STATE OF CONNECTICUT

AUDITORS' REPORT

OFFICE OF THE ATTORNEY GENERAL
FOR THE FISCAL YEARS ENDED JUNE 30, 1998 AND 1999

AUDITORS OF PUBLIC ACCOUNTS
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August 9, 1999

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We have made an examination of the financial records of the Office of the Attorney General for the fiscal years ended June 30, 1998 and 1999.

Financial statements pertaining to the operations and activities of the Office of the Attorney General for the fiscal years ended June 30, 1998 and 1999, are presented and audited on a Statewide Single Audit basis to include all State agencies and funds. This audit examination has been limited to assessing the Office of the Attorney General's compliance with certain provisions of financial related laws, regulations, and contracts, and evaluating the internal control structure policies and procedures established to ensure such compliance.

This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The Attorney General is an elected State officer whose duties are set forth in Title 3, Chapter 35, of the General Statutes. The Attorney General has general supervision over all non-criminal legal matters in which the State has an interest. Since January 9, 1991, Richard Blumenthal has served as Attorney General and Aaron Bayer as Deputy Attorney General.

RÉSUMÉ OF OPERATIONS:

Revenues and Other Receipts:

The Office collects significant revenues including collections transferred and credited to the accounts of other State agencies. Receipts totalled $9,723,254 and $2,903,307 during the fiscal years ended June 30, 1998 and 1999, respectively, and are summarized below by fund:

	1997-1998	1998-1999
General Fund:		
Revenue:		
Fines and court costs	$ 1,846	$ 30,127
Civil penalties - court settlements	15,875	13,575
Recoveries - attorney fees	966,146	228,261
Recoveries - negotiated court settlements	6,731,921	145,229
All other revenues	2,540	1,772
Total Revenues	7,718,328	418,964
Restricted contributions	647,253	550,363
Expenditure refunds	1,182,561	1,589,354
Total General Fund Receipts	**$ 9,548,142**	**$ 2,558,681**
Trust Fund:		
Investment income	**$ 6,103**	**$ 486**
Pending Receipts Fund:		
Settlements and recoveries	**$ 175,112**	**$ 344,626**
Total Receipts	**$ 9,729,357**	**$ 2,903,793**

Receipts received by the Office and deposited to other State agencies amounted to $13,797,536 and $12,366,467, for the fiscal years ended June 30, 1998 and 1999, respectively. Total Office receipts generally fluctuate to a large degree, as individually large settlements or recoveries are received intermittently. For example, in the fiscal year ended June 30, 1998, the State received a $8,200,000 settlement claim from its bond counsel related to the Connecticut franchise tax that was levied on interest earned on federal bonds but not on certain state bonds. Federal law prohibits states from levying a franchise tax on federal obligations if comparable State bonds are exempt from such tax. The State had faced considerable refund claims filed by corporate franchise taxpayers. Of the above amount, $6,700,000 was deposited with the Office to ultimately compensate for negotiated court settlements. The remaining $1,500,000 was deposited with the Office of the State Treasurer to reimburse that Office for certain administrative costs related to the litigation and disposition of the matter.

Expenditures:

Expenditures by fund and within the General Fund by categories of appropriation accounts follow:

	1997-1998	1998-1999
General Fund:		
Budgeted accounts	$ 19,639,052	$ 22,601,734
Restricted contributions:		
Federal contributions	63,539	59,928
Other restricted contributions	1,174,234	228,777
Total General Fund	20,876,825	22,890,439
Capital Equipment Purchase Fund	307,351	143,399
Trust fund withdrawals	149,428	0
Pending Receipt Fund withdrawals	199,205	262,437
Totals	**$ 21,532,809**	**$ 23,296,275**

General Fund expenditures by type were:

	1997-1998	1998-1999
Personal services	$ 18,520,558	$ 20,398,788
Telecommunications	144,909	117,444
Fees for outside professional services	1,647,970	177,079
Data processing hardware maintenance	21,100	22,960
Travel and mileage expenses	141,004	134,639
Dues and Subscriptions	287,180	329,226
All other contractual services	(122,789)	222,108
Commodities	155,070	159,019
Revenue refunds	12,686	6,217
Sundry charges	66,349	71,824
Equipment	2,788	1,251,135
Total General Fund Expenditures	**$ 20,876,825**	**$ 22,890,439**

Personal services expenditures accounted for approximately 89 percent of General Fund expenditures during the fiscal years ended June 30, 1998 and 1999. Personal services expenditures were $17,233,105 during the fiscal year ended June 30, 1997. Expenditures thus increased approximately 7.5 percent and 10.1 percent during the fiscal years ended June 30, 1998 and 1999, respectively. The increase in personal service expenditures was primarily attributable to an increase in the hours of the standard workweeks of employees, contractual increases and an increase in the number of employees. The number of filled permanent positions averaged 354, 349 and 367 for the fiscal years ended June 30, 1997, 1998 and 1999, respectively. In addition, 13 employees accepted an early retirement offer from the State resulting in the payment of lump sum vacation and sick time in the amount of $364,151 at the beginning of the fiscal year ended June 30, 1998. Salaries for some employees were charged directly to the expenditure accounts of other State agencies served by this Office. As of June 30, 1999, 26 full time positions were charged in this manner.

Fees for outside professional services are presented net of amounts received for reimbursement from other State agencies. The Office bills other State agencies for legal services based upon invoices from outside contractors. The State agencies transfer their funds for payment to an account held by the Office. The Office pays the contractors with those transferred funds. Due to timing differences in the transfer and payment of funds at fiscal year end, expenditures for fees for outside professional services vary significantly between periods. In fact, when transfers from State agencies to the Office exceed payments by the Office, the amount reported at year end can be negative. To illustrate this point, fees for outside professional services, reported in our prior audit report, for the period ended June 30, 1997 were ($1,044,974). At the end of the 1997-1998 and 1998-1999 fiscal years, the agency had received reimbursements of approximately $842,196 and $1,070,137, respectively, which were not expended until the next fiscal year.

Additional Agency expenditures, including personal services, were recovered by transfers to other State agencies, and are therefore not included in the expenditure totals presented. Such expenditure transfers amounted to $6,943,224, $4,369,438 and $4,206,220, during the fiscal years ended June 30, 1997, 1998 and 1999, respectively.

As noted above, certain General Fund restricted appropriation accounts are used to account for various Federal and other restricted funds received, and the expenditures charged thereto. A summary of these accounts follows:

Client Agency Costs:

This account served as a clearing account for charges processed for other State agencies. These expenditures are usually for outside legal services. Upon receipt of an invoice from a service provider by the Office, the user agencies are requested to transfer funds to the Client Agency account to pay the service provider. Funds transferred and expended amounted to approximately $3,289,875 and $3,044,591 for the fiscal years ended June 30, 1998 and 1999, respectively. Client agency costs are dependant upon the number and types of services performed by the Office and on the timing of payments made on behalf of the agencies by the Office to outside contractors.

Low Level Radioactive Waste Management Facility Account:

Transfers from the State Department of Environmental Protection (DEP) provide funding for this account. Expenditures were primarily for salaries and fringe benefits of employees devoted to legal matters that relate to the siting of a low-level radioactive waste management facility. An unexpended balance of $11,157 was carried forward on July 1, 1997, and additional transfers of $133,843 and $91,723 were received from the DEP during the 1997-1998 and 1998-1999 fiscal years, respectively. Expenditures totaled $96,723 during the 1997-1998 fiscal year and $101,580 in 1998-1999.

Second Injury Account:

Pursuant to Subsection (d) of Section 31-355 of the General Statutes, all expenses incurred by the Office of the Attorney General in carrying out its role in second injury cases shall be paid from the Second Injury and Compensation Assurance Fund. The State Treasurer administers this fund. The Attorney General's Second Injury account was used to record Agency non-personnel costs related to the second injury program and was funded by transfers from the State Treasurer. Personal services costs of certain employees were charged directly to the Treasurer's Second Injury Fund, and totaled approximately $1,271,472 for the 1997-1998 fiscal year and $1,262,009 for the 1998-1999 fiscal year. As of June 30, 1999, 24 such employees were charged to the fund. Receipts to this account totaled $100,109 and $3, for the fiscal years ended June 30, 1998 and 1999, respectively. Expenditures totaled $134,718 and $98,452, for those same two fiscal years.

Legal Assistance - Omnibus Budget Reconciliation Act (OBRA) of 1987 Account:

This account is used to fund activity related to a State Department of Public Health (DPH) contract with the State Department of Social Services (DSS.) The purpose of the contract is to provide Federally required surveys of Medicare / Medicaid providers. The State was reimbursed, in part, through recoveries made by the Department of Social Services. The Office of the Attorney General and DPH have an agreement whereby the Office provides legal assistance to DPH in fulfilling its obligation as the survey agency for Medicare / Medicaid health care providers. Receipts totaled $117,400 and $121,572, for the fiscal years ended June 30, 1998 and 1999, respectively. Expenditures for the same periods totaled $117,400 and $121,568, and consisted primarily of employee salaries and fringe benefits.

Adjudicated Settlements:

As indicated above, an Agency trust fund (Attorney General Settlement Fund) and the State Pending Receipts Fund were also used to process transactions. Both were used to account for the collection and distribution of settlements due to the Agency and consumers. Distributions are made in accordance with the corresponding court orders. The Trust Fund was used to hold settlements required to be deposited into an interest-bearing account until final distribution. The Fund is in essence an investment fund. In fiscal year ended June 30, 1998, the Office used the State Treasurer’s Short Term Investment Fund. In the subsequent year the Treasurer established an interest credit program that the Office uses to invest its settlement funds. When disposition is finalized by the court, the money is transferred to the Pending Receipts Fund or General Fund, as applicable. Settlements, not required to be held in an interest-bearing account, are recorded in the Agency's Pending Receipts Fund. Transfers from the Trust Fund are also received in the Pending Receipts Fund to process payments to consumers or other State agencies through the State's accounting system. A summary of Agency transactions in its Trust Fund and its Pending Receipts Fund follows:

	Attorney General Settlement Fund	Pending Receipts Fund
Balance July 1, 1997	$ **153,378**	**$ 288,254**
Receipts (1997-1998)		175,112
Interest income (1997-1998)	6,103	
Disbursements (1997-1998)	(149,428)	(199,205)
Balance June 30, 1998	**9,346**	**264,161**
Receipts (1998-1999)		344,626
Interest income (1998-1999)	486	
Disbursements (1998-1999)	-	(262,437)
Balance June 30, 1999	**$ 9,831**	**$ 346,350**

The year-end balances in the Attorney General Settlement Fund consisted of one residual settlement and one case awaiting court determination as of June 30, 1998 and June 30, 1999, totaling $9,346 and 9,831, respectively.

CONDITION OF RECORDS

Our examination of the records of the Office of the Attorney General disclosed matters of concern requiring disclosure and Agency attention.

Prompt Deposit of Receipts:

Background: During the audited period, the Office received and deposited \$9,729,357 and \$2,903,793, for the fiscal years ended June 30, 1998 and 1999, respectively.

Criteria: Section 4-32 of the General Statutes requires that receipts of \$500 or more be deposited within 24 hours. Receipts of lesser amounts may be held until they equal \$500, but for not more than 7 calendar days. The Office received an additional 24 hour waiver from the Treasurer for certain deposits forwarded to other Agencies for deposit.

Condition: Our test of deposits disclosed that 19 of 76 deposits, ranging in amounts of up to \$25,000, were made one to 17 days late during the audit period. The total of such exceptions was \$53,790.24. Our review of the Office's Cash Receipts Journals noted 13 late deposits ranging in amount from \$10,000 to \$100,000 that were deposited one to 12 days late. These exceptions totaled \$450,255.27.

Effect: Receipts are not always deposited in a timely manner as required by Section 4-32 of the General Statutes. We reported the late deposits noted above to the Governor and other State Officials on June 29, 2000.

Cause: A significant portion of the revenues and receipts of the Office are from various legal actions that result in settlements and judgements. These receipts need to be processed through the applicable legal division within the Office. This often results in a one to two day delay in completing the receipting process. Delays beyond one to two days appear to be caused by the untimely transmittal of receipts from the legal divisions.

Recommendation: The Office should request a one to two day waiver of the deposit requirements from the Treasurer to cover the time required for the legal divisions to properly process settlements and judgements. The Office should revise its procedures so that cash receipts can be deposited within the period required by Section 4-32 of the General Statutes as amended by any waiver obtained. (See Recommendation 1.)

Agency Response: "We acknowledge that some receipts have not been timely deposited. As noted in your condition of records section, these delays occurred because these receipts are the result of legal actions and must be processed through the legal department handling the case before being sent to the business office for deposit.

We will request a two-day extension of the deposit requirements from the Treasurer for all receipts which must be processed through our legal departments. In addition, we will institute a system of issuing warning notices to any department that submits receipts to the business office later than required, so that the practice does not continue."

Property Control:

Background: The Office maintains an inventory of equipment and supplies. The total amounts reported at June 30, 1998 and 1999, were $3,914,464 and $4,430,860, respectively.

Criteria: The Office is required to report its equipment and other fixed assets annually on a "Fixed Assets/Property Inventory Report/GAAP Reporting Form" (CO-59.) Subsidiary records must be maintained to support the amounts reported. Amounts added and deleted to/from such records should agree with purchasing and disposal records.

Condition: During our review we noted the following:

- A portion of a new telephone system was added to Office inventory records twice.
- Two personal computers that were purchased were not added to the Office's inventory records.
- In total, additions to the inventory records did not agree with purchased equipment items during the audited period.
- Subsidiary lists of items were not maintained to support amounts reported on the annual inventory report at fiscal years' end.

Cause: The Office did not verify amounts added into its inventories to amounts expended for such items.

Effect: The Office can not clearly support the amounts it reports on its annual inventory report. We noted that equipment purchased during the 1997-1998 and 1998-1999 fiscal years was $387,982 and $1,394,534, respectively. Amounts added to Office inventory records for the same two fiscal years was $424,107 and $1,280,338, respectively. The difference noted during the 1998-1999 fiscal year was due to the posting of certain items to an alternate asset category. However, the difference of $36,125 noted during the 1997-1998 fiscal year could not be identified.

Recommendation: Care should be taken to ensure that subsidiary records support the amounts added and deleted from Office inventory records, and that amounts in total are supported with subsidiary lists of such items. (See Recommendation 2.)

Agency Response: "We agree that our office must exercise more diligence in assuring that additions to the inventory match purchases, and intend to do so in the future."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Office should require that fee rates, billing methods and required record keeping for "subcontractor" be included within executed personal service agreements. The Business Office should receive copies of the agreements so invoices may be verified for propriety prior to payment.** Our review disclosed that the Office amended its personal service agreement format to address this recommendation. Our current expenditure testing did not disclose any new contracts similar in nature to the one that resulted in this recommendation. We are therefore not repeating this recommendation.

- **The Office should revise its procedures so that cash receipts can be deposited within the period required by Section 4-32 of the General Statutes.** Our current revenue and receipt testing indicated that there has been no improvement in this area. We are, therefore, repeating this recommendation. (See Recommendation 1).

- **The Office should improve its efforts to review expenditure reports before such reports are submitted.** The Office amended the expenditure reports in question and a substantial recovery of the underreported expenditures was made. Our current review disclosed no errors. We are, therefore, not repeating this recommendation.

- **Procedures for maintaining inventory records should be improved and reporting standards should be adhered to.** While we noted some improvement over property control records, deficiencies continue to exist. (See Recommendation 2.)

Current Audit Recommendations

1. **The Office should request a one to two day waiver of the deposit requirements from the Treasurer to cover the time required for the legal divisions to properly process settlements and judgements. The Office should revise its procedures so that cash receipts can be deposited within the period required by Section 4-32 of the General Statutes as amended by any waiver obtained.**

Comment:

Our test of deposits disclosed that 19 of 76 deposits, ranging in amounts of up to $25,000, were made one to 17 days late during the audit period. Our review of the Office's Cash Receipts Journals noted an additional 13 late deposits ranging in amount from $10,000 to $100,000 that were deposited one to 12 days late.

2. Care should be taken to ensure that subsidiary records support the amounts added and deleted from Office inventory records, and that amounts in total are supported with subsidiary lists of such items.

Comments:

During our review we noted that, in total, additions to the inventory records did not agree with purchased equipment items. A portion of a new telephone system was added to Office inventory records twice and two personal computers that were purchased were not added to the Office's inventory records at all.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Office of the Attorney General for the fiscal years ended June 30, 1998 and 1999. This audit was primarily limited to performing tests of the Office's compliance with certain provisions of laws, regulations, and contracts, and to understanding and evaluating the effectiveness of the Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, and contracts applicable to the Office are complied with, (2) the financial transactions of the Office are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Office are safeguarded against loss or unauthorized use. The financial statement audits of the Office of the Attorney General for the fiscal years ended June 30, 1998 and 1999, 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 generally accepted auditing standards and the standards applicable to financial-related 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 Office of the Attorney General complied in all material or significant respects with the provisions of certain laws, regulations, and contracts and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, and contracts applicable to the Office of the Attorney General is the responsibility of the Office of the Attorney General's management.

As part of obtaining reasonable assurance about whether the Office complied with laws, regulations, and contracts, 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 Office's financial operations for the fiscal years ended June 30, 1998 and 1999, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

Our consideration of the internal control over the Office's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, and contracts or failure to safeguard assets that would be material in relation to the Office's financial operations of noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Office being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving internal control over the Office's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

CONCLUSION

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

John A. Rasimas
Principal Auditor

Approved:

Kevin P. Johnston Auditor of Public Accounts	Robert G. Jaekle Auditor of Public Accounts

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