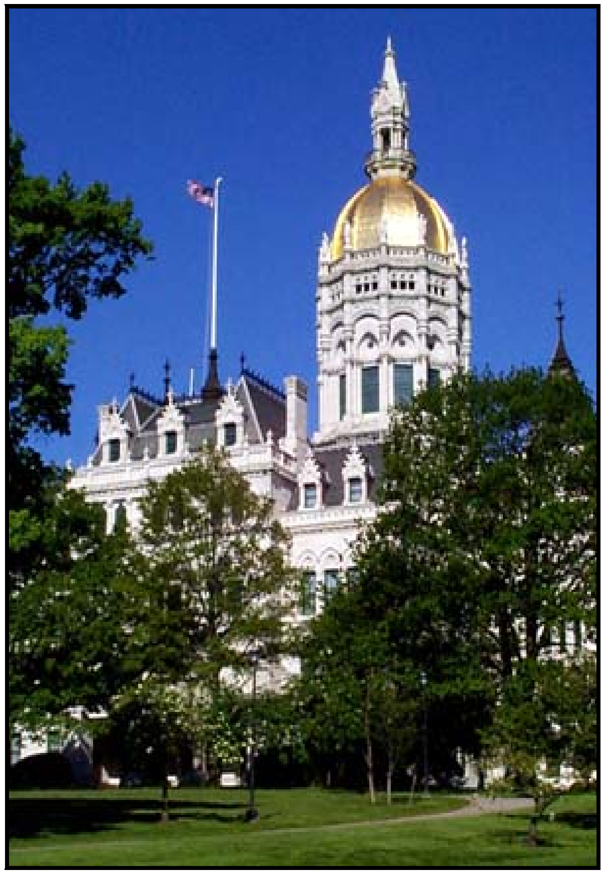
STATE OF CONNECTICUT



AUDITORS' REPORT
OFFICE OF THE GOVERNOR
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006 AND 2007

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

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September 26, 2008

AUDITORS' REPORT
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We have examined the financial records of the Office of the Governor for the fiscal years ended June 30, 2005, 2006 and 2007. This report on that examination consists of the Comments, Recommendations and Certification that follow.

Financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies, including the Office of the Governor. This audit has been limited to assessing compliance with certain provisions of financial related laws, regulations, and contracts, and evaluating certain internal control policies and procedures established to ensure such compliance.

The Department of Administrative Services provided accounting, payroll and personnel services for the Office of the Governor during the audited period. The scope of our audit did not extend to the evaluation of the relevant controls at that Agency.

COMMENTS

FOREWORD:

The Office of the Governor was established under Article Fourth of the Constitution of the State of Connecticut and operated 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 until July 1, 2004. M. Jodi Rell was sworn in as the Governor of Connecticut on that date. Under Section 3-2 of the General Statutes, the annual salary of the Governor is $150,000.

As noted above, 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 $1,660, $1,697 and $685 during the fiscal years ended June 30, 2005, 2006 and 2007, respectively. The source of these receipts was expenditure refunds and photocopying fees.

General Fund expenditures totaled $2,705,026, $2,753,360 and $2,670,047 during the fiscal years ended June 30, 2005, 2006 and 2007, respectively. A comparison of expenditures during the audited period is presented below:

	Fiscal Year Ended June 30,		
	2005	**2006**	**2007**
Personal services	$2,267,449	$2,292,403	$2,231,425
"Other Expenditures"	437,577	460,957	438,622
Total General Fund Expenditures	**$2,705,026**	**$2,753,360**	**$2,670,047**

"Other Expenditures" were made up as follows:

	Fiscal Year Ended June 30,		
	2005	**2006**	**2007**
Membership Dues	$177,978	$177,978	$181,878
Rental Expenditures	46,516	47,944	50,417
Telecommunications	38,436	27,310	20,454
Printing Expenditures	17,412	23,317	14,676
Miscellaneous	157,235	184,408	171,197
Total "Other Expenditures"	$437,577	$460,957	$438,622

The "Other Expenditures" total above include expenditures associated with membership in the National Governors' Association, and rental expenditures associated with the Governor's Office in Washington D.C.

In addition to the General Fund expenditures detailed above, the Governor's Office also expended $4,149, $9,113 and $53,194 from the Capital Equipment Purchases Fund, mainly for computer related equipment and maintenance, during the fiscal years ended June 30, 2005, 2006 and 2007, 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 raised private funds to assist in the restoration and preservation of the Governor's official residence. Administration of the

Governor's Residence Conservancy’s funds was provided by the Department of Public Works. An Independent Public Accountant performed the required financial and compliance audit work associated with the Governor’s Residence Conservancy, that was reviewed as part of our audit of the Department of Public Works. The Executive Chambers Conservancy was dissolved in November 2005, and its’ remaining property and other assets were conveyed to the State of Connecticut.

CONDITION OF RECORDS

Our review of the Office of the Governor for the fiscal years ended June 30, 2005, 2006 and 2007 noted the following condition.

Noncompliance with the Requirements of the State Property Control Manual and Lack of Segregation of Duties:

Criteria: Chapter 3 of the State of Connecticut Property Control Manual requires the annual submission of a CO-59 Report. One line of that report requires numerical data for "Other Property Owned With Trustee Funds." This item is described as "Summary total from the agency's inventory report, of items not owned by the State such as personal property of patients or equipment owned by Student, Patient, or Inmate Activity Funds."

Chapter 4 of the State of Connecticut Property Control Manual requires that "An asset acquired by donation or escheatment is generally capitalized, if it meets the established criteria, at its estimated fair market value at the time of acquisition."

At an Executive Chambers Conservancy Inc., Board of Directors Meeting on November 2, 2005, it was resolved that the Corporation "…shall dissolve and liquidate…" A plan of Liquidation and Dissolution was adopted which included the following provision "The Corporation shall…convey all of the remaining personal property and assets of the Corporation…to the State of Connecticut…"

Good Business Practice requires that the responsibility for periodic physical inventories of capitalized assets should be assigned to responsible officials who have no custodial, record keeping or annual reporting responsibilities.

Condition: The CO-59 Reports for the fiscal years ended June 30, 2006 and 2007, both gave an opening and closing balance of $448,050 for "Other Property Owned With Trustee Funds." The backup documentation provided supported a value of only $88,425 for furniture and artwork on loan from museums and other organizations. However, the ownership of the items in question does not meet the criteria required for "Other Property Owned With Trustee Funds" and therefore the opening and closing balances are both overstated by $448,050.

Items of personal property included in the assets of the Executive Chambers Conservancy that became the property of the State upon the dissolution of the Conservancy, were not recorded in the inventory records of the Office of the Governor which are maintained by the Department of Administrative Services (DAS). In addition, the fair market value of these items was not determined.

The DAS employee mainly responsible for compiling the annual CO-59 reports is also responsible for conducting periodic physical inventories of equipment and furniture, and maintaining the inventory records of such assets.

Effect: The CO-59 Reports for the fiscal years ended June 30, 2006 and June 30, 2007, overstate the closing balance of "Other Property Owned With Trustee Funds" by $448,050.

The inventory of controllable and capitalized items maintained by the Department of Administrative Services for the Office of the Governor did not include the property acquired from the Executive Chambers Conservancy. The Fair Market Value of such property has not been determined.

The lack of required segregation of duties at DAS lessens our ability to be able to rely upon the Office's inventory of furniture and equipment records, or the annual CO-59 Reports.

Cause: No direct cause is known for these weaknesses but it is likely that limited staffing levels and limited supervisory oversight at the Department of Administrative Services were contributory factors.

Recommendation: The Office of the Governor should instruct the Department of Administrative Services to follow the mandates and recommendations of the State Property Control Manual in all matters relating to the administration of the property of the Office of the Governor, and in the preparation of its annual CO-59 Reports. The Office should also instruct the Department of Administrative Services to provide a higher level of segregation of duties in connection with such tasks. (Recommendation 1.)

Agency Response: Response by the Department of Administrative Services:

"The $448,050 for "Other Property Owned with Trustee Funds" was art work that had been returned but had not been reflected as such on the CO-59 Report. $84,425 is the correct figure for the artwork but it will not appear on future CO-59 Reports as advised by the Comptroller's Office.

The items that were part of the Executive Chambers Conservancy are at least 13 years old and most likely would not meet the $1,000 threshold for reportable items. The only way to determine this would be to have the furniture appraised. The items will be listed as controllable for the June inventory report but will not be reflected on the annual CO-59 Report. DAS had no knowledge of the transfer before the audit finding.

There is a shortage of resources in the Property Management area as well. There are only three individuals and 18 agencies that they are servicing. We were in the process of hiring another person when the hiring freeze was implemented."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2003 and 2004, contained no recommendations.

Current Audit Recommendation:

1. **The Office of the Governor should instruct the Department of Administrative Services to follow the mandates and recommendations of the State Property Control Manual in all matters relating to the administration of the property of the Office of the Governor, and in the preparation of its annual CO-59 Inventory Reports. The Office should also instruct the Department of Administrative Services to provide a higher level of segregation of duties in connection with such tasks.**

Comment:

We noted several conditions indicative of errors in compiling fiscal data for the annual Inventory of Equipment Reports. We also noted inadequate segregation of duties over the management of the inventory of furniture and equipment, and, in the preparation of the annual CO-59 Reports.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Office of the Governor for the fiscal years ended June 30, 2005, 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 Office of the Governor for the fiscal years ended June 30, 2005, 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 Office of the Governor 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 Office of the Governor'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 discussed below, we identified a deficiency in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be a significant deficiency.

A *control deficie*ncy 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 deficiency described in the accompanying "Condition of Records" and "Recommendations" sections of this report to be a significant deficiency in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 - Noncompliance with the Requirements of the State Property Control Manual and Lack of Segregation of Duties.

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 do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters:

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency Response to the finding identified in our audit is described in the accompanying "Condition of Records" sections of this report. We did not audit the Agency Response and, accordingly, we express no opinion on it.

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

CONCLUSION

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 by the personnel of the Department of Administrative Services during the course of this examination.

Michael H. Hamilton
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts