

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF ADMINISTRATIVE SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

**AUDITORS OF PUBLIC ACCOUNTS
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January 25, 2006

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We have made an examination of the financial records of the Department of Administrative Services (DAS) for the fiscal years ended June 30, 2002 and 2003. This report on the examination consists of the Comments, Condition of Records, 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 Business Center:

The Human Resources Business Center provides personnel services within DAS and to other agencies, including recruiting and testing, personnel development, and Workers' Compensation administration.

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 Commissioner of Administrative Services during the audited period.

Significant Legislation:

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

- *Public Act 01-106* – Section 3 of the Act, effective July 1, 2001, amended Section 4a-59 of the General Statutes. The Act makes permanent the two-year pilot programs that allowed the Department of Administrative Services and the Legislative Management Committee to award State contracts to the highest-scoring bidder in a multiple-criteria bid rather than to the lowest responsible qualified bidder. The multiple-criteria approach allows the Commissioner and the Committee to consider more than price, skill, ability, and integrity when awarding a contract.
- *Public Act 01-7 (June Special Session)* – Section 12 of the Act, codified in Section 4a-25a of the General Statutes, authorizes the Commissioner of Administrative Services to enter into a loss portfolio arrangement program for the purpose of transferring a group of Workers' Compensation claims that require payment of future indemnity and medical payments to an independent third party. The loss portfolio arrangement program must make the independent third party responsible for the management and administration of the transferred claims liability it assumes in accordance with the State Workers' Compensation law.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts collected by the DAS Commissioner's Office totaled \$1,423,087 and \$1,778,012 for the fiscal years ended June 30, 2002 and 2003, respectively. These receipts were comprised primarily of refunds of expenditures related to Workers' Compensation Program recoveries.

General Fund collections made by the Collections Unit for the fiscal years ended June 30, 2001, 2002 and 2003 are presented below for comparative purposes:

	<u>Fiscal Year</u>		
	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Recoveries of the costs of:	\$	\$	\$
Public Assistance	32,483,802	29,906,521	35,440,461
Care of patients at State humane institutions:			
In-patient services	18,060,813	15,636,919	18,954,919
Out-patient services	464,169	184,735	554,094
Care and treatment provided by the			
Department of Children and Families	2,176,518	2,492,921	593,800
Miscellaneous recoveries	<u>402,852</u>	<u>201,468</u>	<u>113,287</u>
Total Receipts	<u>\$53,588,154</u>	<u>\$48,422,564</u>	<u>\$55,656,561</u>

The decrease in recoveries in fiscal year 2003 for the Department of Children and Families was due to that agency's 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 \$669,532,022 and \$647,748,231 for the fiscal years ended June 30, 2002 and 2003 from the following inpatient and outpatient medical assistance programs:

	<u>Fiscal Year</u>	
	<u>2001-2002</u>	<u>2002-2003</u>
Inpatient Care:	\$	\$
State Facility Services	187,264,444	179,246,653
Veterans' Administration	10,169,076	9,514,475
State Department of Education – School Based	65,894,634	30,070,668
Department of Mental Health – Targeted Case Management	7,355,004	8,868,702
Department of Mental Retardation – Targeted Case Management, Residential, Day Care Other	386,343,742	390,970,608
Department of Mental Retardation (DMR) – Birth to Three	7,299,973	6,559,830
Department of Children and Families Programs	<u>4,224,000</u>	<u>21,660,436</u>
Total Inpatient Care Collections	668,550,873	646,891,372
Outpatient Care Services	<u>981,149</u>	<u>856,859</u>
Total Title XIX Collections	<u>\$669,532,022</u>	<u>\$647,748,231</u>

In fiscal year 2002 the State's Department of Social Services implemented new, higher reimbursement rates for School Based health program costs. In addition, a retroactive recovery for prior periods was made based upon the new rates. A subsequent review by the Office of Inspector General for the Department of Health and Human Services found that the reimbursement rates used by the State's Department of Social Services were overstated.

The reimbursement rates for school based health program costs for fiscal year 2003 were reduced to near or below the pre-adjusted rates. As a result, fiscal year 2003 School Based health program collections were reduced to \$30,070,668 which is comparable to the amounts collected in fiscal years 2000 and 2001.

Also, DAS implemented a new initiative in March 2002 for the Department of Children and Families to recover inpatient and residential costs of treating children.

A comparative summary of DAS expenditures from General Fund appropriations for the fiscal years ended June 30, 2001, 2002 and 2003 is presented below:

	<u>Fiscal Year</u>		
	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Budgeted Appropriations:	\$	\$	\$
Personal Services	17,320,521	17,628,233	16,262,070
Contractual Services	8,790,249	8,541,659	7,539,565
Commodities	422,970	277,823	173,741
Revenue Refunds	26,088	(1,524)	(57,394)
Sundry Charges	1,174,341	739,627	3,238,614
Equipment	<u>363,917</u>	<u>1,000</u>	<u>13,622</u>
Total from Budgeted Appropriations	<u>28,098,086</u>	<u>27,186,818</u>	<u>27,170,218</u>
Restricted Appropriations:			
Other-than-Federal	184,378	210,395	328,469
Federal	<u>184,252</u>	<u>147,965</u>	<u>142,421</u>
Total General Fund Expenditures	<u>\$28,466,716</u>	<u>\$27,545,178</u>	<u>\$27,641,108</u>

The increase in Sundry Charges in fiscal year 2003 includes \$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.

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, 2001, 2002 and 2003 is presented on the following page:

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
General Fund:	\$	\$	\$
Mental Retardation	11,923,620	11,108,144	12,990,098
Mental Health and Addiction Services	7,144,709	5,833,352	7,246,269
Correction	19,574,931	19,038,742	22,255,285
Public Safety	2,915,687	3,116,779	2,625,125
Children and Families	3,948,116	5,082,331	7,095,620
Administrative Services	<u>14,490,152</u>	<u>14,076,527</u>	<u>19,147,334</u>
Total General Fund	<u>59,997,215</u>	<u>58,255,875</u>	<u>71,359,731</u>
Transportation Fund:			
Transportation	<u>2,455,979</u>	<u>1,722,963</u>	<u>3,884,908</u>
Total All Funds	<u>\$62,453,194</u>	<u>\$59,978,838</u>	<u>\$75,244,639</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>2001-2002</u>	<u>2002-2003</u>
Cash Balance, Beginning of Year	\$(26,422,677)	\$(41,430,034)
Receipts	<u>31,801,175</u>	<u>29,860,862</u>
Total	5,378,498	(11,569,172)
Disbursements	<u>46,808,532</u>	<u>27,181,348</u>
Cash Balance, End of Year	<u>\$(41,430,034)</u>	<u>\$(38,750,520)</u>

Our review of the Department's Revolving Fund financial statements for the fiscal years ended June 30, 1998 through June 30, 2001, showed that the Fund averaged a net operating loss of approximately \$500,000 per year over each of the fiscal years. For the fiscal years ended June 30, 2002 and 2003, net operating losses were approximately \$3,803,000 and \$3,100,000, respectively. The Revolving Fund's reported retained earnings declined from \$21,435,294, as of June 30, 2001, to \$17,157,259 as of June 30, 2003. The negative cash balance of \$(38,750,520) 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.

However, internal service funds should operate on a breakeven basis over time inclusive of such transfers in; Surpluses or deficits may indicate that other funds (i.e. agencies) were not properly charged for the goods and services they received. The Condition of Records section of this report contains a recommendation on this matter and other matters related to the Department's Revolving Fund.

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.

The receipts for the Representative Payee Accounts' totaled \$8,790,622 and \$8,927,493 during the fiscal years ended June 30, 2002 and 2003, 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 funds. The interest generated by those investments totaled \$70,778 and \$45,463 for the fiscal years ended June 30, 2002 and 2003, respectively.

Disbursements from the Representative Payee Accounts' totaled \$10,061,433 and \$8,265,083 during the fiscal years ended June 30, 2002 and 2003, 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 as of June 30, 2003, totaled \$4,131,825. These assets consisted of a cash balance of \$1,311,749 and total investments of \$2,820,076 in the Treasurer's Short-Term Investment Fund.

Receipts for the Legal Representative Accounts in the Custody of the Commissioner totaled \$5,217,125 and \$3,672,464 during the fiscal years ended June 30, 2002 and 2003, 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 \$5,213,043 and \$3,664,964 during the fiscal years ended June 30, 2002 and 2003. In addition, interest in the amounts of \$4,082 and \$7,500 was earned during the fiscal years ended June 30, 2002 and 2003.

Disbursements from the Legal Representative Accounts totaled \$3,040,561 and \$5,149,002 during the fiscal years ended June 30, 2002 and 2003, respectively. Disbursements for the reimbursement of State claims against decedent estates amounted to \$2,080,090 and \$4,789,482, during the fiscal years ended June 30, 2002 and 2003, respectively. The Condition of Records section of this report contains a recommendation concerning the Department's withholding of such closed estate claim collections due to the General Fund. 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 \$3,827,066 and \$2,296,861 as of June 30, 2002 and 2003, respectively. The assets consisted of cash balances of \$3,666,756 and \$1,129,050 and investments of \$160,310 and \$1,167,810 in the Treasurer's Short-Term Investment Fund during the fiscal years ended June 30, 2002 and June 30, 2003, 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.

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.

Approval and Controls Over Durational Project Managers and Customer Service Program Developers:

Background: Both the Durational Project Manager and Customer Service Program Developer designations were created as personnel positions in the unclassified service pursuant to Section 5-198, subsection (n), of the General Statutes. This statute allows for the use of an unclassified service designation for “Persons employed to make or conduct a special inquiry, investigation, examination, or installation.”

Prior auditors’ reports criticized the Department for approving these positions without requiring the elements necessary to evidence compliance with Section 5-198, subsection (n).

Prior auditors’ reports also criticized the Department for failing to establish a dynamic position end date field, within the Automated Personnel System (APS), to provide precise control over the duration of each such position. The Department was also cited for not auditing essential control dependent data at the time it was entered into APS by those agencies actually employing Durational Project Managers and Customer Service Program Developers.

Criteria: The Department issues job descriptions that include requirements for effectively extending the duration of both the Durational Project Manager and Customer Service Program Developer positions.

Condition: During the audited period, the Durational Project Manager position had a maximum three-year duration, unless the Commissioner approved a formal request documenting the need for extended service. However, we could not find source documentation to confirm that the Commissioner had appropriately approved extensions for four of the five Durational Project Manager positions in our sample.

During the audited period, the Customer Service Program Developer position had a maximum three-year duration, unless the related program installation remained incomplete. Any extension beyond this duration had to be approved by the Commissioner. However, we could not find source documentation to confirm that the Commissioner had appropriately approved extensions for five of the five Customer Service Program Developer positions in our sample.

It should be noted that, subsequent to our audited period, the Department revised the job descriptions for both of these positions. Prospectively, such revisions should tend to moderate the associated risk described below.

Effect: There is increased risk that Durational Project Managers and Customer Service Program Developers could remain in their positions beyond the intended expiration dates without the requisite justifications and approvals.

Cause: During the audited period, the Department not only lacked a key dynamic control for its APS, but also lacked sufficient monitoring and communication procedures to ensure that extensions of Durational Project Manager and Customer Service Program Developer positions were properly approved. Subsequent to the audited period, the APS was replaced by the Core-CT Human Resources Management System (HRMS), which also failed to feature a dynamic position end date control field.

Recommendation: 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. (See Recommendation 1.)

Agency Response: “We agree with the findings in part. Core-CT is a joint venture among the offices of the Comptroller, the Office of Policy and Management (OPM) and DAS.

We will initiate discussions with Core-CT project leaders from these agencies to determine PeopleSoft's capacity for applying dynamic edits around durational positions used within Connecticut state service for these job codes. To make this matter less of an issue now and into the future, the DAS will continually diminish the use of durational positions approved for Durational Projects. The use of the Customer Service Program Developer has already been administratively red circled. No appointments will be made to this classification and the classification will be abolished once it is unencumbered. Further, we will determine the status of the audits that have already been completed by Core-CT personnel on personnel data that were transferred from APS to Core-CT database fields. We will then pick up the auditing of that information for the DPMs and CSPDs as required from that determination.”

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.
- Recommendation:* 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. (See Recommendation 2.)

Agency Response: “We agree with the Auditor finding that the Quality Control Committee referenced in CGS 5-237b has not met since 1991 to review and evaluate the ongoing performance and effectiveness of state incentive plans established by the Commissioner of Administrative Services and reporting their findings to the Commissioner of Administrative Services.

The Commissioner may establish incentive plans for managers and certain confidential employees pursuant to CGS 5-210. By way of history, there has been no change in the fundamental components of the incentive plan in effect since that time which is the Performance Assessment and Recognition System (PARS). The program administration and annual instructions to agencies have been overseen and administered by the DAS, in conjunction with the Office of Policy and Management, since before 1991. Any pay increases or lump sums for managers or confidential employees arising from PARS payouts or pay increases are audited by DAS. DAS has filed legislation in the past regarding CGS 5-237b. We will offer a substitute bill to refashion the composition of the Committee and set the Committee about their duties.”

Operational Standards for Conducting Human Resource Investigations:

Background: The Department’s Human Resource Unit receives requests from other State agencies to conduct personnel related investigations. Those requests are received from agencies that either lack sufficient human resource personnel and/or need assistance in resolving difficult issues.

Criteria: Sound business practice dictates that the Department establish operational standards for the performance of those investigations. At a minimum, those standards should address the record keeping and documentation practices over relevant evidence used to provide a basis for an investigation’s findings and conclusions. In addition, those procedures should describe the manner in which the reports should be structured, approved and disseminated.

Condition: Under Section 4-61dd of the Connecticut General Statutes (the Whistleblower Act), the Auditors of Public Accounts reviewed the Department’s Human Resource Aquaculture Investigation and Report (issued some time in December 2004) on the Department of Agriculture. Our review of the investigation found that:

- The Report and its conclusions were not supported by evidential matter in the form of handwritten and typed interview notes, other documentation and/or exhibits;
- The report was undated;

- There was no evidence that the report had been reviewed and approved by the Commissioner for dissemination;
- The Department does not have formal, written operational standards for conducting its Human Resource investigations.

Effect: In the absence of supporting evidential matter and operational standards, report recommendations and conclusions may not be defensible.

Cause: The Department has not established written operational standards for its human resource investigations.

Recommendation: 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. (See Recommendation 3.)

Agency Response: “We agree with the Auditors recommendations. DAS is developing standard written procedures for conducting human resource investigations. These procedures are in draft form and will be completed by mid-December 2005.”

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 accountable items such as: records, files, passwords, keys, credit cards, equipment, etc.

Condition: Our review of a matter reported to the Auditors of Public Accounts by the Department under Section 4-33a of the Connecticut General Statutes found that:

- No clearance procedures had been employed by the Department for two employees leaving State service. As a result, the whereabouts and/or existence of certain proprietary information for one program could not be determined by the Department.

- The Department does not apply formal, written clearance procedures for any separating employees nor has it established such guidelines for the State.

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.

The Department expended considerable effort in dealing with matters subsequent to the departure of two separating employees that may have been avoided if adequate clearance procedures had been in effect. Some of that effort was needed to reconstitute the missing program information.

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. For the two retiring employees noted above, no formal exit conference was conducted and no accountability over controllable items was performed.

Recommendation: 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. (See Recommendation 4.)

Agency Response: “We agree with the Auditors findings. DAS has developed standard agency procedures for separations from State service and for transfers to another agency. These procedures involve fourteen steps covering a wide variety of transactions to accomplish a successful separation. These procedures have been reduced to writing and are available for review at any time.”

**Human Resources – Payroll and Personnel:
Overtime and Compensatory Time Procedures and Records:**

Criteria: The Department of Administrative Service’s (DAS) “Management Personnel Policy No. 80-1, Section 2”, as amended, (MPP 80-1, Section 2) 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, the Department’s written policies and procedures relative to overtime and compensatory time, which were applicable to the audited period, required that employees must receive written authorization for compensatory time in advance in order to receive the extra time off for the extra time worked. The only exceptions to the requirement for advanced approval for compensatory time are related to “extreme emergency situations which threaten life, property and/or operations.”

Condition:

Our examination for the fiscal year 2001-2002 found that the previously reported control weakness in the Department’s process for authorizing compensatory time for its employees continued throughout the audited period. Our review of the compensatory time granted to three employees, eligible for compensatory time under a collective bargaining agreement, revealed ten instances where the employees did not receive the required written authorization in advance of working the extra time. In all ten instances, the employees received authorization after the extra time was worked.

For the fiscal year 2002-2003, our review of the compensatory time granted to five employees eligible for compensatory time found that in all five instances, the employees received authorization after the extra time was worked.

Our review of the overtime paid to five employees throughout fiscal year 2002-2003, found that with one exception the employees received authorization after the extra time was worked.

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. 80-1, Section 2, as amended, and its Department specific policies relative to the authorization of compensatory time and overtime. (See Recommendation 5.)

Agency Response: “We agree that during the period FY 02-03 some inconsistencies existed with employees not always obtaining approval of overtime in advance of performing the work. However, since then, the agency has tightened its internal controls and now employees primarily use the Time Processing System (TPS) to “record” their overtime or “comp” time worked. DAS has tightened its controls by requiring compensatory time requests to be submitted via TPS only if the exact number of day(s)/hour(s) can be determined in advance. Otherwise a memo or email from the employee or supervisor to the appropriate manager must be prepared in advance and must include; the specific reason for the comp time request (special project, etc), the maximum number of day(s)/hours(s) needed for the project, etc. and the name(s) of the staff member(s) involved. If approved, that manager must assure the combined total hour(s)/day(s) of each individual request entered into TPS does not exceed the maximum day(s)/hour(s) allowed and previously approved for any particular project, etc. The DAS payroll staff tracks the total day(s)/hour(s) submitted and notifies the Personnel Manager if/when the maximum allowed has been reached. Currently, only DAS’s Fleet Operations garage staff does not use TPS. In Fleet Operations, the respective garage supervisor requests any overtime needed at each garage in advance via memo or email to the Director of Fleet Operations.”

Procurement Services:

The Department of Administrative Services’ Procurement Unit functions as the centralized purchasing authority for budgeted State agencies during the audited period. In accordance with Section 4a-51 of the General Statutes, the Commissioner of Administrative Services shall purchase or contract for all supplies, materials, equipment and contractual services required by any State agency, except for emergency purchases and purchasing authority that has been delegated to others by legislation.

Evidence of Bidders’ Insurance Coverage:

Criteria: When it is deemed necessary, DAS requires bidders to have appropriate insurance coverage in place, including automotive and general liability, Workers’ Compensation, and employee bond coverage. The purpose of the requirement is to protect the State in the event a contractor’s employees are involved in accidents or thefts of State property.

Condition:

DAS does not always require evidence of insurance prior to the award of a contract. It is anticipated that using agencies will obtain documentation of insurance prior to engaging the services of the contractor and at such times that coverage is renewable. In situations where multiple agencies may be using the same contract, duplication of effort is needed to permit each agency to document insurance coverage.

Since using agencies (“customers”) may not have the resources needed to verify and evaluate the adequacy of coverage that is presented to them, customer service would be enhanced if DAS verified insurance coverage centrally.

Our examination of vendor contracts for the 2002 fiscal year revealed that seven out of the 26 contracts tested required the vendors’ proof of insurance to evidence the required insurance coverage. However, we found that none of the vendors associated with these seven contracts, of which three were Statewide contracts and four were agency-specific contracts, actually submitted the required documentation to evidence such coverage.

For the 2003 fiscal year, our review found that five of 25 contracts tested required the vendors to submit proof of insurance. Again, we found no evidence of the required insurance documentation in the files from the vendors associated with these five contracts.

Our extended testing found that on a current basis the Department has set up a database for tracking insurance documentation. This system was designed to track insurance certifications for those vendors under State contract. However, this new database does not track insurance certificates for bidders. A recent “Missing Insurance Report” generated from that database listed approximately 98 vendors with missing insurance certificates.

Effect:

The failure to verify insurance coverage prior to awarding a contract increases the risk that awards may be made to contractors with inadequate coverage. There may be a duplication of monitoring effort by agencies using multi-agency contracts. There may be no monitoring at all for agencies using agency specific contracts.

Cause:

DAS has implemented an electronic tracking system for vendor insurance coverage for contracts used by multiple agencies. The Department has experienced some initial difficulty in the data capturing process. The number of missing insurance certificates at a given point in time is dependent upon the timing of new contracts made and the subsequent receipt of the insurance certificates.

Over time the number of missing insurance certificates noted above should trend downward.

Further, the Department continues to believe that insurance for single agency contracts is best monitored by the individual agencies.

Recommendation: 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. (See Recommendation 6.)

Agency Response: “We agree in part with the Auditors. DAS will continue to *administer and monitor the existence* of insurance coverage on multi-agency contracts and will continue to enhance its electronic tracking system for maximum efficiencies and information output. However, DAS continues to believe that the using agency is best equipped to handle this administrative task on agency specific contracts. Removing this responsibility from the individual agency would create a substantial gap in continuity and would decrease the overall efficiency of monitoring within the agency. This change would also significantly increase the administration within DAS requiring possible staffing additions. Many agencies have specific insurance requirements and must use specific insurance forms. In particular, the Department of Public Works and the Department of Transportation must use specific types of insurance forms aligned with the specific type of work that they perform unique to only their agencies. (i.e. highway construction)”

Inspections:

Criteria: Section 4a-51 of the General Statutes requires DAS to enforce the standard specifications that the Department has adopted in accordance with Section 4a-56 for all supplies, materials, and equipment purchased by the State. The Department’s Procurement Services Unit is responsible for inspecting goods and services received by the State and following up on complaints. Contract awards for the purchase of heating oil call for periodic laboratory tests to determine whether the fuel provided to the State meets specified standard specifications.

The contract awards for the purchase of fuel oil, in place during the audited period, gave the State the right to obtain up to a maximum of 35 vendor-paid lab tests annually relative to all four grades of heating oil purchased.

Condition: Our examination of the Department’s inspections and testing of fuel oil purchases revealed that such testing was not being performed on a routine basis, during the audited period. We found that only eight samples of fuel oil were tested during fiscal year 2002, all of which were limited to just one grade of fuel oil. Further, there was no testing performed during fiscal year 2003.

Although there was no evidence of lack of compliance with the standard specifications, as set forth in the applicable contracts, with respect to the eight samples tested, such limited inspection and testing does not provide the necessary assurance that the standard specifications, as established by the Department, were consistently met or exceeded by the contractors.

Effect: The lack of sufficient testing of purchased goods could result in the State accepting and paying for goods that may not comply with contract standard specifications and could have a negative impact on the operation of State government.

Distributing the responsibility for inspections to user agencies does not ensure an effective and efficient regimen of testing. It may in fact result in duplicative testing or no testing at all for certain locations and grades of fuel. In addition, without the Department serving as the coordinating agency for inspections, negative inspection results (if any) may not reach other agencies that use the contract to procure fuel oil.

Cause: During the 2002 fiscal year the Procurement Unit had two full-time inspectors who had been assigned to ensure that goods and services were being provided in accordance with the standards specified in purchasing contracts. No testing was performed in 2003 as the two inspectors were separated from State service.

Recommendation: The Department should improve its controls over the inspection and testing of fuel oil to ensure that it efficiently and effectively enforces the standard specifications as set forth in the related contracts. (See Recommendation 7.)

Agency Response: “DAS agrees with the auditors that we have lacked in administrating sufficient testing of fuels purchased by customer state agencies. We also agree with the auditors’ determination referenced as “cause”, is valid when identifying the lack of inspection personnel.

We will not be testing the upcoming heating season. The fuel oil contract subsequent to the subject contract will be written to allow us to make what number of inspections are necessary and that we may wish to make as already provided for by statute.”

Lack of Evaluation Criteria in Request for Proposals and Invitations to Bid:

Criteria: Section 4a-59, subsection (c), of the General Statutes provides that all open market orders or contracts shall be awarded to ... (2) the highest scoring bidder in a multiple criteria bid, in accordance with the criteria set forth in the bid solicitation for the contract, or (3) the proposer whose proposal is deemed by the awarding authority to be the most advantageous to the State, in accordance with the criteria set forth in the request for proposals, including price and evaluation factors.

Department of Administrative Services Regulation 4a-52-18 concerns objective criteria for determining the lowest responsible qualified bidder or best proposer. Section (a) of that regulation states that, "For the purpose of indicating the type of objective criteria in determining the lowest responsible qualified bidder, as defined in Section 41-59 of the Connecticut General Statutes or the best proposer, the invitation to bid or request for proposals shall state the evaluation factors, including price, and their relative importance.

Condition: During the audited period, the Department had not included the relative importance of the evaluation criteria in its invitations to bid and request for proposals.

In January 2005, the Department received a follow-up communication from the Office of the Attorney General advising them that, it "must include in all ITBs and RFPs not just the evaluation criteria, but also their relative importance." Further, they were advised that, "merely saying that one criterion is more important than another does not give any indication of how one criterion relates to another in terms of importance. Accordingly, the regulatory requirement of setting forth the criteria's "relative importance" is not satisfied."

Effect: By not including the evaluation and scoring criteria within the RFP, vendors are not aware of how certain criteria should be weighted in their proposals. Thus, proposals may not meet the Department's expectations nor satisfy the requirements of the related law and regulation.

Cause: The Department is aware of the need for corrective action but has not formulated an approach that satisfies its needs and the requirements of the related law and regulation.

Conclusion: This condition was addressed and resolved by DAS prior to the issuance of this audit report. DAS has incorporated the evaluation criteria in relative order of importance in its bids and RFPs.

Maintenance of Complaint Log:

Criteria: The website for the Department of Administrative Services includes a means by which customer agencies can provide feedback concerning the vendors under State contracts. The website has an “Agency Vendor Alert” link to an online form for agencies to inform the Department of possible actions taken by them against existing or potential vendors.

A “Vendor Performance Report” link to an online form allows agencies to report on exceptional or unsatisfactory performance. These forms are distributed via E-Mail to the appropriate contract specialist for resolution.

This website replaces the Complaint Log that was previously maintained by the Department.

Condition: Our examination of 25 complaints found the following:

- No documentation was found for 18 complaints to verify that they were addressed, resolved and communicated to the complainant in a timely manner.
- The complaints were not numbered and logged into a centralized system for tracking by staff and management.
- A contract specialist manages the receipt of the “Vendor Performance Report.” That specialist has oversight responsibility for contracts that may be subject to complaints concerning the related vendors.

Effect: There is an increased risk that customer agencies may be procuring substandard services and products when complaints are not addressed, not addressed in a timely manner or the follow-up is inadequately documented.

The absence of a logging system reduces management’s ability to monitor complaints and to spot negative trends in the complaints received from its customers.

Cause: The online “Agency Vendor Alert” and “Vendor Performance Report” forms are not numbered and entered into a complaint log. As a result, management does not have a means to monitor the timeliness of complaint resolution or to perform trend analysis on its vendors.

Staff reductions in the 2002 fiscal year resulted in the loss of the two inspectors who had maintained the complaint log that was subsequently discontinued by the Department.

Recommendation: The Department should establish a logging system to track agency complaints and to document their resolution. (See Recommendation 8.)

Agency Response: “We agree with the auditors’ recommendation and offer the following to address the above conditions: The Vendor Performance System will be made a priority in the development of the On-Line system.

A meeting has been scheduled with Management Information Solutions (MIS) to move this task to priority status. The team is developing the vendor performance module; each customer performance report will be tied to the contract record in the contract database and tied to the vendor record in the vendor database. Each customer performance report will be assigned to the Contract Specialist who is responsible for the contract the customer inputs.

The customer performance report record will require a sign-off by the contract specialist when a performance issue has been resolved. The system will allow detailed information to be recorded by the contract specialist during the process.

The system will include 12 elements and capabilities to support the effort. Since the system will store historic information by vendor, Contract Specialists will be able to review performance by vendor when they are being considered for a future award. The application for the system is presently on the staging server and will have the required features by the end of the calendar year (2005).”

Fiscal Management Unit:

The Fiscal Management Unit within the DAS Financial Services Center provides fiscal services in support of Departmental operations. These services include budget development and administration, purchasing, accounts payable/receivable, property management and grants administration.

Software Inventory:

Criteria: The *State of Connecticut’s Property Control Manual*, issued by the State Comptroller under authority granted under Section 4-36 of the General Statutes, prescribes control policies and procedures relative to the establishment and maintenance of software inventory for State agencies. The software inventory procedures set forth by the State Comptroller are applicable to all State agencies.

Among the specific procedures prescribed by the State Comptroller are the following: a) each State agency will produce a software inventory report on an annual basis and that these reports will be available to the Auditors of Public Accounts and, b) a physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report, with the comparison retained by the agency for audit purposes.

In addition, the policy and procedures specifically states that software compliance is a legal responsibility for State agencies and non-compliance can impact an agency, as they may be held financially liable for the use of unlicensed copies of software.

Condition: The Agency does not maintain a current updated inventory of installed software applications. An annual software inventory report is not prepared and a physical inventory at the end of each fiscal year is not performed.

Effect: The Agency is not in compliance with the software inventory policy and procedures issued by the Office of the State Comptroller. The unauthorized duplication and/or use of software could occur that both constitutes copyright infringement and creates a financial liability for the State.

Cause: A lack of adequate administrative control contributed to this condition.

Recommendation: 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*. (See Recommendation 9.)

Agency Response: “We agree that an annual software inventory report is not prepared and a physical inventory is not performed at the end of each fiscal year.

We disagree that there is not a current list of installed software. This listing does reside in Management Information Solutions but it is difficult to identify some of the software because it is listed by its executable file name rather than brand name. MIS can identify the software.

The current list of installed software will continue to be housed in MIS and will be reviewed at the end of the fiscal year. An annual report will be generated and a physical inventory will be conducted.”

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.

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 10.)
- Agency Response:* “DAS agrees that checks could be lost under extraordinary circumstances. Where receipt journals or equivalent records are not being presently maintained in business units that are significant entry points for checks, procedures and methods will be established to do so.”

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:* In order to efficiently manage the vehicles in the State of Connecticut fleet, DAS needs to be aware of the levels of usage of each vehicle. To obtain this information, DAS requests monthly mileage reports to be completed for each vehicle. DAS General Letter 115 specifies that monthly usage reports are to be certified by the operator and agency head and forwarded to the Director of Fleet Operations by the 15th of the following month. Lack of submittal of two or more monthly usage reports may result in the immediate recall of the vehicle by the Director of Fleet Operations.
- Condition:* Our review of the Department’s “Missing Mileage Report” for the month of June 30, 2002, found 173 or 5 percent missing reports out of approximately 3,776 fleet vehicles. For June 30, 2003, there were 276 or 8 percent missing reports, out of approximately 3,614 fleet vehicles. The missing report rate increased to 22 percent in June 2004.
- Effect:* The failure to submit the required reports prevents efficient and effective management of the vehicles. In the absence of monthly mileage reports, it is possible for State vehicles to be used for unauthorized purposes and not be detected and/or be underutilized.

- Cause:* While DAS had been monitoring the affected agencies, DAS never acted on its right to recall the vehicles for failure to submit mileage reports.
- Recommendation:* DAS should take the necessary steps to gather the mileage information necessary to effectively monitor the vehicles within Fleet Operations. (See Recommendation 11.)
- Agency Response:* “We agree with the Auditors Findings for the period of review. DAS Fleet Operations currently sends a memorandum to an agency’s vehicle liaison when mileage reports are missing or overdue. DAS is implementing a policy where the Director of Fleet Operations will send a notice to the agency head of the delinquent or missing mileage reports for the respective agency. Such notice will restate the agency’s obligations under DAS General Letter 115 and inform the agency that failure to submit two or more monthly mileage reports may result in immediate recall of the vehicle.”

State Vehicle Utilization:

Criteria: The Department’s Fleet Services Division maintains records that document the utilization of vehicles distributed to other State agencies. Those agencies compensate the Department based upon prescribed rates for the usage of the vehicles. Agencies must 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 will incur less expense by obtaining vehicles, as needed, on a daily rental basis.

This benchmark figure is advisory in nature and does not take into account rate variations due to vehicle size. Also, some cars are assigned based upon a designated purpose and should not be evaluated strictly on miles used. Therefore, 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.” The report accumulated data from January 2002 to approximately January 2005. That report and our follow-up revealed:

- There were 468 (13 percent) vehicles from an active fleet of approximately 3,709 vehicles that were utilized below 500 miles per month.
- The Department has not conducted a recent periodic reassessment of assigned vehicles to ensure their proper use and full utilization.
- 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: The Department has not performed a recent reassessment of assigned fleet vehicles to ensure that they are being utilized as intended by State agencies. Utilization criteria related to the mission of the vehicles have not been established.

Staff reductions and transfers in this operational area of the Department have contributed to the conditions described above.

Recommendation: 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. (See Recommendation 12.)

Agency Response: “We agree with the Auditors recommendations. It should be noted that DAS Fleet Operations performed a utilization assessment in FY 2004 on the State Fleet. As a result of this assessment, Fleet Operations was able to recall 642 vehicles, or 24 percent of the total fleet, from State agencies. However, during this review, DAS found the need for State agencies to possess vehicles that perform specialty tasks. These vehicles do not meet the industry mileage benchmarks for vehicle usage, but we feel are justified in their usage by the agencies.”

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.”

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.

Until a recent purchase of vehicles, the State was not in compliance with Federal regulations concerning the percentage of alternative-fueled vehicles required in the State motor vehicle fleet. However, the State remains functionally noncompliant with the Federal regulations, as there are only a few alternative fuel service facilities available 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 more and generate fewer miles per gallon than standard fuels.

Effect:

The Department is not in compliance with State law. The State is not functionally in compliance with Federal regulations.

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 has not been developed within the State of Connecticut.

Recommendation:

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. (See Recommendation 13.)

Agency Response: “We agree with the Auditors review. During the period in question the State was not able to meet the statutory guidelines for neither the mileage requirements nor the percentage of vehicles in the Fleet that utilized alternative fuels. As discussed in the Auditors’ Findings, the infrastructure for the supply of fuel for the alternative fueled vehicles is not adequate in Connecticut at this time.

However, with the recent availability in the marketplace of vehicles that meet the Fleet’s needs and mileage requirements, DAS has placed an order for 135 hybrid vehicles expected to yield approximately 60 miles per gallon. In addition, DAS intends to purchase 400 to 600 alternative fuel vehicles employing ethanol technology.

These vehicles are designed to lessen the State’s dependence on gasoline and fuel is becoming more readily available in the marketplace. It should be noted that, although these vehicles decrease the need for traditional sources of energy, they do not meet the mileage requirements established in statute.

DAS is exploring changes to the statutes to make them more workable without deviating from the intended purpose of protecting the environment.”

Revolving Fund – Declining Fund Balance:

Background: The Department uses the General Services Revolving Fund to account for the income and expenses of its business centers. The largest of those business centers is Fleet Operations, which rents vehicles to other State agencies. The General Services Revolving Fund operates as an Internal Service Fund.

Criteria: Internal Service Funds are 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.

Surpluses or deficits in internal service funds are likely to indicate that the other funds were not properly charged for the goods and services they received. Internal service funds should operate on a breakeven basis over time.

It is only when internal service funds consistently report significant surpluses or deficits that the adequacy or inadequacy of charges made to other funds must be reassessed.

Condition: The Department’s General Services Revolving Fund has experienced a significant decline in fund balance and continued net operating losses over an extended number of years. A summary of the last five fiscal years follows:

<u>Fiscal Year</u>	<u>Fund Balance</u>	<u>Net Income (Loss)</u>
2000	\$ 21,141,859	\$ (869,024)
2001	\$ 20,979,630	\$ (455,664)
2002	\$ 17,335,858	\$ (3,803,467)
2003	\$ 14,244,094	\$ (3,099,018)
2004	\$ 9,448,089	\$ (1,523,116)

The fund balance has continued to decline subsequent to the periods indicated. This Internal Service Fund is not operating on a cost-reimbursement basis over a reasonable period of time.

Effect: The continuous operating losses may erode the General Services Revolving Fund’s ability to fully and effectively satisfy its mission objectives.

Cause: General Services Revolving Fund expenses have increased over time while the authorized recovery rates for vehicle rentals have remained static.

Recommendation: The Department should take the necessary steps to ensure that the General Services Revolving Fund operates on a breakeven basis over time. (See Recommendation 14.)

Agency Response: “We agree with the findings relative to the Revolving Fund balance. For several years DAS has been unable to effect a change in the monthly vehicle charge that has been the main factor in the declining Fund balance. Effective October 1, 2005, new rates will be put into place to correct this situation. It is projected that the new rates, averaging \$73.22 per vehicle, will yield an additional \$4.5 million in revenue to the Fund. This is an annual increase in revenue of approximately 24 percent.”

Revolving Fund – Depreciation Methodology:

Background: The Department’s fleet vehicles are accounted for within the General Services Revolving Fund. Fleet vehicles are depreciated over their useful life using “Straight-Line Depreciation without Salvage Value.” This method is consistent with the instructions provided to State agencies by the Office of the Comptroller concerning accumulated depreciation and depreciation expense.

Criteria: Depreciation expense and the related accumulated depreciation are recorded in Internal Service Funds in a manner similar to that used by commercial businesses. Assets should be depreciated over time based upon their original cost and estimated salvage value. If assets are completely used up and there is no market for their disposal then a zero salvage value can be assumed.

However, Governmental Generally Accepted Accounting Principles literature advises that where a salvage value can be determined, the estimated salvage value should be included in the depreciation equation.

Condition: The depreciation methodology used by the Department's General Services Revolving Fund does not consider salvage value in the equation. However, our review of disposed vehicle sales for the fiscal years 2001, 2002 and 2003 found that recoveries on capitalized purchases have ranged from 15 to 17 percent.

As a result, the Department's General Services Revolving Fund financial statements have been overstated for depreciation expense, accumulated depreciation and gain on sales of fleet vehicles. The overstatement of depreciation causes a similar understatement in the asset account for fleet vehicles.

The following estimate assumes that all disposals will return a salvage value approximating the past recovery percentages. However, not all vehicle disposals will result in a partial recovery of purchase costs. The depreciation and accumulated depreciation amounts were extracted figures from the Department's General Services Revolving Fund financial statements.

<u>Extracted Financial Data</u>	<u>2002</u>	<u>2003</u>
Depreciation	\$ 6,987,359	\$ 5,896,734
Accumulated Depreciation	(74,123,626)	(66,304,470)
Recovery percent	17 percent	15 percent
Estimated Excess Depreciation	1,187,851	884,510
Estimated Excess Accumulated Depreciation	(12,956,810)	(9,945,671)

Effect: The financial statements may be significantly misstated. There is a timing difference between the recognition of the excess depreciation and the offsetting recovery of salvage value. The excess depreciation appears to have a significant effect on the net operating losses experienced by the General Services Revolving Fund over the periods indicated.

Cause: The primary cause of the condition noted is the lack of consideration of salvage value in the depreciation formula applied to fleet vehicles. Other significant factors that have an effect on the condition include the schedule of fleet acquisitions relative to the length of time fleet vehicles remain in use prior to disposal. As the fleet ages the amount of potential salvage decreases. However, this will be offset by higher maintenance costs.

Recommendation: 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. (See Recommendation 15.)

Agency Response: “We agree with the Auditors recommendation. DAS agrees that salvage should be part of any depreciation equation if it were to be in compliance with GAAP. DAS is on record in noticing the Comptroller’s Office, the decision-making entity for State accounting rules, of the need of incorporating salvage in the depreciation formula. Of particular concern to DAS was the absence of salvage factors in the Asset Management module being developed for CORE-CT.”

Write-offs of 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 require 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 found a number of instances in which accounts receivable write-offs within the General Services Revolving Fund were made without evidence of proper approval and/or supporting documentation:

- A sample of 10 accounts receivable over 91 days were selected from the Department's "Detail Historical Aged Trial Balance." One third-party accident claim for \$3,772.42 was written-off without evidence of any authorization or supporting documentation.

One third-party accident claim for \$11,270 was partially written down by \$2,268 per Fleet Services without evidence of a corroborating review and authorization from the Business Office.

- A sample of 5 accounts receivable written-off were selected from a listing of such write-offs over the audited period. Three accounts receivable totaling \$2,283 (each less than one thousand dollars) were written-off by Fleet Services without evidence of a corroborating review and authorization from the Business Office. One accounts receivable for \$663 was written-off without evidence of any authorization.
- The Department performed a file cleanup on its old accounting system used for the General Services Revolving Fund. Two of six such write-offs reviewed were not supported by evidence that collection efforts had been made.

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

Cause: In most instances for the sample items tested, Fleet Services documented the proposed write-offs. While a corroborating review and approval of such write-offs may have been made by the Business Office there was no supporting evidence that such a review had taken place.

Recommendation: 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. (See Recommendation 16.)

Agency Response: “We agree with the Auditors. The Department of Administrative Services (DAS) acknowledges the need for department head authorization for canceling any uncollectible claim, for an amount of one thousand dollars or less. Further, DAS acknowledges the need for the Secretary of the Office of Policy and Management (OPM) to authorize any cancellation of uncollectible claims for any amount greater than one thousand dollars.

While there may be a few instances where the supporting documentation may have been wanting, DAS does believe there were sufficient efforts put forth to obtain the proper authorizations for writing off uncollectible claims.

DAS has relied on the program manager’s lead whenever a Fleet accident claim of less than one thousand dollars was to be written off as uncollectible. Further, DAS will now request for the Department Manager to authorize all write-offs of uncollectible claims, and from there, the Accounting Supervisor will also provide a second approval, in order to comply with this audit's recommendations.”

Lien and Estate Recoveries Unit:

The Lien and Estate Recoveries Unit within Financial Services may act in a fiduciary capacity for persons who have been receiving financial aid from the State. Legal Representative Accounts may be established for deceased persons for whom a court has designated the Commissioner of Administrative Services to administer the funds of the deceased.

Withholding of Closed Estate Claim Collections Due to the General Fund:

Background: On a monthly basis, the Department calculates an amount to release to the General Fund to provide for the reimbursement of State costs collected pursuant to Section 4a-16 of the General Statutes.

Criteria: Sound business practice dictates that amounts due to the General Fund should be released in a timely manner.

Condition: We noted that the Department withheld the release of monthly amounts due to the General Fund in seven instances totaling \$2,459,334 and eight instances totaling \$2,244,609 during the fiscal years ended June 30, 2002 and 2003, respectively. Associated delays of up to eight months were found to have occurred throughout the audited period.

Effect: The delays in releasing amounts due to the General Fund resulted in the State's loss of the use of these funds for considerable periods of time.

Cause: The Department lacked adequate managerial oversight and/or procedures to ensure that amounts due to the General Fund were released in a timely manner.

Recommendation: The Department should institute procedures to ensure that amounts due to the General Fund are released in a timely manner. (See Recommendation 17.)

Agency Response: "We agree with the auditor finding. There have been no recent occurrences. A procedure was created for Legal Rep cases to be closed monthly and that procedure has been followed."

RECOMMENDATIONS

Our prior report on the fiscal year ended June 30, 2001, contained a total of 28 recommendations. Of those recommendations, 19 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:

- **DAS should improve controls over durational positions by requiring accurate completion of all corresponding data fields on the Automated Personnel System, and auditing this data at the time of entry.** This recommendation is being merged with a prior recommendation and repeated in modified form to reflect current conditions. (See Recommendation 1.)
- **DAS should ensure, with appropriate supporting documentation, that its approvals and designations of positions as “managerial” are based on the criteria set forth in Section 5-270, subsection (g), of the General Statutes. All positions with managerial and bargaining unit equivalents should be considered bargaining unit positions unless a proper justification is given by the requesting agency.** This recommendation is not being repeated due to satisfactory improvement subsequent to the audited period.
- **DAS should ensure that the control procedures implemented provide the necessary assurances that positions established pursuant to Section 5-198, subsection (n), of the General Statutes are used in conformance with the purposes allowed by statute and that all extensions beyond the maximum duration are properly approved.** This recommendation is being merged with a prior recommendation and repeated in a modified form to reflect current conditions. (See Recommendation 1.)
- **DAS should improve its control procedures to ensure that all required dual employment certification forms are properly completed and maintained on file in accordance with Section 5-208a of the General Statutes. Also, the annual post audits of other State agencies to assess compliance with dual employment guidelines are performed in a timely manner to ensure compliance with General Letter No. 204.** This recommendation will not be repeated.
- **DAS should continue its efforts to compile a complete roster of employees in State service in compliance with Section 5-200, subsection (e), of the General Statutes.** This recommendation is not being repeated due to satisfactory improvement.
- **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.** This recommendation is being repeated. (See Recommendation 2.)

- **The Department should periodically review the utilization of its human resources to ensure that its employees’ job duties and responsibilities are commensurate with the titles and salaries associated with personnel positions.** The Department has reviewed the positions in question and performed the administrative procedure necessary to prevent future use of these positions without the prior approval of the Office of Policy and Management. This recommendation has been resolved.
- **The DAS should effectively enforce the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days.** This recommendation has been resolved.
- **The Department should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 80-1, Section 2, as amended, and its Department specific policies relative to the authorization of compensatory time.** This recommendation is being repeated and expanded to include similar conditions noted for the authorization of overtime. (See Recommendation 5.)
- **DAS should implement the controls necessary to ensure that the accrued leave records of terminated employees properly reflect adjustments for payments of accrued leave time at termination and that all calculations for payments at termination are reviewed for correctness.** This recommendation has been resolved.
- **The Department should improve controls over the record keeping relative to accrued leave time to ensure that employees’ accrued leave balances properly reflect accrued leave hours used and, if applicable, reimbursed by employees while on Workers’ Compensation, and to ensure its compliance with the guidelines set forth in the Department’s “Workers’ Compensation Manual”.** Our current review did not reveal any internal control deficiencies relative to the record keeping for the use of accrued leave time and/or the reimbursement for leave time used by employees on Workers’ Compensation. Therefore, we will not repeat this recommendation.
- **DAS should ensure that control procedures are implemented to both verify and monitor the existence of insurance coverage with respect to vendors for Statewide and agency-specific contracts prior to the awarding of such contracts.** This recommendation will be repeated. (See Recommendation 6).
- **The Department should implement procedures to ensure that all open market contracts are awarded to the lowest responsible qualified bidders, in compliance with Section 4a-59, subsection (c), of the General Statutes.** Our current review did not disclose a repetition of the condition found in the previous audit. 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 number of inspections during the audited period declined from a minimal number in fiscal year 2002 to zero in 2003. Therefore, this recommendation will be repeated. (See Recommendation 7).
- **The DAS should review the usage of its permanently assigned State owned vehicles to ensure that the vehicles are being used in the most efficient and effective manner, and should, where possible, return underutilized vehicles to Fleet Operations.** This recommendation will be repeated in modified form. (See Recommendation 12).
- **DAS should improve its internal control policies and procedures in order to ensure the prompt billing, collection, and periodic evaluations of amounts due to the State, and to ensure its compliance with Section 3-7 of the General Statutes when accounts are deemed to be uncollectible.** Our current review did not disclose a repetition of most of the conditions found in the previous audit. However, our testing found a number of instances in which accounts receivable write-offs were made without evidence of proper approval and/or supporting documentation. The recommendation will be repeated in modified form. (See Recommendation 16).
- **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*.** The condition remained unchanged during the audited period. The recommendation will be repeated. (See Recommendation 9).
- **The Department should improve its controls related to personal service agreements to ensure that the contractors comply with all of the provisions of the agreements.** This recommendation has been resolved.
- **The Department should improve its controls over the use of Purchasing Cards to ensure that its employees use such cards in compliance with the requirements of Section 4-98, subsection (c), of the General Statutes and the guidelines set forth in the *State of Connecticut Purchasing Card Program Cardholder Work Rules*.** Our current review found no instances where the Purchasing Cards were not in compliance with the established guidelines. Therefore, this recommendation will not be repeated.
- **DAS should improve controls to ensure that all recorded expenditures are reconciled with the State Comptroller's records in compliance with the *State Accounting Manual*.** This recommendation is no longer applicable due to changes in the State's accounting system.
- **DAS should improve its control procedures to ensure that petty cash funds are properly used and safeguarded.** Our review found no repetition of this prior audit condition. The recommendation will not be repeated.

- **The Department should improve its internal controls to ensure that all receipts are recorded in the cash receipts journal when received, that the required monthly reconciliations of the open pending receipts account are performed, that the annual report on the reconciliation of Agency Fund 7013, “Funds Awaiting Distribution,” is prepared and submitted to the State Comptroller, and that the required accountability reports are periodically prepared, where feasible, in accordance with the requirements of the State Comptroller’s *State Accounting Manual*. Most of the elements of this recommendation have been addressed. However, the Department does not have receipts journals to account for all checks that enter the Department. Therefore, that element of this recommendation will be repeated in modified form. (See Recommendation 10).**
- **The Agency should reconcile the General Services Revolving Fund accounts receivable subsidiary accounts to the respective control accounts on a regular basis. This recommendation is not being repeated.**
- **DAS should ensure that the General Services Revolving Fund financial statements submitted as a component of its GAAP reporting to the State Comptroller contain accurate and complete information. This recommendation is not being repeated.**
- **DAS should ensure that its methodology for allocating the overhead cost relative to the Department of Administrative Services Revolving Fund activities is in compliance with Federal guidelines and properly reflects the actual costs of resources used. The amount of overhead allocated to the Revolving Fund is no longer material. We do not consider it cost beneficial to conduct time studies on the employees allocated to the Revolving Fund, as those studies are unlikely to result in a significant adjustment to the overhead charge. Finally, we note that the Revolving Fund has had significant operating losses over the last five fiscal years. As such, it appears that the rates charged by the Department for vehicle usage are not recovering the actual cost of resources used. For these reasons, this recommendation is not being repeated.**
- **The Department should conform to all relevant generally accepted accounting principles in the maintenance of accounting records. In addition, the Department should establish procedures to ensure that accounts receivable records are maintained on a current and accurate basis, and that the cancellation of amounts greater than one thousand dollars are properly authorized in compliance with Section 3-7, subsection (b), of the General Statutes. This recommendation has been substantially addressed. However, our testing found a number of instances in which accounts receivable write-offs were made without evidence of proper approval and/or supporting documentation. Therefore, the recommendation will be repeated in modified form. (See Recommendation 16).**

- **DAS should continue to work with the appropriate social service agencies involved in the collection process to establish procedures that will both minimize delays in the receipt of attendance data and allow prompt correction of known billing errors. In order to compensate for any built-in deficiencies, DAS should utilize a database system to track psychiatric visits on a current basis to request the required authorizations as the visits occur.** A comparable recommendation has been included in the last several 2-90 Audit Reports for the Department of Mental Retardation, which is the source of most of the delays. Enforcement action must take place at the source agencies in order to resolve this condition. We will continue to refer any noted delays to the audits of the originating agencies. Therefore, this recommendation will not be repeated for this Department.
- **The Department should implement adequate internal control procedures to ensure that the required bank reconciliations are completed and that all reconciling items are identified and corrective action taken in a timely manner.** This recommendation has been substantially resolved.

Current Audit Recommendations:

1. **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.**

Comment:

Our sample testing found that Durational Project Managers and Customer Service Program Developer positions had been extended without supporting documentation to confirm that the Commissioner of the Department of Administrative Services had approved the extensions. Also, the Core-CT Human Resources Management System has not been equipped with a dynamic position end date field to provide control over the duration of such positions.

2. **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.**

Comment:

The Quality Control Committee has not met since 1991.

- 3. 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.**

Comment:

The Department has not established standards for its external Human Resource Investigations with regard to record keeping and documentation of evidence used to support findings and conclusions. Also, there were no standards in place over reporting as to format, required approvals and dissemination of the reports.

- 4. 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.**

Comment:

The Department has not established and applied formal, written clearance procedures for separating employees nor has it established such guidelines for the State. Departing employees may not be made aware of legal and ethical restrictions concerning future business dealings with the Departments that had previously employed them.

- 5. DAS should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 80-1, Section 2, as amended, 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.

- 6. 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.**

Comment:

The DAS Procurement typically awards contracts stating that vendors must supply evidence of insurance to using agencies. Controls would be enhanced and duplication of effort eliminated if DAS assumed responsibility for verifying the adequacy of insurance coverage for both Statewide and agency-specific contracts.

- 7. The Department should improve its controls over the inspection and testing of fuel oil to ensure that it efficiently and effectively enforces the standard specifications as set forth in the related contracts.**

Comment:

The Department's inspections and testing of fuel oil purchases were not being performed on a routine basis. Although 35 vendor paid tests are allowed, we found that only 8 samples of fuel oil were inspected and tested during fiscal year 2002 and none were performed during fiscal year 2003.

- 8. The Department should establish a logging system to track agency complaints and to document their resolution.**

Comment:

Our review of 25 complaints received by the Department found no documentation for 18 of the complaints to verify that they were addressed, resolved and communicated to the complainant in a timely manner. Further, the complaints were not numbered and logged into a centralized system for tracking by staff and management.

- 9. 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*.**

Comment:

The Department failed to maintain a current updated inventory of installed software applications. An annual software inventory report is not prepared and a physical inventory is not performed at the end of each fiscal year.

- 10. 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.

- 11. DAS should take the necessary steps to gather the mileage information necessary to effectively monitor the vehicles within Fleet Operations.**

Comment:

Our review of the Department's "Missing Mileage Report" for the month of June 30, 2002, found 173 or 5 percent missing reports out of approximately 3,776 fleet vehicles. For June 30, 2003, there were 276 or 8 percent missing reports, out of approximately 3,614 fleet vehicles. The missing report rate increased to 22 percent in June 2004. In the absence of monthly mileage reports, it is possible for State vehicles to be used for unauthorized purposes and not be detected and/or be underutilized.

- 12. 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.**

Comment:

There were 468 (13 percent) vehicles from an active fleet of approximately 3,709 vehicles that were utilized below 500 miles per month. The Department has not conducted a recent periodic reassessment of assigned vehicles to ensure their proper use and full utilization. Accountability reports are limited to miles driven. 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.

- 13. 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.**

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, the State is functionally noncompliant with the Federal regulations concerning the percentage of alternative-fueled vehicles required in the State motor vehicle fleet. There are only a few alternative fuel stations available within Connecticut to service those vehicles.

- 14. The Department should take the necessary steps to ensure that the General Services Revolving Fund operates on a breakeven basis over time.**

Comment:

The Department's General Services Revolving Fund has experienced a significant decline in fund balance and net operating losses over an extended number of years.

The General Services Revolving Fund balance has declined from \$21,141,859 in fiscal year 2000 to \$14,244,094 in fiscal year 2003. The Fund balance has continued to decline subsequent to the audited period. The continuous operating losses may erode the General Services Revolving Fund's ability to fully and effectively satisfy its mission objectives.

- 15. 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.**

Comment:

The depreciation methodology used by the Department's General Services Revolving Fund does not consider salvage value in the equation. As a result, the Department's General Services Revolving Fund Financial Statements have been overstated for depreciation expense, accumulated depreciation and gain on sales of fleet vehicles.

- 16. 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.**

Comment:

Our testing found a number of instances in which accounts receivable write-offs within the General Services Revolving Fund were made without proper approval and/or supporting documentation.

- 17. The Department should institute procedures to ensure that amounts due to the General Fund are released in a timely manner.**

Comment:

Our review found significant delays in the release of closed estate claim collections due to the General Fund. The Department withheld the release of monthly amounts due to the General Fund in seven instances totaling \$2,459,334 and eight instances totaling \$2,244,609 during the fiscal years ended June 30, 2002 and 2003, respectively.

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, 2002 and 2003. 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, 2002 and 2003, 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, 2002 and 2003, 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 establish receipts journals at each significant entry point for checks and to reconcile the receipts journals to the validated deposit information; the absence of clearance procedures for employees separating from State service; the need to institute an ongoing process to evaluate fleet size and composition to ensure proper utilization, the lack of utilization criteria that relates to the mission of those vehicles that are mission sensitive and the increase in the number of missing mileage reports; the need to address the significant decline in the fund balance of the General Services Revolving Fund due to net operating losses over an extended number of years; the need to develop procedures to ensure that write-offs are properly supported and approved by someone independent of the cash receipts function.

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 establish receipts journals at each significant entry point for checks and to reconcile the receipts journals to the validated deposit information; the need to institute an ongoing process to evaluate fleet size and composition to ensure proper utilization, the lack of utilization criteria that relates to the mission of those vehicles that are mission sensitive and the increase in the number of missing mileage reports.

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