

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF ADMINISTRATIVE SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2008, 2009 and 2010*

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

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AUDITORS OF PUBLIC ACCOUNTS

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**AUDITORS' REPORT
DEPARTMENT OF ADMINISTRATIVE SERVICES
FOR THE FISCAL YEARS ENDED JUNE 30, 2008, 2009 and 2010**

We have made an examination of the financial records of the Department of Administrative Services (DAS) for the fiscal years ended June 30, 2008, 2009, and 2010. 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 operates primarily under the provisions of Title 4a, Chapter 57, of the General Statutes. A description of the major functions of the department for the audited period is presented below.

It should be noted that effective July 1, 2011, a significant agency reorganization took place which absorbed the functions of certain other agencies into DAS.

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
- 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, 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.

Communications 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:

Anne D. Gnazzo was appointed as the Commissioner of Administrative Services in January, 2007, and served in that capacity until her retirement in January, 2008. She was succeeded by Brenda L. Sisco, who served until May, 2010 and was succeeded by Dr. Martin W. Anderson; who served until January 2011 when Donald J. DeFronzo was appointed by Governor Dannel Malloy, and who currently serves as commissioner.

Significant Legislation:

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

- *Public Act 10-3* – Section 14 of the act gave DAS new authority to piggyback onto existing cooperative purchasing agreements that other state governments, political subdivisions, nonprofit organizations or public purchasing consortia have already executed. The effective date of this provision was April 14, 2010.
- *Public Act 09-184* – Section 3 of the act amends subsection (c) of Section 4a-59 of the General Statutes by defining a “micro business” and providing a price preference up to ten percent for competitive bidding purposes in determining the lowest responsible qualified bidder. The effective date of this provision was July 1, 2009.

- *Public Act 09-7 (September Special Session)* - Sections 24, 25, 31 and 139 of the act consolidated four agencies into DAS. Those agencies are the State Insurance and Risk Management Board, Office of the Claims Commissioner, State Marshal Commission, and the State Properties Review Board.

Section 157 of the act amends the definition of small estate in Section 4a-16 of the General Statutes, the statute that gives DAS the authority to administer small estates. Instead of establishing a specific dollar amount, the statute now links the definition of small estate in Section 4a-16 to the definition in Section 45a-273 of the General Statutes. The statute allows for the settlement of small estates without probate of will or letters of administration.

Section 158 of the act allows the DAS Procurement Division to post notices of bid solicitations for contracts in excess of \$50,000 on the State Contracting Portal, instead of requiring the publication of such notices in the newspapers.

Section 162 of the act eliminates the requirement that DAS post examination notices in newspapers. Instead, DAS is allowed to post such notices on the DAS website.

The effective date of these provisions was October 5, 2009.

- *Public Act 08-141* – Section 1 of this act, effective June 5, 2008, gives DAS and other contracting agencies the authority to use on-line reverse auctions, a new technique to award contracts for goods and supplies. Reverse auctions are on-line bidding events in which multiple vendors compete for business, with the primary objective of driving purchase prices downward. The act states that contracting agencies may use reverse auctions to award a contract for goods or supplies, as long as the agency determines that the use of reverse auctions is advantageous to the contracting agency and will ensure a competitive contract award.
- *Public Act 08-45* – This act prohibits the state from claiming or applying a lien against any money received as a settlement or award in a public accommodation discrimination case. Public accommodation discrimination cases include suits alleging that an individual was barred from a public place because of disability, race, religion, gender, or other classes protected under the law. Thus, DAS can no longer file a claim or lien against public accommodation discrimination cases to collect debts that arose either because an individual received care from a state humane institution, or because an individual received assistance from the State Supplement, Medicaid, Temporary Family Assistance, or State-Administered General Assistance programs.
- *Public Act 08-19* – Section 1 of the act amends the DAS purchasing statutes to allow the DAS commissioner to purchase IT services and other services through preexisting federal contracts.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts for the 2007-2008, 2008-2009 and 2009-2010 fiscal years, as recorded by the State Comptroller, totaled \$69,584,308, \$70,824,981 and \$67,488,259, respectively.

A summary of those receipts by category is as follows:

	<u>Fiscal Year</u>		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Recoveries of the Costs of:	\$	\$	\$
Public Assistance	42,395,655	40,495,058	38,512,963
Hospitals	22,002,889	25,938,255	23,966,359
Title IV-E and Non IV-E Programs	2,879,398	2,114,647	2,738,929
Other Receipts:			
Refunds of Expenditures from Prior Years	1,334,893	1,209,139	1,226,975
Miscellaneous Recoveries	<u>971,473</u>	<u>1,067,882</u>	<u>1,043,033</u>
Total Receipts	<u>\$69,584,308</u>	<u>\$70,824,981</u>	<u>\$67,488,259</u>

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 the three 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 \$820,685,446, \$1,555,168,413, and \$1,178,826,406 for the fiscal years ended June 30, 2008, 2009 and 2010, respectively, from the following inpatient and outpatient medical assistance programs:

	<u>Fiscal Year</u>		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Department of Developmental Services:			
Waiver	\$ 475,654,295	\$ 948,534,864	\$ 731,698,618
Inpatient Care Facility	213,012,187	456,087,489	246,091,071
Birth to Three	<u>9,188,122</u>	<u>9,365,027</u>	<u>38,962,820</u>
Total Claims Reported for DDS	<u>\$ 697,854,604</u>	<u>\$1,413,987,380</u>	<u>\$1,016,752,509</u>

Department of Mental Health and
Addiction Services:

In-patient	\$ 15,091,841	\$ 20,063,649	\$ 17,590,688
Out-patient	1,340,492	1,317,367	1,348,573
Targeted Case Management	<u>8,679,280</u>	<u>18,091,081</u>	<u>11,507,321</u>
Total Claims Reported for DMHAS	<u>25,111,613</u>	<u>39,472,097</u>	<u>30,446,582</u>

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Department of Veterans Affairs:

In-patient	<u>11,407,549</u>	<u>10,430,963</u>	<u>14,125,489</u>
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Department of Children and Families:

In-patient	24,504,180	29,833,998	24,026,441
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Private Non-Medical Institutions	<u>23,311,500</u>	<u>20,401,800</u>	<u>47,904,585</u>
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Total Claims Reported for DCF	<u>47,815,680</u>	<u>50,235,798</u>	<u>71,931,026</u>
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Department of Social Services:

School-Based Child Health	<u>38,496,000</u>	<u>41,042,175</u>	<u>45,570,800</u>
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Total Claims	<u>\$ 820,685,446</u>	<u>\$1,555,168,413</u>	<u>\$1,178,826,406</u>
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A comparative summary of DAS expenditures from General Fund appropriations for the fiscal years ended June 30, 2008, 2009 and 2010, is presented below:

	<u>Fiscal Year</u>		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Budgeted Appropriations:	\$	\$	\$
Personal Services	44,532,363	44,903,270	46,147,636
Contractual Services	7,540,824	6,955,597	18,860,057
Commodities	107,995	43,880	57,627
Sundry Charges	304,580	408,588	151,336
Equipment	<u>10,162</u>	<u>578</u>	<u>-</u>
Total General Fund Expenditures	<u>\$52,495,924</u>	<u>\$52,311,913</u>	<u>\$65,216,656</u>

A comparative summary of DAS expenditures from other fund types for the fiscal years ended June 30, 2008, 2009, and 2010, is presented below:

	<u>Fiscal Year</u>		
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Other Funds:	\$	\$	\$
Special Revenue – Transportation	4,191,500	4,958,043	8,985,661
Capital Equipment Purchase Fund	77,894	75,134	97,907
Capital Improvements and Other Purposes	-	167,686	-
Federal and Other Restricted Accounts	<u>32,290</u>	<u>186,385</u>	<u>265,397</u>
Total Special Revenue Fund Expenditures	<u>\$4,301,684</u>	<u>\$5,387,248</u>	<u>\$9,348,965</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, 2008, 2009, and 2010, is presented below:

	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
General Fund:	\$	\$	\$
Developmental Services	14,420,907	15,449,122	16,201,763
Mental Health and Addiction Services	10,748,533	11,861,205	12,128,927
Correction	24,129,839	26,629,796	32,084,597
Public Safety	2,939,716	4,377,764	4,475,689
Children and Families	9,226,216	8,386,899	9,698,917
Administrative Services	<u>23,371,746</u>	<u>24,172,602</u>	<u>27,065,795</u>
Total General Fund	<u>84,836,957</u>	<u>90,877,388</u>	<u>101,655,688</u>
Transportation Fund:			
Transportation	5,724,358	5,758,570	7,685,448
Motor Vehicles	<u>500,871</u>	<u>503,670</u>	<u>543,433</u>
Total Transportation Fund	<u>6,225,229</u>	<u>6,262,240</u>	<u>8,228,881</u>
 Total All Funds	 <u>\$91,062,186</u>	 <u>\$97,139,628</u>	 <u>\$109,884,569</u>

Department of Administrative Services Revolving Fund:

During the audited period, DAS administered the Department of Administrative Services Revolving Fund. This fund is authorized by Section 4a-75 of the General Statutes, and is used to 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>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Cash Balance, Beginning of Year	\$(38,258,593)	\$(40,267,273)	\$(42,450,238)
Receipts	32,451,957	32,106,389	28,305,963
Transfers and Vouchers	<u>207,663</u>	<u>(1,136,787)</u>	<u>(79,047)</u>
Total	(5,598,973)	(9,297,671)	(14,223,322)
Disbursements	<u>34,668,300</u>	<u>33,152,567</u>	<u>12,364,736</u>
Cash Balance, End of Year	<u>\$(40,267,273)</u>	<u>\$(42,450,238)</u>	<u>\$(26,588,058)</u>

For the fiscal years ended June 30, 2008 and 2009, DAS identified a net operating profit of \$2,628,901 and \$2,405,265, respectively. For fiscal year ended June 30, 2010, a net operating

loss of \$1,797,130 resulted. The revolving fund's reported fund equity as of June 30, 2010, was approximately \$10,988,539. The negative cash balance of \$26,588,058 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 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 \$3,527,028, \$4,972,074 and \$4,195,997 during the fiscal years ended June 30, 2008, 2009 and 2010, 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 \$3,478,597, \$4,962,800 and \$4,194,508 during the fiscal years ended June 30, 2008, 2009 and 2010, respectively. 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 \$48,431, \$9,274, and \$1,489 for the fiscal years ended June 30, 2008, 2009 and 2010, respectively.

Disbursements from the Legal Representative Accounts totaled \$4,458,135, \$5,256,547, and \$4,005,235 during the fiscal years ended June 30, 2008, 2009 and 2010, respectively. Disbursements for the reimbursement of state claims against decedent estates amounted to \$3,818,062, \$4,896,571, and \$3,555,656, during the fiscal years ended June 30, 2008, 2009, and 2010, 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 \$1,698,650, \$730,777, and \$429,529 as of June 30, 2008, 2009 and 2010, respectively. The assets consisted of cash balances of \$504,187, \$236,313, and \$385,065 and investments of \$1,194,463, \$494,464, and \$44,464 in the Treasurer's Short-Term Investment Fund during the fiscal years ended June 30, 2008, 2009, and June 30, 2010, 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.

Receipts for the Representative Payee Accounts consisted primarily of revenues derived from Social Security benefit payments received by the state on behalf of individuals residing in state humane institutions. The receipts for the Representative Payee Accounts totaled:

<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
\$ 10,720,377	\$ 11,197,934	\$ 10,913,999

In addition, interest was earned on account assets transferred to and invested in the State Treasurer's short-term investment funds as follows:

<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
\$ 80,874	\$ 29,506	\$ 6,682

Disbursements from the Representative Payee Accounts are primarily expenditures for the costs associated with the board, care, treatment and personal expense allowances associated with patients in state humane institutions. The disbursements for Representative Payee Accounts totaled:

<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
\$ 10,824,925	\$ 10,837,453	\$ 11,217,630

The Representative Payee Accounts' assets consisted of cash balances and total investments in the Treasurer's Short-Term Investment Fund and were as follows:

<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
\$ 2,205,623	\$ 2,566,103	\$ 2,262,472

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 DAS. A review of those recommendations disclosed service provider related conditions that required or will require the combined efforts of DAS and their client agencies to resolve.

We have incorporated, where appropriate, such conditions of significance to this audit within the Condition of Records section of the report.

CONDITION OF RECORDS

Our examination of the records of the Department of Administrative Services disclosed certain matters of concern requiring disclosure and agency attention.

General Statutory Compliance:

The following recommendations pertain to conditions regarding a lack of compliance with certain statutory reporting and regulatory requirements. Some of the reporting requirements have not been met in some time, apparently due to statutory obsolescence. It appears certain state regulations were either non-existent or not updated due to a lack of timely oversight.

Reporting Requirements:

Criteria: Subsection (b) of Section 4a-6 of the General Statutes indicates that on or before the fourth Wednesday after the convening of each regular session of the General Assembly, the commissioner shall file with the joint standing committee of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies, a complete listing of all items of personal property leased by state agencies, indicating each item leased, the lessee agency, the lessor and the annual rental thereof.

Subsection (b) of Section 4a-67a of the General Statutes indicates that the Commissioner of Administrative Services is responsible for submitting an annual report to the General Assembly on the implementation of a plan to increase procurement of goods that contain recycled materials and products that are recyclable or remanufactured. The report is also supposed to include any price preferences allowed pursuant to Section 4a-59 of the General Statutes.

Subsection (a) of Section 5-200a of the General Statutes indicates that, by utilizing the job evaluation system, the Commissioner of Administrative Services shall determine ratings for jobs through assignment of factor values and shall on each January first make a progress report and report all findings, including comparative job ratings, to the co-chairpersons of the joint standing committee of the General Assembly having cognizance of matters relating to labor and public employees. An advisory committee representing various interested parties shall advise the department in performing this work.

Condition: Reports required in accordance with Sections 4a-6, 4a-67a and 5-200a did not appear to be submitted for the audited period.

Effect: The absence of information provided to the General Assembly may negatively impact the decisions made.

Cause: We were informed that the listings of all items of personal property leased by state agencies were in draft form. It does not appear that these reports were ever submitted to the General Assembly by DAS.

We were informed that the department could not comply with the reporting requirement of Section 4a-67 of the General Statutes since an initial plan was not created due to an alleged conflict between the legislation and a Governor's Executive Order.

We were informed that the department could not comply with the reporting requirement under Section 5-200a of the General Statutes since there has not been an evaluation of job ratings with an advisory committee in a long time.

Recommendation: DAS should evaluate the reporting responsibilities within Sections 4a-6, 4a-67a, and 5-200a of the General Statutes and either comply with its provisions or pursue legislative change if statutory obsolescence is determined. (See Recommendation 1.)

Agency Response: "The Department agrees that the 4a-6 leased property report did not appear to be transmitted to the General Assembly during the audited period. DAS has timely submitted this report in 2011 and 2012 and will continue to do so in the future.

DAS agrees that C.G.S. § 4a-67a required that DAS produce a plan in 1989 to increase state procurement of recycled, recyclable and remanufactured products, and further, that DAS annually report on the implementation of this plan. However, a formal plan was never produced in 1989, and a subsequent Executive Order on the topic created confusion about how to proceed. To resolve the concerns regarding the requirements of §4a-67a, DAS sought and obtained a change in the statute during the 2012 legislative session. (Section 7 of Senate Bill 339).

DAS disagrees that it owes annual reports pursuant to C.G.S. § 5-200a. This statute was enacted in 1980 to establish the protocols by which compensation levels for state job classes are established. Many of its provisions, including the reporting requirements, were superseded by the 1995 Agreement between the State of Connecticut and the State Coalition on Pay Equity (the "SCOPE Agreement"). DAS will assess whether to pursue a legislative change to eliminate the obsolete provisions of this statute."

State Regulations:

Criteria: Section 4a-52 indicates that the Commissioner of Administrative Services shall adopt regulations for a variety of procurement related purposes.

Section 4a-61 indicates that the Commissioner of Administrative Services, with the advice of the Commissioner of Economic and Community Development, shall adopt regulations, in accordance with chapter 54, establishing procedures for the award of contracts concerning minority business enterprises by the state or any political subdivision of the state other than a municipality.

Subsection (b) of Section 31-284a of the General Statutes indicates that the Commissioner of Administrative Services shall adopt regulations, in accordance with the provisions of chapter 54, which establish the fees payable by this state for its employees under the provisions of this chapter, based on the medical procedure, combination of procedures or diagnosis of the patient, provided the fee schedule shall not apply to services rendered to a claimant who is participating in the state's managed care plan. The regulations shall limit annual growth in total medical fees payable by the state to no more than the annual percentage increase in the consumer price index for all urban workers.

Condition: It was noted that the language within the State Regulations required by Sections 4a-52 and 4a-61 were outdated. The State Regulations required under Section 31-284a did not appear to exist.

Effect: The absence of up-to-date regulations may result in inefficiencies in those respective areas.

Cause: It appears that the condition exists due, in part, to a lack of proper timely oversight.

Recommendation: DAS should comply with Sections 4a-52, 4a-61, and 31-284a of the General Statutes and adopt/modify its state regulations to reflect its current processes. (See Recommendation 2.)

Agency Response: "DAS agrees that it has adopted procurement regulations pursuant to C.G.S. § 4a-52. DAS does not believe that failure to update existing regulations is an appropriate audit finding. DAS has composed updated regulations in recent years but has not yet pursued these drafts through the regulation promulgation process because DAS's procurement responsibilities have continued to change as a result of the establishment of the Contracting

Standards Board, agency mergers affecting DAS, and other legislative enactments impacting procurement responsibilities such as reverse auctions, cooperative contracting, etc. DAS plans to update its draft procurement regulations to include the information technology procurement responsibilities it acquired in July 2011, and will submit updated regulations when they are complete.

DAS agrees that it has not promulgated regulations pursuant to C.G.S. §31-284a. Because the Workers' Compensation Commission already has established fee schedules, and because that agency – not DAS – is the regulator in this area, DAS sought and obtained legislation in the 2012 legislative session repealing this requirement (Section 23, Senate Bill 339).”

Boards, Commissions and Committees:

The following recommendations involve a number of issues, some of which directly involve DAS, while others would appear to involve DAS as an interested party.

Inactive Committees:

Criteria:

Section 4-61t of the General Statutes established a Committee on Career Entry and Mobility, appointed by the Commissioner of Administrative Services and chaired by the Commissioner of Administrative Services or his designee. The committee was to include a number of representatives from other agencies. The committee was established to determine how career counseling can be best provided and training opportunities best met and made available with the funds allotted. The committee was also to develop mechanisms to communicate information about state employment opportunities to state employees and persons with disabilities who wish to become state employees; advise the Commissioner of Administrative Services concerning broader usage of classification titles affecting upward mobility, the entry level employment of persons with disabilities and an effective procedure for reporting compliance to the legislature.

Section 4-61aa of the General Statutes established a committee to encourage the employment by the state of persons with disabilities. The Commissioner of Administrative Services is to appoint the members of the committee, which shall be chaired by the commissioner, or his designee. The committee is to include representation from seven other identified state agencies. The committee is to advise, and develop written guidelines for, the Commissioner of Administrative Services and the executive heads of other state agencies regarding the adaptation of employment examinations and alternative hiring processes for, and the

reasonable accommodation of, persons with disabilities; and review the program established under subsection (b) of Section 4-61u and compliance with the provisions of Section 46a-70 concerning persons with physical disabilities.

Section 5-237b of the General Statutes established a Quality Control Committee to review and evaluate the ongoing performance of state incentive plans established by the Commissioner of Administrative Services pursuant to Section 5-210. The committee is to be composed of five members. The committee is to consider ways to make state incentive plans more effective; and review and evaluate, on a continuing basis, the effectiveness of the implementation by state agencies of such plans, including improvements in productivity and the establishment of standards for such agencies.

- Condition:* We were informed by DAS staff that the Committee on Career Entry and Mobility, the Committee to Encourage Employment by the State of Persons with Disabilities, and the Quality Control Committee have not been active for many years. DAS' attempts to repeal the legislation pertaining to the Quality Control Committee in 2009 were unsuccessful.
- Cause:* We were informed that a shortage of resources contributed to the inactivity of two of the committees. DAS is considering reconstituting the Quality Control Committee.
- Effect:* The intended purposes of such committees are not being met.
- Recommendation:* DAS should either continue to pursue the repeal of the statutory mandate or reconstitute the Committee on Career Entry and Mobility, the Committee to Encourage Employment by the State of Persons with Disabilities, and the Quality Control Committee in accordance with Section 4-61t, Section 4-61aa, and Section 5-237b of the General Statutes, respectively. (See Recommendation 3.)
- Agency Response:* "DAS agrees with this recommendation. The agency has sought and obtained legislation in the 2012 legislative session to eliminate the Quality Control Committee (Section 25, Senate Bill 339). Since the goals and functions of the Committee on Career Entry and Mobility and the Committee to Encourage Employment by the State of Persons with Disabilities have been integrated into agency operations, DAS will seek legislation eliminating these committees next session."

Senior Executive Service Board:

Criteria: Subsection (c) of Section 5-236 of the General Statutes indicates that there shall be a senior executive service to provide an upper level of career professional management. An appointing authority may request from the Commissioner of Administrative Services names of candidates eligible for a position within the senior executive service and may appoint an employee from such a list. Such names shall be furnished to said commissioner by the Senior Executive Service Board. Any employee in the classified service who qualifies for and accepts a position in the senior executive service shall not attain tenure in the position, shall serve at the pleasure of the appointing authority with the concurrence of the Senior Executive Service Board and shall have the right to return to a classified position at his former level in any state agency provided if no such position is available in another agency, the employee shall have the right to return to such a position in his former agency. No employee holding a position in the senior executive service shall be removed except upon one hundred twenty days' written notice to such employee and the Senior Executive Service Board.

Subsection (d) of Section 5-236 of the General Statutes indicates that there shall be a Senior Executive Service Board consisting of six members appointed by the Governor. The terms of appointment shall be four years. Three members shall be employed by the state, one of whom may be an employee in the senior executive service and one of whom shall be a managerial employee; two of whom shall be from management positions in private enterprise, and one of whom shall be from a major independent Connecticut college or university. The Commissioner of Administrative Services or his designee shall serve as a nonvoting member and secretariat.

Condition: Our review of the Senior Executive Service Board found the following:

- Personnel at the Department of Administrative Services have no recollection of the board ever convening.
- The Office of the Governor found no records for the board in its Executive Appointment Tracking System or in the state archives.

Effect: The legislative intent to establish a board for an upper level of career professional management for qualified state employees has not been met.

Cause: The cause for the conditions noted above could not be determined. However, the enabling statutes for the Senior Executive Service Board are not clear as to which agency or governing body has oversight for ensuring the creation and continued effective operation of the board.

Recommendation: The Department of Administrative Services and the Office of the Governor should collaborate to ensure that a Senior Executive Service Board is created and made operational in accordance with state law or seek legislative relief from those requirements. (See Recommendation 4.)

Agency Response: “The agency agrees with this recommendation and has sought and obtained legislation in the 2012 legislative session repealing the Senior Executive Service Board (Section 20, Senate Bill 339).”

Supported Agencies:

The following recommendation pertains to the transfer of certain business office type functions from numerous agencies to the department.

Lack of Formal Memoranda of Understanding with Supported Agencies:

Criteria: Section 60 of Public Act 05-251 provided the authorization to transfer the personnel, payroll, affirmative action, and business office functions for numerous executive branch agencies to the Department of Administrative Services to gain efficiencies from consolidation.

General business practice suggests that the lines of responsibility in the performance of certain functions between agencies should be mutually agreed upon and signed by both parties.

Condition: Upon our review, we noted four state agencies that continue to be served by the department for payroll, personnel and affirmative action functions still do not have a mutually signed agreement in place to identify the specific responsibilities between the respective agencies. We also noted that five state agencies served by the department for other business office functions, do not have a mutually signed agreement in place.

While DAS services provided to the Offices of the Governor and the Lieutenant Governor well precede Public Act 2005-251, we noted that there is no formal agreement in place defining the business function responsibilities between these agencies.

Effect: The absence of a mutual understanding as to the lines of responsibility in the performance of certain functions may lead to ineffectiveness or inefficiencies between the agencies.

Cause: While the department appears to have pursued the respective agencies for a formally signed agreement as to the lines of responsibility for the various business office functions performed, it does not appear that follow-up was aggressively pursued.

Since the business office functions for the Offices of the Governor and the Lieutenant Governor had been handled by the department well prior to Public Act 2005-251, the department did not feel it was necessary to pursue a formal agreement with those agencies.

Recommendation: DAS should pursue a formal agreement with the Offices of the Governor and the Lieutenant Governor as well as other agencies served by the department to clearly identify the lines of responsibility in performing personnel, payroll, affirmative action and business office functions. (See Recommendation 5.)

Agency Response: “With regard to agencies for which DAS provides services pursuant to P.A. 05-251 and subsequent legislation, although not legally required, the agency agrees that it is preferable to have the responsibilities of DAS and our client agencies clearly delineated and that memoranda of understanding (MOUs) are useful tools to memorialize the lines of responsibility. DAS will continue to work with our client agencies to finalize MOUs but notes that DAS cannot withhold services from client agencies that do not sign these agreements.

Regarding the Offices of the Governor and Lieutenant Governor, DAS disagrees that MOUs are necessary. With the agencies referenced above, DAS currently performs work that had previously been the responsibility of the client agencies themselves. Those agencies transferred their responsibilities – and in most cases employees – to DAS as a result of P.A. 05-251 and subsequent legislation. Therefore, the MOUs served a useful role in clarifying the division of responsibilities between DAS and the agencies. With the Offices of the Governor and Lieutenant Governor, the relationship is entirely different because DAS did not take over work formerly performed by staff at those Offices. To the contrary, DAS is simply continuing to perform the work it has done for years. Given that history, and that the Offices of the Governor and Lieutenant Governor are not agencies as defined by statute, DAS believes that P.A. 05-251 or P.A. 12-1 (June Spec. Sess.) do not require DAS to enter into MOUs with the Offices of the Governor or Lieutenant Governor.”

Auditors' Concluding

Comments:

While we understand that the performance of work on behalf of the Offices of the Governor and Lieutenant Governor by DAS has been longstanding, it would serve all entities involved by memorializing what functions are to be provided and the expected responsibilities of each.

DAS Payroll/Personnel and the SmART Unit:

Several issues have been noted which either directly involve the department or its oversight capacity as it pertains to the SmART Unit.

Compliance with Medical Certificate Requirements:

Criteria:

Section 5-247-11 of the State Regulations, several collective bargaining contracts, and the DAS Manager's Guide require the submission of an acceptable medical certificate signed by a licensed physician or other practitioner whose method of healing is recognized by the state to substantiate the use of sick leave for a period of more than five consecutive working days. Such certificates should be presented to the agency upon the employee's return to work.

Section 60 of Public Act 2005-251 created the Small Agency Resource Team (SmART) unit within DAS whereby the department would be responsible for providing the personnel, payroll and affirmative action functions on behalf of certain smaller agencies.

Condition:

We noted that in five of twenty instances we tested that covered DAS and various SmART agencies, the department did not have a medical certificate on file supporting the employee's use of more than five consecutive sick leave days.

In separate audits of the State Marshal Commission and the Police Officers Standards and Training Council covering fiscal years 2008 and 2009, a total of four additional instances were noted in which a medical certificate was not on file.

Effect:

There is a lack of compliance with the applicable state personnel regulation and collective bargaining contracts as well as an increased risk that sick leave abuse may go undetected.

Cause:

There appeared to be inconsistencies among payroll staff in the procedure of monitoring and notifying the Human Resources unit when an employee was out sick for more than five days.

Recommendation: DAS should take steps to ensure compliance with Section 5-247-11 of the State Regulations and applicable collective bargaining agreements by monitoring sick leave usage on a biweekly basis for purposes of determining which employees are required to provide medical certificates and subsequently pursuing collection of such from the employees affected. (See Recommendation 6.)

Agency Response: “DAS agrees with this recommendation and acknowledges the need to take steps to ensure compliance. Although we will work with our payroll staff to develop protocols for monitoring sick leave usage, we believe the primary responsibility for ensuring compliance with the applicable regulations and collective bargaining agreements is shared by managers and supervisors at the employing agency and their human resources representative at DAS. DAS will work with SmART client agencies to educate employees about the need to inform Human Resources immediately if an employee is or will be out of work for medical reasons for more than five consecutive work days and about employees’ obligation to provide medical certificates upon or in advance of their return to work.”

Monitoring of Dual Employment:

Criteria: Section 5-208a of the General Statutes indicates that no state employee shall be compensated for services rendered to more than one state agency during a biweekly pay period unless the appointing authority of each agency or his designee certifies that the duties performed are outside the responsibility of the agency of principal employment, that the hours worked at each agency are documented and reviewed to preclude duplicate payment and that no conflicts of interest exist between services performed. No state employee who holds multiple job assignments within the same state agency shall be compensated for services rendered to such agency during a biweekly pay period unless the appointing authority of such agency or his designee certifies that the duties performed are not in conflict with the employee's primary responsibility to the agency, that the hours worked on each assignment are documented and reviewed to preclude duplicate payment, and that there is no conflict of interest between the services performed.

DAS General Letter 204 – Dual Employment, last revised in 1999, provides direction to state agencies in complying with Section 5-208a of the General Statutes. It indicates that DAS will provide agencies with semiannual APS reports on employees holding multiple positions. Such reports should be used by state agencies to assist in identifying dual employment instances and tracking dual

employment forms. It also states that, in conjunction with the Decentralized Program, annual post audits will be conducted to ensure compliance with the guidelines for dual employment.

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:

In testing for proper documentation of dual employment arrangements, we noted that four instances out of the fifteen dual employment arrangements tested did not have a dual employment form on file with the department. We additionally noted that there were four instances where the position title of the employee on the form did not match the title of the position held during the period of coverage; and two instances where the dual employment arrangement continued past the end date on the dual employment form.

In separate testing for the Connecticut Human Rights and Opportunities (CHRO) and the Department of Emergency Management and Homeland Security (DEMHS), three additional instances were identified where a dual employment form was not on file.

Upon our review of DAS General Letter 204, we noted that the policy was outdated. The Automated Personnel System (APS) was replaced by Core-CT HRMS in May 2006. Semiannual reports are no longer provided to agencies and annual post audits are no longer conducted by DAS.

As noted in our prior audit report, the Dual Employment Request Form contains, among other information, the employee's social security number and home address. It appears that this form is unchanged.

Effect:

In the absence of proper monitoring and guidance regarding dual employment arrangements, duplicate payments and conflicts of interest may go undetected.

In our review of a sample of employees who had worked for both the Commission on Fire Prevention and Control and the University of Connecticut Health Center, it was noted that numerous conflicts in hours existed.

The department is at increased risk of exposure of sensitive information through the unnecessary collection and storage of potentially sensitive information.

Cause: It appears that a lack of administrative oversight has contributed to the condition.

Recommendation: DAS should promote compliance with Section 5-208a of the General Statutes by revising its instructions to state agencies via General Letter No. 204 regarding dual employment to reflect the current practice and system. Such procedures should re-establish the DAS practice of providing semiannual reports of employees with multiple positions to state agencies to discern if true dual employment arrangements exist and need to be addressed.

Additionally, the department should redesign the dual employment request form to eliminate the unnecessary collection and storage of sensitive data. (See Recommendation 7.)

Agency Response: “DAS agrees with this recommendation. DAS will revise and reissue General Letter 204 and the associated Dual Employment Request Form and establish and implement a procedure to send agencies a semi-annual report listing employees holding multiple positions.”

Overtime/Compensatory Time Issues:

Criteria: General guidelines for the earning and use of compensatory time are set by collective bargaining agreements and the DAS Manager’s Guide. Such guidelines include supervisory approval in advance to earn compensatory time and the periodic expiration of unused compensatory time balances.

The DAS SmART Handbook for Supervisors indicates that overtime must be requested and approved in advance before it can be worked or paid.

Management Personnel Policy 06-02 indicates that an agency head may grant compensatory time for extra time worked by managers if the manager or confidential employee receives written authorization in advance. The authorization must include the employee’s name and outline the reason(s) for compensatory time. Proof of advance authorization must be retained in the employee’s personnel file for audit purposes.

The Office of Policy and Management’s Office of Labor Relations released General Letter 2009-11-P-5 on May 18, 2009 indicating

that employees under the Administrative and Residual Employees (P-5) Bargaining Unit Contract shall be allowed to bank up to 100 hours of compensatory time. New compensatory time shall not be accumulated until their bank is less than 100 hours.

Section 5 (d) of the Administrative and Residual Employees (P-5) Bargaining Unit Contract indicates that, in cases of national or state emergency or where prior approval has been given by the Office of Policy and Management, exempt employees may be paid overtime.

Condition:

In the Department of Consumer Protection audit for fiscal years 2008 and 2009, seven of ten employees reviewed were noted as earning compensatory time without preapproval. The audit further indicated that compensatory time was not used or monitored in accordance with collective bargaining unit contract guidelines for six out of ten employees.

In the audit of the State Marshal Commission covering fiscal years 2008 and 2009, it was noted that compensatory time was authorized for an ineligible employee who instead should have received overtime.

Upon testing eight payroll transactions covering fiscal years 2008, 2009 and 2010 for the Connecticut Siting Council, we noted that two employees worked overtime without evidence of supervisory preapproval.

In our testing of 20 payroll transactions covering fiscal years 2008, 2009, and 2010 for the Department of Emergency Management and Homeland Security, we noted one instance where an employee was earning compensatory time without preapproval; two instances where employees were earning overtime without preapproval; two instances where employees were earning compensatory time and overtime without any documentation of an emergency; and two instances where employees continued to earn compensatory time despite being over 100 hours in banked time.

Effect:

In the absence of adequate oversight and written managerial preapproval of overtime and compensatory time, there is a greater risk for impropriety and loss to occur.

Cause:

We were informed by department staff that inconsistencies in the compensatory time and overtime preapproval procedures of various SmART agencies contributed to the condition.

Recommendation: DAS should strengthen its administrative oversight to ensure the propriety of the earning and usage of overtime and compensatory time by the employees of the respective agencies they serve. (See Recommendation 8.)

Agency Response: “DAS agrees with this recommendation and acknowledges the need to take steps to ensure compliance with policy. DAS will develop a single, consistent procedure for approving and verifying overtime and compensatory time to recommend to its client agencies.”

Annual Evaluations and PARS Increases:

Criteria: Section 5-237-1 (a) (4) of the State Regulations indicates that the appointing authority shall cause a service rating to be filed on the form prescribed by the Commissioner of Administrative Services annually for each permanent employee. Said annual rating is to be filed in the office of the appointing authority at least three months prior to the employee’s annual increase date. All service ratings are to be discussed with the employee by the employee’s immediate supervisor. The employee shall be asked to sign such a report as a confirmation that he has seen the form and discussed it with the supervisor.

Section 5-210 of the General Statutes authorizes the Commissioner of Administrative Services to establish state incentive plans for managerial or confidential employees based on annual performance appraisals.

A PARS Handbook, published by the Department of Administrative Services, details the processes and the forms required to be filed at the beginning of the fiscal year for each managerial employee. These forms are a Planning and Appraisal record and an Annual Review form. The purpose of the Performance Assessment and Recognition System (PARS) is to:

- facilitate joint planning between a manager and supervising manager on what the manager is expected to accomplish.
- establish clear, achievable, measurable, results-oriented performance objectives, consistent with the agency’s priorities and mission, and considered fair by both the manager and the supervising manager.
- promote ongoing communication between the manager and the supervising manager concerning expectations, how well the

manager is meeting these expectations, and what steps must be taken to ensure that objectives are met.

- guide regular evaluations of progress and promotion of the manager's professional development.
- identify corrective action needed when a manager has not accomplished a performance objective.
- provide a basis for differentiating among levels of performance and thus serve as a basis for a manager's annual salary increase or bonus payment.
- improve individual job performance and thereby increase the effectiveness of the agency.

Condition: We noted eight out of eight instances tested in which a PARS increase was given but supporting PARS evaluations were not on file. In a separate test of payroll transactions for the Commission on Human Rights and Opportunities, an additional instance of a PARS increase without an applicable PARS evaluation was noted.

Effect: In the absence of such evaluations, there is question as to the legitimacy of the PARS increases or bonuses paid.

Cause: It appears that a lack of administrative oversight is responsible for this condition.

Recommendation: DAS should ensure compliance with Section 5-237-1 (a) (4) of the Regulations of State Agencies by obtaining annual service ratings for all permanent employees and abide by all provisions of the Performance Assessment and Recognition System Handbook when awarding managerial merit increases and bonuses. (See Recommendation 9.)

Agency Response: "DAS agrees with this recommendation and will take steps to ensure compliance."

Timesheet/Attendance Accrual Record Related Issues:

Criteria: Proper internal control dictates that timesheets should be signed by the employee and supervisor at the end of each pay period to attest to the hours charged to accrued leave and the actual hours worked. Corrections to timesheets should be initialed by both the employee and supervisor. Original timesheets completed in permanent mark should be submitted to the authority responsible for review and processing of the payroll.

The Social and Human Services (P-2) Bargaining Unit indicates that from time to time, on an as needed basis, P-2 bargaining unit members may donate their accrued vacations, personal leave or sick leave to a member of the bargaining unit who is suffering from long-term or terminal illness or disability. Such donation may occur between different employing agencies. No employee may donate more than five days of sick leave in a calendar year.

Pursuant to the Education Administrators (P-3A) Collective Bargaining Agreement, Education Consultants within the Board of Education and Services for the Blind who work the equivalent of a ten-month year shall not accrue vacation leave during the months of July and August.

Section 5-248, subsection (f), of the Connecticut General Statutes states: “Any agency may reinstate without examination any employee who has resigned in good standing and has withdrawn his resignation within one year to positions in classes in which he has attained permanent status.” DAS General Letter #177 outlines procedures for withdrawal of a resignation and the different timeframes for which leave times may be reinstated or start to accrue from the date of reinstatement. If an employee is reinstated within one year following resignation, vacation leave can be used as accrued and sick leave credit will be restored in accordance with Section 5-247(b) of the General Statutes. However, if not reinstated within one year, vacation and sick leave will not be reinstated as accrued.

Condition:

In our testing of 28 payroll transactions for the Commission on Human Rights and Opportunities, we noted nine timesheets with corrections that were not initialed by the supervisor or the employee; one timesheet did not appear properly authorized or reviewed by employee or supervisor; one timesheet signed by the employee as supervisor as well; two timesheets were not the originals; one instance of a timesheet charge for 1.5 hours of sick leave that was not recorded to the employee’s accrual record on Core-CT; one instance of an employee inaccurately recorded as working one hour one day and 15 hours the next day; two instances where donations of sick time to other employees was not properly documented; one instance of an employee credited for 10 hours of sick leave accrual despite being on unpaid leave in excess of five days the previous month.

In our testing of eight payroll transactions for the Connecticut Siting Council, we noted that the majority of the timesheets were completed in pencil with notable erase marks.

In our testing of 20 payroll transactions for the Department of Emergency Management and Homeland Security, we noted that six employees signed their timesheets prior to the last workday of the pay period; two instances where the supervisor also signed the timesheet prior to the last day of the pay period; and instances where the original timesheet was not on hand and evidence of white-out was noted.

In an audit of the Department of Consumer Protection covering fiscal years 2008 and 2009, it was noted that three out of 20 payroll transactions tested had timesheets signed by either the employee or the supervisor before the pay period ended. One additional instance was noted where the supervisor signed the timesheet on the employee's behalf.

In an audit of the Commission on Deaf and Hearing Impaired covering fiscal years 2008 and 2009, it was noted that nine of nine interpreters tested were paid incorrectly or had questionable payments. Four instances were noted in which interpreters paid shift differential and weekend differential appeared to be inaccurate. Two additional instances of overtime being overpaid were noted.

In an audit of the Board of Education and Services for the Blind covering fiscal years 2008 and 2009, the following issues were noted:

- An employee resigned and then rescinded his resignation within one year. He was rehired by the board after one year. However, his vacation and sick time accruals did not cease, nor were they adjusted to reflect that vacation time was paid out at resignation and his sick time had expired due to rehire after the one year period. This was eventually corrected by DAS.
- Two educational consultants, who are ten-month employees, were given twelve months of vacation time even though they are only allowed to accrue ten months of vacation time. As a result, their vacation balances were overstated.

Effect:

The lack of attestation by an employee and approval by the supervisor increases the risk that employees will not be properly paid for time worked and that inaccurate attendance and leave records will result.

In light of the lack of documentation on file regarding the donation of sick leave exceptions noted, we cannot determine if there is

compliance with the Social and Human Services (P-2) Bargaining Unit contract.

Cause: It appears that a general lack of administrative oversight has contributed to the conditions noted. Specifically, we found that there were inconsistencies in the procedures followed by the department's payroll staff regarding the existence of white-outs and cross-outs on employee timesheets.

Recommendation: DAS should take greater care to review the propriety of timesheet data from SmART agencies prior to processing for payment. (See Recommendation 10.)

Agency Response: "DAS agrees with this recommendation and acknowledges the need to take steps to ensure compliance. Although we will work with our payroll staff to develop protocols for identifying anomalies, we believe the primary responsibility for ensuring compliance with the applicable regulations and collective bargaining agreements is shared by managers and supervisors at the employing agency and their human resources representative at DAS. DAS will work with SmART agencies to educate employees about their obligation to enter accurate data into attendance records and to educate managers and supervisors about their obligation to review and approve such records."

Exit Interview Forms:

Criteria: The department's SmART Unit established the Employee Exit Interview and Closure of Benefits form to be completed for separating employees of SmART agencies. These forms need to be completed with the employee and the respective human resources representative.

Condition: In the audit of the Department of Consumer Protection for fiscal years 2008 and 2009, it was noted that exit interview forms were not on file for six out of ten employees reviewed.

In our review of payroll transactions for the Commission on Human Rights and Opportunities covering fiscal years 2008, 2009, and 2010, it was noted that three employees separating from the agency did not have exit interview documentation on file.

Effect: There is an increased likelihood that state property in the custody of separating employees may not be returned.

The failure to hold exit conferences increases the risk that employees may enter into situations after separation that would

present an ethical conflict. Additionally, in the absence of an exit interview, the department misses an opportunity to gain valuable information from the employee.

Cause: It appears that a lack of administrative oversight is contributable to the condition.

Recommendation: As part of its administrative function over SmART agencies, the DAS SmART Unit should ensure that employee exit interview forms are completed and placed within the applicable separating employee's personnel file. When the separating employee refuses to participate in the interview or complete the form, the reasons for such should be documented and kept on file. (See Recommendation 11.)

Agency Response: "DAS agrees with this recommendation and acknowledges the need to take steps to ensure that exit interviews are conducted whenever possible and, when such interviews are not conducted, to document the reasons in the file. DAS notes for the record that in situations where DAS is not able to conduct an exit interview with a departing employee, we utilize alternative methods to recover any state property still in the exiting employee's possession."

Supervisory Review of Separation/Retroactive Calculations:

Criteria: Proper internal control dictates that secondary reviews of special calculations should be performed to ensure the accuracy of payments.

Condition: We were informed by department payroll staff that supervisory/secondary reviews of retroactive and separation payment calculations are not performed to determine accuracy.

Effect: The lack of a supervisory/secondary review of retroactive and separation payment calculations increases the risk of an improper or inaccurate payment being made. The potential recovery of overpayments is diminished in the instance of employee separation.

In the audit of the Board of Education and Services for the Blind covering fiscal year 2008 and 2009, it was noted that an employee retired and was given a payout of vacation time in excess of the allowed maximum time. The employee was paid nineteen hours over her maximum vacation time accumulation of 420 hours.

Cause: It appears that a lack of administrative oversight contributed to the condition.

Recommendation: DAS should implement a procedure to have the payroll supervisor or a designee confirm the accuracy of retroactive and separation payment calculations performed by other payroll staff. (See Recommendation 12.)

Agency Response: “DAS agrees with this recommendation and acknowledges the need to take steps to ensure compliance. DAS has processes in place to verify retroactive calculations associated with collectively bargained salary adjustments. DAS will extend those processes to other types of retroactive calculations and to separation payments.”

Propriety of Accrual Adjustments and Payments Upon Death of an Employee:

Criteria: Section 5-253 of the General Statutes indicates that upon the death of any state employee, a lump sum payment shall be made (a) for equivalent time off due him for authorized extra hours of work credited to the employee in accordance with existing personnel regulations and (b) for all of the employee's accumulated vacation allowance which shall be an amount equal to the salary which he would have received had he remained in the service until the expiration of such vacation period. Such payment shall be made upon the establishment of a valid claim; therefore, in the following order of precedence: first, to the surviving beneficiary or beneficiaries, if any, lawfully designated by the employee under the state employees' retirement system; second, if there is no such designated beneficiary, to the estate of the deceased.

Section 5-247-11 of State Regulations indicates that an acceptable medical certificate, which must be on the form prescribed by the Commissioner of Administrative Services and signed by a licensed physician or other practitioner whose method of healing is recognized by the state will be required of an employee by his appointing authority to substantiate a request for sick leave of any duration when evidence indicates reasonable cause for requiring such a certificate.

Collective bargaining unit agreements and the Manager's Guide indicate that personal leave days and other earned time not taken when an employee leaves state service shall not be included in computations for lump sum payments for accrued and unused vacation time.

Proper internal control dictates that policies be put in place to encourage consistent actions and accurate results.

Condition: In an audit of the Department of Consumer Protection covering fiscal years 2008 and 2009, it was noted that:

- A DAS Human Resources employee had retroactively changed prior days initially charged as vacation leave to sick leave for an employee who had died just short of being eligible for retirement. This added 127 hours, or 15 days, to the employee's vacation balance. The DAS employee also added one holiday and one month's vacation accrual of vacation time that the deceased employee had not earned.
- It was additionally noted that a payment of 40 hours of vacation was made at the instruction of the same DAS Human Resource employee, indicating that it was a payment for an error in the decedent's vacation balance. No evidence was provided to support the accuracy of the payment.

In our specific review of deceased employee payments, we noted the following:

- Two out of six employees appeared to have improper adjustments to accrued leave balances. It was noted that, in total, 44 vacation hours charged were reversed out to expend the employee's remaining personal leave and compensatory time balances.
- One out of six employees had additional sick leave accrual after the date of death.
- Three employees who earned longevity had computations prepared which were inconsistently applied by the department.

Effect: Attendance records were altered to allow a deceased DCP employee's spouse to receive retirement benefits that the decedent was ineligible to receive. In addition, the decedent's estate was overpaid \$7,017; \$5,006 for accrued vacation changed from sick time and an additional unsupported payment of \$2,011 during January 2009 for vacation time.

Based upon our specific review of deceased employee payments, we noted that a total of 44 hours of vacation time covering two deceased employees appears to have been improperly adjusted and paid, as well as improperly added to the total state service calculation for retirement. In addition, it appears that payments

were inappropriately made due to one deceased employee being improperly credited with a sick leave accrual for the month following the date of death; and three employees' computations for longevity appeared inconsistently applied.

Cause: A DAS Human Resources employee decided to alter the attendance records to help a decedent's spouse receive retirement benefits that the decedent was ineligible to receive.

DAS staff felt that the adjustments made to accrued leave were proper. The inconsistency in computing longevity for deceased employees appears due to a lack of managerial oversight.

Recommendation: DAS should comply with applicable collective bargaining unit agreements and the Manager's Guide regarding adjustments to leave time for deceased employees, and establish a policy to ensure that longevity calculations for deceased employees are determined consistently. (See Recommendation 13.)

Agency Response: "The summary above does not accurately reflect the conditions, effects or cause of the events that transpired. At the time of the deceased DCP employee's death, there was a question over how much credited service he had. Under the State Employees Retirement System ("SERS"), unused vacation time must be included when calculating an employee's credited service; however unused sick leave is not counted.

When calculating the employee's credited service, the DAS Human Resources employee learned that the decedent had a pattern and practice of using vacation and personal leave codes instead of the sick leave codes he should have used. Believing that the decedent's lack of understanding about the proper codes to use should not operate to deprive the decedent's estate of the pension and benefits he had earned, the DAS Human Resources employee changed some of the vacation days to sick days. In so doing, the DAS employee admittedly failed to follow the appropriate procedures and DAS has taken appropriate disciplinary measures to address this procedural lapse and to prevent similar lapses in the future.

Notwithstanding this procedural lapse, the fact remains that when the decedent's time records are corrected to accurately reflect the reasons for his absences, the decedent had the required 25 years of credited service.

Regarding the assertion that decedent's estate was overpaid approximately \$7,000 for accrued vacation time, these actions

were justified by SERS' rules regarding the inclusion of vacation and holiday accruals for credited service and the State Personnel Act's requirement that employees receive a payout for unused vacation time upon termination of employment."

With regard to the remaining findings, DAS acknowledges that it incorrectly credited one employee with additional sick leave after the date of death and incorrectly calculated the longevity payments owed to two employees. DAS maintains that the longevity payment made to one of the three employees was done in accordance with policies issued by the Office of State Comptroller ("OSC"). DAS will notify OSC about these errors. DAS asserts that the adjustments made to the vacation accruals of the two identified employees were correct and supported by existing policies and practice.

DAS agrees that the existing policies are not clear and will work with the OSC to clarify the policies and procedures related to payment of accruals and longevity upon the death of an employee, including, in particular, how the employee's eligibility for retirement affects the calculations."

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: DAS should develop or acquire a formal risk assessment and mitigation function with the objective of identifying and addressing those risks that could negatively impact its operational objectives. The risk assessment and mitigation function should be independent, formal, and ongoing. (See Recommendation 14.)

Agency Response: “DAS agrees that the agency does not currently have staff dedicated to providing risk assessment or auditing functions. While it is certainly preferable to have resources dedicated to such functions, it is not statutorily mandated for the agency, and DAS has not had the resources in recent years to establish such a unit.”

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:

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: 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 File Transfer Protocol (FTP). Although passwords are used, the protocol itself is not secure.

Language in recent contracts, subsequent to the end of our audited period, requires that vendors employ a method of file transfer specified by the department with sufficient notice. It is of note that, prior to the completion of our field work, the department initiated contact with the vendor and instructed the vendor to utilize a more secure method of file transfer.

In our prior audit, we noted that the department had 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. Subsequent to our audited period and prior to the conclusion of our field work, portions of what was the Department of Information Technology (DOIT) were merged into the department, resulting in the creation of the Bureau of Enterprise Systems and Technology (BEST). While it is not yet clear, it appears that some of the policies and personnel that were merged into the department may address data protection in a manner that addresses that portion of our prior recommendation.

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

Cause: The department has not completed its work on policy and controls in this area.

Recommendation: DAS should complete its work on policy and controls over data security and data transfer protocols as quickly as possible. The department should take the necessary steps to ensure that it directs external vendors to utilize secure transfer protocols to the extent

allowed in all associated contracts and agreements. (See Recommendation 15.)

Agency Response: “DAS agrees that it should complete its work on policy and controls over data security, and it will do so. With regard to data transfer protocols, DAS has addressed this issue. DAS now transfers and receives the Private Collection Agency file via the Secure File Transport (SFT) to the vendors’ sites. With Single Socket Layer (SSL), SFT is an encrypted, secure protocol. DAS is responsible for uploading the file and then downloading the return file from the vendor’s site; both directions use SFT. This protocol and procedure has been in place since October 2011.”

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 access continue to have job responsibilities that require it.

Condition: In our prior audit, we noted 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 department took corrective action to address the access rights of the 45 DAS employees mentioned. However, additional interviews with designated personnel indicated that no additional monitoring activities had taken place and that none were scheduled.

As part of our current testing, we revisited this area and determined that twelve employees between the Business Office and the SmART Unit appeared to have access rights in excess of their business needs.

We found that the director of the Business Office and five of her staff in the area of budget and rate development had the ability to change personnel data. We found that two employees in the Business Office in the area of grant management had the ability to change payroll data.

In the SmART Unit, we found that the director and three of his staff had the ability to change both payroll and personnel data. This condition is even more noteworthy as it had been corrected during

the field testing for our prior audit and has subsequently been allowed to recur.

It is of note that we also determined that the director of the SmART Unit and the assistant to the director of the Business Office had the role of liaison. Employees in that role are responsible to act as gatekeepers to attempt to prevent access in excess of business needs.

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 or retained by those who no longer need them. Controls designed to prevent or detect unsafe business practices are significantly weakened.

Cause: The department has not implemented a continuing periodic monitoring and review procedure concerning roles that have the ability to make changes to payroll or personnel records. Business areas with fiscal, payroll and personnel responsibilities have been allowed to act as their own gatekeepers with respect to access rights. A significant lack of management oversight contributed to this condition.

Recommendation: DAS should take the necessary steps to develop and implement a continuing periodic monitoring and review procedure regarding Core-CT 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. The department should ensure that any of its employees who have the liaison role do not work in areas that have direct fiscal, payroll or personnel responsibilities. (See Recommendation 16.)

Agency Response: “DAS agrees that it should develop and implement a continuing periodic monitoring and review procedure with regard to Core-CT roles. The agency will review all roles and make any changes necessary. DAS disagrees with the assessment that numerous HR/SmART and Business Office employees have Core-CT roles that exceed their business needs. DAS is an agency with many statewide responsibilities over HR, payroll and fiscal functions – in addition to performing HR, payroll and business office transactions for numerous SmART agencies. As such, when Core-CT was implemented, to ensure that agencies’ operations would continue effectively and efficiently, a number of DAS users were identified as “Super Users” with broader access than generally afforded HR and fiscal staff in other agencies. Neither DAS nor the State

Auditors have ever identified an instance where any such employee has misused his or her Core-CT access rights.”

*Auditors’ Concluding
Comments:*

Our focus was not on detecting instances of misuse but rather the controls to mitigate such. Since these controls appear absent, the risk of undetected misuse is significantly increased, especially when staff maintain Core-CT roles beyond their position’s responsibilities.

Workers’ Compensation:

The DAS Workers’ Compensation Division is responsible for administering the State of Connecticut’s Workers’ Compensation Program under Section 31-284a of the General Statutes. All workers’ compensation claims are reported and internally processed through individual state agencies. DAS contracts with a third party claim administration company for all claim adjusting services, the physician provider directory, and all supporting managed care services to the program. Upon our review of this area, we noted an apparent lack of statutory compliance.

Compliance with CGS 4a-80:

Criteria:

Under Section 4a-80 of the General Statutes, each public agency when contracting to purchase goods or services or when leasing real or personal property shall require each person contracting with the state to provide such person’s Social Security account number or federal employer identification number, or both, if available, to such agency or the reason or reasons for the unavailability. The numbers or reasons shall be obtained by any agency as part of the administration of taxes by the commissioner of the Department of Revenue Services (DRS) for the purpose of establishing the identification of persons affected by such taxes.

Each public agency shall, on or before August 1st annually, furnish to the DRS commissioner, on a compatible magnetic tape file or in some other form which is acceptable to the commissioner, a list of all persons furnishing goods or services or leasing real or personal property to such agency, if any, during the preceding state fiscal year.

Section 4a-77 of the General Statutes defines “person” as indicated in Section 4a-80 as an individual, partnership, society, association, joint stock company, corporation, limited liability company, estate, receiver, trustee, assignee, referee, or any other person acting in a fiduciary or representative capacity, whether appointed by a court or otherwise.

Condition: For the audited period, the Department of Administrative Services did not report the tax related data for those entities contracted and paid via a state account by the third party administrator (TPA) for providing workers' compensation related services.

Since DAS utilizes a third party administrator to contract with entities and make payments with state funds for the costs incurred attributed to the Workers' Compensation Program, it would appear that the tax related data of those providing such workers' compensation services would need to be reported in accordance with the statute's apparent intent.

Effect: The lack of providing such data would appear to have a negative effect on the efforts of the Department of Revenue Services in pursuing state tax related revenue.

Cause: DAS has indicated that since the third party administrator is a contractor and not the state, DAS is not required to submit the data identified within the statute for those entities contracted and paid by the TPA.

Recommendation: DAS should seek an official opinion from the Office of the Attorney General to obtain clarification as to whether tax related data for those entities contracted by the DAS Workers' Compensation Program's third party administrator and paid for with state funds needs to be obtained and submitted to the Department of Revenue Services in order to comply with the intent of Section 4a-80 of the General Statutes. (See Recommendation 17.)

Agency Response: "DAS disagrees with this recommendation. The plain language of C.G.S. §4a-80 states that agencies must provide social security or FEIN numbers to the Department of Revenue Services ("DRS") for "each person contracting with the state." No law or policy exists that supports an interpretation that this information must be provided to DRS for those *other* than those contracting with the state. As there is no ambiguity in §4a-80, DAS does not believe a request for a formal opinion from the Office of the Attorney General is necessary or appropriate."

Auditors' Concluding

Comments: In the absence of a third party administrator, DAS would be making payments directly to those providing workers' compensation related services. Thus, it would appear that the intent of the statute is to report the applicable tax related data despite the use of a third party administrator, especially since state funds are used in making such payments.

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 the propriety of the Procurement Services Division in procuring for personal services and the lack of review of the accuracy of the annual rebate received for purchase card activity.

Personal Services and Contractual Services:

Criteria: Chapter 58, Section 4a-50 of the General Statutes defines contractual services as any and all laundry and cleaning service, pest control service, janitorial service, security service, the rental and repair, or maintenance, of equipment, machinery and other state-owned personal property, advertising and photostating, mimeographing, and other service arrangements where the services are provided by persons other than state employees.

Chapter 55a, Section 4-212 of the General Statutes defines a personal service contractor as any person, firm or corporation not employed by the state, who is hired by a state agency for a fee to provide services to the agency. The term personal service contractor shall not include (A) a person, firm or corporation providing contractual services, as defined in Section 4a-50, to the state, (B) a consultant as defined in Section 4b-55, (C) a consultant, as defined in Section 13b-20b, (D) an agency of the federal government, of the state, or of a political subdivision of the state, or (E) a person, firm or corporation providing consultant services for information and telecommunications systems authorized under subdivision (5) of subsection (c) of Section 4d-2.

Chapter 50, Subdivision (1) of subsection (a) of Section 4-70b of the General Statutes defines a purchase of service contract as a contract between a state agency and a private provider organization or municipality for the purpose of obtaining direct health and human services for agency clients and generally not for administrative or clerical services, material goods, training or consulting services, and does not include a contract with an individual. Subdivision (5) defines a private provider organization as a non-state entity that is either a nonprofit or proprietary corporation or partnership that receives funds from the state, and may receive federal or other funds, to provide direct health or human services to agency clients.

Subsection (d) of Section 4-70b of the General Statutes indicates that the Secretary of the Office of Policy and Management shall

establish uniform policies and procedures for obtaining, managing and evaluating the quality and cost effectiveness of direct health and human services purchased from a private provider organization or municipality. The Secretary of OPM shall require all state agencies that purchase direct health and human services to comply with such policies and procedures.

Under Section 4e-4 of the General Statutes, the State Contracting Standards Board is identified as being responsible for recommending the repeal of repetitive, conflicting or obsolete statutes concerning state procurement. As such, we applied the definitions of contractual services, consultant services, and professional services within Section 4e-1 of Chapter 62 of the General Statutes to further support the perceived intent of definitions found in Sections 4a-50 and 4-212 of the General Statutes.

“Written Testimony Presented to the State Contracting Standards Board” in January 2006 from a former executive financial officer of OPM indicated that examples of personal service agreement type services include, but are not limited to:

- Legal advice and assistance
- Consulting services
- Technical assistance
- Staff training and organizational development
- Property management
- Program research, planning and evaluation

Condition: Upon our review of state contracts awarded by DAS, we noted that four such contracts appeared to be issued for professional-consultant type services, other than those specifically excluded by Section 4-212 of the General Statutes. Thus, these contracts would more appropriately appear to fall under OPM’s authority per Chapter 55a – Consultants and Personal Service Agreements of the General Statutes.

Effect: While there appears to be statutory non-compliance on the part of DAS, there is also the risk that certain pre-award considerations would not be made unless the request for services is made to the proper authorizing state agency (i.e. OPM).

Cause: The department has been acting in accordance with an assistant attorney general (AAG) interpretation from 2006 provided via email regarding Section 4a-50 of the General Statutes. In essence, it appears that the AAG indicated that other service arrangements

within the definition of contractual services can mean a variety of other types of services as well, including professional. It should be noted that this advice precedes the codification of statutes for the State Contracting Standards Board.

Recommendation: The DAS Procurement Services Division should comply with Chapter 55a of the General Statutes by not involving itself with the procurement of personal service contractors.

The department should also either seek a formal opinion from the Office of the Attorney General or request that the General Assembly further clarify the intent of Section 4a-50 of the General Statutes in relation to the authorization provided to the Office of Policy and Management within the procurement related statutes found in Chapters 50 and 55a and to the definitions as found within Chapter 62 of the General Statutes. (See Recommendation 18.)

Agency Response: “DAS agrees that the statutes defining contractual services under Chapter 58 and personal services agreements under Chapter 55a are circular and that it would be advisable to clarify them. DAS will discuss with the Office of Policy & Management (OPM) whether to seek a legislative change through the General Assembly to clarify the distinction between these two definitions.

DAS does not agree that it has failed to comply with the statutes in this area. DAS has clear statutory authority to enter into “other service arrangements where the services are provided by persons other than state employees,” and DAS and the AAG who supports our contracting functions agree that this authority is broad. As technology changes, service offerings change, and new requests for contracts are brought to our attention regularly. When there is uncertainty regarding whether a service falls under Chapter 58 or Chapter 55a, DAS, OPM, and sometimes the AAG, confer to determine whether the service contract should be awarded under DAS’s Chapter 58 authority or under the PSA rules. Generally DAS and OPM have agreed that if the request has statewide applicability or if the service will be used by more than one agency, then it is appropriate, most efficient and in the best interests of the state for DAS to award the contract under its Chapter 58 authority. The four contracts cited in the Condition section of this finding were properly awarded under Chapter 58.”

Auditors’ Concluding Comments:

We disagree with the interpretations made above. To further our point, it was subsequently noted that a contract award was issued by DAS in June 2011 for audit services. Under Section 4-216 of the General Statutes, it is indicated that the Secretary of OPM shall

immediately notify the Auditors of Public Accounts of any application which the secretary receives for approval of a personal services agreement for audit services and give said auditors an opportunity to review the application during such fifteen-day period and advise the secretary as to whether such audit services are necessary and, if so, could be provided by said auditors. By virtue of procuring such services under Section 4a-50 of the General Statutes, this process is circumvented.

Accuracy of the Annual Purchase Card Vendor Rebate:

Background:

DAS and the Office of the State Comptroller have jointly established a purchasing card program, otherwise known as the P-Card Program. This program allows agencies to make purchases on a credit card with certain established purchasing restrictions.

The P-Card has been in use by the state for more than a decade; its goal is to provide agencies an efficient, cost effective method of procuring small-dollar and high volume purchases. The P-Card not only is designed to represent material cost savings, but its goal is to reduce demand on resources in the procurement and accounts payable operations, especially when compared to the traditional procurement and disbursement process.

Criteria:

DAS has a contract for the utilization of P-Cards which contains a stipulation that allows for a rebate to be provided by the vendor to the state for purchasing activity. The average activity of all cards issued appears to be a major component of the rebate calculation.

General business practices would suggest that, if an agency is receiving rebates based on a calculation, there would be a control process in place to verify that such calculation and rebate amount received is accurate.

State Comptroller's Memorandum 2011-11 created a new policy effective July 1, 2011. Generally, all purchases under \$1,000 made by state agencies shall use a P-Card.

Condition:

We were informed by agency staff that there are no controls in place to ensure the accuracy of the rebate received under the contract.

The monitoring of card usage is not being performed with consideration to maximizing the rebate.

Effect:

There is no assurance that the state is receiving all the rebate monies it is entitled to by contract.

The P-Card rebate had increased from \$209,008 to \$293,147 for card activity in 2009 and 2010, respectively. Upon implementing the State Comptroller's Memorandum 2011-11, the use of P-Cards is likely to greatly increase and therefore reflect in a much larger rebate.

Cause: DAS claims that a recalculation of the rebate is not performed due to the complexity of the calculation.

Recommendation: DAS should establish a control process to ensure the accuracy of the rebates received. Additionally, the department should institute policies to maximize the rebate earned by monitoring the levels of individual card usage and eliminating those P-Cards that no longer have a valid purpose. (See Recommendation 19.)

Agency Response: "DAS agrees that it does not recalculate the annual rebate received through its purchasing card program due to the complexity of the calculation, but it does carefully review rebate information to determine accuracy. Pursuant to the contract, the calculation is based upon the volume of all purchases made by entities using the state contract, the terms upon which payments are made to vendors (number of days in billing cycle and payment grace periods), and whether payments are in fact made earlier than the established grace periods. DAS is currently in negotiations with the contractor to increase our rebate potential and simplify the process for calculating the rebate, thereby allowing us to more effectively validate the rebate amount."

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.

Methodology for Rate Development:

Criteria: The federal regulation presented as Office of Management and Budget Circular A-87 (OMB A-87) establishes cost principles for the validity of charges against federal funds. The principles state that the "cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rate share of indirect costs" (OMB A-87, App A, ¶G). In order to accomplish this, direct costs must be accurately determined.

The principles require that for "each internal service fund or similar activity with an operating budget of \$5 million or more, the

plan shall include... a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this and other appendices of this part, with an explanation of how variances will be handled” (OMB A-87, App C, ¶E(3)).

The principles also require that each “billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss” (OMB A-87, App C, ¶G(1)).

The revision of Accountability Directive Number 1 (Directive) published in December 1996 by the Office of the State Comptroller was in effect for the audited period. Pursuant to the Directive, the “management personnel of each state agency are responsible for establishing and maintaining an effective internal control structure.” The Directive also states that “management must anticipate that certain procedures will become obsolete and modify internal control procedures in response to those changes.”

Condition:

The department did not provide documentation showing that direct costs attributable to fleet management or other internal service fund activities were tracked for services provided by personnel with more than one project responsibility within the department. Department management stated that such costs were not being tracked at this time.

The rate structure and policy in place does not contain any references to the handling of variances such as the over or under recovery of costs. Department personnel stated that no adjustments had been made due to variance; the department did not provide documentation that rebates or surcharges had been applied based on over or under recovery of costs in a given year. Rates have remained static since 2006.

Although the department had begun the process of developing rates in June of 2010, that process had not been completed as of December of 2011. In the documentation provided related to the rate development activity, it was discovered that consideration was given to raising rates for one activity within the internal service fund to make up for losses suffered by other activities in the internal service fund. No documentation was provided noting concerns that such consideration may not comply with federal regulation or state directive.

- Effect:* The conditions reveal potential non-compliance with federal regulations. Such non-compliance could result in loss of revenue through the application of fines, penalties and grant reductions imposed by cognizant federal agencies. Further, the rate development methodology currently in process within the department could potentially produce a new rate structure that is non-compliant.
- Cause:* The noted conditions appear to be caused by significant control deficiencies at every level of the rate development process. The department did not appear to sufficiently allocate knowledgeable resources to the required tasks, adequately assess risks in this area, develop and implement procedures sufficient to accomplish the required tasks, or ensure that its reports were accurate and complete. Furthermore, as the conditions noted have been present for an extended period of time, and any new rates developed under the existing methodology could be non-compliant, we note that the department has not undertaken sufficient effort to improve its processes.
- Recommendation:* DAS should, within existing resources, work with state and federal entities to acquire sufficient knowledge to develop rates for the various services it provides through its internal service fund (the DAS Revolving Fund) that accurately recover the costs associated with those services in a manner that is compliant with applicable federal regulation and state directive. The department should then develop and implement procedures that will allow the rate development process to be duplicated annually. Finally, the department should review its rate development process annually to ensure that it remains compliant with the applicable federal regulations and state directive. (See Recommendation 20.)
- Agency Response:* “DAS agrees with this recommendation. DAS has met with the Office of the State Comptroller to discuss all of the issues relating to the internal service fund and rate development, and was advised to bring in a consultant who is well versed in OMB Circular A-87 to assist DAS with compliance. DAS is currently researching options to follow through with this recommendation.”

Accuracy of Financial Data and Cost Recovery:

- Criteria:* The federal regulation presented as Office of Management and Budget Circular A-87 (OMB A-87) establishes cost principles for the validity of charges against federal funds. For internal service funds, the regulation requires the annual submission of a cost allocation plan that includes a schedule comparing total revenues

generated by each service to the allowable costs of each service (OMB A-87, App C, ¶D(1) and ¶E(3)(b)(1)).

The cost principles also state that “where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation” (OMB A-87, App B, ¶8(h)(4)). The personnel activity reports must be after-the-fact, must account for the total activity of the employee, must coincide with pay periods, and must be signed by the employee (OMB A-87, App B, ¶8(h)(5)).

The revision of Accountability Directive Number 1 published in December 1996 by the Office of the State Comptroller was in effect for the audited period. Pursuant to the directive, management personnel of each state agency are responsible for establishing and maintaining an effective internal control structure.

A primary financial statement assertion is that the data presented will be accurate.

Condition:

The Department of Administrative Services has not been able to reconcile differences in its presentation of financial data with respect to its revolving fund from the data presented by the Office of the State Comptroller. The differences in the financial information presented contained cost factors that are typically included in the determination of cost recovery rates. For the audited period, the accuracy of the data presented by the Department of Administrative Services cannot be relied upon. It is of note that, subsequent to the audited period, DAS entered into discussions with the Office of the State Comptroller in an attempt to resolve the differences in presentation.

The rates charged for the services provided under the revolving fund administered by the Department of Administrative Services have not been changed since fiscal year 2006. In the audited period, the rates were evaluated by the department for fiscal years 2009 and 2010; however, the changes deemed necessary in that evaluation were neither presented to the Office of Policy and Management for consideration, nor implemented. Rates were not evaluated for change for fiscal year 2008. Although not within our audited period, we are aware that rates were not changed for fiscal years 2011 or 2012.

Additionally, the direct costs attributable to employee compensation were not based on employee assertions through personnel activity reports. The costs appeared to be based on

budgetary estimations. The department did not provide documentation of approval from either state or federal sources to determine direct employee compensation costs in this manner.

Effect:

If accurate and reliable actual cost information is not determined, estimates and recovery rates based on that information will be inaccurate.

The department is potentially non-compliant with OMB A-87 through the submission of inaccurate reports.

The conditions noted create increased risk of lost revenue through under recovery of allowable costs from federal grant awards.

Cause:

The noted conditions appear to be caused by significant control deficiencies at every level of the cost determination process. The department did not appear to sufficiently allocate knowledgeable resources to the required tasks, adequately assess risks in this area, develop and implement procedures sufficient to accomplish the required tasks, or ensure that its reports were accurate and complete. Furthermore, as the conditions noted have been present for an extended period of time, we note that the department has not undertaken sufficient effort to improve its processes.

Recommendation:

DAS should continue to meet with the Office of the State Comptroller to reconcile the differences in profitability noted in the presentations by the two agencies of the financial statements for the revolving fund maintained by DAS. The department should, within existing resources, design and implement controls to ensure the accuracy of its cost data and accompanying cost recovery rates. (See Recommendation 21.)

Agency Response:

“DAS agrees with this recommendation, and has already reconciled the differences in the revolving fund profitability statements. The discrepancy between the balance identified by the Office of the State Comptroller (“OSC”) and the balance identified by DAS resulted from a \$38 million dollar accrual entry that was posted in Core-CT to the fund balance account instead of a cash account. There was no breakdown in any systems or controls, and the financial statements have been reconciled.”

Financial Reporting:

Criteria:

Governmental Accounting Standards Board (GASB) Statement 34 specifies that financial statements compiled for governmental proprietary funds, such as the revolving fund maintained by the Department of Administrative Services, include a statement of net

assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. GASB Statement 34 further requires the inclusion of a summary reconciliation of the proprietary fund to the government-wide financial statements.

In August of 2007, the Office of the State Comptroller (OSC) issued a letter to the Department of Administrative Services mandating that DAS comply with GASB 34 beginning with the financial statements for fiscal year 2007.

Condition: For the audited period, the department did not prepare or submit statements of cash flows for its revolving fund.

Due to vast differences in the reporting of net income between the financial information presented by the department and the financial information presented by the Office of the State Comptroller, the accuracy of the remaining statements presented by the department cannot be verified. The difference is estimated to be \$40 million dollars.

Effect: The department is non-compliant with Governmental Accounting Standards and the state directive.

Cause: The department did not develop or implement controls sufficient to ensure that it was compliant with the applicable standards and directive. The department did not sufficiently allocate personnel resources to address this deficiency.

Recommendation: DAS should develop and implement controls and allocate sufficient personnel to prepare accurate financial reports that comply with applicable standards and directives. (See Recommendation 22.)

Agency Response: “DAS agrees with this recommendation. At the time of this audit, there was a discrepancy between the DAS financial reports and the OSC reports. As stated above, this discrepancy resulted from the posting of an accrual entry into the wrong state account and it has since been reconciled. DAS is currently preparing cash flow statements for OSC and they will be included in all future GAAP reports.”

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 and recording receipts in a receipts journal
- Depositing receipts
- Issuing licenses, permits, certificates, etc., to the remitter

The chief fiscal officer, business manager, or other similar employee shall be responsible for the periodic preparation, where feasible, of an accountability report, or cash proof of the total receipts as recorded in the cash receipts journal of the agency. These reports are prepared to compare the monies that were actually recorded with the monies that should have been accounted for.

Section 4-32 of the General Statutes indicates that any state department receiving any money or revenue for the state shall, within twenty-four hours of its receipt, account for and, if the total of the sums received amounts to five hundred dollars or more, pay the same to the Treasurer or deposit the same in the name of the state in depositories designated by the Treasurer under such regulations as the Treasurer prescribes.

Proper internal control dictates that a reconciliation of the receipts log to evidence of deposit should be routinely performed to ensure that all revenue is promptly deposited.

Condition:

We noted that receipts journals are not maintained in certain areas of the department in which receipts are received. We found that the DAS SmART Unit and the DAS Procurement Services Division were two such areas.

- First checks are received by the DAS SmART Unit from the third party administrator for workers' compensations claims. These are sent to the DAS business office to be deposited and split.
- Checks are also received by the Procurement Services Division for certifications issued through the Contractor Prequalification Program and from the state surplus property vendor for auction sales. Revenue accountability tests, where feasible, and cash proofs did not appear to be performed by the department.

In addition, it was noted that the DAS Surplus Unit employee receiving checks from the surplus property vendor is also responsible for determining the accuracy of the remittance,

depositing the checks, and providing the deposit detail to the DAS business office for recording to the accounting system.

While the Collection Services Division does maintain a check registry, we noted that for 47 of the 52 transactions we reviewed, the revenue received was deposited and posted to the accounting system in the range of three to 24 business days after the date of receipt. The division's check registry is not reconciled to evidence of deposit.

In a separate test of receipts from estates and accident liens, it was noted that for 14 out of 16 transactions tested, revenue was deposited and posted to the accounting system three to eight business days after the date of receipt.

Effect: The lack of proper accountability and segregation of duties over receipts increases the risk of undetected loss and non-compliance with timely depositing requirements.

Cause: It appears that the department's consideration of proper internal controls was lacking.

We were informed by Collection Services Division staff that a deposit waiver to the timely deposit and recording requirements was on file. However, it appeared that the waiver dated back many years and did not appear to be renewed by the Office of the State Treasurer.

Recommendation: DAS should establish internal controls over receipts as identified within the State Accounting Manual and comply with Section 4-32 of the General Statutes by depositing and recording revenue in a timely manner or obtaining a waiver to said requirements from the Office of the State Treasurer. (See Recommendation 23.)

Agency Response: "DAS agrees that each DAS unit that receives receipts should maintain a receipt journal, and the agency will establish those procedures. DAS notes, however, that it has worked very closely with our audit teams to plan, design, implement and oversee the agency's daily receipts. In particular, the DAS Business Office has an Access database, utilized to log the receipt of each check the Business Office receives, including the checks that are hand-carried to the Business Office by the DAS Procurement Services and SmART units, on the same day these units receive the checks. DAS believes it has excellent check logging systems in place to record these receipts, and the agency has not been made aware of any instances where these systems have failed. DAS will also work to renew its long-standing deposit waiver with the Office of the State Treasurer."

Expenditure Related Issues:

Background: Under subsection (c) of Section (60) of Public Act 05-251, the Department of Administrative Services became responsible for providing the business office functions of certain agencies.

Criteria: Subsection (a) of Section 4-98 of the General Statutes indicates that “except for such emergency purchases as are made by a budgeted agency under regulations adopted by the Commissioner of Administrative Services, no budgeted agency or any agent thereof shall incur any obligation, by order, contract or otherwise, except by the issue of a purchase order or any other documentation approved by the Comptroller, necessary to process the transaction transmitted by the budgeted agency or its agents to the commissioner and the Comptroller, provided the amount to be charged against the appropriation for a budgeted agency in any year for a purchase order for a current expenditure shall be the amount anticipated to be spent in such year”.

Certain contract bid submission instructions within DAS contracts indicate that facsimiles or unsealed bids will not be accepted or that DAS recommends that at least three quotes be obtained from awarded contractors, whenever possible.

Through memoranda of understanding, the Department of Administrative Services has identified lines of responsibility between themselves and the consolidated agencies they serve.

Condition: Upon our testing of expenditure transactions covering the department and the agencies they serve, we noted the following:

Ordering Goods/Services from Vendor without an Approved Purchase Order:

- Six of 19 DAS-specific transactions
- Eleven of 153 consolidated agency transactions
- Three of 12 transactions from field audit testing performed on the Police Officer Standards Training Council for fiscal year 2008
- Nine of 25 transactions from field audit testing performed on the Office of Protection and Advocacy for fiscal years 2007 and 2008. Six of those transactions were within fiscal year 2008.

Improper Bid Handling:

The department did not ensure that contractual provisions were met for the following:

- One state contract required that three quotes be obtained from awarded vendors for one particular purchase for the Office of Workforce Competitiveness. No quotes were obtained.
- Another state contract indicated that faxed bids would not be acceptable. We noted that for one purchase for the Office of the Governor, facsimile bids were accepted.

Effect: Obligating the state without having a timely approved purchase order in place could result in the failure to receive expected services. Noncompliance with statutory requirements could result in the agency exceeding its appropriation.

In the absence of compliance with the bid submission procedures of certain state contracts, there is an increased risk of impropriety and potentially increased costs to the state.

Cause: It appears that the department has not fully exercised its authority in ensuring compliance with statutory and contractual purchasing provisions.

Recommendation: DAS should ensure compliance with Section 4-98 of the General Statutes by having a properly approved purchase order in place prior to ordering goods and services from vendors.

The department should also comply with state contractual provisions regarding proper bid submission and obtaining the proper number of quotes from vendors prior to issuing purchase orders. (See Recommendation 24.)

Agency Response: “DAS agrees with this recommendation. However, DAS believes that primary responsibility for ensuring compliance with these purchasing statutes and policies resides with managers and supervisors in the employing agencies. DAS does remind client agency staff of the applicable rules and their obligations to follow them when we discover irregularities. DAS will continue to work with the agencies we service to improve this finding by better communicating these rules and obligations to the agencies’ staff.”

Inventory and Property Control:

Criteria: Section 4-36 of the Connecticut General Statutes requires that “Each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all of the following property owned by the state and in the custody of such agency: (1) Real property, and (2) personal property having a value of one thousand dollars or more.” The methods prescribed by the Comptroller are published in the State Property Control Manual (SPCM). Chapter three of the PCM includes reporting requirements and categorical inclusions for the various valuations reported on the Asset Management/Inventory Report/GAAP Reporting Form (CO-59).

The SPCM requires that “all internally prepared property control accounting records, and other related property management data shall be reconciled to the Core-CT Asset Management Module [to ensure] the accounting data maintained is valid.”

The SPCM requires that a “separate perpetual (continuous) inventory should be maintained of all stores and supplies (including repair parts for machinery, plumbing, general housekeeping, etc.) if the estimated value of the entire inventory is over \$1,000.”

Sound business practice dictates that sufficient care should be taken to ensure that any data considered for reporting purposes is complete.

Sound management practice dictates that a review process designed to detect significant errors and/or omissions should be undertaken prior to the approval of any report.

Condition 1: To facilitate our review of the inventory valuations reported on form CO-59, we requested all supporting documentation for the preparation of the report, including the required reconciliation. The department did not initially provide documentation of the reconciliation; we were provided an assurance by Business Office management that the information used in the preparation of the report had been reconciled against physical counts as required.

We were eventually provided a reconciliation report for the wrong period that contained multiple errors. We were informed that the report we were provided had been compiled at our request and that no other reconciliation documentation was available. We noted that the valuations included in the report provided did not appear to

reasonably project from the valuations included in the CO-59 report.

We determined that the valuation reported on the CO-59 appeared to be undervalued by approximately \$800,000. The Asset Management group informed us that the data used to prepare the CO-59 report had been extracted from the accounting system using an interactive reporting process that retrieves a maximum of 300 lines of data. The actual pertinent data set was in excess of 400 lines. We were further informed that this process had been used since the accounting system had been put in place in 2005.

We noted that the CO-59 report had been approved by Business Office management. Further, we noted that the approving manager for the FY 2010 report was different than the approving manager for the FY 2009 report. In a prior interview, the approving manager stated that the report had been reviewed prior to approval.

Condition 2:

We noted that the CO-59 valuation for stores and supplies for the area covered by Fleet Services was reduced to zero for fiscal year 2010. We were informed that the valuation reflected only office supplies. The valuation for the parts inventory maintained by Fleet Services had not been included for at least the audited period.

Management stated that the Office of the State Comptroller had informed DAS management that the inclusion of stores and supplies inventory was not required. The Office of the State Comptroller stated that office supplies should be excluded, but the perpetual inventory for fleet repair supplies must be maintained and reported. The fact that the inventory for fleet repair supplies had been omitted for several reports illustrates that this condition extends beyond an isolated misunderstanding and is indicative of a significant control deficiency.

We note that this condition extends to the inventory for supplies essential to the printing and duplicating process undertaken by the print shop.

Effect:

The inventory report submitted by the department appears to be significantly misstated. The department is not compliant with the policies established by the Office of the State Comptroller. The department is at greater risk of non-compliance with state and federal regulations that depend upon the reasonable representation of inventory information. The department is also at greater risk of undiscovered loss due to inaccurate inventory information.

- Cause:* The staff assigned to prepare the CO-59 report was either insufficiently knowledgeable to perform or exercised insufficient care in the performance of this task. A lack of management oversight contributed to the conditions noted.
- Recommendation:* DAS should prepare a formal, written policy and procedure for the preparation of the annual CO-59 report and supporting documentation. The department should take the necessary steps to ensure that staff members have the knowledge necessary to perform the tasks assigned to them. The department should take the necessary steps to ensure that its unit managers review documents and reports sufficiently to detect significant errors and omissions prior to approval. (See Recommendation 25.)
- Agency Response:* “DAS agrees with this recommendation and will prepare a formal, written policy for the preparation of the annual CO-59 report. The agency will also ensure that staff members are knowledgeable about the policy and that unit managers review all reports prior to submission. Fleet repair parts and the supplies used for printing and duplication will be included in all future inventory reports.”

Inventory Valuation and Reporting of Intangible Assets:

Background: The Governmental Accounting Standards Board (GASB) issued Statement 51 (GASB 51) in June of 2007. GASB 51 addressed the inclusion of intangible capital assets for reporting purposes. GASB 51 provided general guidelines regarding the types of assets to be included and the portion of the development cycle to be included in the valuation of intangible capital assets. For the State of Connecticut, GASB 51 became effective for the financial statement for the fiscal year ended June 30, 2010.

The Office of the State Comptroller (OSC) maintains the policies and procedures for the recording and reporting of the inventory of capital assets in its Property Control Manual (PCM). The PCM included provisions for the recording and presentation of internally developed software prior to the publication of GASB 51. In preparation for application of the requirements of GASB 51, the OSC created new asset categories, issued a new inventory report form and issued a memorandum containing general guidelines to allow state agencies to comply with the requirements of GASB 51.

Criteria: GASB 51 requires governmental entities to recognize intangible capital assets in its financial reports. Such intangible assets include internally developed computer software and third party licensed software that meet the governmental entities' capitalization threshold. Internally developed software should be

valued using the development stage approach, which includes activities such as design, configuration, coding, installation and testing of the software.

GASB 51 also states that outlays that increase the capacity, efficiency or useful life of the computer software should be capitalized. Outlays for routine maintenance or annual licensing should not be capitalized.

The Property Control Manual published by the Office of the State Comptroller states that “agency developed software which the state has ownership to and is capitalized and reportable on the CO-59 and classified under the software category must be recorded within the Asset Management Module of Core-CT.”

The SPCM establishes the level of capitalization at \$1,000 per item or unit of inventory.

Good business practice requires that, in the absence of specific guidance, available information should be used to document best effort measures to comply with requirements. The OSC includes a listing and definitions of accounts used for expenditures in its State Accounting Manual.

Condition 1:

The requirement for valuation of capitalized licensed software was new for fiscal year 2010; however, valuation of capitalized licensed software for the preceding five years was part of the requirement. Therefore, our review of the department’s valuation of capitalized licensed software included fiscal years 2005 through 2010.

We were not provided any specific guidance with regard to valuation methodology or accounts to include for review. We were unable to obtain any such guidance independently from the OSC. It is not clear that specific guidance for this activity exists.

We reviewed the State Accounting Manual maintained by the OSC and determined that four accounts should be subject to review for potential capitalized licensed software expenditures. We compared our analysis with the department’s supporting documentation. We found that the department’s valuation was based on one account.

The comparison of our analysis with the valuation prepared by the department showed that we were in agreement for five transactions totaling \$63,507. However, we found nine transactions totaling \$43,637 that the department should have included but did not; we also found 13 transactions totaling \$27,396 that the department

included errantly in its valuation. Finally, we found 14 transactions totaling \$42,062 that were included by the department for which we found insufficient support or guidance from either GASB 51 or the OSC to form a conclusion.

We found that the transactions included errantly by the department were comprised of a variety of items that did not meet the capitalization threshold or fell into a category of expenditures that was specifically excluded by GASB 51.

Condition 2: The requirement for valuation of capitalized internally generated software was not new for fiscal year 2010. Our review of departmental operations revealed that the Information Systems Group of DAS developed and/or significantly modified several software systems that should have been considered for inclusion as capitalized internally generated software. Our review of the CO-59 reports made available to us revealed that no such valuations were included.

Effect: The inventory valuations of intangible software assets included on the inventory report submitted by the department appear to be significantly misstated. The valuation methodologies employed by the department do not appear to be consistent or fully compliant with GASB 51.

Cause: It does not appear that the staff assigned to prepare the CO-59 report was sufficiently knowledgeable to perform this task. A lack of management oversight contributed to the conditions noted.

Recommendation: DAS should work with the Office of the State Comptroller to determine the specific criteria for valuation of intangible software assets in a manner that is compliant with GASB 51. The department should use the determined criteria to develop formal policies and procedures for said valuations. The department should ensure that all staff assigned to the task of asset inventory valuation are sufficiently knowledgeable to perform the task either through education or prior demonstration of the requisite knowledge. Finally, department management should become sufficiently familiar with the reporting requirements to review the reports in a manner that would detect significant errors or omissions. (See Recommendation 26.)

Agency Response: “DAS agrees with this recommendation and will work with information technology staff and OSC to determine the accurate reporting criteria and to develop policies and procedures for properly valuing these assets.”

Use of the Capital Equipment Purchase Fund:

Criteria: Connecticut General Statutes Section 4a-9 allows the Capital Equipment Purchase Fund to be used for the acquisition of necessary data processing equipment provided such equipment has a useful life of not less than five years.

The useful life of an asset in a governmental entity should be determined by the entities' actual experience in combination with its maintenance and replacement policy.

Condition: In the performance of our review of inventory and asset management, we determined that the department reclassified the purchase of 167 desktop class computers with a total cost of \$89,512 from the General Fund to the Capital Equipment Purchase Fund. The department was unable to provide a written policy containing estimated useful life information for this type of computer equipment. We were also unable to obtain a statewide policy from the Office of the State Comptroller; therefore, we could not determine compliance with the statute.

Effect: In the absence of policy regarding the useful life of data processing equipment, it is difficult to determine compliance with Section 4a-9 of the General Statutes.

Cause: The department did not develop a policy with respect to useful life and the appropriate use of the Capital Equipment Purchase Fund. A lack of management oversight contributed to this condition.

Recommendation: DAS should develop a written policy with regard to the use of the Capital Equipment Purchase Fund. As part of that policy, the department should develop and maintain documentation containing updated useful life estimates for asset types typically in the possession of the department. (See Recommendation 27.)

Agency Response: "DAS agrees that it should maintain documentation concerning the useful life estimates for assets typically in the possession of the department. DAS does not have a formal policy or schedule regarding the replacement of computers, but rather purchases new equipment only when desktops cannot be fixed by IT staff and replacement is absolutely necessary."

Incomplete Asset Management Records:

Criteria: The State 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:

We reviewed asset management items for six assets selected through premises inspection for the following attributes: location, item description, scan tag number, serial number and custodian. We noted that two of the six (33 percent) assets did not have a purchase order or voucher information associated with them. We also noted that three of the six (50 percent) had neither a custodian nor a custodian department associated with them; however, this exception may be somewhat mitigated through the inclusion of location information.

Through our testing in other areas, we noted no purchase order or voucher information was associated with any of the five records tested as additions to inventory (100 percent), and that one of those records (20 percent) contained incorrect scan tag information. Additionally, we noted that the asset information associated with 167 computers was incorrect with respect to a change in fund.

We note that the overarching condition of inaccurate inventory records has been repeated several times. We also note that, although the conditions remain, it appears that the department has taken some steps to improve the conditions noted in prior periods.

Effect:

It does not appear that the department is fully compliant with all of the requirements set forth in the Property Control Manual maintained by the Office of the State Comptroller. 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: DAS should continue to take the necessary steps to ensure that its asset management records completely and accurately reflect the equipment inventory for which it is responsible. (See Recommendation 28.)

Agency Response: “DAS agrees with this recommendation and will continue to work towards full compliance with Property Control Manual guidelines.”

Collection Services – Recovery Unit:

The DAS Collections Recovery Unit is responsible for collecting money due the State of Connecticut from decedent estates or the recipients of 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.

Accountability over Legal Representative Cases and Estate Assets:

Criteria: Section 4a-16 of the General Statutes indicates that when any person supported or cared for by the state under a program of public assistance or in an institution maintained by the Department of Developmental Services or Department of Mental Health and Addiction Services, or when an inmate of the Department of Correction, or when any child committed to the Commissioner of Social Services or Commissioner of Children and Families dies leaving only personal estate, including personal assets owing and due the estate after death, not exceeding the aggregate value, as described in section 45a-273, the Commissioner of Administrative Services or the commissioner's authorized representative shall, upon filing with the probate court having jurisdiction of such estate a certificate that the total estate is under the aggregate value, as described in section 45a-273, and the claim of the state, together with the expense of last illness not exceeding three hundred seventy-five dollars and funeral and burial expenses in accordance with section 17b-84, equals or exceeds the amount of such estate, be issued a certificate by said court that the commissioner is the legal representative of such estate only for the following purpose. The commissioner shall have authority to claim such estate, the commissioner's receipt for the same to be a valid discharge of the liability of any person turning over the same, and to settle the same

by payment of the expense of last illness not exceeding three hundred seventy-five dollars, expense of funeral and burial in accordance with section 17b-84 and the remainder as partial or full reimbursement of the claim of the state for care or assistance rendered to the decedent. The commissioner shall file with said probate court a statement of the settlement of such estate as herein provided.

Proper internal control dictates that the areas of custody and recordkeeping over assets should be segregated; for inventory record purposes, a clear and specific description of the asset on hand should be maintained; and documented operational procedures should be updated to reflect the current authorized practice.

Condition: Upon our review of the administration over estate cases in which the department acts as a legal representative, we noted the following exceptions:

- Out of thirty physical case files requested from the Collection Services Division, in which a department designee acted as legal representative under Section 4a-16 of the General Statutes, three could not be located.
- We noted that the team leader in the Legal Representative Unit within the Collection Services Division maintains the safe inventory records for the physical assets received by the department as part of estate closings; has access to the safe where such physical estate assets are maintained; and is responsible for the liquidation of such assets.
- The inventory records maintained for the physical estate assets (i.e. stocks, bonds, etc.) received by the department lacked adequate description. Stock certificate and bond identification numbers were not included on the safe inventory record.
- Certain bonds and stocks have been on hand for years because they were difficult to research and liquidate. We noted three cases where the bonds on hand at DAS existed for over 5 years.
- We noted that the division's internal procedures for Referrals to State Surplus Property on Legal Rep Estates appeared to be outdated compared to the current practice.

Effect: The risk of loss is greater where a lack of accountability or segregation of duties exists.

Cause: It appears that administrative oversight may have been lacking in this area.

Recommendation: DAS should place more effort in ensuring proper accountability exists over its legal representative case records and assets for liquidation by maintaining adequate physical control over its records; segregating the duties regarding custody and recordkeeping of estate assets; recording a full description of the estate asset on the inventory record to include stock certificate or bond numbers; utilizing the competitively bid contract vendor at the Office of the State Treasurer to liquidate the older and out-of-country bonds and certificates that have been long retained at the department; and updating the department's procedures regarding the referral of estate assets to the State Surplus Property Unit for disposition to reflect the current practice. (See Recommendation 29.)

Agency Response: "DAS agrees with this recommendation. We will establish procedures to ensure segregation of duties relating to the custody and recordkeeping of estate assets. Our inventory record document will be modified to include additional information regarding asset description and tracking. We will work with the Office of the State Treasurer to facilitate the process of stock certificate and bond liquidation when necessary. In addition, we will update our procedures for Referrals to State Surplus Property to bring written procedures in line with current practice."

Trust Account Reconciliations:

Background: When an individual applies for state aid 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, the individual is liable for the full amount of assistance received, the cost of care or incarceration. Under Sections 4a-12, 4a-15 and 4a-16 of the General Statutes, the Department of Administrative Services acts as the trustee for the accounts of certain of these individuals under such assistance.

Criteria: Basic accounting principles suggest that subsidiary accounts should be reconciled on a regular basis to the control accounts.

Condition: DAS' Collection Services database records did not appear to be available or properly reconciled to their respective trustee cash accounts. While it appears that bank reconciliations are prepared on a monthly basis for both accounts, there is no overall reconciliation of the database records to cash in the respective trustee checking and Short Term Investment Fund (STIF) accounts.

- Effect:* Unexplained variances may exist and go undetected without a periodic complete reconciliation performed on both trustee accounts. The assets for fiscal year ended June 30, 2010, consisting of cash and investments, totaled \$429,529 and \$2,262,472 for the Legal Representative trustee account and the Representative Payee trustee account, respectively.
- Cause:* It appears that DAS was not fully cognizant of the extent of reconciliation that is needed for the trustee accounts.
- Recommendation:* DAS should establish and implement procedures to ensure that the database records under the Division of Collection Services are properly reconciled to their respective trustee cash control accounts on a periodic basis. Unexplained variances should be investigated and resolved. (See Recommendation 30.)
- Agency Response:* “DAS agrees with this recommendation. DAS has developed a process to review and reconcile on a monthly basis the balance listed in the Representative Payee Trustee database with the associated bank account and STIF statements. There is a long-standing discrepancy in this STIF account compared to DAS database records, and DAS has been gathering and reviewing account statements from the last several decades in an attempt to find the cause of the discrepancy and resolve it. DAS will also institute a similar monthly reconciliation process for the Legal Representative Trustee account.”

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.

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. The 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 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.

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.

Further maintenance or development in the manner currently used by the department would put the department at risk of prolonged inefficient and ineffective use of state financial and technical resources through continued reliance on an arcane hardware and software methodology insufficiently supported.

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.

Effect: Maintaining and upgrading the scoring software currently in use is dependent upon a single person. The department is at increased risk that its ability to score employment examinations electronically could be significantly curtailed, if not eliminated, if that employee

left state service. Additionally, since the job description and training of the person who wrote the software does not include software development, it does not appear that the employee is being utilized in the most efficient manner possible.

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: DAS should engage in the activities necessary to update the information system used to score employment test answer sheets such that said system is compliant with applicable state directives, such as Governor Rell's Executive Order 19. The system should also meet state and agency objectives, be compliant with the current and planned Enterprise-wide Technical Architecture, easy to maintain, and cost-effective to enhance.

Any required editing should be accomplished through the use of a separate routine that tracks such changes and records both the user who makes the change and the authority under which such changes are made. (See Recommendation 31.)

Agency Response: "DAS agrees that it is preferable to update the information system used to score employment test answer sheets and has initiated the purchase of a new commercial test form scanner and software for this purpose. DAS does not agree that Executive Order 19 applies to a small self-contained system such as the one at issue."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2006 and 2007, contained a total of 14 recommendations. Of those recommendations, seven have been implemented, satisfied, or otherwise regarded as resolved. Thirty-one recommendations are new or modified and repeated. The status of the prior recommendations is presented below.

Status of Prior Audit Recommendations:

- 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. This recommendation has been modified to reflect current conditions. (See Recommendation 31.)

- 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. This recommendation has been resolved.

- 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 its operational objectives. The risk assessment and mitigation function should be independent, formal, and ongoing. This recommendation is repeated. (See Recommendation 14.)
- 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. This recommendation has been modified to reflect current conditions. (See Recommendation 15.)
- 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. This recommendation has been resolved.
 - The department should consider the redesign of its forms such that sensitive data is collected only when absolutely necessary. This recommendation is repeated and merged with another recommendation. (See Recommendation 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. This recommendation has been modified to reflect current conditions. (See Recommendation 16.)
 - 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. This recommendation has been resolved.
 - 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. This recommendation has been resolved.
 - The department should continue to take further corrective action in order to support in detail the cash positions of its Representative Payee bank account. This recommendation has been resolved.
 - 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. This recommendation has been modified to reflect current conditions. (See Recommendation 23.)

- 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. This recommendation has been modified to reflect the current conditions. (See Recommendation 25.)
- 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. This recommendation has been resolved.
- 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. This recommendation has been resolved.

Current Audit Recommendations:

- 1. DAS should evaluate the reporting responsibilities within Sections 4a-6, 4a-67a, and 5-200a of the General Statutes and either comply with its provisions or pursue legislative change if statutory obsolescence is determined.**

Comment:

It was noted that the reporting requirements of certain statutes were not met for the audited period.

- 2. DAS should comply with Sections 4a-52, 4a-61, and 31-284a of the General Statutes and adopt/modify its state regulations to reflect its current processes.**

Comment:

It was noted that language within the state regulations as required by Section 4a-52 and Section 4a-61 was outdated and the state regulations required under Section 31-284a did not appear to exist.

- 3. DAS should either continue to pursue the repeal of the statutory mandate or reconstitute the Committee on Career Entry and Mobility, the Committee to Encourage Employment by the State of Persons with Disabilities, and the Quality Control Committee in accordance with Section 4-61t, Section 4-61aa, and Section 5-237b of the General Statutes, respectively.**

Comment:

We were informed by departmental staff that certain committees had not been active for many years.

4. **The Department of Administrative Services and the Office of the Governor should collaborate to ensure that a Senior Executive Service Board is created and made operational in accordance with state law or seek legislative relief from those requirements.**

Comment:

It was noted that the Senior Executive Service Board had not been in operation for many years.

5. **DAS should pursue a formal agreement with the Offices of the Governor and the Lieutenant Governor as well as other agencies served by the department to clearly identify the lines of responsibility in performing personnel, payroll, affirmative action and business office functions.**

Comment:

It was noted that certain state agencies served by the department do not have formal agreements on file.

6. **DAS should take steps to ensure compliance with Section 5-247-11 of the State Regulations and applicable collective bargaining agreements by monitoring sick leave usage on a biweekly basis for purposes of determining which employees are required to provide medical certificates and subsequently pursuing collection of such from the employees affected.**

Comment:

The absence of medical certificates on file was noted for five out of twenty instances tested covering DAS and various other SmART agencies. Four additional and separate instances were noted in two SmART agency field audits conducted.

7. **DAS should promote compliance with Section 5-208a of the General Statutes by revising its instructions to state agencies via General Letter No. 204 regarding dual employment to reflect the current practice and system. Such procedures should re-establish the DAS practice of providing semiannual reports of employees with multiple positions to state agencies to discern if true dual employment arrangements exist and need to be addressed.**

Additionally, the department should redesign the dual employment request form to eliminate the unnecessary collection and storage of sensitive data.

Comment:

It was noted that DAS General Letter No. 204 regarding dual employment procedures appeared to be outdated. In addition, it was noted that the DAS dual employment request form continues to require the unnecessary submission of sensitive data.

8. **DAS should strengthen its administrative oversight to ensure the propriety of the earning and usage of overtime and compensatory time by the employees of the respective agencies they serve.**

Comment:

Numerous instances were noted where employees were credited for overtime and compensatory time without evidence of pre-approval on hand. Additional miscellaneous exceptions were noted.

9. **DAS should ensure compliance with Section 5-237-1 (a) (4) of the State Regulations by obtaining annual service ratings for all permanent employees and abide by all provisions of the Performance Assessment and Recognition System Handbook when awarding managerial merit increases and bonuses.**

Comment:

PARS evaluations were not on file for the employees tested.

10. **DAS should take greater care to review the propriety of timesheet data from SmART agencies prior to processing for payment.**

Comment:

Numerous miscellaneous timesheet related issues were noted.

11. **As part of its administrative function over SmART agencies, the DAS SmART Unit should ensure that employee exit interview forms are completed and placed within the applicable separating employee's personnel file. When the separating employee refuses to participate in the interview or complete the form, the reasons for such should be documented and kept on file.**

Comment:

Exit interview documentation appeared to be absent from the personnel files of nine employees from two certain SmART agencies.

12. **DAS should implement a procedure to have the payroll supervisor or a designee confirm the accuracy of retroactive and separation payment calculations performed by other payroll staff.**

Comment:

We were informed by DAS' payroll staff that supervisory/secondary reviews of retroactive and separation payment calculations are not performed to determine accuracy.

- 13. DAS should comply with applicable collective bargaining unit agreements and the Manager's Guide regarding adjustments to leave time for deceased employees, and establish a policy to ensure that longevity calculations for deceased employees are determined consistently.**

Comment:

It was noted that the accrual time earned and adjusted for certain deceased employees appeared to be inaccurate. It was additionally noted that longevity appeared to be inconsistently computed.

- 14. DAS should develop or acquire a formal risk assessment and mitigation function with the objective of identifying and addressing those risks that could negatively impact 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.

- 15. DAS should complete its work on policy and controls over data security and data transfer protocols as quickly as possible. The department should take the necessary steps to ensure that it directs external vendors to utilize secure transfer protocols to the extent allowed in all associated contracts and agreements.**

Comment:

The department has been using a non-secured data transfer protocol to send password protected files containing potentially sensitive data to third party contractors.

- 16. DAS should take the necessary steps to develop and implement a continuing periodic monitoring and review procedure regarding Core-CT 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. The department should ensure that any of its employees who have the liaison role do not work in areas that have direct fiscal, payroll or personnel responsibilities.**

Comment:

User rights appear to have been granted to employees who do not need them. Controls designed to prevent or detect unsafe business practices related to user rights are significantly weakened.

- 17. DAS should seek an official opinion from the Office of the Attorney General to obtain clarification as to whether tax related data for those entities contracted by the DAS Workers' Compensation Program's third party administrator and paid for with state funds needs to be obtained and submitted to the Department of Revenue Services in order to comply with the intent of Section 4a-80 of the General Statutes.**

Comment:

It was noted that the department did not report the tax related data for those entities contracted and paid via a state account by the third party administrator for workers' compensation related services.

- 18. The DAS Procurement Services Division should comply with Chapter 55a of the General Statutes by not involving itself with the procurement of personal service contractors.**

The department should also either seek a formal opinion from the Office of the Attorney General or request that the General Assembly further clarify the intent of Section 4a-50 of the General Statutes in relation to the authorization provided to the Office of Policy and Management within the procurement related statutes found in Chapters 50 and 55a and to the definitions as found within Chapter 62 of the General Statutes.

Comment:

It was noted that four contracts issued by the department appeared to be for professional/consultant type services. These contracts would appear to be more appropriately handled by the Office of Policy and Management under Chapter 55a of the General Statutes.

- 19. DAS should establish a control process to ensure the accuracy of the rebates received. Additionally, the department should institute policies to maximize the rebate earned by monitoring the levels of individual card usage and eliminating those P-Cards that no longer have a valid purpose.**

Comment:

We were informed by departmental staff that there are no controls in place to ensure the accuracy of the P-Card rebate received; nor is there monitoring of card usage with consideration to maximizing said rebate.

- 20. DAS should, within existing resources, work with state and federal entities to acquire sufficient knowledge to develop rates for the various services it provides through its internal service fund (the DAS Revolving Fund) that accurately recover the costs associated with those services in a manner that is compliant with applicable federal regulation and state directive. The department should then develop and implement procedures that will allow the rate development process to be duplicated annually. Finally, the department should review its rate development process annually to ensure that it remains compliant with the applicable federal regulations and state directive.**

Comment:

The department has not updated its rates for cost recovery for the DAS Revolving Fund in over five years despite indications that the rates should be updated.

- 21. DAS should continue to meet with the Office of the State Comptroller to reconcile the differences in profitability noted in the presentations by the two agencies of the financial statements for the revolving fund maintained by DAS. The department should, within existing resources, design and implement controls to ensure the accuracy of its cost data and accompanying cost recovery rates.**

Comment:

The difference in presentations amounts to approximately \$40 million; DAS presents a surplus position while the Office of the State Comptroller presents a deficit position. Appropriate cost recovery cannot occur without accurate identification of costs.

- 22. DAS should develop and implement controls and allocate sufficient personnel to prepare accurate financial reports that comply with applicable standards and directives.**

Comment:

The department did not prepare all of the financial reports for its internal service fund (the DAS Revolving Fund) that are required by the Governmental Accounting Standards Board.

- 23. DAS should establish internal controls over receipts as identified within the State Accounting Manual and comply with Section 4-32 of the General Statutes by depositing and recording revenue in a timely manner or obtaining a waiver to said requirements from the Office of the State Treasurer.**

Comment:

It was noted that receipts journals are not maintained in certain areas of the department in which monies are received, and revenue accountability tests, where feasible, were not performed. In addition, it was noted that one employee in the DAS Surplus Unit was

responsible for receiving the surplus property vendor's checks, determining their accuracy, depositing them and providing the deposit detail to the department's business office for recording.

- 24. DAS should ensure compliance with Section 4-98 of the General Statutes by having a properly approved purchase order in place prior to ordering goods and services from vendors.**

The department should also comply with state contractual provisions regarding proper bid submission and obtaining the proper number of quotes from vendors prior to issuing purchase orders.

Comment:

We noted numerous instances of purchase orders being issued and approved by the department after the goods/services have been ordered and, in some cases, already provided by the vendor. We also noted a couple of miscellaneous contract exceptions: three quotes were not obtained from awarded vendors as indicated in the state contract and facsimile bids were accepted in another instance.

- 25. DAS should prepare a formal, written policy and procedure for the preparation of the annual CO-59 report and supporting documentation. The department should take the necessary steps to ensure that staff members have the knowledge necessary to perform the tasks assigned to them. The department should take the necessary steps to ensure that its unit managers review documents and reports sufficiently to detect significant errors and omissions prior to approval.**

Comment:

The inventory report prepared by the department contained significant errors and omissions.

- 26. DAS should work with the Office of the State Comptroller to determine the specific criteria for valuation of intangible software assets in a manner that is compliant with GASB 51. The department should use the determined criteria to develop formal policies and procedures for said valuations. The department should ensure that all staff assigned to the task of asset inventory valuation are sufficiently knowledgeable to perform the task either through education or prior demonstration of the requisite knowledge. Finally, department management should become sufficiently familiar with the reporting requirements to review the reports in a manner that would detect significant errors or omissions.**

Comment:

The employee tasked with determining the valuation for the inventory of intangible computer software assets received no training and has no background or specific education related to making that kind of determination. The department did not include

any internally developed software in its valuation, although the Governmental Accounting Standards Board requires it.

- 27. DAS should develop a written policy with regard to the use of the Capital Equipment Purchase Fund. As part of that policy, the department should develop and maintain documentation containing updated useful life estimates for asset types typically in the possession of the department.**

Comment:

The department did not have written policy pertaining to determining the useful life of data processing equipment.

- 28. DAS should continue to take the necessary steps to ensure that its asset management records completely and accurately reflect the equipment inventory for which it is responsible.**

Comment:

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.

- 29. DAS should place more effort in ensuring proper accountability exists over its legal representative case records and assets for liquidation by maintaining adequate physical control over its records; segregating the duties regarding custody and recordkeeping of estate assets; recording a full description of the estate asset on the inventory record to include stock certificate or bond numbers; utilizing the competitively bid contract vendor at the Office of the State Treasurer to liquidate the older and out-of-country bonds and certificates that have been long retained at the department; and updating the department's procedures regarding the referral of estate assets to the State Surplus Property Unit for disposition to reflect the current practice.**

Comment:

The department could not locate three out of thirty physical case files. The team leader in the Legal Representative Unit of the Division of Collection Services maintains the safe inventory records for the physical assets received by the department as part of estate closings, has access to the safe where such are maintained, and is responsible for the liquidation of those assets. The inventory records of the safe appeared to lack adequate description. Stock certificate and bond identification numbers were not included. Certain bonds and stocks have been on hand for years because they were difficult to research and liquidate. The division's procedures for referring physical assets to the State Surplus Property Unit appeared outdated and did not reflect current practice.

- 30. DAS should establish and implement procedures to ensure that the database records under the Division of Collection Services are properly reconciled to their respective trustee cash control accounts on a periodic basis. Unexplained variances should be investigated and resolved.**

Comment:

It was noted that complete reconciliations of the department's database records for the two trustee accounts were not performed.

- 31. DAS should engage in the activities necessary to update the information system used to score employment test answer sheets such that said system is compliant with applicable state directives, such as Governor Rell's Executive Order 19. The system should also meet state and agency objectives, be compliant with the current and planned Enterprise-wide Technical Architecture, easy to maintain, and cost-effective to enhance.**

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

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. Neither the job description nor training of the employee includes software development. The software lacks user documentation and was written in a computer language no longer used for software development. The department is at an increased risk that the exam scoring process is not sustainable with its current exam scoring software.

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, 2008, 2009 and 2010. This audit was primarily limited to performing tests of the department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the department are complied with, (2) the financial transactions of the department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Administrative Services for the fiscal years ended June 30, 2008, 2009 and 2010, 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:

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

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Condition of Records and Recommendations sections of this report, we identified deficiencies in internal control over financial operations, safeguarding of assets, and compliance

with requirements that we consider to be a material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any assets or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department of Administrative Services' financial operations will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be a material weakness: Recommendation 14 – Lack of a formal risk assessment and mitigation function; Recommendation 15 – The need for formal written procedures for personal data security; Recommendation 21 - The difference in financial statement presentations for the DAS Revolving Fund amounts to approximately \$40 million; DAS presents a surplus position while the Office of the State Comptroller presents a deficit position. Appropriate cost recovery cannot occur without accurate identification of costs.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: See Recommendations 20, 25, and 28.

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 department'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' response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Department of Administrative Services' 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.



Dennis R. Collins Jr.
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts