

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT STATE LIBRARY AND
THE STATE COMMISSION ON THE ARTS
FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
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Table of Contents

INTRODUCTION	1
COMMENTS:	1
Foreword	1
Members of the State Library Board	2
Members of the State Commission on the Arts	3
Résumé of Operations	3
General Fund Cash Receipts and Expenditures	3
Connecticut State Library	3
State Commission on the Arts	5
Capital Project Funds.....	7
Special Revenue Funds.....	7
Connecticut Arts Endowment Fund.....	8
Program Evaluation.....	9
CONDITION OF RECORDS:	11
Connecticut State Library	11
Cash Receipts	11
Inventory and Property Control	12
Pass Through Grant	14
State Commission on the Arts.....	15
Arts Endowment Trust Fund.....	15
State Library and Commission on the Arts.....	15
Grantee Monitoring.....	15
RECOMMENDATIONS	17
CERTIFICATION	19
CONCLUSION	21

January 15, 2002

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

We have made an examination of the records of the Connecticut State Library and the State Commission on the Arts for the fiscal years ended June 30, 1999 and 2000.

This report on that examination consists of the following Comments, Recommendations, and Certification. Financial statements concerning the operations and activities of the State Library are presented on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the State Library's and the State Commission on the Arts' compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the State Library's and the State Commission on the Arts' internal control policies and procedures established to ensure such compliance. A separate audit report will be issued by this Office covering the Connecticut Heritage Foundation, Inc. formerly named the Connecticut State Library and Museum Foundation, Inc.

COMMENTS

FOREWORD:

The State Library Board, which is within the Department of Education for administrative purposes only, operates under the provisions of Title 11 of the Connecticut General Statutes and oversees the activities of the State Library. The primary functions of the Library include: providing advice, planning, and financial assistance to all libraries in the State, operating the Raymond E. Baldwin Museum of Connecticut History and Heritage, maintaining library services for the blind and other persons with disabilities, and providing library and information services for the State government and the public.

Under the provisions of Section 10-369, subsection (b) of the General Statutes, the State Commission on the Arts was placed within the State Library for administrative purposes and the State Library provides administrative support as required by the Commission, including financial management, personnel and data processing services. The State Commission on the Arts (Commission) generally operates under the provisions of Title 10, Section 10-369 through 10-373 of the General Statutes. The Commission's primary function is the promotion, development, acceptance and appreciation of artistic and cultural activities. We have reviewed the operations of both agencies in this report since the financial and budgetary functions of the Commission have been merged into State Library operations.

During the audited period, Mrs. Patricia L. Owens served as Interim State Librarian until October 7, 1998 when Mr. Kendall Wiggin was appointed as State Librarian. Mr. Wiggin continued to serve as the State Librarian throughout the remainder of the audited period.

Mr. John Ostrout continued to serve as the Executive Director of the State Commission on the Arts during the audited period.

Pursuant to Section 11-1, subsection (d), of the General Statutes, the State Library Board established the Connecticut Heritage Foundation, Inc., a nonprofit foundation to raise funds from private sources to enhance the collections and programs of the State Library and Museum. We issue a separate report on Foundation operations.

Members of the State Library Board:

Section 11-1, subsection (a), of the General Statutes states that the Board shall consist of 12 members. The Board members, as of June 30, 2000, were as follows:

Ann M. Clark, Chairperson	Hazel McGuire
Robert R. Gallucci	Judge John Ronan
Judge Francis X. Hennessy	Theodore S. Sergi
Joy W. Hostage	John T. Short
Mollie Keller	Edmund B. Sullivan
Larry Kibner	Edwin E. Williams

In addition to the members listed above, Benjamin Dixon, Mary Etter and Judge Robert Leuba also served on the State Library Board during the audited period.

Besides the State Library Board, the State Library has two advisory groups. The Advisory Council for Library Planning and Development, pursuant to Section 11-1, subsection (g) of the General Statutes, consists of 19 members appointed by the State Library Board and deals with library planning and development issues. Section 11-6a of the General Statutes establishes the Museum Advisory Committee, which consists of eight members, that advises the State Library Board with respect to the policies, collections, programs, activities and operations of the Raymond E. Baldwin Museum of Connecticut History and Heritage.

Members of the State Commission on the Arts:

Section 10-369, subsection (a), of the General Statutes states that ". . . the commission shall consist of the president of the Connecticut Advocates for the Arts, any member of the National Council on the Arts who resides in Connecticut and twenty-one members . . . ". At June 30, 2000, members of the Commission were as follows:

Michael P. Price, Chairperson	Amelia Mustone
Jennifer Aniskovich	Paul E. Pozzi
Carolyn F. Cicchetti	Juliana Sciolla
Frances T. Clark	Ann Y. Smith
Leonard S. Cohen	Lynda Smith
Barbara Davitt	Andy Thibault
Louise L. DeMars	Diane Tucker
Douglas Evans	Robyne Watkin
Tony Falcone	Vivien White
Ronnie Heyman	Mitzi Yates
Gerald Moshell	Ted Yudain
Vita Muir	Vacancy

In addition to the members listed above, Samuel D'Ambruoso, James F. Donnelly, Robert H. Gray, Peter D. Hirschl, James Kelley, Sr., and George White also served on the Commission on the Arts during the audited period.

RÉSUMÉ OF OPERATIONS:

As previously noted, the State Commission on the Arts was placed within the State Library for administrative purposes and the State Library provides administrative support as required by the Commission, including financial management, personnel and data processing services. Administrative support costs provided for the State Commission on the Arts are included as part of the Connecticut State Library financial operations presented below.

General Fund Cash Receipts and Expenditures:

Connecticut State Library:

General Fund receipts applicable to State Library operations totaled \$2,923,545 and \$477,402 for the fiscal years ended June 30, 1999 and 2000. Receipts consisted primarily of Federal grants and the decrease in 1999 - 2000 fiscal year receipts was attributable primarily to decreases in Federal grant funds. General Fund receipts for the audited period and the previous fiscal year are summarized below:

	State Library		
	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Federal grants:	\$	\$	\$
Federal receivables	1,667,289	2,265,029	4,868
Other Federal grants	<u>278,674</u>	<u>251,642</u>	<u>111,896</u>
Federal receipts	1,945,963	2,516,671	116,764
Private Restricted Accounts	384,630	352,168	248,417
All other receipts	<u>110,162</u>	<u>54,706</u>	<u>112,221</u>
Totals	<u>\$2,440,755</u>	<u>\$2,923,545</u>	<u>\$ 477,402</u>

A summary of General Fund expenditures applicable to State Library operations for the audited period and the previous fiscal year, is presented below:

	State Library		
	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Budgeted accounts:	\$	\$	\$
Personal services	4,313,206	4,616,295	4,913,606
Contractual services	973,301	1,502,432	1,573,620
Commodities	153,015	201,107	159,283
Sundry charges	140,798	10,681	7,146
Grants-in-aid	1,959,440	1,959,440	1,957,431
Equipment	<u>832,931</u>	<u>895,807</u>	<u>918,968</u>
Budgeted accounts	8,372,691	9,185,762	9,530,054
Restricted accounts:			
Private accounts	226,857	101,521	128,078
Federal accounts	<u>1,812,920</u>	<u>2,242,495</u>	<u>2,467,041</u>
Totals	<u>\$10,412,468</u>	<u>\$11,529,778</u>	<u>\$12,125,173</u>

Expenditures from budgeted accounts increased by \$813,071 and \$344,292 during the respective audited fiscal years. These increases were primarily attributable to general wage increases. Contractual services were made for general operating costs, of which, electronic data processing related costs made up approximately 62 and 53 percent of total contractual services during the respective audited fiscal years. The majority of equipment purchases during the audited period were for books.

During the audited period, the State Library administered a number of State-aid-grant programs. A schedule of grant expenditures by program for the audited period and a brief description of each program is presented below.

State Library
State-Aid-Grants

	1998-1999	1999-2000
General Fund Budgeted Accounts:	\$	\$
Cooperating Library Service Units	807,829	782,787
Grants to Public Libraries	453,776	462,852
Connecticard Payments	697,835	711,792
Total General Fund Budgeted Accounts	\$1,959,440	\$1,957,431

Connecticut State Library State-Aid-Grants:

Cooperating Library Service Units – Section 11-9e of the General Statutes provides for libraries to coordinate services through planning, resource sharing, and the development of programs too costly or impractical for a single library to maintain.

Grants to Public Libraries – Section 11-24b, subsections (b), (c) and (d), of the General Statutes authorizes three types of grants to principal public libraries: base grants, formula based equalization grants and incentive grants.

Connecticard Payments – Section 11-31b of the General Statutes provides for a cooperative program among public libraries that allows residents to borrow materials from any participating State public library. Grant payments to participating libraries are based on the volume of program activity levels.

State Commission on the Arts:

General Fund receipts applicable to the Commission on the Arts totaled \$1,067,899 and \$1,295,664 during the fiscal years ended June 30, 1999 and 2000, respectively. Receipts consisted primarily of restricted Federal contributions and the annual receipt of \$1,000,000 for the Cultural Heritage Development Grant program, which is discussed in further detail below. Changes in cash receipt levels were primarily due to changes in Federal grants. General Fund receipts for the audited period and the previous fiscal year are summarized below:

	Commission on the Arts		
	1997-1998	1998-1999	1999-2000
	\$	\$	\$
Federal grants	848,334	56,898	274,221
Private Restricted Accounts:			
Cultural Heritage Grant	1,000,000	1,000,000	1,000,000
Other	5,500		
Other receipts	26,271	11,001	21,443
Totals	\$1,880,105	\$1,067,899	\$1,295,664

A summary of General Fund expenditures applicable to State Commission on the Arts' operations for the audited period and the previous fiscal year, is presented below:

	Commission on the Arts		
	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Budgeted accounts:	\$	\$	\$
Personal services	538,525	592,280	636,434
Contractual services	129,002	179,432	106,846
Commodities	27,768	24,312	13,194
Sundry charges	457		2,245
Grants-in-aid	3,049,015	3,746,854	4,037,406
Equipment	<u>8,464</u>		
Budgeted accounts	3,753,231	4,542,878	4,796,125
Restricted accounts:			
Private accounts	1,331,277	847,218	1,110,840
Federal accounts	<u>520,430</u>	<u>522,160</u>	<u>627,243</u>
Totals	<u>\$5,604,938</u>	<u>\$5,912,256</u>	<u>\$6,534,208</u>

Expenditures from budgeted accounts increased by \$789,647 and \$253,247 during the respective audited fiscal years. These increases were primarily attributable to general wage increases and increased grant activity. A schedule of grant expenditures by program for the audited period and a brief description of each program is presented below.

	Commission on the Arts	
	<u>State-Aid-Grants</u>	
	<u>1998-1999</u>	<u>1999-2000</u>
General Fund Budgeted Accounts:	\$	\$
Basic Cultural Resources Grant	2,696,854	2,766,406
Ct. Educational Telecommunications Corp.	850,000	867,000
Connecticut Humanities Grant	200,000	354,000
Impressionist Art Trail		<u>50,000</u>
Total General Fund Budgeted Accounts	3,746,854	4,037,406
Private Restricted Contribution Accounts:		
Cultural Heritage Development Grants	<u>847,313</u>	<u>1,110,840</u>
Totals	<u>\$4,594,167</u>	<u>\$5,148,246</u>

Commission on the Arts State-Aid-Grants:

Basic Cultural Resources Grants – Section 10-370, subsection (2), of the General Statutes authorizes the Commission on the Arts to provide grants, loans, or advances to individuals and organizations for the development, promotion and maintenance of artistic and cultural activities.

Ct. Educational Telecommunications Corp. – Section 10-4e, subsections (b) and (c), of the General Statutes allows for private and public organizations to coordinate and provide educational technology services for Connecticut students. During the audited period,

funding was provided to the Connecticut Public Broadcasting, Inc. to acquire and broadcast educational, arts, cultural, and entertainment programs statewide, as well as providing specialized services and programs to the Connecticut public school system.

Connecticut Humanities Grants – Section 10-373aa of the General Statutes establishes a program, administered by the Connecticut Humanities Council, to provide grants and support services for local institutions in the humanities.

Cultural Heritage Development Grants – Section 19-373bb of the General Statutes establishes a program, administered by the Connecticut Humanities Council, to provide funds to local institutions in the humanities. During each of the audited fiscal years, \$1,000,000 was provided to this program from certain sales tax proceeds as authorized by Section 32-305 of the General Statutes. This program was accounted for within a private restricted contribution account and was used for a Cultural Heritage Tourism Program.

Impressionist Art Trail – A \$50,000 appropriation was included in the 1999-2000 fiscal year budget to promote Connecticut Impressionist Art from the turn of the last century. A grant for \$50,000 was awarded to a grantee to promote tourism at ten museums displaying Connecticut's American Impressionist Art.

Capital Project Funds:

Capital expenditures from various capital project funds totaled \$124,046 and \$18,973 during the fiscal years ended June 30, 1999 and 2000, respectively. These expenditures were primarily for improvements, renovations and purchases of library equipment.

Special Revenue Funds:

The Library expended monies from three special revenue funds. The first was the Capital Equipment Purchase Fund. This fund was used for library equipment purchases totaling \$156,844 and \$241,743 during the fiscal years ended June 30, 1999 and 2000, respectively.

A second special revenue fund was primarily used for Construction and Library Automation grants for public library construction and related projects. Expenditures from this special revenue fund totaled \$4,291,459 and \$2,470,178 during the fiscal years ended June 30, 1999 and 2000, respectively. Expenditures were made for various public library construction projects and also included transfers of \$2,000,000 and \$1,000,000 during the respective audited fiscal years, to increase the principal balance of the Connecticut Arts Endowment Fund. Additional comments concerning the Arts Endowment Fund are included under a separate caption below.

The third special revenue fund was primarily used to account for proceeds of capital project funds that have been allocated for artwork to be included as part of State building construction projects. Under the provisions of Section 4b-53 of the General Statutes, the Commission on the Arts is authorized to select the artists and artwork style to be included as part of larger construction or renovation projects of State buildings. The Commission can set aside up to one

Auditors of Public Accounts

quarter of the funds that have been allocated for construction related artwork for use in purchasing artworks of distinguished Connecticut artists, for the establishment of a bank of major works of art and for the maintenance of such a collection. This fund was also used to account for a State Library administered capital project. A summary of financial transactions of the various operating components of this Special Revenue Fund follows:

	<u>Total</u>	<u>Art Work Buildings</u>	<u>Art Collection</u>	<u>Agency Capital Project</u>
Balances June 30, 1998	\$ 778,309	\$ 762,149	\$ 14,01	\$ 2,150
Additions 1,475,121	1,114,417	346,404	14,300	
Disbursements	(150,989)	(138,250)	(1,488)	(11,251)
Intra-fund adjustments		<u>(203,523)</u>	<u>203,523</u>	
Balances June 30, 1999	2,102,441	1,534,793	562,449	5,199
Disbursements	<u>(537,377)</u>	<u>(457,810)</u>	<u>(75,597)</u>	<u>(3,970)</u>
Balances June 30, 2000	<u>\$1,565,064</u>	<u>\$1,076,983</u>	<u>\$486,852</u>	<u>\$ 1,229</u>

Connecticut Arts Endowment Fund:

The Connecticut Arts Endowment Trust Fund operates under the provisions of Sections 10-373n through 10-373q of the General Statutes. This Fund is financed from the proceeds of State bonds that serve as the principal balance of the Arts Endowment Fund with interest earnings from such funds being available for State matching grants to eligible arts organizations. A summary of financial transactions for the audited period follows.

	<u>1998-1999</u>	<u>1999-2000</u>
Cash and investments, beginning of year	\$9,187,333	\$11,354,596
Transfer-State bond funds	2,000,000	1,000,000
Investment earnings	703,673	747,908
Grants	<u>(536,410)</u>	<u>(672,383)</u>
Cash and investments, end of year	<u>\$11,354,596</u>	<u>\$12,430,121</u>

The fair market value of Trust Fund assets at June 30, 2000 was \$12,438,900.

