

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
OFFICE OF STATE COMPTROLLER - STATE FINANCIAL OPERATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007***

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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May 7, 2008

**AUDITORS' REPORT  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

We have examined the records of the Comptroller of the State of Connecticut as they pertain to the central accounting of State financial operations, on a budgetary basis of accounting, for the fiscal year ended June 30, 2007. This report on that examination consists of the Comments and Recommendations, which follow. The audit certification on the Comptroller's civil list financial statements, the audited civil list financial statements themselves, and the related auditors' report on compliance and internal control over civil list financial reporting are included in a separate report entitled *Annual Report of the Office of State Comptroller – Budgetary Basis*, for the fiscal year ended June 30, 2007. Throughout this report we will refer to various financial statements and schedules contained in this annual report, which is hereinafter referred to as the "Comptroller's 2007 Annual Report."

**COMMENTS**

**FOREWORD:**

The financial position as of June 30, 2007, and the 2006-2007 cash transactions of all State civil list funds, accounted for centrally in the records of both the Office of State Comptroller and State Treasurer, are shown in Exhibit A and Schedule A-1, respectively, of the Comptroller's 2007 Annual Report. The financial position of the General Fund at June 30, 2007, together with a summary of operations for the year then ended, are shown in Exhibit B and Schedule B-1, respectively, of the Comptroller's 2007 Annual Report. Corresponding statements for the Special Transportation Fund are shown in Schedules C-2 and C-3, respectively, of the Comptroller's 2007 Annual Report. A summary of State bonds and notes outstanding as of June 30, 2007, the changes thereto, and the authorizations for future borrowings are shown in Schedules E-3, E-4, and E-5 of the Comptroller's 2007 Annual Report.

The Comptroller prepares the financial statements of the State's civil list funds on a modified cash basis of accounting, consistent with the prior year. The accounting basis used by the State of Connecticut was adopted by the Comptroller under the authority granted by Article Fourth, Section 24, of the Constitution of the State of Connecticut and with the recognition of legislative authorizations. The modified cash basis of accounting permits an accrual of revenues at fiscal year end which includes the collections in July of Indian gaming payments and certain taxes levied as of June 30, and requires that expenditures be recorded in the year in which disbursements are made provided recognition is given to continuing appropriations.

Those taxes for which July collections are accrued include sales and use taxes, gross earnings taxes on utility and petroleum companies, real estate conveyance taxes and taxes on alcoholic beverages, cigarettes, gasoline and special motor fuel. The modified cash basis of accounting also permits the accrual of all corporation tax payments collected in July and August that are postmarked by August 15, as well as the accrual of all personal income tax payments collected in July and postmarked by July 31, whether or not they were payments withheld by employers.

Under the modified cash basis of accounting used by the Comptroller, restricted revenues of the General and Special Transportation Funds are recognized when earned through the expenditure of grant funds, rather than when received or awarded. This accounting method was adopted to facilitate the Comptroller's conversion to reporting under generally accepted accounting principles (GAAP), as discussed later in this section.

Receivables which are reported by the Comptroller include Federal and other grants receivable recorded in connection with Federally supported programs or capital projects for which Federal or other outside participation is available, loans and notes receivable from local governments, nonprofit corporations, businesses or individuals and the accounts receivable of the University Health Center. Such receivables have been reported by the Comptroller as assets of the funds financing the projects or programs involved and are fully reserved on the balance sheet, except within the Grants and Restricted Accounts Fund and the Transportation Grants and Restricted Accounts Fund where the Federal and other grants receivable are the source of financing for restricted appropriations established for the purposes of the grants involved. These restricted revenues are recognized by the Comptroller when earned through the expenditure of grant funds, rather than when received or awarded. In addition, loans made from the General Fund to the Connecticut Student Loan Foundation, pursuant to Section 10a-213 of the General Statutes, are accrued at fiscal year end, as is interest income of the Special Transportation Fund, which is accrued pursuant to the terms of a Special Tax Obligations Bond Indenture dated September 15, 1984.

This report covers the financial operations of the 2006-2007 fiscal year under a biennial budget adopted by the 2005 General Assembly, and subsequently revised by the 2006 General Assembly, including the financial accounting for the budget plans of the General Fund and Special Transportation Fund, as it applies to the 2006-2007 audit period.

In maintaining State accounting records and in preparing financial statements, the Comptroller, consistent with prior years, was guided by the aforementioned requirements and authorizations of State fiscal statutes as regards the method of accounting and fund classification. For this reason, therefore, the financial statements contained in the *Report of the Office of State Comptroller - Budgetary Basis* are not, nor are they intended to be, in accordance with generally accepted accounting principles. In order for the Comptroller to follow such principles, among other things, expenditures would have to be recorded on an accrual rather than cash basis, all non-civil list funds and component units of the State would have to be included in the financial statements, all agencies' assets and contingent and long term liabilities would have to be recognized, and appropriate footnote disclosures would have to be made in the financial statements.

In March 2005, the American Institute of Certified Public Accountants issued an interpretation of its professional auditing standards that affects those governments that prepare financial statements using the cash, or modified cash basis of accounting, rather than reporting their financial activity in accordance with GAAP. As a result, those statements must conform to the applicable disclosure requirements of GAAP in order to avoid receiving an adverse audit opinion. This would require management to prepare and incorporate a management discussion and analysis, notes to the financial statements, and disclosure of infrastructure assets into the budgetary basis report. As discussed in the Condition of Records section of this report, because the Office of State Comptroller has not done such, we have been required to render such an opinion on the *Report of the Office of State Comptroller - Budgetary Basis* for the fiscal year ending June 30, 2007.

In order to comply with GAAP, the Office of State Comptroller has issued a separate *Comprehensive Annual Financial Report* (CAFR) showing the State of Connecticut's financial position and results of operations in accordance with GAAP requirements. It has done so since the fiscal year ended June 30, 1990. This report, however, was always made in addition to the *Annual Report of the Office of State Comptroller - Budgetary Basis*, which presents the State's financial operations as budgeted by the General Assembly. Because differing accounting bases are followed in preparing the two reports, substantial variances can occur in the presentation of the State's financial position, as well as, its operations.

As explained above, the Office of State Comptroller is required by statute to follow a practice of recording the accrual of certain revenues without a corresponding accrual of expenditures in the General Fund. This accounting practice resulted in the accrual of more than \$1,147,742,000 in revenues, which would, under a cash basis system of accounting, be recorded in the 2007-2008 fiscal year. If there had been a similar accrual of expenditures as required by generally accepted accounting principles (GAAP), there would have been added to General Fund expenditures a total estimated to be as high as \$1,429,400,000 over the cash basis of accounting during the first year only of any conversion to GAAP budgeting by the State. It should be noted that these expenditure accruals would be offset in part by additional revenue accruals, primarily Federal grant receivables, of some \$435,100,000 under GAAP. The net result of these effects is an estimated deficit in the unreserved Fund Balance of the General Fund (GAAP Basis) totaling \$994,300,000 as of June 30, 2007.

For the State's *Comprehensive Annual Financial Report* to gain widespread use and

acceptance, the legislative budget plan must be prepared and enacted in accordance with GAAP. In that way, the CAFR will present, in a unified format, both the budgetary and actual financial operations of the State of Connecticut. To accomplish this end the 1993 General Assembly passed Public Act 93-402. This Act, effective with the fiscal year commencing July 1, 1995, authorized the Office of State Comptroller and the Office of Policy and Management to implement the use of GAAP with respect to the preparation of the biennial budget and financial statements of the State of Connecticut. A conversion plan was developed in accordance with Public Act 93-402, and was submitted to the Appropriations Committee of the General Assembly in 1994. Implementation plans were subsequently adjusted, however, when the General Assembly, through a succession of Public Acts, continued to postpone the State's conversion to GAAP budgeting from the fiscal year commencing July 1, 1995, to the fiscal year commencing July 1, 2007. Most recently, Section 95 of Public Act 07-1, passed during the June Special Session of the 2007 General Assembly, postponed the State's conversion to GAAP budgeting to the fiscal year commencing July 1, 2009. It also provides that the amortization of accrued and unpaid expenses and liabilities and other adjustments necessary for implementation, begin with the fiscal year ending June 30, 2011, and continue in equal annual installments to the fiscal year ended June 30, 2025. It should be noted that the above provisions were codified in Section 3-115b of the General Statutes.

During the audited period the General Assembly passed Public Act 07-229, which would authorize the State Comptroller, instead of the Governmental Accounting Standards Board (GASB), to prescribe the generally accepted accounting principles (GAAP) that the Comptroller can use to prepare and maintain the State's annual financial statements and that the Office of Policy and Management can use to prepare the annual State budget. This legislation was requested by the State Comptroller in order to allow her flexibility in the phase-in of GAAP based budgeting. However, the legislation would also allow the Office of State Comptroller at any time in the future to issue financial statements that are not in compliance with GASB requirements, which would not be acceptable to bond rating agencies and other users. For this reason this Public Act was vetoed by the Governor on July 6, 2007.

**OFFICERS:**

Nancy S. Wyman and Mark E. Ojakian served as State Comptroller and Deputy Comptroller, respectively, during the 2006-2007 fiscal year.

**GENERAL FUND:**

The General Fund is the chief operating fund of the State. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State.

The financial position of the General Fund at June 30, 2007, together with a summary of operations recorded for the year then ended, are shown in Exhibit B and Schedule B-1, respectively, of the Comptroller's 2007 Annual Report.

General Fund operations were conducted under a biennial budget plan, which estimated revenues and provided for expenditures of the 2005-2006 and 2006-2007 fiscal years. Public

Act 05-251, the Budget Act, enacted by the 2005 General Assembly, included revenue estimates and appropriations for the 2005-2006 and 2006-2007 fiscal years and revenue estimates of its Committee on Finance, Revenue and Bonding. Certain revisions were made to the biennial budget plan by the passage of Public Act 06-186 by the 2006 General Assembly, in order to provide for policy changes and address appropriation deficiencies for certain State agencies.

Under budget procedures customarily in effect, the estimates of revenues and the budgeted appropriations, taken in conjunction with whatever surplus or deficit was carried over from the preceding fiscal period, after consideration of any statutorily required transfers, give rise to an anticipated surplus or deficit projected through the end of the fiscal year. The budget plan for the 2006-2007 fiscal year as reported by the Comptroller may be expressed as follows:

Estimated Revenues, 2006-2007, as Revised by the Committee on Finance, Revenue and Bonding		\$14,998,000,000
Budgeted Appropriations, 2006-2007, As revised	\$14,952,139,984	
Estimated lapsing appropriations	<u>(114,980,000)</u>	
Net Appropriations		<u>14,837,159,984</u>
Anticipated Surplus (Deficit), June 30, 2007		<u><u>\$ 160,840,016</u></u>

The actual results of the operations of the 2006-2007 fiscal year are presented in Schedule B-1 of the Comptroller's 2007 Annual Report. An analysis of budgeted General Fund accounts follows:

Actual Budgeted Revenues, 2006-2007		\$15,742,560,908
Appropriations, 2006-2007	\$16,303,653,489	
Add/(Deduct)		
Appropriations lapsed	<u>(178,848,029)</u>	
Net Appropriations		<u>16,124,805,460</u>
Balance		(382,244,552)
Prior Year Budgeted Appropriations Continued to 2006-2007 Fiscal Year		702,854,380
Surplus Reserved from Fiscal Year 2005-2006		41,000,000
Reserve for Fiscal Year 2008-2009		(80,000,000)
Reserve for Statutory Transfer to Budget Reserve Fund		(269,240,230)
Miscellaneous adjustments		<u>(12,369,598)</u>
Unappropriated Surplus, June 30, 2007, per Schedule B-1		<u><u>\$ 0</u></u>

The variances between the actual results of operations and the original budget plan may be explained as follows:

1. *Actual revenues were some \$785,861,000 greater than originally estimated. Those revenue categories that showed the greatest changes were personal income taxes, \$321,062,000, corporations taxes, \$183,630,000, inheritance and estate taxes \$21,122,000, and real estate conveyance taxes \$13,621,000. Other revenue categories showing significant increases were investment income, miscellaneous income from taxes on nursing providers and in Federal grants. These increases were partly offset by a reduction of \$17,184,000 in taxes on insurance companies and a \$37,890,000 shortfall in sales and use taxes.*
2. *Appropriations showed an increase of approximately \$1,351,514,000 from the budget plan reported by the Comptroller. The net increase was primarily from \$702,854,380 in appropriations carried forward from the previous fiscal year. In addition, there was \$613,705,416 in appropriation adjustments authorized by Section 21 of Public Act 07-1 (June Special Session). Included in those changes was \$85,000,000 appropriated for the retirement of Special Obligation Rate Reduction Bonds, \$30,000,000 to establish a crisis hospital fund, \$300,000,000 in funding for the State share of contributions for the Teachers Retirement Fund, and \$41,493,934 in funding for property tax relief. All of these additional appropriations were unexpended and continued to the 2007-2008 fiscal year. In addition, adjustments were made to increase appropriations for a general increase in the personal services costs for State agencies.*
3. *Lapsed appropriations were some \$63,868,000 greater than estimated, primarily from lower than expected expenditures for health services for retired State employees and for the Medicaid, ConnPACE and Temporary Family Assistance programs at the Department of Social Services, and a reduction in expected expenditures for debt service.*

A statement of changes in the unappropriated surplus account of the General Fund for the fiscal year ended June 30, 2007, is presented in Schedule B-1 of the Comptroller's 2007 Annual Report. It should be noted that Section 4-30a of the General Statutes provides that the unappropriated surplus that remains in the General Fund at the end of the fiscal year, after any amounts required by law to be transferred for other purposes have been deducted, shall be deposited to the Budget Reserve Fund, provided that the amount so transferred shall not cause the balance in such fund to exceed ten percent of the net General Fund appropriations for the fiscal year in progress. In accordance with the statute, a total of \$269,240,230 was transferred to the Budget Reserve Fund at the close of the fiscal year.

**General Fund Revenues:**

Total budgeted revenues in the General Fund for the 2006-2007 fiscal year amounted to \$15,742,560,908, as shown in Schedule B-1 of the Comptroller's 2007 Annual Report. This represented an increase of some \$743,839,473 over the budgeted revenue total reported by the Comptroller for the preceding 2005-2006 fiscal year.

The budgeted revenue categories which showed the greatest change during the fiscal year under audit were as follows:

	<b>Nearest Thousand Dollars</b>
Taxes:	
Personal income	\$593,089,000
Sales and use	94,144,000
Corporations	103,029,000
Inheritance and estate	(16,337,000)
Insurance companies	(16,886,000)
Public service corporations	10,239,000
Oil companies	(67,686,000)
All others (net)	1,475,000
Refunds of Taxes - increase	(14,978,000)
Total Increase (Decrease) in Taxes	<u>686,089,000</u>
Other Revenues and Sources:	
Transfers - Special Revenue	(6,137,000)
Indian gaming payments	2,949,000
Licenses, permits and fees	(5,662,000)
Rents, fines and escheats	(39,674,000)
Investment income	29,908,000
Miscellaneous	12,569,000
Federal grants	53,197,000
Statutory transfers to/from other funds - net	10,600,000
Total Increase (Decrease) in Other Revenues and Sources	<u>57,750,000</u>
Total Increases (Decreases)	<u><u>\$743,839,000</u></u>

The above increase was generally attributed to improvement in general economic conditions, which provided for a significant increase in tax revenues.

**General Fund Expenditures:**

Total budgeted expenditures of the General Fund for the 2006-2007 fiscal year amounted to \$15,293,735,065, as shown in Schedule B-1 of the Comptroller's 2007 Annual Report. This latter amount represented an increase of some \$794,118,818 over the total budgeted expenditures reported by the Comptroller for the preceding 2005-2006 fiscal year. General Fund expenditures classified by current expenses, fixed charges and capital outlay are detailed on Schedule I of the Comptroller's 2007 Annual Report. A summary of the areas of significant changes in expenditures from budgeted accounts of the General Fund follows:

	<b>Thousand Dollars</b>
Personal Services	\$ 149,367,000
Other Current Expenses:	
State Employees' Retirement Contributions	30,009,000
State Employees' Health Service Costs	30,992,000
Retired State Employees' Health Service Costs	25,007,000
Employers' Social Security Tax	14,069,000
All Other - primarily contractual services and commodities	84,109,000
Fixed Charges:	
Debt Service	164,439,000
Policy and Management – property tax relief	45,492,000
Teachers' Retirement Board - Retirement Contributions	16,433,000
State Aid Grants:	
Education - charter schools, magnet schools, equalization grants and priority school districts	67,714,000
Developmental Services - primarily residential and day services	34,065,000
Mental Health and Addiction Services - special populations, medications, and Community Mental Health Strategy Board	12,822,000
Social Services - Medicaid, independent living assistance, pharmaceutical assistance to the elderly, child care assistance and other public assistance programs	27,629,000
Children and Families - primarily board and care of children	43,394,000
All Other Fixed Charges	48,395,000
Capital Outlay	183,000
Total Net Increase	<u><u>\$794,119,000</u></u>

Increased costs for personal services, debt service, education and property tax relief, as well as budget deficiency adjustments to cover increased costs for public assistance programs, primarily for Medicaid and the board and care of children, accounted for the majority of the increase.

**SPECIAL TRANSPORTATION FUND:**

The Special Transportation Fund operates in accordance with the provisions of Title 13b, Chapter 243, Part I, of the General Statutes. The Special Transportation Fund was established in 1984 as part of a continuous program of planning, construction and improvement of the State's transportation infrastructure. Such infrastructure includes the State's highways and bridges, the State's share of the local bridge program, mass transportation and transit facilities, waterway and aeronautic facilities other than Bradley International Airport, and maintenance garages and administrative facilities of the Department of Transportation.

The Special Transportation Fund is used for the purpose of budgeting and accounting for all transportation related taxes, fees and revenues that are used to secure the payment of debt service on Transportation Infrastructure bonds which are issued in accordance with the provisions of Chapter 243, Part II, of the General Statutes, as special tax obligation bonds. After providing for such debt service, the balance of the resources of the Fund are available for the payment of debt

service on other transportation related bonds issued by the State, and for the funding of appropriations for the Department of Transportation and the Department of Motor Vehicles.

Revenues credited to the Special Transportation Fund are, among other items, certain motor fuel taxes, portions of the oil companies tax and the sales tax on motor vehicles, motor vehicle receipts for licenses, registrations and titles, fees for safety marker plates, motor vehicle related fines and penalties, transportation related Federal aid, late fees for the emission inspection of motor vehicles, and revenues from the sale of information by the Department of Motor Vehicles.

The financial position of the Special Transportation Fund as of June 30, 2007, excluding those resources held by the Trustee under the Indenture of Trust for the Transportation Infrastructure special tax obligation bonds, is presented in Schedule C-2 of the Comptroller's 2007 Annual Report. A statement of the changes in unappropriated surplus of the Fund for the fiscal year then ended is shown in Schedule C-3. It should be noted that cash and investments totaling \$686,328,755, which are being held by the Trustee, are reported on Exhibit A of the Comptroller's 2007 Annual Report under Debt Service Funds.

Special Transportation Fund operations, like the General Fund, were conducted under a biennial budget plan, which estimated revenues and provided for expenditures of the 2005-2006 and 2006-2007 fiscal years. Public Act 05-251, the Budget Act for the Special Transportation Fund, enacted by the 2005 General Assembly, included revenue estimates and appropriations for the 2005-2006 and 2006-2007 fiscal years. Certain revisions were made to the biennial budget plan by the passage of Public Act 06-186 by the 2006 General Assembly.

Under budget procedures customarily in effect, the estimates of revenues and the budgeted appropriations, taken in conjunction with whatever surplus or deficit was carried over from the preceding fiscal period give rise to an anticipated surplus or deficit projected through the end of the fiscal year. The budget plan for the 2006-2007 fiscal year as reported by the Comptroller may be expressed as follows:

Estimated Revenues, 2006-2007, as Revised by the Committee on Finance, Revenue and Bonding		\$1,105,500,000
Budgeted Appropriations, 2006-2007, as revised	\$1,067,247,124	
Estimated lapsing appropriations	<u>(11,000,000)</u>	
Net Appropriations		<u>1,056,247,124</u>
Anticipated Surplus, June 30, 2007		<u><u>\$ 49,252,876</u></u>

The actual results of the operations of the 2006-2007 fiscal year are presented in Schedule C-3 of the Comptroller's 2007 Annual Report. An analysis of the Special Transportation Fund surplus follows:

Actual Budgeted Revenues, 2006-2007		\$1,090,344,326
Appropriations, 2006-2007	\$1,114,316,955	
Add/(Deduct)		

## ***Auditors of Public Accounts***

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Appropriations lapsed	<u>(36,472,680)</u>	
Net Appropriations		1,077,844,275
Balance		<u>12,500,051</u>
Unappropriated Surplus, June 30, 2006		133,379,154
Prior Year Budgeted Appropriations		
Continued to 2006-2007 Fiscal Year		39,066,874
Miscellaneous adjustments		<u>8,000,250</u>
Unappropriated Surplus, June 30, 2007, per Schedule C-3		<u><b>\$ 192,946,329</b></u>

The variances between the actual results of operations and the original budget plan may be explained as follows:

- 1. Actual revenues were some \$15,156,000 less than anticipated. This was primarily the result of a decline of \$10,349,000 in motor fuel taxes, and \$5,110,000 and \$18,322,434 in sales tax collections and receipts for licenses, registrations, and title fees, respectively, at the Department of Motor Vehicles. This was partly offset by an increase of \$11,460,000 in miscellaneous licenses, permits and fees.*
- 2. Appropriations showed an increase of approximately \$47,070,000 from the budget plan reported by the Comptroller. The net increase was primarily from \$39,066,874 in appropriations carried forward from the previous fiscal year. In addition, appropriation adjustments providing \$8,000,000 in additional town aid road grants were also made.*
- 3. Lapsed appropriations were some \$25,473,000 greater than estimated, primarily from a reduction in expected expenditures for debt service.*

### **Special Transportation Fund Revenues:**

Total budgeted revenues in the 2006-2007 fiscal year for the Special Transportation Fund amounted to \$1,090,344,326, as shown in Schedule C-3 of the Comptroller's 2007 Annual Report. This represented an increase of some \$111,148,003 over the budgeted revenue total reported by the Comptroller for the preceding 2005-2006 fiscal year. Budgeted revenue categories which showed the greatest change during the fiscal year under audit were as follows:

	<b><u>Nearest Thousand Dollars</u></b>
Taxes:	
Motor fuels tax	\$(2,618,000)
Oil company tax	97,500,000
Other Revenues:	
Motor vehicle receipts	(2,584,000)
Licenses, permits and fees	10,018,000
Interest income	5,874,000
Transfers to other Accounts or Funds - decrease	2,600,000

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All other taxes and other revenue	358,000
Total Net Increase (Decrease)	<u><u>\$111,148,000</u></u>

The above increase was primarily attributable to an increase in the collection of oil company taxes, in interest income, and a reduction in the amount of receipts transferred from the Special Transportation Fund to the Emissions Enterprise Fund and the Transportation Strategy Board Account. This was offset by reductions in revenues received from motor vehicle receipts and motor fuels taxes.

**Special Transportation Fund Expenditures:**

Total budgeted expenditures of the Special Transportation Fund for the 2006-2007 fiscal year amounted to \$1,037,182,817, as shown in Schedule C-3 of the Comptroller's 2007 Annual Report. This represented an increase of some \$38,172,371 from the total budgeted expenditures reported by the Comptroller for the preceding 2005-2006 fiscal year. A summary of the areas of significant changes in expenditures from budgeted accounts of the Special Transportation Fund follows:

	<b>Nearest Thousand Dollars</b>
Office of State Comptroller:	
State employee retirement contributions and health services costs - employer share	\$7,523,000
Debt Service	(9,564,000)
Department of Motor Vehicles:	
Personal services	3,103,000
Department of Transportation:	
Personal services	13,024,000
Other expenses	(6,145,000)
Highway and bridge renewal equipment	8,028,000
Equipment	2,434,000
Rail and Bus Operations	16,376,000
Handicapped transportation	3,518,000
Debt Service	(9,564,000)
All other (net)	9,439,000
Total Net Increase (Decrease)	<u><u>\$38,172,000</u></u>

The above increase in expenditures was primarily attributable to increases in personal services costs, employee retirement and fringe benefit costs, transit operations and town aid road grants.

**SPECIAL REVENUE FUNDS:**

This category of funds was established to group those funds accounting for the expenditure of revenues that have been restricted to specific programs. Included in this category is the Special Transportation Fund. However, because of the size and importance of this Fund, it has been incorporated into this report under a separate heading preceding this section.

The financial position of the combined Special Revenue Funds at June 30, 2007, together with the cash transactions for the fiscal year ended on that date, are shown in Exhibit C and Schedule C-1, respectively, of the Comptroller's 2007 Annual Report. At June 30, 2007, there were 64 authorized funds within this category, with the Special Transportation Fund being by far the largest. Of these 64 funds, the following nine funds operate under legislatively enacted budget plans:

- Special Transportation Fund (12001)
- Banking Fund (12004)
- Insurance Fund (12006)
- Consumer Counsel and Public Utility Control Fund (12007)
- Workers' Compensation Administration Fund (12007)
- Mashantucket Pequot and Mohegan Fund (12009)
- Soldiers', Sailors' and Marines' Fund (12010)
- Regional Market Operation Fund (12013)
- Criminal Injuries Compensation Fund (12014)

**Grants and Restricted Accounts Fund:**

In the 2003-2004 fiscal year the State Comptroller established the Grants and Restricted Accounts Fund (12060), to account for certain Federal and other revenues associated with activities of the General Fund.

Receipts and transfers amounting to \$1,519,476,028 for the 2006-2007 fiscal year were credited to the Fund, as shown on Schedule C-1 of the Comptroller's 2007 Annual Report. This represented an increase of some \$34,360,397 greater than the total reported by the Comptroller in the preceding 2005-2006 fiscal year. These represented Federal and other grant receipts, restricted and not available for general use. As mentioned previously in this report, such restricted revenue is recognized by the Comptroller when earned through the expenditure of grant funds, rather than when received or awarded.

Disbursements of Federal and other grants from the Grants and Restricted Accounts Fund for the 2006-2007 fiscal year amounted to \$1,566,586,247, as shown in Schedule C-1 of the Comptroller's 2007 Annual Report. This represented an increase of some \$125,211,303 over the total reported by the Comptroller for the preceding 2005-2006 fiscal year.

**Transportation Grants and Restricted Accounts Fund:**

The Office of State Comptroller also established the Transportation Grants and Restricted Accounts Fund (12062), to account for certain restricted Federal and other revenues associated with activities of the Special Transportation Fund.

Receipts and transfers amounting to \$478,086,419 for the 2006-2007 fiscal year were credited to the Transportation Grants and Restricted Accounts Fund, as shown on Schedule C-1 of the Comptroller's 2007 Annual Report. This represented an increase of some \$360,304,934 over the total reported by the Comptroller for the preceding 2005-2006 fiscal year. For the purpose of construction of any highway or bridge, the Office of State Comptroller is authorized under the provisions of Section 13a-166 of the General Statutes to record as a receivable that portion of a Federal grant apportionment for the financing of the Federal share of highway projects approved by the Federal Highway Administration, and such amounts are deemed to be appropriated for said purposes. Previous to the 2006-2007 fiscal year, these receivables were recorded in the Infrastructure Improvement Fund (13033).

Disbursements of Federal and other grants from the Transportation Grants and Restricted Accounts Fund for the 2006-2007 fiscal year amounted to \$434,387,226, as shown in Schedule C-1 of the Comptroller's 2007 Annual Report. This represented an increase of some \$338,811,314 over the total reported by the Comptroller for the preceding 2005-2006 fiscal year.

Additional comments concerning the operations of an individual Special Revenue Fund will be found in audit reports covering the various State agencies administering or using such funds.

**DEBT SERVICE FUNDS:**

This category of funds was established to account for the accumulation of resources for, and payment of, principal and interest on certain State issued bonds and notes. While as a rule the bulk of general obligation bonds of the State are liquidated from General Fund and Special Transportation Fund appropriations, most so-called self-liquidating general obligation bond issues are retired by payment from these funds.

The financial position of the combined Debt Service Funds at June 30, 2007, together with the cash transactions for the fiscal year ended on that date, are shown in Exhibit D and Schedule D-1, respectively, of the Comptroller's 2007 Annual Report. At June 30, 2007, there were six authorized funds within the Debt Service Funds category. The largest debt service fund, entitled "Transportation Special Tax Obligations" (14005), is used to account for cash and investments held by a Trustee for debt service payments on bonds issued to finance the State's infrastructure program.

**CAPITAL PROJECTS FUNDS:**

This category of funds was established to group those funds that account for financial resources used to acquire or construct major capital facilities, including highways and bridges. Included in this category are additional funds authorized for capital improvements and other purposes by specific fiscal year. The most significant of these funds is the Infrastructure Improvement Fund (13033) which is used to account for highway and transit construction project expenditures at the Department of Transportation. The major source of financing for Capital Projects Funds is the proceeds of various State bond issues. Other sources include Federal aid and other restricted contributions receivable to meet a portion of the capital outlay costs.

The financial position of the combined Capital Projects Funds at June 30, 2007, and the cash transactions of the 2006-2007 fiscal year, are set forth in Exhibit E and Schedule E-1, respectively, of the Comptroller's 2007 Annual Report. At June 30, 2007, there were 77 authorized funds within the Capital Projects Funds category.

The total unreserved fund balances of the Capital Projects Funds increased by \$498,115,419 during the 2006-2007 fiscal year to a deficit balance of \$5,186,641,484, as of June 30, 2007. It should be pointed out that the issuance of bonds already authorized, as shown in Schedule E-5, as well as the collection of those receivables fully reserved in Exhibit A and Exhibit E, will eliminate this deficit balance.

**INTERNAL SERVICE FUNDS:**

This category of funds was established to group those funds accounting for the costs and billings for goods and services provided by State agencies to other agencies or governmental units. These costs are recovered by transfer charges to user agencies so that authorized working capital of the funds is kept intact.

The financial position of the combined Internal Service Funds at June 30, 2007, together with the cash transactions for the fiscal year then ended are shown in Exhibit F and Schedule F-1, respectively, of the Comptroller's 2007 Annual Report. At June 30, 2007, there were four authorized funds within the Internal Service Funds category.

Exhibit A of the Comptroller's 2007 Annual Report recognizes, as reserved within fund balances and related reserves, the allotment and appropriation balances in force at June 30, 2007, and which have been carried forward to the 2006-2007 fiscal year on the records of the Office of State Comptroller. This has resulted in additional deficit unreserved fund balances being reported in Exhibit A and Exhibit F of the Comptroller's 2007 Annual Report because the assets and resources to meet these allotment balances are already reserved or, more likely, are not recorded by the Comptroller. Those assets and resources not recorded include inventories and receivables reported only by the agencies administering the funds involved.

Additional comments concerning the operations of each individual Internal Service Fund will be contained in audit reports covering the various State agencies administering such funds.

**ENTERPRISE FUNDS:**

This category of funds was established to group those proprietary funds that provide for the financing of goods and services to the public and recover costs by user charges.

The financial position and fiscal year cash transactions of the combined Enterprise Funds, as accounted for in the records of the Office of State Comptroller, are shown in Exhibit G and Schedule G-1, respectively, of the Comptroller's 2007 Annual Report. At June 30, 2007, there were 20 authorized funds within the Enterprise Funds category. Additional comments concerning the operations of each individual Enterprise Fund will be contained in audit reports covering the various State agencies administering such funds.

**FIDUCIARY FUNDS:**

The financial position of the combined Fiduciary Funds at June 30, 2007, and the cash transactions for the year then ended are shown in Exhibit H and Schedule H-1, respectively of the Comptroller's 2007 Annual Report. The funds included under this caption may be classified into three types:

- Receipts held pending distribution to State funds, municipalities, private companies or individuals.
- Deposits held by the State for security, guarantees, awards or distributions.
- Retirement funds for State and municipal employees held in trust by the State Treasurer.

At June 30, 2007, there were 35 authorized funds within the Fiduciary Funds category. Additional comments concerning the operations of each individual Fiduciary Fund will be contained in audit reports covering the various State agencies administering or using such funds.

**STATE BOND AND NOTE INDEBTEDNESS:**

The State's bond and note indebtedness at June 30, 2007, payable from future revenue of State funds is shown in Exhibit A of the Comptroller's 2007 Annual Report. A summary of bonds and notes outstanding and maturity schedules, detailing the funding requirements of specific bond and note issues, are presented in Schedule E-3 and Schedule E-4, respectively, of the Comptroller's 2007 Annual Report.

The State's bond and note indebtedness aggregated \$14,267,047,000 at June 30, 2007, an increase of \$87,748,000 over the total of \$14,179,299,000 at June 30, 2006. This was the net result of the issuance during the 2006-2007 fiscal year of new bonds of the State in the amount of \$1,961,145,000, while scheduled principal payments and refunded and defeased bonds during the period amounted to \$1,873,397,000. During the 2006-2007 fiscal year there was the retirement of the remaining \$146,090,000 in economic recovery notes issued during the 2002-2003 fiscal year, and repayment of \$10,000,000 in bond anticipation notes issued during the 2006-2007 fiscal year. Scheduled interest costs through maturity on the aforementioned bond and note indebtedness, as shown in Schedule E-4 of the Comptroller's 2007 Annual Report, totaled \$5,537,720,000. Accordingly, as of June 30, 2007, the State was committed to future debt service on bonds and notes outstanding in the aggregate of \$19,804,767,000. This total

represented an increase of \$169,503,000 over the corresponding amount as of June 30, 2006.

Included in the totals of bond and note indebtedness are revenue and refunding bonds outstanding in the amount of \$265,610,000 for improvements to Bradley International Airport. The proceeds of such bonds are being held and disbursed by a Trustee and all revenue of the airport's operations is being deposited with the Trustee. Principal and interest payments on such bonds are being met from funds held by the Trustee. Similarly included in the totals of bond and note indebtedness are the revenue bonds outstanding of \$2,815,134,000 for the State's Transportation Infrastructure Program. While the proceeds of such bonds are held and accounted for in the usual manner, debt service reserve amounts and principal and interest payments on such bonds are being handled by a Trustee.

Partially offsetting the aforementioned indebtedness were unreserved fund balances of \$734,691,679 within the debt service fund group, which were available for debt service at June 30, 2007.

In addition to the foregoing bond indebtedness at June 30, 2007, there was in force as of that date unused borrowing authorizations totaling \$3,163,406,000 and prospective authorizations, subject to Bond Commission approval, totaling \$2,359,766,000. These authorization balances, which are detailed in Schedule E-5 of the Comptroller's 2007 Annual Report, may be summarized as follows:

<u>Purpose or Agency</u>	<u>In Force</u>	<u>Subject to Approval of State Bond Commission</u>
Municipal and Economic Development	\$ 309,466,000	\$ 142,079,000
Capital Improvements and Other Purposes	515,381,000	694,149,000
Industrial Building Mortgage Insurance	19,450,000	1,000,000
Highway and Bridge Construction Repair	4,067,000	0
Transportation Infrastructure Improvement	1,051,583,000	1,087,930,000
Student Loan Foundation	5,000,000	0
Elimination of Water Pollution	398,077,000	63,945,000
Grants to Local Governments and Others	243,598,000	262,396,000
Local Capital Improvements	10,000,000	11,100,000
Preservation of Agricultural Lands	6,676,000	17,575,000
Housing Programs	48,362,000	53,375,000
State Equipment Purchases	16,375,000	20,302,000
School Construction	0	4,915,000
Magnet Schools	6,976,000	0
University and State University Facilities	295,000	0
Bradley Parking Garage	1,200,000	0
Contaminated Property Remediation	1,000,000	1,000,000
Second Injury Fund	525,900,000	0
Total Authorizations	<u>\$3,163,406,000</u>	<u>\$2,359,766,000</u>

It should be noted that, in accordance with the debt limitation provisions contained in Section 3-21 of the General Statutes, no bonds, notes, or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly except as shall not cause the aggregate amount of (1) the total amount of such indebtedness authorized by the General Assembly but not yet issued and (2) the total amount of such indebtedness which has been issued but remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of the State for the fiscal year in which any such authorization will become effective, as estimated by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. Such tax receipts for the fiscal year ended June 30, 2007, were estimated as of February 1, 2008, to total \$12,453,200,000. As of February 1, 2008, the State Treasurer determined that authorizations for bonds, notes, and other obligations subject to such limit, net of debt retirement fund resources related to certain self-liquidating bond issues, totaled \$14,302,241,481. Accordingly, as of this date, the State's debt incurring margin totaled \$5,665,077,344.

In addition to the indebtedness previously mentioned, there were other obligations that, although not in the form of State bonds or notes, constituted long-term indebtedness or the guarantee of existing indebtedness. Such obligations included:

1. *Obligations of the State to towns for participation in the construction and alteration of school buildings, under Section 10-287 of the General Statutes (installment payments) in the amount of some \$454,000,000, and Sections 10-287g and 10-287h (interest subsidy) in the amount of some \$94,000,000, as of June 30, 2007. It should be noted that Sections 10-287g and 10-287h were repealed by Public Act 97-11 (June Special Session) for construction projects approved subsequent to July 1, 1997. With regard to projects approved after July 1, 1997, this same Public Act established a new financing method, which provides for the State to pay for its share of school construction costs on a "progress payment" basis. As of June 30, 2007, the State Board of Education estimates that current grant obligations under this latter program will total some \$2,800,000,000.*
2. *The obligation of Section 5-156a of the General Statutes to fund the State Employees' Retirement System on an actuarial reserve basis over a remaining period of 25 years. An interim actuarial survey of the system was performed as of June 30, 2007, and showed an unfunded accrued liability of \$8,303,094,771.*
3. *The obligation of Section 51-49d of the General Statutes to fund the Judges' and Compensation Commissioners' Retirement System on an actuarial reserve basis over a remaining period of 25 years. The last actuarial survey of the system was performed as of June 30, 2007, and showed an unfunded accrued liability of \$78,823,297.*
4. *The obligation of Section 10-183z of the General Statutes to fund the Teachers' Retirement System on an actuarial reserve basis over a remaining period of 23 years. The last actuarial survey of the system was performed as of June 30, 2006, and showed an unfunded accrued liability of \$6,922,454,893.*
5. *Loans under the "Insurance and "Umbrella" programs, insured by the State*

- (\$25,000,000 maximum limit) through the Connecticut Development Authority, which totaled \$5,873,895 as of June 30, 2007. However, in accordance with Section 32-17a of the General Statutes, these are contingent indebtedness of the State; actual indebtedness would result only in the event of a loan default or the inability of the Authority to make the payment of bonds and notes.*
- 6. Loan guarantees under the Connecticut Works Fund, insured by the State through the Connecticut Development Authority, as provided for in Section 32-23ii of the General Statutes. The State has authorized the issuance of up to \$95,000,000 in bonds allocated to the Fund, of which as of June 30, 2007, \$85,024,992 has been distributed, with \$5,039,992 of that amount recorded as a reimbursement to the Authority for uncollectible loans. Loan guarantees were also extended under the Connecticut Works Guarantee Fund, as provided for in Section 32-261 of the General Statutes. The State has authorized the issuance of up to \$30,000,000 in bonds allocated to the Funds, of which as of June 30, 2007, \$16,360,000 has been distributed, with \$10,101,155 of that amount recorded as a reimbursement to the Authority for uncollectible loans. The Connecticut Development Authority also provides portfolio insurance to participating financial institutions under the Connecticut Capital Access Fund, as provided for in Section 32-265 of the General Statutes. The State has authorized the issuance of \$5,000,000 in bonds allocated for the purpose, of which \$2,000,000 has been distributed. Any losses on guarantees made by the Authority under any of these Funds are reimbursable by the State until the remaining bond allocation has been utilized.*
  - 7. The State of Connecticut is contingently liable to the Connecticut Housing Finance Authority, the Connecticut Resources Recovery Authority and the Connecticut Higher Education Supplemental Loan Authority for amounts needed annually to maintain debt service reserves for one year's principal and interest on certain Authority bonds in the event Authority funds are insufficient to do so. As of February 2, 2008, the principal amount of outstanding bonds, secured by special capital reserve funds, for the Connecticut Housing Finance Authority, the Connecticut Resources Recovery Authority, and the Connecticut Higher Education Supplemental Loan Authority totaled \$3,551,900,000, \$66,000,000, and \$157,000,000, respectively.*
  - 8. The State of Connecticut is contingently liable to the Connecticut Health and Educational Facilities Authority for amounts needed annually to maintain debt service reserves for one year's principal and interest on those Authority bonds used to finance projects at participating nursing homes or to finance dormitories or facilities for the provision of student housing at public and private institutions of higher education, in the event Authority funds are insufficient to do so. As of February 2, 2008, the principal amount of outstanding bonds secured by special capital reserve funds totaled some \$312,100,000.*

9. *Pursuant to Section 10a-109g, subsection (i), of the General Statutes, the State of Connecticut is contingently liable to the University of Connecticut for amounts needed annually to maintain debt service reserves for one year's principal and interest on certain University bonds in the event University funds are insufficient to do so. As of February 2, 2008, the principal amount of outstanding bonds, secured by special capital reserve funds for the University totaled \$26,800,000.*
  
10. *In accordance with the provisions of Special Act 01-1, as subsequently amended by Special Act 01-2 of the June Special Session, the State of Connecticut was authorized by Special Act to guarantee debt issued by the City of Waterbury in an amount not to exceed \$100,000,000. As of February 2, 2008, the amount of the City's obligations guaranteed by special capital reserve funds totaled \$64,600,000.*
  
11. *Notes and bonds of the Southeastern Connecticut Water Authority guaranteed by the State in the amount of \$1,500,000, as of February 2, 2008.*

## CONDITION OF RECORDS

### Findings:

Beginning with the 2003-2004 fiscal year the Office of State Comptroller implemented a new accounting system statewide, referred to as Core-CT. Core-CT is intended to provide an integrated business process covering requisition, purchasing, appropriations and commitment control, accounts payable, and cash disbursements; accounts receivable, and billing and cash receipts. It also provides personnel and payroll management and accounting, and inventory and fixed asset reporting. Core-CT is the foundation of the State's general ledger accounting and reporting. The first phase of the project, the financial and personnel and payroll modules went on line in July and October 2003, respectively. Further additions to the system were the billing module in January 2005, and the asset management and inventory modules in July and August 2005, respectively. There was an upgrade of the personnel and payroll module in May 2006, and an upgrade of the financials module in November 2006. The final phase of the project, the projects and contracts module, was added in July 2007. The implementation of the Core-CT system was a project lasting approximately seven years with a direct cost reported as over \$129,000,000. Operating costs for the system, charged to appropriations of the Office of State Comptroller and the Department of Information Technology, totaled approximately \$4,000,000 for the 2006-2007 fiscal year.

Core-CT is an adaptation of an enterprise resource planning (ERP) package that has been commonly used in private industry. The system is based on software that was originally purchased from PeopleSoft, and which is now serviced by Oracle Corporation. To implement the Core-CT system, the State of Connecticut contracted with Accenture, a management consulting, technology services and outsourcing company to adapt the software package to meet the State's needs.

The Budget and Financial Analysis Division of the Office of State Comptroller, which is responsible for statewide accounting and financial reporting, including the recording of receipts and expenditures and preparation of monthly and annual financial reports, has encountered significant difficulties as a result of the implementation of the new Core-CT accounting system. Our audit covering the initial year of the Core-CT system, completed in December 2005 and covering the fiscal year ended June 30, 2004, reported significant deficiencies in the State's financial accounting and reporting as a result of problems with the implementation of the Core-CT system. Our audits covering the fiscal years ended June 30, 2005 and 2006, completed in September 2006, and March 2007, respectively, repeated many of the original findings but noted corrective action that was made. Our current report has covered the corrective action implemented since March 2007, and recommends some further action required.

Other deficiencies found in the Core-CT system have been addressed as part of separate audits conducted by the Information Systems Audit Unit of the Auditors of Public Accounts. In July 2007, a report on the general controls of the Core-CT system was issued. That report noted certain deficiencies with password security, the failure to maintain control over user ID's, the failure to complete background checks on employees with access to sensitive or classified data, and the failure to provide a comprehensive disaster recovery plan.

The following are findings of conditions that directly affected Statewide financial reporting,

and for which corrective action is necessary.

**Administration of Statewide Accounting and Financial Reporting Functions:**

*Criteria:* Section 3-112 of the General Statutes provides that the Comptroller shall “establish and maintain the accounts of the State government...prescribe the mode of keeping and rendering all public accounts of departments or agencies of the State and of institutions supported by the State or receiving State aid by appropriation from the General Assembly... prepare and issue effective accounting and payroll manuals for use by the various agencies of the State.”

The *State Accounting Manual*, issued by the Office of State Comptroller, provides formal written accounting policies and procedures, and establishes the definitions of authority and responsibility between State departments and agencies, and the Office of State Comptroller.

*Condition:* Our audits of State financial operations for the fiscal years ended June 30, 2004, 2005 and 2006 have each disclosed certain deficiencies in the Core-CT system. We have noted that many of the controls that the Office of State Comptroller had previously maintained over account postings were eliminated with the decentralized design of the Core-CT system. Internal controls over the posting of interagency transfers, correct account coding, and budgetary accounting to statewide account records were significantly diminished when the Core-CT system went on line in July 2003.

In our current review we note that significant corrective action has been made. As described in our previous report, and further in this report, software upgrades and improvements in internal controls have been implemented in the Core-CT system. The November 2006 software upgrade addressed many of the commitment control problems. Also, hard edits controlling mismatched debits and credits and interagency transfers were implemented in June and July 2007, respectively. At the time of our review (December 2007), it appeared that many of these changes were effective. We note that with the implementation of the projects and contracts module and with the establishment of the Department of Transportation as a full user of the Core-CT system, it was found that the Core-CT system hardware will require a capacity upgrade before additional hard edits or similar controls can be established.

Previous audits have noted that the Office of State Comptroller has not provided user agencies with an updated version of its *State Accounting Manual*. We again note that other than a presentation of Core-CT chartfields, little progress has been made. Other on line

information for system users has been provided; these include copies of training materials, job aids, and daily emails. However, a unified document providing a complete set of standards and instructions for State agency users to follow has not been made available, although it has been over four years after the Core-CT conversion.

In February 2007, the Gartner Group, a private information technology consultant, issued a study of the Core-CT implementation. Their report concluded that further work was necessary for the State of Connecticut to receive full value for its investment in the Core-CT system. In particular the Core-CT team needed reorganization to better respond to line agency users, and the Enterprise Performance Management (EPM) functionality needed to be improved. The report also stated that a new strategy is needed to improve the training offered to system users; specifically "...the Core-CT leadership team should re-assess the entire training effort." Comments were also made that improvements are needed in the reporting and query functionality, and key and mandatory line agency functions required better support.

To address the issues of effective governance and better serving user agencies the consultants recommended the establishment of an ERP Competency Center as an independent division or unit within the Office of State Comptroller. The role of the Center would be to change the focus of the Core-CT project from the requirements of the central agencies to that of providing business solutions supporting the needs of user agencies. An expanded steering committee, including users from across all agencies was also recommended.

In an attempt to reorganize the Core-CT team, the Governor's biennial budget proposal for the 2007-2009 fiscal years included plans to transfer the operation of the Core-CT system to the supervision of the State Comptroller. Related legislation was also proposed to establish a Core-CT Support System Division within the Office of State Comptroller and to establish a Core-CT Policy Board. None of these items were enacted by the 2007 General Assembly.

*Effect:*

The failure to provide an updated State Accounting Manual, and to provide more effective training has resulted in user errors, miscoded and misposted transactions, and general user frustration in managing the complexities of the Core-CT system.

Without a unified management structure under the Office of State Comptroller, the Core-CT organization fails to meet the intention of Section 3-112 of the General Statutes.

Our current review found that the Core-CT system still has certain deficiencies in functionality that should not exist considering the \$129,000,000 investment in the new accounting system. We noted inefficiencies with the associated revenues ledger (applicable to grant accounting) that requires the intervention of accounting staff to post transactions to both the appropriation and allotment ledgers. The trial balance report in Core-CT does not have a provision for recording historical data, Core-CT users accounting for grant activity occurring over more than one fiscal year are required to run multiple reports to cover each time period, and then manually compile them on spreadsheets. We also noted that the Budget and Financial Analysis Division has been required to manually review user agency journal vouchers before entry to eliminate posting errors on the general ledger. The Budget and Financial Analysis Division is also required to perform a manual reconciliation of the Interagency Transfer Account each month to identify and correct user agency posting errors.

The performance of the EPM module of the Core-CT system was a matter specifically addressed in the Gartner consultant report. The report stated “Core-CT users do not have the required knowledge to use the Enterprise Performance Module for management reporting” and “EPM analytical functionality has not been implemented, and is therefore not presently available to end users.”

*Cause:*

Our previous audits, as well as the consultant report, concluded that because the Core-CT project is still under the administration of the joint committee responsible for the system’s initial implementation, with no final organizational plan that would address the evolution from a system implementation project to a more stable support and enhancement function. At the time of our review (December 2007) the Core-CT project teams consisted of 115 persons, either State employees or outside consultants. Of these 49 were employees from the Office of State Comptroller, 32 were employees from the Department of Information Technology, 24 were employees from the Department of Administrative Services and 10 were independent consultants. The project teams were under the direction of the Core-CT Project Management Team established at the beginning of the Core-CT project in 2001. The Project Management Team consisted of four Directors, one each from the Office of State Comptroller, the Office of Policy and Management, and from the Departments of Administrative Services and Information Technology. This mix of multiple agency personnel managed by a group of directors from central agencies does not provide a single responsible entity that was intended by Section 3-112 of the General Statutes. The Gartner consultant report concluded that this structure does not adequately

represent those Core-CT users from other (non-central) State agencies.

The adaptation of the Core-CT system from the commercial accounting environment left certain necessary functions less effective, and other, unnecessary ones adding to the complexity for system users.

*Recommendation:* The Office of State Comptroller should reemphasize its role to prescribe the mode of keeping and rendering all public accounts of the State by providing a revised State Accounting Manual, a reorganization of the Core-CT management structure and further improvements in system functionality so that user departments and agencies can more efficiently operate in the decentralized Core-CT environment. (See Recommendation 1.)

*Agency Response:* “As you observe, the Gartner Group produced a report in February 2007 that, among its many findings, recommended elimination of the multiple director group agency management of Core-CT in favor of a single agency with one director. At present Core-CT is managed by four agency directors: The Comptroller’s Office, The Department of Administrative Services, The Department of Information and Technology and The Office of Policy and Management. The consolidation of Core-CT and its placement within a single agency was reflected in the Governor’s biennial budget proposal for Fiscal Years 2007-2009. The Governor recommended placing the Core-CT division and its employees in the Comptroller’s Office. This proposed change in management structure was not enacted by the 2007 General Assembly. The Governor’s budget revisions for Fiscal Year 2009 recommend the consolidation of Core-CT within the Comptroller’s Office and the Department of Administrative Services. This proposal is awaiting legislative action at this writing.

Failure to place the consolidated management of Core-CT within the Comptroller’s Office, as you note, appears to violate the intent of Connecticut General Statutes, Section 3-112 and impedes efficient management of Core-CT service delivery. Despite the challenges presented by the existing group management approach, significant improvements have been made in accounting and reporting functions. As you have stated, “significant corrective action has been made... [and] it appeared that many of these changes were effective.”

The following summarizes some of the major initiatives that were enacted to address past audit findings and to better manage the financial systems. In November 2004, a monthly closing process was implemented that eliminated the post dating of accounting

transactions thus facilitating monthly reconciliations and comprehensive monthly financial reporting. In February 2005, a billing module was added to the system that, among other functionality, implemented hard coding of revenue by billing type, thus enhancing central tracking of interagency transfers. In January 2006, combination edits were implemented that eliminated some of the most common agency coding errors. Also in January 2006, an on-line chart of accounts user guide was made available to agencies to assist them in determining proper central coding requirements. This coding guide supplemented existing state accounting information for each of the Core-CT modules that is contained within the job aides, training material, user group material and Q&A topics presented on the financial user section of the Core-CT web page. In July 2006, the Comptroller's Office centralized the process of entering cash lines on Journal Vouchers in order to ensure proper coding and balancing of such journals. In November 2006, an updated version of the financial software was implemented with notable improvements to budget control functionality. In July 2007, an additional edit was added to ensure that service transfers were properly differentiated from expenditure credits and the proper account category was applied to these transactions.

Within the existing management structure, the Comptroller's Office has effectively balanced central accounting requirements and legal controls with specific agency business needs. The Comptroller's Office is in the process of consolidating the abundance of accounting directives contained within the Core-CT module job aids, daily mailings and related training material into a single on-line repository that will serve as the State Accounting Manual. The coding section of this manual has been on-line since 2006. Agencies currently have access to all of the information necessary to operate efficiently in the Core-CT environment and have access to a help desk and specialized training sessions as required to meet any unresolved needs.

Management consolidation to promote improved efficiency in Core-CT accounting and financial reporting functionality is a matter for the state legislature. The Comptroller's Office expects to make substantial progress in creating an on-line State Accounting Manual during Fiscal Year 2009. It should also be noted that an abundance of system and accounting guidance currently exists for each module within Core-CT. In addition a help desk and specific user labs are available to agencies seeking additional transaction guidance and assistance."

**Inability to Provide Grant Reporting Functionality:**

*Criteria:* Section 1100.101 of Government Accounting Standards Board - *Codification of Governmental Accounting and Financial Reporting Standards* states that a governmental entity's accounting system should be designed to achieve the following: "Present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles" and, "Determine and demonstrate compliance with legal and contractual provisions."

An accounting system is designed to assemble, classify, record and report financial data. To be useful to end users, that system must be able to present data in reports that will meet their needs and provide for the reconciliation of accounts.

Section 3-115a of the General Statutes provides that "The Comptroller, in carrying out accounting processes and financial reporting that meet constitutional needs, shall provide for the budgetary and financial reporting needs of the executive branch as may be necessary through the Core-CT system."

*Condition:* Our previous audits have cited the failure of the Core-CT system to provide certain reports and reporting features required by agency users. Our current review found significant improvements have been made in general reporting. However, users again cited the specific need for Core-CT to provide a grants receivable trial balance report, which was a functionality lost with the Core-CT system. Without it proper Federal grant billing and accounting requires additional manual effort to compile information. We have also noted a similar deficiency in the associated revenues ledger used to account for grant receivables.

Independent Public Accountant reports for the Special Transportation Fund for the fiscal years ended June 30, 2005, 2006 and 2007, all reported the condition that "There was no automated procedure in place to properly account for grant receipts, grant expenditures, grants receivable and deferred grant revenue. The previous accounting system tracked grant expenditures and grant receipts and automatically determined grant revenue based on those amounts. During our audit, we noted that none of the agencies of the Special Transportation Fund could readily determine from the Core-CT system the amounts for grant expenditures, grant receipts, and related grants receivable and deferred grant revenue. Consequently, a manual analysis had to be prepared using various reports from the Core-CT system to determine the required amounts for grants."

*Effect:* The significant investment in the Core-CT system, and the benefits of having a centralized store of State financial data, is lessened by

the inability to provide grant transaction information in an efficient format.

*Cause:* The Core-CT system is based on PeopleSoft computer software that is an adaptation from the commercial accounting environment. That adaptation to the accounting needs of State government resulted in certain deficiencies in financial reporting.

*Recommendation:* The Office of State Comptroller should seek continued improvements in financial reporting from the Core-CT system, with specific emphasis on the accounting of grant receivables, revenues, expenditures and transfers. (See Recommendation 3.)

*Agency Response:* “Since implementation of Core-CT, the Comptroller has been leading the effort to improve financial reporting. The Comptroller’s Office and designated Core-CT project staff have enhanced numerous reports including the Expenditure Detail Report, the Available Cash Trial Balance, the Detail & Summary Revenue Report, the Trial Balance of Appropriations, and the Grant Appropriation Trial Balance. In addition, most reports have been enhanced to allow them to be easily downloaded into Excel.

At the direction of the Comptroller, a Core-CT team began the Report Catalog initiative in November 2004 to develop and implement a catalog of reports to help central and line agency users extract and manage financial information. In order to meet the needs of all the Core-CT users, a focus group was formed representing a broad cross-section of state agencies by size and mission. Feedback from training sessions, user labs, and user group meetings was also reviewed. This effort helped to identify reports that would be most helpful to users in various functional areas.

Several of these reports were enhanced to meet requirements that were suggested by the focus group. Also, a flexible analysis report was added under the general ledger to allow users to review ledger balances by account code based on parameters they define. In September 2005, the new report catalog website went online. Initially, this site included over 30 production reports covering six financial modules. At this writing, the number of reports has grown to well over seventy. Each report starts with an introduction to the report stating the purpose, type references the legacy CAS/SAAAS report it replaces, role(s) required for access, navigation path, and suggested run times. It also provides detailed instructions to initiate the report and a sample of the information generated by the report. This catalog has been well received by the entire user community and has been continually expanded upon. It should also be noted that prior to Core-CT, data processing employees were required to

extract certain financial information that is now readily accessible to Core-CT users through basic reporting functionality.

With respect to the grant trial balance, in implementing the Core-CT financial software as delivered by PeopleSoft, the State attempted to minimize customization in order to reduce State costs. The commitment control functionality of Core-CT did not contain sub-ledgers to accumulate prior year receipts and disbursements; therefore, prior year grant balances are accumulated manually by using prior year reporting. While this was not the optimal solution in terms of automation, it was cost effective. The Comptroller's Office has been in the process of capturing historical data for the creation of a customized grant trail balance report. This would eliminate the need to run multiple year reports and to manually consolidate that data.

The Comptroller's Office is perpetually working with Core-CT users to keep reporting consistent with agency business requirements. We expect an improved grant trial balance to be available on or before the close of Fiscal Year 2009. All grant information required for accurate financial reporting continues to be available on Core-CT through accumulation of individual fiscal year data.”

**Inability to Provide an Automated Reconciliation of Cash Activity:**

*Criteria:* An accounting system is designed to assemble, classify, record and report financial data. To be useful to end users, that system must be able to present data in reports that will meet their needs and provide for the reconciliation of accounts.

Section 3-115a of the General Statutes provides that “The Comptroller, in carrying out accounting processes and financial reporting that meet constitutional needs, shall provide for the budgetary and financial reporting needs of the executive branch as may be necessary through the Core-CT system.”

The Cash Management Division of the Office of State Treasurer is responsible to maintain proper internal control over cash and to complete bank reconciliations in a timely manner.

*Condition:* Our previous audits cited the failure of the Core-CT system to process on line data on cleared and outstanding checks to allow for the prompt reconciliation of the State’s checking accounts. As a result of this deficiency, the State Treasurer could not reconcile its cash accounts promptly after year-end, which contributed to the delays in preparation of both the State Comptroller’s Annual and CAFR reports and the State Treasurer’s Annual Report.

Our current audit observed that the State Treasurer was generally completing its bank reconciliations within the 15th day of the following month for the smaller accounts, and within the end of the following month for the payroll and vendor accounts. However, the implementation of an on line process discussed in our prior report remains to be accomplished. The State Treasurer is relying upon a manual alternative that uses downloaded bank information. This method is more labor-intensive, and information on cleared and outstanding items is not available to users on the Core-CT system.

Our current audit also observed that there were significant unresolved reconciling items in the payroll and vendor payment accounts that have not been researched and cleared. At the time of our review (December 2007) they remained unreconciled and the Treasurer has carried forward this difference through the current reconciliations.

In response to conditions described in previous audit reports, the Office of State Comptroller has added additional controls to reduce the problems encountered in reconciling cash activity. In June 2007, a hard edit was established in the Core-CT system to prevent user agencies from entering transactions with mismatched debits and

credits to fund, s.i.d. and department codes. In July 2007 an edit was established to control transactions entered into the Interagency Transfer Account. Our current review found that these added internal controls appeared to be effective in reducing the problems found.

Our prior report also cited the failure for either the State Comptroller or State Treasurer to reconcile the Interagency Transfer Account (10436). Our current review found that the Budget and Financial Analysis Division of the State Comptroller has started reconciling this Account on a monthly basis.

*Effect:* Personnel of the Office of State Treasurer are required to maintain a manual ledger to reconcile from the bank account and adjust the Core-CT general ledger to reflect bank activity; a more labor intensive method that should have been automated as part of the Core-CT conversion.

The failure to provide an automated process of reconciling bank accounts is not making full value of the significant investment made in the Core-CT system.

*Cause:* The design of the Core-CT system contains deficiencies pertaining to the automated reconciliation of bank accounts.

*Recommendation:* The Core-CT system should be modified to provide the Office of State Treasurer an efficient and automated method to reconcile cash activity. (See Recommendation 3.)

*Agency Response:* “As stated, your prior review cited the failure of the Comptroller’s Office to reconcile interagency cash. The Comptroller’s Office is now reconciling interagency cash on a monthly basis and has performed prior year reconciliations. The Comptroller’s Office has also created a procedure manual for such reconciliations.

With respect to the State Treasurer’s cash reconciliation, problems that were impeding the timely reconciliation of bank balances to Core-CT cash balances have been resolved. The Treasurer is currently able to reconcile bank balances to Core-CT cash balances within an acceptable period of time. To enhance automation of the reconciliation process, the Comptroller’s Office and the Treasurer have been working with Bank of America to make cleared and outstanding check information available on-line within Core-CT. It is anticipated that these bank files will be available on Core-CT by the fall of 2008.”

**Accounting for of Refunds of Payments:**

*Criteria:* An accounting system is designed to assemble, classify, record and report financial data. For a system of administration and accounting to accurately report financial activity related to revenues received and subsequently refunded, internal controls must be provided to correctly charge the revenues received and properly account for the expenditure refunding those revenues by identifying their source as to department, fund and account.

Sections 4-37, 14-159, 22a-10 and other sections of the General Statutes authorize the Office of 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.

*Condition:* When the Core-CT system was implemented, a system of centralized controls and procedures that reviewed, authorized and accounted for refunds of payments received by State agencies was dismantled. State agencies, with the exception of the Department of Motor Vehicles, now process their own refunds of payments through the Core-CT system directly from the revenues of the Office of State Comptroller.

In response to our prior audit finding the State Comptroller implemented account coding that will provide a specific program code for each type of refund. It has also implemented a post audit procedure to control and account for these revenue refunds. However, refunds of revenues are still not directly charged to their original source.

During the 2006-2007 fiscal year, refunds of overpayments and other payments totaling \$513,727 and \$2,715,964, from the General Fund and Special Transportation Fund, respectively, were charged to the revenues of the Office of State Comptroller (account 46200 Other Refunds) rather than the specific State agency or department they were initially deposited to. This refund of revenues is not charged to the agency account, or to the rest of the specific accounting string from which it originated.

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

*Effect:* Statewide financial reporting of revenue refunds is distorted, as the reported revenues of State agencies did not reflect amounts that were refunded, and the revenues reported by the Office of State Comptroller reflect activity related to other State agencies.

*Recommendation:* The Core-CT system should be modified to ensure that refunds of payments are correctly coded to the applicable agency and revenue accounts. (See Recommendation 4.)

*Agency Response:* “The revenue refunds specified in this recommendation are tracked and reported in accordance with current State law. The annual budget act as passed by the legislature and signed by the governor require the reporting of gross revenues and gross refunds of revenue. Specific revenue categories are not offset by refund activity. This is also true in the tax refund category.

The Comptroller’s Office is currently reviewing options to provide greater detail within Core-CT of the original accounting distribution to which the revenue refunds relate. This likely would result in decentralization of the refund process, thus requiring the agency that deposited the revenue to also execute the refund. If the refunds are processed against the original revenue account, this change should also be reflected in the budget act, which would require coordination with budget officials from the legislative and executive branches. Dependent upon the coordination of business process changes with impacted agencies. This change is not likely to be adopted prior to Fiscal Year 2010.”

**Preparation of Budgetary Basis Financial Report in Compliance with GAAP:**

*Criteria:* On February 2, 2006, the American Institute of Certified Public Accountants (AICPA) issued an interpretation of one of its auditing standards that affects governments that issue financial statements prepared on a basis of accounting other than GAAP.

*Interpretation No. 14, Evaluating the Adequacy of Disclosure and Presentation in Financial Statements Prepared in Conformity With an Other Comprehensive Basis of Accounting (OCBOA), Special Reports - Auditing Interpretations of Section 623 states that “if OCBOA financial statements contain elements, accounts or items for which GAAP would require disclosure, the statements should either provide the relevant disclosure that would be required for those items in a GAAP presentation or provide information that communicates the substance of that disclosure.”*

This AICPA interpretation of auditing standards is a requirement for additional disclosures to meet the same accounting standards as currently applied to the *Comprehensive Annual Financial Report* produced by the Office of State Comptroller. The OCBOA provisions provide for reporting on the State’s budgetary basis of accounting and do not conflict with either the State’s Constitutional or statutory financial reporting requirements.

If a government does issue financial statements that do not comply with the above requirement, auditing standards preclude the use of a standard audit opinion, and an explanatory paragraph. Instead a qualified or adverse audit opinion is required.

*Condition:* The Comptroller has not been able to prepare and issue its *Annual Report of the Office of State Comptroller - Budgetary Basis* in a format that meets AICPA standards. The report for the fiscal year ended June 30, 2007, did not contain a complete financial statement presentation, a management discussion and analysis and other required supplementary information, as well as notes to the financial statements, and information regarding component units and a disclosure of the cost and depreciation of infrastructure assets.

*Effect:* The *Annual Report of the Office of State Comptroller - Budgetary Basis* for the fiscal year ended June 30, 2007, was not presented in compliance with accounting standards generally accepted within the United States of America. As a result the audit opinion provided by our Office was modified to reflect that those statements were not prepared in accordance with the provisions of Generally Accepted Accounting Principles (GAAP).

*Cause:* The Budget and Financial Analysis Division of the Office of State

Comptroller will follow only the State's legal reporting standards in preparing the budgetary basis report. It will not prepare that report to meet AICPA standards, but does produce a Comprehensive Annual Financial Report (CAFR) that is fully compliant with GAAP.

As noted in the Foreword to this report, the State of Connecticut has yet to prepare and enact its legislative budget plan in accordance with GAAP, and significant variances occur between the two presentations.

*Recommendation:* The Office of State Comptroller should prepare its *Annual Report of the Office of State Comptroller - Budgetary Basis* to include those elements required by generally accepted accounting principles. (See Recommendation 5.)

*Agency Response:* "The Comptroller has been a proponent of placing the State's budgetary process on a GAAP basis. However, to ensure transparency in financial reporting, the State's budgetary based financial reporting must reflect the accounting principles upon which the budget was formulated.

The State's mode and method of legal based accounting are constitutionally assigned to the Comptroller. State statute further defines the reporting elements of the legal basis of accounting. The AICPA may provide guidance, but may not dictate the State's legal reporting standards. This recommendation is not consistent with Connecticut State law and no corrective action is required. As you note, the Comptroller's Office produces a Comprehensive Annual Financial Report (CAFR) that is fully compliant with the provisions of Generally Accepted Accounting Principles (GAAP). The CAFR contains a reconciliation of the legal based reporting to GAAP."

**Weakness in Purchasing and Encumbrance Compliance at State Agencies:**

*Criteria:* Section 4-98 of the General Statutes specifies that “(a)...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 other documentation approved by the Comptroller, necessary to process the transaction transmitted by the budgeted agency or its agents to the Commissioner (of Administrative Services) and the Comptroller...”

It continues “Upon the receipt of any such purchase order or any other documentation approved by the Comptroller necessary to process the transaction, the Comptroller shall immediately charge the same to the specific appropriation of the budgeted agency issuing the same and certify on the face of the purchase order or approve such other documentation that the purchase is approved and recorded, if the proposed purchase is within the applicable specific appropriation and the budgeted agency has unencumbered funds sufficient to defray such expenditure...”

Section 4-98 Subsection (b) states “Notwithstanding the provisions of subsection (a) of this section, the Comptroller may delegate to any budgeted agency the certification and transmission requirements of purchase orders using authorized electronic methods, provided such agency transmits the information contained in such purchase orders to the Comptroller. Upon receipt of any such electronic transmission, the Comptroller shall immediately charge the same to the specific appropriation of the budgeted agency issuing the same and shall electronically certify that the purchase is approved and recorded, if the proposed purchase is within the applicable specific appropriation and the budgeted agency has unencumbered funds sufficient to defray such expenditure. Upon receipt of the Comptroller's certification, the budgeted agency shall transmit the purchase order to the vendor named in the purchase order...”

*Condition:* The Accounts Payable Division of the Office of State Comptroller has encountered continued problems with State agencies preparing purchase orders and entering them into the Core-CT system after goods or services have been delivered. Numerous purchase orders have been posted by State agencies onto the Core-CT system that describe a receipt date that goods or services were provided prior to the date the purchase order was prepared, or purchase orders that described delivery or vendor invoice information that would only be evident after the goods or services were delivered.

The Core-CT system is designed so that purchase orders must be entered, approved, budget checked and then dispatched to the

vendor. The vendor should not have provided any goods or services to a State agency until these steps are completed.

*Cause:* This condition results from the decentralized system of purchase authorization. In order to provide State agencies with the flexibility to conduct their operations, they are not required to obtain direct authorization of the State Comptroller prior to committing the State to a payment obligation. However, the same agencies must follow State statutes as well as internal controls and procedures and not wait until goods or services have already been provided before preparing a purchase order.

An incentive exists to user agencies to wait for delivery before preparing the purchase order. Agencies have found they can avoid the extra steps of amending a purchase order when the delivery, especially with certain types of purchases, does not match the original order. By delaying the preparation of the purchase order until exact prices and quantities are known, the procedure of matching previously entered purchase orders with the receiving report in the Core-CT system is avoided.

The Accounts Payable Division of the Office of State Comptroller has noted this problem and has made efforts to monitor and control this condition. The Accounts Payable Division maintains an audit function that identifies those State agencies that do not comply with these requirements, and it will notify them to cease the practice. However, compliance with the requirement to properly encumber funds requires the cooperation of user agencies not to abuse the decentralized controls granted under the Core-CT system.

We also noted State agencies were not making use of blanket purchase orders that would comply with the encumbrance requirements and eliminate the need for preparing individual purchase orders.

*Effect:* State agencies are in violation of Section 4-98 of the General Statutes. A possibility exists that the necessary funds would not be available when the payment for purchased goods or services was due.

*Recommendation:* State agencies should comply with Section 4-98 of the General Statutes by properly encumbering purchases. The State Comptroller should continue its audit of the purchase orders entered by State agencies to ensure such compliance. (See Recommendation 6.)

*Agency Response:* “You state that this condition results from the decentralized system of purchase authorization. This condition is not caused by the

decentralization of purchase authorization. Prior to Core-CT, agencies conducted business in this manner. Unapproved copies of purchase orders were intentionally and improperly faxed or mailed to vendors prior to the statutory requirement that the original document be submitted to the Comptroller for audit, approval, and certification. Many vendors honored a faxed copy or other unapproved form of the purchase order, shipped goods and/or delivered services. Funds were not encumbered until the Comptroller later received and approved the original purchase order and charged the appropriation.

Presently, under Core-CT, the improper practice of ordering goods and/or services without issuing a purchase order is actually easier for OSC to detect through the use of EPM and SQL queries. OSC advised the Auditors of Public Accounts of this detection method as a means to identify the agencies circumventing CGS 4-98.

You also state that in order to provide State agencies with the flexibility to conduct their operations they are not required to obtain direct authorization from the State Comptroller prior to committing the State to a payment obligation. The agencies are in fact given direct approval when the purchase order is dispatched after being encumbered. Prior to the implementation of Core-CT a system modification was developed to issue a statement that funds have been encumbered. When the purchase order has been approved, budget checked, and printed the following statement appears: “The State Comptroller certifies that this order has been approved, recorded, and available funds have been reserved.” If a purchase order is printed and NOT approved a statement will print stating: “this is NOT an approved purchase order.”

Agencies that circumvent established purchase order procedures are in violation of CGS 4-98. The OSC implementation of Core-CT does not relinquish any authorization for the agency to assert to the vendor that funds have been encumbered, unless in fact they have been. However, compliance with the requirement to properly encumber funds requires the cooperation of user agencies not to abuse the decentralized controls granted under the Core-CT system.

Agencies must follow CGS 4-98 and established procedures.

- The only acceptable method of issuing an order is through the system generation of a Core-CT purchase order.
- There is no way to develop “centralized controls” to detect if agencies are first ordering goods through the Internet, telephone, fax or other means. We perform regular monthly post audits and use EPM/SQL queries to detect circumvention

of CGS 4-98 through the examination of invoice, receipt and payment dates from purchase orders, vendor invoices, receiving reports, Core-CT vouchers and other supporting documentation.

You also noted State agencies were not making use of blanket purchase orders that would comply with the encumbrance requirements and eliminate the need for preparing individual purchase orders. OSC examines agency purchase order usage monthly through post audits. Agencies not complying with established procedures are cited and encouraged to utilize blanket purchase orders. EPM/SQL queries are utilized to detect misuse. Additionally, Core-CT User Group meetings and training labs are conducted to educate agency users.”

*Auditors Concluding  
Comments:*

The Auditors of Public Accounts has arranged to distribute to its field audit staff the queries identifying possible transactions not complying with proper purchasing procedures and will report on those agencies accordingly. However, the enforcement of Section 4-98 of the General Statutes requires the establishment of some type of deterrent or sanction to those State agencies that continually fail to comply with the Statute.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

#### Office of State Comptroller - State Financial Operations Audit Report -

Nine recommendations were presented in our prior report. Of the nine, four are considered implemented, and five are being restated in our current report. A list of the previous Recommendations and their resolution are as follows:

1. The Office of State Comptroller should take whatever measures necessary to comply with Section 3-115 of the General Statutes and produce a complete set of monthly financial statements – our current review found that monthly statements issued since January 2007 have been complete. The Recommendation is implemented.
2. The Office of State Comptroller should reemphasize its role as the agency responsible for maintaining the accounts of the State, and apply adequate controls and resources to the task of Statewide financial accounting and reporting, which should include the revision of the *State Accounting Manual* – our current review found some improvements made, staffing changes and additions were made at the Budget and Financial Analysis Division. However, recommended organizational changes were never implemented. In addition, the State Accounting Manual has not been revised to reflect the Core-CT system environment. The Recommendation is revised and repeated. (See Recommendation 1.)
3. The Office of State Comptroller should seek continued improvements in financial reporting from the Core-CT system – Our current review noted significant corrective action taken, the preparation and audit of financial statements was not delayed by deficiencies in the ability of the Core-CT system to produce financial reports. At this time we are considering the Recommendation to be generally implemented. However, in this report we are presenting a finding specific to the reporting of grant receivables, revenues, expenditures and transfers. (See Recommendation 2.)
4. The Office of State Comptroller, working with the Office of the State Treasurer, should provide a system to reconcile cash activity and post necessary cash adjustments in a timely manner that provides adequate internal control over ledger adjustments. It should also address the need to review and reconcile the Interagency Transfer Account – Our current review found the monthly bank reconciliations were being made on a timely basis. We also found the unreconciled condition of the Interagency Transfer Account was being addressed. In addition, a hard edit was implemented in the Core-CT system to control the use of the Interagency Transfer Account. However, no corrective action was implemented in automating the bank reconciliation function. The Recommendation is repeated in a modified form. (See Recommendation 3.)

5. The Office of State Comptroller should correct deficiencies in the internal controls in the Core-CT system that governs the entry of interagency transfers - our current review of the preparation of the 2006-2007 fiscal year financial statements found improvements were made in internal controls. In July 2007, hard edits were established in the Core-CT system to provide controls over interagency transfers. We are considering the Recommendation implemented.
6. The Office of State Comptroller should correct deficiencies in the internal controls in the Core-CT system over the entry of account codes – our current review of the preparation of the 2006-2007 fiscal year financial statements found conditions to be significantly improved. In addition, a significant additional hard edit was implemented in July 2007. Our current audit found significant progress made in establishing some basic hard edits to control account code entry. At this time we are considering the Recommendation implemented.
7. The Office of State Comptroller should correct deficiencies in the internal controls of the Core-CT system to eliminate “budget check” problems and the bypassing of the commitment control ledger – our current review noted that various problems noted with the budget check and commitment control ledger have generally been resolved. We are considering the Recommendation implemented.
8. The Core-CT system should be modified to ensure that refunds of payments are made under proper internal controls and correctly coded to the applicable agency and revenue accounts. Our current review found a post audit process was established over the payments; however, revenue refunds are still charged to the revenues of the State Comptroller, rather than the originating agency. The Recommendation is repeated in a modified form. (See Recommendation 4.)
9. The Office of State Comptroller should correct its *Annual Report of the Office of State Comptroller - Budgetary Basis* to conform to generally accepted accounting principles. Our current review found no change has been made to the report format. The Recommendation is repeated. (See Recommendation 5.)

State of Connecticut - Single Audit Report -

Seven recommendations were included in our Single Audit Report for the fiscal year ended June 30, 2006; of these, Recommendations 2, 3 and 4 above are repeated in our current Single Audit Report.

*Current Audit Recommendations:*

- 1. The Office of State Comptroller should reemphasize its role to prescribe the mode of keeping and rendering all public accounts of the State by providing a revised State Accounting Manual, a reorganization of the Core-CT management structure and further improvements in system functionality so that user departments and agencies can more efficiently operate in the decentralized Core-CT environment.**

Comment:

We found that under the Core-CT system, user agencies are not subject to sufficient centralized control and direction by the Office of State Comptroller. A specific aspect is the failure to produce an updated *State Accounting Manual* to provide Core-CT users effective guidance. We also note that necessary organizational changes have not been implemented.

- 2. The Office of State Comptroller should seek continued improvements in financial reporting from the Core-CT system, with specific emphasis on the accounting of grant receivables, revenues, expenditures and transfers.**

Comment:

The grant accounting process under the Core-CT system requires significant manual effort in compiling various reports and using manual analysis, a procedure that should not be required given the over \$129,000,000 investment in a new accounting system.

- 3. The Core-CT system should be modified to provide the Office of State Treasurer an efficient and automated method to reconcile cash activity.**

Comment:

The bank reconciliation process under the Core-CT system requires significant manual intervention, a result not in keeping with the significant investment that was made in a new accounting system.

- 4. The Core-CT system should be modified to ensure that refunds of payments are correctly coded to the applicable agency and revenue accounts.**

Comment:

Deficiencies in the Core-CT system design did not allow for the accurate reporting of revenue refunds.

5. **The Office of State Comptroller should prepare its *Annual Report of the Office of State Comptroller - Budgetary Basis* to include those elements required by generally accepted accounting principles.**

Comment:

The *Annual Report of the Office of State Comptroller - Budgetary Basis* for the fiscal year ended June 30, 2007, did not include all of the elements to be in compliance with accounting standards generally accepted within the United States of America.

6. **State agencies should comply with Section 4-98 of the General Statutes by properly encumbering purchases. The State Comptroller should continue its audit of the purchase orders entered by State agencies to ensure such compliance.**

Comment:

State agencies are violating Section 4-98 of the General Statutes by making purchase commitments without encumbering the required funds.

**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.

Matthew Rugens  
Administrative Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts