# STATE OF CONNECTICUT

**AUDITORS' REPORT**
**DEPARTMENT OF CONSUMER PROTECTION**
**FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

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

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November 15, 2004

# AUDITORS' REPORT
# DEPARTMENT OF CONSUMER PROTECTION
# FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

We have made an examination of the records of the Department of Consumer Protection for the fiscal years ended June 30, 2002 and 2003.

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).

James T. Fleming served as Commissioner of the Department of Consumer Protection throughout the audited period. On September 19, 2003, Commissioner Fleming transferred to the Department of Public Works. At that time, Edwin R. Rodriquez became Acting Commissioner until his appointment as Commissioner on October 21, 2003.

**Boards and Commissions:**

Various sections of the General Statutes provide that certain boards and commissions operate within the Department of Consumer Protection. Presented below is a summary of these groups and its members as of June 30, 2003, statutory references and former members who served during the audited period follow.

| BOARD OR COMMISSION | CHAIRPERSON | MEMBERS AS OF JUNE 30, 2003 | ALSO SERVED DURING AUDITED PERIOD |
|---|---|---|---|
| Architectural Licensing Board (Section 20-289) | S. Edward Jeter | Paul H. Bartlett<br>Laura J. Bordeaux<br>Carole W. Briggs<br>Robert B. Hurd | Norman S. Baier, Jr. |
| State Board of Examiners for Professional Engineers and Land Surveyors (Section 20-300) | Anthony L. D'Andrea | Frank S. Chuang<br>John T. DeWolf<br>Robert L. Doane<br>William Giel<br>Leonard Grabowski<br>Robert Grossenbacher<br>John Hallisey<br>Rocco V. Laraia, Jr.<br>Terry D. McCarthy<br>Curtiss B. Smith<br>One vacancy | Andrew Farkas |
| Connecticut Real Estate Commission (Section 20-311a) | Bruce H. Cagenello | Joseph B. Castonguay<br>Maggie A. Claud<br>David W. Fitzpatrick<br>Donna M. Hohider<br>Gerry D. Matthews<br>Lana Ogrodnik<br>One Vacancy | Rae Tramontano |
| Home Inspection Licensing Board (Section 20-490a) | Ronald J. Passaro | Bernard F. Caliendo<br>Susan A. Connors<br>Dana J. Fox<br>Richard J. Kobylenski<br>Denise Robillard<br>Two Vacancies | William J. Butterly |

| | | | |
|---|---|---|---|
| Connecticut Real Estate Appraisal Commission (Section 20-502) | Donato D. Maisano | Russell Hunter<br>Christopher Italia<br>Howard L. Luppi<br>Gerald V. Rasmussen<br>Nicholas J. Tetreault<br>Two Vacancies | Leonard Grawbowski |
| Connecticut State Board of Landscape Architects (Section 20-368) | Vincent C. McDermott | Dickson F. DeMarche<br>Robert W. Hammersley<br>Shavaun Towers<br>Stephen S. Wing<br>Two vacancies | Peter N. Ellef |
| Electrical Work Examining Board (Section 20-331(b)) | Laurence A. Vallieres | Beverly A. Ceuch<br>Jack B. Halpert<br>Roger L. Johnson, Jr.<br>Kenneth B. Leech<br>Michael Muthersbaugh<br>Douglas A. Reid<br>Lewis J. Stanio<br>Raymond A. Turri<br>Three vacancies | Ross H. Garber<br>Patrick Donahue |
| Heating, Piping, Cooling and Sheet Metal Work Examining Board (Section 20-331(c)) | Robert H. Barrieau | Philip H. Benoit<br>Thomas F. Casey, Sr.<br>Cameron G. Champlin, Jr.<br>Ronald J. Crabb<br>Patrick Duane<br>David G. Foster<br>Joseph Leggo<br>Michael Rosario<br>Three vacancies | Michael T. Connor<br>Robert L. Musheno |

| | | | |
|---|---|---|---|
| Plumbing and Piping Work Examining Board (Section 20-331(d)) | George C. Sima | Joseph Carr<br>Louis E. DelMastro<br>Brian T. Kronenberger<br>Richard J. Messina<br>James Piccoli<br>Robert Stolting<br>John R. Sullivan<br>Four vacancies | R. Bradley Wolfe<br>Evert L. Gawando |
| Elevator Installation, Repair and Maintenance Work Examining Board (Section 20-331(e)) | Steven M. Roth | John R. DeRosa, Jr.<br>Paul B. Farnsworth<br>Michael D. Griffin<br>Jeffrey J. Hogan<br>Michael T. Molleur<br>Thomas J. O'Reilly | Earl Abraham |
| Fire Protection Sprinkler System Work Board (Section 20-331(f)) | David J. Waskowicz | George DeVincke<br>Robert W. Hollis III<br>Ralph C. Miller<br>Anthony D. Moscato<br>Lisa Vereneau<br>William Zisk, Sr.<br>Two vacancies | William Fiondella<br>John E. Jansen, Jr. |
| Automotive Glass Work and Flat Glass Work Examining Board (Section 20-221(g)) | Edward J. Fusco | Mary E. Grabowski<br>Douglas Howard<br>Kurt L. Muller<br>Robert Steben<br>Carl Von Dassel<br>John A. Wisniewski<br>Two vacancies | |
| Commission of Pharmacy (Section 20-572) | William J. Summa, Jr. | Stephen F. Beaudin<br>Edith G. Goodmaster<br>Robert S. Guynn<br>Patricia A. Rizzo<br>Frederick C. Vegliante | |
| State Board of Examiners of Shorthand Reporters (Section 20-651) | Susan K. Whitt | John C. Brandon<br>Donald E. Hubbard<br>Three vacancies | Sherrill Klaiman<br>Elizabeth Garrett |

| | | | |
|---|---|---|---|
| Mobile Manufactured Home Advisory Council (Section 21-84a) | Vincent Flynn | Leonard S. Campbell<br>Joseph B. Castonguay<br>Miriam Clarkson<br>George W. Cote<br>Neil F. Gerrals<br>James Heckman<br>Albert N. Hricz<br>Keith Jensen<br>Michelina Lauzier<br>Jeffrey P. Ossen<br>Bennett Pudlin<br>Two vacancies | Sylvia Burke<br>Catherine Concerino |
| Connecticut Boxing Promotion Commission (Section 21a-195a) | Leonard L. Levy | William Carey<br>Brian Farnen<br>Joseph Sitaro<br>June M. Lyons<br>Christopher Healy<br>Johnny Duke Gallucci<br>A. James Krayeske<br>Vacancy | |
| Liquor Control Commission (Section 30-2) | James T. Fleming (Commissioner) | Gary M. Koval<br>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:

| | 2000-2001 | 2001-2002 | 2002-2003 |
|---|---|---|---|
| Licenses | $15,205,228 | $15,617,388 | $15,573,020 |
| Permits | 5,848,475 | 5,923,991 | 6,034,921 |
| Fees | 1,183,757 | 1,672,652 | 1,663,727 |
| Fines, penalties, forfeitures | 626,843 | 753,980 | 783,224 |
| Restricted contributions, Federal | 332,024 | 120,000 | 113,281 |
| Restricted contributions, other than Federal | 2,633,098 | 2,562,394 | 2,149,092 |
| All other receipts | 127,528 | 382,264 | 1,370,915 |
| **Total General Fund Receipts** | **$25,956,953** | **$27,032,669** | **$28,688,180** |

Department receipts remained relatively stable during the audited period. The significant increase in the category "all other receipts" for the 2002-2003 fiscal year was due to the transfer of $1,200,000 in funds from the New Home Construction Guaranty Fund to the General Fund. This was done in accordance with Public Act 02-1 of the May 2002 Special Session of the General Assembly concerning budget adjustments. The New Home Construction Guaranty Fund is further described in this report under the "Fiduciary Funds" section.

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

| | 2000-2001 | 2001-2002 | 2002-2003 |
|---|---|---|---|
| Personal services | $ 9,457,178 | $ 9,736,919 | $ 9,523,869 |
| Contractual services | 929,001 | 904,223 | 864,562 |
| Commodities | 190,107 | 192,898 | 155,915 |
| All other expenditures | 1,974 | 4,417 | 1,231 |
| Total Budgeted Appropriations | 10,578,260 | 10,838,457 | 10,545,577 |
| Restricted accounts: | | | |
| Federal accounts | 246,402 | 114,623 | 133,064 |
| Other than Federal accounts | 1,586,011 | 2,259,939 | 2,375,061 |
| Total Restricted Accounts | 1,832,413 | 2,374,562 | 2,508,125 |
| **Total Expenditures** | **$12,410,673** | **$13,213,019** | **$13,053,702** |

Expenditures were relatively stable during the audited period. The slight decrease for the 2002-2003 fiscal year was the result of any wage increases offset by layoffs and the early retirement program, which decreased the number of full time filled positions from 194 as of June 2002, to 160 as of June 2003.

In addition to General Fund expenditures, capital equipment purchases totaling $21,653 and $5,357 were paid from the Capital Equipment Purchases Fund during the 2001-2002 and 2002-2003 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, subsection (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, 2001** | $1,073,198 | $832,892 | $ 18,099 | $222,207 |
| Receipts | 5,590,580 | 5,040,404 | 28,742 | 521,434 |
| Disbursements: | | | | |
| General Fund real estate fees | (4,355,113) | (4,355,113) | | |
| University of Connecticut | (575,051) | (575,051) | | |
| All others | (412,007) | (10,381) | (22,850) | (378,776) |
| **Cash Balance – June 30, 2002** | 1,321,607 | 932,751 | 23,991 | 364,865 |
| Receipts | 4,236,041 | 3,927,909 | 31,251 | 276,881 |
| Disbursements: | | | | |
| General Fund real estate fees | (3,472,266) | (3,472,266) | | |
| University of Connecticut | (332,957) | (332,957) | | |
| All others | (632,327) | (23,839) | (38,500) | (569,988) |
| **Cash Balance – June 30, 2003** | $1,120,098 | $1,031,598 | $ 16,742 | $71,758 |

**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, 2001** | **$ 341,071** | **$194,509** | **$ 629,353** | **$44,850** | **$872,671** |
| Total Receipts | 153,410 | 139,280 | 2,291,824 | 1,800 | 1,232,734 |
| Investment Income | 9,465 | 7,739 | 15,030 | | 52,066 |
| Transfers – General Fund Restricted Account | | | (400,000) | | |
| Transfers – General Fund | (118,485) | | (712,530) | | |
| Net Receipts | 44,390 | 147,019 | 1,194,324 | 1,800 | 1,284,800 |
| Disbursements | (37,329) | | (1,652,072) | | (37,060) |
| **Cash Balance – June 30, 2002** | **$348,132** | **$341,527** | **$ 171,605** | **$46,650** | **$ 2,120,410** |

| | Guaranty Trust Funds | | | | |
|---|---|---|---|---|---|
| | Health Club | Real Estate | Home Improvement | Itinerant Vendor | New Home Construction |
| **Cash Balance – July 1, 2002** | **$ 348,132** | **$341,527** | **$ 171,605** | **$46,650** | **$ 2,120,410** |
| Total Receipts | 161,816 | 226,714 | 2,506,078 | 3,200 | (1,321,424) |
| Investment Income | 5,712 | 6,279 | 6,940 | | 25,544 |
| Transfers – General Fund Restricted Account | | | (400,000) | | |
| Transfers – General Fund | (135,634) | | (267,628) | | |
| Net Receipts | 31,894 | 232,993 | 1,845,390 | 3,200 | (1,295,880) |
| Disbursements | (29,630) | | (1,661,613) | | (74,530) |
| **Cash Balance – June 30, 2003** | **$ 350,396** | **$ 574,520** | **$ 355,382** | **$49,850** | **$ 750,000** |

**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.

*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. At June 30, 2003, the fund balance limit of $500,000 was exceeded by $74,520. The excess was transferred to the General Fund on April 1, 2004.

*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 $15,000 for losses or damages per contract 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, investment earnings, and repayments from contractors ordered by the Department as restitution. 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 operates under Section 20-417i of the General Statutes and is used 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 of $480 paid by new home construction contractors, and investment earnings. The authorized balance of this fund was $750,000. Amounts in excess of $750,000 are first credited up to $300,000 to the Consumer Protection Enforcement Account (CPEA), and any excess amounts are transferred to the General Fund. As previously noted, $1,200,000 of the Fund's balance was transferred to the General Fund in accordance with Public Act 02-1, of the May 2002 Special Session of the General Assembly, during the 2002-2003 fiscal year.

**PROGRAM EVALUATION:**

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. Under Section 30-2 of the General Statutes, the Liquor Control Commission exists within the Department of Consumer Protection. This arrangement has been in effect since July 1, 1995, when Public Act 95-195 abolished the Department of Liquor Control and consolidated its function into the Department of Consumer Protection. Our current program evaluation reviews the operation of the Commission and compared it to other States to determine if any structural changes should be considered.

The Liquor Control Commission consists of three members, the Commissioner of Consumer Protection, who serves as the Chairman, and two other Commissioners appointed by the Governor. Section 30-2 requires that not more than two of the three Commissioners shall be of the same political party. It has been the practice of the Commissioner to delegate the functions of the Commission, mainly permit hearings and approvals to the two Commissioners. These Commissioners work 20 hours a week. In the absence of one of the Commissioners, the Commission's legal counsel will act as the Commissioner's designated appointee so that the Commission has a quorum. We were informed that the Department Commissioner meets with the Liquor Control Commission administrator on a weekly basis to review the results of license hearings rendered by the Commission.

We compared the State's organizational structure and procedures with several States similar in population size and with States in the Northeast. The information was obtained through the States' web sites. Of the nine States selected, six had separate Commissions overseeing the regulation of alcoholic beverages while such regulation for the three other States was placed under a department similar to Connecticut's structure. For example, in Rhode Island, regulation of alcoholic beverages is within a division of the Department of Business Regulation while for New Jersey, alcoholic beverage control is within the Office of the Attorney General. Both New York and Massachusetts have a separate three member Commission to oversee liquor control.

It appears from our review that the State's structure for liquor control regulation appears in line with others States. The options for change are to either revert to its former status as a separate State agency or move it from the Department of Consumer Protection to another State agency. At this time, it appears questionable whether any change is needed or would improve effectiveness. In conclusion, it appears that the current structure is sufficient absent any evidence to the contrary which may not have been brought to our attention.

## 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.

**Late Deposits:**

*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 25 cash receipt transactions showed ten transactions, totaling $5,743, that were deposited from one to two days late. In addition, there were three cases where the receipt date could not be determined due to a lack of available documentation. We separately tested receipts regarding the registration of public charities. Out of 11 sampled receipt transactions, eight, totaling $395, were deposited one to two days late. The receipt date for the other three could not be determined due to the lack of available documentation.

*Effect:* The Department was not in compliance with statutory depositing requirements.

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

*Recommendation:* The Department should ensure and document compliance with statutory depositing 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."

**Home Improvement Guaranty Fund:**

*Criteria:* 1. Under Section 20-432, subsection (e), of the General Statutes, the Commissioner shall order payment out of the Home Improvement Guaranty Fund of the amount unpaid upon the court judgment for actual damages exclusive of any punitive damages.

2. Under Section 20-432, subsection (o), of the General Statutes, a contractor may renew his revoked license once he enters into an agreement to repay the Home Improvement Guaranty Fund in full in the form of periodic payments plus interest. The rate of interest is ten percent a year, in accordance with Section 37-3b of the General Statutes. The repayment agreement includes a provision

requiring suspense of the license if payment is not made in accordance with the agreement.

3. Proper recordkeeping would include timely deletion of accounts receivable no longer collectable.

*Condition:*

1. Our sample of 25 disbursements showed two instances where the Department incorrectly paid restitution for attorney fees and other costs not included in the final court judgments. The additional costs for the two payments were $2,500 and $6,388, respectively.

2. Our test check of billings showed that the Department did not charge contractors for interest on restitution payments in ten out of 20 accounts sampled. We estimated that the interest due on the ten accounts not charged was approximately $27,700 as of June 30, 2003.

3. We noted an instance where a contractor had an active license as of April 2004, although the contractor had not made a monthly payment since October 2003, and had an outstanding balance of $19,965.

4. We noted five accounts receivable, totaling $73,530, from a sample of 20, as of June 30, 2003, which were not deleted from the Agency's records upon the debtor's bankruptcy or death.

We also noted the Agency did not record three restitution payments, totaling $13,589, as accounts receivable until the contractors began making payments from four to nine months after the restitution agreement date. We noted that the Agency subsequently initiated procedures during May 2002, where any contractor causing payment from the Home Improvement Guaranty Fund will be invoiced for the restitution amount.

*Effect:*

The Agency's lack of compliance with statutory requirements concerning punitive costs and interest charges results in a loss of State funds. The lack of timely license suspension allows contractors to operate illegally. The lack of timely deletion of uncollectible accounts receivable results in an inaccurate Agency accounts receivable balance.

*Cause:*

In general, there appears to be a lack of management oversight to prevent the above conditions from occurring.

*Recommendation:*

The Department needs to improve the operations of the Home

Improvement Guaranty Fund. (See Recommendation 2.)

*Agency Response:* "The Department agrees with the Auditors' findings in this regard and will work to correct the conditions noted in order to improve the operations of its Home Improvement Guaranty Fund: (1) The inclusion of attorneys' fees and other costs in guaranty fund payouts has been discontinued per the establishment of agency "Home Improvement and New Home Guaranty Fund" Procedures in March 2003. It should be noted that such costs would only be paid if court-ordered. (2)The second condition will be addressed by the Department's Legal Division which prepares the contractors' settlement agreements so that all contractors are charged statutory interest on restitution payments. (3) Specific procedures will be established to coordinate, among four divisions, the accounts receivable process for restitution payments with the agency's licensing process so that immediate action can be taken against contractors who are either delinquent or in non-compliance with their restitution schedules. (4) The fourth condition pertaining to the accounts receivable process has been addressed by the agency's Business Office which now operates with a standing order to bill contractors whenever they generate payments from the Home Improvement Guaranty Fund."

**Directory Assistance Calls:**

*Criteria:* The Department of Administrative Services Telecommunications Procedures Manual states that employees should make an effort to look up telephone numbers rather than using directory assistance, which incurs an extra cost to the State.

*Condition:* Our review of three months of Agency telephone bills during the two year audited period showed an average of 279 directory assistance calls a month. At 45 cents a call, the average estimated cost was $124 monthly.

*Effect:* The Agency is incurring approximately $1,490 in directory assistance costs annually which may be excessive and contrary to State procedures.

*Cause:* The cause was not determined.

*Recommendation*: The Agency should ensure that its employees only use directory assistance when necessary. (See Recommendation 3.)

*Agency Response:* "The Department agrees with the Auditors' findings in this regard. It will instruct the IT unit to give employees desktop access to free on-line directory resources. It will encourage employees to use these links as a cost-effective measure to reduce directory assistance charges."

## RECOMMENDATIONS

The prior report on the Department of Consumer Protection covered the fiscal years ended June 30, 2000 and 2001, and contained five recommendations. The following is a summary of those recommendations and the action taken by the Department of Consumer Protection.

- The Department should comply with timely deposit requirements and improve retention of cash receipt documentation. This recommendation is essentially being repeated. (See Recommendation 1.)

- Petty Cash Fund operations should be improved to comply with the State Comptroller's Imprest Petty Cash Fund procedures. This recommendation is considered resolved.

- The Department should improve controls over operations of the Health Club Guaranty Fund to ensure that payments are properly calculated and that statutory requirements are followed. This recommendation is considered resolved.

- The Department should periodically write-off uncollectible guaranty fund payments using procedures stipulated in Section 3-7 of the General Statutes. This recommendation has been resolved.

- The Department should strengthen property control and submit annual property reports in a timely manner. This recommendation is considered sufficiently resolved since any remaining deficiencies appear minor.

*Current Audit Recommendations:*

1. **The Department should ensure and document compliance with statutory depositing requirements over cash receipts.**

   Comment:

   We noted numerous deposits that were not made within the statutory time permitted. Also, cases were noted where we could not determine the date of receipt from available documentation.

2. **The Department needs to improve the operations of the Home Improvement Guaranty Fund.**

   Comment:

   The Department often failed to collect interest on restitution payments, incorrectly paid restitution fees and did not remove uncollectible accounts from its accounts receivable records on a timely basis.

**3. The Department should ensure that its employees only use directory assistance when necessary.**

Comment:

The Department incurred annual costs for telephone directory assistance of nearly $1,500, which is contrary to State procedures directing employees to avoid using such assistance.

## 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, 2002 and 2003. 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, 2002 and 2003, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2002 and 2003, 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 finding concerning the Home Improvement Guaranty Fund to be a reportable condition.

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 do not believe that the reportable condition 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.

Donald Purchla
Principal Auditor

Approved:

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| Kevin P. Johnston<br>Auditor of Public Accounts | Robert G. Jaekle<br>Auditor of Public Accounts |