STATE OF CONNECTICUT

AUDITORS' REPORT
OFFICE OF THE GOVERNOR
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

AUDITORS OF PUBLIC ACCOUNTS
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October 27, 2003

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We have made an examination of the financial records of the Office of the Governor for the fiscal years ended June 30, 2001 and 2002. We have included in our examination the records pertaining to the miscellaneous General Fund appropriation for Governor's contingencies, which was administered by the Governor's Office.

This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification which follow. Financial statements pertaining to the operations and activities of the Governor's Office are presented on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Office of the Governor's compliance with certain provisions of laws and regulations and evaluating the Office's internal control structure, policies, and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Office of the Governor is established under Article Fourth of the Constitution of the State of Connecticut and operates under the provisions of Title 3, Chapter 31, of the General Statutes. The Governor is charged with the responsibility of executive direction and supervision of the general administration of the State. John G. Rowland served as Governor during the audited period. The annual salary of the Governor was $78,000 during the audited period, as stated in Section 3-2 of the General Statutes. Public Act 00-231 increased the Governor's salary to $150,000, effective January 8, 2003.

The Department of Administrative Services provided accounting, payroll and personnel services for the Office of the Governor during the audited period.

RÉSUMÉ OF OPERATIONS:

General Fund receipts totaled $1,370 and $4,728 during the fiscal years ended June 30, 2001 and 2002, respectively. The source of these receipts was as follows:

	Fiscal Year Ended June 30,	
	2002	**2001**
Miscellaneous Receipts	$ -	$ 9
Refunds of Expenditures	4,728	1,361
Grants – Federal	-	-
Total Receipts	**$ 4,728**	**$ 1,370**

Refunds of expenditures resulted primarily from refunds of personal travel and miscellaneous expenses.

General Fund expenditures totaled $2,606,349 and $2,577,209 during the fiscal years ended June 30, 2001 and 2002, respectively. A comparison of expenditures during the audited period and the fiscal year ended June 30, 2000, is presented below:

	Fiscal Year Ended June 30,		
	2002	**2001**	**2000**
Personal services	$2,056,349	$2,084,972	$2,083,167
Contractual services	469,824	475,673	464,952
Commodities	47,116	39,030	30,891
Sundry	3,920	6,674	7,577
Equipment	-	-	100
Total Expenditures	**$2,577,209**	**$2,606,349**	**$2,586,687**

The contractual services amounts above included expenditures associated with membership in the National Governors' Association, which amounted to $92,900 and $97,545 during the fiscal years ended June 30, 2001 and 2002, respectively. In addition, during the fiscal years 2000-2001 and 2001-2002, expenditures for participation in the New England Governors' Conference were $128,983 and $135,055, respectively.

In addition to the above General Fund expenditures, the Governor's Office also expended $12,064 and $9,223 from the Capital Equipment Purchases Fund for computer maintenance, supplies and equipment during the fiscal years ended June 30, 2001 and 2002, respectively.

The Governor may make allocations from special appropriations budgeted for contingencies and salary adjustments. The Governor's contingency appropriation is established pursuant to Section 4-84 of the General Statutes. There was $17,100 of available appropriations in the contingency account during each of the two fiscal years under review with no expenditures. The Governor can make transfers to State agencies from the Reserve for Salary Adjustments appropriation to enable them to meet increased payroll costs resulting from employee salary and fringe benefit increases. Appropriations of $35,819,505 and $49,420,013 were available for salary adjustments during the two fiscal years under review. These funds were provided for the payment of anticipated increases resulting from collective bargaining agreements. Amounts totaling $17,171,192 and $3,091,731 were transferred from the Reserve for Salary Adjustments to individual State agency appropriation accounts during the fiscal years ended June 30, 2001 and 2002, respectively.

During the audited period, there were two foundations associated with the Office of the Governor. These foundations are known as the Governor's Residence Conservancy, Inc. and the Executive Chambers Conservancy, Inc. Foundations are private, not-for-profit organizations, which may be formed in accordance with Section 4-37f of the General Statutes to support or improve a State agency. The Governor's Residence Conservancy raises private funds to assist in the restoration and preservation of the Governor's official residence. Administration of the Governor's Residence Conservancy’s funds is provided by the Department of Public Works. An Independent Public Accountant performs the required financial and compliance audit work associated with the Governor’s Residence Conservancy. The Independent Public Accountant’s audit is reviewed as part of our audit of the Department of Public Works. The Executive Chambers Conservancy’s funds were primarily used to acquire furniture for the Governor's office chambers. In accordance with the provisions of Section 4-37f of the General Statutes, the Executive Chambers Conservancy has requested that the Auditors of Public Accounts perform the required audit of the entity. In a separate report, we will review and report on the Executive Chambers Conservancy’s compliance with statutory requirements.

CONDITION OF RECORDS

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

Staffing of the Governor's Regional Offices:

Criteria: Budgetary constraints in the form of authorized appropriations and positions are intended to provide a level of control over agency spending. Section 32-3 of the General Statutes states that the Connecticut Development Authority (CDA) shall assist, as appropriate, other State agencies in their duties upon request.

Condition: The Governor's Bridgeport and Norwich offices have two employees and one employee, respectively, charged to the payroll of the CDA. The entire lease payment for the Bridgeport office is paid by CDA, which receives no reimbursement for the space utilized by the Governor's Office. Assistance to the Governor's Office is provided by CDA continuously rather than on an as-needed basis.

Effect: Budgetary controls are weakened if an agency can be used to absorb other agencies' operating costs in such a fashion. The Governor's Office receives the benefit of the office space and the personal services without charge. The CDA is charged on an on-going basis for services that are not directly related to its operation.

Cause: The efforts of the CDA employees are seen as contributing to the overall community development efforts in their respective regions.

Recommendation: The Governor's Office should take steps to ensure that the expenses necessary to operate the Governor's Office are properly allocated, and do not exceed the amounts budgeted by the General Assembly. (See Recommendation 1.)

Agency Response: "The employees in question were assigned to advance CDA's mandate of facilitating economic development in two critical urban areas of the state. Nevertheless, the Governor's Office and CDA will work with the Auditors to address the Auditors' concerns."

State Credit Card Expenditures:

Background: The Governor's Office has a State credit card account with Citibank. The State credit card account is primarily used for travel expenses and other miscellaneous purchases.

The Department of Administrative Services performs most of the business related tasks for the Governor's Office, including the processing of the monthly State credit card payments.

Criteria: Section 3-117 of the Connecticut General Statutes requires that "Each claim against the state shall be supported by vouchers or receipts for the payment of any money exceeding twenty-five dollars at any one time, and an accurate account, showing the items of such claim, and a detailed account of expenses, when expenses constitute a portion of it, specifying the day when and purpose for which they were incurred. The original vouchers or receipts shall be filed in the Comptroller's office or retained by such agency in accordance with such procedures as the Comptroller may prescribe."

Good internal control requires that policies and procedures clearly detail the proper use of State credit cards and that such use should be limited to State related business activities.

Condition: Our initial review found that two of 19 sampled transactions tested for the Office of the Governor were processed for payment by the Department of Administrative Services without sufficient supporting documentation. These two transactions represented payments for two monthly State credit card billings for the Office of the Governor. As a consequence, we expanded our review to include all twelve of the monthly credit card billing statements received by the Office of the Governor during the fiscal year ended June 30, 2002. These twelve monthly statements contained 57 separate credit card charges totaling $10,852. It should be noted that these transactions consisted mainly of travel and other miscellaneous purchases. The results of our extended testing are as follows:

Our review found that seven non-State business use transactions, totaling $1,548, were charged to the Office of the Governor's State credit card. Six of these transactions were subsequently reimbursed by the Governor in the cumulative amount of $645, and one by the State Republican Party for $903.

We also found that 18 credit card charges, in excess of twenty-five dollars, were not supported by original receipts as required by Section 3-117 of the General Statutes. Despite the lack of receipts, using the Governor's appointment calendar and other information subsequently provided to us by the Governor's Office, we were able to satisfy ourselves that all 18 charges were incurred for State related business purposes.

Effect: Supporting documentation and record keeping practices were not sufficient to ensure that all State and non-State business credit card transactions are identified and accurately accounted for.

Cause: A lack of adequate administrative control contributed to this condition.

Recommendation: The Governor's Office should take steps to ensure that the State credit card transactions of the agency are properly supported (i.e. receipts, invoices, written purpose) and restricted to goods and services related to State business. (See Recommendation 2.)

Agency Response: "The Governor's Office has implemented the Auditor's recommendations."

Authorization of Payroll Transactions:

Criteria: Payroll related disbursements should be based upon a recognized liability, be accurately prepared and be appropriately authorized.

Condition: Three of eight employees reviewed as part of our payroll testing received salary increases that were not supported by signed authorizations from an official of the Office of the Governor. A number of other similar transactions were noted for the sampled employees outside of the time period tested.

Three employees approved their own timesheets for the five payroll periods tested.

Effect: Payroll disbursements could be made at the wrong amount and/or without the direct knowledge of management.

Cause: The transaction documents for salary increases were not authorized by the proper official from the Office of the Governor. Certain supervisory employees did not have their timesheets approved by the next highest authority within the Office of the Governor.

Recommendation: The Governor's Office should take steps to ensure that the salary increases and timesheets are properly authorized.
(See Recommendation 3.)

Agency Response: "After reviewing the Draft Of Preliminary Audit Findings, the Governor's Office implemented the auditor's recommendation. All salary increases and timesheets are now authorized by the Chief of Staff."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 1999 and 2000, contained two recommendations. The status of those recommendations is presented below:

Prior Audit Recommendations:

- The Governor's Office should take steps to insure that the expenses necessary to operate the Governor's Office are properly allocated, and do not exceed the amount budgeted by the General Assembly. This recommendation is being repeated. (See Recommendation 1.)

- The Governor's Office should seek to fill vacancies on boards and commissions in a more timely manner. This recommendation is not being repeated. As an alternative, it is being considered for inclusion in the Auditors of Public Accounts "Annual Report to the Legislature."

Current Audit Recommendations:

1. **The Governor's Office should take steps to insure that the expenses necessary to operate the Governor's Office are properly allocated, and do not exceed the amount budgeted by the General Assembly.**

   Comment:

   The Governor's Norwich and Bridgeport offices have one employee and two employees, respectively, charged on the payroll of the Connecticut Development Authority (CDA). The entire lease payment for the Bridgeport Office is paid by CDA.

2. **The Governor's Office should take steps to ensure that State credit card payments are properly supported (i.e. receipts, invoices, written purpose) and restricted to goods and services related to State business activities.**

   Comment:

   We noted that State credit card payments were made without sufficient supporting documentation. There were several reimbursements made for non-State business activities.

3. **The Governor's Office should take steps to ensure that salary increases and timesheets are properly authorized.**

   Comment:

   A number of payroll transaction documents for salary increases did not have authorizing signatures from the Governor's Office. Certain supervisory employees did not have their timesheets approved by the next highest authority within the Office of the Governor.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Governor's Office for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Office's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Office's internal control structure 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 Governor's Office for the fiscal years ended June 30, 2001 and 2002, 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 generally accepted auditing standards and the standards applicable to financial-related 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 Governor's Office 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 Governor's Office is the responsibility of the management of the Governor’s Office.

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 Governor’s Office financial operations for the fiscal years ended June 30, 2001 and 2002, we performed tests of the Office’s 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 Governor's Office is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations and contracts and grants applicable to the Governor's Office. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Governor's Office's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations and contracts, and grants, and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. 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 and contracts, and grants or failure 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. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or 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 courtesies and cooperation extended to our representatives by the personnel of the Office of the Governor and the Department of Administrative Services during the course of this examination.

Michael R. Adelson
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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