STATE OF CONNECTICUT

AUDITORS' REPORT
STATE COMPTROLLER - DEPARTMENTAL OPERATIONS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2003, 2004 AND 2005

AUDITORS OF PUBLIC ACCOUNTS

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February 13, 2007

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FOR THE FISCAL YEARS ENDED JUNE 30, 2003, 2004 AND 2005

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, 2003, 2004 and 2005. 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, 2003, 2004 and 2005, 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. The Department is organized into an Executive Office and six divisions, as described below:

State Comptroller's Executive Office:

Provides overall policy direction and program and project monitoring for the Department, as well as oversees the personnel and payroll functions of the Comptroller's Office.

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.

Budget and Financial Analysis Division:

Performs the State's accounting and financial reporting functions, records and analyzes State receipts and expenditures, prepares the annual financial reports for the State, 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.

Fiscal Policy Division:

The Division performs the budgeting, accounting, accounts payable, procurement and inventory functions within the Comptroller's Office, and for the Office of Claims Commissioner and Judicial Review Council. The Division assists in the development of accounting and payroll system procedures and conducts various other accounting and regulatory functions for the Comptroller's Office and State agencies. It also conducts independent audits of other State agencies, reviews purchasing card activities and performs agency internal control information system reviews, as well as maintaining the inventory of the State's real and personal property for insurance and accounting purposes, and the management oversight for State employees' travel and tuition reimbursement programs.

Information Technology Division:

Provides computer processing, technical and application support for those computer operations within the Comptroller's Office, and functions as the representative of the Comptroller's Office on the Core-CT project, which is administered as a joint project between the State Comptroller, the Departments of Information Technology and Administrative Services, and the Office of Policy and Management.

Payroll Services Division:

Preaudits and issues the payments of all earnings and salaries to State employees, and the withholding of mandatory taxes and authorized voluntary deductions.

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:

Nancy S. Wyman was elected State Comptroller in November 1994, and served continuously from January 4, 1995, through the audited period. Mark E. Ojakian has served as Deputy Comptroller continuously through the same period.

Significant Legislation:

Legislation affecting the State Comptroller was passed by the General Assembly or became effective during the audited period. Some of the more significant legislation is presented below:

Public Act 03-6 (June 30 Special Session), effective August 20, 2003, established a Core-CT policy board in order to ensure and maintain the constitutional and statutory independence of the three branches of State government with respect to the implementation and operation of the Core-CT system.

Public Act 04-87, effective October 1, 2004, amended Section 3-115a of the General Statutes by replacing references to older and obsolete information systems and designating the new Core-CT system as the provider of budgetary and financial reporting.

Public Act 04-98, effective July 1, 2004, requires the State Comptroller to maintain a flexible health care spending account program for State employees.

Public Act 05-287, effective July 1, 2005, requires the State Comptroller to report, on an annual basis, to the Governor and General Assembly, on the Core-CT system. The reports shall include the status of the implementation of the system, the anticipated completion date, the total cost to date, and projected costs for the next three years, as well as the costs for future upgrades, as well as other issues surrounding the implementation of the new system.

RÉSUMÉ OF OPERATIONS:

Departmental Operations – General Fund Revenues

General Fund departmental receipts totaled $17,377,250, $15,476,981 and $51,985,955 during the fiscal years ended June 30, 2003, 2004 and 2005, respectively. A summary of these receipts is presented below:

	Fiscal Years		
Departmental Receipts:	**2002-2003**	**2003-2004**	**2004-2005**
Recoveries of Expenditures:			
Unemployment compensation	$ 692,381	$ 1,033,561	$ 3,109,441
Indirect Overhead – Federal Projects	10,331,417	11,662,242	13,595,084
Workers' compensation	3,119,643	3,992,783	4,955,769
Employee fringe benefits	2,682,280	2,040,504	2,039,419
Miscellaneous recoveries	85,341	208	26,306,851
Refund of Prior Year Expenditures:	32,759	780,176	277,941
Principal on Loan	75,000	75,000	75,000
Loan Agreement Income	74,812	69,562	64,312
Insurance Reimbursements	159,722	118,486	897,667
Recoveries - Negotiated Settlements	32,131	0	970,907
All Other Revenues	91,764	24,366	67,725
Less - Refunds of Payments (Statewide)	-	(574,246)	(374,161)
Total Departmental Receipts	**$17,377,250**	**$19,222,642**	**$51,985,955**

The receipts shown above primarily consisted of excess funding of unemployment compensation, workers' compensation, retirement system administration, and Teachers' retirement system funding costs, and fringe benefit and indirect costs initially charged 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 using salaries and wages as their approved indirect cost base. Fluctuations in agency receipts from year to year were primarily caused 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. The significant increase in miscellaneous recoveries during the 2004-2005 fiscal year was the result of the return of excess fringe benefit recoveries from the State Employees' Retirement Fund, as explained below.

Fringe benefit recoveries of the employer's cost 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. 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, totaled $139,668,920, $143,091,529 and $184,981,539 during the fiscal years ended June 30, 2003, 2004 and 2005, respectively. These recoveries were credited directly to the retirement fund. Additional recoveries for the State's share of contributions to the Higher Education Alternate Retirement Program and the Judges' and Compensation Commissioners' Retirement Fund were credited to the special appropriation accounts used to finance the State's contribution to those programs. In instances where recoveries exceed the amount required to meet the State funding obligation to the State Employees' Retirement Fund, the Comptroller credits those recoveries to the General Fund. During the fiscal year ended June 30, 2005, a transfer of $26,281,551 in excess fringe benefit recoveries was made to the General Fund.

Until November 2003, all of the aforementioned fringe benefit costs, except for workers' compensation, were 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 annually as part of the Statewide cost allocation plan, which is approved by the Federal government for application against salaries paid from Federal funds. Fringe benefit costs were then recovered by applying these rates to the gross salaries and wages chargeable to Federal and other-than-Federal General Fund restricted accounts and/or other State Funds, besides the General Fund. With the implementation of the Core-CT personnel and payroll system, the State share of medical and group life insurance is charged to agencies on an actual cost basis, rather than a calculated percentage. The rates for FICA-Social Security and FICA-Medicare are now calculated on the basis of existing Federal tax rates rather than a percentage rate developed by the Comptroller. The Core-CT system will automatically charge fringe benefits to the same funding source as the personal services expenditure. A comparison of the Statewide rates used during the audited period is presented below:

Rate Components	2002-2003	2003-2004	2004-2005
		Fiscal Years	
Full-time Employees:			
State Employees Retirement System (SERS)			
- regular employees	21.40%	25.59%	31.26%
Unemployment compensation	.09%	.15%	.40%
Group life insurance	.26%	.18%	(actual)
FICA – Social Security	5.64%	5.69%	(actual)
FICA – Medicare	1.37%	1.39%	(actual)
Medical insurance	11.45%	12.82%	(actual)
Total Statewide Fringe Benefit Recovery Rate	**40.21%**	**45.82%**	**n/a**
Other Employee Classifications:			
Judges & Compensation Commissioners	39.44%	47.32%	56.66%
SERS - hazardous duty employees	22.31%	25.12%	30.52%
Alternate retirement plan	9.04%	9.43%	9.81%
Teachers' retirement plan	14.50%	16.49%	13.28%

Departmental Operations – General Fund Expenditures

Net General Fund expenditures totaled $18,619,807, $18,772,450 and $19,986,878, for the fiscal years ended June 30, 2003, 2004 and 2005, respectively. The increase in contractual service expenditures during the 2004-2005 fiscal year was due to payments to information technology consultants. A summary of these expenditures is presented below:

	Fiscal Years		
	2002-2003	2003-2004	2004-2005
Personal services	$15,271,765	$14,863,297	$15,190,368
Contractual services	3,046,771	3,641,083	4,543,506
Commodities	217,446	225,295	230,236
Sundry charges	33,945	0	0
State aid grants	19,570	19,570	19,570
Equipment	30,310	23,205	3,198
Total Departmental Expenditures	**$18,619,807**	**$18,772,450**	**$19,986,878**

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 and Judicial Review Council. 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, 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 are presented below:

	Fiscal Years		
General Fund:	**2002-2003**	**2003-2004**	**2004-2005**
Personal services	$224,021	$206,361	$236,726
Contractual services	29,058	20,592	13,356
Commodities	1,942	990	5,050
Sundry charges-adjudicated claims	86,619	64,237	64,883
Total General Fund Expenditures	**$341,640**	**$292,180**	**$320,015**

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 is presented below:

	Fiscal Years		
General Fund:	**2002-2003**	**2003-2004**	**2004-2005**
Personal services	$95,526	$117,926	$121,596
Contractual services	15,019	12,619	9,989
Commodities	3,790	1,303	2,714
Total General Fund Expenditures	**$114,335**	**$131,848**	**$134,299**

Refunds of Payments:

Sections 4-37, 14-159, 22a-10 and other sections of the General Statutes authorized 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 was provided by appropriation accounts within the General Fund and Special Transportation Fund.

Refunds processed and funds expended during the 2002-2003 fiscal year for the General Fund and Special Transportation Fund were $396,555 and $2,150,602 respectively. With the implementation of the Core-CT system in the 2003-2004 fiscal year, the State Comptroller no longer processes refunds from a Special Appropriation. Such refunds are now processed by the corresponding State agency and are paid as a refund of revenues of the State Comptroller. Refunds of payments for the fiscal years ended June 30, 2004 and 2005 totaled $574,246 and $374,161, respectively, as shown in the summary of General Fund departmental receipts in this report. Refunds of payments applicable to the Special Transportation Fund totaled $1,203,035 and $1,575,814, respectively, for the fiscal years ended June 30, 2004 and 2005.

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.

For the fiscal years ended June 30, 2003, 2004 and 2005, a total of $8,665,467, $5,511,005 and $7,057,336, 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	2002-2003	Fiscal Years 2003-2004	2004-2005
DCF Monitoring Panel (Juan F. vs. O'Neill)	$1,107,600	$1,737,075	$1,308,728
Alana McKeon vs. State of Connecticut	750,000		
James Reidy vs. Fernando Hernandez	750,000		
F. DiMartino vs. Mark Richens, et.al.	519,761		
Est. of William Dumas vs. State of Connecticut	500,000		
Hassen Sabir vs. James Jowett	425,020		
Cooper vs. Board of Trustees	400,000		
Mark Pelletier vs. Fernando Hernandez	250,000		
Charie Matos, et.al. vs. Marsha Slater	250,000		
Glynn Winsborrow vs. State of Connecticut		525,000	
Dunlap vs. State of Connecticut		300,000	
Rios vs. State of Connecticut			1,025,000
ARC vs. O'Meara / Wilson-Coker			535,000
Est. of Alex Boucher vs. State of Connecticut			500,000
Sandra Caruso vs. State of Connecticut			480,000
Est. of Mary A. Miller vs. State of Connecticut			260,000
Jane Thurlow vs. State of Connecticut			250,000
All Others	3,713,086	2,948,930	2,698,608
Total Expenditures	**$8,665,467**	**$5,511,005**	**$7,057,336**

Fire Training Schools and Maintenance of 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 and Statewide fire radio base networks. For the fiscal years ended June 30, 2003, 2004 and 2005, a total of $424,585, $425,810 and $479,585, respectively, was paid by the Comptroller in such grants.

Police Association of Connecticut:

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 Police Association of Connecticut 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. For the fiscal years ended June 30, 2003, 2004 and 2005, a total of $96,390, $96,735 and $120,145, respectively, was paid by the Comptroller in payments to dependents, death benefits and injury benefits.

Connecticut State Firefighters 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 Connecticut State Firefighters 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. For the fiscal years ended June 30, 2003, 2004 and 2005, a total of $88,728, $68,586 and $132,582, respectively, was paid by the Comptroller in disability payments, payments to dependents, and death benefits.

Interstate Environmental Commission:

The Interstate Environmental 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 ratios of New York and New Jersey at 45 percent each, and Connecticut 10 percent. A total of $84,956 was appropriated by the General Assembly and disbursed by the State Comptroller during each of the fiscal years ended June 30, 2003, 2004 and 2005 to meet these expenses.

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. 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 equaled 100 percent for that year and each year thereafter.

For the fiscal years ended June 30, 2003, 2004 and 2005, a total of $64,959,215, $64,959,215 and $69,959,215, respectively, was paid by the Comptroller as grant payments to towns. The amount received by each town was based on statutory formulas. The above totals are net of expenditure transfer credits of $2,006,768, $2,165,313, and $2,534,177, respectively, which represent an allocation of part of the cost of the grants applicable to the Bradley International Airport, and which are charged to the Bradley International Airport Operations Fund.

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. Such payments are to equal 77 percent of the property taxes that would have been paid on such exempt real property. 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. For the fiscal years ended June 30, 2003, 2004 and 2005, a total of $100,931,737, $100,931,737 and $105,931,737, respectively, was paid by the Comptroller as grant payments to towns. 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 fiscal years ended June 30, 2003, 2004 and 2005, totaled $105,992,000, $85,000,000 and $85,000,000, respectively. 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 employees of the Departments of Transportation and Motor Vehicles, 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 fiscal years ended June 30, 2003, 2004 and 2005, reimbursements charged to State funds totaled $11,841,287, $9,969,722 and $4,477,324, respectively. Of these amounts, $10,772,212, $9,150,117 and $4,262,466 were reimbursed from the General Fund and $1,069,075, $819,605 and

$214,859 were reimbursed from the Special Transportation Fund, respectively.

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, 2003, 2004 and 2005, totaled $692,381, $1,033,561 and $3,109,441, respectively.

During the audited period, a consulting firm 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. The State's share of premium payments for this program is charged to General and Special Transportation Fund appropriations authorized for this purpose.

Premium payments are made monthly to the provider, 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. A summary of expenditures for the State's share of insurance premiums under the group life insurance program follows:

		Fiscal Years	
	2002-2003	**2003-2004**	**2004-2005**
Gross Expenditures – General Fund:			
Payments to insurance companies	$5,423,638	$5,276,851	$4,737,501
Add (Deduct):			
Reimbursements - State/Federal Funds:			
Refunds of current expenditures	(2,013,895)	n/a	n/a
Expenditure transfers/debits (credits):	298,982		
Total Additions (Deductions)	(1,714,913)	0	0
Net Expenditures– General Fund:	**$3,708,725**	**$5,276,851**	**$4,737,501**
Expenditures - Special Transportation Fund			
Payments to insurance companies	**$200,971**	**$185,178**	**$172,549**

With the implementation of the Core-CT accounting system beginning with the 2003-2004 fiscal year, refunds of current expenditures and expenditure transfers are not shown separately.

Tuition Reimbursements - Training and Travel:

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 fiscal years ended June 30, 2003, 2004 and 2005, funding requirements for tuition, travel, and training reimbursements, as specified in 14 collective bargaining agreements covering those years, amounted to $2,499,500, $3,085,000 and $3,394,500, respectively, while another $5,070,574, $1,500,000 and $2,667,725 representing unexpended reimbursement moneys from the fiscal years ended June 30, 2002, 2003 and 2004, respectively, were also made available in accordance with the terms of certain agreements. Of the total $7,570,074, $4,585,000 and $6,062,225 available, $2,592,134, $1,917,275 and $3,233,129 was expended during the same fiscal years, respectively, and $2,829,096 was carried forward for use in the 2005-2006 fiscal year.

Employers Social Security Tax:

Each fiscal year, the State's share of Social Security costs is charged to General and Special Transportation Fund appropriations authorized for this purpose. 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 gross payments to the Federal government for the employer's share of Social Security taxes are based on the rates and wage limits in effect during the audited period. 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	
	2002-2003	**2003-2004**	**2004-2005**
Gross Expenditures – General Fund:			
Employer's share-State employees	$174,959,713	$149,842,791	$159,695,890
Employer's share-E.O. Smith School	40,173		
Grant Transfer to Other State Agencies	20,242,399	20,399,932	20,783,522
Total	195,242,285	170,242,722	180,479,412
Add (Deduct):			
Reimbursements - State/Federal Funds:			
Refunds of current expenditures	(58,047,260)	n/a	n/a
Expenditure transfers/debits (credits):	(15,776,059)		
Total Additions (Deductions)	(73,823,319)	0	0
Net Expenditures– General Fund:	**$121,418,966**	**$170,242,723**	**$180,479,412**
Expenditures – Transportation Fund:			
Employer's share-State employees	**$12,483,981**	**$12,191,318**	**$12,918,776**

With the implementation of the Core-CT accounting system beginning with the 2003-2004 fiscal year, refunds of current expenditures, expenditure transfers and expenditures applicable to the E.O. Smith School are not shown separately.

State Employees 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.

Each fiscal year, the State's share of employee health services is initially met from General and Special Transportation Fund appropriations authorized for this purpose. On the basis of payroll transactions submitted by the State agencies, the State Comptroller's Office charges the General and Special Transportation Fund appropriations 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.

An analysis of the total payment of the State's share of such costs during the audited period follows:

		Fiscal Years	
	2002-2003	**2003-2004**	**2004-2005**
Gross Expenditures – General Fund:			
Payments to health insurance carriers:			
Employer's share-State employees	$307,689,188	$276,611,631	$313,110,315
Payments for consulting services	608,128	431,954	546,790
Grant Transfer to Other State Agencies	37,047,227	39,609,370	45,712,262
Total Gross Expenditures	345,344,543	316,652,955	359,369,367
Add (Deduct):			
Reimbursements – State/Federal Funds:			
Refunds of current expenditures	(92,195,647)	n/a	n/a
Refunds of prior year expenditures	(21,364)		
Expenditure transfers/debits (credits):	34,640,587		
Total Additions (Deductions)	(57,576,424)	0	0
Net Expenditures– General Fund:	**$287,768,119**	**$316,652,955**	**$359,369,367**
Expenditures – Transportation Fund:			
Employer's share-State employees	**$21,051,802**	**$23,179,503**	**$25,042,696**

With the implementation of the Core-CT accounting system beginning with the 2003-2004 fiscal year, refunds of expenditures and expenditure transfers are not shown separately.

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 Fiscal Policy 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 97-1 (June Special Session), 98-9, 01-2 (June Special Session) and 02-1 (May Special Session), authorized a total of $3,600,000 in bonds for construction and equipment for an instructional television fixed service system, including interconnection with State agencies for Connecticut Public Broadcasting, Inc. There were no expenditures for this project during the audited period. There was an unallocated/unallotted balance totaling $3,600,000 as of June 30, 2005.

Special Acts 01-2 (June Special Session) and 04-2 (May Special Session) authorized a total of $4,000,000 in bonds for the 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. A total of $4,000,000 was expended for this project during the fiscal years ended June 30, 2004 and 2005, which fully expended the project.

Special Acts 01-2 (June Special Session), 02-1 (May Special Session), 03-2 (September Special Session) and 04-2 (May Special Session), authorized a total of $107,800,000 in bonds for the development and implementation of the Core-CT financial systems project. Core-CT is intended to provide an integrated business process covering requisition, purchasing, appropriations and commitment control, accounts payable, and cash disbursements; accounts receivable, billing and cash receipts, as well as personnel and payroll processes. It replaces a number of individual and disparate computer systems that were previously used by State agencies. The Office of the State Comptroller, the Office of Policy and Management, the Department of Administrative Services, and the Department of Information Technology has jointly administered the project. A total of $78,092,702 in bond funds was expended during the audited period. There was an unallocated/unallotted balance of $454,875 as of June 30, 2005.

The Special Revenue Fund account for Conservation 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 fiscal years ended June 30, 2003, 2004 and 2005, respectively. 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 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 description of the operations of each Agency Fund administered by the Comptroller's Office is presented in the following paragraphs.

Funds Awaiting Distribution:

This fund is used statewide 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.

The Comptroller's Office has set up separate special identification numbers within the Funds Awaiting Distribution Fund to account for the activity of certain employee accounts, specifically payroll deductions for savings bonds and life insurance, as well as other minor functions. Receipts deposited to the Funds Awaiting Distribution Fund by the Office of State Comptroller totaled $10,329,200, $438,854,145 $558,539,412 for fiscal years ended June 30, 2003, 2004 and 2005, respectively. Disbursements and transfers from the Fund by the Office of State Comptroller totaled $10,229,780, $436,747 140 and $568,741,302, for the same fiscal years respectively. The significant increase in activity beginning with the 2004 fiscal year was the result of a Statewide change in the procedures for accounting for pending receipts with the implementation of the Core-CT accounting system.

Fringe Benefit Recovery:

This fund was 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. This generally occurs when agencies 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.

The Comptroller's Office transferred all recoveries monthly to the applicable revenue or refund of expenditure accounts, based upon approved fringe benefit allocation percentages. Beginning with the 2003-2004 fiscal year, the use of this Fund was eliminated with the direct charge of fringe benefits in the Core-CT system. During the 2002-2003 fiscal year, payments and transfers from the Fund totaled $2,553,677.

Statewide Air Travel – Purchasing Card:

State agencies have the authority to approve their own agency-funded travel requests using the State's designated travel agent. The Comptroller established the Statewide Air Travel – Purchasing Card account to process State agency travel purchases in this fund. The Comptroller processed the monthly payments and then directly charges each user agency. The use of this Fund was eliminated beginning with the 2003-2004 fiscal year. During the 2002-2003 fiscal year, payments and transfers from the account totaled $597,744.

CONDITION OF RECORDS

Areas warranting comment are presented below.

Funds Awaiting Distribution Fund Accounts – Reconciliation and Reporting:

Criteria: Funds Awaiting Distribution Fund accounts administered by the Comptroller's Office should be supported by detailed accounting records. Good internal control calls for the reconciliation of control totals to subsidiary records.

The State Accounting Manual requires that each State agency submit, by July 31st of each year, an annual report to the State Comptroller's Budget and Financial Analysis Division, reporting, as of June 30th of each fiscal year, that the Funds Awaiting Distribution Fund (Agency Fund 34003, formerly the Pending Receipts Fund), has been reconciled and requesting any required corrections by the State Comptroller

Condition: During our review, we noted three accounts within the Funds Awaiting Distribution Fund, Agency Fund 34003, that were not reconciled in detail to the ending cash balances per the State's General Ledger as maintained on the Core-CT system, as of June 30, 2005. The ending balances in these accounts, as of June 30, 2005, were $2,347, $608,260 and $154,082, respectively. These accounts consist of funds accumulated from employees' payroll deductions to purchase savings bonds, funds accumulated from employees' payroll deductions for the purchase of group life insurance, and deferred compensation refunds and other adjustments that may occur within the deferred compensation contributions, respectively.

In addition, our examination also revealed that the Comptroller's Business Services Unit did not submit the required annual report, in memorandum form, to the Comptroller's Budget and Financial Analysis Division reporting that its Funds Awaiting Distribution has been reconciled and requesting any corrections for the fiscal years ended June 30, 2003, 2004 and 2005.

Effect: Errors could occur in the recording of receipts and/or disbursements activities to the State's General Ledger for the Funds Awaiting Distribution Fund accounts resulting in incorrect fiscal-year end cash balances, which may not be detected by management within a reasonable period of time.

The identified control weakness resulted in the failure to comply with the Comptroller's fiscal year-end reporting requirement for the Funds Awaiting Distribution Fund for each of the three fiscal years of the audited period.

Cause: Subsequent to the implementation of the Core-CT system, the Comptroller's Office did not establish the procedures necessary to ensure that all receipts and disbursements activities within the Funds Awaiting Distribution Fund accounts were reviewed or to ensure that the fiscal-year-end cash balances for the accounts per the State's General Ledger and the Comptroller's subsidiary records were reconciled.

It appears that a lack of adequate administrative control led to the Business Services Unit's failure to both prepare the required fiscal year-end reconciliation and submit the required annual report to the Comptroller's Budget and Fiscal Analysis Division for the Funds Awaiting Distribution Fund.

Recommendation: The Comptroller's Office should improve its internal controls over its Funds Awaiting Distribution Fund to ensure that the monthly and year-end reconciliations to the State's General Ledger cash balances are being performed, that any pending items are reviewed and resolved on a timely basis, and that the required annual report, as of June 30th, is submitted in accordance with the requirements of the State Comptroller's *State Accounting Manual.* (See Recommendation 1.)

Agency Response: **"**Our Office is in agreement that improvement is needed over the Funds Awaiting Distribution Fund to ensure that the monthly and year-end reconciliations are being performed and that any pending items are reviewed and resolved on a timely basis. We have made significant gains in this area over the past fiscal year and will continue to monitor this fund. Further, procedures have been developed to make the reconciliation a standard process. The annual report will be completed on a timely basis as required by the State Accounting Manual.**"**

Inventory – Equipment Tagging and Annual Inventory Reports:

Criteria: Section 4-36 of the General Statutes requires each State agency to establish and keep an inventory account in the form prescribed by the Comptroller, and also requires each agency to annually transmit a detailed inventory to the Comptroller. The Comptroller's specific requirements are found in the State's Property Control Manual. Such requirements include, among other things, that all items of personal property be tagged with a unique identification number. In addition, the State's Property Control Manual also provides instructions to complete the Annual Fixed Assets / Property Inventory Report (CO-59).

Condition: Previous audits have cited the Office of State Comptroller for failure to maintain proper equipment inventory records. In those audits it was also found that the Annual Fixed Assets / Property Inventory Report contained data that was unsupported. We reviewed the Annual Fixed Assets / Property Inventory Report for the fiscal years ended June 30, 2003, 2004 and 2005. During our review, we noted that the data presented for additions and deletions in the furnishings and equipment category was either incorrect or in some instances unsupported.

Our review of the Comptroller's inventory listing revealed that there were two computers with the same tag number, and one laptop computer listed as two different items.

Effect: The Comptroller's inventory records and annual inventory reports do not accurately reflect its actual equipment inventory.

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

Recommendation: The Office of State Comptroller should strengthen its controls over tagging and monitoring of its inventory and the preparation of the Annual Fixed Assets/Property Inventory Report. (See Recommendation 2.)

Agency Response: "With the implementation of the Core-CT Asset Management module, our Office has been able to purchase and utilize a barcode scanner and inventory tags. At this point in time, 95 percent of all OSC assets have been re-tagged. We will be conducting a barcode scan of the assets for the Fiscal Year 2007, and expect to be able to accurately support all of the equipment inventory stated on our CO-59 Report."

Controls Over Cellular Telephone Usage:

Criteria: The Department of Information Technology's (DOIT) *Telecommunications Equipment Policy* requires that the equipment be used "in conjunction with and to further current state business." DOIT's policies relative to cellular telephones include the requirement that the telephones "shall be used for approved state business as set out by the individual agencies. Each agency is responsible for determining whether the acquisition and use of cellular equipment and service is appropriate for its employees". In addition, DOIT's policy relative to the monthly billing of State agencies for the usage of State-owned cellular telephones states that "it shall be the responsibility of the individual and the agency to verify the accuracy of bill and to confirm the usage to be appropriate." In regard to the liability for payment for the use of State-owed telecommunications equipment, DOIT's policy states that "individual telecommunications equipment holders shall be responsible for repayment of improper charges and shall be personally liable for misuse or abuse of equipment or services."

The Office of the State Comptroller's internal policy on the use of State equipment states that "All state equipment is for the exclusive purpose of conducting state business."

Condition: We reported in our prior audit report that the Office's control over the usage of cellular telephones was deficient. Our current review of the usage of cellular telephones by the Office's employees revealed that the deficiencies still continue.

Our current examination of the Office's records revealed that some employees, who were assigned the use of State-owned cellular telephones, did not always submit the required confirmation to verify that the monthly charges were correct and that the related usage was appropriate. Our review disclosed that, with respect to the monthly billings for the fiscal years ended June 30, 2003, 2004 and 2005, 22 percent, 11 percent and 28 percent, respectively, of the required employee confirmations were not submitted.

In addition, a review of one employee's records for the six-month period from June 2005 through November 2005 revealed that approximately 2,800 minutes were for personal usage. We found that the employee's personal usage of the State-owed cellular telephone included periods when the employee was away from work, including nights, weekends, and on days the employee had charged to either vacation or sick leave. We also determined that a significant number of the employee's personal use calls were to an out-of-state telephone number.

Effect: The Office may not be in compliance with the either the Statewide Telecommunications Equipment Policy issued by the Department of

Information Technology or with the Office of the State Comptroller's own internal policy on the use of State-owned equipment. Internal controls are weakened when there is an inadequate review of the charges for and usage of State-owed cellular telephones. Unauthorized usage can occur and not be detected, which could result in the Office's failure to obtain repayment for such usage.

Cause: Procedures were not followed for the review of the usage of State-owned cellular telephones. A lack of adequate administrative control contributed to the identified conditions.

Recommendation: The Comptroller's Office should improve its internal controls to ensure its compliance with both the Department of Information Technology's Statewide telecommunications equipment policy and the Office's own policy for State-owned equipment. The Office should implement the controls necessary to ensure that employees' review and verify the costs and usage of State-owned cellular telephones. (See Recommendation 3.)

Agency Response: "Our Office has taken steps to improve its internal controls to ensure compliance with existing policies related to telecommunications equipment. Currently, all employees review and verify the costs and usage of State-owned cellular telephones and reimburse the State for all non-business calls over the contracted minutes."

Software Inventory:

Criteria: The *State of Connecticut's Property Control Manual*, issued by the State Comptroller under authority granted under Section 4-36 of the General Statutes, prescribes control policies and procedures relative to the establishment and maintenance of software inventory for State agencies. The software inventory procedures set forth by the State Comptroller are applicable to all State agencies. Among the specific procedures prescribed by the State Comptroller are the following: a) each State agency will produce a software inventory report on an annual basis and that these reports will be available to the Auditors of Public Accounts and, b) a physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report, with the comparison retained by the agency for audit purposes. In addition, the policy and procedures specifically states that software compliance is a legal responsibility for State agencies and non-compliance can impact an agency, as they may be held financially liable for the use of unlicensed copies of software.

Condition: The Office did not maintain a current updated inventory of installed software applications during the audited period. An annual software inventory report was not prepared and a physical inventory at the end of each fiscal year was not performed.

Effect: The Office is not in compliance with the software inventory policy and procedures issued by the Office of the State Comptroller. The unauthorized duplication and/or use of software could occur that both constitutes copyright infringement and creates a financial liability for the State.

Cause: A lack of adequate administrative control contributed to this condition.

Recommendation: The Office of the State Comptroller should implement the internal controls necessary to ensure that its computer software inventory is maintained in accordance with the software inventory policy and procedures as set forth in the *State of Connecticut's Property Control Manual*. (See Recommendation 4.)

Agency Response: "The software inventory for our Office is maintained on an Access database. One of the goals in the design of the database was to ensure that all of the criteria (fields) necessary to meet the software guidelines were included. The new database has the necessary fields to capture the required data. It has always been, and continues to be our intent to comply with the State of Connecticut's Property Control Manual."

Administration of Refunds of Payments:

Criteria: For a system of administration and accounting to be effective, internal controls must be provided to accurately account for expenditures and identify their source. The Office of State Comptroller had, previous to the implementation of the Core-CT system, administrative control over the refunds of payments made to State agencies.

Condition: When the legacy accounting system was replaced by the Core-CT system beginning in the 2003-2004 fiscal year, a system of controls and procedures that reviewed, authorized and accounted for refunds of payments received by State agencies was dismantled.

Under the Core-CT system, State agencies, with the exception of the Department of Motor Vehicles, process their own refunds of payments. These payments are charged to a single accounting string that is charged as a refund of revenues of the State Comptroller, without regard to the source of the original revenue. In the fiscal years ended June 30, 2004 and 2005, $1,777,281 and $1,949,975, respectively, in refunds of overpayments and other payments were charged to the revenues of the State Comptroller without regard to their origin.

The refunded receipts are initiated by the user agencies in the Core-CT system. They are automatically processed and paid without the review and approval of the State Comptroller.

Cause: It appears that this area was not addressed at the time of the Core-CT conversion.

Effect: Refunds are paid by State agencies from the resources of the State Comptroller without the review and authorization of that agency. The reported revenues of the State Comptroller are inaccurate, as the reported totals reflect activity unrelated to it.

Recommendation: The Office of the State Comptroller should establish a means to ensure that refunds of payments are properly controlled and properly accounted for. (See Recommendation 5.)

Agency Response: "Our Office is not in total agreement with this finding. With regard to payments being charged to the revenues of the State Comptroller without regard to their origin, there is no appropriated fund for refunds. Resources are simply deposited into the General Fund or the Transportation Fund. We are, in fact, matching the fund where the money was deposited to the fund where it initially was dispersed from.

To further refine identification of the refunds made for Fiscal Year 2007, we have implemented an accounting string with a specific program code for each type of refund. At this point, Core-CT EPM reports can be generated for a specific type of refund by a specific agency – a modification which has been well received by all impacted agencies. In addition, our Office is implementing a post audit procedure to properly control and account for the refunds.*"*

Purchases and Expenditures:

Criteria: Section 4-98 of the General Statutes states "… no budgeted agency or any agent thereof shall incur any obligation, by order, contract or otherwise, except by the issue of a purchase order or any documentation approved by the Comptroller…"

The State Accounting Manual specifically requires that "commitments shall be submitted at least five working days prior to the submission of invoices to ensure commitments are posted to the system prior to payment. Payments will not be processed when a commitment is required but has not been submitted."

Condition: Our audit tested a sample of payments from agency appropriations. We found that the purchase orders related to 53, or 12 percent, of the randomly selected sample of 446 invoices reviewed, were issued after the invoices were received in the business office.

Cause: It appears that a failure in communication between business office personnel and other agency staff in regard to the services purchased was the cause. Frequently the business office was not made aware that a service was being performed until after the invoice was received. Many of the payments were for "on-going" services, for which a specific purchase order for services provided might not have been prepared.

Effect: Expenditures were paid prior to funds being committed. The State Comptroller was not in compliance with Section 4-98 of the General Statutes.

Recommendation: The Office of the State Comptroller should ensure that all purchases and expenditures observe proper purchasing and payment processing procedures. (See Recommendation 6.)

Agency Response: "For Fiscal Year 2007, our Office was able to correctly establish purchase orders for services being performed. In addition, we are now using blanket purchase orders for "on-going" services to ensure that all purchases and expenditures are processed in accordance with existing procedures. As our familiarity with Core-CT and all that it has to offer increases, we have a better understanding of both the new accounting system and the many new processes which continue to improve the methods by which we keep the State's books."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. During our current review, we found that the reconciliations of the Pending Receipts Fund (now identified as the Funds Awaiting Distribution Fund) by account and in total to the cash balances reported in the General Ledger were not performed on either a monthly or fiscal-year-end basis. This recommendation has not been complied with and is being repeated in a modified form. (See Recommendation 1.)

- Strengthen its controls over the tagging and monitoring of Furnishings and Equipment and the preparation of the Annual Fixed Assets/ Property Inventory Report. During our current review, we noted that the Comptroller has made improvement in this area; however, similar exceptions were noted. This recommendation is being repeated. (See Recommendation 2.)

- Strengthen its controls to ensure that the costs associated with its employees' cellular telephone usage are properly supported, reviewed and verified. During our current review, we noted that a significant number of the monthly cellular phone reports were not reviewed and signed by the employee. This recommendation is being repeated. (See Recommendation 3.)

- Continue to work on developing and maintaining a comprehensive software inventory listing. Our current review found that the Comptroller has not maintained a complete and current software inventory record. The recommendation is being repeated. (See Recommendation 4.)

- The Emergency Procedures Manual relating to the Central Accounting System should be kept current**.** Beginning with the 2003-2004 fiscal year the Central Accounting System was replaced with the Core-CT system. The emergency and disaster procedures applicable to the Core-CT system are now the responsibility of the Department of Information Technology, which operates that system. Accordingly, the Recommendation is no longer applicable.

Current Audit Recommendations:

1. **The Comptroller's Office should improve its internal controls over its Funds Awaiting Distribution Fund to ensure that the monthly and year-end reconciliations to the State's General Ledger cash balances are being performed, that any pending items are reviewed and resolved on a timely basis, and that the required annual report, as of June 30th, is submitted in accordance with the requirements of the State Comptroller's *State Accounting Manual*.**

   Comment:

   The Agency did not maintain a detailed accounting of the ending balance for three Funds Awaiting Distribution Fund accounts. In addition, the Agency failed to submit the annual report of its reconciliation of its Funds Awaiting Distribution Fund for each of the three fiscal years of the audited period.

2. **The Office of State Comptroller should strengthen its controls over tagging and monitoring of its inventory and the preparation of the Annual Fixed Assets/Property Inventory Report.**

   Comment:

   We noted two computers with the same tag number and one laptop computer was identified as two different items on the Agency's inventory records. Also, the Annual Fixed Assets/ Property Inventory Report contained data that was unsupported.

3. **The Comptroller's Office should improve its internal controls to ensure its compliance with both the Department of Information Technology's Statewide telecommunications equipment policy and the Office's own policy for State-owned equipment. The Office should implement the controls necessary to ensure that employees' review and verify the costs and usage of State-owned cellular telephones.**

   Comment:

   Some employees, who were assigned the use of State-owed cellular telephones, did not always submit the required confirmation to verify that the monthly charges were correct and that the related usage was appropriate. In addition, we noted that a significant amount of one employee's usage was related to out-of-state calls occurring after normal business hours.

4. **The Office of the State Comptroller should implement the internal controls necessary to ensure that its computer software inventory is maintained in accordance with the software inventory policy and procedures as set forth in the *State of Connecticut's Property Control Manual*.**

   Comment:

   The software inventory listing was not currently maintained or complete.

5. **The Office of the State Comptroller should establish a means to ensure that refunds of payments are properly controlled and properly accounted for.**

   Comment:

   Procedures and internal controls were not revised to reflect changes brought by the implementation of the Core-CT system.

6. **The Office of the State Comptroller should ensure that all purchases and expenditures observe proper purchasing and payment processing procedures.**

   Comment:

   The Agency internal controls were not adequate to always ensure its compliance with Section 4-98 of the General Statutes. A purchase order was not processed to properly commit funds prior to the receipt of the vendor invoice relative to 12 percent of the payments tested.

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, 2003, 2004 and 2005. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management’s authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the State Comptroller’s departmental operations for the fiscal years ended June 30, 2003, 2004 and 2005, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the State Comptroller’s Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal 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, 2003, 2004 and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the 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.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provision of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the failure to comply with the Comptroller's fiscal year-end reporting requirements for the Funds Awaiting Distribution Fund; the deficiencies in the equipment and software inventory records; the deficiencies relative to the review of the charges for and usage of State-owned cellular telephones; the Statewide accounting of refunds of payments; and the failure to observe proper purchase and payment procedures.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which would result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable conditions to be material or significant weaknesses: the deficiencies in the equipment and software inventory records; the Statewide accounting of refunds of payments; and the failure to observe proper purchase and payment procedures.

We also noted certain matters involving the internal control over the Agency's financial operations and over 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.

Robert Koch
Principal Auditor

Approved:

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