PROGRAM EVALUATION:

In recent years, the State Library has experienced facility-related problems including space shortages for both staffing and collections. Space shortages are primarily attributed to the fact that a majority of activities take place at the State Library and Supreme Court building located at 231 Capitol Avenue, Hartford, which is an older facility with limited capacity. This building

also houses Judicial Department operations and, expansion of both agencies over time has contributed to space shortages. Library operating space in this building was also affected by Public Act 95-220, which took effect on July 1, 1995. This legislation amended Section 4b-aa of the General Statutes by terminating joint custody of this building by the State Library Board and the Judicial Department and giving control to the Judicial Department. Since this change, the Judicial Department has reassigned some workspace to accommodate their operations thereby reducing Library workspace. The Library alleviated some congestion at 231 Capitol Avenue by moving its fiscal operations, in 1997, to a new location at 20 Trinity Street, Hartford. Although this move helped free workspace for administrative staff at 231 Capitol Avenue, many areas continue to be congested. As was noted in the prior audit report, archival and museum collection storage at 231 Capitol Avenue continued to be maintained in crowded storage locations with many areas lacking adequate temperature and ventilation controls.

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. As noted above, the Library has been able, at least in the short-term, to provide working space for its administrative staff. In regards to museum and archival collection storage, the museum collection has been generally fixed in size with nominal growth while the archival collection is extensive in volume and expands at a rate of about 1,000 cubic feet a year. In 1982, there were approximately 18,000 cubic feet of archival records, which has expanded to over 30,000 cubic feet in 2001. Since archival records require massive storage capacity, we have selected to review, for a program evaluation, the State Library's management of archival records with emphasis on facility needs.

Sections 11-8 and 11-8a of the General Statutes, give the State Library's Public Records Administrator the primary responsibility for establishing criteria for the retention, maintenance and disposition of records for the State and its political subdivisions. When there is no further administrative, fiscal or legal need for such records, the State Library's Public Records Administrator and the State Archivist determine which records have historical value and should be archived.

Since the early 1980s, archival storage at 231 Capitol Avenue had reached near full capacity, and as a result, the Library has since used vacant State facilities as temporary storage for archival records. In 1984, the Library used a building at 90 Washington Street, Hartford until the owner sold this building. Archival storage operations were then moved in 1996, to 80 Washington Street, Hartford until this location was assigned to the Judicial Department in 1998. Even though 80 Washington Street was assigned to the Judicial Department, existing archival records were permitted to be stored at this location until a new storage facility could be secured. However, the lack of storage facilities resulted in the inability to accept any more archival records, and the Library had to instruct Agencies to retain such records until additional storage space could be obtained. The Library's Willamantic Library Service Center was also used to temporarily store a large volume of Judicial Department records received in the late 1980s.

In March 1999, a consultant hired by the State Department of Public Works issued a report evaluating current and future Library spacing needs. This report disclosed the need for space currently and for the future. To address storage needs, at least in the short-term, the Department of Public Works negotiated a lease for the rental of a 45,000 square foot facility formerly used as

a records center for an insurance company. This facility is being leased for a 5-year period with a possible 5-year extension. This facility became operational when building renovations were completed in October 2001. In addition to providing archival and museum collection storage, the Library also plans to use this facility for training and conferences.

With the leasing of the new storage facility, the Library has been able to solve its storage space needs for many years. However, Library administrators expressed many concerns about the need to develop long-term facility planning to address future aspects of its operations. Some of these concerns include work area for administrative staff, future archival storage needs including storage methods and accessibility needs, and possible expansion of the museum for greater exhibition space which could also include displaying of key archival documents. The Library has not been successful in obtaining funding or support to study and develop a long-term facility plan to fulfill future library needs. The Agency has recently requested bonding for such purposes without success. From our observations, the Library has done excellent under the circumstances, in filling its facility needs with very little resources, and should continue its pursuits to study and develop a formal long-term facility plan.

CONDITION OF RECORDS

Our review of the records of the Connecticut State Library and the State Commission on the Arts disclosed several areas requiring improvement or attention, as discussed in this section of the report.

CONNECTICUT STATE LIBRARY:

Cash Receipts:

Background: The Connecticut State Library performs a number of services for nominal fees, two of which are genealogical research by the History and Genealogy Unit and photocopying by the Law and Legislative Reference Unit. Payments for these services are generally received directly by the operating unit providing the service.

Criteria: Section 4-32 of the General Statutes requires that each State department account for and deposit any receipts totaling \$500 or more within 24 hours. Receipts totaling less than \$500 can be held up to seven calendar days before deposit.

Conditions: Our test check of cash receipt transactions noted the following weaknesses for cash receipts handled by both the History and Genealogy Unit and the Legal and Legislative Reference Unit:

- (1) There was no initial recording or logging of receipts.
- (2) Many receipts were held and not deposited until services were completed. If the services could not be rendered, the original payment was returned to the payee.
- (3) The Mailroom generally made up to two mail runs a week transporting these receipts to Fiscal Services for deposit.

Effects:

- (1) Without initial recording of receipts, compliance with prompt deposit and reporting requirements cannot be determined.
- (2) Untimely deposits could result due to cash receipts being held until their status is determined.
- (3) Without daily forwarding of cash receipts to Fiscal Services, the Agency runs the risk of exceeding statutory limits requiring deposits to be made.

Cause: The Agency lacked adequate procedures over cash receipts handled by individual operating units. The Pending Receipts Fund was not used for the deposit of receipts pending resolution.

Recommendation: Procedures and controls over cash receipts handled by Library operating units should be improved to ensure compliance with statutory deposit requirements. (See Recommendation 1.)

Agency Response: “The Business Office will work with the separate units of the State Library that receive funds from the public in order to ensure that such funds are recorded upon receipt in these units and deposited daily. The agency will utilize the Pending Receipts Fund to hold cash receipts until services have been performed and, after successful completion of services, the agency will then take formal possession of such receipts by depositing them in the appropriate account. The Business Office will conduct periodic checks to ensure that all funds received have been forwarded for deposit.”

Inventory and Property Control:

Criteria: Section 4-36 of the General Statutes requires each State department to establish and maintain property records and to file with the State Comptroller, on or before August 1st, a detailed inventory of all property as of June 30th. The State of Connecticut’s Property Control Manual requires that inventory be reported at the cost or fair market value at the time of acquisition.

Conditions:

- (1) The following exceptions were encountered in our testing of inventory records:
 - a. Five out of 20 items selected from inventory records could not be located.
 - b. 337 items totaling about \$360,000 could not be located by the Agency during physical test checks of inventory taken over the last several years. These items have been designated as not found on inventory records with no further actions taken to resolve the status of these items.
 - c. A test check of 30 museum collection purchases during the audited period disclosed that:
 - (a) 19 items had not been tagged,
 - (b) one item totaling \$400 could not be located, and
 - (c) a Civil War body armor costing \$7,000 had not been added to inventory records.
- (2) The Comptroller’s Annual Fixed Assets Property Inventory Report for the fiscal year ended June 30, 2000 was filed late on September 12, 2000. “*Books, Maps, Videos*” and “*Fine Arts*” inventory categories included items reported at current values rather than at cost or value of the property at the time of acquisition.

Effect: Without an effective property control system, it is difficult to assess whether inventory is missing, stolen, traded in or scrapped. The Agency was not in compliance with State inventory reporting requirements.

Causes:

- (1)
 - a. Inaccurate records are largely caused by the relocation of equipment without proper notification being made to Storeroom personnel.
 - b. The Agency has not taken action to resolve missing equipment identified from physical test checks of equipment.
 - c. Delays exist in tagging new museum purchases. Recording differences and missing items appear to have resulted from human error.
- (2) Late filing of the annual inventory report resulted from delays in compiling equipment records. The State Library, in recent years, has been reporting collectible items at fair market value. The Comptroller's Office recently notified the State Library that cost basis or fair market valuation at the time of acquisition should be used for reporting purposes.

Recommendation: Property control procedures should be strengthened to ensure that all inventory items are properly recorded and that annual property reports are filed on time with proper valuations. (See Recommendation 2.)

Agency Response: "The agency has effective procedures in place to require proper reporting of all equipment movement or disposal. The agency will expend additional energy enforcing the requirements as set forth in this procedure. The agency will review those items that were listed as "not located" and determine if they are still missing and file the proper reports to remove these items from the agency's active inventory.

The Museum has recently embarked upon an extensive "tagging" program for all of its collection. Significant improvement has already been made to properly inventory museum artifacts. This work will continue into the future.

The Comptroller has revised inventory categories to allow the State Library/Commission on the Arts to report both current value and acquisition cost for those items that appreciate in value. The current requirements of the Comptroller and the State Insurance Purchasing and Risk Management Board appear to work at some cross-purposes when reporting actual cost against current value. Some efforts to bring the common data required by both agencies into one system would be an important improvement in the way the state handles its valuable assets.

The Comptroller has extended the filing deadline from August 1 to

October 1. This additional period will allow the Annual Inventory Report to be submitted timely.”

Pass Through Grant:

- Background:* The Connecticut State Budget for the 1999-2000 fiscal year included a legislative budget addition prepared by the Office of Fiscal Analysis. This budget addition authorized \$50,000 to be paid to a cultural center for a grant writer. The Connecticut State Library (CSL) entered into a personal service agreement (PSA) with this organization for the payment of \$50,000.
- Criteria:* State requirements provide that payments are monitored for accountability. Prior to payment, verification is required by employees having first hand knowledge that goods or services are received. For State Aid grants, evidence of service is normally provided through grant awards and fiscal reports.
- Condition:* A contract with a nonprofit organization did not provide for verification that State funds were used in accordance with the agreement. There were no reporting requirements and the CSL did not monitor, review or verify that grant payments were used in accordance with the agreement.
- Effect:* Without proper monitoring of State funds, the Library cannot be assured that grant funds are properly expended.
- Cause:* The Library made a payment to this organization to fulfill budgetary requirements but did not monitor or verify how funds were used since this organization was not directly involved with Library operations.
- Conclusion:* It appears unlikely that a similar budget addition will occur in the near future. However, should a similar situation occur in the future, CSL should ensure that payments are properly reviewed and monitored.
- Agency Response:* “The agency will ensure, if the occasion again arises involving statutory language addressing a specific situation or organization, that contractual language clearly delineates reporting requirements to ensure that the funds granted are expended for the purpose(s) intended. The State Library will solicit further information from the organization that received the payment of \$50,000 and is mentioned under *Background* in this report.”

STATE COMMISSION ON THE ARTS:

Arts Endowment Trust Fund:

- Criteria:* Section 10-373o of the General Statutes authorizes the State Treasurer to invest proceeds of bond funds to serve as an Arts Endowment Fund. Annually, the Treasurer notifies the Commission on the Arts of the Fund's total amount of investment earnings for the prior year, which is available for grant payments in the current year.
- Condition:* The State Treasurer authorized Arts Endowment Fund earnings of \$672,383 for the 1998-1999 fiscal year, to be expended for grants during the 1999-2000 fiscal year. Our examination of State Treasurer's Trust Fund records disclosed that the State Treasurer underreported the 1998-1999 fiscal year's Trust earnings by \$19,317.
- Effect:* Trust Fund earnings of \$19,317, available for grant payments, were never made.
- Cause:* The Treasurer's interest earning calculations appear to have excluded earnings from a retroactive interest payment and the gain from investment sales.
- Suggestion:* We suggest that the Commission on the Arts review, with the State Treasurer, Trust Fund earning calculations for the 1998-1999 fiscal year to determine if underreported earnings are currently available for grant payments.
- Agency Response:* "The agency is working with the Office of the State Treasurer to resolve this issue and acquire any funds due the Commission on the Arts' Endowment Trust Fund. Although the agency has been cited for this oversight, responsibility for the creation and the ultimate resolution of this problem resides with the Office of the State Treasurer."

STATE LIBRARY AND COMMISSION ON THE ARTS:

Grantee Monitoring:

- Criteria:* Section 4-231 of the General Statutes requires that each non-state entity have a single audit or program-specific audit if State financial assistance is equal to or in excess of \$100,000. Section 4-232(b)(1) of the General Statutes requires such reports to be filed with State grantor agencies no later than 30 days after completion, if possible, but not later than six months after the end of the audit period. This audit requirement is incorporated into both the State Library's and Commission on the Arts' grant contracts.

- Conditions:* **State Library:**
Our examination of seven Public Library Construction Grants for the 1999-2000 fiscal year noted that one grantee had submitted an audit report but the grant by the State Library was not listed or referenced in the Schedule of State Financial Assistance. There was no follow-up on this matter.
- Commission on the Arts:**
Our examination of eight grant files for the 1999-2000 fiscal year noted the following two weaknesses in the monitoring of State Single Audit reports:
- (1) One grantee did not submit a required audit report for the Basic Cultural Resources grant. Further review disclosed that the last audit report submitted by this organization was for the 1996 fiscal year.
 - (2) One Connecticut Arts Endowment Fund grantee did not submit a required audit report.
- Effect:* Without adequate tracking and review of State Single Audit Reports, the Agency increases the risk that a grantee’s noncompliance with State program requirements may go undetected.
- Cause:* Weak monitoring of grants resulted from weakness in the tracking and review of State Single Audit Reports.
- Recommendation:* The State Library and the Commission on the Arts should improve procedures for the monitoring of State Single Audit Reports. (See Recommendation 3.)
- Agency Response:* “The State Library will ensure that it obtains Single Audit Reports from all organizations that receive funding and are required to file such reports. The agency will review the supporting schedule to determine the amount of State Library/Commission on the Arts’ funds expended and review any comments directed at the use of such funds. A tracking system will be developed to allow the agency to monitor compliance with the filing requirements of the State Single Audit Act and positive steps will be taken to remind grantees/contractors of this agency’s need to receive completed Single Audit Reports whenever State Library funds are reported in such Report.”

RECOMMENDATIONS

Our prior audit examination of the State Library and the State Commission on the Arts contained three recommendations. Action has been taken to comply with all three of these recommendations. A summary of the status of these recommendations follows.

- The recommendation concerning security and other facility needs of museum and archival operations has been partially addressed by the Agency with the lease of a new storage facility. We are not repeating the prior audit recommendation on security due to some improvements being implemented and since some weaknesses appear to be inherent due to the age of the State Library and Supreme Court building.
- The Agency has not been successful in obtaining a technical legislative change for the type of account to be used for State building artwork. We are not repeating this recommendation since the Agency has taken action to resolve the prior audit recommendation and informed us that they will continue their efforts to obtain a technical legislative change.
- The Commission on the Arts has improved its monitoring of Commission member attendance complying with the prior audit recommendation.

Current Audit Recommendations:

1. Procedures and controls over cash receipts handled by Library operating units should be improved to ensure compliance with statutory deposit requirements.

Comment:

Our examination noted several weaknesses in the processing of cash receipts by two of the Library's operating units.

2. Property control procedures should be strengthened to ensure that all inventory items are properly recorded and that annual property reports are filed on time with proper valuations.

Comment:

Our test check of inventory records noted a number of equipment items that could not be found, delays in tagging museum purchases and weaknesses in the filing of annual property reports.

3. The State Library and the Commission on the Arts should improve procedures for

the monitoring of State Single Audit Reports.

Comment:

Our examination noted several instances in which State Single Audit Reports from grantees were either not received or not adequately reviewed.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Connecticut State Library and the State Commission on the Arts for the fiscal years ended June 30, 1999 and 2000. That audit was limited to performing tests of the Agencies' compliance with certain provisions of laws, regulations, contracts and grants and to understanding, and evaluating the effectiveness of the Agencies' internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agencies are complied with, (2) the financial transactions of the Agencies are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agencies are safeguarded against loss or unauthorized use. The financial statement audits of the Connecticut State Library and the State Commission on the Arts for the fiscal years ended June 30, 1999 and 2000, are included as a part of our Statewide Single Audit of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Connecticut State Library and the State Commission on the Arts complied in all material or significant respects with the provisions of the certain laws, regulations, contracts and grants and obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut State Library and the State Commission on the Arts is the responsibility of the management of the Connecticut State Library and the State Commission on the Arts.

As part of obtaining reasonable assurance about whether the Agencies complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agencies' financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of the Agencies' compliance with certain provisions of the laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the Connecticut State Library and the State Commission on the Arts are responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agencies. In planning and performing our audit, we considered the Agencies' internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agencies' financial operations in order to determine our auditing procedures for the purpose of evaluating the Connecticut State Library's and the State Commission on the Arts' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agencies' financial operations, safeguarding of assets, and/or compliance that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agencies' financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agencies' ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following findings represent reportable conditions: cash receipt-processing weaknesses, property control weaknesses and inadequate review of State Single Audit reports.

A material or significant weakness is a condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agencies' financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agencies being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agencies' financial operations and over compliance would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the courtesies extended to our representatives by the personnel of the Connecticut State Library and the State Commission on the Arts during the course of our audit.

Anthony Turko
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts