This recommendation is being repeated. (See Recommendation 10.)
- 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. – Our current audit disclosed that a review was performed and excess funds were returned. This recommendation has been resolved.

- The Department should establish adequate procedures to obtain and review audit reports and to conduct ongoing monitoring of its grantees. – Our current audit continued to disclose audit reports were not received or reviewed and that ongoing monitoring was not performed. This recommendation is being repeated. (See Recommendation 11.)
- 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. – Our current audit continued to disclose deficiencies related to the State Administered General Assistance program. This recommendation is being restated. (See Recommendation 12.)
- 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. – Our current audit continued to disclose that medical certificates were not received in all applicable cases. This recommendation is being restated. (See Recommendation 3.)
- The Department of Social Services should process expenditures made with Purchasing Cards in accordance with the *State of Connecticut Agency Purchasing Card Coordinator Manual*. – Our current audit disclosed no exceptions related to the use of Purchasing Cards. This recommendation has been resolved.

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, 2007, that dated back several years and for which no recent collection activity had been recorded.

- 3. The Department should process personnel information in accordance with the State laws and regulations included under the State Personnel Act.**

Comment:

Our review disclosed noncompliance with laws and regulations concerning donation of sick leave, longevity payments, payments at time of State separation, medical certificates, and telecommuting.

- 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 improve controls over its equipment inventory.**

Comment:

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

- 8. 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.

- 9. 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.

- 10. 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 of the Federal programs it administered with the proper amount of indirect costs. This resulted in a loss of revenue to the State.

- 11. 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 all 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.

- 12. The Department of Social Services should verify and document that applicants have met the requirements of State Administered General Assistance.**

Comment:

The Department did not document in all cases that the recipients had pursued benefits from any other sources. In addition, the Department did not have documentation that supports whether a determination was made as to client disability and/or unemployment status.

- 13. The Department of Social Services should implement a more balanced internal audit function. This implementation would increase management's view as to what is really happening inside the Department and help management look forward by identifying trends and bringing attention to emerging challenges.**

Comment:

The Department of Social Services' Internal Audit Unit does not adequately monitor the efficiency of operations, the reliability of financial reporting and effectiveness of risk management.

- 14. The Department of Social Services should comply with requirements concerning employees placed on paid leave as provided under Sections 5-240-5a(f), 5-240-5a(h), and 5-240-5a(i) of the Connecticut State Regulations. This includes sending to the Department of Administrative Services a copy of the notice given to the employee.**

Comment:

Our review disclosed that employees were placed on paid administrative leave in excess of the days allowed by State regulations. In addition, the Department of Administrative Service was not properly notified as required by State Regulations.

- 15. The Department of Social Services should implement procedures to ensure that the Central Office is notified of a client's death in a timely manner to initiate the collection of life insurance proceeds.**

Comment:

Our review disclosed that the Department did not initiate the recovery on life insurance policies on individuals who were identified as deceased on the Eligibility Management System.

- 16. The Department of Social Services should follow the procedures set forth by the Office of the State Comptroller regarding the timely submission of the necessary documentation for travel advances and reimbursements.**

Comment:

Our review disclosed that procedures to ensure the submission of the required documentation for both travel advances and reimbursement thereof were not enforced.

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 for the fiscal years ended June 30, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Social Services for the fiscal years ended June 30, 2006 and 2007, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Social Services complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

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

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to

properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 - Timely deposit of receipts; Recommendation 2 - Identifying and collecting receivables; Recommendation 3 - Processing personnel information; Recommendation 7 - Maintaining adequate equipment inventory; Recommendation 8 - Processing expenditures; Recommendation 11 - Ongoing monitoring of grantees; Recommendation 12 - Documenting client eligibility of the State Administered General Assistance program; Recommendation 13 - Implementing a more balanced internal audit function.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following items to be material weaknesses: Recommendation 2 - Identifying and collecting receivables and Recommendation 8 - Processing expenditures.

Compliance and Other Matters:

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain

matters which we reported to Agency management in the accompanying “Condition of Records” and “Recommendations” sections of this report.

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

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

CONCLUSION

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