

STATE OF CONNECTICUT



**AUDITORS' REPORT
OFFICE OF THE STATE COMPTROLLER –
DEPARTMENTAL OPERATIONS FOR THE FISCAL YEARS
ENDED JUNE 30, 2008, 2009 AND 2010**

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

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AUDITORS OF PUBLIC ACCOUNTS

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November 20, 2014

AUDITORS' REPORT STATE COMPTROLLER - DEPARTMENTAL OPERATIONS FOR THE FISCAL YEARS ENDED JUNE 30, 2008, 2009 AND 2010

We have audited certain operations of the State of Connecticut, Office of the State Comptroller – Departmental Operations in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2008, 2009 and 2010. The objectives of our audit were to:

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

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

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

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

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

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

COMMENTS

FOREWORD

The Office of the State Comptroller operates primarily under the provisions of Article Fourth, Section 24, of the State Constitution and Title 3, Chapter 34 of the General Statutes. During the audited period, the Office of the State Comptroller was organized into seven divisions, as described below:

Accounts Payable Division

Initiates and monitors the pay cycle process for the generation of payments in settlement of the state's obligations and conducts post transactional examinations of encumbrances and expenditures to determine the validity, propriety and legality of the state's submitted claims in accordance with the General Statutes and regulations established by the state's expending authorities.

Budget and Financial Analysis Division

Performs the state's accounting and cost accounting functions, and analyzes and reports state receipts and expenditures. Also responsible for the state's financial reporting function that includes the preparation of the annual and monthly financial reports, such as the Comprehensive Annual Financial Report (CAFR) that analyzes the state's overall fiscal position. This division also computes and reports direct and indirect costs associated with major state programs. In addition, this division develops and promulgates

accounting systems and procedures for use by state agencies and monitors agency compliance with these systems and procedures.

Management Services Division

The division provides overall policy and program direction to the Office of the State Comptroller. Develops and executes the budget; administers accounting, accounts payable, purchasing, human resources and contract administration within the Office of the State Comptroller; and tuition, travel and training reimbursements. It is also responsible for the management of the state's real and personal property for accounting purposes, and administers the statewide purchasing card program.

Information Technology Division

Assists in the oversight, operation, support, maintenance and upgrade of Core-CT, the statewide financial, human resource, and payroll system. Core-CT performs the state's accounting, accounts payable, accounts receivable, purchasing, billing, project management, human resource, time and attendance, payroll, and benefits administration functions.

Payroll Services Division

The Payroll Services Division pays all state employees; coordinates all payroll deductions; maintains records on payroll taxes; and deposits federal and state income tax withholding and social security contributions. It pre-audits and issues state employee and deduction checks on a bi-weekly basis; submits deduction reports; maintains wage execution records, administers direct deposit programs, and supports/maintains the e-Pay paperless payroll system (including electronic pay statements).

Retirement Services Division

As agent of the State Employees Retirement Commission, the division administers all state pension plans except the Teachers' Retirement System. It receives and processes retirement applications from state agencies; provides counseling services to members; and manages computer, accounting, investigatory, payroll, training, record-keeping, and compliance activities related to the state's retirement programs.

Healthcare Policy and Benefit Services Division

Administers medical, pharmacy, and dental benefit programs for all state employees, retirees, and their families. The division also coordinates group life insurance, unemployment insurance, defined contribution plans and supplemental benefits for state employees. Administers state employee benefits, manages the state deferred compensation plan, and provides direction for plan design, benefit administration and interpretation and policy for all state insurance benefits, including medical, surgical, hospital, and life insurance.

Officers

Nancy S. Wyman was elected State Comptroller in November 1994, and served from January 4, 1995 to January 5, 2011 when she was succeeded by Kevin Lembo, who was elected in November 2010. Mark E. Ojakian served as Deputy Comptroller through the audited period until he was succeeded by Martha Carlson on January 5, 2011.

Recent Legislation

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

Public Act 09-7 moved the Office of the Claims Commissioner and the State Insurance Risk Management Board from the Office of the State Comptroller to the Department of Administrative Services for administrative purposes, effective for the 2009-2010 fiscal year.

Public Act 09-206 requires the State Comptroller, together with the Departments of Social Services and Administrative Services to develop a plan providing for the bulk purchasing of pharmaceuticals for clients of the Department of Social Services, inmates of the Department of Correction, and members of the state and municipal employee health insurance plans.

Public Act 10-131 requires the State Comptroller to offer employees, their dependents, and retirees of municipalities, boards of education, quasi-public agencies, libraries and the Teachers' Retirement Board the same bulk purchasing of pharmaceuticals established under Public Act 09-206.

RÉSUMÉ OF OPERATIONS**Departmental Operations – General Fund Revenues**

General Fund departmental receipts totaled \$28,821,536, \$39,593,659 and \$37,400,665 during the fiscal years ended June 30, 2008, 2009 and 2010, respectively. A summary of these receipts is presented below:

	Fiscal Years		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Departmental Receipts:			
Recoveries of Expenditures:			
Unemployment Compensation	\$ 780,508	\$ 872,505	\$ 2,371,821
Indirect Overhead – Federal Projects	15,368,198	21,493,718	18,538,354
Workers’ Compensation	4,855,523	5,759,703	5,716,627
Employee Fringe Benefits	2,732,216	3,283,866	3,243,668
Refund of Prior Year Expenditures	3,931,488	4,845,580	7,646,976
Principal on Loan	75,000	75,000	75,000
Loan Agreement Income	48,563	43,313	38,063
Insurance Reimbursements	1,493,959	3,720,858	295,755
All Other Revenues	37,274	21,947	74,538
Less - Refunds of Payments (Statewide)	<u>(501,193)</u>	<u>(522,831)</u>	<u>(600,137)</u>
Total Departmental Receipts	<u>\$28,821,536</u>	<u>\$39,593,659</u>	<u>\$37,400,665</u>

The receipts shown above primarily consisted of excess funding of unemployment compensation, workers’ compensation, and fringe benefits and indirect costs initially charged to the General Fund, but subsequently reimbursed from federal and other-than-federal General Fund restricted accounts and/or other state funds. These costs are recovered through the Comptroller’s office primarily via the state payroll system, on the basis of reports filed by state agencies, with each agency payroll using salaries and wages as its approved indirect cost base. The fluctuations in agency receipts from year to year were primarily caused by changes in the cost recovery rates and changes in the amount of salaries charged to federal restricted accounts and state funds other than the General Fund.

Fringe benefit recoveries of the employer’s cost for group life insurance, medical insurance (health service cost), and Social Security costs are, for the most part, credited to the special appropriation accounts used to finance the employer’s share of such costs. Additional comments on the recoveries on each of these special appropriation accounts are presented in the Comments section of this report.

Recoveries of retirement system funding costs, used to help meet the state’s required funding obligation to the State Employees Retirement Fund, totaled \$220,589,998, \$233,307,694 and \$233,786,122 during the fiscal years ended June 30, 2008, 2009 and 2010, respectively. These recoveries were credited directly to the retirement fund.

The Comptroller’s Budget and Financial Analysis Division calculates certain fringe benefit cost recovery rates annually as part of the statewide cost allocation plan, which is approved by the federal government for application against salaries paid from federal funds. Fringe benefit

costs are then recovered by applying these rates to the gross salaries and wages chargeable to federal and other-than-federal General Fund restricted accounts and/or other state funds, besides the General Fund. The state share of medical and group life insurance is charged to agencies on an actual cost basis, rather than a calculated percentage. The rates for FICA-Social Security and FICA-Medicare are calculated on the basis of existing federal tax rates, which were 6.20 percent and 1.45 percent, respectively, through the audited period. The Core-CT system automatically charges fringe benefits to the same funding source as the personal services expenditure. A comparison of the statewide rates used during the audited period is presented below:

<u>Rate Components</u>	<u>Fiscal Years</u>		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Full-time Employees:			
State Employees Retirement System (SERS)			
- regular employees	33.27%	33.99%	39.85%
Unemployment Compensation	.09%	.09%	.29%
Other Employee Classifications:			
Judges & Compensation Commissioners	42.53%	45.46%	55.90%
SERS – Hazardous Duty Employees	33.85%	32.03%	35.62%
Alternate Retirement Plan	10.79%	9.57%	10.24%
Teachers’ Retirement Plan	29.60%	26.33%	25.80%

Departmental Operations – General Fund Expenditures

Net General Fund expenditures totaled \$25,558,430, \$25,426,814 and \$24,776,285, for the fiscal years ended June 30, 2008, 2009 and 2010, respectively. The decline in expenditures for contractual services through the audited period was the result of reduced purchases of EDP consultant services and hardware. A summary of these expenditures is presented below:

	<u>Fiscal Years</u>		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Personal Services	\$19,743,252	\$20,096,798	\$20,704,245
Contractual Services and Other Expenses	5,763,624	5,311,424	4,053,449
Equipment	31,984	0	0
State Aid Grants	19,570	18,592	18,591
Total Departmental Expenditures	<u>\$25,558,430</u>	<u>\$25,426,814</u>	<u>\$24,776,285</u>

Special Appropriations Administered by the State Comptroller

In addition to the budgeted and restricted General Fund appropriation accounts used by the Comptroller’s office to finance various departmental programs and activities, the Comptroller’s office also administers numerous nonfunctional General and Special Transportation Fund appropriation accounts. During the audited period, the Comptroller’s office provided administrative services with regard to the maintenance of the appropriation accounts of the Office of the Claims Commissioner and Judicial Review Council. As the result of Public Act 09-7, the Department of Administrative Services assumed this function for the Office of the Claims Commissioner, and as the result of Public Act 11-48, the Office of Government Accountability assumed this function for the Judicial Review Council. A more detailed

description of the activities funded by these special appropriation accounts is presented in the following paragraphs.

Refunds of Payments

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

With the implementation of the Core-CT system in the 2003-2004 fiscal year, the State Comptroller no longer processes refunds from a special appropriation. Such refunds are now processed by the corresponding state agency and are paid as a refund of revenues of the State Comptroller. Refunds of payments for the fiscal years ended June 30, 2008, 2009 and 2010, totaled \$501,193, \$522,831 and \$600,137, respectively, as shown in the summary of General Fund departmental receipts in this report. Refunds of payments applicable to the Special Transportation Fund totaled \$2,719,108, \$2,434,361 and \$2,140,363, respectively, for the fiscal years ended June 30, 2008, 2009 and 2010.

Adjudicated Claims

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

For the fiscal years ended June 30, 2008, 2009 and 2010, a total of \$9,827,533, \$11,648,433 and \$3,863,525, respectively, were paid by the Comptroller towards the settlement of claims against the state. Most of these claims were the result of stipulated agreements or court judgments.

A summary of the more significant court judgments and agreements follows:

<u>Court Cases</u>	<u>Fiscal Years</u>		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
DCF Court Monitor's Office Expenses	\$ 703,342	\$ 931,528	\$ 957,384
Kurt Spartz v. John Armstrong (DOC)	1,000,000		
Est. Dennis Kinsman v. Theresa Lantz (DOC)	900,000		
Est. Michael D'Amicis v. State of Connecticut (DMR)	750,000		
Est. Daniel Williamson v. Dept. of Transportation	600,000		
Est. Michael Newlan v. Dept. of Correction	550,000		
Jane Doe v. Norwalk Community College	765,000		
Robert Joselyn v. Brian Murphy (DOC)	500,000		
Est. Frank Barnett v. State of Connecticut (DEEP)	400,000		
Maureen Allen v. Dept. of Correction		2,975,000	

Est. Joseph Sawyer v. Thomas Kirk (DMHAS)	1,000,000		
Richard Weber v. State of Connecticut (DSS)	725,000		
Kennara Poteat v. State of Connecticut (DCF)	700,000		
Est. Sabina Silhavy v. Dept. of Correction	650,000		
Est. Dawn Addario v. Dept. of Transportation	572,500		
Coleen Little v. State of Connecticut	556,000		
Tunxis Management Co. v. State of Connecticut	522,366		
State of Connecticut v. Sunrise Herbal Remedies	475,000		
Floyd A. Windley v. State of Connecticut	400,000		
All Others	<u>3,659,192</u>	<u>2,141,039</u>	<u>2,906,141</u>
Total Expenditures	<u>\$9,827,534</u>	<u>\$11,648,433</u>	<u>\$3,863,525</u>

Maintenance of Fire Radio Networks

Section 3-123e of the General Statutes authorizes the State Comptroller to disburse, in the form of grants, funds appropriated for emergency communication centers and the maintenance of county and statewide fire radio base networks. For the fiscal years ended June 30, 2008, 2009 and 2010, a total of \$41,932 each year was paid by the Comptroller in such grants. As the result of Public Act 11-51 the commissioner of the Department of Emergency Services and Public Protection assumed this function.

Police Association of Connecticut

Section 3-122 of the General Statutes authorizes the State Comptroller to pay claims for benefits as set forth in the constitution and bylaws of the Police Association of Connecticut upon presentation of proper proofs of claims from the association. These relief payments are to beneficiaries of police officers killed in the line of duty. Police officers of Connecticut municipalities as well as state police officers are eligible for membership in this association. For the fiscal years ended June 30, 2008, 2009 and 2010, a total of \$114,699, \$166,392 and \$141,916, respectively, were paid by the Comptroller in payments to dependents, death benefits and injury benefits. As the result of Public Act 11-51 the commissioner of the Department of Emergency Services and Public Protection assumed this function.

Connecticut State Firefighters Association

The State Comptroller is authorized, under Section 3-123 of the General Statutes, to make benefit payments to the beneficiaries of members of the Connecticut State Firefighters Association who are killed in the line of duty and who are entitled to payment under the provisions of the constitution and bylaws of the association. For the fiscal years ended June 30, 2008, 2009 and 2010, a total of \$170,780, \$159,400 and \$122,395, respectively, were paid by the Comptroller in disability payments, payments to dependents, and death benefits. As the result of Public Act 11-51 the commissioner of the Department of Emergency Services and Public Protection assumed this function.

Interstate Environmental Commission

The Interstate Environmental Commission, a body corporate and politic, was created by a compact entered into by the states of New York, New Jersey and Connecticut for the dual

purpose of controlling future pollution of the harbor, coastal and tidal waters in the territory surrounding and adjacent to the harbor of New York City, and the tributary waters therein, and of bringing about an abatement of the existing pollution of these waters. As a result of legislation enacted by the states of New York and New Jersey in 1960 and 1961, respectively, the commission was authorized to engage in activities with respect to air pollution control and prevention. Participation by Connecticut in the commission's air pollution program was approved by legislation enacted in June 1969.

The compact, which is codified in Section 22a-294 of the General Statutes, was joined by Connecticut on September 17, 1941. Under the compact, the signatories agreed to annual appropriations for salary, office and other administrative expenses of the commission, such sum or sums recommended by the commission and approved by the governors of the signatory states, in the ratios of New York and New Jersey at 45 percent each, and Connecticut at 10 percent. A total of \$96,880, \$97,565 and \$92,687 was appropriated by the General Assembly and disbursed by the State Comptroller to meet these expenses during each of the fiscal years ended June 30, 2008, 2009 and 2010, respectively.

Reimbursement to Towns for Loss of Taxes on State Property

Section 12-19a of the General Statutes provides for unrestricted grant payments in lieu of taxes to towns on state-owned property in different categories and at various percentages of the taxes that would have been paid to the towns. Public Act 93-388 amended this section to increase the maximum percentage of total property taxes levied by each town on real property in the preceding year, by varying increments, commencing with fiscal year ended June 30, 1994, and ending with the fiscal year ending June 30, 2004, at which point the maximum percentage equaled 100 percent for that year and each year thereafter.

For the fiscal years ended June 30, 2008, 2009 and 2010, a total of \$80,019,144, \$80,019,144 and \$73,519,215, respectively, was paid by the Comptroller as grant payments to towns. The amount received by each town was based on statutory formulas. The above totals are net of expenditure transfer credits of \$2,876,540, \$2,928,679 and \$3,017,621, respectively, which represent an allocation of partial grant costs applied to Bradley International Airport, and which are charged to the Bradley International Airport Operations Fund.

Under the provisions of Section 12-19c of the General Statutes, these payments in lieu of taxes were made by the State Comptroller based on certification by the Secretary of the Office of Policy and Management of the amount due to each town. Our examination was limited to a review of that certification on file with the Office of the State Comptroller. As a result of Public Act 11-6, the appropriation for payments in lieu of taxes was transferred from the State Comptroller to the Office of Policy and Management, effective July 1, 2011.

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

Sections 12-20a and 12-20b of the General Statutes provide that an unrestricted grant be payable to any municipality in lieu of taxes with respect to real property owned by any private nonprofit institution of higher education or any nonprofit general hospital facility, exclusive of any such facility operated by the federal government, with the exception of a campus of the

United States Department of Veterans Affairs Connecticut Healthcare System and the United States Coast Guard Academy, or the state or any subdivision thereof, which is exempt from property tax under the provisions of Section 12-81 of the General Statutes. Such payments are to equal 77 percent of the property taxes that would have been paid on such exempt real property. In the event that the total grants payable for a given year exceeded the amount appropriated, the grant payable to each municipality shall be reduced proportionately. The only exceptions to the grant amount payable under Section 12-20a of the General Statutes are: 1) that any payment with respect to a campus of the United States Department of Veterans Affairs Connecticut Healthcare System, for the fiscal year ended June 30, 2008, shall be only 40 percent of the grant amount payable, for the fiscal year ending June 30, 2009, 60 percent of such amount, and for the fiscal year ending June 30, 2010, 80 percent of such amount; 2) that a payment of \$100,000 shall be paid to the municipality of Branford, with respect to the Connecticut Hospice; and, 3) that a payment of \$1,000,000 shall be paid annually to the city of New London with respect to the United States Coast Guard Academy.

The Secretary of the Office of Policy and Management is authorized to calculate the amount due to each municipality and to certify to the Comptroller the amounts to be paid. For the fiscal years ended June 30, 2008, 2009 and 2010, a total of \$122,430,256, \$122,430,256 and \$115,431,737, respectively, were paid by the Comptroller as grant payments to towns. Our examination was limited to a review of the certification on file with the Comptroller's office. As a result of Public Act 11-6, the appropriation for payments to towns for loss of taxes on private tax-exempt property was transferred from the State Comptroller to the Office of Policy and Management, effective July 1, 2011.

Unemployment Compensation

The cost of unemployment benefits paid to former state employees is reimbursed to the Unemployment Compensation Fund from appropriations within the Special Transportation Fund for former employees of the Departments of Transportation and Motor Vehicles, and from the General Fund for all other former state employees. During the fiscal years ended June 30, 2008, 2009 and 2010, \$4,477,043, \$5,038,307 and \$6,968,609 were reimbursed from the General Fund and \$200,389, \$260,387 and \$310,027 were reimbursed from the Special Transportation Fund, respectively.

Partial recoveries of such reimbursements are made within the General Fund for former employees whose salaries were paid from other state or federal funds. Under procedures established by the Comptroller's office, the recoveries for those funds' share of fringe benefit costs by means of an approved fringe benefit cost recovery rate established annually and applied as a percentage of covered payrolls. As shown earlier in the Departmental Operations section of this report, recoveries during the fiscal years ended June 30, 2008, 2009 and 2010, totaled \$780,508, \$872,505 and \$2,371,821, respectively.

During the audited period, a consulting firm served as addressee of record for all agencies with respect to unemployment compensation claims for former employees. The consultant performs administrative functions, reviews unemployment claims, attends appeal hearings and acts as a consultant to the various state agencies in such matters. As part of our audit of the state

Department of Labor, a test check of payments from the Unemployment Compensation Benefit Fund is conducted to verify that payments are properly charged to the employer's account and are only payable to eligible employees.

Group Life Insurance

As provided for in Section 5-257 of the General Statutes, the state offers a group life insurance program to state employees and retirees, as well as members of the General Assembly. The state's share of premium payments for this program is charged to General and Special Transportation Fund appropriations authorized for this purpose.

Premium payments are made monthly to the provider and are based on the coverage in force on the first day of the month of payment adjusted for additional and/or cancelled coverage during the preceding month. Subsequently, reimbursements to the General Fund are received from certain federal and state funds or restricted accounts charged with salaries of employees covered under the state's group life insurance program. A summary of expenditures for the state's share of insurance premiums under the group life insurance program follows:

	Fiscal Years		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Expenditures - General Fund:			
Payments to Insurance Companies	<u>\$6,624,892</u>	<u>\$6,748,994</u>	<u>\$8,059,888</u>
Expenditures - Special Transportation Fund:			
Payments to Insurance Companies	<u>\$242,129</u>	<u>\$242,717</u>	<u>\$272,786</u>

These activities are reviewed in our Office of the State Comptroller – State Retirement and Benefits report.

Tuition Reimbursements - Training and Travel

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

During the fiscal years ended June 30, 2008, 2009 and 2010, total appropriations for tuition reimbursements, training and travel were \$4,410,144, \$4,955,002 and \$5,457,386, and \$2,890,698, \$3,348,088 and \$3,026,335 were expended during the same fiscal years, respectively. Of the unexpended balance of \$2,431,051 available at fiscal year ended June 30, 2010, \$2,425,770 was carried forward for use in the 2010-2011 fiscal year.

Employers Social Security Tax

Each fiscal year, the state's share of Social Security costs is charged to General and Special Transportation Fund appropriations authorized for this purpose. Reimbursements to the General Fund are received from certain federal and state funds or restricted accounts charged with

salaries of employees covered under Social Security. The gross payments to the federal government for the employer's share of Social Security taxes are based on the rates and wage limits in effect during the audited period.

An analysis of the total payment of the state's share of costs follows:

	Fiscal Years		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Expenditures – General Fund:			
Employer's Share - State Employees	\$195,508,665	\$201,779,292	\$191,288,560
Grant Transfer to Other State Agencies	<u>25,750,484</u>	<u>25,644,962</u>	<u>25,391,030</u>
Total Expenditures	<u>\$221,259,149</u>	<u>\$227,424,254</u>	<u>\$216,679,590</u>
Expenditures – Transportation Fund:			
Employer's Share - State Employees	<u>\$14,395,746</u>	<u>\$14,540,025</u>	<u>\$13,734,925</u>

State Employees and Retired State Employees Retirement and Health Care Costs

The Office of State Comptroller receives revenues and makes payments from various special appropriations and trust funds to pay for current and retired state employees' retirement and health care costs. These activities are reviewed in our Office of the State Comptroller – State Retirement and Benefits report.

Capital Project Outlays

Expenditures were made from capital project funds for agency equipment and the upgrade of the Core-CT system. Expenditures for agency equipment totaled \$152,898, \$13,346 and \$0, for the fiscal years ended June 30, 2008, 2009 and 2010, respectively. Expenditures for the Core-CT upgrade project totaled \$2,035,144, \$1,764,203 and \$1,946,654, for the fiscal years ended June 30, 2008, 2009 and 2010, respectively.

Grants to Towns - Conservation Special Revenue Fund

The Conservation Special Revenue Fund is used by the Comptroller to process grants, in lieu of tax revenue on vessels, to the various towns from fees collected for vessel registrations. Such vessel registration fees are collected by the Department of Motor Vehicles under Section 15-144 of the General Statutes, and credited to the Conservation Fund Boating Account administered by the Department of Environmental Protection. As provided for in Section 15-155b, the commissioner of the Department of Motor Vehicles, not later than the first day of December each year, shall, in accordance with the provisions of Section 15-155, calculate the amount to be distributed to each town and certify these payment amounts to the State Comptroller, who shall then process the actual payments to the towns. A total of \$2,390,498 was distributed to the various towns in this manner during each of the 2007-2008 and 2008-2009 fiscal years. Pursuant to Public Act 09-9 June Special Session, the Conservation Fund Boating Account was transferred from the State Comptroller to the Department of Energy and Environmental Protection for the 2009-2010 fiscal year.

Grants to Towns - Mashantucket Pequot and Mohegan Fund

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

Total grant payments made from the Mashantucket Pequot and Mohegan Fund during the fiscal years ended June 30, 2008, 2009 and 2010, totaled \$92,998,519, \$92,998,519 and \$61,779,907, respectively. Our examination was limited to a review of the certification provided by the Office of Policy and Management on file with the Comptroller's Office. As a result of Public Act 11-6, the appropriation for payments from the Mashantucket Pequot and Mohegan Fund was transferred from the State Comptroller to the Office of Policy and Management, effective July 1, 2011.

Funds Awaiting Distribution

This fund is used statewide as a suspense account for receipts for which the final disposition of the monies is not known at the time of deposit. Once this determination is made, the monies are transferred to the appropriate state fund, refunded to the original source, or paid to a designated third party. Separate accounts within the Funds Awaiting Distribution Fund have been established to account for the activity of different state agencies and for the activity within the Office of State Comptroller, specifically payroll deductions for savings bonds and life insurance, as well as other minor functions.

Receipts and transfers deposited to the fund from the Funds Awaiting Distribution account totaled \$42,736,867, \$950 and \$100 for fiscal years ended June 30, 2008, 2009 and 2010, respectively. Disbursements and transfers totaled \$42,730,174, \$1,810 and \$100 for the same fiscal years, respectively. The cash balance on hand at the end of the fiscal year as of June 30, 2007, 2008, 2009 and 2010 was (\$458,679), (\$451,987), (\$452,846) and (\$452,846), respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Deficiencies in internal controls, apparent noncompliance with legal provisions, and necessary improvements in management practices and procedures are presented below.

Funds Awaiting Distribution Fund Accounts – Unreconciled Account

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

The State Accounting Manual (SAM) requires that each state agency with a balance in the Funds Awaiting Distribution Fund at June 30th submit, by July 31st of each year, an annual report to the State Comptroller's Budget and Financial Analysis Division reporting that the Funds Awaiting Distribution Fund account activity specific to that agency has been reconciled and requesting any required corrections by the State Comptroller.

Condition: During our review, we identified an account within the Funds Awaiting Distribution Fund with a negative cash ending balance that was not reconciled, and for which the office could not explain the activity. In addition, the balance was not submitted to the Comptroller's Budget and Financial Analysis Division in accordance with SAM. The negative cash balance as of June 30, 2008, 2009, and 2010, totaled \$451,987, \$452,846 and \$452,846, respectively.

Effect: The lack of timely identification and reconciliation of the Funds Awaiting Distribution Fund activity could result in the improper use and recording of cash receipts.

Cause: The office did not ensure the activity was properly and promptly identified as it was posted to the account.

Recommendation: The Office of the State Comptroller should investigate, identify and reconcile the unknown liability balances in its Funds Awaiting Distribution Fund account. (See Recommendation 1.)

Agency Response: "The Office of the State Comptroller (OSC) has reviewed and implemented procedures with the Funds Awaiting Distribution Fund (FAD) accounts to ensure compliance with the State Accounting Manual. The process identifies amounts posted to the FAD accounts and balances are reconciled on a bi-weekly basis.

The OSC will make every effort to research, identify and reconcile the negative cash balance in the FAD account. The liability dates back to Fiscal Years 2004-2006 and the implementation of Core-CT. The negative balance in FAD has stabilized since that time.”

Pre-Audits of Purchase Orders

Criteria: Section 4-98 of the General Statutes states: “no budgeted agency...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.” The encumbrances section of the State Accounting Manual, Section 2.1 Pre-Audits states, “Each state agency issuing any purchase order of \$1,000,000 or more must forward the purchase order and all supporting documentation to the Office of the State Comptroller’s Accounts Payable Division” and Comptroller’s memorandum 2004-06 states “Effective February 17, 2004, The Office of the State Comptroller, Accounts Payable Division, will perform a pre-audit of all purchase orders of \$1 Million or more.” It also states, “Payments will not be processed until the completion of such audit and the approval of the purchase order is granted.”

Condition: Our review of the division’s pre-audits of purchase orders of \$1,000,000 or more disclosed the following:

- Twelve out of the 40 purchase orders tested were not approved but were executed.
- Eight were deemed exempt by the division; therefore, they were not reviewed or approved. The division, however, is unable to provide documentation supporting the reason for the exemptions.
- Six out of ten purchase orders the division approved were approved after the purchase order was already executed.

Effect: The Office of the State Comptroller is not in compliance with the established guidelines and policies for pre-approving purchase orders totaling one million dollars or more. Also, payments are being processed without the proper approvals from the Comptroller.

Cause: During the last fiscal year under audit, the Accounts Payable Division lost valuable staff members due to retirements; therefore it did not have adequate staff to follow up with agencies that did not voluntarily submit the purchase orders for pre-audit. For the first two fiscal years under audit, we were unable to determine the cause for noncompliance. There are no repercussions for agencies that are not in compliance with these policies, and no controls in Core-CT to prevent unaudited purchase orders from being executed.

Recommendation: The Office of the State Comptroller should follow and enforce the policies and procedures pertaining to the pre-approval of purchase orders. (See Recommendation 2.)

Agency Response: “During the audit period, Core-CT did not contain functionality to detect purchase orders of one million or those not voluntarily submitted by agencies. This resulted in an intensely manual process of auditing the necessary documents. In the ensuing period, the division utilized technology outside the accounting system to expand the detection of outstanding purchase orders. Today, an accounting system enhancement in a recent software upgrade will allow the Accounts Payable Division, with the Core-CT Financial Team to develop and implement a system control. This functionality will require OSC approval of all requisitions and purchase orders with an encumbered amount of \$1 million or more. Additionally, a separate internal accounting control developed outside the system will identify purchase orders with encumbrances of less than a million and an obligated amount of \$1 million or more. These two measures will preclude agency users from issuing or transacting against purchase orders without prior OSC approval.”

Segregation of Duties in Core-CT Financial Roles

Criteria: The Office of the State Comptroller has a responsibility to ensure that internal controls provide reasonable assurance that transactions are properly processed and reported. Separation of duties involving key accounting functions is the basis for achieving an adequate system of internal control.

The Accounts Payable Division of the Office of the State Comptroller created a segregation of duties matrix for purchasing and accounts payable roles that should be followed, or in the rare case in which an exception is granted, documentation should be provided.

Condition: Our review of the Core-CT vendor, purchasing, and accounts payable financial roles resulted in the following:

- Thirty-six employees statewide had conflicting financial roles based on the segregation of duties matrix. For 21 out of the 36 employees with conflicts, no approval or documentation supporting why the employee has conflicting roles could be provided.
- Six of these 21 employees have one-time vendor processor and approver roles and voucher processor and approver roles across multiple User IDs.

Effect: The lack of segregation of employee duties or roles that may not be approved increases the risk that a transaction might be processed in a manner inconsistent with the state's intentions. This practice increases the risk that unauthorized expenditures may occur.

Cause: We were unable to determine the cause of the incompatible financial roles. Agency personnel stated that the user security audit is performed, and financial role conflicts are reviewed prior to employees being granted access.

Recommendation: The Office of the State Comptroller should follow the segregation of duties in Core-CT financial roles, and either remove the conflicting roles, or retain approval and supporting documentation for the exemptions. The Office of the State Comptroller should also consider reviewing all vendor roles to determine whether there are conflicts with other roles. (See Recommendation 3.)

Agency Response: "In regard to the 15 employees with conflicting roles within a single User ID, a Core-CT modification was developed prior to the July 2003 implementation. This modification has always prevented a user from approving a voucher they entered. The 21 employees identified with conflicts represent less than 0.5% of the total number of employees with Core-CT financial roles. In addition to the division's development of a segregation of duties grid, other measures are in place to prevent financial users from processing transactions in a manner inconsistent with the state's intentions. An additional safeguard was implemented to prohibit approval across business units (six employees with segregation issues across multiple ID's) through the use of separate origins.

In subsequent years, the Accounts Payable Division utilizes state-of-the-art software technology to increase the examination and identification of role conflicts. Most recently, during the latter part of FY 2013, on-line security application processing was implemented using Core-CT application workflow that further detects conflicts. Under this current process, user roles cannot be added until the security form has been approved at each security level based on the requested roles."

Property Inventory Records and Annual Report

Criteria: Section 4-36 of the Connecticut General Statutes provides that each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October 1st, transmit to the Comptroller a detailed inventory, as of June 30th, of all of the real and personal property having a value of one thousand dollars or more.

The Core-CT Asset Management Module is the approved property control system to be utilized by the majority of state agencies to record and control all property owned by and/or in the custody of a state agency. It is indicated on the Comptroller's Fixed Assets/Property Inventory Report/GAAP Reporting Form (CO-59) that if queries on the Core-CT system cannot replicate the values recorded on the CO-59 form, the agency must provide a written explanation of the discrepancy in an attachment.

Condition: Our review of the Comptroller's CO-59 form for the fiscal years ended June 30, 2008, 2009, and 2010, revealed the following:

- The beginning balance of capital equipment for the 2007-2008 fiscal year was overstated by \$1,876,545 when compared with Core-CT balances, and no list of reconciling items was prepared.
- The 2007-2008 fiscal year ending and 2008-2009 fiscal year beginning balances were both overstated by \$1,624,271 when compared with Core-CT balances, and no list of reconciling items was prepared.
- The beginning balance of software for the 2008-2009 fiscal year was understated by \$15,885,931. This amount was separately reported as an addition in the 2008-2009 fiscal year, but was actually a 2007-2008 fiscal year addition and should have been reported as part of the beginning balance in the 2008-2009 fiscal year.
- The additions and deletions to capital equipment for the 2007-2008 and 2008-2009 fiscal years were not supported by a listing of individual assets added and deleted.

Our review of 25 inventory items randomly sampled from the Comptroller's asset listing and 25 items identified by a random inspection of the Comptroller's premises disclosed:

- Many servers and IT equipment were physically surplus but coded in Core-CT as In Service. We determined that there were 40 items that fall into this category, amounting to \$2,556,943.
- Four items totaling \$139,788 were coded to the wrong floor of their respective buildings on the Core-CT asset module.
- Four items totaling \$729,964 were not physically tagged, and another asset was physically tagged but with a different number than was listed on Core-CT.
- A cubicle divider costing \$75,106, which is listed on the Core-CT asset module, could not be physically located on the agency premises.

Effect: The Fixed Assets/Property Inventory Report contained errors, which caused a misstatement of the state's overall assets. The Office of the State Comptroller is not in compliance with the State Property Control Manual.

Cause: In addition, the office is exposed to risk with respect to the safeguarding of state assets. Agency personnel stated that the balance of capital equipment, up until the end of the 2008-2009 fiscal year, contained errors that were carried forward since the inception of Core-CT.

The Budget and Financial Analysis Division of the Office of the State Comptroller provided to the Fiscal Policy Division, in December of 2009, those additional costs associated with Core-CT that were to be capitalized in the 2007-2008 fiscal year, in the amount of \$15,885,931. Because this information was received by the office during the 2008-2009 fiscal year, a revised 2007-2008 fiscal year CO-59 form was prepared, and the ending balance of the 2007-2008 fiscal year report reflected that additional amount. However, because the additional cost was added to Core-CT during the 2008-2009 fiscal year, its Core-CT coding indicated this to be a 2008-2009 fiscal year addition, which led the Fiscal Policy Division to mistakenly report it that way.

Additions and deletions cannot be supported by a detailed listing for the 2007-2008 and 2008-2009 fiscal year reports because the Office of the State Comptroller routinely retired and then added back certain assets with a different tag number than asset ID number, rather than changing the tag number, which is the correct method of modifying such assets in Core-CT. When this occurs, each modification counts as both an addition and deletion, thereby distorting both amounts. In addition, the Comptroller's office made manual adjustments to its 2008-2009 fiscal year report so as to reconcile its assets with what was reflected on Core-CT. Because these manual adjustments added and deleted many assets and the office did not maintain a list of these assets, the Core-CT addition and deletion amounts are distorted by these manual adjustments, and the actual assets added and deleted during the period cannot be quantified by a detailed listing of each asset and its cost.

We were told that, due to budget reasons, the office is currently unable to dispose of the surplus equipment.

Other causes could not be identified.

Recommendation: The Office of the State Comptroller should take steps to improve its controls over the accurate recording, reporting, and safeguarding of assets. (See Recommendation 4.)

Agency Response: "The Office of the State Comptroller will review and implement procedures to ensure compliance with the State Property Control Manual. The process will include the utilization of the Core-CT Asset Management Module and a yearly reconciliation of inventory records."

Petty Cash Fund

Criteria: The State Accounting Manual (SAM) provides policies and procedures for maintaining a petty cash fund. The SAM states that receipts documenting all disbursements of funds and reconciled checking account statements be kept. It also requires that employees submit a completed employee reimbursement voucher for travel advances with the required documentation to the Comptroller's business office within five days after return from travel.

Section 3-60b of the Connecticut General Statutes states that, except for wages collected by the Department of Labor commissioner pursuant to subsection (b) of Section 31-68, any sum payable for wages, salary or other compensation for personal services that has remained unclaimed by the owner for more than one year after it becomes due, payable or distributable, is presumed abandoned.

Section 3-62a of the Connecticut General Statutes states that unclaimed property held for more than three years is presumed abandoned.

Section 3-65a of the Connecticut General Statutes states that, for wages or other compensation for personnel services, payees should be notified via first class mail of property that will be transferred to the Treasurer within 180 days of presumption of abandonment. The statute also states that property should be transferred to the Treasurer within 90 days after the close of the calendar year in which it was presumed to be abandoned.

Condition: Our review of the State Comptroller Management Services Division's business office petty cash disclosed the following:

- Death certificates requested by the Retirement Services Division are paid for through the business office's petty cash account. During the audited period, payments made for death certificates represented the majority of advances from the petty cash account. The business office does not verify or obtain any documentation to ensure that a death certificate is received.
- We found four instances in the 2009-2010 fiscal year in which the death certificates on file in the Retirement Services Division were from Connecticut's Department of Public Health despite petty cash checks being made out to various states in order to obtain individuals' death certificates. It was explained that the death certificates were requested from the various states based upon the individuals' last known addresses, but due to varying circumstances, the individuals did not die in those respective states; therefore, no death certificate was received and payments made for searches of death certificates are non-

refundable. Death certificates were later obtained for these individuals through the family of the deceased. Documentation to fully support these explanations was not maintained by the Retirement Services Division.

- At the time of our review (March 2011), the most recent reconciliation of the petty cash account the business office had performed was for September 2010.
- A travel advance paid through the business office petty cash account on October 31, 2007 for the period of November 10, 2007 through November 16, 2007, remained as an outstanding petty cash advance and was not replenished until March 22, 2011. We found during our initial inquiry of the travel advance that the business office was unaware the advance was reimbursed through payroll deductions on February 1, 2008.

Our review of the State Comptroller Payroll Services Division's petty cash bank reconciliation disclosed that a significant number of checks issued for compensation of personnel services remained outstanding for over three years from the date of issuance.

- For the 2007-2008 fiscal year, 78 checks totaling \$22,363, issued between May 27, 1994 and May 13, 2005 remained outstanding.
- For the 2008-2009 fiscal year, 50 checks totaling \$18,815, issued between May 27, 1994 and June 9, 2006, remained outstanding.
- For the 2009-2010 fiscal year, 45 checks totaling \$17,419, issued between February 3, 1995 and May, 7, 2007, remained outstanding.

Our review in March 2011 revealed that, despite escheating checks the past two years, as of December 31, 2010, 36 checks totaling \$7,242 remained outstanding for over three years from the date of issuance.

Effect:

The untimely petty cash reconciliations, lack of documentation, and lack of timely follow up on travel advances, weaken internal control over petty cash and increase the likelihood of inappropriate disbursements that may not be detected by management in a timely manner.

Unclaimed property is not being escheated to the State Treasurer's Unclaimed Property Division in accordance with the Connecticut General Statutes.

Cause: The business office is not maintaining the petty cash account in accordance with the State Accounting Manual. In addition, a lack of administrative oversight may have contributed to the conditions.

The Payroll Services Division also asserts that they have been in the process of researching the escheating checks that have been outstanding for over three years.

Recommendation: The Office of the State Comptroller should strengthen controls over petty cash funds. The Payroll Services Division should follow the steps necessary to escheat unclaimed checks to the State Treasurer's Unclaimed Property Division in accordance with Connecticut General Statutes. (See Recommendation 5.)

Agency Response: "The Business Services Unit will review and implement procedures on the administrative oversight with the petty cash account to ensure compliance with the State Accounting Manual.

The Business Services Unit has implemented procedures on disbursements from the Petty Cash Fund Account. The process was implemented in October 2011.

As of March 2013, the Payroll Services Division does not have any outstanding petty cash checks. In addition, our petty cash unit has been escheating all petty cash checks according to Section 3-65a of the Connecticut General Statutes."

GAAP Reporting Package

Criteria: The Office of the State Comptroller requires that each state agency submit an annual GAAP Closing Package, enabling the State Comptroller to prepare accurate financial reports in accordance with generally accepted accounting principles (GAAP). These requirements and procedures are outlined in the State Accounting Manual and the Office of the State Comptroller's GAAP reporting instructions for state agencies.

The Office of the State Comptroller is responsible for preparing GAAP reporting forms for its own office as well as the Judicial Review Council and the Office of Workforce Competitiveness.

Condition: In our review of the Comptroller's GAAP reporting forms for fiscal years 2009 and 2010, we noted that controls implemented by the Office of the State Comptroller were unable to detect small but frequent errors.

In the agency's preparation of GAAP Form 6a for the 2008-2009 and 2009-2010 fiscal years, which is used to report leases in which the state is the lessee, we noted four out of the 19 leases, and six out of the 15 leases, respectively, were reported in error.

In the agency's preparation of GAAP Form 5 for the 2008-2009 fiscal year, which is used to report contractual obligations remaining at the end of each fiscal year, we noted that one contractual obligation reported to have a balance of \$1,010,192, was overstated by \$36,308, or four percent of the contract's balance.

Effect: There is an increased risk that, because controls cannot detect small but frequent errors, large and infrequent errors may go undetected.

The Office of the State Comptroller Budget and Financial Analysis Division utilized the erroneously reported balances of leases for the Office of the State Comptroller, Judicial Review Council, and the Office of Workforce Competitiveness for the 2008-2009 and 2009-2010 fiscal years, and the Office of the State Comptroller's balance for contractual obligations in the 2008-2009 fiscal year, in their preparation of GAAP based financial statements. As a result, those financial statements were misstated by the amount of each misstatement.

Cause: We were informed that the balance of each lease was calculated incorrectly, and that the misstated contractual obligation was revised to the correct balance by the agency in January 2009, but that the revised form was never sent to the Office of the State Comptroller's Budget and Financial Analysis Division.

Recommendation: The Office of the State Comptroller should improve the preparation of its GAAP closing package. (See Recommendation 6.)

Agency Response: "The Business Services Unit will review and implement procedures to ensure the requirements and completion with the GAAP closing package."

Business Continuity Plan

Criteria: Organizations require current and comprehensive business continuity plans to ensure that critical business operations can resume within a reasonable amount of time after a disaster.

Condition: Our review disclosed that the office's most recent formal disaster recovery plan has not been updated and tested since February 2002. In addition, this disaster recovery plan is based upon the agency's former use of a Unisys mainframe, which is no longer in use due to the implementation of

the Core-CT statewide information system in 2003. Therefore, much of the documented recovery activities are outdated. In addition, the plan utilizes an off-site facility in Massachusetts that is no longer available.

The Office of State Comptroller provided us with an informal list of activities, upon our request, that would currently be followed in the event of a disaster; however, it does not detail the amount of time required for each activity, the vendors that would be used to acquire the resources required for each activity, or those employees who would be responsible for completing each activity. In addition, no tests have been performed to determine whether these activities are feasible and no decision has been made on a facility or location to conduct the activities. Furthermore, no arrangements or contracts with the necessary vendors have been entered into.

Effect: The lack of an up-to-date business continuity plan hinders the agency's ability to resume critical business operations within a reasonable amount of time after a disaster. In addition, not deciding in advance on a physical location for recovery creates uncertainty as to whether the agency will be able to acquire use of a facility with sufficient resources for the execution of disaster recovery activities. Furthermore, the lack of arrangements or contracts with necessary vendors for the acquisition of vital information technology resources may delay the acquisition of required resources, thereby delaying the continuance of critical business operations.

Cause: The agency felt that because its use of the Unisys mainframe was replaced with the Core-CT statewide information system, which has a detailed disaster recovery plan, the formulation and testing of a new business continuity plan was not a priority. In addition, the agency noted that as a result of Core-CT, the only data requiring regular backups are email messages and networked hard drives.

Recommendation: The Office of the State Comptroller should develop a business continuity plan for all critical business operations and information systems currently used by the agency. (See Recommendation 7.)

Agency Response: "The Office of the State Comptroller (OSC) will review its existing disaster recovery and business continuity plans and update them to reflect the current technology infrastructure and business processes. As was noted, most of OSC's technology infrastructure resides within Core-CT, which has documented disaster recovery and business continuity procedures."

Payroll and Personnel

Compensatory Time – Procedures and Records

Criteria: Department of Administrative Services Management Personnel Policy – No. 06-02 sets forth the criteria for the granting of compensatory time on behalf of managerial and confidential employees. The criterion for earning compensatory time is that “the manager or confidential employee must receive written authorization in advance to work extra time by the Agency Head or his/her designee in order to record the extra hours as compensatory time. The authorization must include the employee’s name and outline the reason(s) for compensatory time. Proof of advance authorization must be retained in the employee’s personnel file for audit purposes” and “the amount of extra time worked must be significant in terms of total and duration.”

The collective bargaining contract for Engineering, Scientific and Technical (P4) states that “those employees who have been allowed to accumulate compensatory time, as provided for in Section Three of this Article, shall be required to schedule and use such compensatory time no later than the first full six (6) month period following its accrediting. The six (6) month periods shall be July through December and January through June.” The contract also specifies that if the employee is not allowed to use the compensatory time within the parameters of arranged schedules, permission must be obtained from the Office of Policy and Management (OPM) for the time to be paid for such time.

The Office of the State Comptroller’s policy on alternate work schedules for managers states that “during any pay-period that includes a holiday all employees must revert to a standard workweek (for both weeks of the pay-period).

Sound fiscal practice dictates that compensatory time should be used as such and not be used as a basis for additional compensation.

Condition: Our review of ten employees, including managerial and non-managerial employees who received compensatory time, disclosed the following:

- Five employees earned a total of 281.75 hours compensatory time for which the agency could not provide written authorization.
- Two employees earned a total of 38 hours compensatory time prior to it being approved.
- We found one instance in which the agency could not provide adequate support documentation for an adjustment of 164 hours of compensatory time added to an employee’s balance during October 2007. This time was earned in the 2005-2006 fiscal year and, per the

P-4 contract, should have been used within six months of earning it, or the employee should have been paid for the time with permission from the Office of Policy and Management.

- One managerial employee regularly earned two or four hours of compensatory time throughout the audited period. During this period, half of this employee's leave time was charged to compensatory time, enabling the employee's vacation balance to remain near the maximum allowed.
- We also found that four other managerial employees were granted compensatory time for insignificant periods of time (two hours or less).
- Two managerial employees on an alternate work schedule earned holiday compensatory time when they should have reverted to a standard schedule for the two weeks including the holiday. Thus, these two employees appear to have been paid more than they were entitled to during the audited period because they earned and subsequently used the holiday compensatory time, and received regular 80 hours of pay for the pay periods with the holidays. One employee received a total of \$5,800 more than the employee was entitled to, and the other \$317.

Effect: The Office of the State Comptroller may be allowing employees to earn compensatory time that is unnecessary, and may also be paying employees more than they are entitled to. In addition, it is not documented that management ensured in advance that the compensatory time worked and paid was necessary and reasonable.

Cause: It appears the agency did not exercise the necessary administrative oversight to ensure that compensatory time and overtime were approved in advance and that sufficient documentation was retained in support of those approvals.

Recommendation: The Office of the State Comptroller should implement control procedures necessary to ensure compliance with both the Management Personnel Policy No 06-02 and the office's specific policies with respect to the authorization and monitoring of compensatory time. The office should also attempt to recover the overpayments. (See Recommendation 8.)

Agency Response: "The Office of the State Comptroller (OSC) has established procedures to ensure compliance with the agency's policy with the authorization and monitoring of compensatory time. The OSC will review and communicate with Division Management regarding the policy on the authorization and monitoring of compensatory time. The Human Resources Unit will review and implement procedures to ensure compliance with the Management Personnel Policy No 06-02."

Leave in Lieu of Accrual - Procedures and Records

Criteria: The Leave in Lieu of Accrual (LILA) time reporting code was established in the Time and Labor application in Core-CT to allow employees to charge time (personal, vacation, and sick leave) for the period between the first of the month, when employees earn accruals, and when employee accruals are actually posted to employee leave balances. LILA can also be used when an employee earns and uses compensatory or holiday time in the same pay period. The code is meant to be temporary and should be changed to the appropriate leave time once the accrual/compensatory time has been posted to the employee's leave balance. Core-CT has a job aid to assist agencies in monitoring the LILA code so they can identify and adjust employee leave balances after the accruals have been posted.

Condition: Our review of nine employees who had the LILA code posted during the audited period disclosed that the Office of the State Comptroller did not follow procedures for all nine of the employees.

The Office of the State Comptroller failed to change LILA time charged to the appropriate leave time for eight out of the nine employees, for a total of 110 hours. As a result, these employees accrued more time than they were entitled to receive. In addition, we could not determine why the LILA code was used for three out of the eight, one of whom is dually employed and does not accrue vacation or sick time at the Office of the State Comptroller.

The ninth employee had negative LILA hours posted to his attendance records; however, the LILA code should always be a positive number. As a result, subsequent changes to reflect actual leave time used had to be doubled to compensate for the initial negative posting, causing the employee's attendance cards to suggest that more hours were worked than was actually the case.

Effect: The lack of oversight and monitoring of the LILA code could result in employees using more leave time than they are entitled to.

Cause: The Core-CT job aid procedures were not properly applied; if they were, the LILA code would have been eliminated and leave balances would have been charged for time taken.

Recommendation: The Human Resources Unit of the Office of the State Comptroller should follow the Core-CT Job Aid, which assists agencies in monitoring the LILA code, so they can identify and adjust the employee's leave balance after the accruals have been posted. The Office of the State Comptroller should correct the affected employees' leave. (See Recommendation 9.)

Agency Response: “The Human Resources Unit has implemented new procedures to monitor the usage of the LILA code. The process consists of generating a monthly LILA - Time Reporting Code Report to review and adjust employee’s leave balances after their accruals have been posted.”

Dual Employment - Procedures and Records

Criteria: Section 5-208a of the General Statutes requires that a state employee who holds multiple job assignments at different state agencies or within the same state agency obtain certification that the duties performed and hours worked are not in conflict with the employee’s primary responsibilities to the agency, and certification that there is no conflict of interest between or among the positions.

Condition: We noted the following:

One employee taught two different courses at two different community colleges; however, there was only one dual employment (PER DE-1) form on file for one of the colleges. The Comptroller’s office stated that it did not know the employee was teaching another course. However, the Comptroller’s office should have been aware of this, because when it tried to add the employee into Core-CT, it was notified she had two active records, with the unknown college being the primary record holder. The start time for one of the courses overlapped with the employee’s scheduled end time at the Office of the State Comptroller. For the one class with the PER DE-1 form on file, the employee was allowed to leave one-half hour early and work from home later that night. The Comptroller’s office incorrectly recorded this time as one-half hour straight time overtime. Also, a telecommuting agreement was not on file for the one-half hour worked from home.

Effect: The employee may be getting paid for time not being worked due to conflicts with scheduled time.

Cause: Procedures in place were insufficient to ensure compliance with dual employment requirements.

Recommendation: The Office of the State Comptroller should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes. (See Recommendation 10.)

Agency Response: “The Office of the State Comptroller (OSC) will review and communicate with Division Management regarding the policy on Dual Employment. The OSC will implement procedures to ensure compliance with Dual Employment requirements and outside employment.”

Overtime - Procedures and Records

Criteria: The Office of the State Comptroller's written policies regarding overtime require that employees must receive written authorization for overtime in advance to receive the extra payment. The only exceptions to the requirement for advanced approval are related to "extreme emergency situations which threaten life, property and/or operations."

For employees under the P-5 Administrative and Residual collective bargaining unit, those above salary grade 24 are not eligible for overtime payments unless approved by the Office of Policy and Management (OPM).

Condition: Our review of the office's use of overtime revealed:

- Five employees had earned a total of 93.75 hours overtime prior to it being approved.
- Two employees received paid overtime for a total of 359.50 hours, or \$6,172, even though they were ineligible because they exceeded the threshold of P-5 salary grade 24 and there was no approval from OPM for the payment.
- Three employees earned more hours than was approved, for a total of 15.50 extra hours.
- Two employees did not have proper approvals on file to earn overtime.

Effect: The Office of the State Comptroller was not in compliance with standard guidelines relative to overtime and potentially paid employees more than they were entitled to receive.

Cause: The Office of the State Comptroller did not exercise the necessary administrative oversight to make certain that overtime was approved in advance and that sufficient documentation was retained in support of those approvals.

Recommendation: The Office of the State Comptroller should strengthen internal controls to ensure that overtime is approved in advance by an appropriate supervisor and that overtime payments to individuals above P-5 salary grade 24 are approved by OPM. (See Recommendation 11.)

Agency Response: "The Office of the State Comptroller (OSC) has strengthened its internal controls on the administrative oversight on the authorization for overtime. The Human Resources Unit has created a new Overtime/Compensatory Time Request form to ensure the authorization for overtime and will communicate with Division Management regarding the Overtime Request Policy."

Monitoring Use of Sick Leave

Criteria: Section 5-247-3 of the Regulations of State Agencies states that employees may be granted paid sick leave if they are incapacitated for duty. Section 5-247-11 of the regulations requires that medical certificates be submitted for any duration of sick leave, if absence from duty recurs frequently or habitually.

The State Comptroller's policy regarding excessive absenteeism is intended to prompt closer scrutiny by agency supervisory personnel to ensure that abuse of leave time is not occurring. The policy provides for appropriate corrective action when five or more occasions of absence occur within a service rating year. The Office of the State Comptroller's Employee Handbook states, "Generally speaking, an occasion is a period of absence for the same reason charged to Sick Leave, or other leave such as Vacation, Personal Leave, Authorized Leave Without Pay used in lieu of exhausted Sick Leave and may take a variety of forms."

Condition: We noted that 65 employees used 200 or more hours of sick leave during the audited period. We reviewed sick leave usage for 20 out of the 65 employees. We noted that all 20 employees had five or more occasions of sick leave absences within one service rating year and appropriate corrective action was not taken in accordance with the Office of the State Comptroller's employee handbook. Eight out of the 20 employees reviewed had a pattern of usage suggesting potential abuse, with frequent use before and after holidays, vacations and weekends. Even though the office noticed the pattern, it did not require medical certificates from the employees. While frequent use of sick time does not necessarily indicate abuse, management should take appropriate action to ensure any potential abuse is detected.

Effect: Failure to adequately follow through on the use of sick time could result in abuse going undetected.

Cause: The Comptroller's Human Resources Unit runs a quarterly report and sends a list of employees with three or more occasions of absence to division directors. However, there was no follow-through, as required by the Office of the State Comptroller's policies on attendance and tardiness.

Recommendation: The Office of the State Comptroller should adhere to its policies on attendance and tardiness when excessive absenteeism is present. (See Recommendation 12.)

Agency Response: "The Office of the State Comptroller will review and communicate with Division Management regarding the Attendance Policy to ensure compliance with the required guidelines."

Personnel – Procedures and Records

Criteria: The Department of Administrative Services (DAS) has established an incentive program called the Performance Assessment and Recognition System (PARS) for managers. Managers are eligible for PARS if they work in an agency that uses the prescribed PARS plan, are excluded from collective bargaining, and are paid on a managerial pay plan.

The Office of the State Comptroller Employee Handbook states that supervisors “will formally evaluate your performance at least annually by completing a service rating form used for all employees in your bargaining unit”. All employees must be evaluated at least once a year, at least three months prior to their annual increase date. If their overall performance evaluation is satisfactory, they receive an annual increment (step increase).

In accordance with Section 5-206 of the General Statutes, the Department of Administrative Services has established position classifications that include a title and code, pay grade, a statement of duties and responsibilities and the minimum desirable qualifications required by the incumbent for each class. These class titles were all classified competitive; therefore, candidates must meet the minimum qualifications of the position and pass the exam in order to be appointed.

Section 5-227a of the General Statutes waives competitive exams in certain instances of promotions by reclassification if: the employee meets the minimum qualifications for the reclassified position, received a satisfactory appraisal on his two most recent consecutive performance evaluations, worked at his existing level for his current position for a minimum period of six months, and the reclassified position is approved by the Commissioner of DAS. DAS General Letter No. 226 lists the required documentation that must accompany every transaction under section 5-227a as: a completed, up-to-date Application for Examination and Employment Form (PLD-1); a statement affirming that the employee’s last two consecutive performance evaluations have been satisfactory or above; a statement confirming the employee has been serving at his/her existing level in his/her current position at least six months and has completed the working test period; a duties questionnaire completed by the employee; an organizational chart; and a justification for the reclassification.

Section 5-234 of the General Statutes pertains to the promotion of an employee from a training class. It states that “any person appointed to a profession or pre-professional training class may be reclassified without examination to the target class upon successful completion of the required working test period and the training program”

In accordance with Section 5-206 of the General Statutes, DAS has established position classifications that include a title and code, pay grade, a statement of duties and responsibilities, and the minimum desirable qualifications required by the incumbent for each class.

Section 5-252 of the General Statutes states that “any state employee leaving state service shall receive a lump sum payment for accrued vacation time as prescribed under rules and regulations to be promulgated by the Commissioner of Administrative Services.” Furthermore, employees under the P-5 Administrative and Residual collective bargaining unit, hired prior to June 30, 1977 may accrue up to 120 days (960 hours) of vacation time.

Condition: The Office of the State Comptroller participates in the Performance Assessment and Recognition System. Our review noted the following:

- Our test of payroll found five managerial employees that were in arrears of having an annual review of one year to six years. We also found that these five managerial employees were all awarded maximum annual salary increases during our audited period.
- Our test of payroll found seven bargaining unit employees that were in arrears of having an annual review of one year to 12 years. We also found that of these seven employees, four were awarded maximum annual salary increases during our audited period.
- Our review also found twelve employees in the classified/competitive job class who did not take the position exam and who do not appear to have all the documentation required for the promotion or appointment.
- The daily tasks and duties for one employee did not agree with the DAS job title description. Also, there is nothing in this employee’s file to suggest the employee meets the required qualifications and skills for the current position.
- One employee hired prior to June 30, 1977 received a vacation payout upon retirement for 60 days (480 hours). Her total accrued hours were 501.
- One employee used more leave hours than she was entitled to, thus retiring with a negative accrual balance.

Effect: Annual increases were awarded that were not supported by annual evaluations. Employees who received an annual increase without an annual evaluation may not have been eligible to receive one.

The Office of the State Comptroller may be underutilizing staff and may not be promoting or hiring the most qualified candidates for its positions. In addition, employees who may not meet the minimum position requirements or perform the daily tasks and duties in the DAS job title description could be getting overpaid for their service.

The office did not make a vacation separation payment for the correct amount, resulting in an unpaid amount of \$831.

One employee used 10 hours of sick leave and 13.33 hours of vacation leave in excess of what was earned, resulting in an overpayment of \$944.

Cause: Existing controls did not prevent these conditions from occurring.

Recommendation: The Office of the State Comptroller should improve controls to ensure that all employees receive annual evaluations as required by the Performance Assessment and Recognition System handbook, the bargaining unit contracts, and their own policies. In addition, it should follow procedures set by the Department of Administrative Services for promotions and appointments.

The Office of the State Comptroller should strengthen controls to ensure the correct leave balances are used at the time employees separate from service. (See Recommendation 13.)

Agency Response: “The Office of the State Comptroller has strengthened its internal controls on employee’s annual evaluations and the Performance Assessment and Recognition System. The Human Resources Unit will review and communicate with Division Management regarding the required guidelines on employee’s annual evaluations and the Performance Assessment and Recognition System.

The Office of the State Comptroller has implemented procedures on promotions and appointments to ensure compliance with the procedures set forth by the Department of Administrative Services and General Letter No. 226.

The Human Resources Unit will review and implement procedures on final payments to employees who are separating from state service. This process will validate leave balances and total payments at time of separation.”

Monitoring Personnel Actions History

Criteria: Appropriate agency personnel should review and authorize changes to employee personnel records to ensure the propriety of the changes.

The Core-CT system has various reports and queries available to identify employee record changes so they can be confirmed as authorized

Condition: The Core-CT Personnel Actions History Report reflects changes to an employee's job data in Core-CT. The Office of the State Comptroller did not have a process in place to provide a review of the report or another means of reviewing changes to job data on a regular basis. While there was a process in place to review changes to salaries, this is limited in scope and does not include all changes to personnel records.

Effect: In the absence of such a review, erroneous and unauthorized changes to an employee's job data on Core-CT may go undetected or may not be detected in a timely manner.

Cause: The Comptroller was of the belief that the Department of Administrative Services performed this function.

Recommendation: The Office of the State Comptroller Human Resources Unit should monitor changes to employee job data on a regular basis to verify the propriety and authorization of any changes made to employee files. (See Recommendation 14.)

Agency Response: "This function was performed by the Department of Administrative Services (DAS) – Statewide Human Resources, Post-Audit Unit. There was no communication from DAS to the agencies that this function was no longer going to be performed.

The Human Resources Unit has implemented procedures to monitor authorized changes to employee's personnel records in Core-CT. The process will consist of generating Personnel Action History Report on a bi-weekly basis from Core-CT and auditing changes to an employee's Job Data record."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The State Comptroller should revise the State Accounting Manual to ensure the policies applicable to the Funds Awaiting Distribution Fund relative to the reconciliation of and annual reporting for the account balance, as of June 30th, include the accounts that are unique to the Office of the State Comptroller. Our review again found ending balances that have not been reconciled. (See Recommendation 1.)
- The Comptroller's office should improve its internal controls to ensure its compliance with both the Department of Information Technology's statewide telecommunications equipment policy and the State Comptroller's own policy for state-owned equipment. Our follow-up testing revealed that the Comptroller has implemented our recommendation. This recommendation will not be repeated.
- The Office of the State Comptroller should strengthen its internal control procedures to ensure its compliance with both the Management Personnel Policy No. 06-02 and its office's specific guidance relative to the authorization of compensatory time. Our current review revealed that employees were allowed to accrue and use compensatory time in violation of office policies. This recommendation has not been complied with and is being repeated. (See Recommendation 8.)

Current Audit Recommendations:

1. **The Office of the State Comptroller should investigate, identify and reconcile the unknown liability balances in its Funds Awaiting Distribution Fund account.**

Comment:

We found continuing credit balances in the Comptroller's account in the Funds Awaiting Distribution Fund that were not reconciled and corrected.

2. **The Office of the State Comptroller should follow and enforce the policies and procedures pertaining to the pre-approval of purchase orders.**

Comment:

We found purchase orders of \$1 million or more that were not reviewed and approved prior to being executed.

3. **The Office of the State Comptroller should follow the segregation of duties in Core-CT financial roles, and either remove the conflicting roles, or retain approval and supporting documentation for the exemptions. The Office of the State Comptroller should also consider reviewing all vendor roles to determine whether there are role conflicts with other roles.**

Comment:

We found incompatible vendor, purchasing, and accounts payable Core-CT user financial roles assigned to employees at various state agencies.

4. **The Office of the State Comptroller should take steps to improve its controls over the accurate recording, reporting, and safeguarding of assets.**

Comment:

Our examination found errors that resulted in the misstatement of reported assets.

5. **The Office of the State Comptroller should strengthen controls over petty cash funds. The Payroll Services Division should follow the steps necessary to escheat unclaimed checks to the State Treasurer's Unclaimed Property Division in accordance with Connecticut General Statutes.**

Comment:

We found the Management Services Division's business office did not have supporting documentation for some of its transactions. We also found a significant number of Payroll Services Division petty cash checks were left outstanding.

6. **The Office of the State Comptroller should improve the preparation of its GAAP closing package.**

Comment:

Our examination revealed errors in the amounts reported.

7. **The Office of the State Comptroller should develop a business continuity plan for all critical business operations and information systems currently used by the agency.**

Comment:

We found that the agency's formal disaster plan was not updated and tested since February 2002.

8. **The Office of the State Comptroller should implement control procedures necessary to ensure compliance with both the Management Personnel Policy No 06-02 and the office's specific policies with respect to the authorization and monitoring of compensatory time. The Office of the State Comptroller should also attempt to recover the overpayments.**

Comment:

Our examination revealed that employees were granted compensatory time that was not properly approved, documented, or in compliance with DAS personnel policies or OPM permission.

9. **The Human Resources Unit of the Office of the State Comptroller should follow the Core-CT Job Aid, which assists agencies in monitoring the LILA code, so they can identify and adjust employee leave balances after the accruals have been posted. The Office of the State Comptroller should correct the affected employee's leave.**

Comment:

Our review revealed that employees' LILA leave time charged was not changed to the appropriate leave time, resulting in employees accruing more leave time than they were entitled to.

10. **The Office of the State Comptroller should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes.**

Comment:

Our examination revealed that an employee holding multiple job assignments did not have the proper certification indicating there was no conflict of interest between or among the positions on file.

11. **The Office of the State Comptroller should strengthen internal controls to ensure that overtime is approved in advance by an appropriate supervisor and that overtime payments to individuals above P-5 salary grade 24 are approved by OPM.**

Comment:

Our examination revealed that employees were granted overtime for which they were ineligible, or prior to approval.

12. **The Office of the State Comptroller should adhere to its policies on attendance and tardiness regarding excessive absenteeism.**

Comment:

We found that the agency did not take appropriate corrective action on those employees showing a pattern of excessive use of sick leave.

- 13. The Office of the State Comptroller should ensure that all employees receive annual evaluations as required by the Performance Assessment and Recognition System handbook, the bargaining unit contracts and its own policies. In addition, it should follow procedures set by the Department of Administrative Services for promotions and appointments.**

Comment:

We found that employees were granted annual salary increases without having an annual performance review. We also found employees that did not have the proper position exam, promotion or appointment documentation.

- 14. The Office of the State Comptroller Human Resources Unit should monitor changes to employee job data on a regular basis to verify the propriety and authorization of any changes made to employee files.**

Comment:

We found the agency did not have a process in place to periodically review all changes made to employee job data.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and the courtesies extended to our representatives by the personnel of the Office of the State Comptroller during the course of our examination.



Matthew Rugens
Administrative Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts