

STATE OF CONNECTICUT



***AUDITORS' REPORT
DEPARTMENT OF ENVIRONMENTAL PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005***

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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July 3, 2007

**AUDITORS' REPORT
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We have made an examination of the financial records of the Department of Environmental Protection as they pertain to the Agency's departmental operations for the fiscal years ended June 30, 2004 and 2005. We have also included in our examination, the Council of Environmental Quality, the Connecticut Council on Soil and Water Conservation, the Connecticut River Gateway Commission and the Connecticut Emergency Response Commission. This report thereon consists of the Comments, Recommendations and Certification which follow.

Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Department of Environmental Protection's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Environmental Protection (DEP) operates under the provisions of Titles 22a, 23, 24, 25 and 26 of the General Statutes. The DEP has jurisdiction over all matters relating to the preservation and protection of the air, water and other natural resources of the State of Connecticut. The principal areas of operation, stated in terms of broad purpose, are as follows:

1. Conservation of land and water resources
2. Parks and recreation
3. Fish and wildlife
4. Water resource management
5. Solid waste management
6. Air and water pollution
7. Geological survey

The two major branches of the Department are Conservation and Preservation and Environmental Quality. The Conservation and Preservation Branch is concerned primarily with our natural resources represented by open spaces and underdeveloped land areas, fish life, streams and coastal areas and State-owned parks and forests. The Environmental Quality Branch's chief purpose is to maintain and improve the quality of the air, land and water resources of the State by preventing any pollution or mismanagement thereof by private, public or business interests.

Arthur J. Rocque, Jr. served as Commissioner until October 1, 2004. Regina A. McCarthy was appointed Commissioner on December 10, 2004, and continues to serve in that capacity.

The following entities are associated with the DEP:

Council on Environmental Quality:

Statutory Authority	Sections 22a-11 through 22a-13
Relation to DEP	Within the DEP for administrative purposes only.
Number of Members	Nine
Duties	The Council must annually submit an environmental quality report to the Governor. The Council may require all State agencies to submit to it all plans for construction of facilities, buildings, or paving for advisory review and comment with respect to the effects of such projects on the environment. It is also empowered to receive and investigate citizen complaints which may allege that the environment is being harmed and to refer such matters to the appropriate regulatory agency for action.
Executive Director	Karl J. Wagener
Receipts	There were no receipts in either fiscal year under review.
Expenditures	\$30,474 in fiscal year 2003-2004 and \$67,249 in fiscal year 2004-2005

Connecticut Council on Soil and Water Conservation:

Statutory Authority	Section 22a-315
Relation to DEP	Within the DEP for administrative purposes only.
Number of Members	Nine
Duties	The Council's primary objective is to coordinate the activities of the five Soil and Water Conservation Districts established by the Commissioner of the DEP, pursuant to Section 22a-315, with other State, regional and local agencies in the fields of soil and water conservation.
Receipts	None
Expenditures	None

Connecticut River Gateway Commission:

Statutory Authority	Sections 25-102d through 25-102l
Relation to DEP	Within the DEP for administrative purposes only.

Number of Members	11
Duties	The Commission's two basic responsibilities are the review and approval or disapproval of local land use controls and changes therein which affect property in the Conservation Zone, and the selection and recommendation to the Commissioner of DEP, of up to 2,500 acres of land within the Gateway Conservation Zone for less than fee acquisition by the State. A conservation fund was subsequently established particularly for the acquisition of land.
Receipts	None
Expenditures	None

Connecticut Emergency Response Commission:

Statutory Authority	Sections 22a-600 through 22a-611
Relation to DEP	Within the DEP for all purposes
Number of Members	19
Duties	The Commission shall implement the provisions of the Emergency Planning and Community Right-to-Know Act and shall designate local planning districts.
Receipts	None
Expenditures	None

RÉSUMÉ OF OPERATIONS:

During the fiscal years ended June 30, 2004 and 2005, DEP activity was accounted for in the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds (civil list funds) and Fiduciary Funds. These funds are discussed in more detail in the sections that follow.

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of two new special revenue funds relative to grants and restricted accounts. One of these funds established by the State Comptroller during the 2003-2004 fiscal year is the "Grants and Restricted Accounts Fund" (12060) to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund. Thus, starting with the Fiscal Year ended June 30, 2004, Federal grants and other restricted funds that were formerly accounted for in the General Fund have been reclassified into this newly established special revenue fund.

A summary of revenue and expenditures in civil list funds during the audited period is shown below:

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>
General Fund	\$ 8,094,601	\$ 7,436,433	\$34,646,605	\$35,221,245
Special Revenue Funds	78,768,801	85,465,276	92,018,722	100,204,076
Capital and Non Capital Project Funds	0	0	10,284,984	9,225,113
Enterprise Funds	<u>2,583,765</u>	<u>16,608,037</u>	<u>82,405,483</u>	<u>60,343,718</u>
Total Civil List Funds	<u>\$89,447,167</u>	<u>\$109,509,746</u>	<u>\$219,355,794</u>	<u>\$204,994,152</u>

GENERAL FUND:

General Fund receipts are summarized below:

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Receipt Type:			
Hunting and Fishing	\$ 2,388,788	\$ 2,305,772	\$ 2,270,129
Air, water and waste compliance	1,013,307	1,478,127	1,055,506
Civil penalties and fines	3,128,636	1,676,674	2,077,151
Federal	20,193,645	0	0
Other grants and donations	12,246,640	0	0
Sales and rent	1,956,970	2,632,509	2,032,314
Refunds of expenditures	667,001	18	0
Other	<u>8,543</u>	<u>1,501</u>	<u>1,333</u>
Total General Fund Receipts	<u>\$ 41,603,530</u>	<u>\$ 8,094,601</u>	<u>\$ 7,436,433</u>

Total receipts decreased by \$33,508,929 and \$658,168 during the 2003-2004 and 2004-2005 fiscal years, respectively. The decrease in General Fund receipts during the fiscal year ended June 30, 2004, was primarily the result of a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, receipts formerly credited to the General Fund were credited to a newly established special revenue fund.

General Fund expenditures are summarized below:

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Budgeted Accounts:			
Employee Services and Fringe Benefits	\$ 33,178,354	\$ 28,802,651	\$ 30,165,096
Employee Expenses, Allowances And Fees	37,778	62,069	73,868
Purchased and Contracted Services Motor Vehicle/Aircraft/Watercraft Costs	1,450,576	729,107	1,426,209
Premises and Property Expenses	704,538	790,743	943,414
Information and Technology	1,229,229	1,359,073	1,338,857
Purchases Commodities	667,200	545,362	398,519
Other Expenses	106,539	137,483	143,315
Grants-In-Aid	85,649	43,724	35
Capital Outlay	3,145,732	2,038,852	702,457
Adjustments Revolving Fund Operations	122,365	65,479	28,852
Prior Year Expenditure Adjustments	0	26,291	623
Total Budgeted Accounts	<u>40,727,960</u>	<u>34,646,605</u>	<u>35,221,245</u>
Restricted Accounts:			
Federal	27,091,674	0	0
Other than Federal	<u>10,238,051</u>	<u>0</u>	<u>0</u>
Total Restricted Accounts	<u>37,329,725</u>	<u>0</u>	<u>0</u>
Total General Fund Expenditures	<u>\$ 78,057,685</u>	<u>\$ 34,646,605</u>	<u>\$ 35,221,245</u>

General Fund Budgeted Accounts expenditures decreased by \$6,081,355 and then increased by \$574,640 in the fiscal years ended June 30, 2004 and 2005, respectively. The primary reasons for the decrease of expenditures noted in the 2003-2004 fiscal year are that Employee Services and Fringe Benefits, Grants-In-Aid, and Purchased and Contracted Services decreased \$4,375,703, \$1,106,880, and \$721,469, respectively.

Due to a change in accounting procedures resulting from the implementation of a new State system explained above, restricted accounts previously reported in the General Fund are now reclassified into a newly established special revenue fund entitled "Grants and Restricted Accounts Fund."

SPECIAL REVENUE FUNDS:

During the audited period the DEP utilized eight special revenue funds established to account for expenditures of revenues that have been restricted to specific programs. A summary of revenues and expenditures for all special revenue funds follows. Comments concerning the three largest funds follow this schedule and special revenue funds for grants are discussed in a later section.

Fund:	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>
Environmental Quality	\$ 21,615,288	\$ 26,578,637	\$ 20,657,710	\$ 30,613,451
Conservation	14,476,165	14,640,223	8,790,772	9,131,319
Inter Agency/Intra Agency				
Grants – Tax Exempt Proceeds	0	0	0	4,536
Capital Equipment Purchase	27,950	26,895	425,215	669,749
Grants to Local Governments				
And Others	0	0	23,117,547	17,871,635
Economic Development And				
Other Grants	0	0	34,682	32,218
Special Contaminated Property				
Remediation and Insurance Fund	59,250	0	390,158	78,762
Grants and Restricted				
Accounts Fund	<u>42,590,148</u>	<u>44,219,521</u>	<u>38,602,638</u>	<u>41,802,406</u>
Total Special Revenue Funds	<u>\$78,768,801</u>	<u>\$85,465,276</u>	<u>\$92,018,722</u>	<u>\$100,204,076</u>

Environmental Quality Fund:

The Environmental Quality Fund operates under Section 22a-27g of the General Statutes. The Fund is used by the DEP for the administration of the central office and environmental quality programs authorized by the General Statutes.

Environmental Quality Fund revenue and expenditures are summarized below.

Revenue:	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Petroleum company assessments	\$ 8,000,000	\$ 9,000,000	\$ 12,000,000
Air, water and waste compliance	6,989,012	12,233,342	13,424,036
Accrued Tax Receipts	3,435,667	0	0
Fines and penalties	3,000	0	0
Refunds of Expenditures	1,032,708	0	0
Other	<u>368,664</u>	<u>381,946</u>	<u>1,154,600</u>
Total Revenue	<u>\$ 19,829,051</u>	<u>\$ 21,615,288</u>	<u>\$ 26,578,636</u>

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Expenditures:			
Employee Services and Fringe			
Benefits	\$ 14,502,110	\$ 15,454,785	\$ 17,172,362
Employee Expenses, Allowances			
And Fees	23,542	25,959	104,001
Purchased and Contracted Services	1,552,095	1,986,053	2,525,277
Motor Vehicle/Aircraft/Watercraft			
Costs	284,367	241,736	331,462
Premises and Property Expenses	100,643	35,883	36,698
Information and Technology	937,541	460,308	715,119
Purchases Commodities	216,701	562,083	241,579
Other Expenses	12,293,759	1,018,113	8,850,244
Grants-In-Aid	329,695	714,572	553,450
Capital Outlay	486,993	152,449	83,259
Adjustments Revolving Fund			
Operations	<u>0</u>	<u>5,769</u>	<u>0</u>
Total Expenditures	<u>\$30,727,446</u>	<u>\$20,657,710</u>	<u>\$30,613,451</u>

Total revenue increased by \$1,786,237 and \$4,963,348 during the 2003-2004 and 2004-2005 fiscal years, respectively. The increases in revenue are primarily due to the petroleum company assessments revenue. The Comptroller credits the clean-up account at the DEP by revenue transfer in accordance with General Statute 22a-449 subsection (b).

Total expenditures decreased \$10,069,736 during the 2003-2004 fiscal year and then increased \$9,955,741 in the 2004-2005 fiscal year. The fluctuation in expenditures is primarily due to claims for reimbursement for the Underground Storage Tank Petroleum Cleanup Program.

State Comptroller records indicate that Fund assets totaled \$67,091,484 on June 30, 2005.

Conservation Fund:

The Conservation Fund operates under Section 22a-27h of the General Statutes. The Fund is to be used by the DEP for the administration of the central office and conservation and preservation programs authorized by the General Statutes.

Conservation Fund revenue and expenditure totals are presented below:

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Revenue:			
Hunting and fishing	\$ 2,393,660	\$ 2,951,059	\$ 2,976,229
Vessel registration fees	5,562,152	5,680,281	5,725,733
Sales and rent	3,499,773	3,370,249	3,693,267
Other	<u>2,435,926</u>	<u>2,474,576</u>	<u>2,244,994</u>
Total Revenue	<u>\$ 13,891,511</u>	<u>\$ 14,476,165</u>	<u>\$ 14,640,223</u>

Auditors of Public Accounts

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Expenditures:			
Employee Services and Fringe			
Benefits	\$ 5,611,649	\$ 5,593,185	\$ 5,827,193
Employee Expenses, Allowances And Fees	21,321	35,130	60,856
Purchased and Contracted Services	1,208,767	1,024,330	985,499
Motor Vehicle/Aircraft/Watercraft Costs	835,255	360,951	419,786
Premises and Property Expenses	644,420	575,858	600,539
Information and Technology	270,051	133,844	224,682
Purchases Commodities	256,340	247,088	745,387
Other Expenses	0	27,325	-372,266
Grants-In-Aid	191,933	284,025	232,242
Capital Outlay	476,516	451,853	407,531
Adjustments Revolving Fund			
Operations	0	57,052	
Prior Year Expenditure Adjustment	<u>0</u>	<u>130</u>	<u>(130)</u>
Total Expenditures	<u>\$9,516,252</u>	<u>\$8,790,771</u>	<u>\$9,131,319</u>

Total revenue increased by \$584,654 and \$164,058, respectively during the 2003-2004 and 2004-2005 fiscal years. Revenue increases reflected in the 2003-2004 fiscal year can primarily be attributed to increased revenue in hunting and fishing licenses and permits receipts. During the 2004-2005 fiscal year, although total revenue shows a net increase of \$164,058, revenue fluctuations in several revenue accounts contributed to this increase. Increases were noted in the camps and parks revenue as well as increases in fees for fish and game licenses, permits and tags and vessel registration fees. These increases were partially offset by the reduction noted in the "Other" classification and were primarily in land use application fee receipts.

Total expenditures decreased by \$725,481 and then increased by \$340,548 in the 2003-2004 and 2004-2005 fiscal years, respectively.

State Comptroller records indicate that Fund assets totaled \$25,755,256 on June 20, 2005.

Grants and Restricted Accounts Fund:

This Fund was established with the passage of Public Act 04-2 of the May Special Session of the General Assembly. The purpose of the Fund is to account for certain Federal and other revenue that are restricted from general use and were previously accounted for in the General Fund as "Federal and Other Grants."

During the period under review the Department utilized 32 restricted accounts other than Federal. The largest accounts were the Clean Air Act Account, which operates under Section 14-49b of the General Statutes and the Stationary Air Emissions Monitoring Account. The DEP also charged expenditures to this Fund for 85 Federal programs. The largest Federal programs

were related to sport fishing; wildlife restoration; air pollution control; air, water, and waste management; and Performance Partnership Grants. In addition, to activity recorded in the Grants and Restricted Accounts Fund, Federal funds were also deposited in the Federal account of the Clean Water Fund. (See additional comments under the Clean Water Fund section of this report.)

Revenues deposited to this Fund were \$42,590,148 and \$44,219,521 for the fiscal years ended June 30, 2004 and 2005, respectively, as compared to \$32,440,305 for the 2002-2003 fiscal year which was deposited in the State General Fund. The primary reason for the increase of revenue can be attributed to increases in revenue for Federal Aid Restricted.

Expenditures charged to this Fund for the 2003-2004 and 2004-2005 fiscal years were \$38,602,638 and \$41,802,406, respectively. During the 2002-2003 fiscal years restricted accounts expenditures were \$37,329,725 and were charged to the State General Fund.

Grants to Local Governments and Others:

The Grants to Local Governments and Others is a fund that is used by various State Departments to account for bond authorizations for grants to local governments, organizations, and individuals. In both the 2003-2004 and 2004-2005 fiscal years the majority of expenditures made were for acquisition for open space conservation/recreation, grants for hazardous waste, recycling facilities, and/or landfills and grants for the residential underground storage tank program.

ENTERPRISE FUNDS:

Clean Water Fund:

The Clean Water Fund operates under the provisions of Section 22a-475 through 22a-483 of the General Statutes. This Fund is to be used for grants and/or loans for research; planning and construction of water quality projects; and, improvements to the Long Island Sound area.

In accordance with Section 22a-477, this Fund was divided into five separate accounts. These accounts are the water pollution control Federal revolving loan account, the water pollution control State account, the Long Island Sound clean-up account, a drinking water Federal revolving loan account, and a drinking water State account. These accounts are identified by the State Comptroller as five separate Enterprise Funds: the State Account, the Federal Account, the Long Island Sound Account, the Drinking Water State Account and the Drinking Water Federal Account.

Clean Water Fund revenue and expenditure totals are presented below:

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>
State Account:				
DEP	\$ 0	\$ 0	\$ 2,253,794	\$ 2,492,404
Office of the State Treasurer	<u>776,485</u>	<u>624,078</u>	<u>14,100,210</u>	<u>15,185,896</u>
Total State Account	<u>776,485</u>	<u>624,078</u>	<u>16,354,004</u>	<u>17,678,300</u>
Federal Account:				
DEP	1,713,604	15,136,554	0	1,050
Office of the State Treasurer	<u>1,491,775</u>	<u>462,093</u>	<u>48,928,896</u>	<u>38,994,448</u>
Total Federal Account	<u>3,205,379</u>	<u>15,598,647</u>	<u>48,928,896</u>	<u>38,995,498</u>
Long Island Sound Account:				
Office of the State Treasurer	<u>(1,503,291)</u>	<u>386,983</u>	<u>5,409,851</u>	<u>3,533,817</u>
Total Long Island Sound Account	<u>(1,503,291)</u>	<u>386,983</u>	<u>5,409,851</u>	<u>3,533,817</u>
Drinking Water State Account				
Office of the State Treasurer	<u>46</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Drinking Water State Account	<u>46</u>	<u>0</u>	<u>0</u>	<u>0</u>
Drinking Water Federal Loan Account:				
Office of the State Treasurer	<u>105,146</u>	<u>(1,671)</u>	<u>11,712,732</u>	<u>136,104</u>
Total Drinking Water Federal Loan Account	<u>105,146</u>	<u>(1,671)</u>	<u>11,712,732</u>	<u>136,104</u>
Total Clean Water Fund	<u>\$2,583,765</u>	<u>\$16,608,037</u>	<u>\$82,405,483</u>	<u>\$60,343,719</u>

Receipts of the Clean Water Fund were primarily from Federal grants and the sale of bonds. Expenditures were mainly for grants to municipalities for the construction, expansion or improvement of wastewater treatment facilities, loans and administrative expenses. For the period under review, an independent public accountant audited the Federal Account and Drinking Water Account.

Total Clean Water Fund revenues decreased \$31,082,104 from the 2002 – 2003 fiscal year total of \$33,665,869 to the 2003 – 2004 fiscal year total of \$2,583,765. This was primarily due to decreases in revenue of \$16,179,108 and \$13,626,607 reflected in the Federal Account and Drinking Water Federal Loan Account, respectively.

During the 2004 – 2005 fiscal year, Clean Water Fund revenue increased \$14,024, 272 to the 2004 – 2005 fiscal year total of \$16,608,037. This can be attributed to an increase in Federal Account revenue.

Total expenditures charged to the Clean Water Fund decreased \$14,803,497 from the 2002 – 2003 total of \$97,208,980 to the 2003 – 2004 total of \$82,405,483 and then decreased \$22,061,764 to the 2004 – 2005 total of \$60,343,719. These decreases can be attributed to the decrease in expenditures for both grants and loans.

CAPITAL PROJECTS FUNDS:

Expenditures from capital projects funds totaled \$10,284,984 and \$9,225,113 in the fiscal years ended June 30, 2004 and 2005, respectively, as compared to \$38,242,705 in the 2002-2003 fiscal year. The large decrease in expenditures noted in the 2003-2004 fiscal year can primarily be attributed to the decrease in expenditures for land purchases and related costs. These expenditures decreased from \$29,651,301 in the 2002-2003 fiscal year to \$5,851,093 and \$4,868,019 in the 2003-2004 and 2004-2005 fiscal years, respectively. Other expenditures were mainly for improvements to State parks, dam repairs and flood and erosion control projects, repairs to State owned dams, and improvements to fish hatcheries. In addition to expenditures charged for capital projects, expenditures were also charged to capital project funds for personal services and other expenditures.

TRUST FUNDS:

During the audited period the DEP exercised custody over trust funds that are described below:

Fund	Purpose
Culpeper	Repair and restoration of facilities at the American Shakespeare Theater State Park
Eastern Tribe Pequot Indians	To be expended in accordance with the direction of the Department, with the advice of the Indian Affairs Council, as provided for by Section 47-66 of the General Statutes
James L. Goodwin	Educational activities and maintenance of the buildings and grounds of the James L. Goodwin Center
Hopemead	Development of property previously conveyed to the State
Kellogg	Support and maintain Kellogg Environmental Center and the Osborndale State Park
Topsmead	Maintain the devisor's former summer residence and the land surrounding the residence, which were also bequeathed to the State. The property has been

named Topsmead State Forest in accordance with the terms of the will.

Wagner-Firestone

This Fund is for the maintenance of a bird and game sanctuary on property in Lyme and East Haddam.

Flora Werner

Benefit of the real estate devised to the State

John J. White and White
Memorial Foundation

Maintain wildlife sanctuaries

Receipts, disbursements and fund balances per agency records follow:

Fund:	<u>July 1, 2003 through June 30, 2005</u>		<u>Fund Balance*</u>
	<u>Receipts</u>	<u>Disbursements</u>	<u>June 30, 2005</u>
Culpeper	\$ 1,339	\$ 96,784	\$ 17,354
James L. Goodwin	8,151		240,677
Hopemead	394,423	203,315	2,089,961
Kellogg	593,671	630,000	914,617
Eastern Tribe Pequot Indians	1,017		30,015
Topsmead	914,405	700,511	2,007,060
Wagner-Firestone	5,986		176,750
Flora Werner	12,324		363,928
John J. White and White Memorial Foundation	<u>1,542,354</u>	<u>1,421,587</u>	<u>3,051,247</u>
Total	<u>\$3,473,670</u>	<u>\$3,052,197</u>	<u>\$8,891,609</u>

*investments at market value

Note – The fund balances for the James L. Goodwin and Kellogg funds do not include investments held by trustees other than the State of Connecticut.

During the period under review, the resources of all but one of these trust funds were administered by the DEP; the State Treasurer administered the Hopemead State Park Fund.

CONDITION OF RECORDS

We found various areas in need of attention and corrective actions. These areas are described in the following sections:

Accounts Receivable – Cost Recovery System:

Criteria: In accordance with Section 22a-451, subsection (a), of the General Statutes, the DEP funds emergency cleanup of spills. If a responsible party is identified, the DEP bills the responsible party for any payments made by the DEP on the spillcase. If unpaid within the specified time period and applicable, an allowable administrative, recovery and interest charge may also be assessed.

Section 22a-452a, subsection (a), requires that for spillcases for which repayment is not received, liens are to be executed against the real property on which the spill occurred or from which it emanated.

The DEP's cost recovery procedures for emergency spills require the DEP to first negotiate with the responsible party in an effort to collect all remediation costs and send a first demand letter within 45 days of the DEP having paid an invoice.

Court ordered judgments and agreed upon payment plans should be enforced. According to the Unit's procedures, the system has in place a query which identifies payment plans in default and delinquent accounts and this query should be run monthly to determine if the responsible party is maintaining their payment schedule.

Condition: Our review of the Department of Environmental Protection's Cost Recovery System revealed the areas of concern which are detailed below.

Our review of six spillcases, for which a first demand letter was sent, disclosed that the first demand letters for three spillcases were not sent within the 45 days of a known responsible party or DEP having paid an invoice. These three first demand letters were sent between 37 and 90 days after the required time period.

Our review of the repayment schedules revealed that the Billings and Repayment reports were not automatically updated when payments were received and were not always in agreement with the Billings and Delinquency reports. For 16 cases reviewed, we noted that six cases were inconsistent between the Billing and Repayment report and the case file's supporting documentation. In addition, we noted that 11 cases had payments in arrears.

We again noted that the Unit still does not have standard written procedures for the placement of liens. What the Department does is to review each case individually for potential lien placement. As of January 12, 2006, the Unit determined that 95 cases are potential lien candidates and 30 have been referred to the Attorney General's Environmental Unit. However, as of that date, there were only 11 property liens in place for the approximately 1,900 spillcases on the system.

Effect: Information contained on the Cost Recovery System could not be relied upon in all cases.

The collection of receipts is delayed if demand letters are not sent in a timely manner, and judgments are not being enforced.

Since liens are not being placed against the property, there is no incentive for the responsible party to pay the outstanding amounts owed.

Cause: The Cost Recovery System contained programming errors that led to inconsistent reporting.

Due to staffing constraints, the Department of Administrative Services could not perform title searches for the DEP which caused a delay in the placing of liens.

In certain cases, demand letters were not sent according to stated procedures due to additional information being received on the responsible party and/or a delay in processing information in order to bill the responsible party.

Recommendation: The Department should update and/or follow existing procedures for the cost recovery of emergency spillcase accounts receivable. These procedures should include the maintenance of accurate and updated records. (See Recommendation 1)

Agency Response: "The Department agrees with this recommendation, and will take the necessary steps to address the findings. The Department has already drafted a formal written procedure for placement of liens, which will be implemented shortly to address that specific issue."

Cancellation of Receivables:

Criteria: Section 3-7 of the General Statutes states that any uncollectible costs in an amount less than \$5,000 incurred by the Commissioner of Environmental Protection pursuant to Section 22a-451 of the General Statutes, for investigating, containing, removing, monitoring or mitigating pollution and contamination, emergency or hazardous waste may be cancelled by the Commissioner, in accordance with procedures approved by the State Comptroller.

Condition We noted that nine cases had amounts written-off without the proper authorization. Eight cases were changed to Closed Settled after final payments had been received. For these eight cases, which were each under \$25, an internal write-off was done to close the balances, due to a programming error in the system and a misinterpretation of Comptroller Memorandum No. 2000-15. The ninth case was manually changed to Closed Settled with an internal write-off done in the amount of \$964.67.

We also noted that for 12 cases, the case statuses were manually changed by the Unit or through a change in the case due to later information inputted to the case file. This led to the erroneous reporting of these cases on the YTD Environmental Cleanups Cancelled as Uncollectible (GEN-008) report.

Effect: The YTD Environmental Cleanups Cancelled as Uncollectible (GEN-008) report could not be relied upon as received.

Cause: The Unit was manually changing case statuses, or other information which caused the case status to change, and which led the system to incorrectly report these cases and/or cancel cases in error. In addition, due to an erroneous misinterpretation of the Comptroller Memorandum and the subsequent programming error, the computer automatically allowed for canceling cases with balances of \$25 or less.

Recommendation: The Department should follow proper procedures and steps as set up in the Cost Recovery System to process the cancellation of receivables. A programming change should be made to the automated system to correct the flagging of amounts of \$25 or less for automatic cancellation. (See Recommendation 2)

Agency Response: “The Department agrees with this recommendation, and will take the necessary steps to address the findings. The Department has drafted a formal written procedure to specifically address the cancellation of uncollectible costs, and will work with the IT Office to make necessary programming changes to the existing Cost Recovery System as recommended.”

Equipment Inventory and Reporting:

Criteria: Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller and an annual report of all property in the custody of the Department having a value of \$1,000 or more must be reported annually.

The State of Connecticut’s Property Control Manual prescribes procedures for the maintenance of equipment inventory records. It also states that changes of property, as recorded in the Property System, must be reconciled annually with the respective official records maintained by the

Comptroller. In addition, the manual mandates that a physical inventory be performed for the end of each fiscal year.

The Department's Directive 5421 D1 requires that the "Equipment Inventory Change Request" form be completed for transfers between bureaus. In addition, the Directive indicates that prior approval is required before disposing of any equipment.

Condition:

Our review of the Department's inventory control systems and the CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2004 and 2005, revealed numerous deficiencies as follows:

- Five of the 25 items selected for physical inspection were not found, and two of the 25 items were not in the location shown on the inventory report. The five items not found may have been disposed of without proper authorization.
- Our review of 25 equipment purchase transactions representing 115 items revealed that one item with a cost of \$2,815 was not added to the inventory system and 81 items with a total cost of approximately \$66,700 were inappropriately charged to capital equipment accounts. In addition, six items were overstated on the inventory by approximately \$6,400.
- Our review of perpetual inventory records for supplies indicated incorrect balances for 18 of the 20 items counted.
- The works of art and historical treasures balances reported on the CO-59 for the fiscal years ended June 30, 2004 and 2005, still contained unsupported adjustments of approximately \$497,000 that were identified in our prior audit.
- The Department recreated their inventory of land records without reconciling to the Comptroller's records. As a result, there were unsupported deletions to the land valuation of \$125,913,758 reported on the CO-59 for the fiscal year ended June 30, 2005, and the number of acres reported reflected an unsupported decrease of 10,125 acres. In addition, the ending balance of the land valuation was overstated by \$99 and the acreage was understated by 1,800 acres.
- The amounts reported on the CO-59 for the fiscal years ended June 30, 2004 and 2005, for the store inventory were incomplete and inaccurate. In addition, we found that the inventory system is unreliable due to various discrepancies noted during our review.
- The Department reported certain equipment inappropriately in the automobiles and boats categories. Vehicles requiring registration with the Department of Motor Vehicles are to be reported in the

automobiles category. However, equipment that does not require registration is being inappropriately reported in the automobile category and in some cases, the cost is under the capitalization threshold of \$1,000.

- Equipment and automobile additions on the CO-59 were not adequately supported for the fiscal years ended June 30, 2004 and 2005. Equipment deletions reported were not adequately supported in the fiscal year ended June 30, 2004.
- Our prior audit identified equipment totaling approximately \$32,000 which was not recorded on the inventory system. This equipment still has not been recorded.
- A physical inventory was not performed for the fiscal year ended June 30, 2005.
- As noted in our prior audit numerous painting and other historical treasures were again not shown on any inventory listing. The Department still has not performed a complete inventory of its artwork nor have loss reports been filed for items previously noted as missing.

Effect: The CO-59 report cannot be relied upon for accuracy. Incorrect figures were used in the Comptroller's financial reports.

Internal controls over agency property are weakened. Therefore, property may be prone to theft.

Cause: The DEP did not reconcile inventory reports to expenditure reports or other source documents to help ensure the accuracy of amounts reported on the CO-59.

The Department does not typically follow its procedures by completing the "Equipment Inventory Change Request" form when transferring property.

Counts of the supplies inventory were not frequently conducted.

Recommendation: The Department should maintain and reconcile inventory records as prescribed by the State of Connecticut's Property Control Manual. Controls over the transfer and disposal of property should be strengthened. Physical inventories should be performed annually or more frequently, if needed. (See Recommendation 3.)

Agency Response: "The Department agrees with the recommendation and is taking the necessary steps to maintain inventory records as required by the State's Property Control Manual."

Store Merchandise Inventory:

Criteria: Section 4-36 of the General Statutes requires that all State agencies keep an account of their inventory as prescribed by the State Comptroller. Each State agency is also required to report annually to the Comptroller the value of their inventory as of June thirtieth.

Chapter 3 of the State of Connecticut's Property Control Manual (The Manual) entitled "Fixed Assets/Property Inventory Report, The GAAP Inventory Reporting Form", requires that a complete physical inventory of all property must be taken at the end of the fiscal year (June 30th) to ensure that property control records accurately reflect the actual inventory on hand within the fiscal year. The Manual further states that a perpetual inventory can be maintained either electronically or manually. If a manual inventory is kept then "a subsidiary record card is used for each type of merchandise on hand. If the agency has in stock 100 different kinds of products then 100 inventory record cards will make up the subsidiary inventory record."

Chapter 6 of the State of Connecticut Property Control Manual entitled "Maintaining the Property Control System" states that when conducting a physical inventory "All internally prepared property control accounting records, and other related property management data, shall be reconciled to the agency based property control system to ensure the accounting data maintained is valid. The format used for the reconciliation should establish an 'audit trail' so that the reconciliation can be traced to the source documents."

It is an important internal control and sound business practice for the administration of a retail store to maintain an accurate perpetual inventory.

Section 4a-57a of the General Statutes authorizes the Commissioner of Administrative Services to set up a program to dispose of surplus inventory. Chapter 8 of the State of Connecticut Property Control Manual entitled "Disposition of Surplus Property," requires that surplus State personal property be disbursed in the following order: 1) Transfers between state agencies, 2) Sales to municipalities, 3) Sale by public auction, and 4) Donations to approved non-profit organizations (when cost effective). The Manual further states that "Any item which has been designated to be 'scrapped' may not be given to any State employee."

Section 4-33a of the General Statutes requires that losses/damages to personal/real property be reported to the Auditors of Public Accounts and to the Office of the State Comptroller. Chapter 9 of the State of Connecticut Property Control Manual entitled "Loss or Damage to Real and Personal Property" establishes the procedures for reporting losses/damages to personal property. Form CO-853, Report of Loss or

Damage to State Owned Real or Personal Property (Other Than Motor Vehicles), should be used for reporting losses.

Condition:

Although the Department maintains a perpetual merchandise inventory of all the items on a computerized retail accounting system, MicroBiz, we determined that this inventory cannot be relied upon. Our review of a current listing of the merchandise inventory revealed that many items shown have negative balances. We also noted that the current listing of merchandise inventory does not include items for Internet sales; nor are they kept on a manual inventory system.

Although the Department did complete a physical inventory for both the 2004 and 2005 fiscal years, the ending value of these inventories was reported on the CO-59 Fixed Asset Report at retail. We also noted that the deletions to the inventory were reported at retail value and neither the additions nor deletions were supported. We further noted in our review of the physical inventories taken by the Department that there were various discrepancies between the two inventories reviewed and that these physical inventories were not reconciled against the store's MicroBiz inventory.

Merchandise that had been stored in the attic storeroom was damaged by a water leak. The Department did not submit a CO-853 when disposing of the damaged merchandise, nor did they inform the Auditors of Public Accounts or the Office of the State Comptroller of their loss.

Our review of the Department of Environmental Protection's Store revealed that their Store Manager had given away ninety copies of a publication, "Pathways Through Connecticut", worth \$270 to another DEP employee at no charge. This book had a suggested retail price of \$9.95 but according to the DEP's store personnel, due to lack of sales and multiple copies produced, it was marked down to \$3.00 on the December 2003 Product List. Between the December 2003 and May 2006 Product Lists, approximately 1,500 copies of this publication had been sold from the store. Therefore, this book does not appear to be obsolete.

In addition, this publication had not been reported as surplus inventory to the Property Distribution Center for disbursement. It should be noted that even if reported as surplus, this publication should not be given to another State employee.

The Store Manager also gave these copies away without having the employee sign for receipt of the books or generating an invoice for this transaction. Therefore, the ninety copies were not deleted from the DEP' store inventory.

Effect:

This represents non-compliance with laws and regulations.

Without accurate perpetual inventory records the Department is unable to accurately assess the store's operations and determine whether the store is operating efficiently. Also, the store can not produce an accurate listing of the quantity or cost of the inventory on-hand. Without adequate inventory records, the agency may not detect losses, unintentional or otherwise.

It appears that the store's inventory reported on the CO-59 Fixed Asset Report was overstated for fiscal years 2004 and 2005.

Cause: The store personnel are not complying with the prescribed laws and/or stated property control procedures.

The Store Manager agreed to give books to a DEP employee, at no charge, because he believed that they were obsolete and he thought that he had the authority to authorize the transaction.

There appears to be a lack of direction from the Department's Financial Services Unit to the store personnel regarding the store's financial operations.

Recommendation: The Department's Financial Services Unit should exercise greater oversight over the Department's store operations to ensure that store employees are aware of various laws and/or regulations concerning the requirements for the operations of the store. (See Recommendation 4.)

Agency Response: "The Department agrees with this recommendation and is taking the necessary steps to transfer the store's operations to the Financial Services' Unit."

Software Inventory:

Criteria: The State of Connecticut's Property Control Manual establishes the "agency standards for governing the use of approved and/or licensed software by State agencies, to maintain inventory control of software and to establish a uniform policy for the prevention of software copyright infringement."

The Manual also sets the Agency responsibilities as, "The agency head, or designee, shall maintain positive control of software, including compliance with the State Comptroller's software inventory procedures, and shall establish accounting procedures that document purchases of all software." Further, the Agency is to designate a person to establish and maintain a software inventory and designate a person(s) to be a library administrator, responsible for control of the software media and its distribution. The Agency is also to "produce a software inventory report on an annual basis" and take a physical inventory of all software media at the end of the fiscal year and compare it to the annual software inventory report. This comparison will be maintained for audit purposes.

The Property Control Manual describes personal software as “software that is not licensed to the State of Connecticut or its subdivisions.” Personal software is not to be installed on any computer that is owned by the State. The Manual further states that software classified as Shareware or Freeware can only be installed with approval from the administrator in charge of the software inventory.

Condition: The Department of Environmental Protection does not have a property control record in place that contains the minimum requirements as outlined in the State of Connecticut Property Control Manual for maintaining a software inventory. The following is a list of the minimum information to be kept for a software inventory: Assigned Identification Number, Title of Software, Description, Version, Manufacturer, Software Serial/Registration Number, Acquisition Type, Acquisition Detail, Initial Installation Date, Location and Identification Number of CPU device, Cost, and Disposal. The Inventory reports we were provided with only listed Title of Software, Version, and Location and Identification Number of CPU device.

Our review of ten selected users software reports compared to the inventory reports revealed that three of these users had unassigned software on their computers.

Our review also revealed that six of the ten selected users’ software reports indicated that these users had downloaded Freeware/Shareware from the Internet or installed personally owned software on their computers without administrator approval.

We noted that the Department does not have a designated person in charge of maintaining the software inventory. In addition, we determined that annual physical inventories are not being conducted and, consequently, comparisons could not be made to their software inventory report.

Effect: The Department is not meeting the policy and procedure requirements prescribed in Chapter 7 of the State of Connecticut’s Property Control Manual entitled “Software Inventory Control Policies and Procedures.”

Cause: The Department does not have a designated person in charge of maintaining a software inventory and therefore, when a change occurs, it is not always noted.

Recommendation: The Department should follow procedures for maintaining the software inventory as prescribed in Chapter 7 of the State of Connecticut’s Property Control Manual. (See Recommendation 5.)

Agency Response: “The Department agrees with the recommendation, and will revise existing software inventory procedures to include all requirements as

indicated in the State Property Control Manual. The Department will clarify staff assignments to clearly assign software inventory responsibilities, and make arrangements to perform an annual software inventory.”

State Grants:

Criteria: Section 2-232, subsection (b)(1), of the General Statutes requires that subrecipients of State assistance file copies of the audit report with the State agency. Copies of the report shall be filed not later than six months after the end of the audit period.

Section 4-233, subsection (b)(2), of the General Statutes states that within this audit report there shall be a Schedule of Expenditures of State Financial Assistance.

The Office of Policy and Management (OPM) provides agencies with guidelines for all grantor agencies to “review the Schedule of Expenditures of State Financial Assistance to determine that the agency’s grants are properly recorded on the Schedule.” In addition, OPM instructs all grantor agencies to review the Independent Auditor’s Report on the Financial Statements to determine the existence of an explanatory paragraph or qualified opinion regarding substantial doubt about the auditee’s ability to continue as a going concern, as well as reviewing the cognizant (i.e., OPM) Agency’s Summary of Audit Findings.

Condition: Our review of the Department of Environmental Protection’s State Grants revealed several areas of concern which are detailed below.

We previously recommended in our audit report for fiscal years ended June 30, 2002 and 2003, that “the DEP should Review audit reports required by Section 4-231 of the General Statutes using the guidelines published by the Office of Policy and Management. The Department should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of State Financial Assistance for each subrecipient. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit Reports for the Clean Water Funds.”

In our current audit for fiscal years ended June 30, 2004 and 2005, we noted that our recommendation had not been implemented. In addition, we also noted that the Department still has not been reviewing the audit reports for compliance with the State Single Audit Act and/or the guidelines as provided by the Office of Policy and Management.

Effect: The DEP is not fulfilling its responsibilities regarding the State Single Audit Act.

Cause: Desk reviews have not been completed since January 17, 2003, when the employee who was completing this review, was laid off.

The Department has assigned a low priority for the review of audit reports of State grants.

Recommendation: The Department should review audit reports required by Section 4-231 of the General Statutes using the guidelines published by the Office of Policy and Management. The Department should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of State Financial Assistance for each subrecipient. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit Reports for the Clean Water Funds. (See Recommendation 6.)

Agency Response: “The Department agrees with the recommendation; although the position lost during the last State layoff has not been replaced, the Department will proceed to adjust existing staff assignments to address this recommendation.”

Public File Room:

Background: The DEP’s policy is to maintain completed forms and reports in its public file room. The procedures for obtaining a file starts with the individual requesting the file filling out a “Request for File Review” form for the appropriate DEP Bureau – Air, Water or Waste. This form is given to a file room employee and filed in a binder. The town and facility name must be listed on the form (e.g. East Hartford, Pratt & Whitney). One of the file room employees locates the file(s) and gives it to the requestor. The requestor may make copies only on the DEP copiers in the file room. A requestor may be referred to a Bureau if the information is not available in the file room.

Criteria: Pursuant to Section 11-8a, subsection (b), of the General Statutes, State agencies may be required “to inventory all books, records, papers and documents under its jurisdiction and to submit to [the State Librarian] for approval, retention schedules for all such books, records, papers and documents.”

The Department of Environmental Protection directive 5000 D8, requires an inventory of records to be taken using the Records Inventory Worksheet Form #RC-104 before public records are removed or destroyed.

Good internal controls over public file room operations require that files be inventoried periodically to determine if any files are lost or misfiled, that the files should be secured against loss, alteration, or damage, and that procedures are established for the transfer of files to the file room and employees' responsibilities with regard to the files are clarified.

Condition:

Although additional policies have been implemented, which includes monitoring access to the file room and making available a computer containing electronic information in the public viewing area, and further corrective action is planned, our prior audit findings have not been resolved.

- The DEP still has not established standard procedures for ensuring the files are complete or for tracking the location of files. There is no written directive in place for the transfer of files from the various bureaus to the file room. The files that are brought into the file room do not have any listing of the contents of the file.
- Current files are not maintained in the file room, as space is limited. A tour of the file room revealed various files are stored on top of the filing cabinets even though there were empty filing cabinets with no files in them. Also, some of the more current files that should be stored in the file room are maintained in the various bureaus of the DEP because of the space problem. When the public wants a file that is located in the bureau, he/she is allowed to go to the bureau to obtain the file and bring the file to the public viewing area to review unsupervised.
- Files are not secured against loss or alteration. Files that are stored on top of cabinets are not protected from water damage. The file room manager showed us an area of the ceiling where there was water leakage. The basement where the file room is located has had a history of water leakage problems.

In addition, we noted that the file room personnel are not keeping an inventory of the contents of files being stored at off-site facilities. We also noted at one of the off-site locations that the files are exposed to inclement conditions and the potential exists for the files to become damaged.

Effect:

The general public may not be informed of activity at a specific location (e.g. all the spills that have occurred or property transfers). Missing files or missing items within the file could affect legal cases if critical documentation is not in the file.

Files could be lost or altered when the public is able to obtain files from bureaus unsupervised.

Files could be damaged when they are not properly stored.

Cause: The file room is accessible to any employee in the DEP and he/she can remove or file paperwork. Because out cards are not being used regularly, many papers could be misfiled or taken for use and never returned.

It appears that the DEP does not place a high priority on the condition of the file room or the locations where files are stored.

Recommendation: The DEP file room should be restricted to file room personnel. The DEP should implement a plan to have an electronic version of the records maintained in the file room and eliminate the physical handling of the documents by the public and agency staff.

The DEP should issue a directive for the transfer of files from the bureaus to the file room.

A current inventory of files should be maintained.

The DEP should establish procedures to centrally maintain various Agency records to ensure that all records are accounted for and maintained in a secure environment. (See Recommendation 7.)

Agency Response: “The Department agrees with the recommendation and has taken steps to address both the physical file handling procedures and documentation of file transfer procedures. Ultimate computerization of the file room is a major goal, and is being looked at by the agency.”

Purchase of Electronic Document Management Software:

Background: On September 22, 1998, the Department of Information Technology (DOIT) issued a request for proposal (RFP) that was due October 28, 1999, for an electronic document management system (EDMS). An EDMS is a system used to create, access, and manage documents on-line. The system can then be integrated with other related systems in a department. The first objective of this RFP was to obtain electronic document software products and maintenance at a reduced rate for all State agencies. The second objective was to obtain a list of recommended integrators who would design, implement and maintain the electronic document management software. The third objective was to obtain an integrator for the Department of Labor (DOL) which had already defined its business process that would use the electronic document management software.

A Master Software License Agreement was entered into with FileNet Corporation on June 13, 2000, by DOIT.

Criteria: According to Public Act 99-225, An Act “Concerning Revisions to Certain Programs and Operations of the DEP,” Section 27, the DEP is to

“develop a comprehensive file management system that ensures that case files contain any and all documents important for decision-making by the agency in a particular case and any documents required by department policy.” The system was to have files maintained in a consistent manner and in an accessible format. This Act also requires the Department to have a case file database for the use of all the Department’s bureaus.

Condition: Our review disclosed that although the Department is continuing the development of the EDMS it has not fully implemented the system throughout the Department.

Effect: The Department has not fully complied with the requirements of Public Act 99-225.

Cause: It appears that the reason the DEP has not completed a comprehensive file and document management system for the entire agency is due to the complex nature of developing such a system.

Recommendation: The Department should comply with the requirements of Public Act 99-225 which requires the Department to develop a comprehensive file management system and database. This system and database should be usable by all the Department’s bureaus. (See Recommendation 8.)

Agency Response: “The Department agrees with the recommendation and continues to work towards that goal.

DEP has developed and implemented the first phase of an enterprise wide repository of data. This application is referred to as the Site Information Management Systems (SIMS). This repository is the first attempt by DEP to provide a central file and document management system that contains all data and documents relative to a particular site. It is intended that this application be utilized agency wide. This application includes a data base, a security system, a document management component, and a GIS component.”

Record Retention Schedules:

Background: The Connecticut State Library is the Public Records Office for the State of Connecticut. The State Librarian is given the authority and responsibility to administer a public records program for State agencies. This authority is found in Sections 11-8 and 11-8a of the General Statutes.

Criteria: Section 11-8a of the General Statutes states that State agencies have responsibilities which include inventorying all books, records, papers and documents under its jurisdiction and submitting record retention schedules to the State Library for approval. The State Library may inventory records and establish retention schedules, based on administrative need for retaining materials within agency offices.

The State Library's Records Management Manual instructs the State agencies on how to implement a Records Management Program by starting with the inventory of records.

Condition: Although the Department has been working towards developing schedules with the State Librarian's office, there are several divisions within the Department, including the Land Acquisition and Management Division that still do not have record retention schedules approved by the State Librarian.

Effect: If record retention schedules are not developed, then the administrative, legal, fiscal, historical and research value of the records can not be determined.

Cause: Although the Department has been working towards developing the record retention schedules for all of its offices, it has not completed this task.

Recommendation: All divisions in the Department that do not have an approved record retention schedule should prepare the schedule and have it approved by the Public Records Administrator. (See Recommendation 9.)

Agency Response: "The Department agrees with the recommendation and is working toward attaining full compliance from all program offices in terms of implementing records retention schedules for the entire agency."

Unacceptable Internet Usage:

Criteria: Section 4d-2, subsection (c)(1), of the General Statutes, gives the Commissioner of the Department of Information Technology (DOIT) the authority to establish policies on the use of information systems. DOIT's Acceptable Use of State Systems Policy prescribes the State's policies on appropriate use of State computer resources. This policy implements an Acceptable Use Agreement that employees must sign, and has given each State agency the right to implement more restrictive policies on the use of information systems. If there is a conflict between policies, the more restrictive policy would apply.

The DEP's Acceptable Use Policy sets their policies on use of agency information systems. The policy states that all computer resources "shall only be used solely for legitimate and authorized business purposes." The Acceptable Use Policy further states, "The I.T. organization, and bureau management and supervisors, have the responsibility/authority to monitor and ensure compliance of all policies." The Department's Internet Policy states that the Internet "should only be used for work purposes in accordance with I.T. Policies – specifically the Acceptable Use Policy."

Condition: Our review of the Department's Internet usage disclosed that 19 of 42 employees tested had viewed non-work related sites. Of those users found

to be viewing non-work related sites, five had been noted in our prior audit.

We also found that one user who had been viewing non-work related sites, and who had been identified in our prior audit review as viewing this same site, had been given permission by his supervisor to view this non-work related material.

Effect: The Department is not in compliance with either the DOIT Acceptable Use of State Systems Policy or the Agency's Acceptable Use Policy.

Cause: Department supervisors do not appear to be monitoring/enforcing the Department's Acceptable Use Policy.

Recommendation: The Department should enforce the Acceptable Use Policy for using computer resources. (See Recommendation 10.)

Agency Response: "The Department agrees with the recommendation. We are performing research and evaluating our options for accessing web resources.

DEP currently has its own proxy server, however, we do not have a subscription to an N2H2 filter. The Department of Environmental Protection is evaluating the Enterprise Wide Internet Filtering Solution provided by the Connecticut Department of Information and Technology. Their proxy server does utilize N2H2 filtering."

Trust Funds:

Criteria: Financial statements showing Fund activity should be available to the DEP to ensure the proper maintenance of the Fund.

Condition: Our review of the Kellogg Trust Fund disclosed that the financial statements were unavailable for audit for the period July 1, 2004 through December 31, 2004.

Effect: Without the necessary statements the activity of the Fund could not be verified.

Cause: During the transition from Fleet Bank to Bank of America, financial statements for the Kellogg Trust Fund were not provided to the DEP. Efforts to obtain these financial statements have been unsuccessful.

Recommendation: The Department of Environmental Protection should obtain all applicable financial statements from banks administering trust funds for the Department. Balances shown on these statements should be reconciled with fund activity. (See Recommendation 11.)

Agency Response: "The Department agrees with the finding that indicates attempts were made to obtain missing statements, and the Department will proceed to

develop a new approach to documenting the reconciliation of fund statements with account activity; however, the Department does regularly compare fund statements with transfers-to-and-from State managed accounts, and the principal assets of the Kellogg Trust Fund are not under Department management; therefore, DEP's review of Kellogg Trust Fund activity primarily involves confirmation of amounts indicated as transfers from the Kellogg Trust Fund to the State's short-term investment fund holding account, and the subsequent transfers to a State Accounting System general ledger account."

Payroll and Personnel:

Our review of the payroll and personnel records at the Department disclosed the following areas requiring attention.

Separation of Duties:

Criteria: Good internal control requires that adequate separation of duties should be present between payroll and personnel functions. Access to the Human Resource Management System module in Core-CT should be limited in such a manner that payroll and personnel employees do not share roles in the system.

Condition: Our review disclosed that the payroll staff has access to human resource functions in Core-CT. This allows them access to both time and attendance and pay rate information.

Effect: Internal controls are weakened when roles in Core-CT are not limited. When there is no separation of duties between the payroll and personnel functions, employees have the ability to influence the entire process.

Cause: The DEP does not believe there needs to be a separation of duties between payroll and personnel.

Recommendation: The Department should establish a separation of duties between its payroll and personnel functions. Payroll and personnel staff should be assigned roles specific to their function. (See Recommendation 12.)

Agency Response: "The Department disagrees with this recommendation. Due to its unique requirement of adding and removing 600-800 seasonal employees it is not feasible to separate these duties in the CORE-CT system. If the system could separate seasonals from other employees, access to the HR module would not be required by payroll."

*Auditors' Concluding
Comment:*

Although the Department indicated that it is not feasible to separate payroll and personnel functions in Core-CT, it still does not eliminate the

fact that controls over these processes are weakened. The Department still should take whatever measures are necessary to correct the problem.

Seasonal Employees:

Criteria: Manual Code 5511 D2 is the Department's directive regarding the use of seasonal positions. This directive states that no employee may work in a seasonal position . . . for more than a six-month period. The Department of Administrative Services determined that the DEP's seasonal employees are allowed to work up to 1,040 hours which is equivalent to six months of full-time work.

Condition: Our review of seasonal employees on the payroll, as of the pay period ended December 8, 2005, revealed that four of forty seasonal employees were on the payroll for more than six months and exceeded the 1,040 hour limit by between as many as 20.75 and 305 hours.

Effect: Seasonal employees could be used in lieu of permanent employees.

Cause: The Department was not monitoring the length of employment of seasonal employees.

Recommendation: The Department should follow established policies and procedures to monitor seasonal employees' work hours to ensure that these employees do not exceed the maximum allowable hours. (See Recommendation 13.)

Agency Response: "The Department agrees with the recommendation and has already taken steps to ensure that seasonal employees do not exceed the 1,040 hour limit."

Compensatory Time:

Criteria: The Department of Administrative Services Manager's Guide states that compensatory time may be granted for extra work that is significant in terms of total hours and duration.

Condition: Our review disclosed that one manager was credited with compensatory time for working an extra hour or less on numerous occasions.

Effect: A manager was credited with compensatory time for insignificant hours worked.

Cause: The Department did not follow guidelines indicating that a significant amount of time must be worked over the employee's regular hours before compensatory time can be granted.

Recommendation: The Department should comply with the Department of Administrative Services Manager's Guide relative to compensatory time. (See Recommendation 14.)

Agency Response: “The Department agrees with the recommendation and has taken steps to correct this issue.”

Inappropriate Payroll Charges to Federal Funds:

Criteria: The Federal Performance Partnership Grant (PPG) program (CFDA #66.605) combines funds from various program grants and recipients may use these funds for activities that are within the eligibilities of those programs. Personal services and related fringe benefits are allowable charges to Federal programs as long as the work performed pertains to the program’s goals and objectives.

Condition: Our review of twenty employees at the Department revealed that one employee’s salary and fringe benefits were being inappropriately charged to the Performance Partnership Grant from April 2002 through September 2005.

Effect: The Federal Performance Partnership Grant program was overcharged by approximately \$126,774.

Cause: The Department did not detect the miscoding of the personal services in a timely manner.

Recommendation: The Department should implement procedures to ensure that personal services and fringe benefits are charged to the correct program or activity and that Federal programs are not being inappropriately charged. A correction should be made to reimburse the Performance Partnership Grant for personal services and fringe benefits charged erroneously to this program. (See Recommendation 15.)

Agency Response: “The Department will process a final adjustment as recommended; however, it should be noted that the Department did not include the costs of the referenced employee in the financial status report submitted to the Federal agency during this time period, and the Department did process a partial adjustment for salary and fringe benefits during the period.”

Other Matters:

After pollution was found at the Hamden Middle School and the area immediately surrounding the Newhall neighborhood, the Commissioner of the Department of Environmental Protection (DEP) ordered the four responsible parties to enter into a legal consent order to take corrective action. A request to conduct a review of the subsequent DEP decision to expand testing outside the Consent Order boundary was forwarded to our Office by members of the legislature, and was initiated by several residents of the Prospect Hill neighborhood in Hamden, Connecticut. On August 14, 2006, we issued our Audit Report on our Special Review of the Newhall Neighborhood Project. In that report we made several recommendations in regards to this work. The DEP has addressed some of those recommendations and is working to implement

the others. During our next biennial audit of the DEP we will conduct a follow-up review of this Special Review.

During the course of our audit of the Department of Environmental Protection the Department's officials informed us of an apparent breakdown in internal controls over its bookstore operations and the apparent shortage of over \$2,300 in bookstore receipts. On February 13, 2007, the Department officially informed us and the State Comptroller's Office in accordance with Section 4-33a of the General Statutes. They indicated that they are conducting a full investigation of the matter and indicated that they will keep us apprised of the situation.

RECOMMENDATIONS

Fifteen recommendations were presented in our prior report. As indicated below, seven recommendations have been complied with. Eight of the recommendations have not been fully resolved and are therefore repeated in this report.

Status of Prior Audit Recommendations:

- Leases should be updated and/or initiated for all DEP rental property. All property leases to non-DEP employees should be approved by the State Properties Review Board. The DEP should collect all amounts currently owed. This recommendation has been implemented.
- The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. As insufficient action has been taken on this recommendation, it is being repeated with modifications as Recommendation 3.
- The Department should conduct, at least annually, a physical inventory of the items in the store and the dollar value of this inventory should be reported on the CO-59 Fixed Assets Report. The DEP should prepare accountability reports for the store and should record all overages and shortages. As insufficient action has been taken on this recommendation, it is being repeated with modifications as Recommendation 3.
- The DEP should have periodic appraisals made of its various portraits, paintings and museum articles in accordance with the Property Control Manual. All artwork should be properly inventoried so that property is accurately reported. Items not found during physical inventories should be reported to the State Comptroller and Auditors of Public Accounts. As insufficient action has been taken on this recommendation, it is in essence being repeated as part of Recommendation 3.
- The Department's computerized land records should be maintained in accordance with the requirements of the State's Property Control Manual. This recommendation has been implemented.
- The Department should review audit reports required by Section 4-231 of the General Statutes using the guidelines published by the Office of Policy and Management. The Department should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of Expenditures of State Financial Assistance for each subrecipient. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit Reports for the Clean Water Funds. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 6.
- Reports required by the General Statutes should be prepared and submitted in accordance with the requirements of the Statutes. This recommendation has been implemented or otherwise resolved.

- The Department should collect all monies due from the Summer Music Inc. and enforce the provisions of the current contract for non-payment. The Department should seek competitive bids for all future concerts at Harkness Memorial State Park. This recommendation has been implemented or otherwise resolved.
- The DEP file room should be restricted to file room personnel. The DEP should implement a plan to computerize the records maintained in the file room and eliminate the physical handling of the documents by the public and agency staff.

The DEP should issue a directive for the transfer of files from the bureaus to the file room.

The DEP should periodically inventory its file room to determine which files are missing or misfiled. As insufficient action has been taken on this recommendation it is being repeated as Recommendation 7.

- The Department should update and/or follow existing procedures for the cost recovery of emergency spillcase accounts receivable. These procedures should include the maintenance of accurate and updated records. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 1.
- The Department should comply with the requirements of Public Act 99-225 which requires the Department to develop a comprehensive file management system and database. This system and database should be usable by all the Department's bureaus. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 8.
- All divisions in the Department that do not have an approved record retention schedule should prepare the schedule and have it approved by the State Librarian. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 9.
- The DEP should implement written policies and procedures for the purchase of land. These policies and procedures should include when and what type of survey is to be conducted and require a field visit of the property prior to incurring costs for surveying and appraisals. This recommendation has been implemented or otherwise resolved.
- The Department should ensure that an executed contract is in place and that the necessary approvals are obtained prior to a contractor commencing work. Written evaluations of the contractor's performance should be prepared and maintained as part of the agency's contract file. This recommendation has been implemented.
- The Department should review the detailed phone call listing for excessive and/or repetitive calls. Calling cards should be cancelled once an employee has terminated his/her employment. The Department should reiterate and disseminate its directive on telephone usage. The Department should seek reimbursement of toll charges for the personal calls made. The Department should disconnect employee's dial-in access when there is no activity for a specified time period. This recommendation has been implemented.

Current Audit Recommendations:

- 1. The Department should update and/or follow existing procedures for the cost recovery of emergency spillcase accounts receivable. These procedures should include the maintenance of accurate and updated records.**

Comment:

As discussed in the “Condition of Records” section, we again noted that our review disclosed several areas in which improvement is needed regarding accounts receivable.

- 2. The Department should follow proper procedures and steps as set up in the Cost Recovery System to process the cancellation of receivables. A programming change should be made to the automated system to correct the flagging of amounts of \$25 or less for automatic cancellation.**

Comment:

Our review disclosed that the Department was not following established procedures for the writing off of accounts receivable.

- 3. The Department should maintain and reconcile inventory records as prescribed by the State Comptroller’s Property Control Manual. Controls over the transfer and disposal of property should be strengthened. Physical inventories should be performed annually or more frequently, if needed.**

Comment:

Our review of the Department’s inventory control systems and the CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2004 and 2005, revealed numerous deficiencies.

- 4. The Department’s Financial Services Unit should exercise greater oversight over the Department’s Store operations to ensure that store employees are aware of various laws and/or regulations concerning the requirements for the operations of the Store.**

Comment:

The review of the Department’s Store operations indicated that oversight by the Department’s Financial Services Unit is needed for a more efficient operation of the Store.

5. **The Department should follow procedures for maintaining the software inventory as prescribed in Chapter 7 of the State of Connecticut's Property Control Manual.**

Comment:

The Department is not meeting the policy and procedure requirements prescribed in Chapter 7 of the State of Connecticut's Property Control Manual.

6. **The Department should review audit reports required by Section 4-231 of the General Statutes using the guidelines published by the Office of Policy and Management. The Department should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of State Financial Assistance for each subrecipient. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit Reports for the Clean Water Funds.**

Comment:

Our review disclosed that the Department was not reviewing audit reports required for compliance with the State Single Audit Act and/or following the guidelines provided by the Office of Policy and Management. We noted that desk reviews have not been completed since January 2003.

7. **The DEP file room should be restricted to file room personnel. The DEP should implement a plan to computerize the records maintained in the file room and eliminate the physical handling of the documents by the public and agency staff.**

The DEP should issue a directive for the transfer of files from the bureaus to the file room.

A current inventory of files should be maintained.

The DEP should establish procedures to centrally maintain various Agency records to ensure that all records are accounted for and maintained in a secure environment.

Comment:

Although some improvement has been made, we again noted that the DEP does not have adequate control over the file room. The DEP still has not established procedures for ensuring that the files are complete or for tracking the location of files. Files are not secure against loss or alteration.

- 8. The Department should comply with the requirements of Public Act 99-225 which requires the Department to develop a comprehensive file management system and database. This system and database should be usable by all the Department's bureaus.**

Comment:

Our review disclosed that, although the Department is continuing the development of the EDMS, it has not fully implemented the system throughout the Department.

- 9. All divisions of the Department that do not have an approved record retention schedule should prepare the schedule and have it approved by the Public Records Administrator.**

Comment:

Although the Department has been working towards developing the record retention schedules for all of its offices, it has not completed the task.

- 10. The Department should enforce the Acceptable Use Policy for using computer resources.**

Comment:

Our review of the Department's Internet usage disclosed that 19 of 42 employees tested had viewed non-work related sites.

- 11. The Department of Environmental Protection should obtain all applicable financial statements from banks administering trust funds for the Department. Balances shown on these statements should be reconciled with fund activity.**

Comment:

Our review disclosed that financial statements for the Kellogg Trust Fund for the period July 1, 2004 through December 31, 2004, were not received from the bank.

- 12. The Department should establish a separation of duties between its payroll and personnel functions. Payroll and personnel staff should be assigned roles specific to their functions.**

Comment:

Our review disclosed that payroll staff has access to human resource functions in CoreCT. This allows them access to both time and attendance and pay rate information.

- 13. The Department should follow established policies and procedures to monitor seasonal employees' work hours to ensure that these employees do not exceed the maximum allowable hours.**

Comment:

Our review disclosed that the Department was not monitoring the length of employment of seasonal employees. This resulted in some employees exceeding the maximum number of hours allowed for seasonal employees.

- 14. The Department should comply with the Department of Administrative Services' Manager's Guide relative to compensatory time.**

Comment:

Our review disclosed that one manager was credited with compensatory time for working an extra hour or less on numerous occasions.

- 15. The Department should implement procedures to ensure that personal services and fringe benefits are charged to the correct program or activity and that Federal programs are not being inappropriately charged. A correction should be made to reimburse the Performance Partnership Grant for personal services and fringe benefits charged erroneously to this program.**

Comment:

Our review disclosed that the Federal Performance Partnership program was overcharged by approximately \$126,774.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Environmental Protection for the fiscal years ended June 30, 2004 and 2005. 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 Environmental Protection for the fiscal years ended June 30, 2004 and 2005, 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 Environmental 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 Environmental Protection is the responsibility of the Department of Environmental 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, 2004 and 2005, 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 Environmental 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 controls 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 Environmental 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 following findings represent reportable conditions: deficiencies in accounts receivable records; writing off of accounts receivable; deficient inventory records and reporting; deficiencies in DEP store operations; inadequate subrecipient monitoring; lack of record retention schedules; various payroll and personnel issues i.e. segregation of duties, monitoring of seasonal employees' time, compliance with compensatory time policy, and the appropriately charging of payroll and fringe benefits to the proper account.

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 controls over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal controls 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 information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Environmental Protection during the course of our examination.

Edward C. Wilmot
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts