

STATE OF CONNECTICUT



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

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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December 24, 2008

**AUDITORS' REPORT
DEPARTMENT OF ENVIRONMENTAL PROTECTION
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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, 2006 and 2007. 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.

Regina A. McCarthy was appointed Commissioner on December 10, 2004, and continues to serve in that capacity.

Significant Legislation:

Section 7 of Public Act 05-3 of the 2005 June Special Session, codified in subsection (b) of Section 22a-27h of the General Statutes and effective July 1, 2005, requires that all fees collected by the DEP pursuant to Title 23 for parking, admission, boat launching, camping and other recreational uses of State parks, forests, boat launches and other State facilities shall be deposited into the Conservation Fund and credited to the conservation account established by subsection (a) of Section 22a-27h. Previously these fees were deposited in the State General Fund.

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	\$96,604 in fiscal year 2005-2006 and \$85,870 in fiscal year 2006-2007

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, 2006 and 2007, 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.

Auditors of Public Accounts

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

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2005-2006</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2006-2007</u>
General Fund	\$ 6,571,786	\$ 5,999,565	\$35,121,737	\$36,391,409
Special Revenue Funds	112,431,521	109,412,150	108,075,686	115,392,470
Capital and Non Capital Project Funds	0	0	7,674,723	12,407,694
Enterprise Funds	<u>30,034,990</u>	<u>35,859,532</u>	<u>92,173,806</u>	<u>108,846,866</u>
Total Civil List Funds	<u>\$149,038,297</u>	<u>\$151,271,247</u>	<u>\$243,045,952</u>	<u>\$273,038,439</u>

The above revenue is detailed by major revenue category below:

	<u>2005-2006</u>	<u>2006-2007</u>
Taxes	\$ 30,435,312	\$ 30,507,910
Licenses	10,383,718	10,116,499
Permits	12,759,102	10,597,853
Fees	7,207,320	8,793,693
Investment Income	6,306,092	4,251,192
Sales – Commodities and Services	4,759,034	5,478,365
Federal Aid Restricted	56,679,301	60,325,787
Non Federal Aid Restricted	15,473,045	17,846,797
All Other	<u>5,035,373</u>	<u>3,353,151</u>
Total Revenue	<u>\$149,038,297</u>	<u>\$151,271,247</u>

The above of expenditures are detailed by major expenditure category below:

	<u>2005-2006</u>	<u>2006-2007</u>
Employee Services and Fringe Benefits	\$ 90,216,439	\$ 95,863,177
Employee Expenses, Allowances and Fees	485,288	657,735
Purchased and Contracted Services	12,050,340	9,233,301
Motor Vehicle/Aircraft/Watercraft Costs	2,765,985	3,086,061
Premises and Property Expenses	2,691,759	4,396,971
Information and Technology	2,575,848	2,875,095
Purchased Commodities	1,856,725	2,229,735
Loans	66,541,552	78,759,781
Other Expenses	6,660,825	11,352,111
Grants-in-Aid	50,172,618	55,706,499
Capital Outlay	7,046,843	8,622,031
Prior Year Adjustments	<u>(18,270)</u>	<u>255,942</u>
Total Expenditures	<u>\$243,045,952</u>	<u>\$273,038,439</u>

GENERAL FUND:

General Fund receipts are summarized below:

	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Receipt Type:			
Hunting and Fishing	\$ 2,270,129	\$ 2,213,185	\$ 2,155,208
Air, water and waste compliance	1,055,506	1,062,052	1,657,583
Civil penalties and fines	2,077,151	3,085,162	1,594,710
Sales and rent	2,032,314	208,538	590,935
Other	<u>1,333</u>	<u>2,849</u>	<u>1,129</u>
 Total General Fund Receipts	 <u>\$ 7,436,433</u>	 <u>\$ 6,571,786</u>	 <u>\$ 5,999,565</u>

Total receipts decreased by \$864,647 and \$572,221 during the 2005-2006 and 2006-2007 fiscal years, respectively. The decrease in General Fund receipts during the fiscal year ended June 30, 2006, was primarily the result of the \$1,823,776 decrease in receipts for sales and rents. As shown in the "Significant Legislation" above, receipts formerly credited to the General Fund are now credited to the Conservation Fund. This decrease of \$1,823,776 was partially offset by the increase in receipts for civil penalties and fines which increased \$1,008,011 from the 2004-2005 fiscal year total of \$2,077,151 to the 2005-2006 fiscal year total of \$3,085,162.

The decrease in total General Fund receipts in the 2006-2007 fiscal year of \$572,221 can primarily be attributed to the decrease of \$1,490,452 in receipts for civil penalties and fines. This decrease in receipts is partially offset by the increase in receipts for air, water and waste compliance and sales and rent of \$595,531 and \$382,397, respectively.

General Fund expenditures are summarized below:

	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Employee Services and Fringe			
Benefits	\$ 30,165,096	\$ 31,067,850	\$ 33,062,113
Employee Expenses, Allowances			
And Fees	73,868	109,967	133,081
Purchased and Contracted Services	1,426,209	971,570	1,051,221
Motor Vehicle/Aircraft/Watercraft			
Costs	943,414	319,397	295,121
Premises and Property Expenses	1,338,857	612,026	857,207
Information and Technology	398,519	324,371	266,121
Purchases Commodities	143,315	128,929	206,483
Other Expenses	35	0	1,569
Grants-In-Aid	702,457	1,583,591	500,196
Capital Outlay	28,852	4,036	18,297
Adjustments Revolving Fund			
Operations	<u>623</u>	<u>0</u>	<u>0</u>
 Total General Fund Expenditures	 <u>\$ 35,221,245</u>	 <u>\$ 35,121,737</u>	 <u>\$ 36,391,409</u>

General Fund expenditures decreased by \$99,518 and then increased by \$1,269,672 during the fiscal years ended June 30, 2006 and 2007, respectively. The primary reasons for the decrease of expenditures noted in the 2005-2006 fiscal year were that expenditures for Purchased and Contracted Services, Motor Vehicle/Aircraft/Watercraft Costs, and Premises and Property Expenses decreased \$454,639, \$624,017, and \$726,831, respectively. These decreases in expenditures were partially the result of expenditures that were formerly reported here being charged to the Conservation Fund. In addition to the transfer of expenditures to the Conservation Fund the decrease shown above was partially offset by the increase in expenditures for Employee Services and Fringe Benefits of \$902,754 and Grants-In-Aid of \$881,134.

During the 2006-2007 fiscal year expenditure increases of \$1,994,263 and \$245,181 were noted in expenditures for Employee Services and Fringe Benefits and Premises and Property Expenses, respectively. These increases in expenditures were partially offset by the decrease reflected in expenditures for Grants-In-Aid of \$1,083,395.

SPECIAL REVENUE FUNDS:

During the audited period the DEP utilized seven 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 four 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>2005-2006</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2006-2007</u>
Environmental Quality	\$ 41,097,070	\$ 36,724,138	\$ 33,336,479	\$ 41,191,074
Conservation	16,873,625	17,184,727	13,823,340	16,662,204
Capital Equipment Purchase	(54,845)	0	998,461	656,439
Grants to Local Governments And Others	0	0	16,080,040	15,152,389
Economic Development And Other Grants	0	0	54	43,165
Special Contaminated Property Remediation and Insurance Fund	0	164,383	0	0
Grants and Restricted Accounts Fund	<u>54,515,671</u>	<u>55,338,902</u>	<u>43,837,312</u>	<u>41,687,199</u>
Total Special Revenue Funds	<u>\$112,431,521</u>	<u>\$109,412,150</u>	<u>\$108,075,686</u>	<u>\$115,392,470</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.

	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Revenue:			
Petroleum company assessments	\$ 12,000,000	\$ 24,000,000	\$ 24,000,000
Solid Waste Assessment Tax	3,384,607	3,426,551	3,499,093
Air, water and waste compliance	9,546,961	11,004,750	7,727,864
Land Use Application Fees	774,513	1,018,717	975,561
Other	<u>872,555</u>	<u>1,647,052</u>	<u>521,620</u>
 Total Revenue	 <u>\$ 26,578,636</u>	 <u>\$ 41,097,070</u>	 <u>\$ 36,724,138</u>

Receipts of petroleum company assessments were collected and recorded by the Office of the State Comptroller in the Environmental Quality Fund. In accordance with Sections 22a-449b and 22a-451 of the General Statutes these receipts, were credited to the Fund's Underground Storage Tank Petroleum Cleanup Account and the Emergency Spill Response Account, respectively. The Solid Waste Assessment Tax was received and deposited to the credit of this Fund by the Department of Revenue Services. In addition to the amounts shown above, \$10,500,000 was collected and recorded by the Office of the State Comptroller to the Emergency Spill Response Account in the 2004-2005 fiscal year. An additional \$36,909 was collected and recorded by the Department of Revenue Services to the Repealed Taxes Account also during the 2004-2005 fiscal year. With these two additions, total revenue credited to this Fund for the 2004-2005 fiscal year was \$37,115,545.

Total revenue increased by \$3,981,525 and then decreased by \$4,372,932 during the 2005-2006 and 2006-2007 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).

	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Expenditures:			
Employee Services and Fringe Benefits	\$ 17,172,362	\$ 20,157,750	\$ 22,347,457
Employee Expenses, Allowances And Fees	104,001	113,144	158,384
Purchased and Contracted Services Motor Vehicle/Aircraft/Watercraft Costs	2,525,277	3,339,555	2,510,410
Premises and Property Expenses	331,462	459,629	500,931
Information and Technology	36,698	74,688	214,052
Purchases Commodities	715,119	968,999	1,508,893
Other Expenses	241,579	186,877	390,642
Grants-In-Aid	8,850,244	6,917,690	11,716,283
Capital Outlay	553,450	663,756	789,630
Prior Year Expenditure Adjustments	83,259	335,231	832,966
	<u>0</u>	<u>119,160</u>	<u>221,426</u>
 Total Expenditures	 <u>\$30,613,451</u>	 <u>\$33,336,479</u>	 <u>\$41,191,074</u>

Auditors of Public Accounts

Total expenditures increased \$2,723,028 and \$7,854,595 during the 2005-2006 and 2006-2007 fiscal years, respectively. Although expenditure increases of \$2,985,388 and \$814,278 were noted in the Employee Services and Fringe Benefits and Purchased and Contracted Services, respectively, during the 2005-2006 fiscal year, these expenditure increases were partially offset by the decrease of \$1,932,554 of claims for reimbursement for the Underground Storage Tank Petroleum Cleanup Program. During the 2006-2007 fiscal year the primary reasons for the increase in expenditures can be attributed to the increases of \$2,189,708 and \$4,798,593 in expenditures for Employee Services and Fringe Benefits and reimbursement for the Underground Storage Tank Petroleum Cleanup Program, respectively.

State Comptroller records indicate that Fund assets totaled \$39,570,903 as of June 30, 2007.

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>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Revenue:			
Hunting and fishing	\$ 2,976,229	\$ 2,904,357	\$ 2,869,617
Vessel registration fees	5,725,733	5,774,172	5,773,339
Sales and rent	3,693,267	5,135,791	5,510,186
Other	2,244,994	3,059,305	3,031,585
Total Revenue	<u>\$ 14,640,223</u>	<u>\$ 16,873,625</u>	<u>\$ 17,184,727</u>
Expenditures:			
Employee Services and Fringe Benefits	\$ 5,827,193	\$ 7,930,069	\$ 8,022,103
Employee Expenses, Allowances And Fees	60,856	71,019	126,933
Purchased and Contracted Services Motor Vehicle/Aircraft/Watercraft Costs	985,499	1,124,686	845,042
Premises and Property Expenses	419,786	1,401,225	1,622,398
Information and Technology	600,539	1,623,644	2,019,287
Purchases Commodities	224,682	388,601	478,052
Other Expenses	745,387	844,886	804,065
Grants-In-Aid	(372,266)	(202,319)	(297,905)
Capital Outlay	232,242	21,800	2,390,498
Prior Year Expenditure Adjustment	407,531	616,853	617,584
	(130)	2,875	34,147
Total Expenditures	<u>\$9,131,319</u>	<u>\$13,823,339</u>	<u>\$16,662,204</u>

Total revenue increased by \$2,233,402 and \$311,102 during the 2005-2006 and 2006-2007 fiscal years, respectively. Revenue increases reflected in the 2005-2006 fiscal year can primarily be attributed to increased revenue in sales and rents. As previously mentioned, Section 7 of Public Act 05-3, and codified in subsection (b) of Section 22a-27h of the General Statutes, requires that various fees formerly deposited to the State General Fund shall now be deposited in the Conservation Fund. In addition, and in accordance with subsection (b) of Section 12-460a of the General Statutes, the amount deposited by the Commissioner of Revenue Services into the Conservation Fund increased from \$2,000,000 to \$3,000,000, effective July 1, 2005. These receipts were received by the State from the tax imposed attributable to sales of fuel from distributors to any boat yard, public or private marina or other entity renting or leasing slips, dry storage, mooring or other space for marine vessels.

Total expenditures increased by \$4,692,020 and \$2,838,865 during the 2005-2006 and 2006-2007 fiscal years, respectively.

State Comptroller records indicate that Fund assets totaled \$14,363,065 as of June 20, 2007.

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 33 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 91 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 \$54,515,671 and \$55,338,902 for the fiscal years ended June 30, 2006 and 2007, respectively, as compared to \$44,219,521 for the 2004-2005 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 2005-2006 and 2006-2007 fiscal years were \$43,837,312 and \$41,687,199, respectively. During the 2004-2005 fiscal years restricted accounts expenditures were \$41,802,406 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 2005-2006 and 2006-2007 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>2005-2006</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2006-2007</u>
State Account:				
DEP	\$ 0	\$ 0	\$ 2,201,729	\$ 2,557,976
Office of the State Treasurer	<u>1,188,248</u>	<u>985,338</u>	<u>21,935,903</u>	<u>27,065,049</u>
Total State Account	<u>1,188,248</u>	<u>985,338</u>	<u>24,137,632</u>	<u>29,623,025</u>
Federal Account:				
DEP	19,729,774	13,146,243	(1,050)	0
Office of the State Treasurer	<u>4,703,603</u>	<u>3,170,995</u>	<u>62,270,453</u>	<u>61,880,056</u>
Total Federal Account	<u>24,433,377</u>	<u>16,317,238</u>	<u>62,269,403</u>	<u>61,880,056</u>
Long Island Sound Account:				
DEP	0	0	0	25
Office of the State Treasurer	<u>1,766,420</u>	<u>2,487,085</u>	<u>3,115,183</u>	<u>1,318,645</u>
Total Long Island Sound Account	<u>1,766,420</u>	<u>2,487,085</u>	<u>3,115,183</u>	<u>1,318,670</u>
Drinking Water Federal Loan Account:				
Office of the State Treasurer	1,081	34,483	2,651,688	16,025,115
Department of Public Health	<u>2,645,863</u>	<u>16,035,388</u>	<u>0</u>	<u>0</u>
Total Drinking Water Federal Loan Account	<u>2,646,944</u>	<u>16,069,871</u>	<u>2,651,688</u>	<u>16,025,115</u>
Total Clean Water Fund	<u>\$30,034,990</u>	<u>\$35,859,532</u>	<u>\$92,173,906</u>	<u>\$108,846,866</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 increased \$13,426,953 from the 2004–2005 fiscal year total of \$16,608,037 to the 2005–2006 fiscal year total of \$30,034,990. This was primarily due to increases in revenue in all accounts.

During the 2006–2007 fiscal year, Clean Water Fund revenue increased \$5,824,542 to the 2006–2007 fiscal year total of \$35,859,532. Although Federal Account revenues decreased by \$8,116,139, this decrease was more than offset by the revenue increase of \$13,422,927 reflected in the Drinking Water Federal Loan Account.

Total expenditures charged to the Clean Water Fund increased \$31,830,187 and \$16,672,960 in the 2005–2006 and 2006–2007 fiscal years, respectively from the 2004–2005 total of \$60,343,719. These increases can be attributed to the increase in expenditures for both grants and loans.

CAPITAL PROJECTS FUNDS:

Expenditures from capital projects funds totaled \$7,674,723 and \$12,407,694 in the fiscal years ended June 30, 2006 and 2007, respectively, as compared to \$9,225,113 in the 2004-2005 fiscal year. The decrease in expenditures noted in the 2005-2006 fiscal year can primarily be attributed to the decrease in expenditures for dam repairs. These expenditures decreased from \$1,521,062 in the 2004-2005 fiscal year to \$179,820 in the 2005-2006 fiscal year. The large increase in expenditures noted in 2006–2007 can primarily be attributed to the increase in expenditures for land purchases and related costs. These expenditures increased from \$4,321,705 during the 2005–2006 fiscal year to \$9,057,617 in the 2006–2007 fiscal year. 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:

	<u>July 1, 2005 through June 30, 2007</u>		<u>Fund Balance*</u>
	<u>Receipts</u>	<u>Disbursements</u>	<u>June 30, 2007</u>
Fund:			
Culpeper	\$ 1,762	\$ 0	\$ 19,117
James L. Goodwin	24,450		265,127
Hopemead	577,643	396,896	2,373,799
Kellogg	670,019	490,000	1,094,635
Eastern Tribe Pequot Indians	3,049		33,064
Topsmead	334,374	344,767	2,231,477
Wagner-Firestone	17,956		194,705
Flora Werner	36,970		400,898
John J. White and White Memorial Foundation	<u>316,145</u>	<u>327,054</u>	<u>3,411,504</u>
Total	<u>\$1,982,368</u>	<u>\$1,558,717</u>	<u>\$10,024,326</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:

Property Control and Reporting

Criteria: Section 4-36 of the Connecticut 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 submitted 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 and 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 Asset/Property Inventory Reports for the fiscal years ended June 30, 2006 and 2007, revealed numerous deficiencies as follows:

- Our review of 25 equipment purchase transactions revealed that three items with a total cost of \$7,871 were not added to the inventory system and eight transactions were charged to the general ledger at costs different from those entered into the inventory system. In addition, two items with costs greater than \$1,000 were inappropriately classified as controllable assets rather than capital assets.
- The issues raised in our prior audit still have not been resolved. The Department recreated their inventory of land records without reconciling to the Comptroller's records. Our prior audit revealed that 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 10,125.3 acres, which have not been resolved. Our current audit revealed that the Department reported additions on the CO-59 for the fiscal year ended June 30, 2007, for land totaling \$31,684,003, of which only \$3,488,067 could be supported. This caused reported "Land Additions" to be overstated by \$28,195,936.

We also noted that the ending balance of the land valuation was overstated by \$117 on the CO-59 for the fiscal year ended June 30, 2007.

- The beginning balance of Equipment on the CO-59 for the fiscal year ended June 30, 2007, was reported incorrectly.
- Store inventory was reduced based on merchandise sales price rather than cost, thus overstating deletions.
- The works of art and historical treasures balances reported on the CO-59 for the fiscal years ended June 30, 2006 and 2007, still included the unsupported adjustment of approximately \$497,000 that was identified in our prior audits.
- Our review of perpetual inventory records for supplies indicated incorrect balances for 10 of 20 items counted.

Effect: The CO-59 reports 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 Department is not adhering to procedures established in the State of Connecticut's Property Control Manual.

Recommendation: The Department should maintain and reconcile inventory records as prescribed by the State of Connecticut's Property Control Manual. Controls over the transfer of property should be strengthened. (See Recommendation 1.)

Agency Response: "The Department agrees with this finding. This finding covers a vast range of issues and units and the DEP has corrected most, met with the Comptrollers and Auditors to establish a baseline to be accessed in the future on Land and is working to implement new procedures to address all of the conditions identified by the Auditors."

Bookstore 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 Comptroller. Each State agency is also required to report annually to the Comptroller the value of their inventory as of June thirtieth.

The State of Connecticut Property Control Manual (Manual), Chapter 3, 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) to ensure that property control records accurately reflect the actual inventory on hand within the current 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.”

The Manual also requires the store to report their inventory under Stores and Supplies on the CO-59. The Manual defines that the figures reported should be at cost or at fair market value depending on the method of acquisition. The Manual further states that the beginning balance should be the same as the ending balance, at cost, from the previous year. Additions should include the cost value of all purchased or otherwise acquired merchandise, and deletions should include the cost value of all sold, scraped, or lost merchandise.

Chapter 6 of the State of Connecticut Property Control Manual, 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 insure 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.”

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

Condition:

Our review of the DEP Store revealed that inventories were incorrect; adjustments to the inventory were made to the QuickBooks Point of Sale system without first investigating why discrepancies occurred and were made without proper authorization.

We also noted that the Department is not fully utilizing the QuickBooks Point of Sale system. This system was purchased to replace the Microbiz system. We noted that store personnel have not been adequately trained in the use of this system and, thus, are not taking advantage of all features available in the system.

Effect:

Non-Compliance with laws and procedures.

Without accurate perpetual inventory records the Department is unable to accurately assess the Store’s operations and determine whether or not it is operating effectively, nor can the Store 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.

Without adequate training in the QuickBooks Point of Sale system, the Department is not able to take full advantage of the features available to help in the administration of the DEP Store.

Cause: The Department is not complying with the prescribed laws and/or the stated property control procedures.

Recommendation: The Department should conduct, at least annually, a physical inventory and reconciliation of the store inventory as prescribed in the State of Connecticut Property Control Manual, Chapter 6, Maintaining the Property Control System.

The Department should arrange training in the use of QuickBooks Point of Sale in order to fully utilize all features available in the system. (See Recommendation 2.)

Agency Response: “The Department agrees with the audit recommendation. The Department has already modified security levels in the QuickBooks System to enforce proper authorization and documentation for any inventory adjustment, the Department has scheduled a new physical inventory to update the current inventory records, and the Department recently filled the bookstore supervisor position that has been vacant for more than one year to ensure the store has a full-time professional position in charge of store operations.”

State Grants:

Criteria: Section 4-232, subsection (b)(1), of the General Statutes requires that upon completion of the audit the grant recipient must then file copies of the audit report with the State grantor 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 two prior audit reports, 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 recipient. 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, 2006 and 2007, we noted that our recommendations have 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 recipient. 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 3.)

Agency Response: “The Department agrees with the audit recommendation, and a person has been assigned to implement an audit review tracking system to record state assistance distributed by DEP; to confirm that State assistance has been properly recorded by the recipient, and to reconcile any reported discrepancies. DEP will also confer with the Office of the State Treasurer to determine on-going responsibilities for the review of State Single Audit Reports for Clean Water Funds.”

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 Section 11-8 and 11-8a of the Connecticut General Statutes.

Criteria: Section 11-8a of the Connecticut General Statutes states that State agencies have responsibilities which include inventorying all books, records, papers, and documents under its jurisdiction and submit 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 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 4.)

Agency Response: "The Agency agrees with this recommendation and has complied with it. All units either have an approved schedule or one pending approval with the State Librarian."

Unacceptable Internet Usage:

Criteria: Section 4d-2, subsection (c)(1), of the Connecticut 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 use of the Internet "should only be used for work purposes in accordance with I.T. Policies – specifically the Acceptable Use Policy."

Condition: We reviewed the Department's Internet usage of 45 employees for May 2007. Twenty of the 45 employees represented the top 20 most active Internet users, 10 were randomly selected, and 15 were cited in the prior audit(s).

Our review disclosed that 26 of the 45 employees had viewed what appeared to be non-business related sites, and of those 26 employees, seven were noted during the prior audit(s). It should also be noted that five of the top 20 most active Internet users were seasonal employees, of which four viewed what appeared to be non-business related sites.

Although the Department now uses DOIT's Smartfilter to block inappropriate Internet sites, it appears that the majority of non-business related sites visited still are not being blocked.

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. The Department should also regularly review other sites visited by the top Internet users and custom block sites that are non-business related. In addition, supervisors should more closely monitor the seasonal employees' Internet usage. (See Recommendation 5.)

Agency Response: DEP agrees with the recommendation. DOIT's policy as well as DEP's "Acceptable Use Policy" agree that IT equipment "shall only be used solely for legitimate and authorized business purposes." To address that end, we have worked closely with DOIT to incorporate the DOIT Enterprise Filter as the means to block and monitor internet use."

Payroll and Personnel:

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

Separation of Duties:

Criteria: 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 6.)

Agency Response: “DEP does not agree with this finding that there needs to be a separation of duties between Payroll and Personnel. Human Resources reviews all Core-CT access request and determines appropriate levels of security that are then reviewed and approved by Core-CT security staff.

Although the report recommends a separation of duties between its payroll and personnel functions, in some areas of responsibility there is much overlap and the support staff would not be able to fulfill their duties without at least the ability to view both the HR areas-pay rate, and time and attendance. Information contained in HRMS – Job Data, effects the Payroll, therefore Payroll must have the authorization to view this data, and in some cases even change it. For instance, the Time Reporter screen is available through Job Data, which is where information such as overtime, shift differential, and work schedules are entered and monitored. As this information is entered for new employees, Payroll has the ability to view it immediately and make changes if necessary. Payroll needs access to pay rate information to process retroactivities or promotions, must review time and labor codes, and must view the classification and compensation history records located in Core-CT.

Without this process in place, DEP would be unable to employ and rehire over 600 seasonal employees on an annual basis.”

*Auditors’ Concluding
Comment:*

An adequate system of internal control demands that payroll and personnel functions be separate. The addition and removal from the payroll, as well as changes and reclassification of employees, should be a personnel function. To permit the payroll unit to initiate changes in pay rates, or add names to the payroll without formal authorization from the personnel unit, is to invite payroll fraud.

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 1,040 hours from the date of hire. In addition, the directive indicates that seasonal positions must only be used for situations requiring staffing on a temporary or seasonal basis. A combination of seasonal positions should not be used to satisfy a year round need for a position

Condition: Our review of seasonal employees on the payroll, as of the pay period ended May 10, 2007, revealed that 16 of 242 seasonal employees had worked hours in excess of the 1,040 hour limit. In addition, another seasonal employee has been employed by the Department on a part-time basis at the same location for at least three years with only one three-month break in service.

Effect: Sixteen of the 242 seasonal employees had exceeded the 1,040 hour limit by between 4.75 and 257.25 hours. In addition, it appears that the Department employed a part-time seasonal employee in lieu of hiring a permanent employee.

Cause: The Department is not effectively monitoring seasonal employees’ length of employment.

Recommendation: The Department should adhere to agency policy regarding the use of seasonal positions and the maximum number of hours that seasonal employees are allowed to work. (See Recommendation 7.)

Agency Response: “The Agency agrees with this recommendation and has reissued its directive on the use of seasonal employee positions. We have also worked with Core-CT to develop a query that gives us the ability to track hours of work for our seasonal staff.”

Compensatory Time:

Criteria: The Department of Administrative Service’s Manager’s Guide and Management Personnel Policy 06-02 states that compensatory time may be granted to managers if the agency head or his/her designee has given

prior written authorization for the extra work and that the extra work is significant in terms of total hours and duration.

Directive 5530 D5, Compensatory Time – Bargaining Unit Employees, states that compensatory time should be granted only to those over the overtime cap or specifically designated as exempt. All other employees should be paid overtime.

Condition: Our review of 43 employees earning compensatory time disclosed that one manager was credited with compensatory time without prior written authorization from the agency head or his/her designee. In addition, this manager was granted compensatory time for insignificant periods of time (an hour or less) on numerous occasions.

Our review also disclosed two bargaining unit employees below the overtime cap who were receiving compensatory time instead of being paid overtime.

Effect: Employees may have been inappropriately credited with compensatory time.

Cause: The Department is not following procedures regarding the issuance of compensatory time. We were informed that managers have been given verbal rather than written authorization prior to earning compensatory time. Managers may be earning compensatory time for hours worked that are not significant (an extra hour or two used to complete normal work assignments).

Supervisors were incorrectly approving timesheets showing compensatory time earned. This time should have been shown as overtime. Because of the way the information was transferred from the prior system, Core-CT is unable to isolate employees who are ineligible for compensatory time.

Recommendation: The Department should grant compensatory time only when properly authorized and pay overtime to those employees not authorized to receive compensatory time. (See Recommendation 8.)

Agency Response: “The recommendation of the Auditors is for the Department to grant compensatory time only when properly authorized and to pay overtime to those employees not authorized to receive compensatory time. The Agency reviewed all rules associated with compensatory time versus overtime to be in accordance with the bargaining unit contracts, managerial policies and the directive. Payroll has reviewed the overtime and compensatory plans on positions to ensure this is managed properly, and employees are compensated accordingly. Also, the Agency runs overtime reports on a bi-weekly basis, and will be running compensatory time reports as well in order to monitor the accumulation and use of time by employees. The managers have been reminded that they are to approve

compensatory time in advance, and only when necessary for extra time worked that is significant in terms of total and duration.”

Purchasing:

Criteria: Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller.

Proper internal controls related to purchasing require that commitment documents be properly authorized prior to receipt of goods or services.

Condition: Our review of 36 expenditure transactions for the fiscal years ended June 30, 2006 and 2007, revealed that for two transactions, purchase orders were not created and/or approved prior to the receipt of the goods or services. In addition, because the Accounts Payable Division of the Office of the State Comptroller had encountered continued problems with State agencies preparing purchase orders and entering them into the Core-CT system after goods and services were delivered, a special query was established. This query identifies the purchase orders with the posted purchase order date after the entered receipt date, indicating the receipt of goods and services prior to the purchase order. At the request of the Office of the State Comptroller and using this query, we reviewed an additional 25 transactions in the first quarter of the 2008 fiscal year. Our review of those 25 transactions noted 18 instances where purchase orders were created and/or approved after the receipt of the goods or services.

Effect: The two of the 36 expenditure transactions noted for the fiscal years ended June 30, 2006 and 2007, totaled \$11,212 and the 18 exceptions of the 25 transactions noted for the first quarter of the fiscal year ended June 30, 2008, totaled \$20,140.

When expenditures are incurred prior to the commitment of funds, there is less assurance that Agency funding will be available at the time of payment.

Cause: The Purchasing Unit, in some cases, was not provided with information in a timely manner. The Department also has not requested non-purchase order waivers from the Comptroller’s Office for certain transaction classes, such as dues, reimbursements, etc.

Recommendation: The Department should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. The Department should also consider obtaining from the Comptroller’s Office non-purchase order approval for certain types of transactions. (See Recommendation 9.)

Agency’s Response: “The Department agrees with the finding that we should streamline our internal controls. In fact, the Department is always looking to increase its

efficiency and effectiveness while improving its internal control. Since the inception of Core-CT, DEP has centralized all bureau business operations and implemented Core-CT directives of every transaction that requires a purchase request. Since the Comptroller's have changed their stance, and now will allow exceptions, we have not requested a non-purchase order approval. We will discuss with the Comptrollers for further acquisition.

The Department wants it noted that the number of transactions and dollar amounts are inflated as they include the following:

- Purchase Orders with amendments, which show a date after goods or services are delivered.
- Reimbursement for payments for emergency spill clean ups for companies on State contract.
- Dues and fees for professional associations that do not go into effect until payment is made, but have a membership date prior to the PO being cut.”

Late Deposits:

Criteria: Section 4-32 of the General Statutes requires that any State Agency receiving any money or revenue for the State amounting to more than \$500 shall deposit such receipts in depositories designated by the State Treasurer within 24 hours of receipt. Total daily receipts of less than \$500 may be held until the total receipts to date amount to \$500, but not for a period of more than seven calendar days.

Condition: During our review of cash receipts for revenue collected at the State Parks, we noted that three deposits in the amounts of \$28,330, \$13,416, and \$1,704 were deposited from two to five calendar days after the 24 hour requirement.

Effect: The Agency is not in compliance with the provisions of Section 4-32 of the General Statutes. This deprives the State of timely receipt and use of revenue.

Cause: The Agency submitted a request for waiver on the 24-hour requirement to the State Treasurer in May 2002. However, the Agency did not realize that this request for waiver had to be submitted and approved each year.

Recommendation: The Agency should deposit all receipts in accordance with Section 4-32 of the General Statutes. (See Recommendation 10.)

Agency's Response: “The Department agrees with the audit recommendation, and notification has been provided to State parks division staff of their responsibility to make timely deposits. Beginning with the new fiscal year (FY 2009) the Agency will provide prompt notification to the park manager, assistant

director and director of the State park division of any State park that fails to meet the required deposit time period in order that corrective action can be immediately implemented.”

Revenue – State Parks – Ticket and Season Pass Accountability:

Background:

The Department of Environmental Protection (DEP) operates State parks and forests that generate revenue. Fees are collected for parking, admissions, camping, facility rentals and season passes. Each park accounts for this revenue by either a pre-numbered ticket or cash register tape. In addition, season passes are sold at the various parks. This information is recorded on a daily Field Deposit Report (FDR) by park personnel and electronically transmitted to the DEP Central Office. Any discrepancies between the amounts collected (receipts) and the amounts that should have been collected (revenue) are reflected as a shortage or overage on the FDR. A written explanation is required to be submitted to the Central Office by the State park personnel with the FDR for any variance over \$25. The DEP Central Office tracks the park’s activity and generates reports based on these FDRs. In addition, the DEP Central Office tracks the pre-numbered tickets and passes provided and returned by the various parks at the beginning and end of each calendar year.

Criteria:

Good business practice dictates that assets of the State are safeguarded and that pre-numbered tickets and/or season passes, representing future revenues of the State, be safeguarded against theft or illegal use.

Prudent management practices dictate that all season passes and/or pre-numbered tickets are accounted for on the Field Deposit Reports. In addition, if any shortages or overages occur, a review should be undertaken to determine the cause for these variances. A prompt reconciliation should be undertaken for all entrance fees collected for the year, including season passes and tickets that are distributed, sold and/or returned for that calendar year.

Condition:

During our review of the State park revenue, we noted on 14 of the 18 Field Deposit Reports reviewed that the total fees due did not agree with the total deposited. The total fees are based upon the reconciliation of the fees collected as shown on the cash register tapes or tickets sold and a reconciliation of the number of passes against the amount of money actually deposited. The amount of these discrepancies ranged from overages of \$27 to shortages amounting to \$200. In addition, we noted that one park did not submit a written explanation to the Central Office for the four FDR’s with variances over \$25.

We also noted that two of the 13 Field Deposits Reports reviewed with season passes sold or with remaining season passes (i.e. sequence numbers indicated), did not list the sequence numbers of the season passes sold.

On April 2, 2008, we received the Entrance Fee Audit (annual reconciliation) for the 2006 calendar year which indicated a loss with a potential cash value totaling \$14,472 due to missing season passes. However, this reconciliation noted that the Agency anticipated additional season pass returns from two parks and the DEP Bookstore. On April 18, 2008, we received a revised reconciliation which noted a loss with a potential cash value totaling \$8,632. The difference between this reconciliation and the initial one received was due to the reporting of season passes. It was noted that the season pass sales at Sherwood Island State Park were understated on the initial report. Although some documentation was received for the revised season pass sales at Sherwood Island State Park, it did not explain the variances noted at other State parks or the remaining variance for the missing season passes at Sherwood Island State Park.

As of May 1, 2008, we had not received the reconciliation of audit on the entrance fees collected for the 2007 calendar year.

Effect: Without proper oversight, the probability of theft or misuse of season passes and/or ticket revenue at the State parks is more likely to occur. In addition, the lack of timely reconciliation of the annual entrance fees enhances the possibility that errors or malfeasance may occur.

Cause: The Agency's Bureau of Financial and Support Services did not perform reconciliations in a timely manner which may have contributed to control deficiencies.

Recommendation: The daily Field Deposit Reports should account for all numbered season passes and/or ticket sales, and if any variances are noted, a review should be undertaken to determine the cause for these variances. An annual reconciliation should be undertaken promptly for all entrance fees collected for the year and the reasons for any missing tickets or season passes should be documented. (See Recommendation 11.)

Agency's Response: "The Department agrees with the audit recommendation, and has recently taken steps to formalize the annual State park ticket and season pass reconciliation process, which will occur annually regardless of other projects being implemented by the Agency."

Rental Housing Program:

Background: A Department of Environmental Protection's (DEP) listing dated January 1, 2008, shows that there are 45 State-owned houses that are available to the DEP's employees for rent and that 38 of these homes are occupied. There were several reasons why the remaining seven houses were not rented at the time of our review. We were informed that among other reasons that some houses were too costly to renovate, awaiting demolition

or pending tenant leases. The Department has instituted a policy for collecting rental payments on these occupied homes based upon a varying degree of discounts ranging from 40 percent to 100 percent of the market rent value of the house. This market rent valuation is based upon an outside appraisal dated June 30, 2003. Rental payments are made by payroll deduction and are authorized by the employee. If an employee is taken off the payroll due to an unpaid leave, workers' compensation, etc., they are invoiced for these bi-weekly rental payments. In addition, if an employee terminates employment, they must vacate the premises and pay any amounts owed between the day of termination and their vacating the house.

Criteria:

Section 26-3b, subsection (a), of the General Statutes states that “when the Commissioner of Environmental Protection deems that it would be in the interest of the state, he may rent to any person, or assign departmental employees to occupy, houses, other buildings or property in the custody or control of said commissioner. If he assigns departmental employees to occupy such property, he may impose whatever conditions he deems necessary upon such assignment. He may also rent any such property to a departmental employee, and if, in his judgment, a rental fee should be charged to such employee, he shall determine such rental fee, notwithstanding any other provision of the general statutes or of any regulations of any state agency. The commissioner may, in the name of the state, execute leases, contracts or other documents to carry out the purposes of this section.”

Section 11.1 of the lease agreement between the State of Connecticut and its tenants specify that if the Resident neglects or fails to observe any of the terms within the lease and such default continues for a period of fifteen days after written notice of such default or the resident leaves the Agency employment, the lease shall immediately terminate.

Good business practices dictates having a written lease agreement which would outline the terms for the rental of State property.

Condition:

Although leases were signed by 34 of the employees occupying the 38 State-owned houses, all 34 leases were not approved by the Office of the State’s Attorney General. In addition, four of the 34 leases were not signed by the DEP’s Commissioner or her duly authorized representative.

Four of the 38 occupied houses did not have a lease agreement in place. One of the four tenants (employees) was terminated from the Department on January 22, 2008, and as of May 20, 2008, this employee continues to live in the house. On March 6, 2008, he was served with a “Notice to Quit” on or before April 1, 2008. On April 25, 2008, a Summons Summary Process (Eviction) was completed and a State Marshall was to serve an attested copy of the complaint by May 9, 2008. Although rental payments were made up through March 13, 2008, as of May 20, 2008, the tenant still owes \$1,412. Although the other three tenants are currently

employed by the Department, one is required to pay rent and the other two are not.

Four of the 23 rental payments to be made by payroll deduction as shown on the “Housing Rental Program” report did not agree with the amounts actually deducted.

Effect: Without a written lease agreement in place the State may not be receiving all rental income to which it is entitled.

Cause: The Department does not believe that written lease agreements have to be in place for the rental of State owned houses. A miscalculation of the bi-weekly payroll deduction was made which resulted in the errors made in rental payment deductions.

Recommendation: The Department of Environmental Protection should have properly signed lease agreements in place for all of its rental properties which detail the terms of the lease.

Greater care should be made in calculating and verifying the bi-weekly payroll deduction, if required. (See Recommendation 12.)

Agency Response: “The Department has moved the administration of the rental-housing program from the line bureaus to the central business office. Although DEP is in conformance with CGS 26-3b, it is working with DAS [Department of Administrative Services] and the AG’s [Attorney General] to get formal sign off on any future lease(s) it will use and will be following up on the payroll deduction process.”

RECOMMENDATIONS

Fifteen recommendations were presented in our prior report. As indicated below, eight recommendations have been complied with. Seven of the recommendations have not been fully resolved and are therefore repeated in this report. In addition, the seven recommendations that were presented in our “Special Review of the Newhall Neighborhood Project Report” have been implemented or otherwise resolved.

Status of Prior Audit Recommendations:

- 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. This recommendation has been implemented.
- 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 \$25 or less for automatic cancellation. This recommendation has been implemented.
- 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. As insufficient action has been taken on this recommendation, it is being repeated with modifications as Recommendation 1.
- 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 regulations concerning the requirements for the operations of the Store. This recommendation has been implemented.
- The Department should follow procedures for maintaining the software inventory as prescribed in Chapter 7 of the State of Connecticut’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 3.
- 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 bureau to the file room. A current inventory of the 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. This recommendation has been implemented.

- 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. This recommendation is being implemented.
- 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. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 4.
- The Department should enforce the Acceptable Use Policy for using computer resources. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 5.
- 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. This recommendation has been implemented.
- 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. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 6.
- The DEP should follow established policies and procedures to monitor seasonal employees' work hours to ensure that these employees do not exceed the maximum allowable hours. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 7.
- The Department should comply with the Department of Administrative Services' Manager's Guide relative to compensatory time. As insufficient action has been taken on this recommendation, it is being repeated with modifications as Recommendation 8.
- 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. This recommendation has been resolved.

Status of Special Review of the Newhall Neighborhood Project recommendations:

- DEP should review the contents all of the letters sent by LEA [Loureiro Engineering Associates] to the residents of the Newhall Perimeter Area to ensure that none of the other letters contained information that was not supported by the scientific results of the testing. This recommendation has been implemented.
- DEP should review and assess the contents and the usefulness of any communications regarding the results of testing, the interpretation of the impact of those results on the residents, and any proposed remediation efforts before such communications are published, either by direct mailing to residents, or through other methods of communication. This recommendation has been implemented.
- DEP should expeditiously review the results of the testing and come to a conclusion regarding what remediation action the DEP recommends should be taken. Even as we recommend this we recognize that there may be disagreement among the concerned parties regarding what should be done. Nonetheless, DEP should quickly analyze the specific testing results and inform those residents whose homes may require additional testing in order to determine if any remediation should be done. DEP should immediately inform any residents, if they have not already been informed, that it has already been determined that their properties do not contain pollution that needs remediation. This recommendation has been implemented.
- DEP should always use competitive negotiation to procure non-emergency remediation services by sending requests for proposals to all companies that have been pre-qualified to perform such services. This recommendation has been implemented.
- We recommend that DEP ensure that the expenditures to determine whether contamination existed outside the Consent Order boundaries are charged to an appropriate funding source. This recommendation has been resolved.
- Contractors providing services to the DEP should not be allowed to hire its subsidiaries as sub-contractors. The DEP should hire companies providing contractual services directly rather than allowing DEP's remediation contractors to subcontract such services. This recommendation has been resolved.
- DEP should not allow its contractors to expend or commit funds without first obtaining prior written authorization to do so. This recommendation has been implemented.

Current Audit Recommendations:

1. **The Department should maintain and reconcile inventory records as prescribed by the State of Connecticut's Property Control Manual. Controls over the transfer of property should be strengthened.**

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, 2006 and 2007, revealed numerous deficiencies.

- 2. The Department should conduct, at least annually, a physical inventory and reconciliation of the store inventory as prescribed in the State of Connecticut Property Control Manual, Chapter 6, "Maintaining the Property Control System." The Department should arrange training in the use of QuickBooks Point of Sale in order to fully utilize all features available in the system.**

Comment:

Our review again noted discrepancies in the Bookstore inventory. We also noted that DEP store personnel were not fully utilizing the QuickBooks POS.

- 3. 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.

- 4. 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.

- 5. The Department should enforce the Acceptable Use Policy for using computer resources. The Department should also regularly review other sites visited by the top Internet users and custom block sites that are non-business related.**

Comment:

Our review of the Department's Internet usage disclosed that 26 of 42 employees tested had viewed non-work related sites, and of those 26 employees, seven were also noted in prior audits. It should also be noted that five of the top 20 most active Internet users were seasonal employees of which four viewed what appeared to be non-business related sites.

- 6. 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.**

Comment:

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

- 7. 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.

- 8. The Department should grant compensatory time only when properly authorized and pay overtime to those employees not authorized to receive compensatory time.**

Comment:

Our review disclosed that one manager was credited with compensatory time for working an extra hour or less on numerous occasions. We also noted that two bargaining unit employees that were below the overtime cap were receiving compensatory time instead of being paid overtime.

- 9. The Department should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. The Department should also consider obtaining from the Comptroller's Office non-purchase order approval for certain types of transactions.**

Comment:

Our review disclosed 20 exceptions totaling \$31,352 whereby purchases orders were created and/or approved after the receipt of goods or services.

- 10. The Agency should deposit all receipts in accordance with Section 4-32 of the General Statutes.**

Comment:

We noted three instances where deposits were not made in a timely manner.

- 11. The daily Field Deposit Reports should account for all numbered season passes and/or ticket sales and, if any variances are noted, a review should be undertaken to determine the cause for these variances. An annual reconciliation should be undertaken promptly for all entrance fees collected for the year and the reasons for any missing tickets or season passes should be documented.**

Comment:

Our review disclosed discrepancies with amounts collected and deposited at various State parks. In addition, we noted that annual reconciliations of sold and unsold pre-numbered tickets and/or season passes were not being performed in a timely manner.

- 12. The Department of Environmental Protection should have properly signed lease agreements in place for all of its rental properties which detail the terms of the lease. Greater care should be made in calculating and verifying the bi-weekly payroll deduction, if required.**

Comment:

Our review disclosed that not all leases were properly signed and/or on hand. In addition, we noted instances whereby the amount being deducted from an employee did not always agree with the terms of the rental agreement.

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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2006 and 2007, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to

properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendations 1. the reconciliation of inventory records; 2. control over bookstore inventory and employee training; 3. review of audit reports; 6. separation of payroll and personnel functions; 7. monitoring of seasonal employees' work hours; 8. the granting and use of compensatory time; 9. that funds should be committed prior to the purchasing of goods or services; 10. that funds be deposited in accordance with General Statutes; and 11. the reconciliation of daily Field Deposit Reports.

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

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

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Environmental Protection complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance 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 as the following items: Recommendations 4. the need for an approved record retention schedule; 5. the enforcement of the Acceptable Use Policy for using computers; and 12. that leases should have properly signed lease agreements.

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

This report is intended for the information and use of Agency management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

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