STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF CONSUMER PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007

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

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November 12, 2008

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007

We have made an examination of the records of the Department of Consumer Protection for the fiscal years ended June 30, 2006 and 2007.

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 (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).

The Department’s personnel, payroll, affirmative action and some of the business office functions were transferred to the Department of Administrative Services’ Small Agency Resource Team (SMART), and Business Office during the fiscal year ended June 30, 2006. The Department retained responsibilities for receipt collection and processing; accounts receivables; and Guaranty Fund functions.

Edwin R. Rodriguez served as Commissioner of the Department of Consumer Protection until his resignation on January 4, 2007. At that time, Jerry Farrell, Jr. became Acting Commissioner until his appointment as Commissioner on March 1, 2007. He continued to serve as Commissioner 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. Presented below is a summary of these groups and its members as of June 30, 2007, statutory references and former members who served during the audited period follow.

BOARD OR COMMISSION	CHAIRPERSON	MEMBERS AS OF JUNE 30, 2007	ALSO SERVED DURING AUDITED PERIOD
Architectural Licensing Board (Section 20-289)	S. Edward Jeter	Paul H. Bartlett Carole W. Briggs Robert B. Hurd Christopher Mazza	
State Board of Examiners for Professional Engineers and Land Surveyors (Section 20-300)	Anthony L. D'Andrea	John T. DeWolf Robert L. Doane William Giel Robert Grossenbacher John Hallisey Rocco V. Laraia, Jr. Terry D. McCarthy Curtiss B. Smith Three vacancies	Leonard Grabowski
Connecticut Real Estate Commission (Section 20-311a)	Barbara Thompson	Joseph B. Castonguay Theodore F. Ellis,Esq. James Hoffman Marilyn Keating Joseph H. Kronen Lana Ogrodnik Morag Vance	Bruce H. Cagenello David W. Fitzpatrick

Connecticut Real Estate Appraisal Commission (Section 20-502)	Christopher Italia	Francis Buckley, Jr. Sean Hagearty Norris A. Hawkins Russell Hunter Gerald V. Rasmussen Nicholas J. Tetreault One vacancy	
Connecticut State Board of Landscape Architects (Section 20-368)	Vincent C. McDermott	Maureen Connelly Paul E. Corchaine Dickson F. DeMarche Robert W. Hammersley Shavaun Towers Stephen S. Wing	
Electrical Work Examining Board (Section 20-331(b))	Laurence A. Vallieres	Ronald Bish Jack B. Halpert Roger L. Johnson, Jr. Kenneth B. Leech David Munsill Michael Muthersbaugh Douglas A. Reid Raymond A. Turri Three vacancies	Edward L. Chamberlain Beverly A. Ceuch
Heating, Piping, Cooling and Sheet Metal Work Examining Board (Section 20-331(c))	Robert H. Barrieau	Philip H. Benoit Thomas F. Casey, Sr. Cameron Champlin, Jr. Ronald J. Crabb Patrick Duane David G. Foster Joseph Leggo Joseph Minoski Michael Rosario Two vacancies	

Home Inspection Licensing Board (Section 20-490a)	Bernard F. Caliendo	Susan A. Connors Eric Curtis Dana J. Fox Richard J. Kobylenski Bruce D. Schaefer William Stanley, Jr. One vacancy	Denise Robillard J. Andre Fornier
Plumbing and Piping Work Examining Board (Section 20-331(d))	Charles E. Appleby, Sr.	Anthony Caladrino Joseph Carr Michael E. Cluney John R. Damico James Piccoli George C. Sima Robert Stolting John R. Sullivan Joyce Topshe Two vacancies	Gerald R. Fucci Richard J. Moran Richard J. Messina, Sr.
Elevator Installation, Repair and Maintenance Work Examining Board (Section 20-331(e))	John R. DeRosa, Jr. (Acting Chairman)	Joseph Bayusik Garry Bazzano Paul B. Farnsworth Michael D. Griffin Thomas J. O'Reilly Two vacancies	Michael T. Molleur
Fire Protection Sprinkler System Work Board (Section 20-331(f))	David J. Waskowicz	James M. Barry Luis A. Coreano Robert W. Hollis III Ralph C. Miller Anthony D. Moscato Kevin M. Wypychoski William Zisk, Sr. One vacancy	George DeVincke Lisa Vereneau
Automotive Glass Work and Flat Glass Work Examining Board (Section 20-331(g))	Edward J. Fusco	Carl Von Dassel Robert Steben John A. Wisniewski Jennifer Russell-Vanasse Four vacancies	Mary E. Grabowski Kurt L. Muller Douglas Howard

Commission of Pharmacy (Section 20-572)	William J. Summa, Jr.	Stephen F. Beaudin Edith G. Goodmaster Robert S. Guynn Jean Mulvihill Frederick C. Vegliante	
State Board of Examiners of Shorthand Reporters (Section 20-651)	John C. Brandon	Joseph DeFilippo William Mangini Cheryl Stern Susan K. Whitt One vacancy	Donald E. Hubbard
Mobile Manufactured Home Advisory Council (Section 21-84a)	Bennett Pudlin	Leonard S. Campbell Joseph B. Castonguay Timothy Coppage Miriam Clarkson George W. Cote Neil F. Gervais Albert N. Hricz Keith Jensen Michelina Lauzier Debra Russo Marcia L. Stemm Three vacancies	Thomas Ciccalone Vincent Flynn Jeffrey P. Ossen
Connecticut Boxing Promotion Commission * (Section 21a-195a)	Jonathan J. Olear	Allen Bacchiochi Eben T. Jones A. James Krayeske, Jr. Manuel M. Leibert June M. Lyons William F. Pavia Larry Perosino Joseph Sitaro	Brian Farnen William H.Carey,III Johnny Duke Gallucci Christopher Healy Leonard L. Levy
Liquor Control Commission (Section 30-2)	Jerry Farrell, Jr. (Commissioner)	Gary Berner Angelo Faenza	Edwin R. Rodriquez (Former Commissioner) Gary M. Koval Domenic L. Mascolo

* Commission transferred to the Department of Public Safety per PA 06-187

Legislative Changes:

Public Act 05-101, effective upon passage, requires Public Charities organizations to register annually. It eliminated the $20 one-time registration fee and the $25 annual report filing fee and replaced it with an annual registration fee of $50. Late charges on renewals were increased from a flat fee of $25 to $25 for each month or part there of that the registration or renewal was filed late. Applications and annual renewals of registrations for a paid solicitor increased from $120 to $500 annually.

Public Act 05-251, Section 60, subsection (c), allows the Commissioner of Administrative Services, in consultation with the Secretary of the Office of Policy and Management to develop a plan whereby the Department of Administrative Services (DAS) would merge and consolidate personnel, payroll, affirmative action and business office functions of selected executive branch State agencies within DAS. The effective date of the Public Act was July 1, 2005. The Department of Consumer Protection was selected as one such agency. In August 2005, payroll, personnel and affirmative action functions were transferred to DAS. Most business office functions were transferred to DAS during November 2005. The Department did retain its business office functions relating to licensing, receipts, and the Guaranty Funds.

Public Act 06-187, made several changes that became effective October 1, 2006. This Act transferred boxing regulation from the Department of Consumer Protection Commissioner to the Department of Public Safety (DPS) Commissioner. It transferred the Boxing Promotion Commission to DPS. The Act requires homemaker-companion agencies to register annually with the Department and pay a $300 fee that is deposited in the General Fund. And it requires anyone practicing hypnosis to register with the Department and authorizes the Commissioner of Consumer Protection to impose a civil penalty of up to $100 for practicing hypnosis without being registered.

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:

	2004-2005	2005-2006	2006-2007
Licenses	$18,384,466	$19,831,509	$18,263,255
Permits	6,371,607	6,226,311	6,482,473
Fees	2,047,155	2,284,107	2,342,115
Fines, penalties, forfeitures	1,029,996	981,257	1,029,698
Restricted contributions, Federal	-	7,787	-
Restricted contributions, other than Federal	100	-	-
All other receipts	144,880	83,708	56,282
Total General Fund Receipts	**$27,978,204**	**$29,414,679**	**$28,173,823**

Revenue collected for licenses and permits accounts for approximately 88 percent of the Department's receipts. The increase of $1,447,043 and subsequent decrease of $1,568,254 in license receipts during the 2005-2006 and 2006-2007 fiscal years, respectively, is attributed to several types of licenses being collected on a biennial basis. This results in a substantial increase in one fiscal year and a decrease in the next fiscal year. Also, there had been an increase in pharmacy related licenses. The increases in fees in both fiscal years was due to an increase in the annual public charity registrations fees from $120 to $500 beginning in the 2005-2006 fiscal year; increased registrations of interstate land sales; and renewals of brand registrations which occur once every three years. The increases in fines were due to a higher number of fines being issued as a result of an increase in liquor violations.

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

	2004-2005	2005-2006	2006-2007
Personal services	$ 8,934,558	$ 9,042,246	$ 9,596,429
Contractual services	718,825	794,750	1,122,216
Commodities	177,004	236,565	337,564
Equipment	-	-	5,059
All other expenditures	1,545	47,004	38,040
Total General Fund Expenditures	**$9,831,932**	**$10,120,565**	**$11,099,308**

General Fund expenditures increased three percent and ten percent during the fiscal years ended June 30, 2006 and 2007, respectively. The increase of $554,183 in personal services during the 2006-2007 fiscal year was due to reclassifications of several employees and retroactive payments associated with the Objective Job Evaluation and authorized overtime to meet the Department's needs. Annual cost-of-living and annual raises also contributed to the increases in both fiscal years. The large increase in contractual services during the 2006-2007 fiscal year was due to several factors including: maintenance/software support and numerous programming/customization changes to the E-Licensing system, telephone cabling projects, and an auto-attendant management and reporting software license.

Special Revenue Fund – Federal and Other Restricted Accounts:

The Department's Federal and Other Restricted Accounts receipts totaled $3,479,962 and $3,115,078 for the fiscal years ended June 30, 2006 and 2007, respectively. These receipts consist primarily of non-Federal restricted revenue, such as fines collected and deposited to the Consumer Protection Enforcement Account, transfers made from the Department of Revenue Services for salaries and expenditures for agents assigned to the casinos, and transfers of surpluses when available from the New Home Construction Guaranty Fund to the Home Improvement Enforcement Account.

In addition, the Department also collected and deposited revenues to the Special Transportation Fund in the amount of $965,308 and $938,712, for the fiscal years ended June 30, 2006 and 2007, respectively. These revenues consisted of registration fees for motor fuel dispensers and weighing or measuring devices pursuant to Section 43-3 of the General Statutes.

Expenditures in the Special Revenue Fund - Federal and Other Restricted Accounts totaled

$2,710,256 and $2,857,805 for the fiscal years ended June 30, 2006 and 2007, respectively, as compared to $2,804,407, as of June 30, 2005. A summary of these expenditures follows:

	2004-2005	2005-2006	2006-2007
Personal Services	$1,632,200	$1,580,234	$1,667,712
Contractual Services	233,113	117,893	91,026
Sundry Charges	889,756	948,007	982,110
Commodities	21,059	24,675	29,175
Equipment	28,279	39,447	87,782
Total Special Revenue Fund Expenditures	**$2,804,407**	**$2,710,256**	**$2,857,805**

The Federal and Other Restricted Accounts Fund is used primarily to record expenditures relating to personal services and fringe benefit costs of employees working on specific projects within the Department. The increase in expenditures in the 2006-2007 fiscal year resulted from salary and cost-of-living adjustments, and refilling a position that had been vacant for a long period of time. The Consumer Protection Settlement, e-Commerce, and Public Charities Settlement accounts had been charged for upgrades to software license/rental and software support/maintenance costs in the 2004-2005 fiscal year. These charges were not repeated in the following two fiscal years and resulted in a decrease in contractual services expenditures.

In addition to the above Special Revenue Fund expenditures, capital equipment purchases totaling $41,315 and $176,589 were paid from the Capital Equipment Purchases Fund during the 2005-2006 and 2006-2007 fiscal years, respectively. Purchases were primarily for information and technology equipment.

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* – Section 10a-125 of the General Statutes requires that eight and three-quarters percent of each real estate brokers and salesperson licenses and fees be paid to the University of Connecticut (UConn), Center for Real Estate and Urban Economic Studies. As of the 2003-2004 fiscal year, all real estate salesperson and broker license fees collected are deposited directly to the General Fund and periodic transfers are made to a pending receipts account and then transferred to UConn.

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, 2005	$247,436	$94,808	$ 18,731	$ 133,897
Receipts	1,019,597	622,776	36,725	360,096
Disbursements:				
University of Connecticut	(319,320)	(319,320)	-	-
All others	(194,167)	-	(32,425)	(161,742)
Cash Balance – June 30, 2006	**$753,546**	**$398,264**	**$23,031**	**$332,251**
Receipts	891,135	607,121	40,725	243,289
Disbursements:				
University of Connecticut	(683,910)	(683,910)	-	-
All others	(278,098)	-	(40,615)	(237,483)
Cash Balance – June 30, 2007	**$682,673**	**$321,475**	**$23,141**	**$338,057**

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, 2005	**$ 347,061**	**$500,000**	**$ 224,581**	**$50,000**	**$399,187**
Total Receipts	171,810	157,388	3,178,241	1,900	2,318,589
Investment Income	13,691	19,586	23,080	-	28,716
Transfers - Special Revenue Fund					
Restricted Accounts	-	-	(400,000)	-	(300,000)
Transfers - General Fund	(168,134)	(176,974)	(654,655)	(1,900)	(1,435,326)
Net Receipts	17,367	-	2,146,666	-	611,979
Disbursements	(14,428)	-	(2,173,899)	-	(311,269)
Cash Balance – June 30, 2006	**$350,000**	**$500,000**	**$197,348**	**$50,000**	**$699,897**

	Health Club	Real Estate	Home Improvement	Itinerant Vendor	New Home Construction

Cash Balance – June 30, 2006	**$ 350,000**	**$500,000**	**$ 197,348**	**$50,000**	**$ 699,897**
Total Receipts	169,240	171,002	3,333,509	8,800	306,137
Investment Income	19,562	27,160	29,290	-	38,012
Transfers - Special Revenue Fund Restricted Accounts	-	-	(400,000)	-	(45,588)
Transfers - General Fund	(186,678)	(133,941)	(653,421)	(1,000)	-
Net Receipts	2,124	64,221	2,309,378	7,800	298,561
Disbursements	(1,445)	(25,183)	(1,741,488)	-	(248,642)
Cash Balance – June 30, 2007	**$350,679**	**$539,038**	**$765,238**	**$57,800**	**$749,816**

Note: Guaranty Trust Fund cash balances presented above include both cash with the State Treasurer and amounts invested in the State Treasurer's Interest Credit Program.

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 is $350,000 and amounts in excess of this limit are transferred to the General Fund. As of June 30, 2007, the fund balance limit was exceeded by $679. This excess was transferred to the General Fund on July 24, 2007.

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 is $500,000 and amounts in excess of this limit are required to be transferred to the General Fund. As of June 30, 2007, the fund balance limit was exceeded by $39,038. This excess was transferred to the General Fund on July 24, 2007.

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 and 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 is $750,000. On an annual basis, any amounts in excess of this limit are first credited up to $400,000 to the Home Improvement Enforcement Account; a special revenue fund account used for home improvement and construction enforcement purposes. Any amounts over these thresholds are transferred to the General Fund. As of June 30, 2007, the fund balance limit was exceeded by $15,238. This excess was transferred to the General Fund on July 24, 2007.

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 is $50,000 and any amounts over this balance are to be credited to the General Fund. As of June 30, 2007, the fund balance limit was exceeded by $7,800. This excess was transferred to the General Fund on July 24, 2007.

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 is $750,000. Amounts in excess of $750,000 are first credited up to $300,000 to the Consumer Protection Enforcement Account (CPEA); a special revenue fund account, and any excess amounts are transferred to the General Fund.

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 Depositing of Receipts:

Criteria: Section 4-32 of the General Statutes requires that receipts in excess of $500 be deposited and accounted for within 24 hours. Individual receipts under $500 may be held until the total sum of all receipts reaches $500; however, individual receipts may not be held for longer than seven calendar days before being deposited and accounted for.

Condition: A large percentage of the licenses and renewals are processed though a bank lockbox system that provides for automatic depositing upon receipt of payment to the bank. However, there are still many other types of receipts such as liquor permits, Public Charities licenses, and fines that are received either by mail or as walk-ins. We performed four separate receipt tests of items that were received either through the mail or as a walk-in payment. These receipts were received by the Licensing Services Division, Legal Division which collects the Liquor Control Division fines, Lemon Law Unit, and Public Charities Unit. Our review noted the following: 21 of 25 Licensing Services Division receipts tested, totaling $11,724, were deposited between one to three days late; six of ten Liquor Control fine receipts tested, totaling $96,000, were deposited between one to three days late; three of five Lemon Law receipts tested, totaling $1,389, were deposited between one to two days late; and ten of ten Public Charities receipts tested, totaling $2,875, were deposited between one to nine days late.

We could not verify the receipt date or timeliness of deposit for four of the 25 receipts reviewed from the Licensing Division, and three of the original 10 Liquor Control fines receipts selected for testing because supporting documentation could not be located.

Effect: Late depositing of receipts indicates noncompliance with statutory requirements which could result in receipts being lost, stolen or not properly recorded.

Cause: Late deposits were due, in part, to the large volume and variety of receipts the Division receives which results in the Department’s inability to process all incoming receipts within the 24 hour requirement. Other causes were not determined.

Recommendation: The Department should comply with Section 4-32 and deposit receipts in a timely manner. (See Recommendation 1.)

Agency Response: "The Department agrees with the Auditors' findings in this regard. In addition to continuing the use of its bank lockbox process for deposits, we are promoting the public's use of online license renewal via charge card payments in order to minimize the amount of money that is either mailed or hand carried to the Department. We have also recently obtained authorization from the State Treasurer's Office for a two-day delay in the deposit of our receipts. We will continue our efforts to ensure full compliance with all statutory deposit and reporting requirements."

Accounts Receivable Recording and Invoicing – Civil Penalties:

Criteria: Good internal controls require that adequate procedures should be in place and followed to ensure that all amounts due to the State are properly recorded and collected in a timely manner.

The State Accounting Manual provides guidance for the management of receivables. Specifically, collection procedures state that it is the responsibility of each State agency to immediately notify the person or entity who owes money that the amount is due. The Legal Division of the Department is responsible for notifying the Department's Administrative Services and Accounting Office of all assessed civil penalties so that the information can be added to the accounts receivable listing and invoices can be sent to the correct parties to request that payments be made.

Condition: A review of 14 civil penalties imposed by the Department's Occupational Boards totaling, $1,546,610, revealed that four penalties, totaling $538,000, were not added to the Department's accounts receivable records. Invoices were not sent to the respondent responsible for paying the penalty until our review found the errors; approximately one year after the penalties should have originally been invoiced.

Established procedures used by the Legal Division for notifying the Administrative Services office of penalties for inclusion on the accounts receivable listing and invoicing to the respondent did not ensure timely notification or a cross-checking procedure to ensure all applicable penalties were properly forwarded, accounted for and invoiced.

Effect: The lack of proper recording and timely invoicing of accounts receivable associated with penalties could result in monies not being collected. Inaccurate information on the accounts receivable records may also lead to misstatements on annual financial statements.

Cause: There appeared to be an internal control weakness in the process used by the Legal Division in notifying the Department's Administrative Services and Accounting Office of all assessed penalties that were required to be added to the accounts receivable record and subsequent invoicing for payment.

Recommendation: The Department needs to improve its procedures concerning the recording and invoicing of all accounts receivable. (See Recommendation 2.)

Agency Response: "The Department agrees with the Auditors' findings in this regard and has taken steps to implement this recommendation. Specifically, as a result of this finding, the Legal Division has established written procedures to include both the agency's Legal Director and the Administrative and Accounting Services Office staff on correspondence sent to respondents that includes civil penalty orders. If no administrative appeal is filed by the respondent within 45 days, the Legal Division will notify the Administrative and Accounting Services Office to initiate the invoicing process. The multiple notifications between the two divisions will allow for cross-checking and ensure timely billing so that all applicable penalties are properly forwarded, accounted for and invoiced."

Property Control Deficiencies and Software Issues:

Criteria: Section 4-36 of the General Statutes requires that each State Agency establish and maintain an inventory in the form prescribed by the State Comptroller. In addition, the State's Property Control Manual establishes the standards for maintaining an inventory system and sets reporting requirements. These requirements include: properly tagging, recording and accounting of equipment; filing accurate Asset Management/Inventory Report/GAAP Reporting Form (CO-59 report); and maintaining a software library/inventory including producing an annual software inventory report that is reconciled to the physical inventory of the software library.

The Core-CT Asset Management module (Asset module) is used to maintain the Department's permanent inventory records. For CO-59 report purposes, only capitalized equipment is included on the report. Controllable items that are valued under $1,000 are not added to the CO-59 report totals. The Department of Administrative Services is responsible for conducting physical inventories, maintaining the permanent inventory records and completing the annual CO-59 report for the Department. The Department's Technical Systems Unit is responsible for maintaining the software inventory.

Condition: Numerous errors or omissions were noted during the review of the Department's property control records. The following are a sample of these errors/omissions:

• A test of 25 items listed on the Department's inventory records had the following errors: four of the 25 items, totaling $5,781 could not be located; one item, valued at $2,442 was not tagged; and one item had an incorrect asset description listed on the Asset module.

• A test of 15 randomly selected items within the Department that were traced back to the Asset module records noted the following errors: Cost and detailed information for five of 15 items could not be found on the Asset module records; one of the 15 had an incorrect description listed; and one item was listed twice, once as a controllable item and once as capitalized equipment.

• Other miscellaneous errors included: 31 of 111 tagged items listed on a subsidiary equipment list, maintained by the Department's Technical Systems Unit, could not be found on the Asset module records; five new purchases of controllable items were tagged but not added to the Asset module; and there were some descriptions in the Asset module that did not adequately describe the equipment item listed.

• Prior year audit errors and omissions were not all corrected. Three trailers, totaling $62,670, are still listed as controllable items in the Core-CT Asset module and should be capitalized equipment. Additionally, one item totaling $14,079 could not be found in the Asset module records, and two items totaling $18,952 incorrectly show up as having a $0 value assigned to the item in the Asset module.

• The Department did not prepare an annual software report and/or compare it to a physical inventory of its software. The software records were incomplete and did not include information such as an assigned ID number, acquisition type, location and the computer ID number where the software was installed, cost, and applicable disposal information.

A review of the documentation provided with the CO-59 report revealed several problems.

• There were non-capitalized equipment items added to the Asset module using an incorrect Core-CT "equipment" category designation. This resulted in 14 and 22 items totaling $5,951 and $3,894, being incorrectly included as capitalized "additions" to the annual CO-59 report for June 30, 2006 and 2007, respectively.

• In addition, the list maintained by the Technical Systems Unit, included some capitalized equipment items that have not been entered into the Asset module and it did not appear that they were included in the CO-59 report total. The subsidiary list did not contain cost information so the actual dollar value involved could not be determined. Also, one trailer with an undetermined cost was not included in the Asset module or included on the CO-59 report.

• The supporting report used to determine the figures used on the CO-59 reports was not adjusted for errors, i.e.; controllable items listed in the capitalized section of the report that should have been deleted and several capitalized equipment items listed in the controllable section that should be included as part of the CO-59 report totals.

Effect: The above conditions indicate a weakness in controls and accountability that resulted in a misstatement of reported inventory values and could lead to the possible loss or misuse of assets going undetected. The total dollar impact of the errors could not be determined since cost information was not available for all of the exceptions noted.

Cause: The supporting report used by the Department of Administrative Services to determine the figures used on the CO-59 reports did not appear to be adequately reviewed for exceptions to ensure the accuracy of the information. Input into the Core-CT Asset Management module is inconsistent as to descriptions and designated categories. Technology Services employees responsible for maintaining the software inventory were not aware of all of the requirements. Other causes were not determined.

Recommendation: Equipment and software inventory procedures should be strengthened to provide accurate information and to comply with the accounting and reporting requirements established in the State's Property Control Manual. (See Recommendation 3.)

Agency Response: "The Department agrees with the Auditors' findings in this regard and will fully implement this recommendation pertaining to software control since its other inventory functions are administered by the Department of Administrative Services per the 2005-2006 merger of State agency business offices. The responsibility for software control has been assigned to the agency's Technical Systems Unit which will approve, receive and install all software ordered by the Department. This office will also establish a software library/inventory report that is reconciled annually to its physical inventory of software and related documentation. We will continue our efforts to ensure full compliance with the provisions of the State's Property Control Manual and will work with the Department of Administrative Services in this regard."

In addition, the Department of Administrative Services responded to the property control deficiencies as follows:

"We agree with the audit findings and are in the process of correcting all asset issues. With the change in personnel, we will be more diligent in conducting the annual physical inventory."

Timesheets and Request for Leave Form Issues:

Criteria: Sound business practice would require that employees' biweekly timesheets be completed and signed by both the employee and supervisor in a timely manner to ensure accuracy of payments.

The Department of Consumer Protection Handbook (Handbook) for Supervisors states that a supervisor's signature on an employee's timesheet is certifying that the information is accurate and that the employee is eligible to be paid for what is recorded on the timesheet. The Handbook also states that employees must request time off in advance from their supervisor prior to taking the leave. Request for Leave forms must be completed and approved for vacation or other allowable leave, otherwise the employee will be considered absent without pay. A copy of the approved form is to be submitted with the biweekly timesheet.

Condition: Our review found that four of the original 20 timesheets tested were not properly completed with both the employee and supervisory signatures in a timely manner. The timeframe in which both the employee and the supervisor signed the official timesheet ranged from eight to 80 days after the completion of the biweekly pay period.

Additional testing of employees working in the Liquor Control Division noted that 12 of 30 employees had timesheets that were not signed off on a timely basis. We noted that 80 out of 228 timesheets reviewed over an eight month period or 35 percent were either not signed off by the employee and/or the supervisor between one to 55 days after the biweekly time period had ended.

During the above eight month period, there were 51 Request for Leave forms that were either not signed by the employee and/or approved by the supervisor prior to taking the leave. The forms were signed five to 65 days after the leave time was taken. In addition, there where two cases were no leave forms were on file.

Effect: The above conditions indicate a weakness in controls that could result in employees being overpaid based on inaccurate information that has not been properly reviewed, or for payments that are not due to them.

Cause: The causes for the exceptionally late signatures on the timesheets and lack of timely filing of request for leave forms were not determined.

Recommendation: The Department should ensure that timesheets and leave forms are properly completed and approved in a timely manner. (See Recommendation 4.)

Agency Response: "The Department agrees with the Auditors' findings in this regard and will fully implement this recommendation by centralizing the oversight of the Department's Time and Attendance reporting in the Commissioner's Office. All materials will be reviewed to ensure that they are accurately completed before submission to the Department of Administrative Services' SMART Unit for payroll processing. The forthcoming implementation of an electronic leave and attendance reporting system will also help to alleviate problems with the timely submission of leave and attendance materials."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department should comply with statutory depositing requirements and prepare monthly reconciliations of receipts. Our review noted that there were still numerous late deposits; however, regular reconciliations have been addressed. This recommendation is being modified and repeated. (See Recommendation 1.)

- The Department needs to improve its procedures concerning the recording and collections of accounts receivable and the statutory interest related to restitution payments made to the Guaranty Funds. The Department took steps to resolve most of the accounts receivable issues and statutory interest relating to restitution payment to the Guaranty Funds. However, we did find a weakness in the procedures to ensure that all civil penalties are properly recorded on the accounts receivable record. This recommendation is being modified and repeated. (See Recommendation 2.)

- Equipment and software inventory procedures should be strengthened to provide accurate information and to comply with requirements established in the State's Property Control Manual. Although there were some improvements made to the software inventory, we noted numerous equipment inventory errors and missing information on the Core-CT permanent asset records. This recommendation is being repeated. (See Recommendation 3.)

- The Department should properly report all accounts receivable as required on the annual Generally Accepted Accounting Principle (GAAP) forms. The GAAP forms were properly completed and reported all the necessary information. This recommendation will not be repeated.

- The Department should comply with Section 31-286a, subsection (b), of the General Statutes and discuss ways of sharing information with the Workers' Compensation Commission. The Department has met with the Commission to discuss possible solutions and is in the process of seeking legislative changes to address this problem. This recommendation will not be repeated.

Current Audit Recommendations:

1. **The Department should comply with Section 4-32 and deposit receipts in a timely manner.**

   Comment:

   Although there was some improvement in this area, we still noted numerous mail-in and walk-in receipts in various areas of collection within the Department that were not made within the 24 hour period, as required by statute.

2. The Department needs to improve its procedures concerning the recording and invoicing of all accounts receivables.

Comment:

We noted that information concerning four civil penalties totaling $538,000 was not properly forwarded to the Administrative Services and Accounting Office of the Department for proper invoicing and recording to the accounts receivable record. The procedures did not include checks that would ensure that all information was properly forwarded.

3. Equipment and software inventory procedures should be strengthened to provide accurate information and to comply with accounting and reporting requirements established in the State's Property Control Manual.

Comment:

There were numerous errors noted on the Core-CT Asset Management module concerning data associated with individual equipment items. We also noted numerous errors on the Annual Fixed Assets/Property Inventory Report. The Department did not prepare annual software reports and the software inventory records were incomplete.

4. The Department should ensure that timesheets and leave forms are properly completed and approved in a timely manner.

Comment:

A test of timesheets for employees in the Liquor Control Division noted numerous instances where the employee and/or the supervisor did not sign-off on the biweekly timesheet until well after the pay period had ended. Also, Department required Request for Leave forms were not signed in a timely manner.

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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed 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, 2006 and 2007, 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 grant agreements 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.

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

In planning and performing our audit, we considered the Department of Consumer Protection’s internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency’s financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, not for the purpose of providing assurance on the effectiveness of the Agency’s internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency’s ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management’s direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts, and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1- Late depositing of receipts; Recommendation 2 – Accounts receivable recording and invoicing – civil penalties; Recommendation 3 – Property control deficiencies and software issues; and Recommendation 4 – Timesheet and request for leave form issues.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Consumer Protection complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards.* However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Department of Consumer Protection's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Agency response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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.

Virginia A. Spencer
Principal Auditor

Approved:

Kevin P. Johnston Auditor of Public Accounts	Robert G. Jaekle Auditor of Public Accounts