

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF ADMINISTRATIVE SERVICES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007*

**AUDITORS OF PUBLIC ACCOUNTS**  
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February 8, 2010

**AUDITORS' REPORT  
DEPARTMENT OF ADMINISTRATIVE SERVICES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007**

We have made an examination of the financial records of the Department of Administrative Services (DAS) for the fiscal years ended June 30, 2006 and 2007. This report on the examination consists of the Comments, Recommendations and Certification that follow.

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

**COMMENTS**

**FOREWORD:**

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

**Office of the Commissioner:**

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

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

**Strategic Services:**

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

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

**Human Resources:**

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

**Procurement:**

The Department is charged with facilitating the purchase and provision of supplies, materials, equipment and contractual services, as cited in C.G.S. 4a-51 for executive branch State agencies. DAS carries out these functions through the Procurement Division by establishing State contracts and administering a variety of other related functions. Those other functions include: the Supplier Diversity Program, Surplus Property management, the Master Insurance Program, Contractor Prequalification Program, and the P-Card Program.

**Business Office:**

The Business Office's responsibility is to provide comprehensive financial services in the areas of budget, accounts payable, accounts receivable, purchasing, and property management to DAS and more than twenty small State agencies including the Governor's Office and the Lieutenant Governor's Office. It also provides accounting support to revenue-producing units and oversees the collection of delinquent accounts due to the State.

**Collection Services:**

The primary responsibility of a Collection Services Business Unit is to maximize revenue by investigating, billing and collecting for services provided by the Departments of Developmental Services, Mental Health and Addiction Services and Children and Families whose facilities and programs span the State.

**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
- Writing and designing DAS publications and news releases
- Media contact

**Fleet Operations:**

The Department is responsible for ensuring the efficient, cost-effective and orderly use of motor vehicles used for State business. The Department's duties with respect to its fleet of automobiles include: the purchase of motor vehicles, agency vehicle assignment, mileage report tracking, accident reporting and service and maintaining repair facilities.

**Executive Management:**

Linda Yelmini served as Commissioner of Administrative Services until December, 2006. Anne D. Gnazzo was appointed the successor Commissioner in January, 2007, and served in that capacity until her retirement in January, 2008. She was succeeded by Brenda L. Sisco.

**Significant Legislation:**

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

- *Public Act 05-251* – Section 60 of the Act, effective July 1, 2005, required the Department's Commissioner, in consultation with the Secretary of the Office of Policy and Management, to develop a plan to merge and consolidate personnel, payroll, affirmative action and business office functions for executive branch State agencies. The Act states that all executive branch State agencies may be considered in the development of this plan, but the specific agencies to be included shall be determined by the Commissioner of Administrative Services in consultation with the Secretary of the Office of Policy and Management.
- *Public Act 05-287* - Section 37 of the Act, effective July 1, 2005, required that agencies seeking a contractor for an award over \$500,000 provide a summary of State ethics laws to any person seeking the contract. The vendor must promptly affirm to the agency in writing that the summary was received and that key employees have read and understand the summary and agree to comply with the provisions of State ethics laws.

The Department may not accept a bid for a large procurement contract without such affirmation. Other sections of the Act pertain to contractor ethics and conflicts, reporting of ethics violations, and consulting affidavits.

- *Public Act 05-3* – Section 59 of the Act, effective September 1, 2005, required that all insurance companies authorized to issue liability policies in Connecticut notify the Department when an injury or death claim has been filed for a resident of the State. The Department will then have the opportunity to “match” the claimant lists against the State debtor lists, and more effectively pursue the established collection processes.
- *Public Act 06-84* – Section 1 of the Act, effective May 30, 2006, eliminated the requirement that workers’ compensation wage replacement benefits be reduced by an amount equal to the Social Security benefits to which the injured worker is entitled. An injured worker can receive both Social Security and workers’ compensation benefits with no reduction for any compensable injury that occurs on or after the Act’s effective date.
- *Public Act 06-134* – Section 8 of the Act, effective July 1, 2006, requires the Department to pre-qualify contractors before the University of Connecticut can apply its own prequalification requirements and process, which the Act modifies. Beginning January 1, 2007, the Act subjects the University of Connecticut to the Department’s prequalification requirements. Section 16 of the Act extended the prequalification requirement and process for public buildings to all State public works, except highway and bridge projects.

## **RÉSUMÉ OF OPERATIONS:**

### **General Fund:**

General Fund receipts for the 2005-2006 and 2006-2007 fiscal years, as recorded by the State Comptroller, totaled \$72,298,603 and \$66,831,835, respectively.

A summary of those receipts by category, as compared to the 2004-2005 fiscal year, is as follows:

|  | <u>Fiscal Year</u>         |                            |                            |
|--|----------------------------|----------------------------|----------------------------|
|  | <u>2004-2005</u>           | <u>2005-2006</u>           | <u>2006-2007</u>           |
| Recoveries of the costs of:              | \$                         | \$                         | \$                         |
| Public Assistance                        | 40,120,409                 | 43,978,756                 | 38,640,590                 |
| Hospitals                                | 19,629,678                 | 22,692,439                 | 22,212,232                 |
| Title IV-E and Non IV-E Programs         | 3,345,521                  | 3,298,839                  | 3,808,160                  |
| Other Receipts:                          |                            |                            |                            |
| Refunds of Expenditures from Prior Years | 1,698,781                  | 1,526,257                  | 1,220,981                  |
| Miscellaneous Recoveries                 | <u>890,572</u>             | <u>802,312</u>             | <u>949,872</u>             |
| <b>Total Receipts</b>                    | <b><u>\$65,684,961</u></b> | <b><u>\$72,298,603</u></b> | <b><u>\$66,831,835</u></b> |

The Collections Unit also performed claims submission for Federal Medicaid, Medicare, Social Security, private insurance and self pay program billings. Approximately, 95 to 97 percent of the total claims for both fiscal years under review were from the Medicare Title XIX program. 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 total claims of \$818,681,504 and \$801,612,540 for the fiscal years ended June 30, 2006 and 2007 from the following inpatient and outpatient medical assistance programs:

|   | <u>Fiscal Year</u>          |                             |
|---|-----------------------------|-----------------------------|
|   | <u>2005-2006</u>            | <u>2006-2007</u>            |
| Department of Developmental Services:               |                             |                             |
| Waiver  | \$421,114,919               | \$454,624,434               |
| Inpatient Care Facility                             | 254,391,408                 | 210,862,660                 |
| Birth to Three                                      | <u>9,146,802</u>            | <u>9,082,901</u>            |
| Total claims reported for DDS                       | <u>684,653,129</u>          | <u>674,569,995</u>          |
| Department of Mental Health and Addiction Services: |                             |                             |
| In-patient  | 17,931,480                  | 17,306,445                  |
| Out-patient   | 1,758,338                   | 1,511,192                   |
| Targeted Case Management                            | <u>11,537,005</u>           | <u>9,920,850</u>            |
| Total claims reported for DMHAS                     | <u>31,226,823</u>           | <u>28,738,487</u>           |
| Department of Veterans Affairs:                     |                             |                             |
| In-patient  | 12,252,093                  | 12,182,906                  |
| Out-patient   | <u>69,373</u>               | <u>1,961</u>                |
| Total claims reported for DVA                       | <u>12,321,466</u>           | <u>12,184,867</u>           |
| Department of Children and Families:                |                             |                             |
| In-patient  | 26,888,873                  | 23,326,410                  |
| Private Non-Medical Intuitions                      | <u>22,571,763</u>           | <u>22,284,506</u>           |
| Total claims reported for DCF                       | <u>49,460,636</u>           | <u>45,610,916</u>           |
| Department of Social Services:                      |                             |                             |
| School-Based Child Health                           | <u>41,019,450</u>           | <u>40,508,275</u>           |
| <b>Total Claims</b>                                 | <b><u>\$818,681,504</u></b> | <b><u>\$801,612,540</u></b> |

A comparative summary of DAS expenditures from General Fund appropriations for the fiscal years ended June 30, 2005, 2006 and 2007, is presented below:

|  | <u>Fiscal Year</u>  |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | <u>2004-2005</u>    | <u>2005-2006</u>    | <u>2006-2007</u>    |
| Budgeted Appropriations:               | \$                  | \$                  | \$                  |
| Personal Services                      | 33,177,349          | 37,152,668          | 40,844,828          |
| Contractual Services                   | 6,677,194           | 7,006,728           | 7,220,551           |
| Commodities                            | 192,894             | 167,100             | 177,486             |
| Sundry Charges                         | 108,375             | 303,125             | 233,990             |
| Equipment                              | <u>34,821</u>       | <u>57,473</u>       | <u>57,766</u>       |
| <b>Total General Fund Expenditures</b> | <u>\$40,190,633</u> | <u>\$44,687,094</u> | <u>\$48,534,621</u> |

A comparative summary of DAS expenditures from Other Fund types for the fiscal years ended June 30, 2006 and 2007, is presented below:

|  | <u>Fiscal Year</u>  |                     |
|--|---------------------|---------------------|
|  | <u>2005-2006</u>    | <u>2006-2007</u>    |
| Other Funds:                                   | \$                  | \$                  |
| Special Revenue – Workers’ Compensation Claims | 4,933,660           | 5,048,285           |
| Capital Equipment Purchase Fund                | 236,268             | 22,212              |
| Capital Improvements and Other Purposes        | 134,508             | 26,167              |
| Federal and Other Restricted Accounts          | <u>341,385</u>      | <u>337,963</u>      |
| <b>Total Special Revenue Fund Expenditures</b> | <u>\$ 5,645,821</u> | <u>\$ 5,434,627</u> |

**Workers’ Compensation Claims:**

In accordance with Section 4-77a of the General Statutes, appropriations for the payment of Workers’ Compensation awards were made directly to the Departments of Developmental Services, 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, 2005, 2006 and 2007, is presented below:

|                                      | <u>2004-2005</u> | <u>2005-2006</u> | <u>2006-2007</u> |
|--------------------------------------|------------------|------------------|------------------|
| General Fund:                        | \$               | \$               | \$               |
| Developmental Services               | 13,643,903       | 13,159,984       | 14,012,761       |
| Mental Health and Addiction Services | 8,684,805        | 9,414,076        | 11,987,036       |
| Correction                           | 22,492,222       | 22,500,218       | 23,933,876       |

|                         |                            |                            |                            |
|-------------------------|----------------------------|----------------------------|----------------------------|
| Public Safety           | 2,849,871                  | 3,553,625                  | 3,231,005                  |
| Children and Families   | 8,725,575                  | 9,523,275                  | 9,450,780                  |
| Administrative Services | <u>17,973,457</u>          | <u>19,128,489</u>          | <u>20,574,092</u>          |
| Total General Fund      | 74,369,833                 | 77,279,667                 | 83,189,550                 |
| Transportation Fund:    |                            |                            |                            |
| Transportation          | <u>3,946,874</u>           | <u>4,331,157</u>           | <u>3,885,296</u>           |
| <b>Total All Funds</b>  | <b><u>\$78,316,707</u></b> | <b><u>\$81,610,824</u></b> | <b><u>\$87,074,846</u></b> |

**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 account for the financing and billing of goods or services provided by the Department of Administrative Services to other departments and agencies. 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>2005-2006</u>             | <u>2006-2007</u>             |
|----------------------------------|------------------------------|------------------------------|
| Cash Balance, Beginning of Year  | \$(22,577,343)               | \$(34,428,127)               |
| Receipts                         | 28,588,093                   | 29,801,683                   |
| Transfers and Vouchers           | <u>54,759</u>                | <u>265,651</u>               |
| Total                            | 6,065,509                    | (4,360,793)                  |
| Disbursements                    | <u>40,493,636</u>            | <u>33,897,800</u>            |
| <b>Cash Balance, End of Year</b> | <b><u>\$(34,428,127)</u></b> | <b><u>\$(38,258,593)</u></b> |

For the fiscal years ended June 30, 2006 and 2007, net operating losses were approximately \$3,239,000 and \$1,905,000, respectively. The Revolving Fund’s reported fund equity as of June 30, 2007, was approximately \$6,880,000. The negative cash balance of \$(38,258,593) represents a liability on the Department’s Revolving Fund financial statements for amounts “Due to Other Funds.” The primary factors affecting the cash balance of the Department’s Revolving Fund were car pool purchases and vehicle rental rates charged to customer agencies.

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

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

The Commissioner of Administrative Services has designated the Collections Unit to act as trustee for the accounts of certain people, subject to the following criteria:

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 benefit providers. The primary distinction between accounts in this category and the other categories is that these accounts are the result of agreements while those in the Estate Administrator and Legal Representative categories have been designated by court proceedings.

Receipts for the Legal Representative Accounts in the Custody of the Commissioner totaled \$2,908,544 and \$4,341,395 during the fiscal years ended June 30, 2006 and 2007, respectively. Collections from claims against decedent estates to provide for the reimbursement of State costs, pursuant to Section 4a-16 of the General Statutes, amounted to \$2,857,247 and \$4,276,887 during the fiscal years ended June 30, 2006 and 2007. 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 \$51,297 and \$64,508 for the fiscal years ended June 30, 2006 and 2007, respectively.

Disbursements from the Legal Representative Accounts totaled \$2,730,383 and \$4,040,249 during the fiscal years ended June 30, 2006 and 2007, respectively. Disbursements for the reimbursement of State claims against decedent estates amounted to \$2,357,757 and \$3,134,591, during the fiscal years ended June 30, 2006 and 2007, respectively. Other categories of disbursements included funeral and burial expenses and expenses of last illness, pursuant to Section 17b-84 and Section 4a-16 of the General Statutes.

The Legal Representative Accounts' assets totaled \$2,205,338 and \$2,703,664 as of June 30, 2006 and 2007, respectively. The assets consisted of cash balances of \$1,010,875 and \$1,509,201 and investments of \$1,194,463 and \$1,194,463 in the Treasurer's Short-Term Investment Fund during the fiscal years ended June 30, 2006 and June 30, 2007, respectively.

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

The receipts for the Representative Payee Accounts' totaled \$9,995,506 and \$10,453,015 during the fiscal years ended June 30, 2006 and 2007, 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 \$85,660 and \$107,721 for the fiscal years ended June 30, 2006 and 2007, respectively.

Disbursements from the Representative Payee Accounts' totaled \$9,899,540 and \$10,424,412 during the fiscal years ended June 30, 2006 and 2007, 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, 2006 and 2007, totaled \$2,281,567 and \$2,310,171, respectively. These assets consisted of cash balances of \$286,951 and \$315,555 and total investments of \$1,994,616 and \$1,994,616 in the Treasurer's Short-Term Investment Fund during the years ended June 30, 2006 and 2007, respectively. For a related discussion on a noted deficiency involving the Department's cash accounting and bank reconciliation practices, please refer to the "Condition of Records" section of this report.

**Other Matters – Disclosure of Consolidated Agency Audit Recommendations:**

The Department of Administrative Services provides administrative functions for more than 20 agencies as a result of agreements with various agencies and several Public Acts. The Department provides personnel, payroll, affirmative action and business office functions for those consolidated agencies. The primary objective of the consolidation was to bring those administrative functions under one roof in order to achieve greater consistency and uniformity in the application of fiscal and personnel related rules, laws and regulations.

While the consolidated agencies had some or all of their administrative functions performed within the Department, they remained legally separate entities with their own management and appropriations. As such, they were subject to separate audit by the Auditors of Public Accounts in accordance with Section 2-90 of the Connecticut General Statutes.

Of interest to our current review are those consolidated agency audits with recommendations that involve the administrative functions performed by the Department. A review of those recommendations disclosed service provider related conditions that required or will require the combined efforts of the Department and their client agencies to resolve.

There were eight consolidated agency audits identified that had 20 recommendations associated with the administrative functions performed by the Department during the audited period. They are categorized as follows:

| <u>Category</u> | <u>Count</u> | <u>Type</u>   |
|-----------------|--------------|---|
| Inventory       | 6            | Numerous Property Control Errors; No Annual Software Report.<br>Failure to Submit the Annual Fixed Asset/Property Inventory Report<br>Failure to Keep Supplies and Software Inventory<br>Deficiencies Found in the Inventory Control System<br>Significant Errors in the Annual Fixed Asset/Property Inventory Report   |
| Payroll         | 3            | Medical Certification not on File.<br>Compensatory Time not Approved in Advance.<br>Employee Paid for Hours not Posted to Timesheet.  |
| Late Deposit    | 3            | Annual Fees Submitted Late.<br>Receipts not Recorded, Deposited and Accounted for in a timely manner.<br>Late Posting to the Core-CT System   |
| Expenditure     | 2            | Expenditures not in Accordance with State Accounting Manual.<br>Purchase Orders Prepared After Goods and Services Received.   |
| Other           | 6            | Not all Sections of the Annual Internal Control Assessment Completed.<br>Delayed Requests for Federal Reimbursement<br>Late Reimbursement to the General Fund; Lack of receipt reconciliation.<br>GAAP Reporting Form was Inaccurate and Unsupported.<br>Federal Financial Status Report was Prepared Inaccurately<br>Expenditures Incorrectly coded to a Federal Program |

Our prior audit report included a recommendation on the, “Planning for the Merger and Consolidation of Administrative Functions under Public Act 05-251, Section 60(c).” In part, we recommended that going forward, the Department should develop formal merger and consolidation plans for its small agency administration program that include clear benchmarks that can be used to measure cost savings against projections. While the Department did not formally address our recommendation, it has been rendered moot by changing fiscal circumstances and the actions of the General Assembly.

This was highlighted by the fact that the General Assembly’s fiscal year 2010 budget merged or transferred the administrative functions of another four agencies to the Department. This was accomplished without formally involving the Department in planning for the mergers or in the development of clear benchmarks for measuring cost savings against projections. Whether cost savings have been realized as a result of the many mergers and consolidations over the years cannot be supported as there has never been a formal analysis to both prove and quantify that supposition. A potential offset to any cost savings is the fact that the Department has experienced a significantly increased demand on its resources as a result of the mergers and consolidations. This demand is exacerbated by the effort required to resolve problems with the acquired administrative functions performed by the Department for those consolidated agencies.

**PROGRAM EVALUATION:**

**Employment Testing:**

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. For the audited period we judgmentally selected the area of Employment Testing for evaluation. Pursuant to information published by the Department of Administrative Services (Department), most jobs in the Executive Branch are competitive. The administration of employment examinations provides one accepted criterion for competitive evaluation. For many positions in the State of Connecticut the employment examination is the first criterion used to determine whether a candidate will be considered for additional phases in the employment process.

Since this activity could have a profound impact on hiring and promotional practices, our program review was designed to consider the policies, procedures and practices with respect to employment testing activities in light of applicable regulations and directives. Our review found weaknesses in the controls designed and implemented by the Department. We found that the primary information system utilized by the Department for the purpose of scoring examination answer sheets depends on outdated technology and cannot be easily updated or maintained. Additionally, we found multiple instances where duties were not sufficiently separated to reduce the risk that examination answer sheets could be altered by act or omission. Finally, we were not provided documentation detailing the continuous chain of custody of said examination answer sheets. Accordingly, we make the following recommendations:

**Employment Testing Application:**

*Criteria:* Development of an information technology based system should employ a systematic methodology. Said methodology should include steps to ensure that the developed system is useable, duplicable and sustainable. Such steps should include full technical and user documentation, disaster recovery plans, and a projected upgrade path. Steps should be taken to ensure that data is maintained in a secure fashion and that any changes to data are tracked, logged and monitored. When such systems are used to perform critical functions, the systems are typically developed and maintained by information systems professionals.

It is noted that in June of 2008, Governor M. Jodi Rell issued Executive Order 19 mandating that all State agencies comply with the Department of Information Technology (DOIT) "Policy for the Management of State Information Technology Projects." The DOIT policy calls for State agencies to employ a System Development Methodology (SDM) to "ensure that information systems developed by the State of Connecticut meet State and agency mission objectives, are compliant with the current and planned Enterprise-Wide Technical Architecture (EWTA), and are easy to maintain and cost-effective to enhance."

*Condition:* The software used for the scoring process was written and is maintained by the person who actually performs the scoring activity. That person is not an information technology professional by job description or training. The application was written in a computer language that is no longer typically used for development. The raw data file is maintained in an editable format, which allows changes to be made without tracking or monitoring. Untracked changes to the raw data file are made routinely. The software must be run on an older technology computer utilizing an operating system that is no longer supported by the vendor.

No user documentation was provided. The only technical documentation mentioned by the employee who wrote the program are comments embedded within the code. No upgrade path was provided; the employee who wrote the program stated that there was currently no upgrade path under consideration.

*Effect:* The Department is at risk that, should the system presently in use fail, employment test scoring would need to be conducted using less accurate and efficient means, such as hand scoring. The likelihood of such a catastrophic system failure increases significantly with the passing of time. Allowing untracked direct editing of the raw data file could also allow unauthorized or unintended changes to occur to the data and could impact overall test results and ranking of candidates.

*Cause:* The Department did not sufficiently allocate the necessary and appropriate financial and technical resources to ensure that employment test scoring was conducted in the most efficient and effective manner possible. The Department did not take the necessary steps to ensure that the raw data file containing the results of scoring could not be directly edited.

*Recommendation:* The Department should engage in the activities necessary to update the information system used to score employment test answer sheets such that said systems are no longer dependent upon outdated and unsupported technology. All such update activities should employ a System Development Methodology (SDM) to ensure that the new system meets State and agency objectives, is compliant with current and planned Enterprise-wide Technical Architecture (EWTA), is easy to maintain, and is cost-effective to enhance.

Any required editing should be accomplished through the use of a separate software routine that tracks such changes and records both the user who makes the change and the authority under which such changes are made.

Finally, the updated system should be useable, duplicable and sustainable, should include full technical and user documentation, should include a disaster recovery plan, and should include a projected upgrade path. (See Recommendation 1.)

*Agency Response:* “We agree with the recommendation and DAS will pursue remedies when funding and other necessary resources become available.”

**Employment Testing Procedures:**

*Background:* State employment examinations at a minimum consist of multiple choice questions. Candidates enter their answers on a form by filling in bubbles with a pencil. The candidate’s identifying number for the examination is also entered in this manner.

Examinations are proctored by a Department employee. At the conclusion of the examination the answer sheets and test booklets are collected by the test proctor then stored in a room with limited access until scoring may be performed. Scoring is performed using a personal computer with an attached scanner. Scoring is not typically performed on the day of testing.

*Criteria:* Good business practice requires that duties are segregated for sensitive processes such that no single staff member has sole control over any area or areas that may substantially or directly impact the outcome. Good business practice further requires some form of management review or other monitoring activity to allow for ongoing assessment of risk and continued process improvement.

Sensitive documents, such as completed employment testing answer sheets should be maintained in a manner that is as secure as possible. Transportation of such documents should be accompanied by some form of documentation showing a continuous and traceable chain of custody. Modification of such documents should only occur in extreme circumstances and should require documented management approval by someone other than the person making the modification.

*Condition:* We found that the Department had not sufficiently implemented separation of duties for two distinct roles in the employment testing process. Proctors administer examinations, collect answer sheets and test booklets, and transport the completed answer sheets to a secure location. Examination administration coupled with collection and transportation of answer sheets gives the Proctor sole control over this area of the process. No continuous, traceable chain of custody currently exists. The Department does not take an active role in monitoring this activity.

The Exam Scorer wrote and maintains the scoring software currently in use, loads the exam key into the system, scans the completed answer sheets, makes marks or erasures on answer sheets rejected by the scanner, edits the raw data file, maintains the reporting system, and creates ad hoc reports. This collection of responsibilities imbues the exam scorer with what amounts to sole control over this area. There is no process in place to document the modifications made to examination sheets and the Department has not taken an active role in the monitoring of this activity.

No documentation concerning ongoing assessment of risk or continued process improvement was made available to us.

*Effect:* The Department is at an increased risk that acts or omissions that could detract from the integrity of the process would not be prevented or detected.

*Cause:* The Department did not ensure that no single staff member had sole control over any area or areas that may substantially or directly impact the outcome of employment examination activities.

With regard to the role of Proctor, examination administration was not separated from examination custody and transportation; the responsibilities were not divided among two or more different people.

With regard to Exam Scorer, the activities of software development and maintenance, including the reporting system and ad hoc reporting, were not separated from scanning; the responsibilities were not divided among two or more different people who do not have exam administration or custody and transportation responsibilities as noted above. The raw data file was maintained in an editable format, which allowed changes to be made without tracking or monitoring.

*Recommendation:* The Department should ensure that no single staff member has sole control over any area or areas that may substantially or directly impact the outcome of employment examination activities.

The activities currently contained within the role of Proctor should be divided among two or more people as noted above. The activities currently contained within the role of Exam Scorer should be divided among two or more people who do not have responsibilities for any activities that are currently associated with the role of Proctor as noted above. Additionally, some form of overall management review or other monitoring should be integrated into the control structure. (See Recommendation 2.)

*Agency Response:* “We agree with the recommendation. Budget rescissions severely curtailed the staff DAS could make available to monitor examinations and be part of the chain of custody of examination materials but some changes to operational procedures have already been made by management even with reduced staffing. As the budget picture improves, we will give full consideration to having more individuals involved with the control over examination activities.”

## CONDITION OF RECORDS

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

The following recommendation describes a condition that extends beyond a single operational area. The recommendation describes the need to identify operational and financial risks on an ongoing basis and to take steps to mitigate those risks. The continual process of risk assessment and mitigation expands in importance as the Department's operations grow in size and complexity.

#### **Risk Management:**

- Criteria:* Sound business practice dictates that risks must be managed through a system of controls. Effective risk management requires that risks be identified through an ongoing risk assessment process undertaken by staff skilled in such processes, that a plan is developed and implemented to mitigate identified risks, and that the implemented plan elements be monitored and reviewed to determine their level of success. The information obtained through this process may then be fed into the risk assessment process to determine if plan modifications are required.
- Condition:* The Department does not have a dedicated and ongoing risk assessment and mitigation function nor does it have formal monitoring procedures in place.
- This condition is evidenced by the number of repeat and new recommendations included in this and prior audit reports.
- Effect:* The Department is exposed to a higher risk that it will not achieve its operational objectives. Risks that could have been anticipated and avoided by periodic assessments may result in operational ineffectiveness, additional costs and liabilities and exposure to fraud.
- Cause:* The Department does not have a formal, dedicated risk assessment and mitigation function. The necessary and appropriate resources were not allocated by the Department to ensure that a risk assessment and mitigation process was performed during the audited period.
- Recommendation:* The Department should develop or acquire a formal risk assessment and mitigation function with the objective of identifying and addressing those risks that could negatively impact on its operational objectives. The risk assessment and mitigation function should be independent, formal, and ongoing. (See Recommendation 3.)

*Agency Response:* “Part of the duties of DAS’s division directors and legal staff include updating policies, systems and processes when concerns are identified in DAS business units to ensure that all legal mandates and operational objectives are met. However, it is true that DAS does not currently have staff that is dedicated to providing risk assessment or auditing functions. Such functions are not statutorily mandated for the agency, and DAS has not had the resources to establish such a unit. Nonetheless, DAS has been assessing whether an internal audit/risk management function can be introduced into DAS operations using existing staff, and whether such functions can be accomplished within our job classification structure.”

### **Physical and Electronic Security of Assets:**

The recommendations found in this section address the complementary controls of physical and electronic security of assets. When applied to the recommendations in this section, physical security refers to the protection of the buildings, rooms and the contents thereof. Data security describes the means of ensuring that data is kept safe from loss or corruption while stored or transmitted and that access to the data is adequately controlled.

### **Data Security:**

*Background:* In our prior audit we illustrated the condition by relating two instances where personal information was inadvertently made available on the Department’s website. As we noted at that time, the Department addressed the weaknesses promptly. However, our current audit testing revealed an additional weakness through which personal data could become inadvertently available to unauthorized parties. Accordingly, we offer this recommendation amended as follows:

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

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

Connecticut General Statutes sections 4-190, 4-193 and 4-197 define personal data, describe minimum record keeping procedures and outline the penalties that may be due an “aggrieved person” if damages arise from a failure to meet said provisions. The penalties may include declaratory judgment and/or civil action for damages.

*Condition:* The Department has neither developed nor implemented a formal, written personal data protection policy that is sufficient to keep pace with the growing area of data deemed restricted and the increasing impact of the potential release of such data.

Our review revealed that collections information, including information that is considered personal data, is transferred to third-party collection agencies for resolution. The file utilized for the transfer is a plain text file to allow the vendor flexibility in importing the data into their proprietary system. However, a plain text file is the least secure file format in common use. Furthermore, the transfer protocol used is FTP (File Transfer Protocol). Although passwords are used, the protocol itself is not secure.

Finally, there is no monitoring of the vendor's computing environment. For the audited period there was no contractual requirement for the vendor to maintain a secured computer environment. Language has been added to more recent contracts to address this issue; however, without monitoring it is not known whether the vendor is compliant with the new contract language.

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

*Cause:* Some of the key elements missing from the Department's internal controls that are typically present in such a policy include but are not limited to:

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

*Recommendation:* In order to remain proactive and to better ensure continued compliance with statutory requirements, the Department should develop formal written procedures for personal data security that includes, at a minimum, identification of a person whose role will include sufficient positional authority to develop and enforce the Department's compliance procedures, increased controls over sensitive data and the protocols used to transfer said data when necessary, and a periodic review of the personal data under its control. (See Recommendation 4.)

*Agency Response:* "DAS is currently developing a formal, written personal data protection policy that will include the key elements identified in this finding. As mentioned in the "Condition" section above, DAS has already added language to its vendor contracts to ensure that each vendor's computing environment is monitored and securely maintained. Additionally, DAS plans to issue a new Request for Proposals ("RFP") for private collection agency services in September 2009, and language has been added to that RFP (and will be part of the resulting contract that is awarded) to ensure that data and the transfer protocol is secure."

**Physical Security of Delinquent Accounts Room:**

*Background:* The Delinquent Accounts Recovery Unit (Unit) facilitates the recovery of State funds typically from benefit payments made in excess of eligibility. The Unit uses multiple systems to track accounts and manually processes payments in their offices. For the audited period, the Unit processed approximately 25,000 check payments totaling in excess of \$125 million.

*Criteria:* Sound business practice suggests that areas where payments are processed should be physically secured and that access to those areas should be limited to authorized personnel and monitored in some fashion. Typically, installations of this nature are secured at a minimum by card key access and monitored electronically.

*Condition:* The suite that houses the Delinquent Accounts Recovery Unit is secured by a door that is locked only during non-business hours. There is no access monitoring of any kind for the primary point of entry. Further, there are additional potential points of access that are unmonitored and may be inadvertently left unlocked.

*Effect:* The Department faces unnecessary risk of loss of funds and/or data.

*Cause:* The Department did not sufficiently plan or implement controls to address the potential risks associated with this function.

*Recommendation:* The Department should implement improved physical access control procedures to the Delinquent Accounts Recovery Unit to ensure that such access is limited to authorized personnel, monitored in some manner, and that the possibility that additional points of access may be inadvertently left unlocked is greatly reduced. (See Recommendation 5.)

*Agency Response:* “DAS agrees that physical access to the Delinquent Accounts Recovery Unit should be limited. Therefore, currently when staff is in the office, only one door may be entered and all the other doors remain locked. Further, if all employees are gone at any time during the day, all doors into the office are locked. Additionally, the Department is looking into other ways to secure the area within available resources, such as using fobs or proximity cards or moving the employees to other locations in DAS that have controlled access.”

**Security Over Data Recorded Physically:**

*Criteria:* The personal data of employees required by employers should be held in the most secure manner possible. Further, such data should only be collected when necessary to reduce the risk of exposure or loss.

*Condition:* We requested “Dual Employment Request Forms” for a sample of employees as part of our audit test activities. This particular form contains, among other information, the employee’s social security number and home address. We were informed that the box containing the forms we were seeking along with many other forms of this type could not be located. We were further informed that this box of forms had not been located since the last time the business unit relocated.

Additionally, since the data was collected in association with Dual Employment, it appears that such collection was redundant and, therefore, unnecessary.

We note that prior to the completion of our audit testing period the missing documents were found. The documents had been misplaced in a different secured storage container.

*Effect:* The Department is at increased risk of exposure of sensitive information through the unnecessary collection and storage of potentially sensitive information.

*Cause:* The Department did not adequately identify and assess the potential risks involved with duplicate collection of potentially sensitive data.

*Recommendation:* The Department should consider the redesign of its forms such that sensitive data is collected only when absolutely necessary. (See Recommendation 6.)

*Agency Response:* “We agree with the recommendation.”

**Approval and Monitoring of Privileged Core-CT Roles:**

*Criteria:* Sound business practice requires that the ability to change payroll and personnel data be restricted to only those employees whose direct job responsibilities require such access. Such access should be granted only after a review to determine that the employee for whom the access has been requested has the requisite responsibilities. Access granted over sensitive areas should be reviewed to ensure that employees with such access continue to have job responsibilities that require it.

*Condition:* Our testing showed that 45 DAS employees either had the agency level right to change payroll data, the right to change personnel data, or both in the Core-CT system. The Core-CT access grantor stated that access is granted based on the line manager’s request without further review. The Core-CT access grantor further stated that no monitoring is conducted after Core-CT roles are granted.

The population includes managers, administrative assistants, Core-CT Team members, and employees who work in business units outside of Human Resources and Payroll. Employees may have access beyond that which is necessary to fulfill their job responsibilities.

It is noted that, between July and September 2008 and prior to the conclusion of our field work, the Department took corrective action to address the access rights of the 45 DAS employees mentioned. Further, the documentation provided showed approval by a designated approver rather than a line manager as we were originally informed. However, our follow up interviews with designated personnel indicated that no additional monitoring activities had taken place and that none were scheduled.

*Effect:* The State remains at increased risk of liabilities that may arise out of unauthorized or inappropriate changes made to employee records through user rights granted to those who do not need them and/or retained by those who no longer need them.

*Cause:* The Department has not implemented a continuing periodic monitoring and review procedure with regard to roles that have the ability to make changes to payroll or personnel records.

*Recommendation:* The Department should take the necessary steps to develop and implement a continuing periodic monitoring and review procedure with regard to roles that have the ability to make changes to payroll or personnel records at any level to ensure that said roles remain required by those to whom they are granted. (See Recommendation 7.)

*Agency Response:* “We agree with the recommendation.”

**Segregation of Duties Over Payroll and Personnel:**

*Criteria:* Sound business practice requires that the ability to change payroll and personnel data be separated to the extent possible, such that no single employee has the ability to change both. Sound business practice further requires that access to electronic data systems should be only as necessary and commensurate with job responsibilities.

*Condition:* Our testing showed that 14 DAS employees had the agency level rights to change both payroll data and personnel data, in the Core-CT system. Of the 14 employees with both rights, it appears that six (43%) need neither right, three (21%) require the ability to make changes in personnel records alone, and three (21%) require the ability to make changes in payroll records alone. The remaining two employees (15%) perform system support roles for both payroll and personnel employees from all executive branch agencies; their access appears reasonable.

It should be made clear that the job descriptions of the employees do not indicate that those employees are required to make changes to both payroll and personnel data. The user rights of the employees in question indicate that those employees have the ability to make changes to both payroll and personnel data.

*Effect:* The Department is at increased risk that errant or otherwise unauthorized changes may be made to payroll and personnel records.

*Cause:* The Department did not adequately consider the implications of Core-CT data access rights when determining whether it had instituted proper segregation of duties over payroll and personnel.

*Conclusion:* Prior to the conclusion of our field work, the Department took the necessary steps to correct the condition. We offer no further recommendation.

**Procurement:**

The DAS Procurement Division provides bidding and contracting services for other State agencies through its web based contracting portal. It also is responsible for construction contractor prequalification, the supplier diversity program, the purchasing card program and other acquisition services. The recommendations in this section address two elements of the Department's procurement responsibilities: Waiver of competitive bidding requirements and the monitoring of purchasing authority granted to other agencies.

**Standardization Transactions:**

*Background:*

In the normal course of business, situations arise such as emergencies or unusual market conditions wherein it may be in the best interest of the State to waive the statutory requirements with regard to competitive bidding. Unusual market conditions may include instances where only one business entity provides the type of goods or services required, or where the goods or services required must be used in conjunction with other goods and services in use by the State. The Commissioner of the Department of Administrative Services is responsible to determine whether the best interests of the State are being met in waiving competitive bid or proposal requirements.

This responsibility implies that review activities be conducted to make that determination. Further, DAS is responsible to report on the waivers granted during the fiscal year. In many cases DAS must obtain final approval from the Standardization Committee.

For the audited period, the Department reported that approximately 180 transactions were approved representing approximately \$9.8 million. The Department stated that they only track requests that appear to meet the initial requirements; i.e. the goods or services requested exist in an unusual market condition or are required on an emergency basis. As a result, the number of waiver requests could not be determined.

*Criteria:*

Connecticut General Statute Section 4a-58(b) provides the Commissioner of the Department of Administrative Services the ability to waive competitive bid or proposal requirements where unusual market conditions or emergency situations exist. Typically, rights and abilities granted to a Commissioner by statute may be delegated; however, such delegation must typically be written and formal.

Sound business practice dictates that when review or monitoring activities are performed records of said activities are kept. Documentation and supporting materials should be kept to aid the reporting process.

Such materials should be made available to those with final approval authority to assist in their decision making process.

*Condition:*

We reviewed documentation associated with 14 approved waiver requests of the approximately 180 approved during the audited period. The Department reported the total for the approved transactions for the audited period as approximately \$9.8 million. Our recalculation of their figures revealed an isolated clerical error in one of their reports in the amount of \$2 million. The actual amount of approved transactions is approximately \$11.8 million.

Our review revealed the following exceptions:

- The waivers for all 14 transactions (100%) appear to have been granted at the Contract Team Leader level. There are no indications that the ability to waive the competitive bid process has been delegated to any staff members at that level.
- In five of the 14 transactions reviewed (36%) we found no supporting documentation indicating that a verification process had been undertaken by the Department. Each of the five transactions was in excess of \$50,000 and was forwarded to and approved by the Standardization Committee.
- In one additional case (7%) the documentation provided by the requesting agency and included in the file appeared to indicate that the waiver request should have been denied. The transaction in question was for an amount less than \$50,000 and was not forwarded to the Standardization Committee for approval.

*Effect:*

The effects are as follows:

- The Department appears to be in violation of Section 4a-58 of the Connecticut General Statutes in that waivers were granted by personnel who lacked the requisite authority.
- The effectiveness of the approval authority vested in the Standardization Committee has been compromised in that approvals have been granted without sufficient verification documentation.
- Based on the exceptions noted there is an indeterminate risk that waiver requests that should not be considered are, in fact, granted.

*Cause:* The documentation of justification verification was inconsistent. There was no documentation indicating that the waiver was actively granted by a person possessing such authority. As the documentation of justification verification is inconsistent, inconsistent information is provided to the Standardization Committee to aid in their approval decisions. Finally, the Department does not employ sufficient monitoring to detect or prevent the approval of waiver requests that should not be considered.

*Recommendation:* The Department should design and implement controls over Standardization Transactions such that the file includes documented evidence of the verification of the justifications provided by the requesting agency, the waiver is actively granted in writing by a person with the appropriate authority to do so, and that all documentation is forwarded to the Standardization Committee when such approval is required. Further, the Department should take the necessary steps to improve its monitoring efforts in this area. (See Recommendation 8.)

*Agency Response:* “DAS will address the issue where waivers of the bid process were granted by the Contract Team Leader by formally delegating the authority to waive the competitive bid or proposal requirements to the Contract Team Leaders. In the interim, the Director of Procurement Services and Programs will approve these waivers. This delegation has already been granted to her from the Commissioner.

While DAS Procurement regularly reviews and evaluates justifications provided to us by agencies seeking waiver of the competitive bid/proposal process, DAS will strive to provide improved documentary evidence to support these justifications for waiver of the competitive bid/proposal process.

The correlation between the lack of justification and the Committee approval is unclear to DAS, as the Committee members receive all the justification documents with their review package.”

**Monitoring of Authority Delegated under General Letter-71:**

*Background:* Connecticut General Statutes Section 4a-52a(e) provides the Commissioner of the Department of Administrative Services (DAS) the ability to delegate purchasing authority to other agencies and defines the criteria under which such delegation may be granted. The Department must submit a summary report to the Oversight Committee of the General Assembly annually each October.

The statute also requires the Department to undertake vetting and monitoring activities to help mitigate the risks of misuse or abuse of the authority delegated.

The Department created General Letter 71 (GL-71) to provide baseline guidance for agencies that exercise delegated purchasing authority. When making a purchase under delegated authority, such agencies must indicate which paragraph of GL-71 they are relying upon for justification. The letter contains language indicating that a blanket level of authority is conveyed through its application.

*Criteria:*

The pertinent criteria specified in the statute are separated into the areas of determination and monitoring as follows:

- The determination must be in writing and indicate how the delegation will achieve reduced costs or increased efficiencies and that the agency to which authority will be delegated has employees with sufficient experience and expertise.
- DAS must monitor each delegation through periodic review sufficient to determine violations in any provision of the original delegation or compliance with competitive bidding standards.

*Condition:*

With regard to the determination criterion, the Department could not provide copies of the written delegation determinations as specified in the statute for agencies citing GL-71 as authority for purchases. Further, the Department has not set forth the criteria that would indicate acceptable experience and expertise as mentioned in the statute. The Department could not provide documentation or evidence of any procedures implemented to accomplish the determinations as required.

With regard to the monitoring criterion, the Department could not provide documentation of any procedures, or evidence of any monitoring activities beyond the collection of attestation reports, for the agencies relying upon GL-71 as purchasing authority.

*Effect:*

In the absence of appropriate controls, the State is at increased risk that funds are being utilized inefficiently and that purchases are made by people without the proper experience and expertise.

In the absence of appropriate monitoring controls, the State is at increased risk that purchases are made in violation of statutes.

*Cause:* The Department did not implement controls sufficient to ensure that determinations of cost savings or increased efficiencies coupled with staff expertise for the agencies to which authority has been delegated have been carried out in accordance with the statute.

The Department did not design or implement procedures sufficient to ensure that monitoring activities are being conducted in accordance with the statute.

*Recommendation:* The Department should develop and implement the necessary procedures with respect to the delegation of purchasing authority to other State agencies. At a minimum those procedures should ensure that a determination of reduced costs or increased efficiencies coupled with requisite staff competence is made and recorded in writing, that monitoring activities are defined and scheduled on a regular basis and that such monitoring includes provisions for remediation and discipline as appropriate. (See Recommendation 9.)

*Agency Response:* “The Department has begun to develop and implement procedures for periodic GL-71 monitoring activities; additionally, after the monitoring activities are fully implemented, the Department will evaluate and determine what efficiencies or reduced costs have been achieved through such purchasing delegations. Further evaluation will be conducted on the best way to determine that requisite staff competencies are in place at agencies utilizing GL-71. When those determinations are made, it will be recorded in writing.”

**Business Office:**

The Business Office provides financial services in the areas of budget, accounts payable, accounts receivable, purchasing, and property management for the Department and administratively consolidated agencies (refer to the Other Matters section of this report for a related disclosure). The Delinquent Accounting Unit within the Business Office provides collection services for institutional and public assistance delinquent accounts receivable.

**Unsupported Trustee Cash Account Balances and Ineffective Bank Reconciliations:**

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

- Condition:* Our review of reconciliations prepared by the Department for its Representative Payee trustee bank account disclosed that the “agency” balance amount appearing on the reconciliations was not supported by detailed, subsidiary records. We noted that the average unsupported monthly cash balance of Representative Payee accounts, as claimed by the Department during the audited period, was \$292,979.
- Effect:* The Department is at increased risk of being unable to detect potential errors or fraud involving the cash resources of its Representative Payees.
- Cause:* The Department has been unable to determine the composition of the Representative Payee “agency” balance amount appearing on the reconciliations. The Department did not sufficiently consider, design or implement control systems for this activity.
- Recommendation:* The Department should continue to take further corrective action in order to support in detail the cash positions of its Representative Payee bank account. (See Recommendation 10.)
- Agency Response:* “The Central Accounting Unit continues to work with DAS-MIS on the database to reconcile the bank statement to the trust account system. They continue to move forward on this reconciliation. The MIS representative has been working on getting the monthly reporting part of the process working. The move to the MS Office 2007 platform caused issues that MIS has been working on as well.”

### **Accounting Controls Over Receipts:**

- Criteria:* The *State Accounting Manual* requires that a receipts journal be maintained by all agencies receiving money.

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, that person should then acknowledge delivery of said receipts.

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 prior 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.

This condition remained unchanged for the period under review.

*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 11.)

*Agency Response:* "DAS recognizes the requirements set forth by the State Accounting Manual regarding the handling of receipts. Because DAS is required to receive a large volume of checks from a variety of different sources in connection with a variety of different programs and agencies, a single centralized receiving and logging system is not feasible. In recognition of this fact, DAS has worked closely with its audit teams over the past several years to develop, implement and monitor alternative systems designed to safeguard DAS's daily receipts.

The efficacy of these systems has been demonstrated by the fact that the current auditor team has not identified any specific situation in which checks have been lost or deposit deadlines have been missed. DAS continually strives to improve its procedures relating to daily receipts in the context of its multi-faceted programs and responsibilities.”

**Inventory and Property Control:**

*Criteria:*

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

The Property Control Manual further states that all inventory data must be reconciled to the Core-CT Asset Management Module and that the reconciliation may be traced to source documents. Additionally, the Property Control Manual states that a “person should be assigned responsibility for each asset as the custodian”.

*Condition:*

A sample of 16 inventory items was selected from the Department’s inventory listing and/or from existing inventory and tested for the following attributes: location, item description, scan tag number, serial number and custodian. We found exceptions with ten of the 16 (63%) samples as follows:

- Six items did not have a custodian listed in the inventory report.
- One item was not included in the inventory report provided by the department.
- One item had two scan tags.
- One item had a serial number on it that did not agree to the inventory report.
- One item had an inaccurate description in the inventory report.
- A scan of the inventory report found many instances of missing information for the data fields for serial numbers and custodians. Additionally, we noted many instances of missing purchasing information (i.e. Core-CT coding) on the inventory report.

- Effect:* The inventory report does not completely and accurately reflect the equipment inventory at the Department. Without complete purchasing information and coding, it is not possible to determine whether all purchases were accurately included in asset management records. Further, it is not possible to determine whether the Department was compliant with all applicable laws and regulations concerning the disposal of those assets.
- Cause:* The Department did not adequately implement its process to ensure complete and accurate inventory record keeping. Further, the Department did not sufficiently monitor its inventory activity or make the appropriate corrections.
- Recommendation:* The Department should take the necessary steps to ensure that its inventory report completely and accurately reflects the equipment inventory for which it is responsible. (See Recommendation 12.)
- Agency Response:* “DAS will continue to improve and strengthen the steps taken to have complete and accurate equipment inventories. DAS agrees that there are items that did not have complete information but DAS Property Management has been working to correct and update all of the inventory reports and have made significant improvements.”

### **Collection Services – Recovery Unit:**

“The Collections Recovery Unit is responsible for collecting money due the State of Connecticut from decedent estates or the recipients of windfalls. Windfalls are described as unearned income/assets from lawsuits, personal injury insurance claims or inheritances.

When an individual applies for State aid either with the Departments of Social Services, Mental Health and Addiction Services, Children and Families, Developmental Services or has been sentenced to serve a term in jail by a Connecticut Court they are liable for the full amount of assistance received, cost of their care or cost of incarceration.

The Recovery Unit identifies individuals or their legally liable relatives who owe the State money and places a claim on the estate or lien with the attorney for the lawsuit/claim.”

### **Case File Recordkeeping**

- Criteria:* Sound business practice requires that agencies maintain complete and up-to-date case file records. Case file records should provide management with the tools necessary for fiscal control and oversight of the collection effort. The case files should include the necessary information to provide a clear and easy-to-follow audit trail of the collection activity.

Such information should include a summary of case file activity, a summary of collections and evidence of management oversight including approval of closed cases.

*Condition:* A review of 20 closed Recovery (Probate, Accident and Lien) case files found the following:

- Eleven of 20 (55%) case files did not contain a summary of collection efforts. Many of the case narratives that were present were incomplete.
- None (100%) of the case files contained a summary schedule of amounts collected by date, amounts outstanding or uncollectible and related explanations.
- None (100%) of the case files contained evidence of a supervisory case review and approval of case closure.

*Effect:* Without summaries of activity and collections, additional labor time is expended to reexamine case file content whenever the files are accessed. Without evidence of a supervisory review, it is not possible to determine whether management agreed with the collection efforts of the collection agent and/or approved of the closing of the case file. A premature or unauthorized closing of a case file could result in lost revenue to the State.

*Cause:* There was an inconsistent use of case file activity summaries by Collection Services. Collection Services did not require the use of a case collection summary schedule showing the date of amounts collected, outstanding amounts and amounts uncollectible. Further, Collection Services did not require evidence within the case file of a supervisory sign-off on collection efforts and approval of case file closings.

*Recommendation:* The Department should take the necessary steps to ensure that Collection Services case files include a summary of activity and collections. In addition, the case files should include evidence of management oversight and approval of closed cases. (See Recommendation 13.)

*Agency Response:* “DAS agrees with the finding. DAS recognizes the importance of case summary narratives and currently has been working toward developing more consistent documentation procedures. Based on this finding, DAS will implement a formal documentation process including narrative of case activity, collection summary schedules within each case record as well as evidence of supervisory approval of case handling.”

**Statewide Human Resources:**

The Department's Statewide Human Resources Management Unit conducts human resource planning, policy leadership and consultation with State agencies on human resource matters. It also manages the job classifications used for State workers and sets pay levels for State jobs.

**Annual Increases for MP 01 Managers**

*Background:* Section 5-198 of the Connecticut General Statutes exempts certain offices and positions from classified service. Those exempted positions include but are not limited to agency heads, officers appointed by the Governor and administrative heads of State agencies who are appointed by a board or commission responsible by statute for the administration of such departments or institutions.

Approved annual increases in compensation for executive branch employees excluded from collective bargaining are announced by the Department of Administrative Services through "E Item" notices.

*Criteria:* In accordance with Section 5-208 of the Connecticut General Statutes, the Commissioner of Administrative Services establishes compensation schedules for employees who are not members of any collective bargaining unit subject to the approval of the Secretary of the Office of Policy and Management.

Sound business practice dictates that the application of the compensation schedules by agencies and commissions should be uniformly applied and periodically monitored.

*Condition:* An audit performed by our Office of the Office of Consumer Counsel found, "annual increases were awarded in 2004, 2005, and 2006 to a manager in the MP 01 pay plan that were not supported by an E-Item. It appears that these were awarded in error." As a result, the manager appears to have been overpaid by approximately \$35,000 from October 2004 to April 2009.

The auditors on that engagement expanded their sample to include an additional 20 identified incumbents in the MP 01 pay plan. The expanded testing found an additional 11 managers from five different agencies and commissions that appear to have received annual increases in error between December 2003 and June 2008. The amount that appears to be in error based upon our review is approximately \$234,000.

Our auditor's review was not intended to be exhaustive in nature. There may be other incumbent and non-incumbents in the MP 01 pay plan that have similar errors.

*Effect:* It appears that incumbents in the MP 01 pay plan received annual increments in error. Unless corrected, those errors will continue to have a cumulative effect on base salaries for this group on a going forward basis. Any new errors in the application of the annual increases for the sample MP 01 incumbents will compound the matter.

*Cause:* There appear to be inconsistencies in the interpretation and application of the annual increases for those participants in the MP 01 pay plan. The "E Items" don't always indicate whether Annual Increases are specifically applicable to the MP 01 pay plan.

*Recommendation:* The Department should examine the salaries of current and former officers and managers in the MP 01 pay plan for errors in the awarding of annual increments and lump sum payments. Steps should be taken by the Department to recover any overpayments and/or reimburse for underpayments for such employees. The Department should perform periodic monitoring of agencies and commissions to identify and correct inconsistencies in the application and documentation of the annual increases. (See Recommendation 14.)

*Agency Response:* "DAS reviewed the classifications identified by the Auditors of Public Accounts and determined that no overpayments were made. Based on our analysis, we have determined the job class for a number of incumbents identified by the Auditors of Public Accounts were placed in the wrong labor unit.

The following job classifications were miscoded as labor unit '01' (Appointed Officials). These job classifications are similar to other managers in State service and the duties associated with this job classification meet the statutory definition of manager in accordance with CGS §5-270(g) and should be assigned to labor unit '02' (Managerial). Therefore, incumbents in the following job classes are eligible for PARS: Special Revenue Unit Head, Mediator (Board of Mediation & Arbitration), Labor Relations Agent, Administrator – SSM Fund, Assistant Administrator – SSM Fund. We will immediately revise these class specifications to indicate labor unit '02'.

The following job classifications are assigned to the 'MP' pay plan. After our review, we have determined these classes are most appropriately assigned to the 'EX' pay plan: Consumer Counsel, DPUC Chairperson, DPUC Vice-Chairperson, DPUC Commissioner, DPUC Executive Director, Employment Security Board Review Member. We will immediately revise class specifications for these job classes to include, "Incumbents in this class are subject to the policies governing appointed officials. Incumbents are not subject to Section 5-210 of the Connecticut General Statutes."

Eventually, we will recommend the Legislature change relevant statutes to remove reference to MP 71 and appropriately move the class to the EX pay plan thus avoiding future ambiguity."

*Auditor's Concluding  
Comment:*

Both the Auditor's recommendation and the Department's response where by necessity presented in a summary form as the documentation for both the recommendation and response is very detailed and complex. The Department's redetermination of job classifications for the MP-01 incumbents was done on an individualized basis. It is our understanding that as part of the final revision process, the Department will consider additional actions with regard to MP-01 incumbents who cannot be moved (if any) to an eligible classification.

## RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2004 and 2005, contained a total of 14 recommendations. Of those recommendations, 9 have been implemented, satisfied, or otherwise, regarded as resolved. The status of the prior recommendations is presented below.

*Prior Audit Recommendations:*

- **On a going-forward basis, the Department should implement controls that would ensure that its Estate Administrator is appointed the fiduciary prior to the acquisition of assets and that accounts are settled in a timely manner.** As a result of our prior audit recommendation, the Department discontinued exercising its authority under Section 4a-15. That is, the Department no longer seeks to have the Estate Administrator granted authority to settle a decedent's estate. Except for Legal Representative claims, the Department is in the position of creditor to the claim rather than an administrator and is not directly subject to twelve month settlement period. According to the Department, Legal Representative court orders do not impose a settlement period. This recommendation will not be repeated.
- **On a going-forward basis, the Department should develop formal merger and consolidation plans for its small agency administration program that include clear benchmarks that can be used to measure projected cost savings and/or compliance with the law. The Department should develop formal comprehensive checklists to clarify the administrative responsibilities undertaken by the Department on behalf of its client agencies.** The first part of the recommendation has been rendered non-actionable by changing fiscal circumstances. With respect to the second part of the recommendation, the Department has developed agreements in the form of Memoranda of Understanding with the consolidated agencies that detail their respective operational and administrative responsibilities. Therefore, this recommendation has been sufficiently addressed and will not be repeated.
- **DAS should establish clearance procedures for employees separating from State service on a Statewide basis and also apply those procedures to its own separating employees. Those procedures should ensure that State assets do not leave the possession of the State; that all outstanding obligations and financial indebtedness to the Department are recovered; and that appropriate exit conferences have been conducted.** Subsequent to the end of our audit period, the Department developed procedures to address the recommendation. Our extended testing found that the procedures had been implemented and were working properly. The recommendation has been addressed by the Department and will not be repeated.
- **DAS should implement control procedures necessary to ensure compliance with both its Management Personnel Policy No. 06-02 and its Department specific policies with respect to the authorization of compensatory time and overtime.** Our current review found no repetition of the condition that produced the prior audit recommendation. The recommendation will not be repeated.

- **The Agency should consider expanding the background investigations performed by the Department of Public Safety to include internal candidates for key management positions with direct fiscal responsibility and/or direct responsibility over assets susceptible to misappropriation.** The Department's efforts with respect to resolving this recommendation were sufficient. The recommendation will not be repeated.
- **The Department should immediately take corrective action in order to support in detail the cash positions of its Representative Payee bank account. Management should also review the preparation of all future reconciliations and document its approval of same.** This recommendation was partially addressed with respect to review and approval of the Representative Payee bank account reconciliations. However, our current review found that the Department continued to have no valid basis for supporting its claimed monthly cash positions. Therefore, this recommendation will be repeated in modified form. (See Recommendation 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.** Our current review found that there was no change in the condition that produced this recommendation. This recommendation will be repeated substantially unchanged. (See Recommendation 11.)
- **The Department should take the necessary steps to improve its performance in the area of inventory and property control. Such steps may include, but not be limited to, additional training for existing staff and / or redistribution of inventory responsibilities to better utilize specific expertise.** Our current testing found insufficient improvement in inventory and property control records. This matter will be repeated in modified form. (See Recommendation 12.)
- **The Department should take the necessary steps to ensure receipt of mileage reports in order to effectively monitor State vehicle usage. These steps may include the recall of vehicles and/or the suspension of agency motor pool privileges if State agencies fail to submit their mileage reports.** The Department has taken the necessary steps to substantially address this recommendation. The recommendation will not be repeated.
- **Utilization criteria should be developed to allow fleet usage to be evaluated with respect to both mileage and mission. The Department should develop an ongoing process to evaluate fleet size and composition to ensure proper usage and efficient utilization.** The Department has substantially addressed this recommendation. The recommendation will not be repeated.
- **DAS should take the necessary steps to fully comply with Section 4a-67d of the Connecticut General Statutes or seek statutory relief from those requirements.** The Department had sought statutory relief from Section 4a-67d but the Connecticut General Assembly did not fully act on their request. This matter was referred for possible inclusion in our Office's Annual Report to the Connecticut General Assembly as a technical change to the Connecticut General Statutes.

- **The Department should develop procedures to ensure that write-offs are properly tracked, supported by documentation, and reviewed and approved by an accounting director and/ or another person independent of the cash receipts function.** This matter was substantially rendered moot by a change in the Department's practice with respect to the write-off of non-performing accounts. Such accounts rather than being written-off are instead directed to the Department's Delinquent Accounts Unit for collection. As the condition that resulted in this recommendation no longer exists, the recommendation will not be repeated.
- **The Department should develop or acquire a formal risk assessment and mitigation function with the objective of identifying and addressing those risks that could negatively impact on its operational objectives. The risk assessment and mitigation function should be independent, formal, and ongoing.** This matter has not been resolved; therefore, the recommendation will be repeated. (See Recommendation 3.)
- **In order to remain proactive and to better ensure continued compliance with statutory requirements, the Department should develop a formal written procedure for personal data security that includes, at a minimum, identification of a person whose role will include sufficient positional authority to develop and enforce the Department's compliance procedures, and a periodic review of the personal data under its control.** Our review found that the Department has substantially addressed this particular data security condition. However, our current review did find other data security related conditions that have been included in this report. The recommendation will be repeated in modified form. (See Recommendation 4.)

*Current Audit Recommendations:*

- 1. The Department should engage in the activities necessary to update the information system used to score employment test answer sheets such that said systems are no longer dependent upon outdated and unsupported technology. All such update activities should employ a System Development Methodology to ensure that the new system meets State and agency objectives, is compliant with current and planned Enterprise-wide Technical Architecture, is easy to maintain, and is cost-effective to enhance.**

**Any required editing should be accomplished through the use of a separate software routine that tracks such changes and records both the user who makes the change and the authority under which such changes are made.**

**Finally, the updated system should be useable, duplicable and sustainable, should include full technical and user documentation, should include a disaster recovery plan, and should include a projected upgrade path.**

Comment:

The software employed by the Department for scoring State exams is maintained outside of its information technology unit by the employee who performs the scoring activity. The software lacks user documentation, was written in a computer language no longer used for software development and can not be run on upgraded hardware. The Department is at an increased risk that the exam scoring process is not sustainable with its current exam scoring software.

- 2. The Department should ensure that no single staff member has sole control over any area or areas that may substantially or directly impact the outcome of employment examination activities.**

**The activities currently contained within the role of Proctor should be divided among two or more people as noted above. The activities currently contained within the role of Exam Scorer should be divided among two or more people who do not have responsibilities for any activities that are currently associated with the role of Proctor as noted above. Additionally, some form of overall management review or other monitoring should be integrated into the control structure.**

Comment:

There was an insufficient separation of duties within the roles of each of the two key employees in the employment testing process. Also, the activities of those employees were not directly monitored or reviewed by management. These conditions decrease the effectiveness of the controls over the employment testing process.

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

Comment:

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

- 4. In order to remain proactive and to better ensure continued compliance with statutory requirements, the Department should develop formal written procedures for personal data security that includes, at a minimum, identification of a person whose role will include sufficient positional authority to develop and enforce the Department's compliance procedures, increased controls over sensitive data and the protocols used to transfer said data when necessary, and a periodic review of the personal data under its control.**

Comment:

The Department has not developed or implemented a formal, written personal data protection policy.

- 5. The Department should implement improved physical access control procedures to the Delinquent Accounts Recovery Unit to ensure that such access is limited to authorized personnel, monitored in some manner, and that the possibility that additional points of access may be inadvertently left unlocked is greatly reduced.**

Comment:

The Delinquent Accounts Recovery Unit processed approximately 25,000 check payments totaling in excess of \$125 million. The Delinquent Accounts Recovery Unit is located in a suite of rooms secured by a door that is locked only during non-business hours. Access to the room is not monitored.

- 6. The Department should consider the redesign of its forms such that sensitive data is collected only when absolutely necessary.**

Comment:

The Department collected sensitive information on a number of its forms. Some of this data was collected redundantly, increasing the risk of exposure of sensitive information.

- 7. The Department should take the necessary steps to develop and implement a continuing periodic monitoring and review procedure with regard to roles that have the ability to make changes to payroll or personnel records at any level to ensure that said roles remain required by those to whom they are granted.**

Comment:

We found that 45 DAS employees either had the agency level right to change payroll data, the right to change personnel data, or both in the Core-CT system. The rights were granted without subsequent monitoring. As a result, some employees may have access beyond the need of their position requirements.

- 8. The Department should design and implement controls over Standardization Transactions such that the file includes documented evidence of the verification of the justifications provided by the requesting agency, the waiver is actively granted in writing by a person with the appropriate authority to do so, and that all documentation is forwarded to the Standardization Committee when such approval is required. Further, the Department should take the necessary steps to improve its monitoring efforts in this area.**

Comment:

There was no documentation indicating that the waivers were actively granted by a person or persons possessing such authority. Not all transactions had supporting documentation indicating that a verification process had been undertaken by the Department. Inconsistent information was provided to the Standardization Committee compromising their approval process.

- 9. The Department should develop and implement the necessary procedures with respect to the delegation of purchasing authority to other State agencies. At a minimum those procedures should ensure that a determination of reduced costs or increased efficiencies coupled with requisite staff competence is made and recorded in writing, that monitoring activities are defined and scheduled on a regular basis, and that such monitoring includes provisions for remediation and discipline as appropriate.**

Comment:

The Department could not provide copies of the written delegation determinations as specified in the statute. Reviews regarding the provisions of delegated authority and the validity of the content of the reports submitted by agencies to which authority has been delegated are not being undertaken.

- 10. The Department should continue to take further corrective action in order to support in detail the cash positions of its Representative Payee bank account.**

Comment:

The Department has been unable to determine the composition of the Representative Payee “agency” balance amount appearing on the reconciliations. The Department did not sufficiently consider, design or implement control systems for this activity.

- 11. 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.

- 12. The Department should take the necessary steps to ensure that its inventory report completely and accurately reflects the equipment inventory for which it is responsible.**

Comment:

The Department did not adequately implement its process to ensure complete and accurate inventory record keeping. Further, the Department did not sufficiently monitor its inventory activity or make the appropriate corrections.

- 13. The Department should take the necessary steps to ensure that Collection Services case files include a summary of activity and collections. In addition, the case files should include evidence of management oversight and approval of closed cases.**

Comment:

Collection Services did not require the use of a case collection summary schedule showing the date of amounts collected, outstanding amounts and amounts uncollectible. Collection Services did not require evidence within the case file of a supervisory sign-off on collection efforts and approval of case file closings.

- 14. The Department should examine the salaries of current and former officers and managers in the MP 01 pay plan for errors in the awarding of annual increments and lump sum payments. Steps should be taken by the Department to recover any overpayments and/or reimburse for underpayments for such employees. The Department should perform periodic monitoring of agencies and commissions to identify and correct inconsistencies in the application and documentation of the annual increases.**

Comment:

Agencies and Commissions appear to be inconsistent in their interpretation and application of the Annual Increases for those participants in the MP 01 pay plan. The “E Items” are not always clear concerning whether Annual Increases are specifically applicable to the MP 01 pay plan.

## **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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2006 and 2007, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

In planning and performing our audit, we considered the Department of Administrative Services internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with

management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 3 – Lack of a Risk Assessment and mitigation function; Recommendation 4 – The need for formal written procedures for personal data security; Recommendation 7 – The need for approval and monitoring of privileged Core-CT Roles; Recommendation 8 – The need for documentation of the authority to grant waivers and documentation of the verification of the justifications.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following items to be material weaknesses: Recommendation 3 – Lack of a Risk Assessment and mitigation function; Recommendation 4 – The need for formal written procedures for personal data security.

### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Department of Administrative Services complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

The Department of Administrative Services' responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not

audit the Department of Administrative Services' responses and, accordingly, we express no opinion on it.

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

**CONCLUSION**

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