STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF CONSUMER PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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September 27, 2002

AUDITORS' REPORT
DEPARTMENT OF CONSUMER PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

We have made an examination of the records of the Department of Consumer Protection for the fiscal years ended June 30, 2000 and 2001.

This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification which follow. Financial statements concerning the operations and activities of the Department of Consumer Protection (the Department) are presented and audited on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Department's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Department's internal control policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Consumer Protection operated generally under the provisions of Chapters 416 and 545 of the Connecticut General Statutes, to enforce legislation intended to protect the consumer from injury by product use or merchandising deceit and to protect public health and safety through control over the distribution and sale of alcoholic beverages. Such legislation was generally within various Chapters of the following General Statute Titles: Title 20 (Examining Boards and Professional Licenses), Title 21 (Licenses), Title 21a (Consumer Protection), Title 30 (Intoxicating Liquors), Title 42 (Business, Selling, Trading and Collection Practices), and Title 43 (Weights and Measures).

Section 21a-1 of the General Statutes provides that the Department shall be under the direction and supervision of the Commissioner of Consumer Protection. James T. Fleming continued to serve as the Commissioner of the Department of Consumer Protection throughout the audited period.

Boards and Commissions:

Various sections of the General Statutes provide that certain boards and commissions operate within the Department of Consumer Protection. During the audited period, there were several changes made to the composition of boards and commissions. These changes, along with a summary of these groups and its members as of June 30, 2001, statutory references and former members who served during the audited period follow.

Effective October 1, 1999:

1. Public Act 99-73 repealed Section 20-343 of the General Statutes and redefined the Board in Section 20-342 to eliminate the Board of Television and Radio Service Examiners and transfer its licensing responsibility to the Electrical Work Examining Board.
2. Public Act 99-170, codified as Section 20-331(g) of the General Statutes, established an Automotive Glass Work and Flat Glass Work Examining Board.
3. Public Act 99-253, amended Section 20-331(c) of the General Statues, to expand responsibility of the Heating, Piping and Cooling Work Examining Board to include sheet metal work.

Effective July 1, 2000:

1. Public Act 99-254, codified as Section 20-490a of the General Statutes, established a Home Inspection Licensing Board.

BOARD OR COMMISSION	CHAIRPERSON	MEMBERS AS OF JUNE 30, 2001	ALSO SERVED DURING AUDITED PERIOD
Architectural Licensing Board (Section 20-289)	Norman S. Baier, Jr.	Paul H. Bartlett Laura J. Bordeaux Carole W. Briggs Robert B. Hurd	
State Board of Examiners for Professional Engineers and Land Surveyors (Section 20-300)	Anthony L. D'Andrea	Frank S. Chuang John T. DeWolf Robert L. Doane Andrew G. Farkas William Giel Robert Grossenbacher John Hallisey Rocco V. Laraia, Jr. Terry D. McCarthy Curtiss B. Smith One vacancy	Stanley A. Swimmer

BOARD OR COMMISSION	CHAIRPERSON	MEMBERS AS OF JUNE 30, 2001	ALSO SERVED DURING AUDITED PERIOD
Connecticut Real Estate Commission (Section 20-311a)	Bruce H. Cagenello	Joseph B. Castonguay Maggie A. Claud David W. Fitzpatrick Donna M. Hohider Gerry D. Matthews Lana Ogrodnik Rae D. Tramontano	Leonard E. Wells
Home Inspection Licensing Board (Section 20-490a)	Ronald J. Passaro	William J. Butterly Bernard F. Caliendo Susan A. Connors Dana J. Fox Richard J. Kobylenski Denise Robillard Daniel Shepro	
Connecticut Real Estate Appraisal Commission (Section 20-502)	Donato D. Maisano	Leonard Grabowski Russell Hunter Christopher Italia Howard L. Luppi Michael T. O'Herlihy Gerald V. Rasmussen Nicholas J. Tetreault	David F. Ertman Linda M. Sepso A. Howard Spargo
Connecticut State Board of Landscape Architects (Section 20-368)	Vincent C. McDermott	Dickson F. DeMarche Robert W. Hammersley Shavaun Towers Stephen S. Wing Two vacancies	Martin C. Zito
Electrical Work Examining Board (Section 20-331(b))	Ross H. Garber	Patrick Donahue Jack B. Halpert Roger L. Johnson, Jr. Kenneth B. Leech Adiele Nwachuku Douglas A. Reid Lewis J. Stanio Raymond A. Turri Laurence A. Vallieres Two vacancies	Vincent A. Lanteri Michael Moconyi Frank J. White, Jr.

BOARD OR COMMISSION	CHAIRPERSON	MEMBERS AS OF JUNE 30, 2001	ALSO SERVED DURING AUDITED PERIOD
Plumbing and Piping Work Examining Board (Section 20-331(d))	R. Bradley Wolfe	Joseph Carr Louis E. DelMastro Evert L. Gawendo Brian T. Kronenberger Richard J. Messina James Piccoli George C. Sima Robert Stolting John R. Sullivan Two vacancies	R. John Wilcox II Lenard A. Maselli John M. Nettle
Heating, Piping, Cooling and Sheet Metal Work Examining Board (Section 20-331(c))	Michael T. Connor	Robert H. Barrieau Philip H. Benoit Thomas F. Casey, Sr. Cameron G. Champlin, Jr. Patrick Duane David G. Foster Joseph Leggo Robert Musheno Michael Rosario Two vacancies	James Juliano
Elevator Installation, Repair and Maintenance Work Examining Board (Section 20-331(e))	Paul B. Farnsworth	Earl Abraham John R. DeRosa, Jr. Michael D. Griffin Jeffrey J. Hogan Michael T. Molleur Thomas J. O'Reilly Steven M. Roth	Gerald L. Brown
Fire Protection Sprinkler System Work Board (Section 20-331(f))	David J. Waskowicz	George DeVincke William A. Fiondella Robert W. Hollis III John E. Jansen, Jr. Ralph C. Miller Anthony D. Moscato William Zisk, Sr. One vacancy	
Automotive Glass Work and Flat Glass Work Examining Board (Section 20-221(g))	Board not fully established as of June 30, 2001	Edward J. Fusco Kurt L. Muller John A. Wisniewski Six vacancies	

BOARD OR COMMISSION	CHAIRPERSON	MEMBERS AS OF JUNE 30, 2001	ALSO SERVED DURING AUDITED PERIOD
Commission of Pharmacy (Section 20-572)	William J. Summa, Jr.	Stephen F. Beaudin Edith G. Goodmaster Robert S. Guynn Patricia A. Rizzo Frederick C. Vegliante	David H. Johnson
State Board of Examiners of Shorthand Reporters (Section 20-651)	Susan K. Whitt	John C. Brandon Elizabeth Garrett Donald E. Hubbard Sherrill Klaiman One vacancy	Maria L. Seligson
Mobile Manufactured Home Advisory Council (Section 21-84a)	Bennett Pudlin	Sylvia A. Burke Leonard S. Campbell Joseph B. Castonguay Miriam Clarkson Catherine Conderino Neil F. Gervais Albert N. Hricz Jeffrey P. Ossen Marcia Stemm Four vacancies	Robert Burns Glenna Edson-Castner Rocco A. Faccinto Dorothy Kablik Peter F. Samson Leonard E. Wells
Connecticut Boxing Promotion Commission (Section 21a-195a)	Leonard L. Levy	William Carey Michael Everts Brian Farnen Kevin Fox George Krivda Manuel Liebert Maureen Macy Vacancy	Andre Thibault Louis Della Ripa
Liquor Control Commission (Section 30-2)	James T. Fleming (Commissioner of Consumer Protection)	Gary M. Koval Domenic L. Mascolo	

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts of the Department were comprised mainly of payments for licenses to render professional services, to engage in skilled trades and certain businesses, and for liquor permits. A comparison of receipts for the fiscal years under review and the preceding year follows:

	1998-1999	1999-2000	2000-2001
Licenses	$16,343,663	$13,441,646	$15,205,228
Permits	5,710,844	5,932,834	5,848,475
Fees	1,214,146	1,373,782	1,183,757
Fines, penalties, forfeitures	520,209	678,720	626,843
Total	23,788,862	21,426,982	22,864,303
Restricted Accounts:			
Regulation – Indian casinos	186,879	1,407,107	763,687
Vapor recovery program	436,957	519,811	491,919
Home improvement enforcement	477,185	692,736	609,774
Consumer protection enforcement	113,462	247,986	359,769
Federal accounts	32,000	33,000	332,023
All other restricted accounts	305,491	103,240	407,950
Total Restricted Accounts	1,551,974	3,003,880	2,965,122
All other receipts	291,335	713,309	127,528
Total General Fund Receipts	**$25,632,171**	**$25,144,171**	**$25,956,953**

License fees accounted for a large portion of the Department's General Fund cash receipts. License receipts had decreased by $2,902,017 and then increased by $1,763,582 during the fiscal years ended June 30, 2000 and 2001, respectively. These fluctuations were primarily due to real estate fees and general contractor fees which combined, had decreased by $3,035,188 and then increased by $1,469,505 during the respective audited years as follows:

	1998-1999	1999-2000	2000-2001
Real estate	$6,750,446	$4,014,950	$4,832,568
Major contractor	476,850	177,158	829,045
	$7,227,296	$4,192,108	$5,661,613

Fluctuations in real estate fees were due primarily to timing differences in fiscal year end transfers of real estate fees from the Pending Receipts Fund to the General Fund, which is further discussed under the Pending Receipts Fund caption in this report. Fluctuations in major contractor fees were caused by computer related problems which resulted in annual renewal forms being mailed late for the period beginning July 1, 2000.

In the 1999-2000 fiscal year, there was also a significant increase of about $1,220,000 in cash receipts in the Department's two Indian casino regulation restricted accounts. During the 1998-1999 fiscal year, the casinos had discontinued paying for regulatory services because of disputes over the level of services being provided by the State under the Tribal-State Compact as authorized under Sections 12-586f and 12-586g of the General Statutes. These disputes were negotiated on a Statewide basis for the Department of Consumer Protection, the Department of Public Safety and the Division of Special Revenue and were resolved during the 1999-2000 fiscal year and the Department received $923,247 for the 1998-1999 fiscal year regulatory costs.

Comparative summaries of General Fund expenditures for the fiscal years under review and the preceding fiscal year are presented below.

	1998-1999	1999-2000	2000-2001
Personal services	$ 8,597,156	$ 8,977,061	$ 9,457,178
Contractual services	911,759	1,097,039	929,001
Commodities	153,347	205,690	190,107
Refunds		117	614
Sundry charges	2,450	1,060	1,360
Equipment	2,805	64,254	
Total Budgeted Appropriations	9,667,517	10,345,221	10,578,260
Restricted contribution accounts:			
Regulation – Indian casinos	79,561	1,215,448	548,813
Vapor recovery program	429,413	469,144	520,087
Home improvement enforcement	259,058	309,110	343,628
Consumer Protection settlements	426,788	134,606	55,601
All others	82,794	99,450	364,284
Total Restricted Accounts	1,277,614	2,227,758	1,832,413
Total Expenditures	**$10,945,131**	**$12,572,979**	**$12,410,673**

Expenditures from budgeted accounts increased by $677,704 and $233,039 during the 1999-2000 and 2000-2001 fiscal years, respectively. The majority of these increases were attributable to personal services resulting from general wage increases and additional staffing of 15 positions, or about eight percent, during the 1999-2000 fiscal year. Personal services costs from General Fund budgeted and restricted accounts were also affected by disputes that had occurred between the two Indian casinos and the State over regulatory costs. In the 1998-1999 fiscal year, the casinos discontinued paying for regulatory services and the Department temporarily financed casino liquor control agent salaries through General Fund budgeted accounts. Disputes over casino services were resolved in the 1999-2000 fiscal year and reimbursements of $923,247 were deposited in the casino account and used to payback the General Fund for 1998-1999 fiscal year regulatory operating costs and the State Comptroller for fringe benefit and indirect costs. A summary of fiscal year end staffing levels, including casino regulatory salaries temporarily financed by General fund budgeted accounts is presented in the following schedule.

	6/30/99	6/30/00	6/30/01
General Fund Budgeted Accounts:			

Full-time positions	152	166	168
Part-time positions	4	8	7
Casino regulation **	13		
Budgeted Accounts	169	174	175
Private Restricted Contribution Accounts:			
Full-time positions	24	21	22
Casino regulation**	(13)		
Restricted Accounts	11	21	22
Totals	180	195	197

**Note – Casino regulatory staffing costs were temporarily financed from General Fund budgeted accounts.

Contractual services expenditures totaled $1,097,039 and $929,001 during the audited fiscal years and consisted largely of motor vehicle rentals, postage and telecommunications. In addition to General Fund expenditures, capital equipment purchases totaling $145,848 and $114,724 were paid from the Capital Equipment Purchases (1872) Fund during the 1999-2000 and 2000-2001 fiscal years, respectively.

Fiduciary Funds:

During the audited period, the Department used a pending receipts fund and several expendable trust funds to account for certain financial activities. A description of fiduciary fund activities for the audited period follows.

Pending Receipts Fund:

The Department used a pending receipts fund to hold moneys in a custodial capacity until final disposition was determined. Three sub-accounts were used within the Agency's pending receipts fund for various purposes. A brief description of pending receipts activity and a schedule of financial transactions for the audited period follows.

1. *Real Estate Licenses* – this account was used to deposit real estate brokers and salesperson licenses and fees for distribution to the General Fund and the University of Connecticut. Section 10a-125 of the General Statutes requires that eight and three-quarters percent of each fee be paid to the University of Connecticut, Center for Real Estate and Urban Economic Studies.

2. *Federal Appraiser Certification* – this account was used to collect a $25 fee from real estate appraisers to pay for Federal registration and certification, as required by Section 20-511(c) of the General Statutes.
3. *All Other* – this account was used for all other transactions which were pending resolution such as closing out sales, license fees, fines, penalties and settlements.

	Total	Real Estate Licenses	Federal Appraiser Certification	All Other
Cash Balance – July 1, 1999	$1,625,430	$1,265,485	$ 28,925	$331,020
Receipts	4,715,967	4,512,699	29,522	173,746
Disbursements:				
General Fund real estate fees	(4,014,950)	(4,014,950)		
University of Connecticut	(567,355)	(567,355)		
All others	(318,109)	(11,369)	(21,274)	(285,466)
Cash Balance – June 30, 2000	1,440,983	1,184,510	37,173	219,300
Receipts	5,368,069	4,810,549	29,376	528,144
Disbursements:				
General Fund real estate fees	(4,832,568)	(4,832,568)		
University of Connecticut	(305,959)	(305,959)		
All others	(597,327)	(23,640)	(48,450)	(525,237)
Cash Balance – June 30, 2001	$1,073,198	$ 832,892	$ 18,099	$222,207

Guaranty Funds:

The Department used five guaranty funds during the audited period to receive deposits and pay claims in accordance with statutory provisions. A schedule of financial transactions for the audited period is presented below along with a brief description of guaranty fund operations.

	Guaranty Trust Funds				
	Health Club	Real Estate	Home Improvement	Itinerant Vendor	New Home Construction
Cash Balance – July 1, 1999	**$ 342,208**	**$ 30,243**	**$ 645,718**	**$39,650**	**$**
Total Receipts	116,310	82,393	2,037,786	2,500	1,029,750
Investment Income	21,019	1,917	46,049		
Transfers – Enforcement Acct.			(400,000)		(200,000)
Transfers – General Fund	(110,355)		(703,625)		
Net Receipts	26,974	84,310	980,210	2,500	829,750
Disbursements	(17,214)	(6)	(1,014,742)		(2,315)
Cash Balance – June 30, 2000	**$ 351,968**	**$114,547**	**$ 611,186**	**$42,150**	**$ 827,435**

	Guaranty Trust Funds				
	Health Club	Real Estate	Home Improvement	Itinerant Vendor	New Home Construction
Cash Balance – June 30, 2000	**$ 351,968**	**$114,547**	**$ 611,186**	**$42,150**	**$ 827,435**

Total Receipts	129,825	97,696	2,123,375	2,700	207,300
Investment Income	21,566	7,266	40,297		37,936
Transfers – Enforcement Acct.			(400,000)		(200,000)
Transfers – General Fund	(143,470)		(685,266)		
Net Receipts	7,921	104,962	1,078,406	2,700	45,236
Disbursements	(18,818)	(25,000)	(1,060,240)		
Cash Balance – June 30, 2001	**$ 341,071**	**$194,509**	**$ 629,352**	**$44,850**	**$ 872,671**

Note: Guaranty Trust Fund cash balances presented above include both cash with the State Treasurer and amounts invested in the State Treasurer's Short Term Investment Fund.

Health Club Guaranty Fund - This trust fund operated under the provisions of Section 21a-226 of the General Statutes and was used to reimburse members of registered health club facilities for unused paid contract balances when health clubs cease operations and have no resources available to issue refunds. Receipts consisted of annual fees paid by health clubs of either $500 or $100 dependent on the nature of the facility and investment earnings. The authorized balance of this fund was $350,000 and amounts in excess of this limit are transferred to the General Fund. At June 30, 2000, the fund balance limit of $350,000 was temporarily exceeded due to June accrual of investment earnings.

Real Estate Guaranty Fund - This trust fund operated under the provisions of Sections 20-324a through 20-324j of the General Statutes and was used to compensate up to $25,000, any person aggrieved by actions of registered real estate brokers and salespersons. Receipts consisted of a one-time fee of $20 paid by real estate brokers and salespersons when registering for the first time. Investment earnings of this fund were credited to the General Fund. The authorized balance of this fund was $500,000 and amounts in excess of this limit are required to be transferred to the General Fund.

Home Improvement Guaranty Fund - This trust fund operated under the provisions of Section 20-432 of the General Statutes and was used to reimburse homeowners up to $10,000 for losses or damages caused by actions of registered home improvement contractors. Receipts consisted of a $100 annual fee paid by home improvement contractors or a $40 annual fee paid by salespersons, and investment earnings. The authorized balance of this fund was $750,000. On an annual basis, any amounts in excess of this limit are first credited up to $400,000 to the Consumer Protection Enforcement Account (CPEA), a General Fund restricted account used for home improvement and construction enforcement purposes. Any amounts over these thresholds are transferred to the General Fund.

Itinerant Vendor Guaranty Fund - This trust fund operated under the provisions of Section 21-33b of the General Statutes and was used to satisfy consumer claims of up to $500 against a registered itinerant vendor. An itinerant vendor is one who engages in a temporary or transient business in this State, either in one locality or traveling from place to place. Receipts consisted of an annual fee of $100 paid by itinerant vendors. If invested, earnings are to be retained by this fund. The authorized balance of this fund was $50,000 and any amounts over this balance are to be credited to the General Fund.

New Home Construction Guaranty Fund - This trust fund was established by Public Act 99-246, which took effect on October 1, 1999 and was codified as Section 20-417i of the General Statutes. This fund was established to reimburse new construction homeowners up to $30,000 for losses or damages caused by actions of a registered new home construction contractor. Receipts consisted of a biennial fee paid by new home construction contractors, which could vary up to a maximum of $480, and investment earnings. The authorized balance of this fund was $750,000. Amounts in excess of $750,000 are first credited up to $200,000 to the Consumer Protection Enforcement Account (CPEA), a General Fund restricted account for home improvement and construction purposes. Any amounts in excess of these limits are to be used to reduce contractor fees with the restriction that the minimum amount of total fees collected are not less than $360,000 biennially.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. During the audited period, the Department began expansion of on-line services through a project called the Electronic Commerce Project (E-commerce). This project was done as a pilot program in cooperation with the Office of Policy and Management (OPM) and the Department of Information Technology (DOIT). We have selected to perform a program evaluation of the Department's implementation of E-commerce.

The E-commerce project is the integration of a system that allows credit card payments for renewals of licenses, registrations and permits into the Department of Consumer Protection's Internet website. A similar E-commerce pilot project was initiated for the State Ethics Commission. Both of these Agencies were selected as the first State Agencies to implement E-commerce for licensing and registration activity. Also included as part of the Department's E-commerce project was a number of enhancements to its website that included:

1. Public access to licensee rosters, disciplinary actions by the Department and complaints filed about licensees and licensee responses to these complaints.
2. The ability to download a number of application forms and to track the status of applications that have been filed.
3. Accessibility for credential holders to view credential information.

The E-commerce Project began in March 2000 and was substantially completed in March 2002. The project took longer to complete than was originally anticipated due to several delays. It took approximately six months to resolve administrative issues concerning credit card usage and fees and which Internet program and version to use. In addition, it took about one year for DOIT personnel to gain experience and familiarity with programming and technical operations involved with the creation of the E-commerce Internet site. These delays were part of the learning curve associated with such a pilot project with the overall expectation that the knowledge and experience gained from this process would benefit other State agencies in similar endeavors.

During the period March 2002 through May 2002, testing was done of credit card payment processing and its integration with licensing and accounting operations. In June 2002, the E-commerce credit card system was officially used for the first time making a credit card payment option available for license renewals to about 3,950 architect licensees. Of this group of licensees, 255 renewals were processed on the E-commerce system.

The Department has successfully integrated E-commerce and other enhancements into its website thereby improving services and information availability to the public. The impact that E-commerce will have on operations will be dependent on the volume of on-line renewals which is not measurable at this time because of the newness of the system. However, Department administrators feel that E-commerce activity could become significant and result in labor cost savings as a result of electronic fee collection and record posting. Additionally, the Department foresees a system where licensees are notified directly by e-mail for renewals, thus, reducing postal and form printing costs.

CONDITION OF RECORDS

Our review of the records of the Department of Consumer Protection revealed certain areas requiring improvement or attention, as discussed in this section of the report.

Cash Receipts:

Criteria: Section 4-32 of the General Statutes requires receipts in excess of $500 to be deposited and accounted for within 24 hours.

Condition: Our test check of 72 cash receipt transactions totaling $31,413 disclosed nine cash receipts totaling $1,333 that were deposited and/or reported to the State Treasurer from one to three days late. In addition, another cash receipt transaction for $225, was deposited one day late and reported to the State Treasurer 37 days later.

Effect: The Department was not in compliance with statutory deposit and reporting requirements.

Cause: Late deposits and reporting were due to delays in processing of cash receipts.

Recommendation: The Department should comply with timely deposit and reporting requirements over cash receipts. (See Recommendation 1.)

Agency Response "The Department agrees with the Auditors' findings in this regard. It will continue its efforts to ensure full compliance with all statutory deposit and reporting requirements."

Petty Cash Fund:

Background: The Department maintained an Imprest Petty Cash Fund with an authorized balance of $6,000 during the audited period. Our examination of petty cash activity disclosed instances of noncompliance as discussed below.

Criteria: The State Accounting Manual and the Department's procedures set forth policies and recordkeeping criteria concerning petty cash funds that include:

1. An explanation and justification is required for advances outstanding in excess of 30 days.
2. Employees are to submit travel expenses within five working days of their return from travel.

Conditions: Our testing of petty cash transactions noted the following instances of noncompliance with established procedures:

1. Two out of 44 petty cash transactions tested were for advances that remained outstanding in excess of 30 days without explanation and justification. One of these advances was for $1,200, of which, $800 was returned with the balance of $400 being expended without documentation of how it was spent.
2. Employees returning from travel did not submit the required documentation within five working days in two out of ten travel advances tested.

Effect: The Department was not in compliance with the State Comptroller's procedures for Imprest Petty Cash Funds.

Cause: The Department did not comply with established State procedures for petty cash operations.

Recommendation: Petty Cash Fund operations should be improved to comply with the State Comptroller's Imprest Petty Cash Fund procedures. (See Recommendation 2.)

Agency Response: "The Department agrees with the Auditors' findings in this regard. With the assistance of the Comptroller's Office, the agency developed written procedures during the past year and will continue its monitoring of petty cash advances to ensure that they are returned within thirty days. It will also ensure that an explanation and justification is provided for any petty cash advance that is outstanding in excess of thirty days. Additionally, receipts are now on file to substantiate the $400 petty cash expenditure for an undercover investigation as referenced above."

Health Club Guaranty Fund:

Criteria: Section 21a-226, subsection (e) of the General Statutes requires that applications for payment from the Health Club Guaranty Fund be accepted within six months after the date of closing of the health club and that a copy of the consumer's contract with the health club be provided.

Conditions: Our testing of 13 payments from the Health Club Guaranty Fund disclosed the following exceptions:

1. Calculation errors were found on two payments. One payment for $242 included a $176 overpayment and the second payment for $159 included a $21 overpayment.
2. Copies of the consumer's health club contract were not submitted for two payments.

3. A payment was made for a claim that was filed late, nine months after the closing date of the health club.

Effects:

1. Club members were overpaid for losses incurred by them.

2, 3. Statutory requirements were not met for necessary documentation and/or adherence to filing deadlines.

Causes:

1. Both overpayments resulted from improper prorating of payments in situations involving installment payments.
2. If a consumer's health club contract is lost and/or not available from the defunct health club, the Department makes reimbursements based on payment documentation in order to not penalize the consumer.
3. An individual requested a guaranty fund application on October 14, 1998 in order to file a claim for a club that had closed on July 1, 1998. The Department did not mail an application to this individual until April 19, 1999. The individual subsequently filed the application on April 24, 1999, within ten days of its mailing. It is unknown why the Department took over six months to send an application.

Recommendation: The Department should improve controls over Health Club Guaranty Fund operations to ensure that payments are calculated properly and that statutory requirements are followed. (See Recommendation 3.)

Agency Response: "The Department agrees with the Auditors' findings in this regard. It submitted proposed legislation that would allow proof of payment, other than a copy of the consumer's health club contract, to be considered acceptable documentation for the purposes of accessing the Health Club Guaranty Fund but the proposal was not approved. We will submit another legislative proposal in the next session and, in the meantime, the Department will not make payments from this guaranty fund unless copies of the consumer's health club contract are included in the application documentation."

Uncollectible Guaranty Fund Claims:

Background: As previously discussed, the Department maintains five guaranty trust funds to compensate persons that are aggrieved by actions of individuals or companies under the auspices of the Department. When claims are paid from these funds, the Department is subrogated all the rights of the aggrieved person up to the amount paid.

Criteria: Section 3-7 of the General Statutes requires the Secretary of the Office of Policy and Management to authorize the cancellation of any uncollectible claims of a State Department or Agency that is greater than $1,000. Any uncollectible claim of $1,000 or less may be cancelled by the authorization of the head of a State Department or Agency.

Condition: The Department pays many guaranty fund claims that are unrecoverable from defaulting parties with the majority of such payments being made from the Home Improvement Guaranty Fund. Since the inception of guaranty fund operations, the Department has not formally written off any uncollectible guaranty fund claims using the procedures required by Section 3-7 of the General Statutes.

Effect: Without periodic write off of uncollectible claims, accountability becomes more difficult.

Cause: The Department may not have been aware that requirements of Section 3-7 apply to all guaranty fund claim payments including those never formally established as Agency accounts receivables.

Recommendation: The Department should periodically write off uncollectible guaranty fund payments using procedures stipulated in Section 3-7 of the General Statutes. (See Recommendation 4.)

Agency Response: "The Department was, and is, aware of the requirements in section 3-7 of the General Statutes. In keeping with this section, it has indeed written off some uncollectible debts owed to the Home Improvement Guaranty Fund. On May 15, 2002, the Department submitted a request to the Office of Policy and Management for approval to write off 15 delinquent accounts totaling $47,058. Authorization for this write off was received from OPM on June 3, 2002. The Department will continue to routinely write off, or seek authorization to write off, debts that it deems uncollectible. Nevertheless, the Department agrees that some restitution payouts from the Home Improvement Guaranty Fund were never treated as receivables, therefore, they were not written off as uncollectible items. To remedy this flaw, the Department has put procedures in place to invoice any Home Improvement contractor on whose behalf the Department pays restitution."

Property Control:

Criteria: The State of Connecticut's Property Control Manual requires that all State agencies have policies and procedures in place to ensure that the

State's property, plant and equipment are properly managed. The Property Control Manual specifies requirements and standards that State agencies' property control systems must comply with. The Manual also requires that Fixed Assets/Property Reports (CO-59) be submitted annually to the State Comptroller's Office by August 1 until the fiscal year ended June 30, 2000. Effective for the fiscal year ended June 30, 2001, the filing deadline was extended to October 1.

Conditions: Our test check of property control records noted the following:

1. Two items out of 25 selected from inventory records were not at locations listed.
2. Three laptop computers and one expansion base, with values totaling $9,700, were disposed of but were not removed from inventory records. A printer valued at over $16,000 was not removed from inventory records when it was traded-in.
3. Annual property reports (CO-59) were filed late during the audited period. The June 30, 2000 report was filed on October 13, 2000 and the June 30, 2001 report was filed on November 28, 2001.

Effects:

1, 2. Without an effective property control system, it would be difficult to assess whether inventory is missing, stolen, traded in or scrapped. Inaccurate fixed asset reports will also result.

3. The Department was not in compliance with inventory reporting requirements.

Causes:

1, 2. The Department did not update inventory records for physical location changes or for items that were disposed of or traded-in.

3. Late filings of annual property reports were due to delays in compiling and reconciling property control records.

Recommendation: The Department should strengthen property control and submit annual property reports in a timely manner. (See Recommendation 5.)

Agency Response: "The Department agrees with the Auditors' findings in this regard. It will continue its efforts to improve the effectiveness of its property control system, and to submit annual property reports in a timely manner."

RECOMMENDATIONS

The prior audit report on the Department of Consumer Protection contained six recommendations. The Department has taken action to resolve two of these recommendations and the other four are being repeated, along with a new recommendation, as a result of the current examination. The status of the prior audit recommendations is presented below.

- *The Department should comply with timely deposit requirements and improve retention of cash receipt documentation* – During our current examination of cash receipt operations, we noted several late deposits, therefore, this recommendation is being repeated. (See Recommendation 1.)

- *The Department should improve controls over brand registration operations* – Brand registration operations have been automated and monitoring of brand registration in field examinations was improved. This recommendation has been satisfied and is not being repeated.

- *Petty Cash Fund operations should be improved to comply with State procedures* – The current examination noted several exceptions in Petty Cash Fund operations, therefore, the prior audit recommendation is being repeated. (See Recommendation 2.)

- *The Department should improve controls over operations of the Health Club Guaranty Fund and the Home Improvement Guaranty Fund to ensure that statutorily required documentation is obtained and properly stored* – The Department has partially complied with this recommendation by improving documentation storage for the Home Improvement Guaranty Fund. However, exceptions were again encountered in Health Club Guaranty Fund operations for obtaining statutorily required documentation. The prior recommendation is being repeated in modified form. (See Recommendation 3.)

- *The Department should strengthen property control and submit annual property reports in a timely manner* – Our examination noted some improvements in property control, however, weaknesses still exist including the late filing of property reports, thus this recommendation is being repeated. (See Recommendation 5.)

- *Security over electronic data processing systems should be improved by immediately discontinuing access to automated systems by individuals no longer working for the Department* – Controls have been improved to ensure that access to automated systems, by former employees of the Department, are discontinued in a timely manner. This recommendation has been resolved and is not being repeated.

Current Audit Recommendations:

1. **The Department should comply with timely deposit and reporting requirements over cash receipts.**

   Comment:

   We noted numerous deposits and/or reportings to the State Treasurer that were not made within the statutory time permitted.

2. **Petty Cash Fund operations should be improved to comply with the State Comptroller's Imprest Petty Cash Fund procedures.**

   Comment:

   Our examination of petty cash disclosed a number of transactions that were not in compliance with established procedures.

3. **The Department should improve controls over Health Club Guaranty Fund operations to ensure that payments are calculated properly and that statutory requirements are followed.**

   Comment:

   Our examination of Health Club Guaranty Fund operations noted instances of payment calculation errors and that statutorily required documentation was not always obtained.

4. **The Department should periodically write off uncollectible guaranty fund payments using procedures stipulated in Section 3-7 of the General Statutes.**

   Comment:

   Our examination disclosed that authorization had never been sought to cancel uncollectible claims made from the Agency's five guaranty trust funds.

5. **The Department should strengthen property control and submit annual property reports in a timely manner.**

   Comment:

   During our examination of property control records, we noted that equipment locations listed were not always accurate and that annual property reports were filed late.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Consumer Protection for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Consumer Protection for the fiscal years ended June 30, 2000 and 2001, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Consumer Protection is the responsibility of the Department of Consumer Protection's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets and/ or comply with certain provisions of laws, regulations, contracts and grants. We believe the findings concerning Health Club Guaranty Fund payment errors and the failure to comply with the State’s property control requirements to be reportable conditions.

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

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the 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 cooperation and courtesies extended to our representatives by the officials and staff of the Department of Consumer Protection during the course of our examination.

Anthony Turko
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts