

STATE OF CONNECTICUT



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

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

TABLE OF CONTENTS

INTRODUCTION	1
COMMENTS	1
FOREWORD	1
Significant Legislation	3
RÉSUMÉ OF OPERATIONS	4
General Fund.....	4
Workers’ Compensation Claims	6
Department of Administrative Services Revolving Fund.....	7
Trustee Accounts in the Custody of the Commissioner of Administrative Services.....	7
Other Matters – Estate Administrator	9
PROGRAM EVALUATION	12
Planning for the Merger and Consolidation of Administrative Functions.....	12
CONDITION OF RECORDS	15
Human Resources – Statewide	15
Quality Control Committee.....	15
Clearance Procedures for Employees Separating From State Service.....	16
Payroll and Personnel	17
Overtime and Compensatory Time Procedures and Records	17
Management Candidate Screening	19
Business Office – Delinquent Accounting Unit/Central Accounting Unit	20
Unsupported Trustee Cash Account Balances and Ineffective Bank Reconciliations	20
Accounting Controls Over Receipts	21
Inventory and Property Control	23
Department of Administrative Services Revolving Fund	25
Receipt of Mileage Reports	25
State Vehicle Utilization	26
MPG Rating for State Vehicles.....	28
Write-offs of Accounts Receivable	30
Department of Administrative Services - System Wide Accountability and Control	31
Risk Management	31
Data Security	32
RECOMMENDATIONS	35
INDEPENDENT AUDITORS’ CERTIFICATION	42
CONCLUSION	45

May 16, 2008

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

We have made an examination of the financial records of the Department of Administrative Services (DAS) for the fiscal years ended June 30, 2004 and 2005. This report on the examination consists of the Comments, Recommendations and Certification that follow.

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

COMMENTS

FOREWORD:

The Department of Administrative Services (DAS) operates primarily under the provisions of Title 4a, Chapter 57, of the General Statutes. A description of the major functions of the Department is presented below:

Office of the Commissioner:

The Office of the Commissioner sets the policy and direction of the agency and provides legal support and oversight of DAS operations. The major functions of the Office of the Commissioner include:

- Legislative liaison
- Legal support and oversight of DAS operations
- Contract negotiations
- Compliance with State and Federal requirements

Strategic Services:

Strategic Services conducts agency-wide and State-wide projects and studies to:

- Set, track and evaluate the DAS business plan
- Conduct analysis of DAS operations
- Assess and report upon organizational effectiveness using established criteria
- Find cost savings

Human Resources:

The Department provides statewide human resource services within DAS and to other agencies, including recruiting and testing, personnel development, and Workers' Compensation administration. In addition, the Department's Small Agency Resource Team (SmART) provides direct services to more than twenty small State agencies in the areas of affirmative action, human resources and payroll.

Financial Services Center (FSC):

The Financial Services Center provides business support services to organizational units within DAS and to other State agencies. Included within the FSC are the operations of the Collections Unit. The Collections Unit is primarily responsible for billing and collecting for services rendered by the State health care institutions and supports miscellaneous collection efforts of other State agencies. The FSC also performs the following functions:

- DAS fiscal management
- Lien and estate recoveries
- Small agency fiscal support

Business Enterprises:

Business Enterprises provides services for the statewide operations of fleet, procurement, central printing, mail and courier services, State and Federal surplus property, and Federal Food Distribution Program.

Communication Office:

The Communications Office performs a variety of services for the Department including:

- Marketing and media services to all DAS business centers and consulting services to other State agencies
- Write and design DAS publications and news releases
- Media contact

Barbara A. Waters served as the Commissioner of Administrative Services until her retirement in July 2004. She returned on a temporary basis until the appointment of Linda J. Yelmini as Commissioner of Administrative Services in December 2004.

Significant Legislation:

Notable legislative changes, which took effect during the audited period, are presented below:

- *Public Act 03-126* – Section 1 of the Act, effective July 1, 2003, increases from \$10,000 to \$50,000, the maximum value of an estate for which the Department of Administrative Services’ estate administrator may assume responsibility as guardian, conservator, administrator, trustee, or other fiduciary.
- *Public Act 03-215* – Section 3 of the Act, effective July 1, 2004, authorizes the creation of a process for prequalifying contractors. Contractors are required to obtain a prequalification certificate from the Department of Administrative Services to bid on public building construction contracts estimated to cost more than \$500,000.
- *Public Act 04-2(May Special Session)* – Section 29 of the Act, effective July 1, 2004, states that the Commissioner of Administrative Services shall have sole responsibility for establishing procedures for all executive branch agencies participating in the State of Connecticut Workers’ Compensation program.
- *Public Act 04-231* – Section 2 of the Act, effective October 1, 2004, modifies Connecticut General Statutes Section 4a-67d to require that the State fleet average for cars and light duty trucks attain the best achievable mileage per pound of carbon dioxide (CO₂) emitted in its class. This change is included in a recommendation found in the “Condition of Records” section of this report.
- *Public Act 04-245* – Section 3 of the Act, effective June 1, 2004, states that no State agency or quasi-public agency shall execute a large State contract unless the State agency or quasi-public agency obtains: affidavits concerning gifts given and taken by certain groups of people preceding the submission of a bid and again preceding the date the contract is executed; a certification from the agency official or employee who is authorized to execute the contract stating that the most qualified person/firm was selected and that collusion, fraud, gift giving or promising, or inappropriate influence was not involved.

RÉSUMÉ OF OPERATIONS:

General Fund:

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of the “Grants and Restricted Accounts Fund” to account for certain Federal and other revenues that are restricted from general use. In previous years those Federal and other restricted revenues were accounted for in the General Fund as “Federal and Other Grants.” Thus, starting in the fiscal year ended June 30, 2004, Federal grants and other restricted funds that were formerly accounted for in the General Fund have been reclassified into the “Grants and Restricted Accounts Fund.” The change in fund structure resulted from the implementation of a new State accounting system. In addition, “Refunds of Current Expenditures” were formerly recorded as receipts but under the new State accounting system, they are recorded against the appropriate expenditure account.

General Fund receipts for the 2003-2004 and 2004-2005 fiscal years as recorded by the State Comptroller totaled \$60,505,045 and \$65,684,961, respectively. The Department’s General Fund receipts for the 2002-2003 adjusted for “Federal and Other Grants” and “Refunds of Current Expenditures” were \$56,830,609.

A summary of those receipts by category, as compared to the 2002-2003 fiscal year, follows:

	<u>Fiscal Year</u>		
	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Recoveries of the costs of:	\$	\$	\$
Public Assistance	35,440,461	34,205,135	40,120,409
Hospitals	18,954,919	20,685,731	19,629,678
Title IV-E and Non IV-E Programs	593,800	4,079,638	3,345,521
Other Receipts:			
Refunds of Expenditures from Prior Years	1,136,154	1,195,655	1,698,781
Miscellaneous Recoveries	<u>705,275</u>	<u>338,886</u>	<u>890,572</u>
Total Receipts	<u>\$56,830,609</u>	<u>\$60,505,045</u>	<u>\$65,684,961</u>

The reduced recoveries in fiscal year 2003 for Title IV-E and Non IV-E Programs were due to the Department of Children and Families’ difficulties with its Trust Accounts system resulting in delays in the transfer of those recoveries to DAS.

The Collections Unit also performed claims submission for the Federal Medicaid (i. e., Title XIX) program billings. The Medicaid program, which was established pursuant to Title XIX of the Social Security Act, provides medically related care and services to needy persons. The State received fifty percent reimbursement from the Federal government for claims accepted and paid under the Title XIX program. The Collections Unit reported Title XIX collections of \$691,279,722 and \$720,156,005 for the fiscal years ended June 30, 2004 and 2005 from the following inpatient and outpatient medical assistance programs:

	<u>Fiscal Year</u>	
	<u>2003-2004</u>	<u>2004-2005</u>
Outpatient Care:		
Department of Mental Retardation (Waiver) –		
Community-Based Services	\$410,686,157	\$421,440,127
Targeted Case Management	12,504,690	21,730,029
Department of Children and Families –		
Private Non-Medical Institutions	22,927,887	23,208,102
Department of Mental Health and Addiction Services –		
Targeted Case Management	7,007,261	15,971,251
Sundry Services	<u>914,271</u>	<u>1,034,593</u>
Total Outpatient Care Collections	<u>454,040,266</u>	<u>483,384,102</u>
Inpatient Care:		
Department of Mental Retardation –		
State Facility Services	178,174,296	164,692,008
Birth to Three	4,928,130	8,815,250
State Department of Education –		
School-Based Child Health	38,312,560	40,813,900
Veterans’ Administration –		
State Facility Services	10,607,867	10,610,942
Department of Mental Health and Addiction Services –		
State Facility Services	2,489,714	6,384,872
Department of Children and Families –		
State Facility Services	<u>2,726,889</u>	<u>5,454,931</u>
Total Inpatient Care Collections	<u>237,239,456</u>	<u>236,771,903</u>
Total Title XIX Collections	<u>\$691,279,722</u>	<u>\$720,156,005</u>

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

	<u>Fiscal Year</u>		
	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Budgeted Appropriations:	\$	\$	\$
Personal Services	16,262,070	32,564,538	33,177,349
Contractual Services	7,539,565	9,118,700	6,677,194
Commodities	173,741	115,328	192,894
Revenue Refunds	(57,394)		
Sundry Charges	3,238,614	191,013	108,375
Equipment	<u>13,622</u>	<u>15,640</u>	<u>34,821</u>
Total from Budgeted Appropriations	<u>27,170,218</u>	<u>42,005,219</u>	<u>40,190,633</u>
Restricted Appropriations:			
Other-than-Federal	328,469		
Federal	<u>142,421</u>		
Total General Fund Expenditures	<u>\$27,641,108</u>	<u>\$42,005,219</u>	<u>\$40,190,633</u>

Auditors of Public Accounts

As noted above, the State of Connecticut implemented a new State accounting system during the fiscal year ended June 30, 2004. The successor accounting system differs significantly in the way certain expenditures are coded. For the fiscal years ended June 30, 2004 and 2005, personal services included \$17,742,896 and \$17,973,457, respectively in Workers' Compensation claim payments made by the Department for other budgeted State agencies. Prior to the change in the accounting system, those expenditures were accumulated under a separate agency code.

The Sundry Charges in fiscal year 2002-2003 included \$2,637,690 in expenditures to pay the State's share of a six-month continuation of health insurance benefits and other costs for certain laid-off State employees, in accordance with the provisions of Public Act 03-3.

Also, the successor accounting system no longer includes Federal and other restricted expenditures in the General Fund. Those expenditures have been reclassified into Special Revenue type funds. A comparative summary of DAS expenditures from Special Revenue type funds for the fiscal years ended June 30, 2004 and 2005, is presented below:

	<u>Fiscal Year</u>	
	<u>2003-2004</u>	<u>2004-2005</u>
Special Revenue Funds:	\$	\$
Special Revenue – Workers' Compensation Claims	4,249,455	3,946,874
Capital Equipment Purchase Fund	47,154	171,207
Federal and Other Restricted Accounts	<u>252,856</u>	<u>354,154</u>
Total Special Revenue Fund Expenditures	<u>\$ 454,9465</u>	<u>\$ 4,472,235</u>

Workers' Compensation Claims:

In accordance with Section 4-77a of the General Statutes, appropriations for the payment of Workers' Compensation awards were made directly to the Departments of Mental Retardation, Mental Health and Addiction Services, Correction, Transportation, Public Safety, and Children and Families, while the appropriations for the payment of Workers' Compensation claims for all other budgeted State agencies were administered by the Department of Administrative Services.

A summary of net expenditures charged against the aforementioned seven agencies' Workers' Compensation appropriations for the fiscal years ended June 30, 2003, 2004 and 2005, is presented below:

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
General Fund:	\$	\$	\$
Mental Retardation	12,990,098	13,820,211	13,643,903
Mental Health and Addiction Services	7,246,269	7,455,340	8,684,805
Correction	22,255,285	21,005,928	22,492,222
Public Safety	2,625,125	2,223,723	2,849,871
Children and Families	7,095,620	8,650,050	8,725,575
Administrative Services	<u>19,147,334</u>	<u>17,742,896</u>	<u>17,973,457</u>
Total General Fund	71,359,731	70,898,148	74,369,833
Transportation Fund:			
Transportation	<u>3,884,908</u>	<u>4,249,455</u>	<u>3,946,874</u>
Total All Funds	<u>\$75,244,639</u>	<u>\$75,147,603</u>	<u>\$78,316,707</u>

Department of Administrative Services’ Revolving Fund:

During the audited period, DAS administered the Department of Administrative Services’ Revolving Fund. This Fund is authorized by Section 4a-75 of the General Statutes, and is used to defray the expenses for supplies, materials, equipment and contractual services incurred by the Department of Administrative Services in anticipation of the future requirements of State agencies and institutions. The working capital of the Fund is maintained by charges to agencies and institutions for commodities and services furnished to them by the various operations of the Business Enterprises Division. Cash receipts and disbursements for the Fund during the audited period were as follows:

	<u>2003-2004</u>	<u>2004-2005</u>
Cash Balance, Beginning of Year	\$(38,750,520)	\$(24,663,224)
Receipts	27,595,641	24,769,225
Transfers and Vouchers	<u>194,260</u>	<u>1,807</u>
Total	(10,960,619)	107,808
Disbursements	<u>13,702,605</u>	<u>22,685,151</u>
Cash Balance, End of Year	<u>\$(24,663,224)</u>	<u>\$(22,577,343)</u>

For the fiscal years ended June 30, 2004 and 2005, net operating losses were approximately \$600,000 and \$3,900,000, respectively. The Revolving Fund’s reported retained earnings as of June 30, 2005 was approximately \$6,126,000. The negative cash balance of \$(22,577,343) represents a liability on the Department’s Revolving Fund financial statements for amounts “Due to Other Funds.” The primary factors affecting the cash balance of the Department’s Revolving Fund were car pool purchases and vehicle rental rates charged to customer agencies.

The Department of Administrative Services’ Revolving Fund, as an internal service fund, is expected to operate on a “cost reimbursement basis.” It is recognized within generally accepted governmental accounting standards that user charges need not cover the full cost of providing goods or services to other State agencies or units, and that transfers from other funds or units to subsidize in part the operations of an internal service fund do not negate the use of this fund type. Internal service funds should operate on a breakeven basis over time inclusive of such transfers. Subsequent to the audited period, it was noted that the Revolving Fund had posted a net operating profit.

Trustee Accounts in the Custody of the Commissioner of Administrative Services:

The Commissioner of Administrative Services has designated the Collections Unit to act as trustee for persons under the following categories:

Estate Administrator Accounts – pursuant to Section 4a-15 of the General Statutes. The Estate Administrator, appointed by the Commissioner of Administrative Services, may act in a fiduciary capacity in connection with the property of any minor, incapable, incompetent or deceased person who is or has been receiving financial aid from the State.

Legal Representative Accounts – pursuant to Section 4a-16 of the General Statutes. These accounts are established for deceased persons for whom a court has designated the Commissioner of Administrative Services to administer the funds of the deceased.

Representative Payee Accounts – pursuant to Section 4a-12, subsection (a), of the General Statutes. The majority of the accounts administered by the Financial Services Center’s Collections Unit are for patients and/or residents of State humane institutions, for whom the payer of funds due these persons has agreed to permit DAS to act as a conduit of those funds. These arrangements usually involve DAS being named representative payee for Social Security Administration, Veterans’ Administration and other various payments. The primary distinction between accounts in this category and the other categories is that these accounts are the result of agreements while those in the Estate Administrator and Legal Representative categories have been designated by court proceedings.

Receipts for the Legal Representative Accounts in the Custody of the Commissioner totaled \$2,421,476 and \$3,562,321 during the fiscal years ended June 30, 2004 and 2005, respectively. Collections from claims against decedent estates to provide for the reimbursement of State costs, pursuant to Section 4a-16 of the General Statutes, amounted to \$2,407,956 and \$3,534,973 during the fiscal years ended June 30, 2004 and 2005, respectively. In addition, interest in the amounts of \$13,520 and \$27,348 was earned during the fiscal years ended June 30, 2004 and 2005, respectively.

Disbursements from the Legal Representative Accounts totaled \$1,834,616 and \$4,117,045 during the fiscal years ended June 30, 2004 and 2005, respectively. Disbursements for the reimbursement of State claims against decedent estates amounted to \$1,145,757 and \$3,573,056, during the fiscal years ended June 30, 2004 and 2005, respectively. Other categories of disbursements included funeral and burial expenses and expenses of last illness, pursuant to Section 17b-84 and Section 4a-16 of the General Statutes.

The Legal Representative Accounts’ assets totaled \$2,899,605 and \$2,148,947 as of June 30, 2004 and 2005, respectively. The assets consisted of cash balances of \$1,718,275 and \$954,483 and investments of \$1,181,330 and \$1,194,464 in the Treasurer’s Short-Term Investment Fund during the fiscal years ended June 30, 2004 and June 30, 2005, respectively.

The Collections Unit also has custody of certain other cash and noncash assets that are held in trust for accounts in the Legal Representative category. Legal Representative accounts’ assets inventoried and on hand included coins, stocks and bonds, insurance policies, savings account passbooks, as well as other personal property.

The receipts for the Representative Payee Accounts’ totaled \$8,866,607 and \$9,446,505 during the fiscal years ended June 30, 2004 and 2005, respectively. These amounts consisted primarily of revenues derived from Social Security benefit payments received by the State on behalf of individuals residing in State humane institutions. In addition, interest was earned on account assets transferred to and invested in the State Treasurer’s Short-Term Investment Fund. The interest generated by those investments totaled \$32,483 and \$47,648 for the fiscal years ended June 30, 2004 and 2005, respectively.

Disbursements from the Representative Payee Accounts’ totaled \$10,249,912 and \$10,065,785 during the fiscal years ended June 30, 2004 and 2005, respectively. These disbursements were primarily expenditures for the costs associated with the board, care and treatment and personal expense allowances associated with patients in State humane institutions.

The Representative Payee Accounts' assets totaled \$2,781,003 and \$2,185,600 as of June 30, 2004 and 2005, respectively. The assets consisted of cash balances of \$528,444 and \$190,984 and total investments of \$2,252,558 and \$1,994,616 in the Treasurer's Short-Term Investment Fund during the fiscal years ended June 30, 2004 and June 30, 2005, respectively. For a related discussion on noted deficiencies involving the Department's cash accounting and bank reconciliation practices, please refer to the "Condition of Records" section of this report.

Other Matters – Estate Administrator:

Section 4a-14 of the General Statutes requires that the Auditors of Public Accounts make an audit of the accounts of the previous estate administrator whenever the office is vacated and subsequently filled by the Commissioner. If the accounts are found "in order," the Auditors of Public Accounts shall issue a certification to the Commissioner of Administrative Services. The Estate Administrator position was vacated on October 1, 2007, due to retirement. For reporting purposes, the results of our review of the accounts of the Estate Administrator have been included in this report.

In a letter dated June 28, 2007, the Deputy Commissioner for the Department of Administrative Services requested that our Office audit the accounts of the Estate Administrator prior to her departure. Based upon the Department's request, certain "agreed-upon procedures" were developed for our review of both open and closed case files processed during the tenure of the departing Estate Administrator.

The Department's Estate Administrator collects a variety of information in order to primarily serve as a probate court-appointed fiduciary in connection with the property of any minor, incapable, incompetent or deceased person who is or has been receiving financial aid from the state. Such information may include, but is not limited to, Social Security numbers and protected health information.

Our review of the Estate Administrator accounts found that an unknown number of closed case files that may have been processed during the tenure of the departing Estate Administrator either could not be located or did not exist. The available evidence supporting their existence or non-existence was contradictory in nature and inconclusive. Therefore, we make no attestation with respect to closed Estate Administrator cases. Our review of open case files found that there were unacceptably long processing delays for each of the four open case files presented for our review. As a result of these exceptions, we have concluded that the open accounts are not "in order" and, therefore, they can not be certified as such to the Commissioner of Administrative Services. Further, we are presenting the following conclusion and recommendation in this section detailing the exceptions found:

Scope Limitation with Respect to the Review of Closed Estate Administrator Case Files:

Criteria: Estate Administrator case files should be maintained in a manner that assures its security and the location of such information should always be known by those parties responsible for its custody.

Condition: The scope of our review was limited to four open Estate Administrator case files. Our review found that an unknown number of closed case files that may have been processed during the tenure of the departing Estate Administrator either could not be located or did not exist. The available evidence supporting their existence or non-existence was contradictory in nature and inconclusive.

We were informed by the departing Estate Administrator that there were approximately 60 – 75 Estate Administrator cases that were left for her to settle upon her appointment as Estate Administrator on December 22, 1987. Our prior Estate Administrator report issued on March 16, 1988 indicated the existence of 16 unsettled accounts as of December 21, 1987.

Subsequent to the Estate Administrator’s departure on October 1, 2007, the Department provided us with records from a now discontinued tracking system that indicated no new case activity since 1988.

Effect: The scope of our review was limited to four open case files. Also, the available evidence with respect to the existence of closed case files was contradictory and inconclusive; As a result, there remains an indeterminate risk that the Department may have lost control over Estate assets and/or sensitive case file information.

Cause: The number and amount of accounts processed under the Estate Administrator section of the Connecticut General Statutes was a fraction of the collections made using other sections of the statutes available to the Department. The tracking of the Estate Administrator accounts was subsumed within other case file tracking systems and may have been “lost” within those records to management oversight.

Conclusion: The scope of our “agreed upon procedures” was limited to four open Estate Administrator case files. The closed case files either could not be located or did not exist. Therefore, our attestation will be limited to whether the open case files of the Estate Administrator are “in order.”

Estate Administrator Accounts – Processing Delays in Obtaining Authorizations and Settling Accounts:

Criteria: According to the provisions set forth under Section 4a-15 of the General Statutes, the Estate Administrator can be granted the authority to settle a decedent’s estate upon appointment to do so.

According to the court ordered appointments, the Estate Administrator had a 12 month period to settle the estates for which fiduciary responsibility had been granted. Said 12 month period commences upon the date of court appointment.

Condition: In two of the four (50 percent) accounts left unsettled by the departed Estate Administrator, we noted that certain estate property had been claimed approximately one year prior to the date that the Estate Administrator applied for the authority to settle the given estates.

In the other two accounts (50 percent) left unsettled by the departed Estate Administrator, we noted that approximately three years have passed since the Estate Administrator had been appointed as fiduciary.

Effect: For transactions to be considered properly authorized, the Estate Administrator should be appointed as the fiduciary before the associated assets are claimed.

Delays in settling accounts result in a reduced cash flow to the State and the loss of the time value of the funds.

Cause: The Department lacked sufficient control measures to prevent the conditions described above.

Recommendation: On a going-forward basis, the Department should implement controls that would ensure that its Estate Administrator is appointed the fiduciary prior to the acquisition of assets and that accounts are settled in a timely manner. (See Recommendation 1.)

Agency Response: “We agree such that the actions comport with relevant statutes and the Estate Administrator’s scope of authority.”

PROGRAM EVALUATION:

Planning for the Merger and Consolidation of Administrative Functions under Public Act 05-251, Section 60(c):

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. The 2005 Session of the General Assembly passed Public Act 05-251, “An Act Concerning the Budget for the Biennium Ending June 30, 2007, Deficiency Appropriations for the Fiscal Year Ending June 30, 2005, And Certain Taxes and Other Provisions Relating to Revenue.” Section 60(c) of the Act was effective July 1, 2005, and required the Department’s Commissioner, in consultation with the Secretary of the Office of Policy and Management, to develop a plan for the Department to provide personnel, payroll, affirmative action and business office functions of State agencies. Such functions were to be merged and consolidated within the Department. Affected agencies were to be determined by the Department’s Commissioner in consultation with the Secretary of the Office of Policy and Management.

Our review indicated that the personnel, payroll, affirmative action and business office functions of 11 agencies were merged and consolidated within the Department, while only the personnel, payroll, and affirmative action functions for an additional seven agencies were so realigned within the Department. In summation, a total of 18 agencies’ administrative functions were affected by the actions taken by the Department. We were informed by the Department that its actions were so taken under the premise of achieving a budgetary cost savings on a statewide basis.

However, our review disclosed that the Department was unable to adequately account for the development of a merger and consolidation plan, as called for by Section 60 (c) of the Act. Moreover, we were unable to obtain a statement of key objectives, performance measures, and projected timetables relating to the aforementioned legal requirements.

Conclusion and Finding:

Accordingly, we are making the following recommendation:

Criteria: Public Act 05-251, Section 60(c) required the Department’s Commissioner, in consultation with the Secretary of the Office of Policy and Management, to develop a plan for the Department to provide personnel, payroll, affirmative action and business office functions of State agencies. Such functions were to be merged and consolidated within the Department.

Affected agencies were to be determined by the Department’s Commissioner in consultation with the Secretary of the Office of Policy and Management.

In accordance with sound business practice, whenever administrative responsibilities are significantly realigned between

agencies, a formal checklist should be executed in order to clarify the responsibilities apportioned amongst the affected agencies.

Condition:

The Department was unable to adequately account for the development of the merger and consolidation plan called for under Section 60(c) of the Act. Moreover, the Department was unable to provide an actual end product strategic planning document.

There were no formal checklists executed between the Department and each of the affected agencies to specify the particulars of the revised interagency administrative responsibilities.

Effect:

Without the presence of comprehensive planning documentation, the Department was unable to demonstrate satisfactory compliance with the aforementioned legal requirements.

Without documented selection criteria, it remains unclear as to how or why certain agencies, or specific positions within such agencies, were either ultimately selected or bypassed for functional realignment.

Cause:

There was no formal merger and consolidation plan and therefore no clear benchmark against which a determination could be made as to whether the Department's actions were either successful in terms of maximizing potential budgetary cost savings, or were otherwise in sufficient compliance with the law.

Following the lack of formal checklists, officials responsible for the prudent management of those affected agencies failed to act proactively and never required clarification of changes affecting a suite of administrative responsibilities.

Recommendation:

On a going-forward basis, the Department should develop formal merger and consolidation plans for its small agency administration program that include clear benchmarks that can be used to measure projected cost savings and/or compliance with the law.

The Department should develop formal comprehensive checklists to clarify the administrative responsibilities undertaken by the Department on behalf of its client agencies. (See Recommendation 2.)

Agency Response:

“While no written plan was called for in Public Act 05-251 Section 60(c), DAS and OPM identified the agencies to be included by considering the size and physical proximity of agencies as well as any past history of consolidated services or contracted services with DAS. Once agreement was reached, these services were migrated to DAS along with many of the personnel, payroll and

business office positions consolidated under the move. Each agency included in the 05-251 consolidations was given a detailed description of the services that would be provided by the business office. Likewise personnel, payroll and affirmative action functions to be performed by DAS were outlined in meetings held with each agency. To avoid any confusion that might exist concerning the apportionment of responsibilities, DAS is working on formalizing these understandings. Additionally DAS is preparing "strategic" information publications for the SmART (Small Agency Resource Team) agencies. The Employee handbook and the Supervisor handbook are in final revision and will be available to the agencies shortly, and a "SmART handbook" is in an earlier phase of development. Also, we will have a SmART web page on the DAS site by the end of the year.

Measurement of projected cost savings across agencies is not within the purview of DAS.”

CONDITION OF RECORDS

Areas warranting comments are presented below:

Human Resources – Statewide:

DAS Human Resources provides payroll processing and personnel support services to the various DAS bureaus and administers the provisions of the State Personnel Act across most State Agencies.

Quality Control Committee:

Criteria: The Quality Control Committee was established pursuant to Section 5-237b of the General Statutes. This statute calls for the Committee to review and evaluate, on a continuing basis, the effectiveness of the implementation of incentive plans (established pursuant to Section 5-210 of the General Statutes) for State employees designated as managerial or confidential. DAS promulgates procedures relative to the Performance Assessment and Recognition System (PARS), which is an incentive program for managerial and confidential employees. The PARS handbook states that the PARS program is established in accordance with Section 5-210.

Condition: The Quality Control Committee has not met since 1991.

Effect: The ongoing evaluation of the PARS incentive program was not provided as intended by statute.

Cause: DAS' efforts to ensure that the current management incentive plan evaluations are conducted by the Quality Control Committee have not been completely effective nor been given sufficient priority.

Conclusion: The condition described above has been included in at least four prior audit reports. The statute requires that the Commissioner participate as a member of the Committee and to accept any periodic reports of its findings and recommendations. The Commissioner has the statutory authority to appoint two public members to the committee. However, other members of the Committee are from another Department and appointments from the General Assembly. As such, they are outside of the Department's control. The statute as written does not designate a chairperson or other entity to organize the committee. Therefore, the Department is encouraged to seek clarification to or deletion of Section 5-237b. However, since no other condition exists other than the fact that the committee hasn't met in nearly two decades, this recommendation is not repeated.

Clearance Procedures for Employees Separating From State Service:

- Criteria:* Sound business practice dictates that the Department establish effective clearance procedures over employees' separating from State service. Those procedures should be designed to ensure that State assets (i.e. physical and intellectual) do not leave the possession of the State; that all outstanding obligations and financial indebtedness to the Department are recovered; and that appropriate exit conferences have been conducted. Such conferences should include the use of a checklist applicable to the position for the clearance of items such as: records, files, computer system passwords, keys, credit cards, equipment, etc.
- Condition:* In the prior audit period, the Department reported a matter to the Auditors of Public Accounts under Section 4-33a of the Connecticut General Statutes. Our review of the matter found that: No clearance procedures had been employed by the Department for its employees nor had the Department issued required clearance procedures for separating employees to other State agencies.
- Our current review found that the Department has not applied formal, written clearance procedures and checklists for its separating employees nor has it established such guidelines for the State.
- It should be noted that the Department has established a training course for key human resource positions that includes training sessions developed to address the importance of gathering information from exiting employees.
- Effect:* There is an increased risk that State assets may be diverted and that the diversion of those assets may require the use of limited resources originally earmarked for other purposes. Departing employees may not be made aware of legal and ethical restrictions concerning future business dealings with the State agencies that had previously employed them.
- Cause:* The Department does not have or apply formal clearance procedures for employees separating from State service. The Department has not established guidelines for clearance procedures to be used by other State agencies.
- Recommendation:* DAS should establish clearance procedures for employees separating from State service on a Statewide basis and also apply those procedures to its own separating employees.

Those procedures should ensure that State assets do not leave the possession of the State; that all outstanding obligations and financial indebtedness to the Department are recovered; and that appropriate exit conferences have been conducted. (See Recommendation 3.)

Agency Response: “DAS agrees with the finding that, for the period audited, it did not have an exit interview procedure committed to writing for its own employees separating from State service. Although DAS had procedures to ensure that departing DAS employees received relevant ethics and other information, and that all State assets were received from the employee, DAS had not previously formalized this process. DAS has recently implemented a formal exit interview procedure for its employees. This procedure uses checklists to ensure, among other things, that all State equipment, information and other property is protected and accounted for, and that departing employees are aware of all ethical rules that will apply to them beyond State service. DAS further states that there is no evidence that any State property or information was diverted by any DAS employee who has left State service, nor that any such employee has ever violated the Code of Ethics or any other relevant law.

DAS disagrees with the finding that it should establish formal clearance procedures to be used by other State agencies with the exception of the SmART agencies. There is no statutory or other legal requirement that DAS impose such procedures on other agencies. In general, by statute, human resources functions are decentralized throughout the State; agencies handle functions such as interviews, terminations, exit interviews, and retirement and other personnel processing themselves, without DAS involvement. Although DAS has recently developed a statewide training program for human resources professionals to promote consistency and best practices, and course content recommends that agencies have this practice and explicates the form it should take, these programs are not statutorily mandated. The first of these training programs did not begin until after the time period covered by this audit.”

Payroll and Personnel:

Overtime and Compensatory Time Procedures and Records:

Criteria: The Department of Administrative Services’ (DAS) “Management Personnel Policy No. 80-1 (superseded by 06-02)” sets forth the criteria for the granting of compensatory time on behalf of Managerial and Confidential employees.

The criteria for the granting of extra time off for extra time worked are: “the extra time worked must be authorized in advance by the Agency Head or his/her designee; the amount of extra time worked must be significant in terms of total and duration; the extra hours worked and compensatory time taken must be recorded on the appropriate time sheet; and, the compensatory time earned during the twelve months of the calendar year must be used by the end of the succeeding calendar year and cannot be carried forward.”

In addition, it has been the Department’s policy to require that overtime be approved in advance. The only exceptions are for extreme emergency situations which threaten life, property and/or operations.

Condition: For the fiscal years 2003-2004 and 2004-2005, our review of the compensatory time granted to five employees eligible for compensatory time found that none of the employees received authorization in advance of the work performed.

Our review of the overtime paid to six employees throughout fiscal years 2003-2004 and 2004-2005, found that none of the employees received authorization in advance of the work performed.

Effect: The Department is not in compliance with its established guidelines relative to compensatory time and overtime for both its managerial and non-managerial employees. In addition, without proper oversight, the Department has less assurance that the services it has compensated its employees for have actually been received.

Cause: It appears that the failure to properly communicate established compensatory time policies and a lack of adequate administrative oversight contributed to the above condition.

Recommendation: DAS should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 06-02 and its Department specific policies with respect to the authorization of compensatory time and overtime. (See Recommendation 4.)

Agency Response: “The following verbatim policy and procedures have been communicated to all DAS staff and have been in effect since July 1, 2005, which was after the audited period:

Whenever the need for overtime or compensatory time arises, the following policy will apply; however, requests for exceptions to this policy will be considered for emergencies and/or extraordinary circumstances:

A memo or email from the employee or supervisor to the appropriate manager must be prepared and approved **in advance** and must include; the specific reason for the overtime or comp time request (special project, etc), the maximum number of days/hours needed for the project, etc. and the names of the staff members involved. If approved, that manager must notify HR/Payroll and also assure the combined total hours/days of each individual request entered into Time Processing System (TPS) does not exceed the maximum days/hours allowed and previously approved for any particular project, etc. Our payroll staff will also track the total days/hours submitted with instructions to notify the Personnel Manager if/when the maximum allowed has been reached.

Please note for overtime and comp time purposes, TPS will primarily be used only to “record” staff overtime worked and comp-time earned/taken data. Also note that our payroll staff will no longer process overtime and/or comp earned data entered into TPS without the necessary advanced approval, or an exception request approved by the Personnel Manager. HR/Payroll staff will notify the appropriate unit manager if there is any such occurrence.”

Management Candidate Screening

Background: The Department applies a number of internal screening procedures over applicants for management level positions. In addition, external candidates for management positions are subjected to background checks performed by the Department of Public Safety.

Criteria: Sound business practice dictates that a background investigation be conducted for any individual entering a management role with direct fiscal responsibility and/or direct responsibility over assets susceptible to misappropriation.

Condition: While internal candidates for promotion to management level positions are subjected to the Department’s screening procedures, they are not subjected to the background checks performed by the Department of Public Safety for outside candidates.

Further, we were informed that most of the management positions in the agency were filled by promotion from within.

Effect: Some employees who are suitable at their current positions may not be suitable for promotion to positions with expanded fiscal responsibilities and access to agency assets.

- Cause:* Internal candidates for management positions are not subjected to the additional background checks performed by the Department of Public Safety.
- Recommendation:* The Agency should consider expanding the background investigations performed by the Department of Public Safety to include internal candidates for key management positions with direct fiscal responsibility and/or direct responsibility over assets susceptible to misappropriation. (See Recommendation 5.)
- Agency Response:* “DAS will give this recommendation consideration for key management positions having the responsibilities mentioned. This recommendation goes beyond our current practice of obtaining new PLD-1 application forms for all management job candidates (internal or external/ promotional or original). The PLD-1 requires a declaration and signature regarding whether the candidate has been convicted of an offense against criminal or military law or whether there are criminal charges currently pending, which can then be explored further. It has never been brought to our attention that anybody at DAS answered this question fraudulently and was then appointed to a key management position. Also, as a point of clarification, DAS has asked DPS in the past to conduct criminal background checks for persons in consideration for key management positions—not all management positions.”

Business Office - Delinquent Accounting Unit/Central Accounting Unit:

The Delinquent Accounting Unit/Central Accounting Unit (DAU/CAU) within the DAS Business Office provides fiscal services in support of Departmental operations. The DAU/CAU performs the bank reconciliations for the Trustee Bank Accounts.

Unsupported Trustee Cash Account Balances and Ineffective Bank Reconciliations:

- Criteria:* Proper accounting and good internal control practices require the Department to perform comprehensive reconciliations of its cash accounting records to incoming bank statements.

In order to ensure process integrity, the preparation of bank reconciliations should be monitored and reviewed by a supervisory level member of the Department.

- Condition:* Our review of reconciliations prepared by the Department for its Representative Payee trustee bank account disclosed that the “agency” balance amount appearing on the reconciliations was not supported by detailed, subsidiary records. We noted that the average unsupported monthly cash balance of Representative Payee accounts, as claimed by the Department during the audited period, was \$1,141,400.

Additionally, the reconciliations were not initialed and dated by the preparer; there was no indication on the reconciliations that they had been reviewed and accepted by management.

Effect: The Department increased the risk of being unable to detect potential errors or fraud involving the cash resources of its Representative Payees.

Cause: One contributing factor is that the in-house database system used by the Department to account for the cash transactions of its Representative Payees does not generate monthly summary and detailed, subsidiary reports. Additionally, it does not appear that any of the prepared reconciliations were ever reviewed by management for purposes of ensuring integrity.

Recommendation: The Department should immediately take corrective action in order to support in detail the cash positions of its Representative Payee bank account. Management should also review the preparation of all future reconciliations and document its approval of same. (See Recommendation 6.)

Agency Response: “We agree with this finding. The CAU/DAU unit was always responsible for balancing the bank statement only. CAU/DAU is currently working with the Trust unit along with MIS to develop and implement a database that will be used to balance the account. They have been working on this for the past six months and will continue until it is fully implemented.”

Accounting Controls Over Receipts:

Our examination of receipts and deposits is discussed below:

Criteria: The *State Accounting Manual* requires that a receipts journal be maintained by all agencies receiving money. Mail received by an agency may contain cash, money orders and checks.

Where feasible, each of the following duties should be assigned to a different employee: Opening incoming mail, recording receipts in a receipts journal and depositing receipts.

When receipts are delivered, the person authorized to receive them should verify the amounts entered on the forms or in the journal. If in agreement, he should then acknowledge delivery of the receipts to him.

In addition, the *State Accounting Manual* requires that accountability reports should periodically be prepared, where

feasible, to compare the receipts that were actually recorded with the receipts that should have been accounted for.

Condition:

Our examination found that receipts journals were not maintained at each of the various significant points where checks enter the Department. When those receipts are delivered, the person(s) authorized to receive them cannot verify the amounts to a journal.

Instead, mail is received from a variety of sources (i.e. mail room, post office, other agencies) and is distributed to the various operational units within the Department where they are logged in and accounted for by use of several different systems.

As a result, the chain of accountability and control is broken between the initial receipt of the checks and their delivery for entry into one of the various systems in use by the Department.

As an example, we noted two checks related to Estate Administrator accounts totaling approximately \$67,000 that were deposited four months after they were dated. Without a check log, it was not possible to determine when the checks were received by the Department. (Other Related Matters – Estate Administrator, Recommendation 1).

Effect:

Checks may be lost between the point of entry into the Department and the point of recording. Such checks would not be accounted for in the reconciliation of funds received to the validated deposit information.

In addition, the identified control weakness reduces the Department's ability to determine whether the prompt deposit requirements are being met since the date a check enters the Department may be different from the date the check is entered into one of the various systems.

Cause:

The Department receives a large volume of checks from a variety of sources that require specialized handling. The Department has not established receipts journals at the various significant entry points.

Recommendation:

The Department should ensure that receipts journals are established at each significant entry point for checks and that the receipts journals are reconciled to the validated deposit information. (See Recommendation 7.)

Agency Response:

“We agree that this is the ideal situation. The DAS business units that receive checks have methods and procedures to log them for later reconciliation. What is overlooked in the finding is that the

proper logging of received checks is not the main threat to missing deposits. In our view, the greatest *potential* threat is whether or not checks arrive at their intended destination within the many offices of the Department of Administrative Services. A check, or any type of paper correspondence, has too many possible entry points into our agency and can arrive by USPS, private couriers, or hand delivery. If this is not enough of a problem, our offices are housed in buildings managed by another agency using privately contracted security guards at the entrances who frequently do not know where to direct people trying to do business with our agency. Further, the potential for checks not finding their way to their proper destination has grown with the increased number of open architecture office spaces in DAS that do not have specific room numbers for specific business units.

Therefore, what we propose is to initiate the use of mail stop addresses in DAS beginning with the assignment of one address to accommodate all correspondence, forms, and applications that will be accompanied by checks, regardless of the business unit involved. This mail stop will be in an observed and secure location. All business units will include the mail stop as part of their return address for any check that is to be sent or delivered to them. Business units will assign specific designated people to collect their checks from the mail stop and follow their unit's procedures to log receipts."

Inventory and Property Control:

Criteria:

Sound business practice requires clear and accurate accounting and tracking for physical assets from purchase through disposition. As physical assets comprise a significant portion of the asset base of the State, accurate inventory valuation is essential to produce accurate financial statements. GAAP dictates that inventory be carried at historical cost with a separate account for accumulated depreciation.

The State of Connecticut Property Control Manual (PCM) states that assets should be assigned a Department specific identification number, that the records regarding the asset in Core-CT should be amended to include this information, that the identification number should be in some manner affixed to the item, and that the numbers should be affixed in a consistent manner that makes the number visible for inventory purposes without disturbing the function of the asset.

The PCM further states that all inventory data must be reconciled to the Core-CT Asset Management Module and that the reconciliation may be traced to source documents. Additionally,

the PCM states that a “person should be assigned responsibility for each asset as the custodian”.

Condition:

Through our testing we found that the Core-CT Asset Module inventory reports provided by the Department appear to be inaccurate and incomplete:

- Five of the fifteen physical assets observed had no asset identification tag attached. Four of the remaining ten tagged assets were not included in the inventory reports provided by the Department. The aggregate exception rate for the test sample was 60 percent.
- Cost information for assets included in the inventory report was misreported. Several assets were recorded with a cost of \$1.
- Links to source documentation were not present in the report or in the Core-CT Asset Module. It appeared that the appropriate fields were left blank.
- Serial numbers were not captured consistently; item descriptions appeared to be insufficient. Assets can not be identified in the absence of an asset tag.
- Inventory valuation as reported on form CO-59 could not be traced to supporting documentation.

Effect:

In the absence of adequate inventory records, there is a greater risk that the physical assets of the Department could be lost, misplaced, stolen and/or unrecorded.

Cause:

The Department did not adequately perform inventory and property control procedures.

Recommendation:

The Department should take the necessary steps to improve its performance in the area of inventory and property control. Such steps may include, but not be limited to, additional training for existing staff and / or redistribution of inventory responsibilities to better utilize specific expertise. (See Recommendation 8.)

Agency Response:

“We agree with this finding and have begun to rectify problems and fully populate inventory records. We will conduct a top-down review of all policies, procedures, and processes that need modification, elimination, or creation.”

Department of Administrative Services' Revolving Fund:

The Department's Revolving Fund is used to account for the financing of goods or services provided by one department or agency of a governmental unit to other departments or agencies of the same governmental unit on a cost-reimbursement basis. The most significant of those services is the maintenance of the State's fleet of vehicles.

Receipt of Mileage Reports:

Criteria: DAS General Letter No. 115 – "Policy for the Use of State-Owned Motor Vehicles and Personally-Owned Motor Vehicles on State Business" defines the responsibilities of the Department, the Director of Fleet Operations, and the heads of agencies renting vehicles from the state pool. The Department is responsible for ensuring that fleet vehicles are used efficiently.

If the Director of Fleet Operations determines that an agency has more vehicles than it requires, the Director should recall those excess vehicles.

In order to make such determinations, the Director should rely upon Monthly Usage Reports (CCP-40), which should be completed by the recipient agency and forwarded to the director. If a recipient agency fails to submit two or more CCP-40 reports for any vehicle the Director may recall that vehicle.

The Director may also suspend all motor pool privileges for any individual or agency that repeatedly violates policy. Failure to submit mileage reports constitutes a violation of policy.

The heads of recipient agencies are responsible to enforce the policy as set forth in DAS General Letter No. 115 in their agencies, and to ensure that their staff members are aware of the policy.

Condition: Our review of mileage reporting system data provided by the agency revealed that approximately 81 percent of the required mileage reports are submitted on average for any given month. It is further noted that over the period audited, the percentage of compliance declined from approximately 85 percent to 80 percent. This translates to an average in excess of 725 missing reports in any given month. A discussion with Department staff further revealed that several agencies, or portions thereof, consistently failed to submit mileage reports. This assertion appears to be supported by the data reviewed.

Effect: Without accurate data neither the Department, nor the Director of Fleet Operations, can meet their responsibilities as stated in DAS General Letter No. 115.

The responsibilities incumbent upon the Department based upon the policy as set forth imply a fiduciary duty; i.e., the Department is charged with the responsibility to act in the best interest of the State as a whole. Unless these responsibilities are met, there is a greatly increased risk that a significant amount of the State's resources could be spent in a wasteful manner.

Cause: The Department has not taken sufficient steps to enforce its policies. Despite the large number of vehicles with multiple missing reports, none of these vehicles has been recalled.

Further, in several cases the heads of recipient agencies have not met their responsibilities with regard to DAS General Letter No. 115. However, the Department again failed to use penalties available to it to enforce the provisions of the policy, as set forth in General Letter No. 115.

Recommendation: The Department should take the necessary steps to ensure receipt of mileage reports in order to effectively monitor State vehicle usage. These steps may include the recall of vehicles and/or the suspension of agency motor pool privileges if State agencies fail to submit their mileage reports. (See Recommendation 9.)

Agency Response: "DAS agrees with the Auditors' finding for the period of review. DAS is in the process of streamlining and automating the mileage reporting process to make it easier for agencies to fulfill their reporting obligations, and for DAS to identify non-compliant agencies and take appropriate enforcement action."

State Vehicle Utilization:

Criteria: The Department's Fleet Services Division requires the agencies utilizing vehicles from the fleet to submit to the Department mileage reports verifying the usage of their State vehicles. Regarding the use of vehicles leased from State Fleet Operations for Department business, it is generally more cost-effective to rent a vehicle from the State motor pool on a monthly basis if the vehicle is used more than 1,000 miles per month.

If use is less than 1,000 miles per month, the agency may incur less expense by obtaining vehicles, as needed, on a daily rental basis. Our testing benchmark was set at a conservative 500 miles per month.

Condition: We obtained from the Department a report entitled, "Average Monthly Utilization Less Than 500 Miles Summary." That report and our analysis of the data used in its preparation revealed:

- The data set is incomplete. The vast majority of vehicles were not reported on for the full 12 months. The number of reports received for each vehicle was not presented in the report. Errant reports submitted for vehicles were discarded, eliminating any record of those vehicles from that report.
- The Department has not conducted a recent periodic reassessment of assigned vehicles to ensure their proper use and full utilization; attempts to correct the data were not apparent.
- Accountability reports are limited to miles driven. There is no reporting mechanism for utilization criteria related to the mission of a vehicle.

Effect: An indeterminate number of assigned fleet vehicles may be underutilized and/or not used for their intended purpose. The State may incur avoidable operating costs associated with maintaining vehicles that are not properly utilized. Capital costs for new fleet vehicle purchases may be reduced or avoided by recalling and reassigning underutilized or improperly utilized vehicles.

Cause: Utilization criteria related to the mission of the vehicles have not been established. The Department has not performed a recent reassessment of assigned fleet vehicles to ensure that they are being utilized as intended by State agencies.

The data gathering and reporting techniques employed by the Department are not sufficient to provide a reliable reflection of the status of utilization, even on an interim basis.

Recommendation: Utilization criteria should be developed to allow fleet usage to be evaluated with respect to both mileage and mission. The Department should develop an ongoing process to evaluate fleet size and composition to ensure proper usage and efficient utilization. (See Recommendation 10.)

Agency Response: “DAS agrees with this recommendation. DAS is in the process of revising General Letter 115 and vehicle request forms to clarify appropriate usage of state vehicles. Lack of sufficient personnel in the Fleet Services Division has impeded its ability to monitor state vehicle usage by agencies; however, DAS is currently drafting a timetable for conducting an agency-by-agency review of the number and types of vehicles assigned to each agency and the agency’s usage of each vehicle. DAS also anticipates that the simplification and automation of the monthly mileage reporting process will further improve its ability to monitor usage.”

MPG Rating for State Vehicles:

Criteria: Section 4a-67d of the Connecticut General Statutes requires that “The fleet average for cars or light duty trucks purchased by the State shall:

- (1) On and after October 1, 2001, have a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least thirty-five miles per gallon and on and after January 1, 2003, have a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least forty miles per gallon,
- (2) Comply with the requirements set forth in 10 CFR 490 concerning the percentage of alternative-fueled vehicles required in the state motor vehicle fleet, and
- (3) Obtain the best achievable mileage per pound of carbon dioxide emitted in its class.

The alternative-fueled vehicles purchased by the State to comply with said requirements shall be capable of operating on natural gas or electricity or any other system acceptable to the United States Department of Energy that operates on fuel that is available in the state.”

Condition: We were informed that the Department’s fleet average has not met the statutorily required estimated mileage rating of at least forty miles per gallon. We were not able to obtain the exact figure for the current average fleet miles per gallon. Further, we were not able to obtain information regarding mileage per pound of carbon dioxide emitted for any vehicles in the fleet.

The State now appears to be in compliance with Federal regulations concerning the percentage of alternative-fueled vehicles purchased for the State motor vehicle fleet. However, there are only two alternative fuel service facilities within Connecticut to service those vehicles.

In effect, the Department has purchased alternative-fueled vehicles that aren’t supported by the fuel service facilities necessary to fully utilize that capability.

Also, we were informed that the incentive to actually utilize alternative fuels is reduced by the fact that those fuels may cost significantly more and generate fewer miles per gallon than standard fuels.

While Hybrid Electric Vehicles appear in some cases to allow compliance with the Connecticut General Statute, vehicles of that type do not qualify toward the percentage of alternative fueled vehicles that must be purchased in order to comply with Federal law.

Effect: The Department is not in compliance with State law.

Cause: The State Statute for the fleet average of at least forty miles per gallon does not consider the mission requirements of those vehicles nor reflect the current state of automotive technology.

The fuel service facilities necessary to properly support alternative-fueled vehicles have not been developed within the State of Connecticut. Hybrid Electric Vehicles that may allow the Department to comply with Connecticut General Statutes are not considered to be alternate fueled vehicles by the US Department of Energy.

We note that in her plan entitled “CTs Energy Vision for a Cleaner, Greener State”, Governor M. Jodi Rell states that a regional effort shall be undertaken to seek an exemption from the Federal law that would allow Hybrid Electric Vehicles to be counted toward the required percentage of alternative fuel vehicles purchased for State Fleet use. However, to date no such waiver has been granted.

Recommendation: DAS should take the necessary steps to fully comply with Section 4a-67d of the Connecticut General Statutes or seek statutory relief from those requirements. (See Recommendation 11.)

Agency Response: “DAS agrees that it is not in compliance with Section 4a-67d of the Connecticut General Statutes but asserts that compliance with this standard is impossible. There are very few commercially available vehicles that have an estimated mileage rating of 40 miles per gallon, essentially all of which are hybrid. Although DAS continues to purchase hybrid vehicles when possible, federal law prohibits the State from possessing a fleet consisting entirely of hybrid vehicles. Moreover, hybrid vehicles do not meet the needs of all state agencies. We will continue to work with the General Assembly, as we did this past year, to seek consistency in State and Federal requirements and to meet the highest standards of efficiency and energy conservation.

Further, in 2007, DAS, together with the Department of Environmental Protection, the Department of Transportation and the Office of Policy and Management, developed a plan to increase the availability and use of E85 by the State fleet up to eight times,

at a reasonable cost and to reduce fleet greenhouse gas emissions by 3,380 tons per year."

Write Off Procedures for Accounts Receivable

Criteria: Section 3-7 of the Connecticut General Statutes states that "Any uncollectible claim for an amount of one thousand dollars or less may be cancelled upon the books of any state department or agency upon the authorization of the head of such department or agency. The Secretary of the Office of Policy and Management may authorize the cancellation upon the books of any state department or agency of any uncollectible claim for an amount greater than one thousand dollars due to such department or agency."

Adequate controls over the write-off of accounts receivable should include a system for tracking each such transaction amount, required approval, approval received and action taken. Further, documentation should be retained that shows written approvals on the write-off documents. In general, two persons should review the decision to write-off accounts receivable. One person should make the decision to write-off an account and another person should review the supporting documentation and approve the decision. The write-off documents should be reviewed and approved by an accounting director and/or another person independent of the cash receipts function.

Condition: Our testing in prior periods made reference to reports containing information specific to receivables that were either written-down or written-off. We were informed by the agency that such reports are no longer available since the implementation of the Core-CT system. We were able to verify that the Core-CT system does not include a method to identify accounts that have been written-down or written-off.

The agency does not track such transactions separately from Core-CT. When asked to provide a report detailing receivable write-down or write-off transactions the Agency was unable to do so.

Effect: Accounts may be written-off without sufficient collection efforts, proper authorization and/or supporting documentation.

Cause: Insufficient tracking procedures were employed by the agency. While it is noted that Core-CT offered less functionality with regard to the ability to extract and report the information required, sufficient tracking procedures would have allowed the agency to discover the issue and take steps prior to this review.

Recommendation: The Department should develop procedures to ensure that write-offs are properly tracked, supported by documentation, and reviewed and approved by an accounting director and/ or another person independent of the cash receipts function. (See Recommendation 12.)

Agency Response: “We agree that the agency does not track such transactions separately from Core-CT. We will take the necessary steps to develop and implement this tracking mechanism because such a mechanism does not exist within Core-CT.”

Department of Administrative Services – System-wide Accountability and Control:

The following recommendations describe conditions that extend beyond a single operational area. What the recommendations have in common is the need to identify operational and financial risks on an ongoing basis and to take steps to mitigate those risks. This process of risk assessment and mitigation expands in importance as the Department’s operations grow in size and complexity.

Risk Management

Criteria: Sound business practice dictates that risks must be managed through a system of controls. Effective risk management requires that risks be identified through an ongoing risk assessment process undertaken by staff skilled in such processes, that a plan is developed and implemented to mitigate identified risks, and that the implemented plan elements be monitored and reviewed to determine their level of success. The information obtained through this process may then be fed into the risk assessment process to determine if plan modifications are required.

Condition: The Department does not have a dedicated and ongoing risk assessment and mitigation function nor does it have formal monitoring procedures in place.

This condition is evidenced by the significant number of repeat recommendations included in this and prior audit reports.

Effect: The Department is exposed to a higher risk that it will not achieve its operational objectives. Risks that could have been anticipated and avoided by periodic assessments may result in operational ineffectiveness, additional costs and liabilities and exposure to fraud.

Cause: The Department does not have a formal, dedicated risk assessment and mitigation function. The necessary and appropriate resources were not allocated by the Department to ensure that a risk

assessment and mitigation process was performed during the audited period.

Recommendation: The Department should develop or acquire a formal risk assessment and mitigation function with the objective of identifying and addressing those risks that could negatively impact on its operational objectives. The risk assessment and mitigation function should be independent, formal, and ongoing. (See Recommendation 13.)

Agency Response: “We agree in concept with the recommendation although we do not believe an independent and formal risk assessment and mitigation function can be started and maintained within existing resources. We believe this would require a dedicated full-time employee for a formal and ongoing risk assessment and mitigation function. We will assess this and, if appropriate, submit a budget option in service to this recommendation.”

Data Security:

Background: The protection of personal data requires the establishment of a sound program that identifies the existence of all such data by responsible staff and by point of entry, its relevancy to the operations of the Department, and justification for its transfer or disclosure to other parties. As such, the concept of personal data protection extends beyond the physical safeguarding of the data.

Additionally, personal data is considered a valuable asset. As such, the State has a fiduciary duty to protect the asset with which it has been entrusted.

Criteria: Section 4-190(9) of the Connecticut General Statutes states that, “personal data means any information about a person’s education, finances, medical or emotional condition or history, employment or business history, family or personal relationships, reputation or character, which because of name, identifying number, mark or description can be readily associated with a particular person.”

In addition, Section 4-193(c) requires each agency to, “keep a complete record, concerning each person, of every individual, agency or organization who has obtained access to or to whom disclosure has been made of personal data kept by the agency.”

Further, Section 4-193(e) states that each agency shall, “maintain only that information about a person which is relevant and necessary to accomplish the lawful purposes of the agency.”

Finally, Section 4-197 indicates that, “Any agency which violates any provision of this chapter shall be subject to an action by any aggrieved person for injunction, declaratory judgment, mandamus or a civil action for damages.”

Condition:

Opportunities exist for private, personal data entrusted to the State to be inadvertently made public. This condition may be illustrated by two cases of secured data mishandled by the Department. The cases are not included as the sole basis of this recommendation; they are merely two examples of what has occurred.

In the first illustrative case, prospective nursing employee’s information including Social Security Numbers was collected between July 2005 and February 2006 by Human Resources (HR) through a website maintained by Management Information Systems (MIS) for an Agency sponsored “Hiring Day”. This information was accessible for as long as nineteen months before a complaint was lodged.

The second illustrative case was very similar to the first; the difference being that the Social Security information was included as part of contracts posted on the Agency Procurement website, also maintained by MIS. Individual contractors were legally using their Social Security numbers as Federal Employer Identification Numbers (FEIN). Although the Agency changed their policy in 2003 such that FEIN information would not be shown on the website, legacy contracts were still available online with the information present. The information contained in these legacy contracts was available online in excess of three years.

It is noted that in both of the illustrative cases, the Department acted appropriately when notified. In both cases the Department took the necessary steps to remove access to the sensitive data. Further, the Department undertook efforts to notify all individuals potentially impacted.

Effect:

The Department is at increased risk that personal data may be received, maintained and / or disseminated in violation of State law. Any such violations could result in legal action against the State and monetary loss in the form of court costs and attorney’s fees.

Cause:

The Department has neither developed nor implemented a formal, written personal data protection policy that is sufficient to keep pace with the growing area of data deemed restricted and the increasing impact of the potential release of such data. It is noted that the Department makes serious effort to comply with Sections 4-190 to 4-197 of the Connecticut General Statutes; however, in this case, meeting the requirements of the General Statutes does not appear to

be sufficient to protect against the constantly increasing and changing threat of unauthorized access to the data under the Department's care. Some of the key elements missing from the Department's internal controls that are typically present in such a policy include but are not limited to:

- The identification of a person in the agency whose role will include sufficient positional authority to develop and enforce the Department's compliance procedures;
- A formal Risk Management Process;
- Increased controls over potentially sensitive confidential data;
- A periodic sampling of the justifications used by the Department for the transfer or disclosure of personal data.

Recommendation: In order to remain proactive and to better ensure continued compliance with statutory requirements, the Department should develop a formal written procedure for personal data security that includes, at a minimum, identification of a person whose role will include sufficient positional authority to develop and enforce the Department's compliance procedures, and a periodic review of the personal data under its control. (See Recommendation 14.)

Agency Response: "We agree with and will follow through with the auditors' recommendation."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2002 and 2003, contained a total of 17 recommendations. Of those recommendations, 10 have been implemented, satisfied, or otherwise, regarded as resolved. The status of those recommendations contained in this prior report is presented below.

Prior Audit Recommendations:

- **In order to enhance and/or validate controls over State agency usage of the Durational Project Manager and Customer Service Program Developer positions, the Department should (1) ensure that all extensions of Durational Project Manager and Customer Service Program Developer positions are properly approved; (2) establish a dynamic position end date field for these two positions within the Core-CT HRMS, the successor system to the APS; and (3) should audit all Durational Project Manager and Customer Service Program Developer position data that was either transferred from the APS to the Core-CT HRMS during the initial conversion process or which was subsequently entered into the Core-CT HRMS after it became operational.** DAS reduced the number of Statewide Customer Service Program Developer and Durational Project Manager positions to the point where they are manageable and no longer significant. Therefore, this recommendation will not be repeated.
- **DAS should ensure that the current management incentive plan (PARS) evaluations are conducted by the Quality Control Committee pursuant to Section 5-237b of the General Statutes.** The Quality Control Committee has not met in nearly two decades. Its long absence supports the conclusion that the committee is unnecessary to the operations of the management incentive plan. Further, the statute does not designate a chairperson or other entity to organize the committee. Some members must be appointed by other agencies or the General Assembly. For these reasons, this recommendation is not being repeated.
- **DAS should establish operational standards for conducting its Human Resource Investigations. Those standards should address, at a minimum, the requirements for record keeping and reporting for those investigations.** During the audited period, DAS did not perform the type of Human Resource Investigations which had formed the basis of our prior audit recommendation. This recommendation will not be repeated.
- **DAS should establish and apply clearance procedures for employees separating from State service. Those procedures should ensure that State assets do not leave the possession of the State; that all outstanding obligations and financial indebtedness to the Department are recovered; and that appropriate exit conferences have been conducted.** This recommendation has not been sufficiently addressed by the Department. It will be repeated in modified form. (See Recommendation 3).

- **The Department should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 80-1 (now 06-02), Section 2, as amended, and its Department specific policies relative to the authorization of compensatory time.** This recommendation is being repeated. (See Recommendation 4).
- **As a service to its customers, DAS should implement procedures to verify and monitor the existence of insurance coverage with respect to both multi-agency and agency specific contracts prior to the awarding of such contracts.** The Department actively monitored the Multi-agency contracts for the required insurance certificates. Multi-agency contracts comprise approximately 75 percent of all contracts processed by the Department. Most of the remaining agency specific contracts are generated on behalf of the Department of Transportation. The Department takes the reasonable position that the agency specific contracts should be monitored by the beneficiary agency. Therefore, this recommendation will not be repeated.
- **The Department should improve its controls over the inspection and testing of fuel oil to ensure that it effectively enforces the standard specifications as set forth in the related contracts.** The condition that resulted in the original recommendation has been addressed. Therefore, this recommendation will not be repeated.
- **The Department should establish a logging system to track agency complaints and to document their resolution.** The condition resulting in the original recommendation has been addressed. The recommendation will not be repeated.
- **DAS should implement the internal controls necessary to ensure that its computer software inventory is maintained in accordance with the software inventory policy and procedures as set forth in the *State of Connecticut's Property Control Manual*.** This recommendation has been addressed and will not be repeated.
- **The Department should ensure that receipts journals are established at each significant entry point for checks and that the receipts journals are reconciled to the validated deposit information.** Our review found no change in the condition that resulted in this recommendation. This recommendation will be repeated. (See Recommendation 7).
- **DAS should take the necessary steps to gather the mileage information necessary to effectively monitor the vehicles within Fleet Operations.** This condition remains unchanged from the prior audit. This recommendation will be repeated in modified form. (See Recommendation 9).

- **DAS should develop an ongoing process to evaluate fleet size and composition to ensure that it is properly used and fully utilized. Utilization criteria should be developed that relates to the mission of the vehicles for those vehicles that are mission sensitive.** The utilization data received by the Department was not complete. There has been no reassessment of assigned vehicles to ensure their proper utilization. Therefore, this recommendation will be repeated. (See Recommendation 10).
- **DAS should take the necessary steps to comply with Section 4a-67d of the Connecticut General Statutes, regarding fleet average mileage requirements and alternative-fueled vehicles, or seek statutory and/or regulatory relief from those requirements.** The conditions described in our prior audit were substantially unchanged for the period under review. This recommendation will be repeated in modified form. (See Recommendation 11).
- **The Department should take the necessary steps to ensure that the General Services Revolving Fund operates on a breakeven basis over time.** The Department had experienced a significant decline in fund balance and net operation losses over an extended number of years. Based upon the available financial information reviewed, that downward trend was discontinued. The recommendation will not be repeated.
- **The Department should take the necessary steps to ensure that the depreciation methodology used for the General Services Revolving Fund conforms to Generally Accepted Accounting Principles. Salvage value should be included in the equation for those assets where there is an expectation of a future recovery on the purchase cost.** The Office of the State Comptroller has not enabled the salvage value feature in the Asset Management Module of the State's accounting system. The amount of salvage value associated with the Department's General Services Revolving Fund was not considered material by the Comptroller for financial reporting purposes and did not justify the expense required to alter the State's Accounting System. As the condition cited in the prior audit recommendation resides outside of the Department's control, this recommendation will not be repeated.
- **The Department should develop procedures to ensure that write-offs are supported by documentation and reviewed and approved by an accounting director and/ or another person independent of the cash receipts function.** The State's accounting system does not include a method to identify accounts that have been written-off, nor did the Department track such transactions separately. Therefore, this recommendation will be repeated in modified form. (See Recommendation 12).
- **The Department should institute procedures to ensure that amounts due to the General Fund are released in a timely manner.** The significant delays in the release of closed estate claim collections due to the General Fund found in the prior audit were not repeated in our current review. This matter is resolved.

Current Audit Recommendations:

- 1. On a going-forward basis, the Department should implement controls that would ensure that its Estate Administrator is appointed the fiduciary prior to the acquisition of assets and that accounts are settled in a timely manner.**

Comment:

The delays in settling the accounts resulted in a reduced cash flow to the State and the loss of the time value of the funds. For transactions to be considered properly authorized, the Estate Administrator should be appointment as the fiduciary before the assets are liquidated.

- 2. On a going-forward basis, the Department should develop formal merger and consolidation plans that include clear benchmarks that can be used to measure projected cost savings and/or compliance with the law. The Department should develop formal comprehensive checklists to clarify the administrative responsibilities undertaken by the Department on behalf of its client agencies.**

Comment:

The Department did not have a formal merger and consolidation plan. There were no established benchmarks against which a determination could be made as to whether the Department's actions achieved budgetary cost savings. There was a lack of formal checklists between the Department and its client agencies defining their respective administrative responsibilities.

- 3. DAS should establish clearance procedures for employees separating from State service on a Statewide basis and also apply those procedures to it own separating employees. Those procedures should ensure that State assets do not leave the possession of the State; that all outstanding obligations and financial indebtedness to the Department are recovered; and that appropriate exit conferences have been conducted.**

Comment:

The Department does not have or apply formal clearance procedures for employees separating from State service. The Department has not established guidelines for clearance procedures to be used by other State agencies.

- 4. DAS should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 06-02 and its Department specific policies relative to the authorization of compensatory time and overtime.**

Comment:

The Department did not comply with its established guidelines relative to the granting of overtime and compensatory time for both its managerial and non-managerial employees.

Our sample testing found a number of instances where employees did not receive the required authorization in advance of working the extra time.

5. **The Agency should consider expanding the background investigations performed by the Department of Public Safety to include internal candidates for key management positions with direct fiscal responsibility and/or direct responsibility over assets susceptible to misappropriation.**

Comment:

Our review found that the Agency performs background checks only when hiring individuals from outside of State employ to fill state management positions. Most management positions in the agency were filled by promotion from within. Therefore no background checks were performed on these individuals.

6. **The Department should immediately take corrective action in order to support in detail the cash positions of its Representative Payee bank account. Management should also review the preparation of all future reconciliations and document its approval of same.**

Comment:

The in-house database system used by the Department to account for the cash transactions of its Representative Payees does not generate monthly summary and detailed, subsidiary reports. Additionally, it does not appear that any of the prepared reconciliations were reviewed by management for purposes of ensuring integrity.

7. **The Department should ensure that receipts journals are established at each significant entry point for checks and that the receipts journals are reconciled to the validated deposit information.**

Comment:

The Department does not maintain receipts journals at each of the various significant points where checks enter the Department. Checks may be lost between the point of entry into the Department and the point of recording. Such checks would not be accounted for in the reconciliation of funds received to the validated deposit information.

8. **The Department should take the necessary steps to improve its performance in the area of inventory and property control. Such steps may include, but not be limited to, additional training for existing staff and / or redistribution of inventory responsibilities to better utilize specific expertise.**

Comment:

Our review found assets that were not properly tagged, tagged assets that were not included on the Department's inventory reports and reports that were not maintained in accordance with the provisions of the State of Connecticut Property Control Manual.

- 9. The Department should take the necessary steps to ensure receipt of mileage reports in order to effectively monitor State vehicle usage. These steps may include the recall of vehicles and/or the suspension of agency motor pool privileges if State agencies fail to submit their mileage reports.**

Comment:

Our review of mileage reporting system data provided by the agency revealed that approximately 81 percent of the required mileage reports are submitted on average for any given month. It was further noted that over the period audited, the percentage of compliance declined from approximately 85 percent to 80 percent. This translates to an average in excess of 725 missing reports in any given month.

- 10. Utilization criteria should be developed to allow fleet usage to be evaluated with respect to both mileage and mission. The Department should develop an ongoing process to evaluate fleet size and composition to ensure proper usage and efficient utilization.**

Comment:

Our analysis found that the data used by the Department to calculate “Average Monthly Utilization” was incomplete. The Department has not conducted a recent periodic reassessment of assigned vehicles to ensure their proper use and full utilization. There is no reporting mechanism for utilization criteria related to the mission of a vehicle. As a result, an indeterminate number of assigned fleet vehicles may be underutilized and/or not used for their intended purpose.

- 11. DAS should take the necessary steps to comply with Section 4a-67d of the Connecticut General Statutes or seek statutory and/or regulatory relief from those requirements.**

Comment:

The fleet average for cars or light duty trucks purchased by the State has not met the forty miles per gallon threshold required by Statute.

Also, there are only a few alternative fuel stations available within Connecticut to service alternative-fueled vehicles.

- 12. The Department should develop procedures to ensure that write-offs are properly tracked, supported by documentation, and reviewed and approved by an accounting director and/ or another person independent of the cash receipts function.**

Comment:

Our testing in prior periods made reference to reports containing information specific to receivables that were either written down or written-off.

We were informed by the agency that such reports are no longer available since the implementation of the Core-CT system. We were able to verify that the Core-CT system does not include a method to identify accounts that have been written-down or written-off. The agency does not track such transactions separately from Core-CT. When asked to provide a report detailing receivable write-down or write-off transactions the Agency was unable to do so.

- 13. The Department should develop or acquire a formal risk assessment and mitigation function with the objective of identifying and addressing those risks that could negatively impact on its operational objectives. The risk assessment and mitigation function should be independent, formal, and ongoing.**

Comment:

The Department does not have a dedicated and ongoing risk assessment and mitigation function nor does it have formal monitoring procedures in place.

- 14. In order to remain proactive and to better ensure continued compliance with statutory requirements, the Department should develop a formal written procedure for personal data security that includes, at a minimum, identification of a person whose role will include sufficient positional authority to develop and enforce the Department's compliance procedures, and a periodic review of the personal data under its control.**

Comment:

The Department has not developed and implemented a formal personal data protection policy. At a minimum such a policy should include the appointment or designation of a Personal Data Protection coordinator and a periodic review of the personal data under its control.

INDEPENDENT AUDITORS' CERTIFICATION

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Administrative Services complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Administrative Services is the responsibility of the Department of Administrative Services' management.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Administrative Services is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency.

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the need to implement controls that would ensure that its Estate Administrator is appointed the fiduciary prior to the acquisition of assets and that accounts are settled in a timely manner; the need to develop a formal merger and consolidation plan and checklists to clarify Department responsibilities; the absence of clearance procedures for employees separating from State service; the need to expand background investigations for employees promoted to management positions; the need to take corrective action in order to support in detail the cash position of its Representative Payee bank account; the need to establish receipts journals at each significant entry point for checks and to reconcile the receipts journals to the validated deposit information; the need to improve performance in the area of inventory and property control; the need to develop an ongoing process to evaluate fleet size and composition; the need to develop procedures to ensure that write-offs are properly tracked and authorized; the need to develop a risk assessment and mitigation function; and the need for formal written procedures for personal data security.

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

However, of the reportable conditions described above, we believe the following reportable conditions to be material or significant weaknesses: the need to develop a formal merger and consolidation plan and checklists to clarify Department responsibilities; the absence of clearance procedures for employees separating from State service; the need to take corrective action in order to support in detail the cash position of its Representative Payee bank account; the need to establish receipts journals at each significant entry point for checks and to reconcile the receipts

journals to the validated deposit information; the need to develop an ongoing process to evaluate fleet size and composition; the need to develop a risk assessment and mitigation function; and, the need for formal written procedures for personal data security.

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

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

CONCLUSION

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

Michael R. Adelson
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts