

STATE OF CONNECTICUT



**AUDITORS' REPORT
DIVISION OF SPECIAL REVENUE
FOR THE FISCAL YEARS ENDED
JUNE 30, 2009, 2010 AND 2011**

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

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September 18, 2013

AUDITORS' REPORT DIVISION OF SPECIAL REVENUE FOR THE FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011

We have made an examination of the financial records of the Division of Special Revenue for the fiscal years ended June 30, 2009, 2010 and 2011. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification, which follow. Financial statements pertaining to the operations and activities of the Division of Special Revenue are presented on a Statewide Single Audit basis to include all state agencies. This examination has been limited to assessing the division's compliance with certain provisions of laws and regulations, contracts and grants and evaluating the division's internal control structure, policies, and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Division of Special Revenue working in cooperation with the Gaming Policy Board was responsible for the administration and regulation of legal gaming activities in the state under the provisions of Title 12, Chapters 226 and 226b, and Title 7, Chapter 98, Sections 7-169 through 7-186q, of the General Statutes. Throughout the audited period, pursuant to Section 12-557d subsection (a), the Gaming Policy Board was within the Division of Special Revenue.

In accordance with Section 12-557c subsection (b) of the General Statutes, the division was under the direction and control of an executive director. Paul A. Young was appointed as executive director effective November 24, 2004, serving until his retirement on May 1, 2011. Ken Flatto assumed the executive director's duties on May 3, 2011, serving throughout the audited period.

Effective July 1, 2011, immediately following the audited period, the Division of Special Revenue was consolidated within the Department of Consumer Protection. The Division of

Special Revenue became the Gaming Division of the Department of Consumer Protection. As such, all responsibilities and duties of the division were transferred to the Department of Consumer Protection. Concurrent with the consolidation, the division's personnel, payroll, and affirmative action functions were transferred to the Department of Administrative Services' Small Agency Resource Team. Additionally, the division's purchasing, central accounting, and budget management duties were transferred to the business office of the Department of Administrative Services.

Gaming Policy Board:

In accordance with Sections 12-557e, Section 7-169 subsection (c), and Section 7-185 of the General Statutes, the Gaming Policy Board assists the Division of Special Revenue in overseeing legalized gambling within the State of Connecticut. Among its duties and powers, the Gaming Policy Board is responsible for advising the Governor on statewide plans and goals for legal gambling and for assisting in the development and approval of regulations for gaming activities.

As of June 30, 2011, the board was made up of the following members serving four year terms expiring as detailed below:

William F. Farrell, chairperson	June 30, 2013
Richard Antonetti	June 30, 2011
Edward F. Osswalt	June 30, 2013
Paul F. Pendergast	June 30, 2013
Gayle A. Russell	June 30, 2013

Legislative Changes:

Several public acts that directly affected the agency took effect, either during or immediately following the audited period. The most notable are as follows:

Public Act 09-7 of the September Special Session amended Sec. 12-557d (a) of the General Statutes, moving the board from the Department of Revenue Services to the Division of Special Revenue. The act also added subsection (f), requiring the division to provide staff support.

Public Act 11-51, effective July 1, 2011, amended Sec. 12-557d subsection (a) of the General Statutes, moving the board from the Division of Special Revenue to the Department of Consumer Protection. The act eliminated the Division of Special Revenue and transferred its responsibilities to the Department of Consumer Protection. The act further amended this section to eliminate the statutory requirement of staggered terms. The act also eliminated the executive director position, transferring the executive director's authority and responsibilities to the commissioner of the Department of Consumer Protection.

Public Act 11-51 also revised Sec. 7-169h and 7-169i of the General Statutes to include language-making provisions for the privatization of the sealed ticket sales. The statutes now require the state to regulate and permit the distributors and manufacturers of sealed ticket games,

as well as sealed ticket dispensing machine dealers and manufacturers, in order for these private businesses to distribute and sell sealed tickets to the public.

Public Act 10-70 requires the Division of Special Revenue to establish a settlement initiative program for any lottery sales agent who owes monies received from the sale of lottery tickets, provided a delinquency assessment has been imposed against such agent. The program allows the eligible agent to pay the amount due in full plus fifty percent of the interest.

RÉSUMÉ OF OPERATIONS:

Receipts:

General Fund receipts totaled \$6,039,529, \$5,259,562 and \$5,312,033 during the fiscal years ended June 30, 2009, 2010 and 2011, respectively. A comparative summary of General Fund receipts for the audited years is presented below:

	Fiscal Year		
	2009	2010	2011
Gaming Receipts:			
Taxes on Horse Racing (OTB)	\$4,195,243	\$3,813,774	\$3,648,375
Sealed Tickets Payments	815,644	692,324	693,896
Bingo Game Fees	246,780	251,704	225,739
Other Gaming	1,011	1,347	1,950
Total From Gaming	<u>\$5,258,678</u>	<u>\$4,759,149</u>	<u>\$4,569,960</u>
Other Receipts:			
License, Registration, and Permit Fees	\$ 93,805	\$109,585	\$240,953
Miscellaneous	9,289	8,644	1,695
Total Other Receipts	<u>\$103,094</u>	<u>\$118,229</u>	<u>\$242,648</u>
Refunds of Expenditures and Indirect Overhead	\$677,757	\$382,184	\$499,425
Total General Fund Receipts	<u>\$6,039,529</u>	<u>\$5,259,562</u>	<u>\$5,312,033</u>

The major portion of betting tax revenue is received from off-track betting (OTB) operations. OTB revenue was negatively impacted by the growing popularity of casino gaming. Charitable games receipts included payments for sealed tickets sold by charities, fees to hold bingo games, and payments for permits to hold other games of chance. Receipts from the recovery of regulatory costs from the Connecticut Lottery Corporation are authorized by Section 12-806 subsection (b) subdivision (13) of the General Statutes.

The Federal and Other Restricted Account is used to account for the receipts obtained from the Mashantucket Pequot Foxwoods Casino and the Mohegan Sun Casino for the recovery of indirect and fringe costs for DSR regulatory services provided.

This is represented below:

	Fiscal Year		
	2009	2010	2011
Non Federal Aid-Mashantucket-Pequot	\$2,441,800	\$2,563,863	\$2,666,401
Non Federal Aid Mohegan	2,398,888	2,518,810	2,619,546
Total Federal & Other Restricted Accounts	<u>\$4,840,688</u>	<u>\$5,082,673</u>	<u>\$5,285,947</u>

In accordance with memorandums of agreement signed by the State of Connecticut and the Mashantucket Pequot and Mohegan tribes, the state is to generally receive 25 percent (under certain circumstances 30 percent) of the gross revenue from the operation of video facsimile/slot machines.

Additional funds were received as a result of identical settlement agreements between the state and the Mashantucket Pequot and Mohegan tribes. The agreements with the casinos settle a lawsuit filed by the state, seeking revenue generated by promotional “Free Play” programs. The agreements resulted in \$19,601,069 from the Mashantucket Pequot tribe and \$5,727,731 from the Mohegan tribe. These deposits were made September through November 2009.

While this revenue is not received by the division, the compacts between the State of Connecticut and the tribes provide for the division’s access to casino records for purposes of audit and for providing reasonable assurance that the state is receiving the correct percentage of slot revenue. The procedures performed by division staff include daily monitoring of the collection and counting of monies removed from the slot machines and a reconciliation of information provided by the casino accounting departments to information obtained from on-site division staff and online accounting systems. In addition, the division reviews independent gaming laboratory reports to determine that the slot machines used conform to the technical requirements and standards set forth in the compacts. The state portion of slot machine revenue is wired monthly from each tribe to an account of the Office of the State Treasurer and credited to the Office of Policy and Management.

Expenditures:

A comparative summary of the division’s expenditures is presented below:

	Fiscal Year		
	2009	2010	2011
General Fund:			
Personal Services & Employee Benefits	\$6,340,467	\$5,079,144	\$4,544,725
Purchased & Contractual Services	1,516,384	896,359	763,777
Indirect Overhead Fed & Other Projects	(1,630,918)	(1,477,136)	(1,556,943)
Total General Fund Expenditures	<u>\$6,225,933</u>	<u>\$4,498,367</u>	<u>\$3,751,559</u>

Federal and Other Restricted Accounts:			
Indian Gaming Mashantucket:			
Personal Services & Employee Benefits	\$1,645,454	\$1,540,491	\$1,633,915
Purchased & Contractual Services	15,422	40,176	16,107
Indirect Overhead Fed. & Other Projects	502,589	479,575	500,617
Total Indian Gaming Mashantucket	<u>\$2,163,465</u>	<u>\$2,060,242</u>	<u>\$2,150,639</u>
Indian Gaming Mohegan:			
Personal Services & Employee Benefits	\$1,745,985	\$1,531,947	\$1,596,060
Purchased & Contractual Services	14,820	41,448	13,440
Indirect Overhead Fed. & Other Projects	497,930	445,743	455,971
Total Indian Gaming Mohegan	<u>\$2,258,735</u>	<u>\$2,019,138</u>	<u>\$2,065,471</u>
Lottery Assessment:			
Personal Services & Employee Benefits	\$ 0	\$ 0	\$1,846,318
Purchased & Contractual Services	0	0	69,984
Indirect Overhead Fed. & Other Projects	0	0	956,940
Total Lottery Assessment	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,873,242</u>
Total Federal and Other Restricted Accounts	<u>\$4,422,200</u>	<u>\$4,079,380</u>	<u>\$7,089,352</u>
Capital Equipment Purchase Fund	<u>22,136</u>	<u>84,898</u>	<u>(7,467)</u>
DSR Total Expenditures	<u>\$10,670,269</u>	<u>\$8,662,645</u>	<u>\$10,833,444</u>
Gaming Policy Board	<u>\$2,458</u>	<u>\$1,991</u>	<u>\$2,118</u>

Only minor expenditures were incurred by the General and Capital Equipment Purchase Funds for the purchase of capital equipment items. The increase in lottery assessments during fiscal year 2011 is due to a change in the way expenditures relating to the Connecticut Lottery Corporation are recorded. In prior years, the Connecticut Lottery Corporation reimbursed the division for expenditures. In 2011, the expenditures were charged directly to a newly established Lottery Assessment allotment.

As can be seen above, Personal Services expenditures represent the largest category of expenditures from budgeted appropriations. Those expenditures decreased during the audited period due to a reduction in the number of employees. The following summary presents the number of filled full and part-time positions at June 30th for each fiscal year within the audited period.

	Fiscal Year		
	2009	2010	2011
Full-time Filled Positions	132	108	104
Part-time Filled Positions	5	3	3
Total	<u>137</u>	<u>111</u>	<u>107</u>

Betting Taxes Fund:

This agency fund was used throughout the audited period to account for the deposit of taxes and other monies paid by pari-mutuel licensees such as off-track betting facilities. Betting Taxes Fund activity remained relatively stable during the audited fiscal years. That activity is summarized below.

	Fiscal Year		
	2009	2010	2011
Beginning Balance	\$ 252,738	\$ 265,578	\$ 236,948
Receipts:			
Betting Taxes	7,582,941	7,037,551	6,765,619
Total Available Cash	<u>7,835,679</u>	<u>7,303,129</u>	<u>7,002,567</u>
Disbursements:			
Payments to Towns	3,374,858	3,252,407	3,046,339
Transfers to the General Fund	4,195,243	3,813,774	3,697,862
Total Transfers and Expenditures	<u>7,570,101</u>	<u>7,066,181</u>	<u>6,744,201</u>
Ending Balance	<u>\$ 265,578</u>	<u>\$ 236,948</u>	<u>\$ 258,366</u>

CONDITION OF RECORDS

Our examination of the records of the Division of Special Revenue disclosed certain matters of concern requiring disclosure and agency attention.

Lack of Established Procedures for Safe Storage of Firearms:

Criteria: Section 4-36 of the General Statutes requires each state agency to establish and maintain an inventory record as prescribed by the State Comptroller. The State Property Control Manual establishes the standards and sets reporting requirements for maintaining an inventory system to provide for complete accountability and safeguarding of assets.

When the State Property Control Manual is silent as to the means of safeguarding a specific type of asset, it is prudent for the management of an agency to establish policies and procedures to ensure such assets are safeguarded.

Condition: In July 2011, immediately after the end of the audited period, the Division of Special Revenue reported the theft of a handgun. The division has not established or adopted formal written policies and procedures regarding the safe handling and storage of firearms.

The Security Unit within the Division of Special Revenue employs sworn police officers and special investigators who are required to have their department issued firearm available at all times. The unit has a training officer whose duties include verifying that each member of the unit maintains certification in accordance with the Police Officer Standards Training Council (POST). Gun safety and adequate storage of firearms is addressed in the standard training. Each member of the unit has previous law enforcement experience and extensive firearms training.

Effect: The lack of formal and written policies and procedures governing the safe handling and storage of firearms results in a lack of guidance.

Cause: It appears that policies and procedures have not been established due to a lack of administrative oversight.

Recommendation: The Gaming Division of the Department of Consumer Protection should establish and adopt formal written policies and procedures regarding the safe use and storage of firearms. (See Recommendation 1.)

Agency Response: “The department agrees with this finding during the audited period; however since the merger of the Division of Special Revenue with the Department of Consumer Protection, the Field Training Officer has submitted a weapons policy that has been approved by the Gaming Division director.”

Auditors’ Concluding Comments: Effective July 1, 2011, the division was consolidated within the Department of Consumer Protection. The weapons policy was approved by the Gaming Division director and signed by the investigators during June 2013.

Lack of Established Regulations:

Criteria: Section 7-169 of the General Statutes provides for recreational bingo for parent-teacher associations or organizations, within certain terms. Section 7-169e subsection (d) of the General Statutes indicates that the executive director of the Division of Special Revenue, in consultation with the Gaming Policy Board, shall adopt regulations, in accordance with Chapter 54, to implement the provisions of this section in order to prevent fraud and protect the public.

Section 7-185b subsection (b) of the General Statutes indicates that any organization qualified to conduct a bazaar or raffle under Section 7-172 may conduct a special tuition raffle once each calendar year. The executive director shall adopt regulations to carry out provisions of the section.

Condition: We noted that state regulations were drafted and, in July 2008, were sent to the Office of the Governor and the Office of Policy and Management for approval. The division has not received a formal response.

Effect: In light of the condition, there is an apparent lack of compliance with state law. Additionally, the lack of appropriate guidance to operators of said bingo and raffle operations may lead to violations of statutory provisions, or may not adequately prevent fraud and protect the public.

Cause: The regulations became required effective October 1, 2007 for the tuition raffles and May 24, 2008 for bingo at parent-teacher associations and organizations. It appears that a lack of timely administrative oversight is responsible for the noncompliance.

Recommendation: The Gaming Division of the Department of Consumer Protection should comply with Section 7-169e subsection (d) and Section 7-185b subsection (b) of the General Statutes by pursuing the required approval of the draft regulations. (See Recommendation 2.)

Agency Response: “The department does not agree with this finding; the agency has taken the required steps for normal regulatory approvals.”

Auditors’ Concluding

Comments: The department should continue to pursue the required approvals of the draft regulations.

Lack of Formal and Current Written Procedures:

Criteria: Formal and current written procedures are an important aspect of a sound internal control system. The process of producing and updating a procedures manual supports the communication and coordination between management and staff in defining and achieving the mission of the division. In addition, a procedures manual helps to maintain operational efficiency and application of procedures in the event of staff changes or prolonged absences.

Condition: We noted that formal written procedures were not complete for the function of the division’s Licensing Section within the Security Unit. We were additionally informed that the written procedures manuals in place for the Charitable Games Section were outdated. Certain procedures noted in the division’s procedures manuals were either no longer performed or changed through automation.

Effect: The lack of formal and current written procedures may contribute to inefficiency and ineffectiveness of division staff responsible for performing the unit’s functions.

Cause: On July 1, 2011, subsequent to the audited period, the Division of Special Revenue was consolidated within the Department of Consumer Protection. As a result of the consolidation, the division is being reorganized and procedures are being reviewed and revised to reflect the current processes.

Recommendation: The Gaming Division of the Department of Consumer Protection should establish and modify formal written procedures to reflect its current operational processes. (See Recommendation 3.)

Agency Response: “The department does not agree with this finding; formal written procedures are available for the Licensing Section and all procedures undergo an annual review and update.”

Auditors’ Concluding Comments:

The Licensing Section within the Security Unit performs duties pertaining to the screening of applicants for casino licenses. The Security Unit has undergone restructuring with associated reassignment of duties. Formal written procedures are in the process of being updated to reflect the current duties.

Improper Use of State Systems:

Criteria:

The Acceptable Use of State Systems Policy identifies that state systems are provided at state expense and are to be used solely to conduct state business. Some leniency is allowed in the policy for state employees to use state telephones to receive or make calls relating to doctor’s appointments, union matters and to check on the status of their children. However, these calls should be kept to a minimum.

The policy also states, “Agencies will be billed monthly through a Direct Charge process in the Core-CT Accounting System. The using agency will receive a detailed electronic bill and Individual Cellular Usage Report. It shall be the responsibility of the individual and the agency to verify the accuracy of the bill, and confirm appropriate usage.”

Condition:

Upon our review of long-distance call reports for the period of September 2010 to June 2011, we noted numerous instances of personal long-distance calls made by division staff. We found that two employees continued to have a significant number of calls to out-of-state locations. One individual had 29 personal calls to out-of-state locations totaling 414 minutes of state time. The other individual has 56 personal calls to out-of-state locations totaling 130 minutes. It was also noted that the number of in-state long-distance personal calls made by this individual totaled 112 minutes.

Immediately following the audited period, the division was consolidated within the Department of Consumer Protection. The post-consolidation process does not include a review of the monthly bill by either the employee or supervisor.

- Effect:* Frequent and lengthy personal phone calls may constitute an abuse of the state's policy regarding the use of state time. This practice violates the state's telecommunication policy that states in part "...Telecommunication equipment shall be used solely for official state business. Telecommunication equipment shall not be used for personal or private purposes."
- The lack of oversight and accountability increases the risk that misuse or fraudulent use of any telecommunications equipment may occur and not be detected, resulting in a loss to the state.
- Cause:* It appears that division management has been lenient in allowing the personal use of state telephones as long as it does not become excessive, and reimbursement for the personal calls is made to the state.
- Recommendation:* The Gaming Division of the Department of Consumer Protection should strengthen its internal policy regarding personal use of state telephones to reflect the Acceptable Use of State Systems Policy and reiterate the policy to all division staff. (See Recommendation 4.)
- Agency Response:* "Internal policies regarding the personal use of state telephones will be reviewed and strengthened where appropriate."

Access to Core-CT:

- Criteria:* Access to Core-CT, the state's central human resources management and financial system, should be disabled promptly when an individual terminates employment with the state.
- Condition:* Our review indicated four instances in which an employee's Core-CT access was not disabled upon termination. The employees retired between April 1, 2012 and November 1, 2012, but they still had access to the system on February 13, 2013.
- Effect:* Internal control over of the division's information system is weakened when an employee's access is not disabled promptly upon termination.
- Cause:* There appears to be a lack of policies and procedures to ensure that access to Core-CT is disabled when an employee is terminated.
- Recommendation:* The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative service to

establish policies and procedures to ensure that access to Core-CT is disabled when an employee is terminated. (See recommendation 5.)

Agency Response: “The department agrees with this finding during the audited period. As of February 25, 2013, DAS Human Resources has implemented a procedure to notify the Department of Consumer Protection’s Core-CT security liaison to submit a request to disable access to Core-CT when an employee terminates employment with the state.”

Licensee Audits:

Criteria: Section 12-577 of the General Statutes indicates that the executive director shall annually cause to be made, by some competent person or persons in the division, a thorough audit of the books and records of each association licensee.

An audit performed in accordance with generally accepted auditing standards means it was done conforming to ten broad standards under the categories of General, Fieldwork and Reporting.

Condition: The division appears to be performing and issuing audit reports covering three-year periods instead of on an annual basis as the statute specifies. The last audit report of Autotote Enterprises Inc., covering the three-year period ending December 31, 2006, was issued October 18, 2010. The report for the three-year period ending December 31, 2009, has not been completed.

We noted that the division’s report issued October 18, 2010, indicated that the audit was performed under generally accepted auditing standards, yet the division has not formally adopted any auditing standards. We additionally noted that there did not appear to be any evidence of supervisory approval for the audit work performed.

Effect: The lack of a timely audit may increase the risk of a significant deficiency going unaddressed for an extended period of time. This is significant in that, the reported figures from the association licensee for determining the accuracy of the state share from off-track betting money wagered in accordance with Section 12-575 subsection (g) of the General Statutes are considered reliable based upon a timely association licensee audit conducted by the division.

The lack of adopted auditing standards may increase audit risk.

- Cause:* It appears that administrative oversight was lacking in this area.
- Recommendation:* The Gaming Division of the Department of Consumer Protection should comply with Section 12-577 of the General Statutes by performing annual audits of the association licensee and adopting auditing standards by which they shall be performed. (See Recommendation 6.)
- Agency Response:* “The department agrees with this finding that full annual audits have not been performed. The department is assessing the available options to ensure the required work is completed.”

IT Software Inventory:

- Criteria:* The State Property Control Manual indicates that each agency is to conduct a physical inventory of the software library at the end of each fiscal year and compare it to the annual software inventory report. This comparison is to be retained by the agency for audit purposes.
- The manual also indicates that a software library, which includes copies of media and at least one copy of each applicable manual, must be located in a secure area or maintained in a secure manner. When it has been determined that software is no longer needed by the agency, the licensed copies should be removed from the corresponding hardware and the disposal of the software should conform to the software publisher’s or manufacturer’s license agreements or copyright agreements. The software and associated documentation should then be removed from the agency’s software inventory.
- Condition:* We were informed by the division that a physical inventory is not performed for software. We observed that there is a great deal of outdated and unused software that the division has retained. The outdated software is not included on the inventory. Our initial inspection of the software storage area noted that the storage area is an unlocked cabinet in an unlocked room. A subsequent inspection of the cabinet found it to be locked.
- Our audit testing included twelve purchases of software. We were not able to verify the existence of the software in ten out of the twelve cases.
- Effect:* The lack of proper accountability increases the risk that software may be lost, stolen or improperly used. The state may also be at a

higher risk of litigation by software companies for violation of its licensing and copyright agreements and potential exposure to retroactive license payments and interest.

Cause: While the division seemed to be aware of the requirements, they cited agency consolidation and relocation as the cause.

Recommendation: The Gaming Division of the Department of Consumer Protection should comply with the State Property Control Manual and conduct an annual physical inventory of its software; maintain its software library in a secure area or manner; and consider disposing of the software that has been identified as outdated or no longer used in accordance with the corresponding software publisher's or manufacturer's license or copyright agreements. (See Recommendation 7.)

Agency Response: "The observed condition is a consequence of the merger of the Division of Special Revenue and the Department of Consumer Protection. The inability to verify the existence of software finding pertains to the Novell operating system on servers brought over from Newington. Since the software is located only on the servers which are no longer in use, the software can no longer be verified. If the software was still licensed, the information would have been available from the Novell portal however; the department no longer has access. The servers will be either reconfigured for another use or surplusd out. The department will review the old software during the merger of the software inventories."

Auditors' Concluding

Comments: The Division of Special Revenue did not maintain a detailed inventory of the Novell or other server software. Hard copies of the Novell licenses were not retained and sufficient documentation was not available to support the purchases.

Gambling Regulation Unit Inspections and Staff Accountability:

Criteria: Proper internal control dictates that supervisory approval should be documented when review of work performed or accountability of staff time is warranted.

Condition: Our review of the division's Gambling Regulation Unit's inspections of lottery sales agents noted that a monthly field staff accountability review is performed by comparing the regulation officers' car logs, physical Lottery Retailer Site Inspection

Reports, Top Prizes Claimed Reports, regulatory officer's Bi-weekly Activity Reports, and data-entered inspection reports to ensure that each officer's work time is accounted for. However, evidence of this supervisory review does not appear on the Bi-weekly Activity Reports.

Effect: In the absence of documentation of the supervisory review of staff work and accountability, it becomes questionable whether such review took place.

Cause: It appears that the division did not deem evidence of supervisory review of the Bi-weekly Activity Reports necessary.

Recommendation: The Gaming Division of the Department of Consumer Protection should document the supervisory review of the Gambling Regulation Unit's inspections conducted on lottery sales agents as well as the field staff accountability review. (See Recommendation 8.)

Agency Response: "The department does not agree with this finding; the supervisory approval checklist was developed and approved with input from the previous Auditor of Public Accounts."

Auditors' Concluding Comments: The checklist referenced in the agency response provides additional evidence of supervisory review. However, the checklist does not provide the same evidence of supervisory review of the inspector's Bi-weekly Activity Report as would be provided by the supervisor initialing the Bi-weekly Activity Report.

Account Code Mapping:

Criteria: An account mapping process is used within the Core-CT HRMS system to map certain earnings, deductions, and taxes to expenditure accounts. Since an employee's earnings can constitute a variety of different payment types, the state tracks each payroll expense independently by automatically assigning them to a distinct account through the account mapping process.

Condition: During payroll testing, we identified a weekend differential code that is not mapping to the appropriate expenditure account. There were three employees in our sample who charged the transaction code of Weekend Differential .75, which mapped to account 50110 (Salaries & Wages – Full Time) rather than 50180 (Shift Differential Payments).

- Effect:* The two salary expenditure accounts do not reflect the true balance. The Salaries and Wages – Full Time account is overstated and the Shift Differential Payments account is understated.
- Cause:* The weekend differential code was improperly set up in Core-CT to map to account 50110 (Salaries & Wages – Full Time) rather than account 50180 (Shift Differential Payments).
- Recommendation:* The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative Services to correct the account code mapping. (See recommendation 9.)
- Agency Response:* “The department agrees with this finding, the department is working with DAS Payroll and Core-CT to reconfigure the account code mapping.”

Records Retention:

- Criteria:* The division should follow the State Agencies’ Records Retention/Disposition Schedule issued by the Connecticut State Library Office of the Public Records Administrator regarding personnel records.
- Condition:* The following documents requested for testing purposes could not be located:
- A personnel file could not be located for one terminated employee.
 - A review of 10 medical certificates disclosed that six could not be found.
 - A dual employment agreement could not be found for one employee.
 - A loss report filed was unable to be located.
- Effect:* Without sufficient documentation, there is less assurance that transactions are in accordance with state policies and procedures.
- Cause:* Several of the division’s HR and payroll employees retired around the time of the consolidation of the division within the Department of Consumer Protection, effective July 1, 2011. In addition, subsequent to the consolidation, the division moved locations. As a result, the files may have been misplaced due to those changes.

Recommendation: The Gaming Division of the Department of Consumer Protection should ensure that all records can be located and are retained in accordance with the state records retention requirements. (See recommendation 10.)

Agency Response: “The department agrees with this finding. Since the merger of the Department of Consumer Protection and the Division of Special Revenue, all personnel records have been moved to the State Office Building, 165 Capitol Avenue, Hartford, and are subject to the Connecticut State Library Office of the Public Records Administrator Records Retention Policies.”

Confidential Information:

Criteria: The Department of Administrative Services Bureau of Enterprise Systems and Technology has established the *Network Security Policy and Procedures*. The policy is established to ensure that critical information is protected and data flow is not interrupted by unauthorized access. In accordance with the policy, each agency must determine what agency information is confidential or restricted, and submit the information in writing to the bureau’s implementation committee.

Section 2-90 subsection (h) states, “Where there are statutory requirements of confidentiality with regard to such records and accounts or examinations of nongovernmental entities which are maintained by a state agency, such requirements of confidentiality and the penalties for the violation thereof shall apply to the auditors and to their authorized representatives in the same manner and to the same extent as such requirements of confidentiality and penalties apply to such state agency.”

Condition: The division was not able to provide us with a list of information it considers to be confidential. It would appear the division is not in compliance with the *Network Security Policy and Procedures*.

Effect: When no guidance is provided regarding confidential information, the risk that such information will be disclosed to unauthorized persons is increased. By not identifying confidential information, the individuals in possession of such information may not be aware of special requirements regarding the handling and safeguarding of that information. Lack of guidance increases the risk of penalty or other action as the result of improper disclosure.

Cause: The cause appears to be a lack of administrative oversight.

Recommendation: The Gaming Division of the Department of Consumer Protection should determine what information is confidential or restricted, establish guidelines to ensure such information is properly safeguarded, provide the guidelines to all staff, and make the information available to the auditors. (See recommendation 10.)

Agency Response: “The department agrees with this finding in part. An annual memorandum was sent to all division employees notifying them of the confidentiality of Connecticut tax information submitted by license applicants. While there are no statutes for the Division of Special Revenue that deal specifically with confidential items, under the FOI statutes certain records are exempt from disclosure, such as financial data required by a licensing agency.”

Auditors’ Concluding Comments:

The division has not provided the auditors with a list of items considered confidential or restricted. Simply because a document is exempt from disclosure pursuant to the FOI statutes does not make the information confidential.

Asset Inventory:

Criteria: Section 4-36 of the General Statutes states that, “Each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all of the following property owned by the state and in the custody of such agency: (1) real property, and (2) personal property having a value of one thousand dollars or more.”

The State Property Control Manual states, “...the main purpose of the property control system is to help ensure that the state's property, plant and equipment are acquired, managed and disposed of in the best interest of the state and its citizens. This mission is promoted through the development and maintenance of adequate accounting and property records both at the state and agency level. Such records are an essential tool for management in its effort to make sound decisions based on timely and accurate information.”

Condition: Our asset testing noted numerous errors. Specifically, a review of eight equipment purchases noted the serial numbers on three items did not agree with the serial number recorded in Core-CT. One of the purchased items did not have an inventory tag affixed. We were not able to locate one component of a purchase. We randomly inspected ten items from those in the custody of the

agency to verify asset information to the inventory listing. The tag number and serial number combination on one of the assets did not agree with the Core-CT inventory listing. One of the assets in the custody of the agency was listed as disposed of in the Core-CT system. Although supporting documentation was available, inventory valuation as reported on the annual Asset Management Inventory Report Form CO-59 could not be traced exactly to the supporting documentation.

Effect: Without accurate documentation, there is less assurance that assets are properly accounted for. The annual Asset Management Inventory Report Form CO-59 may not accurately reflect the assets in the custody of the agency. Without sufficient accurate documentation, there is less assurance that transactions are in accordance with state policies and procedures.

Cause: On July 1, 2011, the Division of Special Revenue was consolidated within the Department of Consumer Protection. The assets of the division were transferred to the Department of Consumer Protection.

The Department of Administrative Services is responsible for the inventory records of the Department of Consumer Protection. It appears that the Department of Administrative Services did not adequately oversee the transfer of assets and the asset information for the consolidated agencies.

Recommendation: The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative Services to ensure that all asset items are accurately tagged and agree to the records maintained in Core-CT. (See recommendation 12.)

Agency Response: “As observed, the responsibility of asset management for the Department of Consumer Protection lies with the Department of Administrative Services. The Department of Consumer Protection will work with the DAS asset management team to ensure DAS fulfills its responsibility that all asset items are accurately tagged and agree to the information in Core-CT.”

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2006, 2007 and 2008, contained sixteen recommendations. The following is a summary of those recommendations and the current status.

Prior Audit Recommendations:

On July 1, 2011, immediately after the audited period, the Division of Special Revenue was consolidated within the Department of Consumer Protection. As a result of the consolidation, the division's payroll, human resources and business office functions were transferred to the Department of Administrative Services. The following five prior audit recommendations are resolved based on the consolidation and the adoption of the policies and procedures of the consolidated agency.

- The division should review the Core-CT Personnel Actions History Report in order to verify the propriety and authorization of any changes made to employee files.
- The division should consult with the Core-CT HRMS team to adjust user roles to ensure that proper segregation of duties is maintained as it pertains to the human resources and payroll functions.
- The division should comply with the requirements as set forth in Governor Rell's Executive Order No. 1 and the memo issued by the Special Counsel for Ethics Compliance by providing the Summary Guide to the Code of State Ethics to employees hired, and gaining an acknowledgement of receipt via employee signature; alter its memorandum to separating division employees to a request for an exit interview as opposed to extending an invitation to meet with division representatives; include the division's ethics liaison officer in the exit interview process in order to disseminate information regarding post-state employment rules to the exiting employee and answer any pertinent ethics questions.
- The division should continue its efforts of setting a prompt for users to change their network passwords. A division policy should also be established as to the frequency in which users should be changing their passwords.
- The division should comply with General Letter 2008-3 by seeking approval from the Office of the Public Records Administrator for utilizing the warehouse as a records storage site.

The current status of the remaining prior recommendations is detailed below.

- The division should consult with the Gaming Policy Board and the Governor's office in order to exact compliance with Section 12-557d of the General Statutes by correcting the imbalance that currently exists with board member terms and continue to ensure that submission of the board's meeting schedules to the Secretary of the State is met in

accordance with Section 1-225 of the General Statutes. This recommendation is resolved based on new legislation.

- The division should comply with subsection (l) of Section 12-575 of the General Statutes and confer with the Office of the State Treasurer to determine whether there is a continued need for a monthly statement of the division's receipts or whether a legislative change to the statute is needed. The division should also consider requesting a legislative change to Section 12-563 of the General Statutes to reflect the current process regarding dissemination of its regulations. This recommendation is resolved based on new legislation.
- The division should comply with subsection (d) of Section 7-169e and subsection (b) of Section 7-185b of the General Statutes by establishing the required regulations for recreational bingo for parent-teacher organizations and associations and tuition raffles. This recommendation will be repeated in a modified form. (See Recommendation 3.)
- The division should consider establishing and modifying formal written procedures to reflect its current operational processes. This recommendation will be repeated in a modified form. (See Recommendation 4.)
- The division should consult with the Core-CT HRMS team on how to correct the circumvention of controls on Core-CT for the accrued leave adjustments made and consider reversing the effects of such adjustments, as they do not appear to be proper. The adjustments were reversed, and controls changed with the agency consolidation. This recommendation is resolved.
- The division should comply with Section 4-33a of the General Statutes to report all illegal, irregular or unsafe handling of state funds promptly. This recommendation is resolved. We did not note any instances of noncompliance.
- The division should strengthen its internal policy regarding personal use of state telephones to reflect the Acceptable Use of State Systems Policy and reiterate the policy to all division staff. This recommendation is being repeated. (See Recommendation 5.)
- The division should comply with Section 12-574-F65 of the state regulations by obtaining a signature from the association licensee under penalties of false statement on division forms certifying the accuracy of the distribution of money wagered. The appropriate certification was added to the licensee forms. This recommendation is resolved.
- The division should comply with Section 12-577 of the General Statutes by performing annual audits of the association licensee and adopting auditing standards by which they shall be performed. This recommendation will be repeated in modified form. (See Recommendation 6.)

- The division should comply with the State Property Control Manual and conduct an annual physical inventory of its software; maintain its software library in a secure area or manner; and consider disposing of the software that has been identified as outdated or no longer used in accordance with the corresponding software publisher's or manufacturer's license or copyright agreements. This recommendation will be repeated in modified form. (See Recommendation 8.)
- The division should document the supervisory review of the Gambling Regulation Unit's inspections conducted on lottery sales agents as well as the field staff accountability review. This recommendation will be repeated in modified form. (See Recommendation 9.)

Current Audit Recommendations:

- 1. The Gaming Division of the Department of Consumer Protection should establish and adopt formal written policies and procedures regarding the safe use and storage of firearms.**

Comment:

It was noted that the division has not established policies and procedures regarding the safe use and storage of firearms.

- 2. The Gaming Division of the Department of Consumer Protection should comply with Section 7-169e subsection (d) and Section 7-185b subsection (b) of the General Statutes by pursuing the required approval of the draft regulations.**

Comment:

The division has not received the approvals required to proceed with the regulation-making process.

- 3. The Gaming Division of the Department of Consumer Protection should establish and modify formal written procedures to reflect its current operational processes.**

Comment:

The division has not established formal written procedures to reflect the current procedures performed by the investigative staff.

- 4. The Gaming Division of the Department of Consumer Protection should strengthen its internal policy regarding personal use of state telephones to reflect the Acceptable Use of State Systems Policy and reiterate the policy to all division staff.**

Comment:

We noted numerous instances of personal long-distance calls made by division staff. We found that two employees seemed to be responsible for a significant number of such calls to out-of-state locations.

5. **The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative services to establish policies and procedures to ensure that access to Core-CT is disabled when an employee is terminated.**

Comment:

Employee access to the Core-CT system was not disabled upon termination.

6. **The Gaming Division of the Department of Consumer Protection should comply with Section 12-577 of the General Statutes by performing annual audits of the association licensee and adopting auditing standards by which they shall be performed.**

Comment:

The division currently conducts audits of the association licensee on a three-year cycle. The most recent audit states the audit was performed in accordance with generally accepted auditing standards. However, we were informed that the division has not adopted any auditing standards.

7. **The Gaming Division of the Department of Consumer Protection should comply with the State Property Control Manual and conduct an annual physical inventory of its software; maintain its software library in a secure area or manner; and consider disposing of the software that has been identified as outdated or no longer used in accordance with the corresponding software publisher's or manufacturer's license or copyright agreements.**

Comment:

The division has not performed an annual physical inventory of its software. The division retains outdated software that is no longer used by the division.

- 8. The Gaming Division of the Department of Consumer Protection should document the supervisory review of the Gambling Regulation Unit's inspections conducted on lottery sales agents as well as the field staff accountability review.**

Comment:

Evidence of supervisory review does not appear on the Biweekly Activity Report of regulation officer's work time.

- 9. The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative Services to correct the account code mapping.**

Comment:

We noted coding for weekend differential payments were not accurately posting to the expenditure account.

- 10. The Gaming Division of the Department of Consumer Protection should ensure that all records can be located and are retained in accordance with the state records retention requirements.**

Comment:

Numerous documents requested for testing could not be located.

- 11. The Gaming Division of the Department of Consumer Protection should determine what information is confidential or restricted, establish guidelines to ensure such information is properly safeguarded, provide the information to all staff, and make the information available to the auditors.**

Comment:

The division has not identified the information it considers to be confidential or restricted.

- 12. The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative Services to ensure that all asset items are accurately tagged and agree to the records maintained in Core-CT.**

Comment:

There were errors in the division's accountability for the assets inventory.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Division of Special Revenue for the fiscal years ended June 30, 2009, 2010 and 2011. This audit was primarily limited to performing tests of the division's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the division's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the division are complied with, (2) the financial transactions of the division are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the division are safeguarded against loss or unauthorized use. The financial statement audits of the Division of Special Revenue for the fiscal years ended June 30, 2009, 2010, and 2011, 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 Division of Special Revenue 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:

Management of the Division of Special Revenue is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Division of Special Revenue'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 division's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the division's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Division of Special Revenue's internal control over those control objectives.

A deficiency in internal control 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations,

contracts, and grant agreements that would be material in relation to the division's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We identified the following deficiency in internal control over the division's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. As described in detail in the accompanying Condition of Records and Recommendations sections of this report, Recommendation 1 - Lack of established procedures for safe storage of firearms. In addition, we consider the following deficiency to be a significant deficiency. Recommendation 6 - Licensee audits are not being conducted on an annual basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Division of Special Revenue 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 division'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. However, we noted certain matters which we reported to division management in the accompanying Condition of Records (and Recommendations) section(s) of this report.

The Division of Special Revenue's responses to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the division's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of division 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

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Division of Special Revenue during the examination.



Mary C. Avery
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts