

STATE OF CONNECTICUT



**AUDITORS' REPORT
OFFICE OF THE ATTORNEY GENERAL
FISCAL YEARS ENDED JUNE 30, 2012 AND 2013**

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

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AUDITORS' REPORT OFFICE OF THE ATTORNEY GENERAL FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013

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

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

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

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United

States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

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

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

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Office of the Attorney General.

COMMENTS

FOREWORD

The Attorney General is an elected state officer whose duties are set forth in Title 3, Chapter 35 of the Connecticut General Statutes. The Attorney General is the chief civil legal officer of the state, serves as legal counsel to all state agencies and is authorized to represent the people of the state to protect the public interest. George Jepsen served as the Attorney General during our audited period.

The mission of the office is to represent and advocate for the interests of the state and its citizens, ensure that state government acts within the law, protect public resources for present and future generations, preserve and enhance the quality of life for all state citizens, and ensure that the rights of the most vulnerable citizens are safeguarded. The office is divided into 15 departments that serve as legal counsel to state agencies which provide particular categories of service to state residents. The departments are:

Antitrust	Finance & Public Utilities
Child Protection	Health and Education
Civil Rights/Torts	Health Care/Whistleblower/ Health Care Advocacy
Collections and Child Support	Transportation, Housing & Public Works
Consumer Protection	Special Litigation
Employment Rights	Public Safety & Special Revenue
Energy	Workers' Compensation & Labor Relations
Environment	

Legislative Changes

There were no legislative changes with any significant effect on the operations of the Office of the Attorney General during the audited period.

RÉSUMÉ OF OPERATIONS

Revenues

Revenues for the Office of the Attorney General by fund are shown below:

	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
General Fund	\$ 9,699,410	\$ 4,882,287	\$ 12,865,081
Federal and Other Restricted Accounts Fund	128,167	100,000	4,007,772
Total Revenues Listed by Fund	<u>\$ 9,827,577</u>	<u>\$ 4,982,287</u>	<u>\$ 16,872,853</u>

General Fund receipts fluctuate due to large settlements that vary from year to year. The largest source of revenue during the 2012-2013 fiscal year was from settlements with law firms that represented banks, pharmaceuticals, and internet companies. The Federal and Other Restricted Accounts Fund increased significantly during the 2012-2013 fiscal year due to a large joint multi-state/federal settlement with banks. Revenues for the Office of the Attorney General by revenue account are shown below:

	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Negotiated Settlements	\$ 8,705,396	\$ 3,565,589	\$ 5,785,150
Civil Penalties for Court Judgements	169,624	549,610	3,366,315
Recoveries for Attorney Fees	699,265	756,280	3,650,450
Other Revenues	253,292	110,808	4,070,939
Total Revenues listed by Accounts	<u>\$ 9,827,577</u>	<u>4,982,287</u>	<u>\$ 16,872,853</u>

Office of the Attorney General revenues vary from year to year, depending on the number of cases and the settlement amount. Civil penalties totaling \$3,139,549 for court judgments increased during the fiscal year ended June 30, 2013 due to penalties received from a pharmaceutical company. The increase for other revenues was due to a joint multi-state/federal settlement in which over \$3,235,000 was collected in the 2012-2013 fiscal year.

Expenditures

Expenditures by fund and account for the Office of the Attorney General are shown below:

	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
General Fund	\$ 27,779,542	\$ 28,415,008	\$ 29,289,010
Federal and Other Restricted Accounts Fund	471,735	275,802	3,034,444
Capital Equipment Fund	46,873	131,760	13,764
Total Expenditures Listed by Fund	<u>\$ 28,298,150</u>	<u>\$ 28,822,570</u>	<u>\$ 32,337,218</u>

The General Fund expenditures generally represent personal services for employees providing legal services to other state agencies. Total expenditures from the General Fund increased 2.3 and 3.1 percent due mostly to increases in personal services during the audited period and an increase in purchases of capital equipment during the 2012-2013 fiscal year. The Federal and Other Restricted Accounts Fund includes several smaller accounts that are used to record expenses incurred on behalf of specific types of cases, which include consumer protection, client agency costs, capital equipment purchases and the Second Injury Fund. Also within this fund category, law firms providing specialized services are paid using amounts transferred by the agency that required the specialized service. These amounts are netted within the Federal and Other Restricted Accounts Fund above and show as an expenditure on the related state agency's accounting records. The expenditures for the law firms that provided specialized services to the state totaled \$2,182,248 and \$2,047,724 for fiscal years ended June 30, 2012 and 2013, respectively.

	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Personal Services & Employee Benefits	\$ 26,786,422	\$ 27,481,249	\$ 28,064,110
Employee Expenses, Allowance & Fees	151,971	195,294	198,111
Purchases & Contracted Services	851,509	607,075	686,321
Information Technology	209,131	180,509	312,594
Premises & Property Expenses	119,635	74,421	98,090
Purchase Commodities	114,415	131,720	111,571
Capital Outlay Equipment	48,131	133,705	65,769
Motor Vehicle Cost	16,935	18,598	16,654
Grant Refunds	-0-	-0-	2,785,000
Total Expenditures by Accounts	<u>\$ 28,298,150</u>	<u>\$ 28,822,570</u>	<u>\$ 32,338,218</u>

Total expenditures increased 1.9 and 12.2 percent for the fiscal years ended June 30, 2012 and 2013, respectively. Personal services and employee benefits increased 2.5 and 2.1 percent for the fiscal years ended June 30, 2012 and 2013, respectively. The increase is due to part-time employees transferring into full-time positions. Information technology decreased 13.7 and increased 73.2 percent for the fiscal years ended June 30, 2012 and 2013, respectively. The increase in information technology is due to the purchase of licenses for software. For fiscal year 2012-2013, grant refunds totaling \$2,785,000 were received from a mortgage foreclosure settlement, which the Office of the Attorney General disbursed to several agencies.

Second Injury Fund Costs

All expenses incurred by the office on behalf of the Second Injury Fund for the State Treasurer's Office shall be paid from the Second Injury and Compensation Assurance Fund in accordance with Section 31-355 subsection (d) of the General Statutes. Personal services for employees charged directly to the Treasurer's Second Injury Fund totaled \$1,903,128 and \$1,767,025 for the fiscal years ended June 30, 2012 and 2013, respectively.

Funds Awaiting Distribution and Escrow Account for Settlements

The Funds Awaiting Distribution Fund and an escrow account were used to account for the collection and distribution of settlements due to the office, other state agencies, or consumers. The Funds Awaiting Distribution Fund is a suspense account for receipts awaiting final distribution to consumers. The escrow account is a bank account that is used to deposit receipts when there are contingencies in a case for which the outcome is dependent on factors yet to occur. Distributions are made in accordance with the corresponding court orders. The Funds Awaiting Distribution Fund's balances for the fiscal years ended June 30, 2012 and 2013 were \$45,880 and \$54,779, respectively. The escrow account's balances for the fiscal years ended June 30, 2012 and 2013 were \$34,111 and \$34,251, respectively.

Capital Equipment Purchase Fund

The office made expenditures from the Capital Equipment Purchase Fund totaling \$131,760 and \$13,764 during the fiscal years ended June 30, 2012 and 2013, respectively. The office upgraded its computer networking system during the fiscal year ended June 30, 2012 totaling \$131,760.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of the Office of the Attorney General records revealed the following areas requiring improvement.

Payroll/Personnel – Leave Accruals, Termination Payments

Criteria: Section 5-251 of the General Statutes requires that employees receiving compensation benefits shall continue to accrue their regular sick and vacation leave for the first twelve months. After that, the employee shall accrue based on the ratio of time worked in accordance with regulations issued by the Commissioner of the Department of Administrative Services.

Section 5-252 of the General Statutes authorizes permanent employees leaving state service to receive a lump sum payment of their accrued vacation time.

Condition: Our review of the time and attendance records of 20 employees disclosed that two part-time employees were accruing leave at the incorrect rate. One employee's sick and vacation leave balances were understated by 19 hours and 23 hours, respectively. The second employee's vacation leave balance was overstated by 38 vacation hours as of June 30, 2013.

During our review of termination payments, we found that two out of ten employee payments were inaccurate. One employee was overpaid vacation leave totaling \$521 and the other was underpaid vacation leave totaling \$483.

Cause: There appears to be a lack of managerial oversight over part-time employee time and attendance records.

Effect: Without proper oversight, there is less assurance that part-time employees are accruing leave at the correct rate and being paid correctly at termination.

Recommendation: The Office of the Attorney General should improve administrative controls over the processing of employee leave accruals and termination payments. (See Recommendation 1.)

Agency Response: "Upon review of the employees' incorrect leave balances and termination payments, we agree with the auditors' calculations. The employee who experienced an understatement in their accrual leave balance had been out

on a very complex worker's compensation claim. Due to the complexity of the case, several workers' compensation payments made by the carrier were calculated incorrectly and since these payments were supplemented with accruals, the accruals as a result were incorrect. This employee has since retired, adjustments were made and the employee was made whole at the time of retirement.

We are in the process of working with the employee whose vacation leave balance is overstated to correct the error. The terminated employees whose leave balances were paid out incorrectly are being contacted in order to rectify the miscalculated termination payments.

The HR [Human Resources] Manager now runs random audit reports on employees' leave accruals providing an independent review of data entered by the payroll department. We are also anticipating the implementation of the Core-CT Self-Service module which will help eliminate these incorrect accrual issues.”

Payroll-Personnel – Agency Voluntary Leave

Criteria: Section 5-248 (c) of the General Statutes states that a voluntary schedule reduction program allows permanent state employees to take unpaid time off, upon the approval of the appointing authority without the loss of seniority, benefits, longevity, retirement credit, sick leave, vacation or earned overtime.

Section 5-248c-2 of the State Personnel Regulations requires that the permanent employee submit a request for a schedule reduction to the appointing authority with the starting and ending dates and the number of hours of leave requested. The appointing authority shall approve or deny the request in a timely manner. Upon approval of the schedule reduction, the agency is required to record and identify all voluntary leave time in its time and attendance records.

Condition: In our testing of the work schedules of 20 employees, we found two instances in which employees were granted a reduced work schedule. However, the employee leave requests and management approvals were not documented in agency records. Also, the employee reduction schedules are not reported or coded into Core-CT; therefore making it difficult to calculate the employees' actual service time for retirement.

Cause: Management has not implemented a formal voluntary schedule reduction program and has chosen not to utilize the Core-CT Human Resource Management system (HRMS) module to record employee unpaid leave time or part-time status.

Effect: Employee credited years of service and accruals affecting retirement and termination payments may not be accurate.

Recommendation: The Office of the Attorney General should develop a formal schedule reduction program and document employee unpaid leave time or part-time status in Core-CT. (See Recommendation 2.)

Agency Response: “Implementation of an official Voluntary Schedule Reduction Program is currently under review. At this time we allow for a part-time work schedule in cases of employees returning from a medical leave of absence, including maternity leave for a short duration of time. These situations do not require the coding of unpaid leave time, as the employee is essentially part-time and not on a true reduced work schedule. We agree these employees' positions should be converted from full-time to part-time in Core-CT per GL 217-A for the duration of the part-time assignment. Our revised office manual addresses procedures for requesting a schedule reduction.”

Core-CT System Access Controls

Criteria: A good internal control system requires separation of duties among payroll and human resources personnel. The Core-CT Change Management Team’s Combined Human Resources Management System (HRMS) Role Assessment Handbook emphasizes that agencies should not request that the Agency HR Specialist role be assigned to an employee who has either the Agency Payroll Specialist or Agency Time and Labor Specialist roles. Access to any combination of those roles could allow an individual to hire and pay someone inappropriately and without oversight. The Agency HRMS Security Liaison Role is responsible for monitoring all authorized access to the Core-CT HRMS application assigned to agency personnel. Access should be granted to employees to complete their work assignments. To ensure separation of duties and reduce the risk of error and fraud in the payroll and human resources roles, the same employee should not authorize, record, and review transactions.

In addition, a good internal control system requires the immediate deactivation of access to the Core-CT system once an employee has terminated from state service.

Condition: During our review of access to the state’s Core-CT information system, we noted two instances in which employees were provided access to the Agency HR Specialist role and the Agency Payroll Specialist and/or Time and Labor Specialist roles. This includes the chief administrative officer, who oversees both the payroll and personnel departments.

We noted one instance in which an employee who left state service in 2009 was still listed as an active employee as of June 30, 2014.

Cause: Management overrode automated controls within Core-CT by requesting that certain security access be maintained at its current level.

Effect: The risk of impropriety is increased if automated controls are not used and roles are not segregated and monitored. An employee with written access to both the payroll and human resources functions can add individuals to the payroll and process payment to them without detection.

Recommendation: The Office of the Attorney General should adhere to the established segregation of duties between payroll and personnel functions within Core-CT. In addition, terminated employees should become inactive in Core-CT the day they leave state service. (See Recommendation 3.)

Agency Response: “We understand the auditor's concern regarding the HRMS roles. Unfortunately, the agency is considered one which is relatively small in size, with only one individual to process payroll actions and one individual to process HR actions. With no other employees at the agency to provide backup in these key areas, the Chief Administrative Officer [CAO] and the HR Manager were granted dual roles by the Core-CT HRMS team after the agency provided acceptable justification to the Core-CT HR Lead Manager. Our HR Manager is the primary back-up for payroll and also must enter any payroll changes that directly affect the Payroll Clerk including her bi-weekly attendance. The CAO is the primary back-up for HR and also must enter any human resources changes that affect the HR Manager. With the retirement of the CAO in September 2014, the agency has determined that CAO’s replacement would only need the HR roles, so the payroll roles have been removed. In a small agency, with even smaller administrative support, these combinations of roles, while not optimal, are necessary for efficient management of our responsibilities. The current CAO is kept informed at all times of the work being performed by the CAO’s staff. Transaction reports are printed for each pay cycle and compared with employee job data to ensure that all transactions are accurate, necessary and appropriate. The CAO reviews the reports and signs that an independent review has been completed for each pay period.

The terminated employee who was still active in Core-CT never received any payment nor benefits after the authorized leave expired. This employee has now been terminated in Core-CT.”

Recording, Reconciling, and Reporting of Receivable Accounts

Criteria: The State Accounting Manual sets forth the procedures to account for receivable amounts and the management of the Office of the Attorney

General is responsible for establishing and maintaining effective internal controls. Internal controls should provide for proper documentation of transactions, reconciliation of accounts, timely collection efforts, write-off of uncollectible accounts and accurate reporting to the Office of State Comptroller.

Condition: During the review of receivables, we found that the Office of the Attorney General did not accurately record, reconcile, and report receivables to the Office of the State Comptroller. We noted inconsistencies between the collecting, monitoring, and write-off of the receivables and uncollectible accounts. The long-term receivables were overstated by approximately \$3,300 and all the receivables were not included on the aging report. We also noted some of the receivables were outstanding for up to 30 years.

Cause: As disclosed in the prior audits, management has not established effective internal controls to manage receivables.

Effect: There is an increased risk that receivables are neither accounted for nor properly reported.

Recommendation: The Office of the Attorney General should improve internal controls over the recording, reconciling, billing, and write-off of uncollectible accounts. (See Recommendation 4.)

Agency Response: “We are confident that all receivables were accounted for and reported in our GAAP report submitted to the Office of the State Comptroller. Each legal department is canvassed prior to preparation of the GAAP report to identify all open receivables. Additionally, we have a new case tracking and document management system which tracks all receivables resulting from court judgments. This combination will ensure complete accuracy in our reporting of receivables on the GAAP report.

We agree that there were some minor inconsistencies in the amounts reported due to calculation errors. All math computations have been verified and corrected. Additionally, all receivables are now included on our aging report. We have added 2 columns to this report, one for funds owed to the State of Connecticut and the other for funds held for the benefit of other outside parties. This will help clarify the difference between the total receivable balance and the receivable balance reported on our GAAP report. Going forward all receivables will be included on our aging report regardless of disposition.

Our legal departments have been working diligently on the collection and/or write-off of their receivables and uncollectible accounts per our agency collection policy and the Office of the State Comptroller's

Memorandum No. 2000-15. The Business Office is monitoring each department to ensure this policy is being implemented and followed.”

Inventory Records

- Criteria:* Section 4-36 of the General Statutes requires an agency to establish and keep an inventory account as prescribed by the Office of the State Comptroller. The State Property Control Manual specifies requirements and standards that state agency property control systems must comply with, including maintaining a software inventory and tagging, recording and maintaining capital assets and controllable property in the Core-CT Asset Management module. Assets with a cost of \$1,000 or more are capitalized and, when applicable, property with a unit cost of less than \$1,000 is recorded as controllable. The agency is required to transmit annually to the Office of the State Comptroller the property control report (CO-59), which is the detailed inventory of all property, real or personal, owned by the state and in custody of such agency.
- Condition:* The inventory records of the Office of the Attorney General were inaccurate for the fiscal year ended June 30, 2013. We found that capitalized purchases totaling \$8,006 were not included in the inventory records, and discarded software totaling \$6,452 was not deleted from the inventory records.
- Cause:* It appears that managerial oversight of the CO-59 preparation has been lacking.
- Effect:* The lack of accurate property control records increases the risk of loss and theft of state property.
- Recommendation:* The Office of the Attorney General should improve internal controls over inventory and comply with the requirements of the State Property Control Manual. (See Recommendation 5.)
- Agency Response:* “We agree that capitalized purchases totaling \$8,006 were not included on the inventory report. These assets were properly tagged and accounted for but were never intergraded into the Core-CT asset module due to a clerical error. Procedures are in place to ensure that all capitalized purchases are intergraded into the asset module and that the asset module is reconciled to the financial module; therefore, avoiding this error in the future. Software totaling \$6,452 which was disposed of in 2011 has now been removed from the inventory. Procedures are in place to ensure that our IT staff notifies the Business Office when software is removed from use.”

RECOMMENDATIONS

Our prior audit report on the Office of the Attorney General contained three recommendations for improving operations, of which three were repeated or restated with modifications during our current audit. Our current audit report presents five recommendations, including two new recommendations.

Status of Prior Audit Recommendations:

- The Office of the Attorney General should adhere to established controls within Core-CT, prepare an adequate disaster recovery plan, and update its records retention schedule. We found that the Office of the Attorney General has prepared an adequate disaster recovery plan and has updated its records retention schedule. This recommendation will be repeated with modifications. (See Recommendation 3.)
- The Office of the Attorney General should implement effective internal controls for the accounting and reporting of its receivable balances. We found this condition has not been resolved and will be repeated. (See Recommendation 4.)
- The Office of the Attorney General should comply with the State Property Control Manual when disposing of inventory items, and should maintain segregation of duties and its inventory records accordingly. While the office did include the omitted item that we reported in our prior audit, we found other errors in the office's inventory records. This recommendation will be repeated with modifications. (See Recommendation 5.)

Current Audit Recommendations:

- 1. The Office of the Attorney General should improve administrative controls over the processing of employee leave accruals and termination payments.**

Comment:

Our review disclosed a number of payroll deficiencies, including improper termination payments and improper leave balances.

- 2. The Office of the Attorney General should develop a formal schedule reduction program and document employee unpaid leave time in Core-CT.**

Comment:

Our review disclosed that the Office of the Attorney General does not have a schedule reduction program in place and does not document employee unpaid leave or part-time schedules in Core-CT.

- 3. The Office of the Attorney General should adhere to the established segregation of duties between payroll and personnel functions within Core-CT. In addition, terminated employees should become inactive in Core-CT the day they leave state service.**

Comment:

Our review disclosed that two employees were given the ability to override the established segregation of duties between the payroll and personnel functions within Core-CT. In addition, an employee who was terminated from state service in 2009 still had access to Core-CT at the close of our audit.

- 4. The Office of the Attorney General should improve internal controls over reconciling, billing, collection efforts, and write-off of uncollectible accounts.**

Comment:

Our review disclosed that the Office of the Attorney General did not establish effective controls over the reconciling and write-off of uncollectable accounts dating back 30 years.

- 5. The Office of the Attorney General should improve internal controls over inventory and comply with the requirement of the State Property Control Manual.**

Comment:

Our review disclosed two errors in the preparation of the CO-59 Fixed Assets/Property Inventory Report.

CONCLUSION

In 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.



Kathrien E. Williams
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts