

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF CONSUMER PROTECTION
FISCAL YEARS ENDED JUNE 30, 2015, 2016 AND 2017*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Department of Consumer Protection for the fiscal years ended June 30, 2015, 2016 and 2017. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies; and the need for changes in management practices that warrant the attention of management. The significant findings and recommendations are presented below:

Page 11	The department’s accounts receivable records included many stale accounts with limited or no collection activity. DCP did not promptly write off uncollectible receivables. The Department of Consumer Protection should improve internal controls over the accounting and reporting of its accounts receivable balances. Communication between the Department of Consumer Protection and the Department of Administrative Services should be improved to ensure timely write-off of uncollectible accounts. (Recommendation 1.)
Page 13	The department did not collect surcharge payments from several Connecticut automobile and motorcycle dealers as required for the administration of the Lemon Law Program. The Department of Consumer Protection should develop a procedure to update the new vehicle dealer list. The department should review the updated list and identify any dealers that have not paid surcharges under the New Automobile Warranties Program. The department should audit all dealers that fail to submit such surcharges to determine whether surcharge payments are due. (Recommendation 2.)
Page 14	The department did not include serial and registration numbers as well as all other required information in its software inventory records. The Department of Consumer Protection should continue to improve controls over software inventories and ensure that its inventory listing contains all information required by the State Property Control Manual. (Recommendation 3.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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November 24, 2020

AUDITORS' REPORT

We have audited certain operations of the Department of Consumer Protection (DCP) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2015, 2016, and 2017. The Department of Administrative Services (DAS) provided accounting, payroll, and personnel services for DCP during the audited period. The scope of our audit did not extend to the evaluation of the relevant controls at that agency. The objectives of our audit were to:

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

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department; and testing selected transactions. Our testing is not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

1. Identified deficiencies in internal controls;
2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Identified need for improvements in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Department of Consumer Protection.

COMMENTS

FOREWORD

The Department of Consumer Protection is a regulatory agency that operates under the provisions of Chapters 98, 226, 416, and 545 of the Connecticut General Statutes to protect citizens from physical injury and financial loss that may occur as the result of unsafe or fraudulent products and services marketed in Connecticut. In addition, the department issues licenses, registrations, and permits and provides oversight for more than 200 types of jobs and businesses, including home improvement contractors, real estate agents, pharmacies, and professional trades. The agency also oversees the production, distribution and sale of all prescription medication and alcoholic beverages in the state. The DCP is responsible for enforcing numerous significant consumer protection laws, including but not limited to the Connecticut Unfair Trade Practices Act (CUTPA), the Liquor Control Act, the Connecticut Pure Food, Drug & Cosmetic Act, the Connecticut Weights & Measures Act, and the Connecticut State Child Protection Act.

The department's personnel, payroll, affirmative action, and most of its business functions are performed by the Department of Administrative Services' Business Office and Small Agency Resource Team (SmART). The department's staff is responsible for receipt collection and processing, accounts receivables, and guaranty fund functions.

William M. Rubenstein was nominated commissioner on February 9, 2011, and served until December 30, 2014. Jonathan A. Harris was named commissioner on December 30, 2014, and served until April of 2017. Michelle H. Seagull was named commissioner on May 1, 2017 and continues to serve in that capacity.

Significant Legislation

Notable legislative changes, which took effect during the audited period, are presented below:

- **Public Act 14-189**, effective, July 1, 2014, established Section 30-16a of the General Statutes. The act created requirements for the issuance of an off-site farm winery sales and tasting permit, with a \$250 annual fee and \$100 nonrefundable filing fee.
- **Public Act 15-244**, effective January 1, 2016, established Sections 21a-415 and 21a-415a of the General Statutes. The act instituted registration and annual fees to be collected in association with electronic nicotine delivery systems.
- **Public Act 15-244**, effective July 1, 2015, amended Sections 21a-408d, 21a-408h, 21a-408i, 21a-408m of the General Statutes. The act requires the deposit of registration and licensing fees from palliative marijuana program patients, producers and dispensaries to the General Fund. Previously, these revenues were deposited to a restricted account.
- **Public Act 15-244**, effective July 1, 2015, established Section 12-806c of the General Statutes. The act required separate agreements between the state and the Mashantucket Pequot and Mohegan tribes concerning the Connecticut Lottery Corporation's operation of keno in Connecticut.
- **Public Act 15-5 of the June Special Session**, effective July 1, 2015, amended Section 12-806c of the General Statutes. The act added provisions to the keno agreement to limit the amount of keno revenue distributed to each tribe to 12.5% of the state's gross operating revenue.

Boards and Commissions

Various sections of the General Statutes provide that certain boards and commissions operate within DCP. A listing of these boards and commissions and the statutory references is presented below:

Name	Statutory Reference
Liquor Control Commission	Section 30-2
Architectural Licensing Board	Section 20-289
Conn State Board of Landscape Architects	Section 20-368
Electrical Work Examining Board	Section 20-331(b)
State Board of Accountancy	Section 20-280
Elevator Installation, Repair, and Maintenance Work Examining Board	Section 20-331(e)
Fire Protection Sprinkler System Board	Section 20-331(f)
Automotive Glass Work and Flat Glass Work Examining Board	Section 20-331(g)

Distillate Advisory Board	Section 16a-21b(e)
Heating, Piping, Cooling, and Sheet Metal Work Examining Board	Section 20-331(c)
Plumbing and Piping Work Examining Board	Section 20-331(d)
Commission of Pharmacy	Section 20-572
State Board of Examiners for Professional Engineers and Land Surveyors	Section 20-300
Connecticut Real Estate Commission	Section 20-311a
Connecticut Real Estate Appraisal Commission	Section 20-502
Mobile Manufactured Home Advisory Council	Section 21-84a
State Board of Examiners of Shorthand Reporters	Section 20-651
Home Inspection Licensing Board	Section 20-490a
Medical Marijuana Program Board of Physicians	Section 21a-408

RÉSUMÉ OF OPERATIONS

General Fund

General Fund receipts were comprised primarily of payments for licenses to render professional services, to engage in skilled trades and certain businesses, for fees associated with liquor permits and the palliative marijuana program, as well as taxes received from horse racing. A comparison of receipts for the fiscal years under review follows:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Licenses	\$ 26,912,533	\$ 28,121,336	\$ 31,225,424
Permits	9,146,454	9,205,029	9,309,383
Fees	5,062,115	5,752,180	5,500,712
Taxes on Horse Racing (OTB)	3,614,772	3,517,695	3,358,086
Medical Marijuana	10,000	1,705,706	2,610,715
Fines, Penalties, Forfeitures	542,608	446,331	587,628
Keno	-	-	(4,642,025)
All Other Receipts	(143,525)	(200,302)	(377,677)
Total General Fund Receipts	<u><u>\$ 45,144,957</u></u>	<u><u>\$ 48,547,975</u></u>	<u><u>\$ 47,572,246</u></u>

The increase in General Fund receipts in fiscal year 2015-2016 was primarily due to an increase in license revenue related to the palliative marijuana program, for which the department transferred deposits from the Federal & Other Restricted Accounts Fund to the General Fund in accordance with Public Act 15-244. Revenues collected in association with electronic nicotine delivery systems also contributed to the increase. The increase was offset by distributions of approximately

\$4,600,000 in keno revenue to the Mashantucket Pequot and Mohegan tribes in accordance with Public Act 15-5 of the June Special session.

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

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Personal Services and Employee Benefits:	\$ 15,464,262	\$ 15,999,320	\$ 14,637,090
Purchased and Contracted Services:			
Postage	179,779	157,951	129,869
Motor Vehicle Costs	413,866	391,231	385,750
Information Technology	43,387	189,412	283,837
Purchased Commodities	57,151	65,211	53,756
Indirect Overhead-Other Projects	(1,223,263)	(1,704,389)	(1,701,839)
All Other	355,567	405,355	373,128
Total Purchased and Contracted Services	\$ (173,513)	\$ (495,229)	\$ (475,499)
Total General Fund Expenditures	<u>\$ 15,290,749</u>	<u>\$ 15,504,091</u>	<u>\$ 14,161,591</u>

Fluctuations in expenditures during the audited period were primarily in the personal services area, including an increase of approximately \$535,000 in fiscal year 2015-2016 directly related to collective bargaining and managerial pay increases. A decrease of approximately \$1,350,000 in personal services in fiscal year 2016-2017 was due to a staffing reduction to 184 full-time General Fund employees as of June 30, 2017, from an average of 200 employees for the prior fiscal years.

Special Revenue Funds

Federal and Other Restricted Accounts and Special Transportation Funds

The Federal and Other Restricted Account receipts totaled \$8,540,143, \$7,539,489, and \$7,615,338 for the fiscal years ended June 30, 2015, 2016, and 2017, respectively. The decrease of approximately \$1,000,000 in fiscal year 2015-2016 was primarily due to the transfer of palliative marijuana program revenue from the Federal & Other Restricted Accounts Fund to the General Fund. Receipts consisted primarily of non-federal restricted revenue, such as fines collected and deposited to the Consumer Protection Enforcement Account, recovery of indirect and fringe costs in the operation of regulatory functions, and transfers of surpluses when available from the New Home Construction and Home Improvement Guaranty Funds.

DCP also collected and deposited revenues to the Special Transportation Fund in the amount of \$1,858,979, \$1,398,068, and \$1,922,676, for the fiscal years ended June 30, 2015, 2016, and 2017, respectively. These revenues consisted of registration fees for motor fuel dispensers and weighing or measuring devices collected pursuant to Section 43-3 of the General Statutes.

Comparative summaries of expenditures for Federal and Other Restricted Accounts for the fiscal years under review are presented below:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Personal Services and Employee Benefits:			
Salaries and Wages	\$2,815,264	\$2,621,482	\$2,636,888
Employee Benefits	2,256,741	2,196,306	2,264,312
All other	60,808	35,113	29,068
Total Personal Services and Employee Benefits	<u>\$5,132,813</u>	<u>\$4,852,901</u>	<u>\$4,930,268</u>
Purchased and Contracted Services:			
Information Technology	154,866	162,330	31,751
Indirect Overhead-Federal and Other Projects	1,270,141	1,743,395	1,738,662
All Other	366,465	285,984	508,880
Total Purchased and Contracted Services	<u>\$1,791,472</u>	<u>\$2,191,709</u>	<u>\$2,279,293</u>
Total Federal and Other Restricted Accounts Expenditures	<u>\$6,924,285</u>	<u>\$7,044,610</u>	<u>\$7,209,561</u>

Federal and Other Restricted Accounts are used primarily to record expenditures relating to personal services and fringe benefit costs of employees working on specific projects within the department. Federal and Other Restricted Accounts expenditures remained fairly consistent throughout the audited period.

In addition to the above expenditures, capital equipment purchases totaling \$103,850, \$8,001, and \$241,688, were paid from the Capital Equipment Purchases Fund during fiscal years 2014-2015, 2015-2016, and 2016-2017, respectively.

Fiduciary Funds

Betting Taxes Fund

DCP used this fund throughout the audited period to account for the deposit of taxes and other monies paid by pari-mutuel licensees such as off track betting facilities. Betting taxes fund activity remained relatively stable during the audited fiscal years. That activity is summarized below:

	Fiscal Year		
	2014-2015	2015-2016	2016-2017
Beginning Balance	\$ 507,931	\$ 543,745	\$ 475,891
Receipts:			
Betting Taxes	6,402,464	6,030,924	5,673,499
Total Available Cash	6,910,395	6,574,669	6,149,390
Disbursements:			
Payments to Towns	2,751,878	2,581,083	2,414,008
Transfers to the General Fund	3,614,772	3,517,695	3,358,086
Total Transfers and Expenditures	6,366,650	6,098,778	5,772,094
Ending Balance	\$ 543,745	\$ 475,891	\$ 377,296

Funds Awaiting Distribution Fund

DCP used the Funds Awaiting Distribution Fund to hold monies in a custodial capacity until the determination of their final disposition. The department used three subaccounts within its 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 8.75% of each real estate broker and salesperson licenses and fees be paid to the University of Connecticut, Center for Real Estate and Urban Economic Studies. Fees collected for real estate salespersons and broker licenses are deposited directly to the General Fund and are periodically transferred to a pending receipts account which, in turn, is transferred to the university.
2. *Real Estate Appraiser National Registration* – The department uses this account to collect annual registry fees 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* – The department uses this account for all other transactions pending resolution, such as closing out sales, license fees, fines, penalties, and settlements.

		Total	Real	Federal	All
			Estate	Appraiser	
			Licenses	Registration	
Cash Balance	July 1, 2014	\$ 120,467	\$ 0	\$ 21,769	\$ 98,698
	Receipts	1,610,495	643,408	55,525	911,562
	Disbursements	-	-	-	-
	UConn	(643,408)	(643,408)	-	-
	All Others	(980,607)	-	(55,080)	(925,527)
Cash Balance	June 30, 2015	\$ 106,947	\$ 0	\$ 22,214	\$ 84,733
	Receipts	1,189,469	648,168	52,640	488,661

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	Disbursements	-	-	-	-
	UConn	(648,168)	(648,168)	-	-
	All Others	(565,206)	-	(53,040)	(512,166)
Cash Balance	June 30, 2016	\$ 83,042	\$ 0	\$ 21,814	\$ 61,228
	Receipts	1,293,784	670,050	52,130	571,604
	Disbursements	-	-	-	-
	UConn	(445,946)	(445,946)	-	-
	All Others	(570,214)	-	(51,408)	(518,806)
Cash Balance	June 30, 2017	\$ 360,666	\$ 224,104	\$ 22,536	\$ 114,026

Guaranty Funds

The department used 5 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
Balance - July 1, 2014	\$350,000	\$500,000	\$414,929	\$37,400	\$253,981
Receipts	147,103	206,660	3,002,643	2,800	176,180
Interest	546	770	997	-	397
Restitutions	(3,512)	(7,234)	(1,183,368)	-	(265,667)
Transfer to Enforcement Account	-	-	(400,000)	-	-
Transfer to General Fund	(144,138)	(200,196)	(1,085,201)	-	-
Balance - June 30, 2015	\$350,000	\$500,000	\$750,000	\$40,200	\$164,891
Receipts	139,900	106,940	3,097,617	3,000	1,267,593
Interest	816	1,160	1,890	-	1,369
Restitutions	(656)	(5,213)	(986,658)	-	(183,817)
Transfer to Enforcement Account	-	-	(400,000)	-	(300,000)
Transfer to General Fund	(140,060)	(102,887)	(1,807,687)	-	(214,458)
Balance - June 30, 2016	\$350,000	\$500,000	\$655,161	\$43,200	\$735,579
Receipts	138,200	110,873	2,992,920	2,800	173,265
Interest	1,736	2,461	3,754	-	3,656
Restitutions	-	(3,626)	(1,355,867)	-	(195,321)
Transfer to Enforcement Account	-	-	(400,000)	-	(44,875)
Transfer to General Fund	(338,936)	(494,644)	(1,668,725)	-	(348,000)
Balance - June 30, 2017	\$151,000	\$115,064	\$227,243	\$46,000	\$324,305

Health Club Guaranty Fund

This trust fund operates under the provisions of Section 21a-226 of the General Statutes and is 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 \$500 or \$100, depending on the nature of the facility. The authorized balance of this fund is \$350,000. The fund balance of \$151,000 at June 30, 2017, did not exceed the authorized limit. When the fund is at its authorized balance, excess receipts or investment income are credited to the General Fund.

Real Estate Guaranty Fund

This trust fund operates under the provisions of Sections 20-324a through 20-324j of the General Statutes and is 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 \$20 fee paid by real estate brokers and salespersons when first registering and \$3 annual renewal fees. The authorized balance of this fund is \$500,000 and receipts or investment income earned in excess of this limit must be transferred to the General Fund. At June 30, 2017, the fund balance of \$115,064 did not exceed the authorized limit.

Home Improvement Guaranty Fund

This trust fund operates under the provisions of Section 20-432 of the General Statutes and is 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. At June 30, 2017, the fund balance of \$227,243 was below the authorized limit of \$750,000.

Itinerant Vendor Guaranty Fund

This trust fund operates under the provisions of Section 21-33b of the General Statutes and is 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 a \$200, annual fee paid by itinerant vendors. The authorized balance of this fund is \$50,000, and any receipts or investment income earned over this balance must be credited to the General Fund. At June 30, 2017, the fund balance of \$46,000 was below the authorized limit.

New Home Construction Guaranty Fund

This trust fund operates under the provisions of 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. At June 1, 2017, the fund balance of \$324,305 was well below the authorized limit of \$750,000.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Consumer Protection disclosed the following 3 recommendations, of which one has been repeated from the previous audit:

Inaccurate Accounts Receivable Reported

Background: The Department of Consumer Protection (DCP) makes payments to consumers from the guaranty funds it administers to settle complaints against contractors, real estate agents and health clubs. The department invoices the contractor, agent or club and establishes a corresponding accounts receivable. Accounts receivables are also set up for penalties imposed by boards or commissions within DCP.

The Collection Services Division of the Department of Administrative Services (DAS) assists state agencies in the collection of debts owed to the state. DCP referred delinquent accounts receivable to DAS.

Criteria: The Office of the State Comptroller (OSC) requires state agencies to maintain accounts receivable records that are accurate, complete, and indicate the time the debt has been outstanding. Furthermore, OSC requires all state agencies to report accurate accounts receivable balances and uncollectible account estimates at the end of each fiscal year on the Generally Accepted Accounting Principles (GAAP) Reporting Form - Receivables.

Section 3-7 of the General Statutes provides that the agency head can authorize the write-off of receivables under \$1,000. The agency must request approval from OPM to write off receivables over \$1,000.

Condition: Our review of accounts receivables noted that DCP referred delinquent accounts to DAS Collection Services. Many of these receivables date back several years and had little or no collection activity. During the audited period, DCP estimated that its uncollectible receivables were 40% of total receivables. This estimate is understated. In addition, DCP could not provide us with an aging schedule of accounts receivable.

Context: DCP reported \$33,496,045 in GAAP receivables at June 30, 2017, with \$13,398,418 estimated as uncollectible. At June 30, 2019, the department reported \$36,079,709 in receivables, with \$14,431,884 estimated as uncollectible.

Effect: GAAP receivables are not accurately reported.

Cause: DCP stated that GAAP reports must include all receivables sent to DAS Collection Services even if the receivables are very dated. DCP believes that the accounts are considered to be paid until DAS deems them uncollectible. Communications between DCP and DAS regarding uncollectible accounts are not effective.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Consumer Protection should improve internal controls over the accounting and reporting of its accounts receivable balances. Communication between the Department of Consumer Protection and the Department of Administrative Services should be improved to ensure timely write-off of uncollectible accounts. (See Recommendation 1.)

Auditee Response: “We agree in part with the finding that the Department of Consumer Protection should improve internal controls over the accounting and reporting of its accounts receivables and improve communications with the Department of Administrative Services to ensure timely write-off of uncollectible accounts. The department follows the guidelines of the Office of the State Comptroller’s Recommended Practice for the Management of Receivables and uses QuickBooks for the accounting and GAAP reporting of its accounts receivables. Uncollectible accounts are referred to the Department of Administrative Services Collection Services. Annually, the Department of Consumer Protection requests approval from the Office of Policy and Management to write-off uncollectible accounts with balances over \$1,000 and the Department of Consumer Protection Commissioner approves the write-off of uncollectible accounts with balances up to \$1,000. The department agrees that communications with the Department of Administrative Services Collection Services should be improved to ensure timely write-off of referred uncollectible accounts which have had no collection activity.”

Auditors’ Concluding Comment: Our review noted that some of the receivables that DCP reported as collectible lacked collection activity for many years. We consider those accounts receivable to be uncollectible.

Failure to Maintain Accurate Dealer List - Lemon Law/New Automobile Warranty

Background: The Department of Consumer Protection administers the New Automobile Warranties (NAW) Program, also known as the state's Lemon Law Arbitration Program. Vehicle dealers are required to report the sale or lease of each new motor vehicle registered as a passenger vehicle, a passenger and commercial vehicle (combination motor vehicle registration) or a motorcycle to DCP, and submit a corresponding \$3 payment. The Department of Motor Vehicles (DMV) maintains a list of active vehicle dealers.

Criteria: Section 42-190 of General Statutes provides NAW program details and requires a \$3 surcharge for each new motor vehicle and motorcycle leased or sold in Connecticut. This surcharge is collected by Connecticut dealers and deposited into an account administered by DCP to fund the department's Lemon Law Arbitration Program. Under the law, DCP acts as the arbitrator between the vehicle manufacturer and the consumer.

Condition: Our review of the DCP database and the DMV active licensed dealers list disclosed that DCP did not receive surcharge payments from several Connecticut dealers. Our examination revealed the following:

- Ten dealers listed as lapsed in the DCP database were contacted to confirm their status. Six of the 10 dealers responded that they were still active.
- Twenty-two dealers listed as active with DMV were missing from the DCP database and have not submitted surcharge payments to DCP.
- Eight dealers listed as active with DMV were listed as inactive in the DCP database and have not submitted surcharge payments to DCP.

Effect: DCP failed to maximize funding of the Lemon Law Arbitration Program.

Cause: The department cited a lack of resources and staffing issues as contributing factors to its incomplete listing of new automobile and motorcycle dealers.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Consumer Protection should develop a procedure to update the new vehicle dealer list. The department should review the updated list and identify any dealers that have not paid surcharges under the New Automobile Warranties Program. The department should audit all dealers that fail to submit such surcharges to determine whether surcharge payments are due. (See Recommendation 2.)

Auditee Response: “We agree in part with the recommendation that DCP develop a procedure to update and review dealership lists and to audit dealers that fail to submit surcharge payments. Although, DCP did not conduct dealer audits on a regular basis during the audited period, in 2018, DCP created a roster of dealers based on license lists from DMV and used that list to identify and audit dealers with suspicious or missing payments. As part of this process, DCP’s licensing system was updated to include the additional dealer information, which, together with the hiring of a paralegal, will help with future audits.”

Software Inventory Deficiencies

Background: The Department of Consumer Protection is responsible for maintaining software records and performing software inventory procedures.

Criteria: Section 4-36 of the General Statutes requires each state agency to maintain inventory records in the manner prescribed by the State Comptroller. The State Property Control Manual provides further guidance by establishing agency responsibilities for accounting and reporting of state assets, including maintaining a software control system. The manual includes control policies and procedures and specifies required data to be recorded in inventory records.

Condition: The department’s software inventory records did not contain all of the information required by the State Property Control Manual. The records were missing assigned identification numbers, software versions, serial/registration numbers, initial installation dates, and costs. Also, the software inventory records did not include some of the department’s current software. Furthermore, the department did not have disposal documentation for software no longer in use.

Effect: The lack of proper accountability increases the risk that software may be lost, stolen, or improperly used.

Cause: The department has not completed its ongoing upgrade of the software inventory.

Prior Audit Finding: This finding was previously reported in the last audit report covering fiscal years 2011-2012 to 2013-2014.

Recommendation: The Department of Consumer Protection should continue to improve controls over software inventories and ensure that its inventory listing contains all information required by the State Property Control Manual. (See Recommendation 3.)

Auditee Response: “We agree in part with the recommendation to continue to improve controls over software inventory and to meet the requirements contained in the State Property Control Manual and will continue to follow the lead and guidance of the statewide Bureau of Enterprise Systems and Technology (BEST).”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Department of Consumer Protection contained 6 recommendations. Five have been implemented or otherwise resolved and 1 has been restated with modifications during the current audit.

- The Department of Consumer Protection should comply with Section 4-32 of the General Statutes and deposit receipts in a timely manner. Supporting documentation should be retained in accordance with the state's records retention schedule and kept available for audit. **We are not repeating this recommendation.**
- The Department of Consumer Protection should work with the Department of Administrative Services to ensure that all asset items are accurately recorded, tagged, and agree to the records maintained in the Core-CT Asset Management Module. DCP should maintain inventory records of ammunition in its possession. **This recommendation has been resolved.**
- The Department of Consumer Protection should comply with the software inventory requirements contained in the State Property Control Manual. Records should contain sufficient supporting documentation, and an annual physical inventory of software must be performed and reconciled. **Software inventory is not up to date and lacks required details. This recommendation is repeated. (See Recommendation 3.)**
- The Department of Consumer Protection must improve controls over the completion, review, and retention of payroll and personnel records. In addition, employee separation procedures must include termination of access to the Core-CT system. **This recommendation is not repeated.**
- The Department of Consumer Protection should require all employees with assigned state vehicles to submit driver's licenses to verify that they are properly licensed to operate motor vehicles. **The department implemented procedures to verify that employee motor vehicle licenses are current. The recommendation is resolved.**
- The Department of Consumer Protection should comply with Section 7-185b, subsection (b) of the General Statutes by formalizing the regulations governing tuition raffles. **Legislation removed the responsibility for tuition raffles from the department and assigned it to the municipalities. This recommendation is resolved.**

Current Audit Recommendations:

- 1. The Department of Consumer Protection should improve internal controls over the accounting and reporting of its accounts receivable balances. Communication between the Department of Consumer Protection and the Department of Administrative Services should be improved to ensure timely write-off of uncollectible accounts.**

Comment:

The department's accounts receivable records included many stale accounts with limited or no collection activity. DCP did not promptly write off uncollectible receivables.

- 2. The Department of Consumer Protection should develop a procedure to update the new vehicle dealer list. The department should review the updated list and identify any dealers that have not paid surcharges under the New Automobile Warranties Program. The department should audit all dealers that fail to submit such surcharges to determine whether surcharge payments are due.**

Comment:

The department did not collect surcharge payments from several Connecticut automobile and motorcycle dealers as required for the administration of the Lemon Law Program.

- 3. The Department of Consumer Protection should continue to improve controls over software inventories and ensure that its inventory listing contains all information required by the State Property Control Manual.**

Comment:

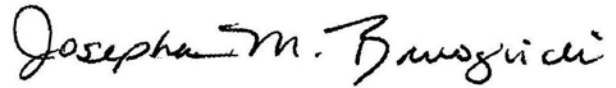
The department did not comply with the State Comptroller inventory requirements. The department's software inventory lacked identifying serial and registration numbers. Also, the department did not retain disposal documentation.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Consumer Protection during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

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Approved:



John C. Geragosian
State Auditor



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State Auditor