STATE OF CONNECTICUT

AUDITORS' REPORT
STATE COMPTROLLER
DEPARTMENTAL OPERATIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000

AUDITORS OF PUBLIC ACCOUNTS

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December 5, 2001

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000

We have made an examination of the financial records of the State Comptroller as they pertain to the Agency's departmental operations for the fiscal years ended June 30, 1999 and 2000. We have included in that examination the records of the Office of the Claims Commissioner, which is within the Office of the State Comptroller for administrative purposes only. We have excluded from that examination the records of various retirement funds and related General Fund appropriations inasmuch as such funds and appropriations have been covered under separate audit. This report on that examination consists of the Comments, Recommendations and Certification, which follow.

Financial statements pertaining to the operations and activities of the State Comptroller's departmental operations for the fiscal years ended June 30, 1999 and 2000, are presented on a Statewide Single Audit basis to include all State agencies and funds. This audit has been limited to assessing the State Comptroller's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the State Comptroller's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The State Comptroller operates primarily under the provisions of Article Fourth, Section 24, of the State Constitution and Title 3, Chapter 34 of the General Statutes. A description of the major functions of the Department, during the audited period, by division is presented below:

State Comptroller's Executive Office:

Provides overall policy direction and program and project monitoring for the Department, as well as oversees the Agency's personnel and payroll function. Personnel Services implements State personnel, labor relations and Workers' Compensation standards and procedures and carries out the payroll function for the Agency.

Accounts Payable Division:

Post-audits the validity, propriety and legality of the State's submitted claims and makes payment in accordance with the General Statutes and regulations established by the State's expending authorities. The Accounting Support Group develops, implements and maintains the Statewide computer-based accounting system for all State agencies and all divisions of the Office of the State Comptroller.

Budget and Financial Analysis Division:

Performs the State's accounting and financial reporting functions, records and analyzes State receipts and expenditures, reports monthly on the State's budget, projects the State's fiscal condition, determines direct and indirect overhead costs to State agencies and prepares the Statewide Cost Allocation Plan.

Information Technology Division:

Provides computer processing, technical and application support for the operating divisions within the Comptroller's Office and has completed the Comptroller's Data Processing Disaster Recovery Plan. The Division's Internet Group is responsible for developing and maintaining the Comptroller's Internet website.

Management Services Division:

Business Services – prepares, analyses and monitors the Agency's budgeting, accounting, accounts payable and procurement functions and is responsible for maintaining the inventory of the State's real and personal property for insurance and accounting purposes.

Support Services – maintains the Agency's inventory, provides management oversight for State employees' travel and manages the Statewide tuition reimbursement program.

Payroll Services Division:

Provides the Statewide pre-audit of all agency payrolls, the payments of all earnings and salaries to State employees, and the withholding of mandatory taxes and authorized voluntary deductions.

Policy Services Division

Policy Review Unit – assists in the development of accounting and payroll system procedures and conducts various other accounting and regulatory functions for the Department and State agencies.

Compliance Review Unit – conducts independent audits of other State agencies, reviews purchasing card activities and performs agency internal control information system reviews.

Retirement and Benefit Services Division:

Processes the required actions and maintains the records and accounts of the various retirement plans administered by the State Employees' Retirement Commission. It provides counseling services to members, administers State employee deferred compensation, dependent care assistance, group life and health insurance programs, and manages the State unemployment compensation accounts.

OFFICERS:

During the 1998-1999 and 1999-2000 fiscal years, the officers of the Office of the Comptroller were as follows:

State Comptroller:	Nancy S. Wyman
Deputy Comptroller:	Mark E. Ojakian

RÉSUMÉ OF OPERATIONS:

State General Fund - Departmental Operations

General Fund departmental receipts totalled $15,193,578 and $18,142,673 during the 1998-1999 and 1999-2000 fiscal years, respectively. A summary of these receipts, together with those of the preceding fiscal year, is presented below:

	Fiscal Years		
Departmental Receipts:	**1997-1998**	**1998-1999**	**1999-2000**
Recoveries of Expenditures:			
Unemployment compensation	$1,639,006	$1,033,950	$ 169,600
Indirect Overhead – Federal Projects	8,201,625	9,259,820	9,315,140
Workers' compensation	2,869,252	1,942,047	1,867,530
Employee fringe benefits:			
Judges' and Compensation Commissioners' Retirement Plan	53,243	46,321	1,918
Excess retirement system funding costs	1,990,172	1,056,611	3,735,248
Teachers' Retirement Plan	501,649	589,161	513,607
Teachers' Retirement Plan – net other, Prior Year	(404)	(18)	1,187
Hazardous Duty Employees	838,189	673,215	882,353
Hazardous Duty Employees – Prior Year	138,858	72,627	151,521
Miscellaneous recoveries	18,954	4,690	4,998
Refund of Expenditures:			
Current Year	4,028	2,060	4,425
Prior Year	76,185	203,965	157,797
Principal on Loan	75,000	75,000	75,000
Loan Agreement Income	101,063	95,813	90,563
Insurance Reimbursements	313,983	66,972	482,764
Municipal/Probate Retirement Administration	23,611	27,651	20,449
Grants – Other than Federal – Transferred	614,976	40,872	665,760
All Other Revenue	8,103	2,821	2,813
Total Departmental Receipts	**$17,467,493**	**$15,193,578**	**$18,142,673**

The departmental receipts shown above primarily consisted of excess funding of retirement system costs, workers' compensation costs, fringe benefit and indirect costs, charged initially to the

State General Fund, but subsequently reimbursed from Federal and other-than-Federal General Fund restricted accounts and/or other State funds. These costs are recovered through the Comptroller's Office primarily via the State payroll system, on the basis of reports filed by State agencies with each agency payroll. Fluctuations in agency receipts were caused primarily by changes in the cost recovery rates, increases in the recoveries of retirement system funding costs credited directly to the State Employees' Retirement Fund and changes in the amount of salaries charged to Federal restricted accounts and State funds other than the General Fund. Restricted contributions received during the audited period consisted of State grants for employee education costs covered by union contracts.

Fringe benefit costs consist of the employer's share of unemployment compensation, workers' compensation, retirement system administration, State employees', hazardous duty employees', Judges and Compensation Commissioners', Teachers' and Alternate Retirement system funding, Social Security, group life insurance and medical insurance costs. Fringe benefit recoveries for unemployment compensation, workers' compensation, retirement system administration, and Teachers' retirement system funding costs are reflected on the preceding schedule, as are indirect overhead cost recoveries from State agencies using salaries and wages as their approved indirect cost base.

Fringe benefit recoveries for group life insurance, medical insurance (health service cost), and Social Security costs are, for the most part, credited to the special appropriation accounts used to finance the employer's share of such costs. These credits are processed by either refund of expenditure receipts or expenditure transfer credits. A smaller amount of prior year refund of expenditure receipts are usually also processed; however, these are not applied as a reduction of current year expenditures. Additional comments on these recoveries are presented further on in this report in our comments on each of these special appropriation accounts.

Recoveries of retirement system funding costs, used to help meet the State's required funding obligation to the State Employees' Retirement Fund, totalled $124,140,475 and $145,925,437 during the 1998-1999 and 1999-2000 fiscal years, respectively. These recoveries were credited directly to the retirement fund. Additional recoveries totalled $19,746,184 and $22,218,957 during the 1998-1999 and 1999-2000 fiscal years, respectively, for the State share of contributions to the Higher Education Alternate Retirement Program, were credited to the special appropriation account used to finance the State's contribution to that program. In instances where recoveries exceed the amount required to meet the State funding obligation to the State Employees' Retirement Fund, recoveries are credited by the Comptroller to the General Fund. For the 1998-1999 and 1999-2000 fiscal years such excess funding totalled $1,056,611 and $3,735,248, respectively.

Additional fringe benefit recoveries, which are processed outside of the Comptroller's payroll procedures, are credited to the Comptroller's Fringe Benefit Recovery Fund. Additional comments on these recoveries and the operations of the Fringe Benefit Recovery Fund are presented further on in this report.

All of the aforementioned fringe benefit costs, except for workers' compensation, have been combined into a Statewide rate expressed as a percentage of gross salaries and wages on covered payrolls. The Comptroller's Budget and Financial Analysis Division calculates this Statewide fringe benefit recovery rate, as well as several different rates for various employee classifications, which depend on the type of retirement participation and the applicability of other fringe benefit items. These rates are calculated annually as part of the Statewide cost allocation plan and are approved by the Federal government for application against salaries paid from Federal funds.

A comparison of the Statewide rates used during the audited period and the preceding fiscal year are presented below:

	Fiscal Years		
Rate Components	**1997-1998**	**1998-1999**	**1999-2000**
Full-time Employees:			
State Employees Retirement System (SERS)			
– regular employees	17.79%	19.38%	22.53%
Unemployment compensation	0.29%	.16%	.00%
Group life insurance	0.14%	.13%	.15%
FICA – Social Security	7.33%	5.31%	6.02%
FICA – Medicare	*	1.27%	1.45%
Medical insurance	10.30%	9.30%	11.13%
Total Statewide Fringe Benefit Recovery Rate	**35.85%**	**35.55%**	**41.28%**
Other Employee Classifications:			
Judges/Compensation Commissioners	54.06%	44.56%	44.06%
SERS hazardous duty employees	19.17%	19.97%	21.06%
Alternate retirement plan	8.12%	8.83%	8.67%
Teachers' retirement plan	17.83%	16.38%	16.06%

* FICA information not split into two categories until FY 1998-1999

Fringe benefit costs are recovered by applying these rates to gross salaries and wages that are chargeable to Federal and other-than-Federal General Fund restricted accounts and/or other State Funds, besides the General Fund.

Net General Fund expenditures for the Comptroller's departmental operations totalled $15,678,763 and $16,811,561, for the 1998-1999 and 1999-2000 fiscal years, respectively. A summary of these expenditures, together with those of the preceding fiscal year, is presented below:

	Fiscal Years		
	1997-1998	**1998-1999**	**1999-2000**
Personal services	$12,025,917	$12,800,015	$13,629,340
Contractual services	2,561,534	2,576,788	2,589,012
Commodities	173,386	217,803	308,583
Sundry charges	40,537	59,587	90,136
State aid grants	19,570	19,570	19,570
Equipment*	4,999	5,000	174,920
Total Departmental Expenditures	**$14,825,943**	**$15,678,763**	**$16,811,561**

* Equipment purchases in a Special Revenue Fund amounted to $5,036 and $168,263 during the 1998-1999 and 1999-2000 fiscal years, respectively.

Total departmental expenditures increased by $852,820 and $1,132,798 for the 1998-1999 and 1999-2000 fiscal years, respectively. The increases were primarily attributable to increases in personal services charges. The $169,920 increase in equipment expenditures was mainly attributable to EDP hardware installment purchased in a State employees retirement data base account.

Special Appropriations Administered by the State Comptroller

In addition to the budgeted and restricted General Fund appropriation accounts, used by the Comptroller's Office to finance various departmental programs and activities, the Comptroller's Office also administers numerous nonfunctional General and Special Transportation Fund appropriation accounts. The Comptroller's Office also provides administrative services with regard to the maintenance of the appropriation accounts of the Office of the Claims Commissioner, as required by Section 4-142a of the General Statutes. A more detailed description of the activities funded by these special appropriation accounts is presented in the following paragraphs.

Office of the Claims Commissioner:

The Office of the Claims Commissioner operates primarily under the provisions of Sections 4-141 through 4-165b of the General Statutes. The Claims Commissioner has the statutory responsibility to hear and determine all claims against the State except for: 1) claims for the periodic payment of disability, pension, retirement or other employment benefits; 2) claims upon which suit otherwise is authorized by law; 3) claims for which an administrative hearing procedure otherwise is established by law; 4) requests by political subdivisions of the State for the payment of grants in lieu of taxes; and 5) claims for refunds of taxes. In addition, as provided for in Section 4-160, when the Claims Commissioner deems it just and equitable, he may authorize suit against the State on any claim which, in his opinion, presents an issue of law or fact under which the State, were it a private person, could be liable.

The Claims Commissioner is authorized by Section 4-151 of the General Statutes to call and examine witnesses, administer oaths, cause depositions to be taken, issue subpoenas and order the inspection and disclosure of books, papers, records and documents in order to adjudicate claims against the State. The Commissioner is required to hear all claims which exceed $5,000 but may, in accordance with Section 4-151a, as amended by Public Act 92-34, waive the hearing of any claim for $5,000 or less and proceed upon affidavits filed by the claimant and the State agency concerned.

As provided in Section 4-158 of the General Statutes, the Commissioner may approve immediate payment of claims not exceeding a set limit of $7,500. On claims exceeding this amount, the Commissioner is required by Section 4-159 to make a recommendation to the General Assembly, which may accept, alter or reject any such recommendation and grant or deny the claimant permission to sue the State. Payments of legislative awards for such claims may be paid from the resources of the State agency against which the claim is effective or charged to an appropriation provided to the State Comptroller for the settlement of adjudicated claims. Additional comments on these latter payments can be found further on in this report under the heading entitled "Adjudicated Claims."

A summary of expenditures of the Office of the Claims Commissioner for the audited period and the preceding fiscal year are presented below:

	Fiscal Years		
General Fund:	**1997-1998**	**1998-1999**	**1999-2000**
Personal services	$197,726	$184,172	$211,611
Contractual services	20,564	20,104	18,525
Commodities	4,073	1,288	1,871
Sundry charges-adjudicated claims	75,137	91,153	91,984
Equipment	7,405	-	-
Total General Fund	304,905	296,717	323,991
Special Revenue Fund – Equipment	-	4,136	-
Total Expenditures	**$304,905**	**$300,853**	**$323,991**

Total expenditures for the 1999-2000 fiscal year increased $23,138, due mainly to increases in personal services expenditures.

Section 4-147 of the General Statutes provides for payment of a fee for entry of a claim with the Office of the Claims Commissioner, unless the fee is waived by the Commissioner for good cause. Filing fees in the amount of $16,247 and $16,505 were collected during the fiscal years 1998-1999 and 1999-2000, respectively.

Judicial Review Council:

Section 51-51k of the General Statutes provides for a Judicial Review Council to be composed of the following: three judges of the Superior Court, three attorneys-at-law, six public members and thirteen alternate members. The Council is empowered to hear complaints about the conduct of judges, make investigations and censure or suspend judges if required. Members receive no compensation for their services but are entitled to reimbursement for reasonable expenses.

A summary of expenditures of the Council during the audited period and the preceding fiscal year is presented below:

	Fiscal Years		
General Fund:	**1997-1998**	**1998-1999**	**1999-2000**
Personal services	$106,205	$108,332	$114,491
Contractual services	16,566	13,771	15,243
Commodities	4,501	2,294	4,275
Sundry charges	305	580	135
Total General Fund	127,577	124,977	134,144
Special Revenue Fund – Equipment	-	3,288	-
Total Expenditures	**$127,577**	**$128,265**	**$134,144**

Total 1999-2000 Council expenditures of $134,144 increased $5,879 from the amount paid during the previous fiscal year, mainly for personal services.

Refunds of Payments:

Sections 4-37, 14-159, 22a-10 and other sections of the General Statutes authorize the State Comptroller to refund overpayment of fees paid by corporations and individuals and to refund moneys to persons equitably entitled to the refund of any money paid to the State. The financing of such refunds is provided by appropriation accounts within the General Fund, Special Transportation Fund and Insurance Fund.

Refunds processed and charged to these appropriations during the 1998-1999 and 1999-2000 fiscal years are shown below in total, by the agency requesting them, per business office records:

	Fiscal Years				
	1998-1999			1999-2000*	
	General Fund	Special Transportation Fund	Insurance Fund	General Fund	Special Transportation Fund
Dept. of Motor Vehicles	$	$1,601,809	$	$	$1,746,782
Attorney General	22,333			-	
Dept. of Consumer Protection	76,208			93,265	
Dept. of Environmental Protection	10,862			15,658	
Dept. of Insurance	7,006		111,109	14,053	
Judicial Department	84,218	43,402		70,302	42,211
Dept. of Public Health	26,413			24,978	
Secretary of the State	44,005			57,897	
All Other	12,883	66,624		16,383	68,022
Total Expenditures	**$283,928**	**$1,711,835**	**$111,109**	**$292,536**	**$1,857,015**

* There was no activity in the Insurance Fund during the 1999-2000 fiscal year.

Total expenditures amounted to $3,814,919, $2,106,872 and $2,149,551 during the 1997-1998, 1998-1999 and 1999-2000 fiscal years, respectively. The net decrease in expenditures of $1,708,047 during the 1998-1999 fiscal year was due primarily to the refund processed by the Office of the Attorney General, to the United States Department of Agriculture (USDA) stemming from audit exceptions upon which the USDA had made demand for repayment during the 1997-1998 fiscal year, offset by an increase of activity processed by the Department of Motor Vehicles.

Adjudicated Claims:

Under Section 3-7 of the General Statutes, the Governor may authorize the compromise of any claim against the State upon the recommendation of the Attorney General. Section 4-160 of the General Statutes provides for payments of claims based on court judgments entered against the State. In such cases, permission to file suit against the State must first be obtained from the State Claims Commissioner.

During the 1998-1999 and 1999-2000 fiscal years, a total of $4,943,423 and $6,036,504, respectively, was paid by the Comptroller towards the settlement of claims against the State. Most of these claims were the result of stipulated agreements or court judgments. A summary of the more significant court judgments and agreements follows:

Court Cases	Fiscal Years 1998-1999	1999-2000
Dillon v. Bailey	$1,500,000	$
Carpenter v. Johnson	1,140,000	
Mahoney, Admix. v. Cerino	250,000	
DCYS Monitoring Panel	607,000	591,437
Estate of Sarah Morse v. State of Connecticut		1,200,000
Malpa v. State of Connecticut		800,000
Kumnick and Freddo v. State of Connecticut		380,000
Nicholson v. State of Connecticut		270,000
Collier v. State of Connecticut Public Safety		253,545
All Others	1,446,423	2,541,522
Total Expenditures	**$4,943,423**	**$6,036,504**

The totals above represented a net decrease of $354,559 in expenditures during the 1998-1999 fiscal year and an increase of $1,093,081 during the 1999-2000 fiscal year.

Fire Training Schools and Maintenance of County Base and Statewide Fire Radio Networks:

Section 3-123e of the General Statutes authorizes the State Comptroller to disburse, in the form of grants, funds appropriated for the fire training schools, emergency communication centers and the maintenance of county base and Statewide fire radio base networks. Each grant is to be disbursed in equal quarterly amounts. After the close of the fiscal year, each organization shall submit audited reports to the State Comptroller concerning the disbursement of the grant funds. A comparative summary of grants disbursed by the Comptroller during the audited period and the preceding fiscal year is presented below:

	Fiscal Years 1997-1998	1998-1999	1999-2000
Fire Training Schools:			
Willimantic	$ 65,400	$ 78,480	$ 80,050
Torrington	48,100	52,910	53,970
New Haven	32,200	35,420	36,130
Derby	32,200	35,420	36,130
Wolcott	42,200	46,420	47,350
Fairfield	32,200	35,420	36,130
Hartford	57,000	62,700	63,950
Middlesex	25,000	27,500	28,050
Fire Radio Network:			
County base network maintenance	21,000	21,000	21,420
Statewide network maintenance	14,000	14,000	14,280
Total Net Expenditures	**$369,300**	**$409,270**	**$417,460**

Emergency Communication Centers activity since the 1996-1997 fiscal year was processed by the Department of Public Safety in its Enhanced 9-1-1 Telecommunications Fund account.

Connecticut State Police Association:

Section 3-122 of the General Statutes authorizes the State Comptroller to pay claims for benefits as set forth in the constitution and bylaws of the Connecticut State Police Association upon presentation of proper proofs of claims from the Association. These relief payments are to beneficiaries of police officers killed in the line of duty. Police officers of Connecticut municipalities as well as State police officers are eligible for membership in this Association. A comparative summary of expenditures during the audited period and the preceding fiscal year are shown below:

	Fiscal Years		
	1997-1998	**1998-1999**	**1999-2000**
Disability payments to members:	$	$	$
Payments to dependents	38,010	70,176	52,288
Death Benefits	20,000	10,000	10,000
Injury Benefits	1,485	21,300	41,460
Totals	**$59,495**	**$101,476**	**$103,748**

Connecticut State Firemen's Association:

The State Comptroller is authorized, under Section 3-123 of the General Statutes, to make benefit payments to the beneficiaries of members of the State Firemen's Association who are killed in the line of duty and who are entitled to payment under the provisions of the constitution and bylaws of the Association. Payment is to be made upon presentation of proper proof of claims from the Association. A comparative summary of expenditures during the audited period and the preceding fiscal year follows:

	Fiscal Years		
	1997-1998	**1998-1999**	**1999-2000**
Disability payments to members	$16,234	$38,060	$22,950
Payments to dependents	13,220	16,146	13,860
Death Benefits	7,000	9,950	-
Totals	**$36,454**	**$64,156**	**$36,810**

Interstate Sanitation Commission:

The Interstate Sanitation Commission, a body corporate and politic, was created by a Compact entered into by the States of New York, New Jersey and Connecticut for the dual purpose of controlling future pollution of the harbor, coastal and tidal waters in the territory surrounding and adjacent to the harbor of New York City, and the tributary waters therein, and of bringing about an abatement of the existing pollution of these waters. As a result of legislation enacted by the states of New York and New Jersey in 1960 and 1961, respectively, the Commission was authorized to engage in activities with respect to air pollution control and prevention. Participation by Connecticut in the Commission's air pollution program was approved by legislation enacted in June 1969.

The Compact, which is codified in Section 22a-294 of the General Statutes, was joined by Connecticut on September 17, 1941. Under the Compact, the signatory states agreed to provide by annual appropriation for the salaries, office and other administrative expenses of the Commission such sum or sums recommended by the Commission and approved by the governors of the signatory states, in the following ratios:

New York	45%
New Jersey	45%
Connecticut	10%
Total	100%

It should be noted that pursuant to Article XIV of the Compact, the State of New York and the State of New Jersey obligate themselves only to the extent of $15,000 each in any one year, and the State of Connecticut obligates itself only to the extent of $3,333 in any one year to meet the expenses of the Commission. During the 1998-1999 fiscal year it was this minimum required amount of $3,333, which was appropriated by the General Assembly and disbursed by the State Comptroller. During the 1999-2000 fiscal year, $3,400 was appropriated and disbursed.

Reimbursement to Towns for Loss of Taxes on State Property:

Section 12-19a of the General Statutes provides for unrestricted grant payments to towns in lieu of taxes on State-owned property in different categories and at various percentages of the taxes that would have been paid to the towns. The reimbursement amount is not to exceed a specified percentage of the total tax levied by the towns. Public Act 93-388 amended this section to increase the maximum percentage of total property taxes levied by each town on real property in the preceding year, by varying increments, commencing with fiscal year ended June 30, 1994, and ending with the fiscal year ending June 30, 2004, at which point the maximum percentage will equal 100 percent for that year and each year thereafter. Public Act 99-1 of the June Special Session and Public Act 00-192 added to the reimbursable categories and increased the percentage used to calculate the reimbursable amount of one category from twenty to forty five percent and another category from forty to sixty five percent of the taxes that would have been paid. During the 1998-1999 and 1999-2000 fiscal years a total of $61,697,742 and $62,482,280, respectively, was distributed as payments to towns. Payments made during the 1997-1998 fiscal year totalled $33,319,723. The above fiscal year 1999-2000 totals are net of an expenditure transfer/credit of $1,860,138, which represents an allocation of part of the cost of the grant to the Bradley International Airport Operations Fund. The amount received by each town was based on statutory formulas.

Under the provisions of Section 12-19c of the General Statutes, these payments in lieu of taxes were made by the State Comptroller based on the certification by the Secretary of the Office of Policy and Management of the amount due to each town. Our examination was limited to a review of that certification on file with the Comptroller's Office. An examination of these payments and their calculation was made as part of our Statewide Single Audit of the State of Connecticut.

Reimbursement to Towns for Loss of Taxes on Private Tax-Exempt Property:

Sections 12-20a and 12-20b of the General Statutes provide that an unrestricted grant be payable to any municipality in lieu of taxes with respect to real property owned by any private nonprofit institution of higher education or any nonprofit general hospital facility, exclusive of any such facility operated by the Federal government or the State or any subdivision thereof, which is exempt from property tax under the provisions of Section 12-81 of the General Statutes. Public Act 99-1 of the June Special Session increased the percentage calculation used from 60 to 77 percent, commencing July 1, 1999. In the event that the total grants payable for a given year exceeded the amount appropriated, the grant payable to each municipality shall be reduced proportionately.

The Secretary of the Office of Policy and Management is authorized to calculate the amount due to each municipality and to certify to the Comptroller the amounts to be paid. During the 1998-1999 and 1999-2000 fiscal years, grant payments made by the Comptroller totalled $97,120,537 and $97,163,154, respectively. Payments made during the 1997-1998 fiscal year totalled $82,320,537. Our examination was limited to a review of the certification on file with the Comptroller's Office. An examination of these payments and their calculation was made as part of our Statewide Single Audit of the State of Connecticut.

Grants to Towns (Mashantucket Pequot and Mohegan Fund):

Section 3-55i of the General Statutes, establishes the Mashantucket Pequot and Mohegan Fund which provides grants to municipalities from moneys received by the State from the tribes pursuant to a joint memorandum of understanding, as amended, and any successor thereto. Section 3-55i provides that funds of $135,000,000, received by the State pursuant to this agreement, shall be transferred to the Fund and shall be distributed by the Office of Policy and Management in accordance with the provisions of Section 3-55j. If the total of such grants exceeds the amount of funds available, the grant to each municipality shall be reduced proportionately.

Total grant payments made from the Mashantucket Pequot and Mohegan Fund during the 1998-1999 and 1999-2000 fiscal years amounted to $135,000,000, unchanged from the 1997-1998 fiscal year. Our examination was limited to a review of the certification provided by the Office of Policy and Management on file with the Comptroller’s Office. An examination of these payments and their calculation was made as part of our Statewide Single Audit of the State of Connecticut.

Unemployment Compensation:

The cost of unemployment benefits paid to former State employees is reimbursed to the Unemployment Compensation Fund from appropriations within the Special Transportation Fund, for former Departments of Transportation and Motor Vehicle employees, and from the General Fund for all other former State employees. Partial recoveries of such reimbursements are made within the General Fund for former employees whose salaries were paid from other State or Federal funds.

During the 1998-1999 and 1999-2000 fiscal years, reimbursements charged to State funds totalled $3,103,043 and 2,863,695, respectively. Of these amounts, $2,871,163 and $2,692,349 were reimbursed from the General Fund and $231,880 and $171,346 were reimbursed from the Special

Transportation Fund, respectively. Comparative costs for the last five fiscal years is presented below:

Fiscal Year Ended June 30,	Total All Funds
1996	6,018,254
1997	5,905,212
1998	4,099,082
1999	3,103,043
2000	2,863,695

Under procedures established by the Comptroller's Office, recoveries are made from other State and Federal funds for those funds' share of fringe benefit costs by means of an approved fringe benefit cost recovery rate established annually and applied as a percentage of covered payrolls. As shown earlier in the "Departmental Operations" section of this report, recoveries during the fiscal years ended June 30, 1999 and 2000, totalled $1,033,950 and $169,600, respectively.

During the audited period, a consulting firm, R. E. Harrington, Inc., served as addressee of record for all State agencies with respect to Unemployment Compensation claims for former employees. The consultant performs administrative functions, reviews unemployment claims, attends appeal hearings and acts as a consultant to the various State agencies in such matters. Our review of the Comptroller's records was limited to testing monthly billing amounts for proper supporting documentation. A test check of payments from the Unemployment Compensation Benefit Fund, to verify that payments are properly charged to the employer's account and are payable to eligible employees only, is conducted as part of our audit of the State Labor Department.

Group Life Insurance:

As provided for in Section 5-257 of the General Statutes, the State offers a group life insurance program to State employees and its retirees, as well as, to members of the General Assembly. This program offers basic term life insurance coverage, up to maximum limits of $38,000 and $85,000, for collective bargaining and noncollective bargaining employees, respectively. This Section also provides a supplemental group life insurance plan to noncollective bargaining employees, offering them the option to purchase additional term coverage up to a maximum limit of $50,000.

For active employees and members of the General Assembly the amount of an individual's insurance coverage is based on that person's yearly gross compensation. For State retirees the amount of coverage is generally based on one-half the individual's life insurance in force immediately before retirement, subject, in some cases, to certain coverage limitations, as well as, certain pro rata reductions for length of State service. The entire cost of such coverage for State retirees is paid for by the State.

The State's share of premium payments for this program is initially charged to a General Fund appropriation authorized for this purpose. Premium payments, effective July 1, 1997, are made monthly to the Medical Life Insurance Company, the billing being based on the coverage in force on the first day of the month of payment adjusted for additional and/or cancelled coverage during the preceding month. Subsequently, reimbursements to the General Fund are received from certain

Federal and State funds or restricted accounts charged with salaries of employees covered under the State's group life insurance program. The Comptroller’s Office also administers a Special Transportation Fund account, which was established in order to allocate properly employer group life costs applicable to salaries of employees of the Departments of Transportation and Motor Vehicles.

Insurance premiums paid during the fiscal years 1998-1999 and 1999-2000 for basic life insurance coverage were at the rate of 53 cents per month per thousand dollars of coverage. The employee share amounted to 43.3 cents and the employer share was 9.7 cents.

The supplemental life insurance plan was established July 1, 1987, and is entirely paid for by State employees. The rate of coverage under the supplemental plan during the audited period was 55 cents per month per thousand dollars of coverage.

A summary of expenditures for the State’s share of insurance premiums under the group life insurance program follows:

	Fiscal Years		
	1997-1998	**1998-1999**	**1999-2000**
Gross Expenditures – General Fund:			
Payments to insurance companies	$3,612,196	$3,851,205	$3,648,662
Add (Deduct):			
Reimbursements - State/Federal Funds:			
Refunds of current expenditures	(945,901)	(819,331)	(1,027,626)
Expenditure transfers/debits (credits)	(100,000)		
Special Transportation Fund*	(108,477)	(117,726)	(96,206)
All other funds and accounts	(17,348)	44,349	72,796
Total Additions (Deductions)	(1,171,726)	(892,708)	(1,051,036)
Net Expenditures	**$2,440,470**	**$2,958,497**	**$2,597,626**

*Note: Group Life Insurance expenditures in the Special Transportation Fund equal the transfers from the General Fund.

Cumulative records maintained in the Comptroller's Office show that the group life insurance program provided life insurance to State employees, retired State employees, and members of the General Assembly as follows:

	June 30,		
	1998	**1999**	**2000**
Individuals:			
Basic plan	55,551	55,910	56,705
Supplemental plan	975	995	977
Insurance in force:			
Basic Plan	$1,600,314,087	$1,655,621,079	$1,701,492,835
Supplemental plan	$43,006,000	$43,750,000	$42,896,000

Tuition Reimbursements - Training and Travel (Union Contract and Related Agreements):

Most individual collective bargaining agreements require the State to appropriate stated amounts for the costs of continuing education, professional seminars, conferences and the related travel expenses. This appropriation account was established to consolidate the financing for such costs under the administration of the State Comptroller.

During the 1998-1999 and 1999-2000 fiscal years, funding requirements for tuition, travel, and training reimbursements, as specified in 14 collective bargaining agreements covering those years, amounted to $2,701,625 and $2,442,625, respectively, while another $6,264,912 and $6,539,279 representing unexpended reimbursement moneys from the 1997-1998 and 1998-1999 fiscal years, respectively, were also made available in accordance with the terms of certain agreements. Of the total $8,966,537 and $8,981,904 available, $2,427,257 and $2,387,646 were expended during the 1998-1999 and 1999-2000 fiscal years, respectively, and $6,539,280 and $6,594,258 were carried forward for use in the 1999-2000 and 2000-2001 fiscal years, respectively.

Employer Social Security Tax:

Each fiscal year, the State's share of Social Security costs is initially met from a General Fund appropriation authorized for this purpose. Subsequently, reimbursements to the General Fund are received from certain Federal and State funds or restricted accounts charged with salaries of employees covered under Social Security. The Comptroller's Office also administers a Special Transportation Fund account, which was established in order to allocate employer Social Security costs applicable to salaries of employees of the Departments of Transportation and Motor Vehicles. In addition, Sections 5-190b and 5-192d of the General Statutes require the State to pay the employer's share of Social Security costs of teachers at the E.O. Smith School that are members of the State Employees' Retirement System. An analysis of the total payment of the State's share of costs follows:

	Fiscal Years		
	1997-1998	**1998-1999**	**1999-2000**
Gross Expenditures – General Fund:			
Employer's share-State employees	$180,283,054	$193,683,683	$215,646,731
Employer's share-E.O. Smith School	53,984	47,836	46,857
Grant Transfer to Other State Agencies	9,594,699	16,101,252	19,953,843
Total	189,931,737	209,832,771	235,647,431
Add (Deduct):			
Reimbursements - State/Federal Funds:			
Refunds of current expenditures	(37,587,026)	(42,844,304)	(54,250,642)
Expenditure transfers/debits (credits):			
Special Transportation Fund*	(12,472,340)	(13,469,425)	(11,199,570)
All other funds and accounts	(15,563,640)	(15,753,787)	(17,398,198)
Total Additions (Deductions)	(65,623,006)	(72,067,516)	(82,848,410)
Net Expenditures	**$124,308,731**	**$137,765,255**	**$152,799,021**

*Note: Employer Social Security Tax expenditures in the Special Transportation Fund equal the transfers from the General Fund.

The gross payments to the Federal government for the employer's share of Social Security taxes were based on the following rates and wage limits which were in effect during the audited period.

	Employer's Share For Calendar Year*		
	1998	**1999**	**2000**
Social Security tax rate	6.20%	6.20%	6.20%
Medicare tax rate	1.45%	1.45%	1.45%
Total Employer Share Under FICA	7.65%	7.65%	7.65%
Maximum Wages on Which Social Security Contributions are Payable	$68,400	$72,600	$76,200
Maximum Wages on Which Medicare Contributions are Payable	All Wages	All Wages	All Wages

* The same rates applied to the employees' share

Health Service Costs:

Under the provisions of Section 5-259 of the General Statutes, the State is obligated to pay for each State employee and each member of the General Assembly 100 percent of the portion of the hospital and medical insurance premium charged for individual coverage and 70 percent of the portion charged for spouse or family coverage. It should be noted, however, that the portion of additional coverage costs paid for members enrolled in various health maintenance organizations (HMO) generally has exceeded 70 percent since Section 5-259 requires that the amount paid by the State for this type coverage could be no less than the dollar amount provided for the standard forms of insurance coverage. As with all statutory provisions concerning employee benefits, the provisions of Section 5-259 may be superseded by the language contained in any approved collective bargaining agreement.

Effective January 1, 1985, to and including June 30, 1994, a pension agreement, entered into by the State and representatives of its various employee groups, established a joint labor-management Health Care Cost Containment Committee. This Committee has the authority to consider and recommend proposals that may result in a reduction in the rate of increase of employee health insurance premiums, while at the same time, improving the quality of health care.

In accordance with requirements contained in the pension agreement, much of the Committee's time has been spent working on a competitive selection process for employee health insurance. This process, which was completed during July 1993, resulted in the establishment, effective October 1, 1993, of a Preferred Provider Organization (PPO) for the delivery of health care to State employees, retirees, and their eligible dependents.

During the 1998-1999 fiscal year, the Preferred Provider Organization provided that permanent employees residing in Connecticut could choose from two plan options. Under the Point of Enrollment (POE) option, employees could elect coverage from Anthem Blue Cross (Anthem), M.D. Health Plan, now Physicians Health Services (PHS), or a Health Maintenance Organization (HMO), Kaiser Permanente. Under the POE option, health services are available only from a defined network of physicians and other health care providers in accordance with a published schedule of benefits.

POE members who obtain health care services from providers outside the network pay the full cost of these services, unless the care is necessitated by a bona fide emergency. The Point of Service (POS) option was only offered through Anthem. Under the POS option, health care services are available both within and outside a defined network of physicians and other health care providers. POS members who obtain health care services from network providers pay a small copayment, and are eligible for all benefits provided by the plan according to the schedule of benefits. Covered services obtained from nonparticipating providers are reimbursed at the rate of 80 percent of the plan allowance for in-network services, after the annual deductible has been met. Pre-authorizations may be required for non-network services, unless the care is necessitated by a bona fide emergency. State employees who did not reside in Connecticut could be covered by the State Preferred Point of Service or, in eighteen states, Kaiser Permanente. During the 1999-2000 fiscal year, there were a number of changes in the medical plan offerings; all medical benefits were aligned. Anthem, PHS and Med Span each originally offered a POS, POE and a POE with a Gatekeeper. Also, the Anthem Blue Cross Preferred plan and the Kaiser Permanente HMO continued to be available. Dental plans were offered by both Anthem Blue Cross and CIGNA Dental.

On the basis of payroll transactions submitted by the State agencies, the State Comptroller's Office charges a General Fund appropriation for the State's portion of the premiums due to the private insurance carriers and makes payroll deductions for the balance of premiums payable by individuals with additional coverage. Subsequently, reimbursements to the General Fund are received from certain Federal and State funds or restricted accounts charged with salaries of employees covered under the State's health insurance program. The Comptroller's Office also administers a Special Transportation Fund account, which was established in part to allocate employer health service costs applicable to salaries of employees of the Departments of Transportation and Motor Vehicles.

Total gross expenditures for health services costs decreased by $2,720,999 during fiscal year 1998-1999 and increased by $114,784,565 during fiscal year 1999-2000. An analysis of the total payment of the State's share of such costs during the audited period and the preceding fiscal year follows:

	Fiscal Years		
	1997-1998	**1998-1999**	**1999-2000**
Gross Expenditures – General Fund:			
Payments to health insurance carriers:			
By regular payroll process	$232,726,977	$242,242,668	$298,583,092
By invoice for retroactive premiums**	-	915,809	-
Other invoice payments processed directly by the Management Services Division:			
Payments for self-insured claims**	19,000,000	5,500,000	33,900,000
Payment for rate stabilization reserve**	-	-	31,317,979
Premiums paid to life insurance companies:			
Accidental death and dismemberment	127,523	150,267	164,039
TIAA/CREF Disability	210,800	218,846	229,753
Coverage for active outside agencies	-	-	21,605
Payments for consulting services	154,406	472,830	67,313
Premiums to Employees for premiums paid "Medicare" Part B	10,337	8,624	9,828
Total Gross Expenditures	252,230,043	249,509,044	364,293,609
Add (Deduct):			
Reimbursements – State/Federal Funds:			
Refunds of current expenditures	(51,547,692)	(60,071,214)	(79,334,722)
Expenditure transfers/debits (credits):			
Special Transportation Fund*	(15,001,934)	(14,833,677)	(16,863,765)
All other funds and accounts	(11,466,657)	(1,471,386)	2,762,206
Total Additions (Deductions)	(78,016,283)	(76,376,277)	(93,436,281)
Net Expenditures	**$174,213,760**	**$173,132,767**	**$270,857,328**

*Note: Health Service Costs expenditures in the Special Transportation Fund equal the transfers from the General Fund.

** Public Act 97-11, June 18, Special Session, Section 10, appropriated the sum of $9,000,000 to the State Employees Health Service Cost account for M. D. Health Plan. This additional amount was needed as a result of the State coverage with M. D. Health Plan switching from a self-insured to an insured basis beginning in fiscal year 1995-1996. In addition, Special Act 98-7 appropriated $10,000,000 to the account for fiscal year 1997-1998 for funding required for payment to Anthem Blue Cross and Blue Shield of Connecticut (Anthem) as part of an agreement between Anthem and the State Comptroller that would maintain for fiscal year 1998-1999 the current health insurance rates for active and retired State employees and keep the Rate Stabilization Reserve (RSR) cap at $53.3 million. Prior to this payment, the RSR was approximately a negative $30.2 million. Special Act 99-10 appropriated $60,000,000 to the account for Blue Cross claims run-out and rate stabilization reserve account; these payments were made after completion of audits that determined the amounts owed and were certified by the Comptroller and the Secretary of the Office of Policy and Management and totalled $65,217,979. The additional $5,217,979 was paid with the available General Fund appropriation. Additional payments, shown above, processed directly by the Management Services Division account included a retroactive premium rate increase of $915,809 to Kaiser Permanente and a payment of $5,500,000 to M.D. Health Care to resolve all outstanding financial issues associated with the fully-underwritten agreement in effect for the period from July 1, 1995 to June 30, 1999. This later payment was intended to redress a reduction in premiums occasioned by a change in contribution strategy. Payments for consulting services were mainly for assistance in connection with the Municipal Employees Health Insurance Program and the State Employee Health Benefit Plan that included competitive marketing of the State's health care program.

Because most payments charged to the health services appropriation account are processed as part of the Comptroller's central payroll operation, the major portion of the auditing of this account is conducted during our separate audit of the central State financial operations administered by the Comptroller's Office. As part of that audit, tests were performed on the vendor payroll processing function carried out by the Comptroller's Payroll Services Division to determine that vendor payroll transactions submitted by the various State agencies were properly processed. For the purposes of this audit, our examination of this account was limited to reviewing the procedures of the Comptroller's Management Services Division, which is responsible for administering this account, and examining those payments which the Division processes directly.

Capital Outlays and Grants Financed from Other Sources

In addition to the grants and capital outlays financed through various General Fund appropriations, the Comptroller's Office also processes grants and capital outlays financed from the proceeds of bond sales and vessel registration fee collections.

Special Acts 88-77, 89-52, and 90-34 authorized a total of $2,490,000 in bonds for construction grants to various fire training schools and emergency communication centers. As of June 30, 1993, the entire amount had been allocated by the State Bond Commission. Except for minor amounts, all had been expended.

Special Act 91-7 (June 1991) authorized $500,000 in bonds for construction and equipment for an instructional television fixed service system and $400,000 for expansion and improvements of the video production facilities for Connecticut Public Broadcasting, Inc. No expenditures were made during the audited period. The remaining balances of $324,000 and $105,305 were carried forward to the 2000-2001 fiscal year. Special Acts 95-20, 97-1 and 98-9 and Public Act 99-242 authorized a total of $9,635,000 in bonds for seven projects for a new transmitter, construction and equipment, equipment upgrades and expansion and improvement of all production facilities and transmission systems, including all equipment and related technical upgrades necessary to convert to digital television broadcasting for Connecticut Public Broadcasting, Inc. Expenditures amounted to $4,285,000 and $1,250,000 during the 1998-1999 and 1999-2000 fiscal years, respectively, which fully expended four projects. The remaining three projects had unallocated/unallotted balances amounting to $4,100,000 at June 30, 2000.

Special Act 98-2 (April 1998) authorized $50,000,000 to the Department of Information Technology (DOIT) for the purpose of year 2000 (Y2K) conversion by all State agencies. DOIT has the authority to transfer funds to other State agencies with the approval of the Secretary of the Office of Policy and Management. Initially, the Comptroller received $993,000 of that amount to be used for Y2K conversion. Total expenditures amounted to $231,156, $677,984 and $11,547, during the 1997-1998, 1998-1999 and 1999-2000 fiscal years, respectively. Any remaining balance was transferred back to the Department of Information Technology.

The Special Revenue Fund account for Boating Fund payments is used by the Comptroller to process grants, in lieu of tax revenue on vessels, to the various towns from fees collected for vessel registrations. Such vessel registration fees are collected by the Department of Motor Vehicles under Section 15-144 of the General Statutes, and credited to the Conservation Fund Boating Account administered by the Department of Environmental Protection. As provided for in Section 15-155b, the Commissioner of Motor Vehicles, not later than the first day of December each year, shall, in accordance with the provisions of Section 15-155, calculate the amount to be distributed to each town and certify these payment amounts to the State Comptroller, who shall then process the actual payments to the towns. A total of $2,390,498 was distributed to the various towns in this manner during each of the 1997-1998, 1998-1999 and 1999-2000 fiscal years. Our examination of these distributions was limited to a review of the certification on file with the Comptroller’s Office. An examination of these payments and their calculation was covered as part of our regular audit of the Department of Motor Vehicles.

Agency Funds

The Comptroller’s Office administers several “Fiduciary” type funds known as “Agency Funds.” Funds of this type are used to account for assets held by the State as an agent for individuals, private organizations, other governments and/or other funds. A more detailed description of the operations of each “Agency Fund” administered by the Comptroller's Office is presented in the following paragraphs.

Pending Receipts:

This fund is used as a suspense account for receipts where the final disposition of the monies is not known at the time of deposit. Once this determination is made the monies are either transferred to the appropriate State fund, refunded to the original source, or paid to a designated third party.

This fund was also used by the Comptroller, during the audited period, to account for Social Security installment payments made by the County Sheriffs and held by the Comptroller until the total amount owed had been collected.

The Comptroller has set up separate special identification numbers within the Pending Receipts Fund to account for the activity of certain employee accounts. These accounts are described below:

Health Plan for Former Legislators:

Section 5-259b of the General Statutes authorizes unlimited continuation of State health insurance coverage for former members of the General Assembly. The cost of this insurance is to be borne entirely by former legislators at the group rate paid for current State employees. Total premium payments for former legislators' continuation coverage totalled $158,003, $155,464 and $181,437 for fiscal years 1997-1998, 1998-1999 and 1999-2000, respectively.

Payroll Deductions - Savings Bonds:

This account within the Pending Receipts Fund was established to provide a separate account for the control of payroll deductions for the purchase of United States Savings Bonds by active and retired State employees. The monies received from the deductions are sent to the Federal Reserve Bank of Cleveland; in turn, the bank issues bonds to the participating individuals.

Bonds with a maturity value of $6,341,552, $5,866,900 and $5,502,400 (cost value of $3,170,776, $2,933,450 and $2,751,200) were issued during the 1997-1998, 1998-1999 and 1999-2000 fiscal years, respectively, while refunds to participating individuals totalled $27,783, $15,879 and $12,404, respectively.

Payroll Deductions - Life Insurance:

This account within the Pending Receipts Fund was established to account for State employees' contributions towards the group life insurance program offered to State employees in accordance with the provisions of Section 5-257 of the General Statutes. The Management Services Division of the Comptroller's Office is responsible for recording and depositing all payroll deduction checks for group life insurance and for the respective payments including the State's share made from the General Fund. A more detailed description of this program is presented earlier in this report under the caption, "Special Appropriations Administered by the State Comptroller - Group Life Insurance."

Employee insurance premiums forwarded to the insurance company totalled $6,960,242, $7,090,567 and $7,306,227 during the 1997-1998, 1998-1999 and 1999-2000 fiscal years, respectively, while refunds to employees totalled $1,731, $2,120 and $2,991, respectively. Employee contribution rates in effect during these fiscal years were unchanged as follows:

Basic Life	-biweekly	$.200 per $1,000 of coverage
	-monthly	$.433 per $1,000 of coverage
Supplemental Life	-biweekly	$.250 per $1,000 of coverage
	-monthly	$.550 per $1,000 of coverage

Tax Deduction Cancellations:

This account within the Pending Receipts Fund was established to accommodate the Federal government's requirement regarding withholding taxes on checks reissued at the end of the calendar year. Since there are times when agencies must reissue checks for various reasons, the amount calculated for withholding taxes initially can be incorrect. Throughout the calendar year, this problem can be resolved during the next payroll cycle. However, at the end of the year in order to produce the correct amount of taxes withheld for the entire year for tax purposes, the withholding amount must be adjusted in the calendar year in which the check is reissued. This account should net to zero at the end of any given fiscal year.

Deferred Compensation Refunds:

This new account within the Pending Receipts Fund was established to account for deferred compensation refunds and other adjustments that may occur within deferred compensation contributions. The Benefits Unit, of the State Comptroller's Retirement and Benefits Services Division, is responsible for the management of this account. Deposits consist of checks that are returned to the Benefits Unit from the financial organizations that participate in the deferred compensation program. Disbursements from this account are contributions returned to the employee. There a several reasons that money may be returned to the employee, these include: the employee has exceeded the IRS limit of the amount of contributions that could be made in a calendar year, the contribution amount was incorrect, or the employee's contribution was made to an incorrect financial organization. Receipts amounted to $44,220 and $88,778 and disbursements amounted to $42,300 and $90,698 during the 1998-1999 and 1999-2000 fiscal years, respectively. The account had a zero balance at June 30, 2000.

Fringe Benefit Recovery:

This fund is used as a suspense depository for fringe benefit cost recoveries, from restricted General Fund accounts or other State funds, which are processed outside the Comptroller's payroll procedures. In some cases, this is accomplished by the Comptroller's Management Services Division processing transfer lists based on documentation provided by reporting agencies. Other fringe benefit reimbursements are processed on transfer lists by agencies when they have temporarily used General Fund resources to finance personal service costs chargeable to restricted General Fund accounts or other State funds, or when they are billing another agency for personal services rendered and the reimbursement for the services is to be charged to a restricted General Fund account or other State fund. Any fringe benefit recoveries processed by deposit slip are also credited to this fund.

The Management Services Division transfers all recoveries monthly to the applicable revenue or refund of expenditure accounts, based upon approved fringe benefit allocation percentages. Such transfers totalled $1,631,862, $1,836,738 and $2,303,880 during the 1997-1998, 1998-1999, and 1999-2000 fiscal years, respectively.

Comptroller's Air Travel:

This fund was established in accordance with Section 3-121 of the General Statutes, which provides for the creation of a revolving fund to be used by the Comptroller for the financing of interdepartmental and other transactions. This fund had been exclusively used by the Comptroller's Office for purchasing airline tickets for State agencies and for collecting reimbursements from the agencies involved. Such services were provided by the Comptroller's Management Services Division in conjunction with a working arrangement with a local travel agency. During the 1998-1999 fiscal year payments for airline tickets totalled $102,605 a decrease of $1,550,707 from the 1997-1998 fiscal year total of $1,653,312. There were no payments during the 1999-2000 fiscal year.

Effective July 1, 1998, agencies have the authority to approve their own agency-funded travel requests. Agencies travel services are now accomplished through the State's designated travel agent. The Comptroller now uses the Statewide Air Travel – Purchasing Card account to process State agency travel purchases in this fund. The Comptroller processes monthly payments and then directly charges each agency. During the 1998-1999 and 1999-2000 fiscal years payments and transfers totalled $1,497,190 and $1,566,220, respectively.

PERFORMANCE EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct performance evaluations. As part of our performance review, we have decided to follow-up on two Performance Audit Reports conducted by our Office. We reviewed the actions that the State Comptroller has taken in response to these performance audits. In addition, we reviewed the Agency's compliance with Section 4-60q of the General Statutes.

The Performance Audit Report – State's Real Property Management Systems, issued November 10, 1999, included a recommendation concerning the Office of the State Comptroller. In general, the recommendation stated that the Office of the State Comptroller (OSC), together with the Department of Public Works, and the Office of Policy and Management should develop a centralized inventory system. In response to this, on December 15, 2000, the Office of the State Comptroller issued Comptroller Memorandum 2000-55. The purpose of this memorandum was to inform agencies of the joint venture between these agencies to implement a single real property management system. A new system, within an Access database, called JESTIR (Joint Effort for State Inventory Reporting) has been created. The three agencies worked together to develop a system that would meet all of their needs. This database eliminates the requirement for agencies to report, basically, the same information to three separate agencies. We believe the Office of the State Comptroller has taken the necessary steps to comply with this Performance Audit Recommendation.

The Performance Audit Report – Accounts Receivable, issued April 21, 1999, had several recommendations that involved the Office of the State Comptroller. Basically, these recommendations indicated that it was the responsibility of the State Comptroller to provide guidance and establish procedures for the proper management of the State's receivables. Action has been taken by the Office of the State Comptroller to address these areas of concern mentioned in the audit report. On March 31, 2000, OSC issued Comptroller Memorandum 2000-15. This memorandum provides guidelines for the recognizing, measuring, reporting, and collecting of receivables. These guidelines were then incorporated into the next revision of the State Accounting Manual, revision number 14. The State Comptroller is the fiscal guardian of the State, given that; it is the responsibility of the Comptroller to establish guidelines and procedures for other State agencies to follow. We believe that the State Comptroller has complied with this Performance Audit Recommendation.

Section 4-60q of the General Statutes states, "Not later than January 1, 1996, each state agency shall provide the public with toll-free telephone access to the agency." We have inquired as to whether the Comptroller has a toll-free listing published. We confirmed that a new toll-free phone number is available through directory assistance. However, this telephone number has not yet been published. We were informed that this phone number will be published in, "The Blue Pages" of the next telephone directory. The Office of the State Comptroller has complied with this Statute.

CONDITION OF RECORDS

Areas warranting comment are presented below.

Pending Receipts Fund Detail and Other Unresolved Balances:

Criteria: Pending Receipts Funds administered by the Comptroller's Office should be reconciled monthly to the Comptroller's available cash balance and a detailed accounting of those funds should be maintained. Good internal control calls for the reconciliation of control totals to subsidiary records.

In addition, accounts that have an unresolved balance should be reviewed and action should be taken to clear outstanding issues on a timely basis.

Condition: A Pending Receipts Fund administered by the Comptroller's Office was not reconciled in detail to the available cash trial balance. During our review of this fund, we were able to account for the receipts and disbursements that occurred during the audit period. However, the Agency does not maintain a detailed cash receipts ledger for the ending balance of $30,540. This ending balance consists primarily of the collection of County Sheriff's unpaid Social Security payments that were deposited into the fund several years ago. These moneys were deposited by the Department of Administrative Services - Collection Services Business Center, and the detail was maintained there.

In May and June 1998, a refund of $514,453 was deposited into the Municipal Employees Social Security Administration account, a restricted General Fund account. On December 17, 1998 the Retirement Commission voted to accept the refund and to remit these funds to the General Fund (unrestricted surplus); yet, this balance still remains as originally deposited.

Effect: The State Comptroller's Office cannot readily identify the composition of some accounts, which results in a weakening in control over the balances.

Continuous account balances that could be used for more beneficial purposes have not been deposited into the unrestricted General Fund.

Cause: Established procedures were not being followed for all funds and account activity was not completely reviewed to determine the necessary action that should be taken.

Recommendation: The Comptroller's Office should ensure that the monthly reconciliations of the Pending Receipts Fund to available cash balances are being done properly and with sufficient detail, and pending items should be reviewed and resolved on a timely basis. (See Recommendation 1.)

Agency Response: "As stated in the audit finding, the Office of the State Comptroller has a system in place that accurately accounts for receipts and disbursements for the Pending Receipts Fund. The ending balance in this account, however, consists of funds deposited under the previous administration representing Deputy Sheriff's Social Security FICA payments. As soon as a solution that satisfies the Attorney General, the Internal Revenue Service and the Office of the State Comptroller has been reached, we will comply with the final recommendations in order to bring this matter to a conclusion.

The December 17, 1998 vote of the Retirement Commission ratified actions performed by the Office of the State Comptroller with regard to the deposit of $514,453 into a restricted General Fund account, as required. Currently, the Office is in the process of closing this account, which will result in the release of the remaining balance into the unrestricted General Fund."

Inventory – Equipment Tagging and Annual Inventory Reports:

Criteria: Section 4-36 of the General Statutes, requires State agencies to keep an inventory account in the form prescribed by the Comptroller. The Comptroller's detailed requirements are found in the State's Property Control Manual. That Manual requires all items of personal property to be tagged with a unique identification number.

Section 4-36 of the General Statutes, requires State agencies to transmit an inventory report annually to the Comptroller. The Comptroller's detailed requirements are found in the State's Property Control Manual. That Manual requires that data such as last year's balance, additions, deletions and current balance be reported for all items of property including, "Furnishings & Equipment."

Condition: An inspection of a sample of 25 items of equipment purchased during 1999-2000 noted that four items had not been tagged. A physical inspection of 20 items selected at random noted three items that had not been tagged and an additional item that had been tagged but not entered into the inventory records.

The additions and deletions to furnishings and equipment data presented in the Annual Fixed Assets/Property Inventory Reports for the fiscal years ending June 30, 1999 and 2000 were incorrect and in some instances unsupported. The Report for the fiscal year ended June 30, 2000 showed no deletions, whereas, the records showed deletions in excess of $116,000 had occurred. Deletions appeared to be netted against additions on this report.

Effect: The Agency's inventory records and annual inventory reports do not accurately reflect changes in the Agency's equipment inventory.

Cause: State property control procedures were not completely followed in all cases.

Recommendation: The Agency should strengthen its controls over the tagging and monitoring of Furnishings and Equipment and the preparation of the Annual Fixed Assets/Property Inventory Report. (See Recommendation 2.)

Agency Response: "The Agency is aware that past problems with inventory control resulted in insufficient inventory records. A thorough review of all agency equipment is being undertaken to properly account for inventory, in accordance with the policies of the Office of the State Comptroller. In addition, the agency will ensure that data presented in the Annual Fixed Assets/Property Inventory Reports will be both accurate and supported."

Other Matters:

During the course of this review, our Office conducted and issued a separate Information Systems Audit Report on the Comptroller's computer operations. This latter audit consisted of a review of the general controls in place over the operations of the Comptroller's data center, as well as a review of certain application controls pertaining to the Comptroller's Central Accounting System. The primary objective of that audit, however, was to evaluate the general controls of the Comptroller's information systems for the period August 7, 2000 through January 29, 2001. It should be noted that this audit found some weaknesses in the general controls of the Comptroller's computer operations and identified certain other compliance issues that needed to be addressed by the Comptroller's Business Office. While our Departmental Operations audit necessarily limited some of its reviews of the Comptroller's computer operations in order to avoid a duplication of effort, our Office does plan to follow-up on those Information Systems recommendations, pertaining to the operations of the Comptroller's Business Office, as part of our next Departmental Operations audit.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- Ensure that the monthly reconciliations of all Agency Funds to available cash are being done properly and with sufficient detail; and, the detail of other accounts should reconcile in total to the activity. Although the Agency has made progress with three of the areas cited in the prior report, including having sufficient detail of the other accounts, an Agency Fund still lacks detailed records for the total ending balance and two accounts had no action taken to resolve ending balances. This recommendation has not been fully complied with and is repeated in modified form. (See Recommendation 1.)

- Review and adjust various duties in the payroll cycle to improve the separation of duties and enhance internal controls; and, have all time sheets signed by both the employee and supervisor, where applicable. Several activities in the payroll cycle have been adjusted to improve controls, which included additional documented reviews of payroll processing activities by the personnel section. We found no exceptions during our review of time sheets. This recommendation is not being repeated.

Current Audit Recommendations:

1. The Comptroller's Office should ensure that the monthly reconciliations of the Pending Receipts Fund to available cash balances are being done properly and with sufficient detail, and pending items should be reviewed and resolved on a timely basis.

Comment:

The Agency did not maintain a detailed accounting of the ending balance of a Pending Receipts Fund account. Also, we noted two accounts, including this Pending Receipts Fund account, with balances that remain unresolved.

2. The Agency should strengthen its controls over the tagging and monitoring of Furnishings and Equipment and the preparation of the Annual Fixed Assets/Property Inventory Report.

Comment:

We noted items purchased that were not tagged and an item tagged that was not on the inventory. Also, the Annual Fixed Assets/Property Inventory Report contained incorrect data that included the netting of additions and deletions; deletions of over $116,000 were not reported.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the State Comptroller as they pertain to the Agency's departmental operations, exclusive of certain retirement related programs, for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the State Comptroller's departmental operations for the fiscal years ended June 30, 1999 and 2000, 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 State Comptroller's Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and 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, contracts and grants applicable to the State Comptroller's Office is the responsibility of the State Comptroller's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, 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*.

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

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

Our consideration of the internal control over the Agency'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, contracts and grants or failure to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Agency'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

In conclusion, we wish to express our appreciation of the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the State Comptroller's Office in making their records readily available and in explaining transactions as required greatly facilitated the conduct of this examination.

Joseph Capece
Principal Auditor

Approved:

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