

**2002 ANNUAL REPORT**  
to the  
**Connecticut General Assembly**



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

**January 31, 2003**

Members of the General Assembly:

In accordance with Section 2-92 of the Connecticut General Statutes we are hereby submitting our annual report on the operations of the Office of Auditors of Public Accounts. Included in this report are several recommendations for your consideration during the upcoming legislative session.

Also, according to law, we maintain copies of reports and working papers for all audits conducted by our Office of State agencies, State quasi-public bodies and State supported institutions. All of these documents, except those classified by statute as confidential, are available for review by members of the General Assembly and the public. Copies of our reports can be picked up in our offices at rooms 114 or 116 in the State Capitol or you can call us for information at 240-8651 or 240-8653.

Our Office also has its own website on the Internet (<http://www.state.ct.us/apa>), a key feature of which is that it provides for the electronic distribution of our reports. Accordingly, members of the public and other interested parties may download, for viewing and/or printing, copies of reports issued by our Office. In addition, general information about the operations of our Office can be found on this website.

Further, a section of this report details the activities of our staff in researching confidential “whistle blower” complaints received by our Office under the provisions of Section 4-61dd of the General Statutes.

It is our hope that you will avail yourselves of our services and reports.

In transmitting this annual report we stand ready to be of service to you, the members of the Connecticut General Assembly.

Respectfully submitted,

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts

**TABLE OF CONTENTS**

Transmittal..... i  
Table of Contents ..... ii  
Organizational Structure..... iii

Section I - Report on the Operations of Our Office

Organization and Staff..... 1  
Auditing State Agencies..... 2  
Whistle Blower Matters..... 8  
Generally Accepted Government Auditing Standards (GAGAS)..... 12  
Recent Developments..... 13

Section II - Recommendations

1. Revise Section 51-44a of the General Statutes..... 15  
2. Review Special Separation Agreements ..... 16  
3. Review the Hiring of Retired Employees at a Higher Hourly Rate and for  
an Extended Period for Critical Management Positions ..... 17  
4. Repeal or Revise Section 32-4a of the General Statutes..... 18  
5. Establish Standards and Procedures for Contracts to Privatize Services..... 19  
6. Limit the Conditions That May be Used to Justify a  
Waiver From Competitive Bidding..... 20  
7. Revise Sections 4-212 and 4a-50 of the General Statutes ..... 21  
8. Enact Legislation Requiring Submission of Form PC-200  
to the Department of Administrative Services ..... 22  
9. Enact Legislation to Require Participation in the  
School-based Child Health Program ..... 23  
10. Enact Legislation Granting Enforcement Powers  
to the Public Records Administrator ..... 24

Technical Corrections and Other Matters:

a) Clarify Timing of Payments for Grants in Lieu of Taxes..... 25  
b) Newington Children’s Hospital – Name and Mission Change ..... 25  
c) Clarify Statutes for Sales and Service Fund for Vision Impaired..... 25  
d) Require Periodic Inspection of Each Family Day Care Home ..... 25  
e) Clarify Administering Agency of Yankee Ingenuity Initiative Program..... 25  
f) Apparent Conflict in Statutes Concerning Executive Director of  
Police Officer Standards and Training Council ..... 25  
g) Clarify Reporting Requirement of Foundation Auditors ..... 26  
h) Approval for Extension of Collective Bargaining Agreements..... 26

## SECTION I

**REPORT ON THE OPERATIONS OF OUR OFFICE****Organization and Staff:**

The Office of the Auditors of Public Accounts can trace its origin to a charter granted in 1662 to the Colony of Connecticut, by King Charles the Second of England. The State Statutes of 1750 refer to the auditing of “the Colony's account with the Treasurer of the Colony.” In 1786 when the Office of the Comptroller was created, the Auditors of Public Accounts were placed under its supervision and remained so until 1937 when legislation established the independent status of the Office. Its organization with two Auditors of Public Accounts, not of the same political party, makes Connecticut unique among State auditing agencies. From its colonial origin Connecticut's audit function has been performed by more than a single auditor.

The Office of the Auditors of Public Accounts presently consists of 101 employees, including the two positions of State Auditor. We are assisted in the management of the Office by a Deputy State Auditor. The audit operations staff is composed of 91 auditors organized into five audit groups with each group under the general direction of an Administrative Auditor, and a Performance Audit Unit and a Whistle Blower Unit under the general direction of one of the Administrative Auditors. There is also an Information Systems Audit Unit presently consisting of three auditors. The Administration Unit has five employees providing administrative assistance to the Office, support services to the field audit teams and report processing services.

The professional auditing staff of the Office has been and will continue to be hired through a competitive selection process. Advancement within the Office is made through a process which includes examinations conducted for us by the Department of Administrative Services. The staff is encouraged to continue studies for advanced degrees and/or professional certification and several of our staff members are completing requirements for such. About 40 members of our staff have relevant professional certifications and a total of 20 members have advanced degrees.

**Auditing State Agencies:**

During the 2002 calendar year, members of our field audit staff completed 68 audits and submitted reports covering financial activities of State agencies. A total of 465 audit recommendations were made in those reports. Agencies are asked to file with us corrective action plans related to those recommendations. Based on past experience agencies have implemented approximately 53 percent of our recommendations.

Our recommendations most frequently lead to benefits that cannot be quantified, such as new internal controls and management procedures put into place as a result of our audits. The benefits resulting from these improvements may be far more significant than any quantifiable savings that are identified. Nonetheless, some of our recommendations lead to documented cost savings and increased revenues. For example, during one of our performance audits of accounts receivable at the Department of Labor, we recommended that the Department amend a computer program in order to identify all claimants who were overpaid due to fraudulent activities on their part and to refer those claimants for collection of the overpayment through the State income tax refund intercept program. The error in the computer program discovered as a result of our audit was responsible for the omission from the tax intercept program of \$7,664,209 of fraudulent claims. The prompt corrective action taken by the Department of Labor in regard to this will certainly lead to significant recoveries of the overpayments. A performance audit of the Department of Children and Families identified an annual loss of potential State revenue of approximately \$8,180,000. The Department made subsequent improvements which will likely significantly reduce the annual loss of potential revenue. In addition, our review of unclaimed costs eligible for 50 percent Federal reimbursement at the Department of Mental Retardation resulted in the recovery of some \$625,000 by that Department.

Our audit approach entails, among other procedures, an examination and verification of financial statements, accounting records and supporting documents, a determination of the agency's compliance with statutory and budgetary requirements, an evaluation of the agency's internal control structure, verification of the collection and proper handling of State revenue, and an examination of expenditures charged to State appropriations. Reports on these audits consist of findings and recommendations and, where appropriate, certified financial statements setting forth the condition and operations of the State funds involved.

In accordance with Section 2-90 of the General Statutes, we must report any unauthorized, illegal, irregular or unsafe handling or expenditure of State funds to the Governor, the State Comptroller, the Clerk of each House, the Legislative Program Review and Investigations Committee and the Attorney General. A total of 12 such matters were reported by formal letter in calendar year 2002 while numerous less serious matters such as minor losses and acts of vandalism were reported collectively by memoranda. State agency reports, filed with this Office and the State Comptroller in accordance with Section 4-33a of the General Statutes, disclosed approximately 1,850 losses, primarily through theft and vandalism, in the 2002 calendar year, involving an aggregate loss of some \$3,500,000.

In March 2002 this Office issued its annual Statewide Single Audit Report for the State

of Connecticut. That report covered the audit of the financial statements as presented in the State's comprehensive annual financial report for the fiscal year ended June 30, 2001, and the schedule of Federal financial assistance received by the State during that year. This audit is done under the requirements of the Federal Single Audit Act and is a condition of the State's receiving more than \$4,300,000,000 of Federal financial assistance.

In addition to this Statewide audit approach, we are also continuing to audit each State department on a cyclical basis and under a limited scope audit which focuses on the department's compliance with financial-related laws and regulations and its internal control structure. This auditing approach complements that being done annually under the Statewide Single Audit and avoids duplicating audit effort.

Under existing disclosure requirements for the offering and sale of State bonds or notes, the Treasurer must prepare an Official Statement for each offering. Included with such Official Statements, and those of Quasi-Public Agencies or municipalities which include State disclosures, are selected State financial statements which require an audit opinion. With each issuance of an Official Statement we are required to examine such statements and prepare an audit opinion for inclusion in the Official Statement. We are also providing separate audit opinions in connection with the bonding programs of the Second Injury Fund, and the UConn 2000 Program. During the year 2002 we were required to give 11 such audit opinions in connection with the sale of bonds or notes of the State or Quasi-Public Agencies or municipalities and in connection with the separate bonding programs noted above.

Although financial-compliance auditing is the principal responsibility of this Office, Section 2-90 of the General Statutes authorizes examinations of performance in order to determine the effectiveness of the audited agency in achieving expressed legislative purposes. To that end 21 of the 54 departmental reports issued during the year included a section outlining our review of some aspect of the agencies' performance. However, an additional 12 reports were devoted specifically to evaluations of agency or program performance. These performance audits included aspects of personal services agreements, real and surplus property, accounts receivables, monitoring of State and Federal financial assistance, home health care, management control systems, and pharmaceutical purchasing, inventory and use.

Although the findings of an audit are usually made known to agency officials during the conduct of the audit, draft copies of the audit reports are delivered to agency officials for their comments. Such comments are then incorporated into the report in response to findings presented. When this is completed, the supervising auditor submits the report and its working papers for review. An Administrative Auditor conducting that review verifies that the audit met generally accepted auditing standards and that the findings of the report were supported by the evidence collected in the course of the audit. The report is also reviewed by the Deputy State Auditor and both State Auditors to assure compliance with policies and procedures of this Office. Draft copies of the approved audit report are delivered to agency officials and, when requested, an exit conference is held with such officials before final release and distribution of the report. Distribution of final reports is then made to agency heads, the Leaders of the General Assembly, the Appropriations Committee, the Legislative

Program Review and Investigations Committee, the Governor, the Comptroller, the Treasurer, the Attorney General, the Secretary of the Office of Policy and Management, the State Library, designated Federal agencies, news media and, when appropriate, to members of boards and commissions and others. Copies are also retained in our files and on our website for use by our staff, members of the General Assembly and other interested persons.

A listing of the audit reports issued during 2002 and the number of recommendations included in each report follows:

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>DEPARTMENTAL AUDITS:</b>				
<b>Elected Officials:</b>				
State Treasurer – State Financial Operations	06/05/02	5	9	8
Office of the Attorney General	08/05/02	4	2	0
State Treasurer - Departmental Operations	09/05/02	8	13	9
State Comptroller – State Financial Operations	09/18/02	0	0	0
State Comptroller – State Retirement Funds	11/04/02	3	4	2
<b>General Government:</b>				
Division of Criminal Justice	02/20/02	5	2	0
Department of Administrative Services	03/25/02	22	25	8
Investment Advisory Council	04/23/02	0	0	0
State Ethics Commission	05/20/02	0	3	3
Department of Revenue Services	07/24/02	4	0	0
Department of Special Revenue	08/16/02	4	3	2
Office of Policy and Management	09/05/02	12	6	3
Elections, FOI, OVA,OCA	10/16/02	4	5	3
<b>Regulation and Protection of Persons and Property:</b>				
Department of Public Safety	01/18/02	8	16	12
Department of Labor	03/05/02	11	10	6
Department of Insurance	04/12/02	2	2	2
Department of Banking	05/08/02	1	2	2
Connecticut Siting Council	06/10/02	3	1	0
Workers' Compensation Commission	06/17/02	2	6	5
Department of Consumer Protection	09/27/02	5	6	2
Police Officer Standards and Training Council	11/06/02	2	6	5
Commision on Fire Prevention and Control	12/10/02	7	5	4
<b>Conservation and Development:</b>				
Connecticut Agricultural Experiment Station	01/11/02	2	2	1
Department of Agriculture	07/22/02	3	8	5

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>Health and Hospitals:</b>				
Department of Mental Health and Addiction Services	03/01/02	9	9	3
Department of Public Health	09/09/02	11	4	0
Office of Health Care Access	10/02/02	5	1	1
<b>Transportation:</b>				
Department of Transportation	01/10/02	16	9	3
<b>Human Services:</b>				
Department of Social Services	10/21/02	21	25	13
<b>Higher Education:</b>				
Asnuntuck Community College	02/06/02	8	5	2
Manchester Community College	02/15/02	2	3	1
Board of Trustees of Community- Technical Colleges	04/09/02	6	3	2
Central Connecticut State University	04/17/02	11	13	6
Charter Oak College Foundation, Inc.	05/17/02	0	0	0
Western Connecticut State University	07/01/02	5	11	9
CCSU - Intercollegiate Athletics Program	08/28/02	0	0	0
Department of Higher Education	10/04/02	4	0	0
Connecticut State University System Office	10/28/02	8	8	4
Tunxis Community College	11/08/02	9	4	3
Housatonic Community College	11/25/02	6	6	3
Quinebaug Valley Community College	12/10/02	4	4	3
Three Rivers Community College	12/18/02	7	6	6
<b>Other Education:</b>				
Connecticut State Library and Commission on the Arts	01/15/02	3	3	3
Department of Education	09/12/02	11	8	2
<b>Correction:</b>				
Department of Correction	09/17/02	8	8	5
<b>Children and Families</b>				
Department of Children and Families	03/14/02	21	26	13
<b>Judicial</b>				
Public Defender Services Commission	01/14/02	3	3	1
Probate Court Administrator	03/22/02	4	6	2



<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>Authorities, State-Aided Institutions and Other:</b>				
Connecticut Lottery Corporation	01/17/02	1	0	0
Interstate Environmental Commission	03/13/02	0	0	0
Connecticut Health and Educational Facilities Authority	04/26/02	0	0	0
Tweed-New Haven Airport Authority	05/09/02	1	0	0
Connecticut Port Authority	06/19/02	0	2	2
State Employee Campaign	09/19/02	3	4	2
Total Recommendations - Departmental Audits		<u>304</u>	<u>307</u>	<u>168</u>
<b>STATEWIDE AUDITS:</b>				
State of Connecticut - Single Audit	03/19/02	<u>74</u>	<u>55</u>	<u>19</u>
<b>PERFORMANCE AUDITS:</b>				
Vehicle Operations and Management at Department of Public Safety	02/13/02	12		
Monitoring of State Financial Assistance Monitoring - Department of Mental Health and Addiction Services	02/26/02	6		
Personal Service Agreements - Department of Administrative Services	04/01/02	8		
Home Health Care Provider Regulations and Quality of Care	04/24/02	5		
Review of Management Control Systems - Department of Agriculture	07/26/02	5		
Monitoring of State Financial Assistance - Department of Mental Retardation	08/09/02	9		
Home Health Care and Home Care Program for Elders - Department of Social Services	08/15/02	4		
Statewide Pharmaceutical, Purchasing, Inventory and Use	10/23/02	6		
Federal Financial Assistance - Department of Children and Families	10/30/02	5		
Receivables - Department of Labor	12/05/02	11		
<b>PERFORMANCE AUDIT FOLLOW UP:</b>				
Real Property and Surplus Real Property	07/31/02	3	17	14
Accounts Receivable	08/21/02	6	14	9
Total Recommendations - Performance Audits		<u>80</u>	<u>31</u>	<u>23</u>
Total Recommendations - All Audits		<u>458</u>	<u>393</u>	<u>210</u>
Percentage of Recommendations Implemented or Resolved Within One Audit Cycle				<u>53%</u>

The departmental audit reports issued by our Office generally contain recommendations calling for various improvements in an agency's internal control structure, as well as recommendations calling for compliance with certain laws, regulations, contracts and grants when instances of non-compliance are found. A summary analysis of the recommendations appearing in our audit reports is shown below:

	<b><u>Number of Recommendations</u></b>
<b>Internal Control Recommendations:</b>	
Billings, receivables and control accounts	18
Cash management and cash handling and depositing	30
Equipment/supplies inventories	37
Financial reporting and accounting	19
Grant and other programs - administrative controls	33
Payroll and personnel control	36
Purchasing of goods and/or services	20
Computer operations	12
General accounting and business office functions	20
Establishment or amendment of written procedures, policies or guidelines	11
All others	<u>12</u>
Total Internal Control Recommendations	<u>248</u>
<b>Compliance Recommendations:</b>	
Accounting, auditing and reporting laws and regulations	4
Personnel, retirement and travel laws and regulations	6
Purchasing laws, regulations and contractual agreements	5
Reporting laws and regulations and public meeting laws	9
All other laws and regulations	<u>10</u>
Total Compliance Recommendations	<u>34</u>
<b>Miscellaneous Recommendations:</b>	
Amendment or clarification of laws or regulations	7
Improve or automate administrative practices	8
Various topics	<u>7</u>
Total Miscellaneous Recommendations	<u>22</u>
Total Departmental Audit Recommendations	<u>304</u>

The additional 154 recommendations in the Statewide and performance audits called for various improvements in controls over specific Federal or State programs and compliance with related laws and regulations.

**Whistle Blower Matters:**

Under the provisions of Section 4-61dd of the General Statutes, known as the Whistle Blower Act, we receive complaints from any person having knowledge of any matter involving corruption, unethical practices, violations of State laws or regulations, mismanagement, gross waste of funds, abuse of authority or danger to the public safety occurring in any State department or agency or quasi public agency. Section 4-61dd also applies to large State contracts. We investigate such matters and report our findings and recommendations to the Attorney General. At the request of the Attorney General or on our own initiative, we assist in any continuing investigation. During the fiscal year ended June 30, 2002, we received 70 complaints covering such matters as misuse of grant money, harassment, conflicts of interest and various fees collection problems.

As required by the aforementioned Section 4-61dd, an annual report on such matters was prepared as of August 30, 2002, and filed with the clerks of the House and Senate. By law the identity of the complainant can not be disclosed, but the general nature of each complaint is available in our Office.

In addition to the confidentiality of the complainant, the records of any investigation of whistle blower matters are considered exempt records and do not require disclosure under the Freedom of Information statutes. This exemption aids our investigation of complaints and permits the extension of anonymity to others providing information on the matter.

The following is a summary of those complaints received during the 2001 - 2002 fiscal year and the action taken thereon, updated to January 31, 2003.

**AUDITORS OF PUBLIC ACCOUNTS  
WHISTLE BLOWER MATTERS RECEIVED  
JULY 1, 2001 to JUNE 30, 2002**

<b>Agency/Subject</b>	<b>Date</b>	<b>Date Reported to Attorney General</b>
<b>Administrative Services</b>		
Security system bidding	10/02/2001	03/19/2002
ACE Financial Solutions	02/15/2002	07/15/2002
Non-compliance with contract terms	05/21/2002	07/15/2002
<b>Agriculture Department:</b>		
Oyster Bed Leases	04/02/2002	04/29/2002
<b>Board of Education and Services for the Blind:</b>		
Unsafe work conditions at West Haven workshop	12/05/2001	01/09/2002
Health insurance	12/17/2001	05/08/2002

<b>Agency/Subject</b>	<b>Date</b>	<b>Date Reported to Attorney General</b>
<b>Board of Education and Services for the Blind: Continued</b>		
State park businesses	04/17/2002	07/15/2002
Numerous allegations	05/20/2002	07/15/2002
<b>Capital Community College:</b>		
Alleged misuse of grant funds	04/25/2002	11/21/2002
<b>Central Connecticut State University:</b>		
Personal service agreement	08/10/2001	01/18/2002
Violation of hiring practices	03/15/2002	07/15/2002
<b>Children and Families:</b>		
Custody	08/03/2001	08/15/2001
Destruction of records at Long Lane School	09/12/2001	09/26/2001
CT Juvenile Training School	12/17/2001	03/13/2002
<b>Connecticut Resources Recovery Authority:</b>		
Enron	01/16/2002	03/13/2002
<b>Commission on Human Rights and Opportunities: **</b>		
Comptroller guidelines/accounting policies	07/19/2001	*
Attempted bribery	09/17/2001	12/07/2001
Unlicensed investigator	02/07/2002	06/17/2002
<b>Correction:</b>		
Ethical misconduct	04/23/2002	07/31/2002
Bond-outs	06/13/2002	07/31/2002
<b>Economic and Community Development:</b>		
Breed's Tavern housing project	12/20/2001	4/22/2002
Stratford Theater	12/11/2001	4/24/2002
<b>Education:</b>		
Edison Magnet School	07/12/2001	08/30/2001
Waterbury Magnet School	01/24/2002	07/15/2002
Stolen Social Security number	04/11/2002	*

<b>Agency/Subject</b>	<b>Date</b>	<b>Date Reported to Attorney General</b>
<b>Environmental Protection:</b>		
Destruction of records	09/10/2001	10/30/2001
Misuse of computers	01/28/2002	06/14/2002
Various	04/04/2002	08/28/2002
Mismanagement of land records	04/05/2002	12/02/2002
<b>Fire Commission/Department of Public Works:</b>		
Bidding irregularities	04/05/2002	06/10/2002
<b>Insurance Department:</b>		
Unfairly denied appeal	04/05/2002	06/10/2002
<b>Judicial Department:</b>		
Inappropriate action by employee	3/12/2002	7/15/2002
Courthouse security	5/21/2002	8/28/2002
Judicial Marshals	6/24/2002	8/26/2002
<b>Labor:</b>		
Mishandling of client's funds	01/16/2002	02/08/2002
<b>Mental Retardation:</b>		
Spending at Southbury	10/29/2001	03/13/2002
Excessive and unnecessary costs	12/12/2001	04/12/2002
<b>Mental Health and Addiction Services:</b>		
Staffing	12/14/2001	03/13/2002
Patient mistreatment	04/22/2002	01/24/2003
Work environment	05/01/2002	12/19/2002
Grant misuse	05/10/2002	*
Patient release	06/07/2002	07/19/2002
<b>Military Department:</b>		
Misuse of State vehicle and other allegations	08/13/2001	12/07/2001
Furniture purchase	10/10/2001	11/15/2001
<b>Norwalk Community College:</b>		
Improper use of State equipment and other matters	07/23/2001	07/26/2001

<b>Agency/Subject</b>	<b>Date</b>	<b>Date Reported to Attorney General</b>
<b>Office of Policy and Management:</b>		
Non-compliance with contractual agreements	03/26/2002	05/06/2002
<b>Public Health:</b>		
Dental Commission	06/28/2001	09/26/2001
Investigations	02/08/2002	03/13/2002
<b>Revenue Services:</b>		
Solicitation of funds	10/11/2001	01/11/2002
<b>Social Services:</b>		
Misconduct - home health	08/27/2001	12/21/2001
Cover up of failure to act upon complaint	10/11/2001	12/07/2001
Allegations of client fraud	03/05/2002	11/13/2002
Client complaints	03/14/2002	04/05/2002
Client complaints	03/14/2002	04/05/2002
Client complaints	03/14/2002	04/05/2002
<b>Special Revenue:</b>		
Alleged misuse of car	07/27/2001	10/22/2001
Hearings	08/01/2001	09/12/2001
Misconduct	10/12/2001	12/07/2001
<b>State Marshal Commission:</b>		
Misconduct by the Administrative Director	11/01/2001	12/21/2001
<b>Transportation:</b>		
Excessive train whistling	10/29/2001	12/07/2001
<b>University of Connecticut:</b>		
Deposits to personal account	05/10/2002	08/28/2002
Computer misuse	06/12/2002	11/21/2002
<b>University of Connecticut Health Center:</b>		
Payroll fraud - Gates Correctional at Niantic	09/10/2001	12/07/2001
Use of time	12/06/2001	07/29/2002
Fraud	03/26/2002	10/09/2002

<b>Agency/Subject</b>	<b>Date</b>	<b>Date Reported to Attorney General</b>
<b>Veteran's Affairs:</b>		
Fraud	03/12/2002	06/10/2002
Payroll fraud	03/05/2002	06/10/2002
<b>Various State Agencies:</b>		
Over billing by a vendor	02/06/2002	08/26/2002
<b>Western Connecticut State University:</b>		
Various	03/22/2002	06/17/2002
<b>Unknown Agency:</b>		
Oxycontin	03/26/2002	04/10/2002

*\* Matters currently under review*

*\*\*FYI Commission on Human Rights & Opportunities:  
Comptroller guidelines/account policies – 07/19/2001  
duplicate letter from AG – 07/19/2001*

**Generally Accepted Government Auditing Standards (GAGAS):**

An audit consists of a review and examination of records, documents and financial statements and the collection of information needed to certify to the fairness of presentations in financial reports and compliance with statutory requirements and regulations and to evaluate management's efficiency and effectiveness in carrying out responsibilities. Standards have been set by national organizations for the conduct of audits and for the preparation and issuance of audit reports. The Generally Accepted Government Auditing Standards (GAGAS) are those established by the United States General Accounting Office (GAO) and presented in a publication entitled "Government Auditing Standards" or more commonly known as "the Yellow Book."

Although the standards prepared by GAO are only required in connection with entities supported by or receiving Federal assistance, they are so comprehensive that their application to all governmental audits is generally encouraged. Because the Auditors of Public Accounts in the State of Connecticut function in many respects as the GAO in the Federal Government, we have chosen to accept and follow the "Government Auditing Standards" in the performance of virtually all our audit work.

Following GAGAS has had a significant impact on our operations. Continuing education for our professional staff, periodic external quality control review assessments (peer reviews) and compliance with recent Statements on Auditing Standards (SAS) issued by the American Institute of Certified Public Accountants (AICPA) require constant attention, updating of policies and procedures, and monitoring.

**Continuing Education:**

With respect to continuing education, auditors responsible for planning, directing, conducting, or reporting on government audits must complete, every two years, at least 80 hours of appropriate continuing education and training, with at least 24 of the 80 hours in subjects directly related to the government environment and government auditing. Accordingly, we have adopted and follow a training policy statement which provides for reasonable assistance in the form of expanded training and seminars on State time and at State expense, together with tuition reimbursement programs for staff taking appropriate courses on their own time. As a matter of economy and convenience, during 2002 the training program included in-house presentations and contracted seminars.

**Peer Review:**

With respect to an external quality control review assessment, GAGAS mandates that audit agencies have such reviews at least once every three years. Our last review, commonly referred to as a "peer review," was in the Spring of 2000 and resulted in a very favorable unqualified opinion. Our next external quality control review will be in the current year. An organization such as ours is also expected to monitor its operations between peer reviews to ensure continuing effectiveness of the quality control system. To that end we require an annual inspection to assure us that the control system is working as intended. Our annual quality control inspection for 2001 was conducted by selected members of our staff. Their report confirmed that the quality control system continues to be effective.

**Recent Developments:**

During 2002 this Office, together with the audit agencies of four other states and the United States General Accounting Office, assisted the Legislative Auditor of the State of Louisiana in producing an evaluation guide for security in the transportation industry. This evaluation guide was developed to assist auditors and transportation personnel in assessing security of transportation assets and operations. This guide is a valuable tool for auditors and management alike.

In addition, during the past year we have continued to increase the number of staff members trained in the use of Computer Assisted Audit Tools (CAATS) because of the increasing predominance of large and complicated computerized systems throughout State government.



This technology can be used to increase productivity, improve audit effectiveness and efficiency, and reduce dependence on agency IT personnel. CAATs has been used by our staff in performing various audit procedures including: data analysis, tests of details of transactions, test of balances, and compliance tests of information systems' general controls.

Our Office also has its own website on the Internet (<http://www.state.ct.us/apa>). A key feature of this website is that it provides for the electronic distribution of our reports via the Internet. Accordingly, members of the public and other interested parties may download, for viewing and/or printing, copies of reports issued by our Office. In addition, general information about the operations of our Office can be found on this website.

SECTION II

**RECOMMENDATIONS**

Many recommendations of a financial or recordkeeping nature are presented in the written audit reports prepared in this Office. Most of these are addressed to department heads and stress the need for compliance with legislative policies or sound accounting and business principles. Areas encountered in which statutory revisions or additional legislative actions appear desirable are presented to the General Assembly throughout the year and in the following recommendations.

- 1. The General Assembly should revise section 51-44a (a) of the General Statutes to reflect the effect of reconstruction of congressional districts from six to five on the membership of the Judicial Selection Commission.**

Comment:

Connecticut General Statute section 51-44a(a) established the Judicial Selection Commission and directed that it be comprised of twelve members with two members appointed from each congressional district. Any analysis of the current composition of the Judicial Selection Commission based upon the five reconstructed Congressional Districts found that one or two districts (depending on the part of town the members are from) had three or four members.

The Judicial Selection Commission was well aware of this matter and attempted early on to rectify the inherent conflicts within the statute. In the February Session 2002, the JSC submitted Substitute House Bill No. 5683, "An Act Concerning the Composition of the Judicial Selection Commission." That bill would have had two persons appointed on an at-large basis. However, the bill was not enacted.

It appears that the composition of the Commission is in conflict with its enabling statute as of the commencement of the next session of Congress in January 2003.

2. **The General Assembly should enact legislation to address the practice of negotiating special separation agreements that provide for separation payments or other benefits in excess of that currently allowed to employees leaving state service.**

Comment:

Our performance audit report, issued on January 30, 2001, dealt with special compensation agreements or payments to State employees. It was noted that State agencies have been granting separation payments, called “notice period pay,” under an unwritten policy that has been in effect since 1973. This policy, as explained by the Department of Administrative Services, “is to allow agencies some flexibility where the affected employee's presence at the regular work site could create disruption and discord.” The “notice period pay” is intended to facilitate the immediate removal of an employee from the workplace. Although we understand that the immediate removal of an employee is sometimes necessary, this policy does not place any limitation on the number of days granted the employee as paid leave and has had the effect of granting to such employees more monetary or other benefits than is presently allowed by State statutes and regulations. This unwritten policy does not have its basis in the statutes or in the regulations, and without guidelines that are more specific or provide more oversight, benefits to certain State employees can be granted in a manner that may be unfair or discriminatory to other State employees.

3. **The General Assembly should enact legislation to address the practice of reemploying retirees, for the same or similar position the retired employee originally held, at a higher hourly rate. It should also address the practice of reemploying retirees for critical management positions including agency heads on a part time basis for considerable lengths of time.**

Comment:

Our performance audit report, issued on January 30, 2001, dealt with former State employees that have been granted reemployment contracts. We noted that the General Statutes allow retired State employees to be reemployed for a maximum of 120 working days in any one calendar year without loss of retirement benefits, if that reemployment is not on a permanent basis. We found it is a common practice for State agencies to rehire retirees as consultants or for special projects, or for retired employees to refill their original assignment until replacement staff is recruited. However, there have been contracts granted with hourly rates greatly in excess of what a full time State employee in a comparable position would receive.

In addition, we have noted cases in which senior managerial level employees were reemployed in their previous positions on a part time basis after retirement for an extended period. While we recognize that it may be advantageous to hire a former employee on an interim basis, managers in critical positions, particularly those assigned to agencies involved with the safety of the public and the safety of clients under the State's care, should be held directly responsible for administering those agencies on a full time basis.

4. **The General Assembly should repeal or revise Section 32-4a of the General Statutes to preclude State funds from being spent without adequate safeguards and accountability.**

Comment:

Section 32-4a specifies that “The State, acting through the Department of Economic and Community Development or any other State agency, governmental entity or the private sector, may, within available appropriations, provide financial assistance, lend staff or provide other in-kind contributions to the Connecticut Economic Resource Center, Incorporated (CERC).” Other than this statutory provision for providing assistance to CERC, we can find no other reference in the Statutes to CERC or to what the State can expect to receive in return for the assistance it provides to CERC.

We have concluded that Section 32-4a may serve to encourage the uneconomical expenditure of State resources in that it permits State agencies to provide State funds to the Connecticut Economic Resource Center, Incorporated, without utilizing such normal safeguards as competitive bidding. Further, under Section 32-4a, a State agency could provide resources to CERC without obtaining any service or product in return for that support. We recognize that it is possible that CERC may provide valuable services and that State agencies may be able to exert some degree of control through contractual or other provisions. However, given Section 32-4a, there is currently no statutory way to guarantee that the State receives value for the support it provides because nothing is required of CERC in return for the State resources it receives.

We thus recommend that the General Assembly repeal Section 32-4a. Repealing this section would not prevent State agencies from doing business with CERC if CERC proves it can economically provide services in competitive bidding situations. If, however, the General Assembly believes that CERC has certain unique capabilities that other organizations do not possess and which are necessary to further the well being of the State, we would recommend that the General Assembly enact new legislation that would incorporate CERC as a Quasi-Public agency such as the Connecticut Innovations, Incorporated. In this way, the General Assembly could ensure that the purposes that it envisions for CERC would be defined and that an annual audit would be accomplished to ensure accountability.

5. **The General Assembly should establish formal standards and procedures for the evaluation and approval of contracts to privatize services provided by State departments.**

Comment:

We have noted that the only State guidelines and requirements in place over the execution of privatization contracts are the standard State purchasing laws and regulations that govern the procurement of all goods and services by State agencies. It is possible that operational areas of the State government, such as parts of the information technology services, may be selected as possible candidates for privatization in the future.

Given the inherent risk that attaches to privatization initiatives originating in the government sector, and the potential they have for dramatically impacting the way government services are delivered to the public, there exists a need for the General Assembly to establish formal standards and procedures in order to help ensure that sufficient planning and analysis have been conducted to support a decision by State management to enter into a contract for the privatization of government services.

6. **The General Assembly should consider limiting the conditions that may be used to justify a waiver from competitive bidding, when services are contracted for under a personal service agreement. Limiting such conditions to those that are specifically presented within Section 4-215, subsection (a), of the General Statutes would accomplish that objective.**

Comment:

State agencies that are proposing to enter into personal service agreements with a cost of more than \$20,000 are to competitively bid for the services unless a waiver is obtained from the Office of Policy and Management (OPM). Section 4-215, subsection (a), of the General Statutes provides OPM with authority to adopt guidelines for determining the types of services that may qualify for such waivers. The Statute presents specific conditions that would justify a granted waiver, but also gives OPM discretion in establishing such, in that it is not limited to the specific conditions presented. OPM has added two additional conditions to those presented in the Statute. One often-used condition is that a waiver may be obtained if such services are “provided by a contractor who has special capability or experience.” This is an overly broad condition that could conceivably be argued to exist for any agreement that is entered into with a contractor somewhat experienced in a given field and thus its use may limit competition.

7. **The General Assembly should consider re-visiting the more specific language that had been used within Section 4-205 of the General Statutes (Repealed as of October 1, 2000) to define “consultants,” and consider incorporating such language into the definition of “personal service contractor,” as defined within Section 4-212. It should also consider clarifying Section 4a-50 by better defining “other service arrangements where the services are provided by persons other than State employees” to mean other services that are similar to the specific services presented in the Section.**

Comment:

During our review we became aware of two contracts for data processing and accounting systems related services, totaling \$9,000,000, awarded to a contractor to assist in replacing the State’s aging core financial and administrative computer systems. The contractor would appear to meet the definition of a “personal service contractor,” as defined in Section 4-212, subsection (2) of the General Statutes. According to that Section, “personal service contractor” means any person, firm, or corporation not employed by the State, who is hired by a State agency for a fee to provide services to the agency. That Section also states that the term “personal service contractor” does not include a person, firm or corporation providing “contractual services,” as defined in Section 4a-50. Section 4a-50, subsection (3), defines “contractual services” to be “any and all laundry and cleaning service, pest control service, janitorial service, security service, the rental and repair, or maintenance, of equipment, machinery and other State-owned personal property, advertising and photostating, mimeographing, and other service arrangements where the services are provided by persons other than State employees.”

As a “personal service contractor,” a personal service agreement would need to be executed in accordance with Sections 4-212 through 4-219 of the General Statutes; the Office of Policy and Management (OPM) would need to approve the agreement before such agreement could be executed. Barring a waiver from the OPM, the contract would need to be bid competitively, as required by Section 4-216 of the General Statutes.

The Department of Administrative Services administered the two contracts described above and determined that the services to be acquired were “contractual services” that are described in Subsection (3) of Section 4a-50. The services contracted for in those two contracts do not appear to be of the nature as those that are described explicitly within Section 4a-50, and therefore, would not appear to be excluded from the provisions of Sections 4-212 through 4-219.

Section 4-205 of the General Statutes, which had been repealed effective October 1, 2000, defined “consultants” in a more specific manner than Section 4-212 defines “personal service contractors.” Subsection (1) of Section 4-205 defined “consultant” as “a person, firm or corporation not employed by the State, who is hired by a State agency for a fee to provide professional advice or services to the agency under a contract that defines the services or end product to be delivered.” It should be noted that this Section also allowed for exclusions under Section 4a-50 as well.



8. **The General Assembly should enact legislation to require the probate courts to submit all forms PC-200 (Application for Administration or Probate of Will) to the Department of Administrative Services for that agency's research and, if warranted, action to recover prior assistance payments to the decedent and/or his or her heirs.**

Comment:

In addition to its billing and collection services, the Department of Administrative Services is responsible for recovering the cost of various types of public assistance in certain circumstances. One way the Department effects collection is through a claim on the estate of a decedent when the decedent or his or her heirs has ever received care or aid from the State of Connecticut or the Department of Veterans' Affairs. The probate courts are required to submit forms PC-200 (Application for Administration or Probate of Will) when the applicant indicates that the decedent or the spouse or children of the decedent did receive such assistance.

The Department of Administrative Services and the Probate Court Administration have undertaken a voluntary cooperative effort whereby all the probate courts are requested to notify DAS of all probate cases that are opened in the State, not just those where prior assistance has been indicated with an "x" in the appropriate box on the form. DAS can then research these cases and, if warranted, try to recover the cost of public assistance provided to a decedent and/or his or her heirs.

The Probate Court Administration issued TR 00-506 in July 2000. This document requests that the probate court judges and personnel cooperate with DAS by forwarding copies of all forms PC-200 to the Department of Administrative Services. For calendar year 2001, compliance with this request was 68.3 percent overall, and ranged from 0.00 percent to 100 percent among the 133 probate courts in the State.

Collection results were remarkable, with a 93.7 percent increase in collections from April 2001 through March 2002 over the same time frame in the previous year. April 2001 marked the beginning of increased collections attributable to the increased PC-200 reporting. Recoveries totaled \$11,226,687 for this 12-month period compared to \$5,795,819 for the previous 12-month period. The \$7,073,449 collected from April 1, 2002, through September 30, 2002, represents a 38.3 percent increase over the same six-month period in the prior year.

With an increase in the number of probate applications submitted to DAS for its review and action, revenues are expected to increase even more. A statutory requirement, supplanting the current voluntary arrangement, would ensure that DAS is promptly notified of the opening of all probate cases in the State.

9. **The General Assembly should enact legislation to require participation in the school-based child health program by all school districts with eligible students, except those school districts that can show that participation in the program is not cost-effective.**

Comment:

The Department of Social Services administers the School-Based Child Health program, whereby Medicaid can be billed the accepted rate for Medicaid-eligible students who require special education services and who have an individualized education plan. A school district's participation in this program is voluntary.

Medicaid reimburses the State 50 percent of the amount billed through this program. The Department is required to remit 60 percent of the Medicaid reimbursement to the school districts, and therefore, the State retains 40 percent of the reimbursement for administrative costs.

For the 2001-2002 school year, the State Department of Education reported special education populations for 169 school districts, including 149 local school districts, 17 regional school districts, and three State-run school districts/systems. Only 65 of these school districts participated in the School-Based Child Health program. The school districts, other than the three State-run school districts, that did not participate lost an opportunity to recover approximately \$2,391,000 because of their election to not participate in the program. This equates to an estimated \$1,594,000 for the State (40 percent of the resulting estimated Medicaid receipts).

These estimates are based on a comparison of participating and non-participating school districts within each Education Reference Group. An Education Reference Group is a classification system in which districts that have public school students with similar socio-economic status and need are grouped together.

We note that there are administrative and training costs associated with program participation. We did not analyze these costs. Program personnel at the Department of Social Services have indicated that school districts with the largest populations of students requiring special education services are already participating. For these school districts, the financial return far exceeds the cost of administering the program. However, for some school districts, the amount received may not offset the associated costs.

Legislation requiring participation in the program, unless it can be shown that participation would not be cost effective, would result in increased revenue for the school districts and for the State.

10. **The General Assembly should enact legislation within Title 11, Chapter 188, of the General Statutes to provide enforcement powers to the Public Records Administrator with regard to the records management program. The legislation should include penalties to those employees who destroy records without prior approval of the Public Records Administrator. Legislation should also be enacted for the Public Records Administrator to provide an annual report to the General Assembly indicating those departments that are not in compliance with and/or have violated Record Retention laws.**

Comment:

The State Librarian has been given the responsibility for a records management program and has appointed an assistant to be the Public Records Administrator in accordance with Section 11-8 of the General Statutes. However, the General Statutes do not provide for penalties to State agencies or employees who do not comply with records retention rules or who destroy records without prior approval of the Public Records Administrator.

Section 1-240 of the General Statutes, under the Freedom of Information Act, provides penalties for persons who destroy records. Section 53-153 of the General Statutes, within Chapter 942 of the General Statutes, Offenses Against Public Justice, also provides penalties for the unlawful removal or alteration of records. However, neither of these Statutes is referenced as penalties that the Public Records Administrator can enforce when the Administrator determines that an employee has destroyed State records.

A recent audit of the Department of Environmental Protection revealed that a Director had instructed his employees to dispose of land records without the approval of the Public Records Administrator. Each State agency is required to have a designated Record Management Liaison Officer (RMLO). The Department's designated RMLO became aware of the disposing of records situation after some records were already sent to the recycling center. Upon inspection of the Department of Environmental Protection premises at a later date, the RMLO found more bins of records that were about to be disposed and saved these records. The RMLO had the Public Records Administrator and State Archivist determine if these saved records should have been disposed of without prior authorization. The Public Records Administrator and State Archivist stated in a letter to this Director at Department of Environmental Protection, dated January 30, 2002, that "original State Land Acquisition records were disposed of without prior authorization from the State Library." It should also be noted that since January 1990 the State Records Administrator has been informing this same Director that his land records are permanent and vital to the operations of the State. Also, this same Director is required to submit a records retention schedule and has been requested to do so for some time. As of December 30, 2002, a records retention schedule still has not been filed by the Director for approval by the State Records Administrator. It should be noted that there were no penalties to this employee or the Department for the destruction of records and the failure to comply with developing a records retention schedule for the land records

**Technical Corrections and Other Matters:**

- a. Section 12-19a of the General Statutes should be reviewed and clarified, if needed, to ensure proper payment of grants in lieu of taxes on State property. Section 12-19a requires a grant to municipalities equal to 100 percent of property taxes lost due to the tax exemption on property used for correctional facilities. The grant is payable based on an annual August 1 certification by the Commissioner of Correction of such facilities in use during the preceding fiscal year. Although it would seem that the phrase “preceding fiscal year” means the fiscal year immediately before the certification, in practice it has been interpreted to be the year before the municipalities’ assessment date. This postpones by a year the 100 percent calculation and requires only a 20 percent calculation as is used for other types of State property for one extra year.
- b. Newington Children’s Hospital changed its name to Connecticut Children’s Medical Center and entered into a relationship agreement with Hartford Hospital. Since the former Hospital and its operation are referred to in a number of sections of the General Statutes, revisions are needed to reflect the name change and, possibly, to recognize the expanded mission of the former Hospital and its relationship with Hartford Hospital.
- c. The former Sales and Service Fund of the Board of Education and Services for the Blind became an account of the General Fund in 1986 with a working capital limit of \$300,000 established in 1982. Section 10-304 and 10-311 of the General Statutes should be reviewed and amended to clarify the sources of revenue to this account and the financial reports required of the Board for this account and to recognize the need for a larger, more realistic working capital balance for the account.
- d. Sections 19a-87b of the General Statutes provides for the inspection of at least one-third of the family day care homes each year but does not require that each facility be inspected within any fixed time period. By regulation the Department of Public Health must inspect each licensed child day center or group day care home at least every two years. Section 19a-87b should be amended to require each family day care home to be inspected at least every two or three years.
- e. Section 10a-25g of the General Statutes provides that the Department of Economic and Community Development is to administer two of three programs collectively known as the Yankee Ingenuity Initiative Program. However, beginning in the 1992-1993 fiscal year the Legislature passed various special acts, which appear to have transferred the administration of the Program to Connecticut Innovations, Inc., which in fact administers it. Section 10a-25g should be amended to recognize this situation.
- f. Section 4-9 of the General Statutes provides that the Governor appoint Executive Directors of all boards and commissions with few exceptions. However, Section 7-294d, subsection (a), (14), authorizes the Police Officer Standards and Training Council to employ an Executive Director. This apparent conflict in statutes should be resolved.

- g. Public Act 98-68 resulted in the creation of Section 4-37j of the General Statutes. This Section adds whistle blower protection to foundation employees and requires the development of policies for the investigation of corruption and various abuses. Section 4-37f, (8) delineates audit requirements for the foundations and specifies reporting on conformance with Sections 4-37e to 4-37i. Reference to Section 4-37j is not included in the reporting requirement. Section 4-37g, subsection (b), grants access by our Office to books of the foundations and workpapers of auditors that report violations of Section 4-37e through 4-37i inclusive “and any other provision of the general statutes.” Given the nature of Section 4-37j, it would appear reasonable to expect auditors to report on the failure of foundations to comply with that Section as well as any other statute. While Section 4-37g could certainly be construed to include Section 4-37j, specifying that Section in the law would appear more appropriate.
- h. Public Act 93-80, Section 56, attempted to limit the provisions of expired collective bargaining agreements which may remain in effect until approval of a new agreement. However, Section 5-278a continues to permit negotiated extension agreements without General Assembly approval even though they might include provisions of expired agreements which Public Act 93-80 attempted to limit. A consistent legislative policy is needed for such extension agreements if the General Assembly intends to limit such extensions to salary and compensation matters.