

STATE OF CONNECTICUT



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

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

Table of Contents

INTRODUCTION	1
COMMENTS	2
FOREWORD	2
Commission for Educational Technology.....	2
RÉSUMÉ OF OPERATIONS	3
General Fund.....	3
Special Revenue Funds – Federal and Other Restricted Accounts	4
Internal Service Funds	5
Technical Services Revolving Fund	5
Capital Equipment Data Processing Revolving Fund.....	5
CONDITION OF RECORDS	6
Employee Performance Evaluations Not on File	6
Administration of Compensatory Time	6
Non-Compliance with Ethics Requirements.....	8
Failure to Adhere to Statutory Reporting Requirements.....	9
Timely Preparation of Revolving Fund Financial Data	10
Administration of Capital Equipment Data Processing Revolving Fund.....	11
Internal Controls Over Cash Receipts.....	12
Maintenance of Inventory Records	13
Depreciation of Assets Purchased with Pay Phone Revenue.....	14
Undocumented Interfund Cost Transactions.....	15
Data Processing Rates Not Established/Updated in a Timely Manner	16
Lack of Date Stamp on Bid Responses	17
Lack of Compliance with Advertising Requirements.....	18
Retention of Documents Supporting the Selection of Proposals	20
Utilization and Updating of Master Agreements	21
Modifications to Terms of Existing Contracts.....	23
Use of DOIT Logo/Testimonials in Vendor Literature.....	24
Statewide Training of Information Technology Employees.....	25
Standardization of Memoranda of Understanding.....	25
Monitoring of Fees Charged for Computer-Stored Public Records.....	26
Unaddressed Risks of DOIT’s Exercise Facility	28
RECOMMENDATIONS	30
CERTIFICATION	37
CONCLUSION	40

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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July 18, 2007

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

We have examined the financial records of the Department of Information Technology (DOIT) for the fiscal years ended June 30, 2004, and 2005. This report on the examination consists of the Comments, Recommendations and Certification, which follow.

Financial statements pertaining to the operations and activities of the Department of Information Technology for the fiscal years ended June 30, 2004 and 2005 are presented and audited on a Statewide Single Audit basis to include all State agencies and funds. This audit has been limited to assessing the Department of Information Technology's compliance with certain provisions of financial-related laws, regulations, contracts and grants, and evaluating the Agency's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Information Technology operates under the provisions of Title 4d of Chapter 61 of the General Statutes. The Agency was created by Public Act 97-9 of the June 18, 1997 Special Session of the General Assembly. The legislation that created the Department of Information Technology (DOIT) combined divisions and functions that previously were part of the Department of Administrative Services, Office of Information Technology.

DOIT was created to provide statewide guidelines, policies and procedures for use of information technology for State agencies. DOIT is responsible for the procurement of information and telecommunication systems for executive branch agencies, along with providing services to State agencies through the State Data Center.

Section 4d-2 of the General Statutes provides that the Department of Information Technology be administered by a Chief Information Officer (CIO). Gregg P. Regan served as CIO during the audited period until January 5, 2005. Diane S. Wallace was appointed and has served as the CIO since February 18, 2005.

Section 4d-6 of the General Statutes provides that the CIO shall prepare an implementation plan, with policy goals and strategies for management and delivery of information and telecommunication systems for State agencies.

Section 4d-7 of the General Statutes provides that the CIO shall develop, publish, and annually update an information and telecommunication systems strategic plan with the following goals: (1) To provide voice and data communications among all State agencies; (2) To promote an efficient collection, storage and use of information; and (3) To develop an information policy for State agencies. The strategic plan shall include (1) Establishment of standards for the architecture for information and telecommunication systems; (2) Plans for a cost-effective State-wide telecommunication network; (3) A level of information and telecommunication systems that will ensure effective and efficient utilization and access to the State's information; (4) Identification of annual expenditures and major capital commitments; and (5) Direction and policy planning.

Section 4d-8 of the General Statutes provides that the CIO, under the provisions of Title 4a, shall purchase, lease, and contract for information and telecommunication system facilities, equipment, and services.

Commission for Educational Technology:

Section 4d-80 of the General Statutes established the Commission for Educational Technology within the Department of Information Technology for administrative purposes. The Commission is composed of twenty members from areas of education, business, information technology and government.

As of June 30, 2005, the members and their appointing authorities were:

Betty Sternberg, Chair	Commissioner, Department of Education (ex-officio)
Nancy Cetorelli	Connecticut Association of Public School Superintendents
William Cibes	Chancellor, Connecticut State University System (ex-officio)
Ashish Deshpande	Office of the Lieutenant Governor, representing business and technology
Patricia Fusco	CT Federation of Educational and Professional Employees
Barbara Gibson	Connecticut Library Association
Jack Goldberg	Commissioner, Department of Public Utility Control (ex-officio)
Judith B. Greiman	Connecticut Conference of Independent Colleges
Merle Harris	President, Charter Oak State College (ex-officio)
Cal Heminway	Connecticut Association of Boards of Education
Marc Herzog	Chancellor, Connecticut Technical Colleges (ex-officio)
Michael Kerntke	Vice President for Information Services, University of Connecticut (ex-officio)
Valerie F. Lewis	Commissioner, Department of Higher Education (ex-officio)
Denise Moynihan	Connecticut Educators Computer Association
Paul Picard	Connecticut Education Association
George Selmont	President Pro Tempore of the Senate, representing business and technology
Bart Stanco	Speaker of the House, representing business and technology
Diane S. Wallace	CIO, Department of Information Technology (ex-officio)
Ken Wiggin	State Librarian, Connecticut State Library (ex-officio)

There was one Governor-appointed vacancy.

The Commission is to act as the principal educational technology policy advisor for State government; develop, oversee and direct the attainment of statewide technology goals; coordinate the activities of all State agencies, educational institutions and other parties involved in the creation and management of a reliable and secure network that will offer connectivity and allow for transmission of video, voice and data transmission to every library, school, regional educational service center and institution of higher education; be the liaison between the Governor and the General Assembly and local, State and Federal organizations and entities with respect to educational technology matters; and develop and maintain a long-range plan and make related recommendations for the coordination of educational technology.

RÉSUMÉ OF OPERATIONS:

General Fund:

The Agency's General Fund receipts totaled \$2,110,008, \$-0-, and \$-0- for the 2002-2003, 2003-2004, and the 2004-2005 fiscal years, respectively. The decrease in General Fund revenue was attributable to change in accounting procedures resulting from implementation of a new State accounting system.

Auditors of Public Accounts

A comparative summary of Department of Information Technology expenditures from General Fund appropriations for the fiscal years ending June 30, 2003, 2004 and 2005 is presented below:

	<u>Fiscal Year 2004-2005</u>	<u>Fiscal Year 2003-2004</u>	<u>Fiscal Year 2002-2003</u>
Personal Services	\$ 7,520,528	\$ 1,669,756	\$ 2,373,260
Other Expenses	8,646,421	4,630,055	3,849,865
Automated Personnel System		1,134,935	1,608,186
Equipment			102,818
Health Insurance Portability & Accountability	<u>95,766</u>	<u>372,788</u>	<u>1,579,609</u>
Total General Fund Expenditures	<u>\$ 16,262,715</u>	<u>\$ 7,807,534</u>	<u>\$ 9,513,738</u>

General Fund expenditures amounted to \$9,513,738, \$7,807,534, and \$16,262,715 during the fiscal years ended June 30, 2003, 2004 and 2005, respectively. The decrease in expenditures from fiscal year 2003 to 2004 was primarily due to a change in accounting procedures resulting from implementation of a new State accounting system. That system established a new Special Revenue Fund entitled "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund. Further comments on this Fund are presented below.

The increase in personal service expenditures from fiscal year 2004 to fiscal year 2005 was attributable to the centralization of most of the State's information technology managers to DOIT from their respective agencies. In addition, amounts that had been appropriated for a separate Ed-Net began to be recorded in the General Fund.

Special Revenue Funds – Federal and Other Restricted Accounts:

As previously explained, beginning with the 2003-2004 fiscal year, Federal grant and other restricted account activity previously recorded in the General Fund was recorded by the Comptroller in a newly established Special Revenue Fund.

Revenues of this Fund, as recorded by the State Comptroller for the fiscal years ended June 30, 2004 and 2005, totaled \$270,345 and 930,190, respectively. A summary of Fund expenditures is presented below:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Expenditures:	\$	\$
Health insurance portability & accountability	167,272	98,519
Employee exercise facility	2,155	278
ED-Net	<u>705,515</u>	<u> </u>
Total Expenditures	<u>\$ 874,942</u>	<u>\$ 98,797</u>

Internal Service Funds:

During the audited period, DOIT administered two internal service funds. A brief description of each fund follows:

Technical Services Revolving Fund:

Authorized by Section 4d-9 of the General Statutes, the Fund was used to account for the operations of the Agency's telecommunication and data processing operations. The Fund accounts for the collection of user fees and the costs associated with providing centralized data processing utilities and telecommunication service to user State agencies. Revolving Fund cash receipts and disbursements for the 2002-2003, 2003-2004 and 2004-2005 fiscal years were as follows:

	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
Cash Balance, Beginning of Year	\$ 5,841,910	\$ 2,269,246	\$ 1,541,688
Receipts	<u>39,100,519</u>	<u>42,363,310</u>	<u>46,231,687</u>
Total	44,942,429	44,632,556	47,773,375
Disbursements	<u>39,210,860</u>	<u>38,790,646</u>	<u>45,504,129</u>
Cash Balance, End of Year	<u>\$ 5,731,569</u>	<u>\$ 5,841,910</u>	<u>\$ 2,269,246</u>

Capital Equipment Data Processing Revolving Fund:

The Capital Equipment Data Processing Revolving Fund is a revolving fund, authorized by Section 4d-10 of the General Statutes, that is used to finance the purchase of data processing equipment and related items necessary to maintain or improve the State's data processing functions.

There was no activity in this Fund during the period under review. Further comments can be found in the Condition of Records section of this report.

CONDITION OF RECORDS

Our examination of the records of the Department of Information Technology disclosed certain matters of concern requiring disclosure and Agency attention.

Employee Performance Evaluations Not on File:

- Criteria:* Sound internal control dictates that evidence of employee performance evaluations should be on file to provide support for salary adjustments and personnel actions taken.
- Condition:* For six of the 20 employees we sampled, performance evaluations covering fiscal years 2003 and 2004 were not on file in the human resources unit.
- Effect:* The absence of employee performance evaluations prevents the verification of salary increases attributable to such reviews.
- Cause:* Administrative oversight appears to contribute to the condition.
- Recommendation:* The Department of Information Technology's human resources unit should exercise greater care in maintaining evidence of performance evaluations. (See Recommendation 1.)
- Agency Response:* "DOIT Human Resources has initiated a more comprehensive program to insure service ratings are issued on time. In addition, DOIT Human Resources has begun tracking all service ratings received and contacting Directors to notify him/her when ratings are missing."

Administration of Compensatory Time:

- Criteria:* State personnel policies and relevant collective bargaining agreements provide for the awarding of compensatory time in lieu of overtime to employees that exceed certain salary levels. In most instances, overtime and compensatory time is expected to be kept to the minimum necessary to accomplish the necessary tasks in the allotted time. Large balances of compensatory time are not expected to accrue because typically collective bargaining contracts call for such time to be used as soon as practicable.

In accordance with the Engineering, Scientific, and Technical (P-4) Collective Bargaining Agreement, employees allowed to accumulate compensatory time shall be required to schedule and use such compensatory time no later than the first full six-month period

following its being earned. The employee is to receive either compensatory time off or payment for such time earned.

Condition: We noted that a relatively small number of individuals were permitted to regularly earn compensatory time without the apparent ability to schedule the use of such time. This resulted in large balances which ultimately were paid out to the employees.

The codes built into the automated payroll system used by DOIT to track the accrual and expiration of compensatory time were set to never lapse for a number of employees under the P-4 Collective Bargaining Contract. The Department's payroll unit did not have a process in place to actively monitor and oversee compensatory time.

Effect: The forced payout of compensatory time likely caused personnel services expenditures to be larger than would otherwise be necessary. These payouts serve to increase earnings for those impacted employees, potentially increasing the ultimate pension liability for the State.

Accrued compensatory time was carried over indefinitely for some employees in violation of the terms of the collective bargaining contract. The absence of a process to monitor the compensatory time of employees increases the risk that such balances could be in error and not be detected and impedes the reporting of such information to management for further action.

Cause: This condition appears to exist due primarily to staffing issues and to a misinterpretation of the relevant terms of the collective bargaining agreement.

Recommendation: The Department should monitor compensatory time more closely and flag the expiration of the time earned. (See Recommendation 2.)

Agency Response: "DOIT Human Resources/Payroll has begun monitoring compensatory time more closely and reinstated the expiration date of compensatory time earned. The CIO has instructed the Directors to scrutinize the approval of compensatory time as well as required monthly reporting. This has resulted in a significant decrease in compensatory time earned."

Non-Compliance with Ethics Requirements:

Criteria: In accordance with Section 1-83, subsection (a) (2), of the General Statutes, each State agency is to develop an ethics statement as it relates to the mission of the agency.

The Ethics Compliance Plan issued by the Governor's Office as a result of Governor Rell's Executive Order Number 1 calls for an exit interview to be conducted by the agency's Ethics Liaison Officer to remind staff of potential issues relating to future employment.

Condition: At the time of our inquiries, DOIT had not implemented its own ethics statement. Instead, a summary of the State Ethics Code was being distributed to new employees.

DOIT had not implemented an exit interview process as required by the Governor's Ethics Compliance Plan.

Effect: The DOIT human resources unit was not promulgating the required ethics statements to employees and vendors. Separating employees were not afforded the opportunity to review the provisions of the Ethics Code prior to leaving State service.

Cause: Agency staff appeared to be unaware with the specific requirements noted above.

Recommendation: The Department of Information Technology should implement its own specific ethics statement to comply with the provisions of Section 1-83 of the General Statutes and institute exit interviews as required by the Ethics Compliance Plan issued as a result of Executive Order Number 1. (See Recommendation 3.)

Agency Response: "DOIT has completed a draft Ethics Policy and is in the process of pursuing acceptance with the Office of State Ethics. Exit interviews are now being conducted for all exiting staff and the ethics requirements are being reviewed with all employees leaving State service. In addition, Human Resources is notifying candidates of the State ethics requirements prior to offering a job and the agency is providing ethics training on an annual basis. All new, exiting and current employees will be required to sign a receipt acknowledging the Ethics Policy which will be kept in their personnel file."

Failure to Adhere to Statutory Reporting Requirements:

Criteria: Section 4d-7, subsection (a), of the General Statutes provides that the Chief Information Officer shall develop, publish and annually update an information and telecommunication systems strategic plan. Such a plan should serve as a basis for the decisions that are made regarding the direction of information technology within the State.

Section 4d-12, subsection (b), of the General Statutes establishes an information and telecommunication systems executive steering committee which is responsible for reviewing and approving or disapproving the annual information and telecommunication systems strategic plan. The committee is also responsible for submitting a report on approved variances to the list of approved architectural components for information and telecommunication systems for State agencies, the strategic plan, and appropriations for information and telecommunication systems.

Condition: We were informed by the Department's Communication Officer that the information and telecommunication systems strategic plan and the associated executive steering committee did not exist during the audited period.

Effect: The lack of the required committee directly resulted in the omission of the report required by Section 4d-12, and may have contributed to DOIT's failure to produce the report required by Section 4d-7. This information may prevent the General Assembly from reaching critical decisions regarding the Department and contribute to a lack of focus regarding the Department's mission.

Cause: It appears that a lack of administrative oversight contributed to the condition.

Recommendation: The Department should encourage the establishment of the information and telecommunication executive steering committee in accordance with Section 4d-12 of the General Statutes and take steps to comply with the reporting requirements of Sections 4d-7 and 4d-12 of the General Statutes. (See Recommendation 4.)

Agency Response: "In April 2006, the Chief Information Officer issued a working draft of the State Strategic IT Plan -- the first strategic plan issued by DOIT in four years. The document was formally presented to Agency Commissioners, the Office of the Governor, and other key stakeholders. The plan included IT plans submitted by agencies in accordance with Sections 4d-7(c).

The CIO identified five (5) strategies:

- Investing in IT personnel and addressing organization issues,
- Improving Disaster Backup and Recovery and security programs,
- E-Government - enhancing and enforcing a technology blueprint for moving forward,
- Making services more accessible to the public by improving program effectiveness and resolving business issues, and
- Implementing technology “Best Practices.”

The plan includes IT summaries submitted by agencies in accordance with Sections 4d-7(c). Agencies with DOIT managers have also drafted IT Plans for those agencies. These agencies include DMHAS, DSS, DMR, DPH, SDE, DPS, DOC, DPW, DOL, DAS, DOB, DOT and Insurance. OHCA has also submitted its IT Plan.

Section 4d-12 (a) calls for the establishment of an information and telecommunication systems executive steering committee consisting of the CIO, the Secretary of OPM, the Comptroller, the Treasurer, the Commissioner of DAS and the chairperson of the board of trustees of each constituent unit of the state system of higher education, or their designees. DOIT shall serve as staff to the committee. Among the major responsibilities for the committee is to review the strategic plan. Due to limited resources and the time to develop the State Strategic IT Plan, DOIT has not made the steering committee a priority. After the State Strategic IT Plan is completed, DOIT will plan to move forward on this effort.”

Timely Preparation of Revolving Fund Financial Data:

Criteria: In order for the Agency to monitor its financial condition, timely and complete financial information needs to be available to both Agency management and those agencies responsible for the preparation of the State’s Comprehensive Annual Financial Report. The State Comptroller’s Office promulgates instructions annually detailing what is required and specifying deadlines.

Condition: The Department has not met the specified deadlines for submitting the required information to the State Comptroller. While the requirements change little from year to year, DOIT seems to have difficulty each year meeting the deadlines. The June 30, 2005 and 2006 financial reports were not completed until October 2005 and November 2006, respectively.

- Effect:* Delays in the submission of required information to the State Comptroller increases the risk that the Comptroller's Office will not meet its deadlines for the preparation of the Comprehensive Annual Financial Report.
- Cause:* DOIT experienced staff turnover in critical accounting positions and has not implemented sufficient cross-training to enable additional staff to prepare the necessary reports.
- Recommendation:* The Department of Information Technology should initiate steps to improve the timeliness of year-end financial reports. (See Recommendation 5.)
- Agency Response:* "DOIT has taken several steps to address this issue including adding two new staff positions in the budget unit this past year. The staff has gone through a reporting cycle and is now prepared to complete the reporting task in a timely manner. The budget unit is now developing written financial procedures / processes to ensure that statutorily / OSC mandated reports are completed on time. These procedures will incorporate the critical reporting requirements and deadlines that DOIT must meet in order to comply with these reporting requirements. DOIT has also launched a comprehensive succession plan identifying single points of failure, retirees and consultants. Required position skill sets are being identified and documented and used to develop a training and education program to address all gaps."

Administration of Capital Equipment Data Processing Revolving Fund:

- Criteria:* In order to maintain the effectiveness of the Capital Equipment Data Processing Revolving Fund (CEDPF), amounts expended should be promptly reimbursed by using agencies on a predetermined payment schedule.
- Condition:* As noted in our prior audit, the CEDPF had a receivable balance of approximately \$8,300,000 that existed since June, 2003. This entire amount was due from the Technical Services Revolving Fund.
- Effect:* The Technical Services Revolving Fund received the benefit of the resources of the CEDPF without being required to pay back these resources in a timely fashion.
- Cause:* Cash flow within the Data Processing Revolving Fund was insufficient to make repayments to the CEDPF.

Recommendation: The Department of Information Technology should establish a repayment schedule to reimburse the Capital Equipment Data Processing Revolving Fund for amounts owed and adhere to repayment schedules for future borrowings. (See Recommendation 6.)

Agency Response: “With the improved cash positions in the 22002 Revolving fund, a repayment plan is in place to start repaying the Capital Equipment Data Processing Fund (CEDPF). The current fiscal year (06-07) will be paid in two six-month payments. July – December 2006 at \$43,498.44 per month for a total of \$260,990.64. The Jan – June 2007 payment will be made in June. The previous year’s obligations are scheduled to be repaid as the cash balance warrants. At fiscal year end, a determination will be made regarding the amount to be repaid. This action of paying down the prior fiscal years liability will reduce the fund balance, but not impact the profit and loss statement.”

Internal Controls Over Cash Receipts:

Criteria: Sound internal control dictates that a periodic reconciliation should be performed between the logs used to record daily cash receipts and amounts deposited and posted to the accounting system.

Condition: We were informed that reconciliations are not performed between the daily receipts log and the Core-CT system.

Effect: The lack of a reconciliation process may prevent or delay the discovery of a lost or unrecorded item.

Cause: A lack of administrative oversight may have contributed to the condition.

Recommendation: The Department should consider establishing a procedure for the periodic reconciliation of the receipts log to the Core-CT system. (See Recommendation 7.)

Agency Response: “The Agency has established a process to reconcile the Check Receipt Log to the actual deposits made in Core-CT on a timely basis. A weekly reconciliation will be completed by the new Fiscal Administrative Assistant, who works outside of the Accounts Receivable Unit, for separation of duties. Any variances discovered during the process will be reported immediately to the supervisor and management to take the appropriate action.”

Maintenance of Inventory Records:

Criteria: Standards and procedures for recording and maintaining inventory records are set forth in the State Property Control Manual issued by the State Comptroller. The Manual states that a complete physical inventory of all property must be taken at the end of the fiscal year to ensure that all property control records accurately reflect the actual inventory on hand.

The Manual requires that State agencies maintain a complete and accurate software inventory control system as well as a software library consisting of software media and licensing information.

Condition: The Department has not affixed inventory tags to equipment or completed a physical inventory of its equipment since it was created in July 1997.

Some of the figures reported on the CO-59 have been carried forward from prior years and were not fully supported. The Department improperly included software not owned by the State on its annual inventory report.

The Department does not maintain a comprehensive software inventory or software library of its hard media and corresponding licenses. Only software licenses with a value of \$10,000 or greater were inventoried. Records also fail to identify which hardware the software resides on.

Effect: The Department cannot clearly support some of the amounts it reports on its annual inventory report. The inventory value is overstated by approximately \$18.8 million as a result of including software apparently not owned by the State. The failure to promptly tag and record purchases results in the increased risk that equipment losses will not be detected in a timely manner.

The lack of control over software could lead to possible violations of software licensing agreements due to unauthorized use. The inability of the Department to document ownership of software licenses could result in the Department not being able to purchase upgrade licenses, which usually are obtained at a significantly reduced cost. The lack of accountability may lead to purchasing excessive copies of software or upgrades.

Cause: Insufficient staffing has been cited since 1997 as the cause of deficiencies in the Department's property control system.

Recommendation: The Department should develop and maintain property records in accordance with the State Property Control Manual by tagging all equipment, performing a complete physical inventory, and developing an accurate and comprehensive software inventory system. (See Recommendation 8.)

Agency Response: “DOIT has taken a number of steps to ensure future compliance with the State Property Control Manual.

The Agency has established a formal DOIT “Inventory Control Policy” that was signed off by the CIO (Chief Information Officer) and officially adopted in FY06.

The Agency began a fixed asset tagging process that is compatible with the Core-CT physical inventory mechanism. To date the vast majority of DOIT’s fixed assets have been tagged and the assets in both the Cost Management System (CMS) and Core-CT have been updated with the barcode tag data. The next step of asset reconciliation process will begin shortly.

The fiscal office is working with operational staff to ensure all newly purchased assets are properly tagged, their locations identified and the required asset data is entered in a timely manner into Core-CT. In addition, the fiscal and operations units are working to update the current Software license-tracking database to accurately reflect what is on hand.”

Depreciation of Assets Purchased with Pay Phone Revenue:

Criteria: Generally accepted accounting principles (GAAP) require the cost of an asset to be spread over its expected useful life.

Condition: Our review of Revolving Fund acquisitions made in fiscal years 2004 and 2005 found that software and equipment totaling \$2,120,000 was expensed over twelve months rather than capitalized and depreciated over the expected useful lives.

Effect: The Revolving Fund is not adhering to GAAP and is distorting the expenses of the Fund.

Cause: The Department chose to fully depreciate equipment and software purchased with pay phone revenue due to the uncertainty of continued pay phone revenue to depreciate against in subsequent years.

DOIT also relied on the State Comptroller for guidance, and was permitted to use a 1-year depreciation schedule that was established specifically for internal service funds.

Recommendation: The Department should modify its depreciation schedules for Revolving Fund assets to provide for conformance with generally accepted accounting principles. (See Recommendation 9.)

Agency Response: “The Agency is using a 1-year Core-CT equipment profile that was approved by the Office of the State Comptroller and is available for the Agency’s use. The assets in question were funded via the pay phone revenue account or were donated to DOIT. Assets purchased via the pay phone revenue stream are expensed using the 12-month depreciation cycle because there is no future revenue stream to match to an extended depreciable life. In the case of donated assets, DOIT’s cost basis is zero so there is no cost to allocate to future periods or match to future revenues. The fundamental purpose of depreciating a tangible asset or amortizing an intangible asset is to ensure the matching principle of GAAP is met. In these cases, there is no future revenue stream to match to a future depreciation expense.”

Auditors’ Concluding

Comment: Generally accepted accounting principles provide for assets to be depreciated over their useful lives. The Comptroller’s establishment of a one-year depreciation schedule was done at the request of the using agencies, but did not authorize agencies to use such a schedule unless it was appropriate. The useful lives of the vast majority of the items discussed above were generally three years.

Undocumented Interfund Cost Transactions:

Criteria: Sound internal control dictates that financial transactions should be adequately supported.

Condition: Supporting documentation for payments made from the General Fund to the Revolving Fund was not retained for subsequent examination.

Effect: The accuracy of certain cost transfers may be questioned in the absence of supporting documentation.

Cause: Staffing changes resulted in the documentation being misplaced.

Recommendation: The Department should ensure the retention of adequate documentation as support for interfund cost transactions. (See Recommendation 10.)

Agency Response: “There was one (1) transfer invoice under audit that the agency could not find the backup analysis worksheet. The backup worksheet would be used to justify the amounts transferred between the General and Revolving funds for services rendered. The manager who prepared the worksheet had retired and after an extensive search of her electronic files, the supporting documentation for the amount billed was not found.

Action taken since this occurrence included implementing the DCP2S requisition system that allows for electronic attachment of all supporting documentation. Since a requisition will not be approved without the attachments, the documents will now become a permanent part of the procurement process and a recurrence of this type would be prevented.”

Data Processing Rates Not Established/Updated in a Timely Manner:

Criteria: In order to provide assurance that the rates charged by the Data Processing Revolving Fund are sufficient to cover necessary costs, periodic comparisons need to be done.

As new products and services are offered in the Revolving Fund, rates should be established to prevent users of other services from subsidizing the users of those new services.

Condition: Rates for most services offered within the Revolving Fund have not been adjusted for at least 5 years. Some rates were actually established over ten years ago. DOIT had issued rebates in previous years if excess revenues existed, but rebates had not been issued for the last two years because costs had apparently caught up with or exceeded the current rates.

DOIT had established certain “rate-based services” without establishing corresponding rates and units of measure to charge users.

At the time of our review, DOIT was in the process of examining the rates charged in order to provide a better match of revenues and expenses.

Effect: There is reduced assurance that the established rates serve to cover the associated costs of providing the services. In order to prevent

the Revolving Fund from operating in a deficit or having other users subsidize certain services, rates need to be established for all goods and services offered.

Cause: We were unable to determine why DOIT had gone for so long without changes to some of its established rates. Many of the services identified by DOIT did not have a clear unit of measure upon which to assign costs.

Recommendation: The Department of Information Technology should continue its efforts to establish rates for all of the services that it offers. Where rates can't be readily assigned, consideration should be given to moving those functions out of the Revolving Fund to provide for a better matching of revenues to expenses. (See Recommendation 11.)

Agency Response: "DOIT has developed new rates and has been meeting with budget staff at the Office of Policy and Management (OPM). A new rate schedule catalog is currently in final draft form and should be finalized by fiscal year end. The Agency anticipates posting the new rate schedule on its web site once approved. The Agency will monitor and update the catalog on an annual basis.

The Agency has also identified a number of services that do not have a benefit through chargeback such as email and internet services, and feel that it makes more sense to move these services to the General Fund. A budget option request was submitted for the 07-08 fiscal year."

Lack of Date Stamp on Bid Responses:

Criteria: Sound internal control dictates that bid responses received by the Department should be time-stamped to document receipt by the established deadline.

Condition: We noted numerous instances in which bid responses received by the Department did not appear to have a time stamp indicating when the responses were received.

Effect: The absence of time-stamped responses to bids prevents confirmation that the responses were received prior to the deadline and may make it more difficult to defend challenges from competing vendors as to the propriety of the Department's procurement process.

Cause: The condition appears to be due to a lack of administrative oversight over the process.

Recommendation: The Department should improve controls over the sealed bid process by ensuring that all responses are time-stamped upon receipt. (See Recommendation 12.)

Agency Response “When a bid response is delivered to DOIT, the Vendor is greeted by security and required to show a valid ID and sign the visitor log. The vendor is then directed to Facilities where the bid is delivered to a Facilities staff member who stamps the receipt with date and time via a time clock, records the bid number, vendor name, number of packages, date and time the bid is due, and to who in Contract and Procurement the bid is to be delivered. The receipt is copied and that copy is attached to the bidder’s package. The original receipt is given to the vendor for their records. The package(s) is delivered to Contract and Procurement who then signs for them. In instances where a bid comes in via Express mail, Facilities has a record of the package and time being delivered via their delivery log.”

Auditors’ Concluding

Comment: All of the exceptions that we encountered were the result of proposals arriving through commercial carriers. DOIT’s checklist used to validate proposals requires that the documents themselves be time-stamped, regardless of how they entered the building.

Lack of Compliance with Advertising Requirements:

Criteria: Section 4a-57 of the General Statutes indicates that in the case of an expenditure which is estimated to exceed fifty thousand dollars, such notice shall be inserted, at least five calendar days before the final date of submitting bids or proposals, in two or more publications, at least one of which shall be a major daily newspaper published in the State and shall be posted on the Internet. Each notice of a planned purchase under this subsection shall indicate the type of goods and services to be purchased and the requirements concerning non-discrimination and affirmative action pursuant to Section 4a-60 and, when applicable, requirements concerning the awarding of contracts to small and minority business enterprises, as well as individuals with a disability and nonprofit corporations pursuant to Section 4a-60g of the General Statutes.

Condition: At the time of our inquiry, we were informed by Department staff that the policy of advertising for the submission of bids or proposals is to put a general reference in a major State newspaper on a weekly basis referring to DOIT's website to examine bid notices.

Subsequent to June 2005, DOIT stopped advertising in a second publication that was designed to reach small and minority entities.

With regard to the advertisements that were published, there was no mention of the goods/services needed at any particular time nor was any reference made to nondiscrimination or affirmative action requirements. Rather, DOIT states that it is a "non-discriminating employer".

Effect: The failure to adequately publish bid notices and the omission of required information and the reliance on the Internet as the primary source of State procurement information increases the risk that eligible bidders could be discouraged from submitting a proposal.

Cause: This condition appears to be caused by a combination of a lack of oversight on behalf of the Agency, a misinterpretation that Governor Rell's Executive Order(s) changed the statutory requirements, and the fact that technology and the use of the Internet as a communication tool has apparently outpaced some legislation.

Recommendation: The Department should comply with the public notice requirements of Section 4a-57 of the General Statutes by publishing all required information in at least two publications, as well as the Internet. (See Recommendation 13.)

Agency Response "We now have a standing legal notice in the Hartford Courant and a standing advertisement in the Northeast Minority News – 2 publications, as well as all procurement opportunities being posted on the State Contracting Portal – the Internet."

Auditors' Concluding

Comment: The action taken by DOIT alleviates the problem of not advertising in two publications. However, the sufficiency of those ads is questionable because they don't contain all of the required information.

Retention of Documents Supporting the Selection of Proposals:

- Background:* When DOIT solicits proposals on behalf of other agencies, it is common to have the user agency assemble a team to assist in evaluating the submissions and suggest the optimal proposal.
- Criteria:* Sound internal control dictates that signatures should be provided by the review team members documenting their collective agreement as to the best proposal. Individual review team members' scoring sheets should also be available to document the cumulative rankings and increase the integrity of the process.
- Condition:* We noted in both of the RFP selection processes that we examined that there was a lack of individual scoring documentation on hand at DOIT. Signatures of review team members identifying the successful vendor were also not readily available without contacting the user agency.
- Effect:* The failure to implement and retain these documents reduces the level of assurance that can be placed on the objectivity of the competitive procurement process.
- Cause:* DOIT apparently had not considered it part of its responsibility to gather these records as part of the award process, relying instead on the user agency.
- Recommendation:* The Department should ensure that all documentation of individual review team scoring be on file as well as sign-off by all team members of the recommended vendor. (See Recommendation 14.)
- Agency Response:* "The IT Contracts and Purchasing Procedural Manual, published in August, 2006 states the following requirement concerning RFP Evaluations:
- "Analyze released proposals for compliance with mandatory items and pre-defined Evaluation Criteria. Detailed Evaluation Criteria must be pre-defined, reviewed and agreed to by the Proposal Review Team. Agreement with the process is confirmed by each team member's signature. The Proposal Review Team will provide their individual evaluation as well as the consensus summary sheets and scoring with applicable notes."
- This Audit report covers a time period that pre-dates the manual and the reinforcement of the requirement."

Utilization and Updating of Master Agreements:

Criteria: Sound internal control dictates that contracts or agreements have beginning and end dates to assist in defining the obligations of the parties and minimize future conflicts. The longer an agreement is in effect without being revised or reviewed, the more likely it is that cost inefficiencies or misunderstandings between the parties about performance obligations will arise, especially in the rapidly evolving information technology environment.

While the use of open-ended master agreements can hasten the procurement process, they can also become a crutch upon which additional products and services are added without seeking other vendors with similar products to provide a competitive environment.

Relevant State Statutes and Gubernatorial Executive Orders require that new provisions be incorporated into existing vendor agreements to reduce the risk to the State. Examples include:

- Sections 4a-60 and 4a-60a of the General Statutes, which refer to nondiscrimination and affirmative action provisions.
- Executive Order 16, issued in 1999, which refers to the Violence in the Workplace Prevention Policy.
- Executive Order 1, issued in 2005 by Governor Rell, which requires certain ethics provisions to be included in State contracts.

Certain master agreements include price escalation clauses based upon the Consumer Price Index (CPI).

Condition: We noted that certain master agreements did not appear to have specified end dates and/or updated required statutory language such as is provided for in Sections 4a-60 and 4a-60a, and Executive Order #16.

Master agreements provide for the long-term procurement of certain products and services from a particular vendor or vendors. Additional products and services are frequently added to an existing master agreement rather than being competitively bid. In an environment of emerging technologies, long-term contracts may not provide for sufficient competition to obtain optimal pricing and can

prevent vendors that are new to the industry from offering their services.

The Department has not documented its review of compliance with the escalation clause regarding maintenance cost increases. We were informed by Department staff that currently there is a lack of understanding regarding the use of the Consumer Price Index.

Effect: The lack of contractual end dates and the inclusion of provisions to add products or services to master agreements appear to aid in circumventing the competitive procurement process, providing a greater potential for incurring unnecessarily higher costs.

The failure to determine compliance with agreement provisions for price escalations increases the likelihood of overpaying for certain services.

Cause: The Department received guidance from its representative at the Attorney General's Office that indicated (1) existing agreements did not need to be amended to include revised statutory language unless the agreement is amended for another purpose and (2) the practice of continuing to use master agreements is legally permitted when deemed appropriate. While we respect and concur with that guidance, there is a business value (and a cost) to opening these agreements up where possible to add new provisions and increase the competitive opportunities, as well as providing assurance that current vendors are willing and capable to adhere to the new requirements.

Recommendation: The Department should document its evaluation of all active master agreements to consider the costs and benefits to revise the agreements by incorporating new statutory and Governor-ordered language; establish end dates for same; and ensure that agreement provisions regarding price increases are monitored for compliance. (See Recommendation 15.)

Agency Response: "Two new employees were hired in the IT Contracts and Purchasing division of DOIT for the specific task of Contract Management in the Master Agreement area. The process of reviewing all Master Agreements for use, file completion and documentation as well as usefulness to the State is being done on a phase by phase basis. The current phase includes the monitoring of price escalation and its compliance with the Consumer Price Index.

The process described in this Auditor comment is known as "Amending" the Master Agreement. All Amendments to Master

Agreements must include incorporation of the latest statutory and Governor required language. Amendments also require review by the Attorney General's Office. What this amounts to is a re-negotiation of the agreement. To renegotiate all the Master Agreements DOIT would require the hiring of additional legal personnel.”

Modifications to Terms of Existing Contracts:

- Criteria:* One of the main purposes of a contract is to set in writing the charges that the parties agree to abide by during the duration of that agreement. This serves to protect each party in the event that the other wishes to modify the terms, including the hourly rates. Cost escalation clauses are commonly included in contracts to address some of these scenarios.
- Condition:* Our review of a contract for information technology consultants issued by DOIT found that DOIT had agreed to a cost increase of 8.5 percent in response to complaints by the participating vendors and user agencies that the contractual rates were too low to attract interest by the vendors. The associated contracts and master agreements did not contain provisions for any increases. The amount of the increase was determined by DOIT's analysis of the changes in the Consumer Price Index (CPI), despite the assertion in the previous finding that DOIT staff did not have sufficient understanding of the CPI.
- Effect:* DOIT subjected the State to increased rates without a contractual provision requiring such. Similar contractual agreements may not have been afforded the same opportunity, creating an inequity.
- Cause:* DOIT claimed that this action was necessary to attract capable consultants.
- Recommendation:* The Department of Information Technology should adhere to the terms of negotiated contracts and limit price adjustments to those contracts that contain such provisions. (See Recommendation 16.)
- Agency Response:* “The four (4) Vendors who are currently on the IT Professional Services Master Agreement were permitted to do a Product Schedule Update to update their rates due to complaints from Executive Branch State Agencies that the low rates on particular position categories prevented them from obtaining “good, qualified” consultants. This action was seen to be in the best interest of the State and was a unique event.”

Use of DOIT Logo/Testimonials in Vendor Literature:

- Criteria:* Contractual language in the State’s procurement documents (Form SP-7A) provides that vendors supplying goods and services to the State are generally not permitted to refer to sales to the State for advertising or promotional purposes without DOIT’s prior written approval.
- The use of DOIT’s logo and quotations from State employees in vendors’ literature and websites could be construed to imply that the State has endorsed a particular vendor or the products they sell.
- Condition:* During a random review of websites from various vendors, we found four vendors that appeared to have quoted State employees and/or used the DOIT logo without written permission from DOIT.
- Effect:* The use of such content in vendors’ advertising without written permission violates the terms and conditions of the State’s procurement documents, and increases the risk that the representations made by the vendors could be objectionable to the State.
- Cause:* The State’s policy contained in the boilerplate language seems to leave room for interpretation and is not sufficiently highlighted. There is no practical method for DOIT to monitor vendors’ compliance with the provision without policing all literature that exists.
- Recommendation:* The Department of Information Technology should consider methods to provide for increased emphasis on the prohibition against mentioning the State in vendors’ advertising. (See Recommendation 17.)
- Agency Response:* “DOIT’s Standard Bid/Contract Terms and Conditions (SP-7A) contains the following provision: “The Contractor shall not refer to sales to the State for advertising or promotional purposes without DOIT’s prior written approval.” DOIT’s Master Agreements contain the following general provision: “Contractor covenants and agrees that it will not, without prior written consent from the State, make any reference to the Department or the State in any of Contractor’s advertising or news releases.” The existence of these provisions inform Contractor’s of their responsibility in this area and whenever DOIT has been notified of the appearance of its logo on a Contractor’s web site, placed without prior written approval, has seen to its immediate removal. DOIT, however, cannot address this issue if it is not aware of its existence. The four instances cited

in this Auditor's report have now been brought to DOIT's attention and will be addressed. It is agreed that State employees should be reminded of their ethical responsibility in this area and not allow contractors to reprint or advertise their "testimonial-type" information without first obtaining their written consent. The CAO will notify DOIT employees of their responsibility in this area."

Statewide Training of Information Technology Employees:

- Criteria:* Section 4d-17 of the General Statutes indicates that the Chief Information Officer shall, within available appropriations, provide for the professional development of the State's information technology employees. Implicit in such a requirement is the need for tracking the needs/accomplishments of the State's IT staff.
- Condition:* In response to our prior audit, DOIT began compiling detailed records of its staff and the training that was received, based on DOIT's expenditures. However, DOIT has not implemented a process to document and evaluate IT training statewide.
- Effect:* In the absence of centralized monitoring of State IT employee training, there is an increased risk that the skill sets of IT employees may not keep pace with technology, resulting in inefficient use of resources.
- Cause:* DOIT has not implemented a system to track statewide training.
- Recommendation:* The Department should consider a centralized tracking mechanism for all State technology employees' training requirements and arrange and pay for such training in accordance with Section 4d-17 of the General Statutes. (See Recommendation 18.)
- Agency Response:* "Section 4d-17 Professional development of information technology employees states that "the Chief Information Officer shall, within available appropriations, provide for the professional development of the state's information technology employees." While DOIT is currently tracking all training for DOIT staff, it has not been provided sufficient resources or funding to embark on a comprehensive training initiative for all State IT employees."

Standardization of Memoranda of Understanding:

- Criteria:* The Department utilizes memoranda of understanding (MOUs) to document the agreement with user agencies as to what services will be provided, along with all other relevant terms. Accordingly, there

should be a method to ensure that all required terms are included in the language of each document.

Condition: The task of creating necessary MOUs was delegated to the various units within DOIT. Our inquiry into the process used to draft MOUs revealed that a template containing the entire Department's required language was not made available for employees to reference. Most MOUs were based on the previous version of that agreement, if one existed. A centralized review of these documents was not performed prior to execution.

Effect: There is an increased risk that provisions expected to be incorporated into each MOU may be omitted, creating inconsistencies and failing to protect DOIT's interests.

Cause: DOIT apparently had not considered the need for standardization of these documents.

Recommendation: DOIT should establish a process to ensure that memoranda of understanding are drafted in a consistent manner. (See Recommendation 19.)

Agency Response: "The Agency is in the process of establishing agency procedures to ensure that MOU's are drafted in a consistent manner. The Agency has established a MOU unit of two IT staff members along with a fiscal office contact to see the process through from beginning to end. All MOUs are reviewed, approved and signed by DOIT's General Counsel. In addition, the agency has created a Products and Services guide that provides standardized pricing which once executed, will decrease the number of MOUs.

The Agency will have this process finalized prior to the conversion of CMS to Core-CT on July 1, 2007. The Agency is planning to use the new projects and contracts module to track the agencies MOU's beginning next fiscal year."

Monitoring of Fees Charged for Computer-Stored Public Records:

Criteria: Section 1-212 (b) (4) of the General Statutes requires the Department of Information Technology to "monitor the calculation of the fees charged for copies of computer-stored public records to ensure that such fees are reasonable and consistent among agencies."

Condition: DOIT established guidelines in January 2000 for State agencies to follow when fulfilling requests for public information. However, DOIT has not done any active monitoring of fees assessed by State

agencies or municipalities, instead choosing to deal with questions or complaints as they arise. While our prior recommendation had suggested auditing the actual fees charged for such services, further consideration of this matter has suggested that it might be more efficient to implement a process for approving published fee schedules and responding to complaints alleging improper application of those fees.

Effect: An ongoing monitoring of the charges assessed for compiling computerized information was not in place as suggested by Section 1-212 (b)(4) of the General Statutes.

Cause: DOIT had not interpreted the law to require an active monitoring of the fees charged.

Recommendation: The Department of Information Technology should consider expanding its involvement in the monitoring of fees charged for compiling computerized information by requesting that fee schedules be submitted for approval. (See Recommendation 20.)

Agency Response: “DOIT is trying to fulfill its statutory requirement within existing resources. Unfortunately, without a full-time resource to dedicate to this function, DOIT cannot individually monitor 100 agencies and 169 cities and towns. DOIT instead relies on part-time outreach and education efforts. In the absence of a full-time resource to dedicate to this function, DOIT must rely on alternatives.

An informational website, with guidelines and standards for agencies, was established. Presentations, with handouts and Q&A, are made at workshops and conferences attended by state and local FOI officers. Written guidance and reviews of charges are provided for agencies, and costs have been lowered after an examination of the charges in question. The CIO set a goal of auditing one to two agencies per year, which has already been exceeded in 2007.

There is significant diversity in the State's more than 1,000 IT systems, the formats in which data can be provided, and the salaries of the professionals who perform "chargeable" tasks. DOIT is developing a cost-calculation worksheet for agencies and municipalities to use when calculating estimated and actual charges. The tool, if adopted by agencies, can assist in bringing consistency to the charge calculation process across agencies.”

Unaddressed Risks of DOIT's Exercise Facility:

Background: When DOIT took occupancy of its current leased facility in 2000, the previous tenant was found to have ceased operation of an equipped exercise facility. DOIT representatives perceived the existence of such a facility as a desirable benefit, and proceeded to establish a committee to oversee the facility and establish policies and procedures, as well as securing permission to utilize payroll deductions to charge employees for its use. Approximately 100 employees are currently authorized to use the facility.

Criteria: State agencies, in conjunction with the State Insurance and Risk Management Board, should be constantly assessing the risks inherent in activities they are associated with to ensure adequate insurance coverage.

The Office of the Attorney General, as the State's chief legal counsel, is charged with the duty of reviewing the legal sufficiency of all forms and contracts with the State.

Sound accounting practices dictate that activities that are operated with income derived from user fees should go through a complete assessment of the costs associated with the activity to prevent charges from being incurred by unrelated funding sources.

Condition: We were informed by the Director of the State Insurance and Risk Management Board that in her opinion, the State did not have an insurance policy in place to protect the State in the event that an employee injured while using the facility sought remedy from the State.

While DOIT has in place a set of forms that serve as a release of liability, informed consent, and physician's approval, these forms have not been reviewed by the Office of the Attorney General for legal sufficiency.

DOIT incurs costs to lease and maintain the area used as the fitness center as part of the overall lease of the building. There is no mechanism in place to identify or allocate these specific costs to the users of the fitness center.

In a September 2005 letter from the Commissioner of the Department of Administrative Services to the State's Chief Information Officer, the operation of a fitness center at DOIT was deemed to be "illegal" on the premise that it is out of the scope of DOIT's statutory mission, and unlike a similar facility located at the Department of

Transportation, the legislature had not sanctioned the existence of the center by approving a collective bargaining agreement containing provisions concerning such a facility.

Effect: The lack of sufficient insurance coverage places the State at risk in the event of a lawsuit by a user of the fitness center.

The failure of DOIT to request the approval of the fitness center forms by the Attorney General's Office increases the risk that the forms may not serve to accomplish the intended purposes.

Permitting DOIT to incur costs associated with the lease and maintenance of the area occupied by the fitness center distorts the ability to determine the true cost of operations and prevents user fees from recovering those costs.

DOIT appears to be operating the facility without legislative authority.

Cause: DOIT staff used a similar facility located at the Department of Transportation as a model without performing independent due diligence to identify and address the risks involved in DOIT's specific case.

Recommendation: The Department of Information Technology, in concert with the Office of the Attorney General and the State Insurance and Risk Management Board, should perform an analysis of the costs and risks associated with the exercise facility in order to assure, at a minimum, that direct costs are not borne by the State and that legal and insurance risks are addressed. (See Recommendation 21.)

Agency Response: "DOIT Human Resources secured the assistance of the State's Director of Insurance and Risk Management who recommended the purchasing of insurance and safety equipment. The employee-run organization that is responsible for the administration of the fitness center has procured both recommended items to the satisfaction of Insurance and Risk Management."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2002 and 2003, contained a total of 17 recommendations. Eight of those recommendations have been resolved. Nine recommendations are repeated. The status of recommendations contained in this prior report is presented below.

Status of Prior Audit Recommendations:

- The Department should improve procedures over the submission, approval, and correction of employees' timesheets by requiring the employee to attest to the timesheet's accuracy whenever possible. This recommendation has been resolved.
- The Department should retain sufficient evidence to document that goods and/or services are invoiced at established contractual rates. This recommendation is not being repeated.
- The Department should comply with the State Property Control Manual and its own policy regarding the method of depreciation for software and equipment purchases. This recommendation has been repeated. (See Recommendation 9.)
- The Department of Information Technology should consider utilization of the Capital Equipment Data Processing Revolving Fund only when resources are available to permit adherence to repayment schedules. In addition, accounting practices should be modified to facilitate the reporting of interfund amounts and receivable balances at their realizable values. This recommendation has been modified to reflect current conditions. (See Recommendation 17.)
- The Department should make an effort to eliminate the need to issue rebates by assessing utilization levels and cost of services and adjusting the revolving fund rate structure as needed. This recommendation has been modified to reflect current conditions. (See Recommendation 8.)
- The Department should assess the duties of the personnel charged to the Technical Services Revolving Fund to ensure that they are properly allocated. This issue has been resolved.
- The Department should consider a centralized tracking mechanism for all State technology employees' training requirements and arrange and pay for such training in accordance with Section 4d-17 of the General Statutes. This recommendation is being repeated. (See Recommendation 15.)
- The Department should monitor the calculation of fees charged for copies of computer-stored public records to determine that such fees are reasonable and consistent among agencies. This recommendation has been modified to reflect current conditions. (See Recommendation 18.)

- The Department should take appropriate steps to abide by the State Property Control Manual, tag all equipment, perform a complete physical inventory, develop and maintain a comprehensive software inventory system, bring the equipment inventory records up-to-date and maintain them in an accurate manner. This recommendation has been repeated. (See Recommendation 7.)
- The Department should establish a procedure for the preparation by State agencies of plans and estimates of expenditure requirements for information and telecommunication systems, as well as ensuring compliance with its other statutory requirements. This recommendation has been repeated. (See Recommendation 4.)
- The Department should ensure that evaluation and scoring criteria are included in each request for proposal to prospective vendors in accordance with Section 4a-59, subsection (c), of the General Statutes and State Regulation 4d-3-15. This issue has been resolved.
- The Department should consider amending all existing State contracts and master agreements to include required statutory language; establishing end dates for same; obtaining the Attorney General's Office approval for additional product costs exceeding \$3,000; and ensure that agreement provisions regarding price increases for maintenance are monitored for compliance. This recommendation has been modified to reflect current conditions. (See Recommendation 13.)
- The Department should exercise the authority granted to it under Section 4d-5 of the General Statutes and consider a State-wide policy regarding the proper treatment of personal use of State-issued cell phones. This has been resolved.
- The Department should increase its efforts to provide for a disaster recovery process and manage the related contract so as to demonstrate that services have been obtained for the amounts expended. The Department should also make a concerted effort to assist all State agencies in the arrangement of hot site/cold sites in the event of a disaster. This issue is not being repeated.
- The Department should contact the Governor's Office to request that the vacancy on the Commission for Educational Technology be filled; ensure the Commission complies with its bylaws pertaining to availability of minutes; and pursue financial reporting for grants issued to recipients to ascertain propriety of use for such funds. This issue has been resolved.
- The Department should consider documenting their consideration and approval of continuing hardware maintenance coverage versus replacing certain pieces of equipment. This issue has been resolved.
- The Department should exercise greater care in maintaining evidence of performance evaluations. This recommendation has been repeated. (See Recommendation 1.)

Current Audit Recommendations:

- 1. The Department of Information Technology's human resources unit should exercise greater care in maintaining evidence of performance evaluations.**

Comment:

Six of 20 employee evaluations were missing in our sample.

- 2. The Department should monitor compensatory time more closely and flag the expiration of the time earned.**

Comment:

Employees were permitted to earn compensatory time without being able to use it, resulting in payments.

- 3. The Department of Information Technology should implement its own specific ethics statement to comply with the provisions of Section 1-83 of the General Statutes and institute exit interviews as required by the Ethics Compliance Plan issued as a result of Executive Order Number 1.**

Comment:

DOIT did not have its own ethics policy in place, nor had it implemented an exit interview process that included a review of ethics laws.

- 4. The Department should encourage the establishment of the information and telecommunication executive steering committee in accordance with Section 4d-12 of the General Statutes and take steps to comply with the reporting requirements of Sections 4d-7 and 4d-12 of the General Statutes.**

Comment:

The executive steering committee did not exist during the audited period and the required reports were not prepared.

- 5. The Department of Information Technology should initiate steps to improve the timeliness of year-end financial reports.**

Comment:

DOIT was unable to prepare complete revolving fund financial statements prior to September 30, 2004, 2005 or 2006.

- 6. The Department of Information Technology should establish a repayment schedule to reimburse the Capital Equipment Data Processing Revolving Fund for amounts owed and adhere to repayment schedules for future borrowings.**

Comment:

Since June 2003, DOIT had not repaid any of the amounts owed to the Capital Equipment Data Processing Revolving Fund from the Data Processing Revolving Fund.

- 7. The Department should consider establishing a procedure for the periodic reconciliation of the receipts log to the Core-CT system.**

Comment:

The Agency maintained a cash receipts ledger but failed to reconcile the daily ledger to the CORE-CT system.

- 8. The Department should develop and maintain property records in accordance with the State Property Control Manual by tagging all equipment, performing a complete physical inventory, and developing an accurate and comprehensive software inventory system.**

Comment:

The Department did not maintain a software inventory system, and had not performed a physical inventory since 1997.

- 9. The Department should modify its depreciation schedules for Revolving Fund assets to provide for conformance with generally accepted accounting principles.**

Comment:

Some of the assets procured through the Revolving Fund were expensed within one year, despite the fact that the useful lives were longer.

- 10. The Department should ensure the retention of adequate documentation as support for interfund cost transactions.**

Comment:

Sufficient documentation was not available to confirm that the transactions were correct.

- 11. The Department of Information Technology should continue its efforts to establish rates for all of the services that it offers. Where rates can't be readily assigned, consideration should be given to moving those functions out of the Revolving Fund to provide for a better matching of revenues to expenses.**

Comment:

Most rates for services had not changed in the last five years, and DOIT indicated that some of its services did not have clear units of measure to bill for.

- 12. The Department should improve controls over the sealed bid process by ensuring that all responses are time-stamped upon receipt.**

Comment:

Bid responses were not always date-stamped to document that they were received on time.

- 13. The Department should comply with the public notice requirements of Section 4a-57 of the General Statutes by publishing all required information in at least two publications, as well as the Internet.**

Comment:

Ads placed in one local newspaper did not give specific information, instead only referring to the DOIT website.

- 14. The Department should ensure that all documentation of individual review team scoring be on file as well as sign-off by all team members of the recommended vendor.**

Comment:

Individual scoring sheets and signatures of review team members were not on file at DOIT to confirm the selection process.

- 15. The Department should document its evaluation of all active master agreements to consider the costs and benefits to revise the agreements by incorporating new statutory and Governor-ordered language; establish end dates for same; and ensure that agreement provisions regarding price increases are monitored for compliance.**

Comment:

DOIT had not examined all of its active master agreements to determine whether the benefit to be gained from updating and/or renegotiating the agreements could offset the cost. Price escalation clauses tied to the Consumer Price index were not monitored.

- 16. The Department of Information Technology should adhere to the terms of negotiated contracts and limit price adjustments to those contracts that contain such provisions.**

Comment:

Despite the existence of a valid contract, a small group of consultants were permitted to increase their fees because they argued the rates were too low.

- 17. The Department of Information Technology should consider methods to provide for increased emphasis on the prohibition against mentioning the State in vendors' advertising.**

Comment:

We noted four technology vendors that had included DOIT's logo or testimonials of State employees and consultants in their promotional literature without prior approval.

- 18. The Department should consider a centralized tracking mechanism for all State technology employees' training requirements and arrange and pay for such training in accordance with Section 4d-17 of the General Statutes.**

Comment:

The Department had not yet implemented a process to monitor the training needs of technology employees on a statewide basis.

- 19. DOIT should establish a process to ensure that memoranda of understanding are drafted in a consistent manner.**

Comment:

The Agency had not issued a formal procedure for staff to follow when creating memoranda of understanding, increasing the risk that standard terms may be inadvertently omitted.

- 20. The Department of Information Technology should consider expanding its involvement in the monitoring of fees charged for compiling computerized information by requesting that fee schedules be submitted for approval.**

Comment:

DOIT's role in monitoring of fees charged for computerized public record retrieval had been limited to only those issues brought to it by way of questions or complaints.

- 21. The Department of Information Technology, in concert with the Office of the Attorney General and the State Insurance and Risk Management Board, should perform an analysis of the costs and risks associated with the exercise facility in order to assure, at a minimum, that direct costs are not borne by the State and that legal and insurance risks are addressed.**

Comment:

There were a number of identifiable risks associated with the exercise facility located within DOIT that had not been sufficiently addressed so as to minimize exposure of the State.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Department of Information Technology for the fiscal years ended June 30, 2004 and 2005. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Information Technology for the fiscal years ended June 30, 2004 and 2005, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Information Technology 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 controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Information Technology is the responsibility of the Department of Information Technology's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2004, and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report. Those findings include the failure to adequately perform a complete physical inventory of assets since the creation of the Agency in 1997.

We also 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 Controls over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Information Technology is responsible for establishing and maintaining effective internal controls over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal controls over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Information Technology's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal controls over those control objectives.

However, we noted certain matters involving the internal controls over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the Agency's failure to publish its own ethics statement and perform exit interviews to remind departing employees of their post-employment responsibilities under the State Ethics Code.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions by the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal controls over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we do not believe that the reportable conditions described above is a material or significant weakness.

We also noted other matters involving the internal controls over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

CONCLUSION

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the Department of Information Technology during the course of this examination.



Ken Post
Principal Auditor

Approved:



Kevin P. Johnston
Auditor of Public Accounts



Robert G. Jaekle
Auditor of Public Accounts