

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF ADMINISTRATIVE SERVICES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

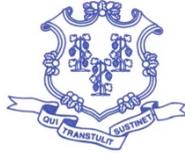
## Table Of Contents

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INTRODUCTION .....	1
COMMENTS .....	2
FOREWORD .....	2
Office of the Commissioner .....	3
Bureau of Central Administration .....	3
Bureau of Property and Facilities Management .....	3
Bureau of Enterprise Systems and Technology.....	4
Division of Construction Services.....	4
Significant Legislation.....	4
RÉSUMÉ OF OPERATIONS.....	5
General Fund .....	5
Workers' Compensation Claims.....	7
Department of Administrative Services – General Services Revolving Fund .....	8
Department of Administrative Services – Technical Services Revolving Fund .....	9
Department of Administrative Services – Capital Projects and Public Works Service Fund .....	10
Trustee Accounts in the Custody of the Commissioner of the Department of Administrative Services.....	12
Other Matters – Disclosure of Consolidated Agency Audit Recommendations.....	14
Program Evaluation .....	15
Maximizing Collection Opportunities .....	15
Internal Controls over Accident and Probate Case Files .....	19
Safeguarding of Liquid Assets held for Legal Representative Cases.....	24
Reporting on Breakdown of Safekeeping of Liquid Assets.....	27
STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....	29
General Statutory Compliance .....	29
Commission for Educational Technology – Annual Report.....	29
Boards, Commissions and Committees.....	31
Compliance with CGS 1-225 .....	31
Board Vacancies .....	32
Fleet Operations.....	34
Complaints Concerning Fleet Vehicles .....	34
MPG Rating for State Vehicles.....	36
Fleet Operations – Approval of Capital Asset Disposals.....	38
System-wide Accountability and Control .....	40
Risk Management .....	40
Business Office.....	42
Expenditure-Related Issues.....	42
Inventory and Property Control .....	44
Incomplete Asset Management Records.....	45
Procurement.....	47

Construction Contractor Prequalification Program – Contractor Evaluation Form ...	47
Information Technology .....	49
Terminated Employees with Active Core-CT Logon IDs .....	49
Capital Projects – Project Management and Financial Reporting .....	50
Risk Assessment for Information Technology .....	52
Active Directory User Account Monitoring and Administration .....	53
Issues with the New Telecommunications System .....	54
Statewide Human Resources .....	57
Employment Testing Application .....	57
Compensatory Time Policy .....	58
Division of Construction Services .....	60
Claims by the State .....	60
Compliance with the Statutory Requirement to Review Subcontracts .....	61
Real Property Reporting to Client State Agencies .....	62
Management of Capital Project Revolving Fund .....	64
Material Weakness in Construction Project Change Order Procedures .....	65
Construction Project Closeout Documentation .....	68
DAS Payroll/Personnel and the SmART Unit .....	71
Monitoring - Dual Employment .....	71
Absence of Documented Corrective Action in Payroll and Personnel Controls .....	72
RECOMMENDATIONS .....	76
CONCLUSION .....	94

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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June 1, 2017

**INTRODUCTION  
AUDITORS' REPORT  
DEPARTMENT OF ADMINISTRATIVE SERVICES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014**

We have audited certain operations of the Department of Administrative Services (DAS) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2013 and 2014. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions.
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient,

appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls,
2. Apparent noncompliance with legal provisions, and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Administrative Services.

## **COMMENTS**

### **FOREWORD**

The provisions of Title 4a, Chapter 57, 58 and Title 4b, Chapter 67 of the Connecticut General Statutes (CGS) charges the Department of Administrative Services with the establishment of personnel policy and the personnel administration of state employees; the purchase of supplies, materials, equipment and contractual services; the certification of small and minority owned business enterprises; the prequalification of construction contractors; printing; and billing and collection services.

Title 4b, Chapter 59 and 60a of the Connecticut General Statutes, gives the Bureau of Property & Facilities Management within DAS the responsibility for acquiring property for most state agencies through lease or purchase; providing facility maintenance and security to state buildings in the greater Hartford area as well as to certain properties outside of the Hartford area.

Under Title 4b, Chapters 60 and Title 173, and various chapters throughout Title 29 of the Connecticut General Statutes, the Division of Construction Services is responsible for the design and construction of a variety of state facilities, as well as providing state building and fire code administration and school construction grant administration. Public Act 13-247 eliminated the Department of Construction Services as a stand-alone agency, and transferred its programs, authority, and employees to DAS.

Under Title 4d, Chapter 61 of the Connecticut General Statutes, the Bureau of Enterprise Systems and Technology within DAS is responsible for developing and implementing an information and telecommunication systems strategic plan; for identifying and implementing optimal information and telecommunications systems to efficiently service the needs of state agencies; and for purchasing and leasing all state agency information technology equipment and services, or approving/disapproving all agency requests for same.

Under Public Act 11-51, effective July 1, 2011, a significant agency reorganization took place, which absorbed the functions of certain other agencies into DAS. The former Department of Information Technology (DOIT) became the Bureau of Enterprise Systems and Technology (BEST) under DAS. In addition, a portion of the former Department of Public Works became the Bureau of Properties and Facilities Management under DAS. The remaining functions of the former Department of Public Works became the Department of Construction Services.

Under Public Act 09-07, the State Marshal Commission, the State Insurance Risk and Management Board, the State Properties Review Board, and the Office of the Claims Commissioner were consolidated under DAS, but retained their independent decision-making authority.

A description of the bureaus and divisions of the department for the audited period is presented below.

### **Office of the Commissioner**

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

- Staff Counsel
- Affirmative Action
- Communications Office and Strategic Services

### **Bureau of Central Administration**

The Bureau of Central Administration includes the following divisions:

- Procurement Services
- Business Office
- Small Agency Resources Team (SmART)
- Workers' Compensation and the Master Insurance Program
- Fleet Operations
- Statewide Human Resources Management
- Collection Services

### **Bureau of Property and Facilities Management**

The Bureau of Property and Facilities Management administers the operations, maintenance and security of state owned and leased buildings. The bureau is responsible for the long-term management of the asset, including the physical integrity of the property, operating expenditures, environmental condition, and oversight of the preventative maintenance program as well as implementing capital improvements, administration of contracts for leasing, property management and service contracts, facility planning, and state-wide building security.

## **Bureau of Enterprise Systems and Technology**

The Bureau of Enterprise Systems and Technology is responsible for developing and implementing an information and telecommunication systems strategic plan; for identifying and implementing optimal information and telecommunications systems to efficiently service the needs of state agencies; and for purchasing and leasing all state agency information technology equipment and services, or approving agency requests for same.

### **Division of Construction Services**

The Division of Construction Services (DCS) is the state's primary department for executive and judicial branch construction-related services; administrations of the state school construction grant program; and development, administration and training of state building and fire safety codes.

DCS has the following offices:

- Building Design and Construction
- Regulatory and Technical Compliance

### **Significant Legislation**

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

- Public Act 13-247 – Section 195 eliminated the Department of Construction Services as a stand-alone agency, and transferred its programs, authority, and employees to DAS. The effective date of this provision was July 1, 2013.
- Public Act 13-225 – Section 1 enabled DAS to use a self-funded contract model when contracting with vendors to provide certain IT services to the state. In the self-funded model, the vendor provides IT services to the state, and is paid in whole or in part through administrative fees assessed on some of the online transactions/services. This model gives the state the ability to move forward rapidly with developing online services, and to sustain the growth and development of the system over time without the need for bond funds or General Fund appropriations. The effective date of this provision was June 24, 2013.
- Public Act 13-304 – Section 1 modified the definition of small business enterprise (SBE) in the DAS supplier diversity statutes by requiring that such business be independent. The act also modifies the definition of minority business enterprise (MBE) by requiring that the minority owner(s) possess managerial and technical competence and experience directly related to the principal business activities of the enterprise. The act increases the percentages of work required to be performed by any prime SBE/MBE company awarded a contract under the set-aside statutes from at least 15 percent to at least 30 percent. Also, SBEs and MBEs that subcontract some of the work under their set-aside contract

will be required to subcontract at least 50 percent (instead of 25 percent) of the remaining work to SBEs and MBEs. The effective date of this provision was October 1, 2013.

- Public Act 12-1(June Special Session) – Section 249 increased the state purchasing card (P-Card) limit on state agency P-Card transactions and purchases from \$10,000 to \$250,000 and authorizes agencies to exceed that limit if they receive written approval from the Comptroller and DAS commissioner. The effective date of this provision was July 1, 2012.

## **RÉSUMÉ OF OPERATIONS**

### **General Fund**

General Fund receipts for the 2013 and 2014 fiscal years, as recorded by the State Comptroller, totaled \$73,750,838 and \$90,456,859, respectively.

A summary of those receipts by category is as follows:

	<u><b>Fiscal Year</b></u>		
	<u><b>2011-2012</b></u>	<u><b>2012-2013</b></u>	<u><b>2013-2014</b></u>
Recoveries of the Costs of:			
Public Assistance	\$39,074,917	\$41,950,330	\$50,070,255
Hospitals	22,415,936	23,076,487	26,130,000
Title IV-E and Non IV-E Programs	2,520,725	3,422,150	3,924,490
Other Receipts:			
Inspection Fees			3,833,315
Refunds of Expenditures from Prior Years	3,137,386	1,685,352	2,445,699
Miscellaneous Recoveries	<u>3,202,633</u>	<u>3,616,519</u>	<u>4,053,099</u>
Total Receipts	<u><u>\$70,351,597</u></u>	<u><u>\$73,750,838</u></u>	<u><u>\$90,456,859</u></u>

The Collections Unit also performed claims submissions for federal Medicaid, Medicare, Social Security, private insurance and self-pay program billings. Approximately 97 percent of the total claims for the three fiscal years under review were from the Medicaid 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 \$1,077,601,923, \$1,172,454,095 and \$1,259,849,279 and for the fiscal years ended June 30, 2012, 2013 and 2014, respectively, from the following inpatient and outpatient medical assistance programs:

	<u>2011-2012</u>	<u>Fiscal Year</u> <u>2012-2013</u>	<u>2013-2014</u>
Department of Developmental Services:			
Waiver	\$ 699,223,954	\$ 770,616,243	\$ 766,406,204
In-patient Care Facility	240,667,341	271,966,666	248,871,423
Birth to Three	<u>12,621,079</u>	<u>14,157,560</u>	<u>13,337,647</u>
Total Claims Reported for DDS	<u>952,512,374</u>	<u>1,056,740,469</u>	<u>1,028,613,274</u>
Department of Mental Health and Addiction Services:			
In-patient	15,779,024	17,896,944	38,702,756
Targeted Case Management	11,824,893	-	45,274,918
Out-patient	<u>628,216</u>	<u>595,872</u>	<u>161,542</u>
Total Claims Reported for DMHAS	<u>28,232,133</u>	<u>18,492,816</u>	<u>84,139,216</u>
Department of Veterans Affairs:			
In-patient	<u>16,773,789</u>	<u>19,672,538</u>	<u>16,625,110</u>
Department of Children and Families:			
In-patient	35,001,369	39,520,246	79,499,842
Private Non-Medical Institutions	<u>29,197,200</u>	<u>19,953,600</u>	<u>22,089,730</u>
Total Claims Reported for DCF	<u>64,198,569</u>	<u>59,473,846</u>	<u>101,589,572</u>
Department of Social Services:			
School-Based Child Health	<u>15,885,058</u>	<u>18,074,426</u>	<u>28,882,107</u>
Total Claims	<u>\$1,077,601,923</u>	<u>\$1,172,454,095</u>	<u>\$1,259,849,279</u>

A comparative summary of DAS expenditures from General Fund appropriations for the fiscal years ended June 30, 2012, 2013 and 2014, is presented below:

	<u>2011-2012</u>	<u>Fiscal Year</u> <u>2012-2013</u>	<u>2013-2014</u>
Budgeted Appropriations:			
Personal Services and Employee Benefits	\$ 66,887,707	\$ 79,855,656	\$ 97,156,731
Purchased and Contracted Services	6,317,793	7,063,128	31,151,597
Other Services	12,799,629	20,021,516	30,461,807
Rental and Maintenance – Equipment	350,965	577,037	2,597,364
Motor Vehicle Costs	152,115	2,590,550	2,922,812
Premises and Property Expenses	41,832,204	47,163,186	53,081,634
Information Technology	12,540,882	42,244,292	16,031,645
Communications	2,313,260	3,970,742	7,463,197
Purchased Commodities	363,819	723,038	548,890
Other Charges	282,555	88,363	59,517
Fixed Charges	423,693	731,930	398,717,606

Capital Outlays	-	-	208,745
Capital Outlays – Equipment	1,233,325	28,077,874	32,232,217
Capital Outlays – Buildings/Improvements	25,000	19,211,424	320,020,835
GAAP Expenditure Adjustment	-	-	(166,882)
Total General Fund Expenditures	<u>\$145,522,947</u>	<u>\$252,318,736</u>	<u>\$992,487,715</u>

The large increase in expenditures for fiscal year 2013 resulted from the full fiscal year integration of the prior period merger of the Department of Public Works (DPW) and the Department of Information Technology (DOIT) with DAS. The significant increase in expenditures for fiscal year 2014 resulted from the merger of the Department of Construction Services with DAS.

A comparative summary of DAS expenditures from other fund types for the fiscal years ended June 30, 2012, 2013, and 2014, is presented below:

	<u>2011-2012</u>	<u>Fiscal Year</u> <u>2012-2013</u>	<u>2013-2014</u>
Other Funds:			
Special Revenue – Transportation	\$11,159,963	\$12,671,429	\$ 13,465,729
Capital Equipment Purchase Fund	1,208,034	1,808,084	2,284,497
STEAP – Grants to Local Governments	-	-	3,000,000
Federal and Other Restricted Accounts	69,396,785	43,715,461	142,921,169
School Construction	-	-	5,268,362
School Construction – Magnet Schools	-	-	390,698,461
Community Conservation and Development	-	-	750,000
Public Works Service Fund	-	-	1,062,369
CSUS 2020	-	-	82,443,209
Capital Improvements and Other Purposes	<u>147,291</u>	<u>19,832,888</u>	<u>151,179,452</u>
Total Special Revenue Fund Expenditures	<u>\$81,912,073</u>	<u>\$78,027,863</u>	<u>\$793,073,248</u>

As explained for the previous table, the significant increase in expenditures during the 2012-2013 and 2013-2014 fiscal years was due to the merger of DPW and DOIT with DAS.

### **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, Emergency Services and Public Protection, and Children and Families, while 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, 2012, 2013, and 2014 is presented below:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
General Fund:			
Developmental Services	\$ 15,894,870	\$ 15,879,850	\$ 15,348,071
Mental Health and Addiction Services	11,255,045	10,908,502	11,990,126
Correction	26,836,715	26,440,868	25,588,167
Emergency Services and Public Protection	4,283,660	4,185,192	4,592,719
Children and Families	11,035,823	10,474,191	9,884,016
Administrative Services	<u>26,460,483</u>	<u>26,729,684</u>	<u>29,056,407</u>
Total General Fund	<u>95,766,596</u>	<u>94,618,287</u>	<u>96,459,507</u>
Transportation Fund:			
Transportation	7,456,102	7,628,898	8,562,470
Motor Vehicles	<u>620,186</u>	<u>390,114</u>	<u>432,359</u>
Total Transportation Fund	<u>8,076,288</u>	<u>8,019,012</u>	<u>8,994,829</u>
Total All Funds	<u>\$103,842,884</u>	<u>\$102,637,299</u>	<u>\$105,454,337</u>

The total net expenditures are comprised of costs associated with medical benefits (approximately 36 percent to 42 percent), indemnification against loss or other financial burden (approximately 50 percent to 56 percent) and other stipulations, third-party administrator costs and third-party administrator allocated loss expenses. The primary cost driver for indemnity benefits are expenses associated with temporary total disability, temporary partial disability and permanent partial disability.

As noted above, the appropriation for the Department of Administrative Services includes all other state agencies not listed above. Of those, the judicial branch, the University of Connecticut Health Center, and the University of Connecticut at Storrs had the most indemnity payments for the three fiscal years noted above.

In the State of Connecticut Comprehensive Annual Financial Report, long-term debt for Workers' Compensation was reported as \$587,652,000 and \$619,578,000 for the fiscal years ended June 30, 2013 and June 30 2014, respectively.

### **Department of Administrative Services – General Services Revolving Fund**

During the audited period, DAS administered the Department of Administrative Services – General 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 Services Division. Cash receipts and disbursements for the fund during the audited period were as follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Cash Balance, Beginning of Year	\$(23,941,698)	\$(25,893,309)	\$(31,606,978)
Receipts	<u>25,610,231</u>	<u>23,519,362</u>	<u>22,937,922</u>
Total	1,668,533	(2,373,947)	(8,669,056)
Disbursements	<u>27,561,842</u>	<u>29,233,031</u>	<u>32,619,972</u>
Cash Balance, End of Year	<u>\$(25,893,309)</u>	<u>\$(31,606,978)</u>	<u>\$(41,289,028)</u>

For the fiscal year ended June 30, 2012, DAS experienced a net operating loss of \$194,559. For the fiscal years ended June 30, 2013 and 2014, DAS realized a net operating profit of \$5,329,244 and \$563,859 respectively. The revolving fund's reported fund equity as of June 30, 2014, was approximately \$32,844,605. The negative cash balance of \$41,289,028 represents a liability on the department's revolving fund financial statements of \$17,346,306 for amounts due to other funds as well as assets whose costs will be recovered over time and recognized as cash receipts in future periods. 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 – General 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 (GAGAS) 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 continued to post a net operating profit.

#### **Department of Administrative Services – Technical Services Revolving Fund**

During the audited period, DAS also administered the Department of Administrative Services' Technical Services Revolving Fund (TSRF). This fund is authorized under Section 4d-9 of the General Statutes. TSRF is used to account for some of the revenues and expenditures related to the operations of the agency's telecommunication and data processing operations furnished and billed to other state agencies. A significant portion of the telecommunication and data processing expenditures are handled through the General Fund.

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Cash Balance, Beginning of Year	\$ 5,803,423	\$ 5,003,967	\$ 7,745,203
Receipts	<u>4,173,698</u>	<u>6,473,568</u>	<u>4,833,848</u>
Total	9,977,121	11,477,535	12,579,051
Disbursements	<u>4,973,154</u>	<u>3,732,332</u>	<u>4,425,097</u>
Cash Balance, End of Year	<u>\$ 5,003,967</u>	<u>\$ 7,745,203</u>	<u>\$ 8,153,954</u>

For the fiscal years ended June 30, 2013 and 2014, DAS experienced a net operating profit of \$1,238,246 and \$1,135,728 respectively. The revolving fund's reported fund equity as of June 30, 2014, was approximately \$7,831,602. The primary factors affecting the cash balance of the

department's revolving fund were receipts and disbursements for billed central services, such as telecommunications and mainframe services.

**Department of Administrative Services – Capital Projects and Public Works Service Fund**

Approved capital projects funded through bonding include budgeted amounts for acquisition costs, construction, contingency, studies, architectural and engineering fees, and DAS construction services fees. Most of those costs are billed directly to the allotted bond funds of the appropriate state agency. However, DAS construction services fees are posted to the Public Works Service Fund and then billed to the appropriate state agency. Those service fees are entirely comprised of payroll. The Public Works Service Fund recovers project costs from the state agencies and fringe benefit charges related to payroll from the General Fund.

Some projects, principally those less than \$500,000, have their service related fees charged directly to a General Fund appropriation rather than through the revolving fund. Currently, that appropriation is \$2.3 million. There are a variety of reasons that some projects don't have an approved bond fund to charge against. Some are too small to merit a bond appropriation. In some cases, preliminary work may have been performed on projects that were ultimately not approved by the General Assembly. In other cases, project funding may not have been sufficient to cover all of the project costs.

A summary of Public Works Service Fund activity for the fiscal years ended June 30, 2012, 2013, and 2014, is presented below:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Funding Sources:			
Project Costs Recovered	\$5,393,636	\$4,214,226	\$3,244,205
Non-specific Projects Recovered			
From the General Fund	-	-	-
Recoveries of Fringe Benefit Costs	2,100,882	1,850,847	1,280,150
Total Funding	<u>7,494,518</u>	<u>6,065,073</u>	<u>4,524,355</u>
Less Expenditures – Project Costs	(5,999,785)	(5,279,529)	(5,484,464)
Expenditures in Excess of Funding	1,494,733	785,544	(960,109)
Cash Balance, Beginning of Year	<u>(5,092,864)</u>	<u>(3,598,132)</u>	<u>(2,812,587)</u>
Cash Balance, End of Year	<u>(\$3,598,131)</u>	<u>(\$2,812,588)</u>	<u>(\$3,772,696)</u>

From fiscal year 2012 to fiscal year 2014, net recoveries of service fees and fringe benefits have exceeded net project costs by \$1,320,168, resulting in a decrease of the negative fund balance of (\$5,092,864) at June 30, 2013 to (\$3,772,696) at June 30, 2014.

Capital projects expenditures were charged primarily to Capital Projects Funds and the Special Revenue Funds. Smaller amounts were charged to the General Fund. A summary of public works project expenditures by fund follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
General Fund	\$ 1,687,852	\$ 1,981,977	\$ 1,791,398
Special Revenue Funds	47,498,227	117,876,618	127,489,645
Public Works Service Fund	382,066	630,416	1,760,292
CSUS-2020	35,778,618	63,961,484	82,443,209
Capital Project Funds	<u>159,935,526</u>	<u>87,536,430</u>	<u>147,548,636</u>
<b>Total</b>	<b><u>\$245,282,289</u></b>	<b><u>\$271,986,925</u></b>	<b><u>\$361,033,180</u></b>

The following table shows the capital project expenditures by activity:

**Capital Project Expenditures:**

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Acquisitions	\$ 1,808,804	\$ 146,271	\$ 60,385,754
Design	26,843,045	24,892,319	28,450,692
Construction	190,575,208	205,471,916	229,227,474
Hazardous Material Abatement	850,133	3,702,789	557,082
Equipment	7,338,401	10,187,677	6,275,831
Art	578,121	610,000	1,152,352
DPW Fees	7,562,182	7,355,416	7,466,346
Arbitration	1,288,608	2,307,619	1,472,358
Telecommunications	5,056,423	5,146,295	2,315,487
Permits	1,247,251	2,238,370	2,187,807
Construction Manager	1,950,855	6,237,928	5,759,799
Contingency/Change Orders	183,258	3,892,566	15,782,198
Miscellaneous	-	(202,241)	-
<b>Total</b>	<b><u>\$245,282,289</u></b>	<b><u>\$271,986,925</u></b>	<b><u>\$361,033,180</u></b>

Most of the capital project expenditures were for projects involving acquisition, design, and construction of state facilities. The significant increase in acquisition project expenditures in fiscal year 2014 was the result of acquisition costs of \$24,548,942 for the Morgan Street garage in Hartford and acquisition and renovation costs of \$35,002,155 for a building at 450 Columbus Boulevard in Hartford which will house state agencies.

The largest expenditure activity was for construction costs. Construction project expenditures were made up of many small projects with expenditures less than \$10,000,000. In fiscal year 2014, there were nine projects with costs in excess of \$10,000,000 with a combined value of \$174,704,382. The largest project was \$40,482,914 in expenditures for additions and renovations to the J.M. Wright Connecticut Technical High School (CTHS). In fiscal year 2013, there were seven projects with costs in excess of \$10,000,000 with a combined value of \$131,476,841. The largest project was \$36,129,373 in expenditures for additions and renovations to the Western Connecticut State University Performing Arts Center. A summary of those projects for fiscal years 2013 and 2014 follows:

**Public Works Project Expenditures:**

	<u><b>2012-2013</b></u>	<u><b>2013-2014</b></u>
Western Connecticut State University Performing Arts Center	\$36,129,373	\$24,096,906
H.C. Wilcox CTHS Additions and Renovations	24,068,146	14,077,473
H.H. Ellis CTHS Additions and Renovations	23,430,335	12,364,020
Eli Whitney CTHS Additions and Renovations	15,936,190	21,943,847
Gateway Community College – Consolidation at Church Street	11,014,920	7,772
Connecticut Central State University Academic Building	10,868,433	1,391,963
J.M. Wright CTHS Additions and Deletions	10,029,444	40,482,914
Southern Connecticut State University Academic Building	-	19,148,130
Southern Connecticut State University Library Additions and Renovations	-	15,439,664
Building Renovations at 55 Farmington Avenue	-	14,364,804
Eastern Connecticut State University Fine Arts Center	-	12,786,624
Less: Accumulated Project Lines Less Than \$10 million	-	<u>(1,399,735)</u>
<b>Total</b>	<u><b>\$131,476,841</b></u>	<u><b>\$174,704,382</b></u>

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

The Commissioner of the Department of Administrative Services has designated the Collection Services Division 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 the Department 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 the Department of Administrative Services to administer the funds.

Representative Payee Accounts – pursuant to Section 4a-12 subsection (a) of the General Statutes, the majority of the accounts administered by the DAS Collection Services Division 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 the Social Security Administration, Veterans' Administration, and other benefit providers. The primary distinction between these account and accounts in the other two 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 \$4,342,195 and \$5,335,500 during the fiscal years ended June 30, 2013, and 2014, 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 \$4,342,264 and \$5,335,561 during the fiscal years ended June 30, 2013, and 2014, 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 \$69 and \$61 for the fiscal years ended June 30, 2013, and 2014, respectively.

Disbursements from the Legal Representative Accounts totaled \$4,474,280 and \$5,238,813 during the fiscal years ended June 30, 2013 and 2014, respectively. Disbursements for the reimbursement of state claims against decedent estates amounted to \$6,189,799 and \$6,875,638, during the fiscal years ended June 30, 2013 and 2014, respectively. Other categories of disbursements included funeral and burial expenses and expenses of last illness, pursuant to Sections 17b-84 and 4a-16 of the General Statutes.

The Legal Representative Accounts' assets totaled \$627,740, and \$812,250 as of June 30, 2013, and 2014, respectively. The assets consisted of cash balances of \$583,277 and \$767,787 and investments of \$44,464 and \$44,464 in the Treasurer's Short-Term Investment Fund during the fiscal years ended June 30, 2013, and June 30, 2014, respectively.

The Collection Services Division 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><b>2012-2013</b></u>	<u><b>2013-2014</b></u>
\$ 9,347,839	\$ 8,934,189

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

<u><b>2012-2013</b></u>	<u><b>2013-2014</b></u>
\$ 3,143	\$ 3,440

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>2012-2013</u>	<u>2013-2014</u>
\$ 9,373,457	\$ 8,960,150

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>2012-2013</u>	<u>2013-2014</u>
\$ 2,185,174	\$ 2,159,213

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

The Department of Administrative Services provided administrative functions for a multitude of agencies as a result of agreements 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 office 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 DAS, they remained legally separate entities with their own management and appropriations. As such, they remain subject to separate audit by the Auditors of Public Accounts in accordance with Section 2-90 of the Connecticut General Statutes.

Of interest in our current review are those consolidated agency audits with recommendations that involve the administrative functions performed by 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 State Auditors' Findings and Recommendations section of the report.

## Program Evaluation

Section 2-90 of the Connecticut General Statutes authorizes the Auditors of Public Accounts to examine the performance of state entities to determine their effectiveness and efficiency. The Department of Administrative Services has authority to establish liens on decedent estates, unearned income or assets from lawsuits, personal injury insurance claims, and inheritances in order to collect monies for state assistance received, costs of incarceration, and costs of care from individuals or their legally liable relative.

Individuals and legally liable relatives who may owe the state money are identified when information from the judicial database and personal injury insurance claim filings are matched against a master database that contains all individuals who may owe the state money. The department investigates potential matches and opens a collections case when a match is confirmed. Further investigation will identify how many actions may be necessary against the party as a separate action is opened for every agency to which an individual or legally liable relative owes money.

Prior to fiscal year 2013, the department's investigative process for recoveries from lawsuits required personnel to travel to courthouses throughout the state. The purpose of these visits was to verify the lawsuit as a candidate for its collection efforts and to gather the necessary information to pursue the case. Beginning in fiscal year 2013, the department obtained direct access to the database of judicial information from workstations at DAS. This technological change reduced the time and effort required to identify, investigate, and recover amounts owed to the state by individuals receiving income or assets from lawsuits.

The DAS Collections Recovery Unit is responsible for collecting funds due to the State of Connecticut from decedent estates or the recipients of unearned income or assets from lawsuits, personal injury insurance claims, or inheritances.

When an individual applies for state aid with the Departments of Social Services, Mental Health and Addiction Services, Children and Families, or Developmental Services, or has been sentenced to incarceration by a Connecticut court, the individual is liable for the full amount of assistance received, cost of 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.

### Maximizing Collection Opportunities

*Background:* The Department of Administrative Services (DAS) is responsible for the centralized collection efforts for the State of Connecticut. DAS has the authority to establish liens on decedent estates, unearned income or assets from lawsuits, personal injury insurance claims, and inheritances in order to collect monies from individuals or their legally liable relatives for state assistance received, costs of incarceration, and costs of care.

When DAS pursues collection efforts against an individual, a case is opened. Each case is specific to an individual. An individual's case may have several actions opened, as that person may owe monies to the state related to services rendered by more than one agency. After a case and the associated actions are opened, it may take several years to complete the collection, because of the time required to settle an estate, lawsuit, or insurance claim. The work associated with this recommendation was intended to estimate the results of activities that occurred in prior fiscal periods that cannot be fully observed until future periods. The amounts presented are an estimation prepared by the auditors using historical DAS collections data.

*Criteria:*

The purpose of utilizing a statewide centralized collections process is to achieve economies of scale in order to maximize state collections and minimize recovery costs.

As such, the department should determine whether additional staff resources are necessary to increase collections and determine whether the cost of additional staff will exceed the increase in collections.

In order to minimize the cost to the state and maximize the collection of money owed to the state, it is necessary to understand the relationship between collection efforts and subsequent outcomes. This should include how staff activities impact the collection of money owed to the state.

*Condition:*

During our testing of closed case files, we identified an area of risk in the collection efforts of the department related to delays in opening of insurance claim cases. In order to assess this risk, we reviewed the data collected and maintained by the department for cases and actions opened during fiscal years 2011 through 2015. During the review of the collected data, we identified a significant decline in the number of cases and actions opened for insurance claims. We acknowledge that the department increased the number of lawsuit cases that could have directly impacted the number of insurance cases that the department opened.

At the time of our follow-up, the department informed us that an improvement in technology allowed DAS to complete more work on lawsuit cases in lieu of insurance claim cases. As a result, we reviewed personal injury insurance claim data that was matched against other state systems which identify an insurance claim for collection. These procedures were performed to define the scope of the insurance claim cases that DAS may have missed an opportunity to collect.

Using DAS criteria, we calculated the number of insurance claim data matches that could result in the opening of a case or action during fiscal years 2011 through 2015. The results are outlined below:

<b>Fiscal Year</b>	<b>Possible Cases</b>	<b>Opened Cases</b>	<b>Percentage Opened</b>
<b>2011</b>	<b>17,409</b>	<b>7,744</b>	<b>44%</b>
<b>2012</b>	<b>16,749</b>	<b>7,703</b>	<b>46%</b>
<b>2013</b>	<b>16,884</b>	<b>5,108</b>	<b>30%</b>
<b>2014</b>	<b>16,631</b>	<b>5,051</b>	<b>30%</b>
<b>2015</b>	<b>17,912</b>	<b>3,942</b>	<b>22%</b>

The analysis showed that the insurance claim matches that could result in open cases and actions remained relatively unchanged during fiscal years 2011 through 2015, however the number of cases opened by DAS declined during the same period.

*Effect:*

The department improved total revenue collected by redirecting staff efforts to focus on lawsuit cases; however we compared the number of case openings in fiscal year 2012 to fiscal years 2013 through 2015. We estimated that DAS missed opportunities to open about 9,000 insurance claim cases. Based on the 9,000 insurance claim cases, we estimated that the department missed opportunities to increase revenue collections by as much as \$13,000,000 during fiscal years 2013 through 2015.

In the absence of corrective action, we estimated that the department will miss opportunities to collect as much as \$5,400,000 annually in money owed to the state from missed insurance claim cases.

*Cause:*

It appears that DAS did not quantify the relationship between collection efforts and outcomes. Therefore, DAS could not quantify the additional resources necessary to maximize revenue collection resulting from the improvement in the availability of information on lawsuit cases. As such, the department supplanted the preexisting revenue from insurance claim cases with the greater revenue from lawsuit cases.

The Department of Administrative Services stated that requests for staffing were declined by the Office of Policy and Management. However, DAS also stated that the staffing requests did not include an estimate of how additional staffing would potentially increase the collection of money owed to the state.

*Recommendation:*

The Department of Administrative Services should hire additional staff if it would increase the collections of monies owed to the state. The Department of Administrative Services should develop the necessary analytical tools to identify revenue opportunities and the costs associated with the pursuit of those opportunities so that increases in revenue would cover the cost of additional staff. These tools should provide sufficient support for requests of additional resources, whether those resources are in

the form of system improvements or additional staff. (See Recommendation 1.)

*Agency Response:* “We disagree with this recommendation. As stated above by the auditors, “In order to minimize the cost to the state and maximize the collection of money owed to the state, it is necessary to understand the relationship between collection efforts and subsequent outcomes. This should include how staff activities impact the collection of money owed to the state.”

Because the Department of Administrative Services (DAS) does understand this relationship, we continually strive to streamline and implement processes which make the best use of staff and resources, focusing on how our processes impact collections. At the start of fiscal year 2013, the department implemented a technological efficiency and, as a result, made a business decision to prioritize staff workloads to focus on processes that would maximize revenue collections to the state. By utilizing this technology, the department was able to significantly reduce the amount of staff time and resources required to identify and set up lawsuit cases.

When comparing the number of lawsuit case openings in fiscal year 2012 to fiscal years 2013 through 2015, the department opened an additional 10,259 cases and an additional \$19.9 million in revenue was collected from lawsuit cases.

This auditors’ finding assumes that there is no relationship between insurance case openings and lawsuit case openings. This assumption is incorrect because it does not take into consideration that the department receives data from multiple sources and, the order in which the data is worked by staff may directly affect the case type counts. An individual who sustains a personal injury and files a claim with an insurance company may also retain an attorney and file a lawsuit action. If we determine that this individual has liability to the state, the department would open only one case for a cause of action. The case type is determined by the order in which the data is identified by staff. The increase in lawsuit case openings would be due to the lawsuit case data being worked first as the result of our process change. If subsequently, we identify insurance claim information on the same cause of action, a duplicate case would not be set up. This could account for the decrease in insurance case openings following our process change. Because the department does not track duplicate documentation and, therefore, could not provide the auditors with actual counts, this scenario was not taken into consideration in their finding. Because of this scenario, the department asserts that the auditors claim that 9,000 insurance cases were missed cannot be substantiated.

DAS has not made additional requests for staffing at this point. DAS has made requests for refill approval of all positions which have become vacant. At this time, all requested position refills have been approved by the Office of Policy Management and are staffed. It is the department's view that we have and will continue to request refill approval for all positions which become vacant and allocate our staff in ways to increase the collection of monies owed to the state.

The department has taken a holistic approach to address the many factors which affect collections costs and revenue. DAS continues to identify and implement additional improvements through process and system reviews, technological enhancements as well as inter-agency collaboration. Although, we do not agree that the hiring of additional staff is the only way to increase the collection of monies due the state, we do agree with the recommendation to work to develop the necessary analytical tools to identify revenue opportunities and the associated costs. DAS is in the process of identifying the need for a recovery system upgrade and will take the auditors' recommendation into consideration during this process."

*Auditors' Concluding  
Comment:*

We performed analytical procedures on the collections data to test the DAS assertion that insurance cases were opened as lawsuit cases and were therefore not missed opportunities for collection. Our procedures showed that the average amount collected for each insurance claim action with a payment opened during fiscal years 2013 through 2015 increased compared to actions opened during fiscal years 2011 and 2012. As lawsuit cases result in greater collections than insurance cases, this infers that the number of insurance claim cases opened as lawsuit cases may not be significant and an ongoing opportunity to maximize collections appears to exist.

**Internal Controls over Accident and Probate Case Files**

*Criteria:*

The Committee of Sponsoring Organizations (COSO) defines internal control "as a process, affected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."

The primary objective of the Collections Recovery Unit at the Department of Administrative Services is to collect money due to the state from decedent estates or the recipients of unearned income or assets from lawsuits, personal injury insurance claims, or inheritances.

The internal controls of the department should be designed, implemented, and operated in a manner that provides reasonable assurance that the Collections Recovery Unit will collect money due the state effectively and efficiently. The department will also reliably report on performance, and will comply with applicable laws and regulations.

Operational effectiveness can be defined as the ability of an organization to best utilize its resources. Operational efficiency can be defined as the ability of an organization to maximize services while minimizing costs.

*Condition:*

The purpose of our testing was to review the department case files in order to assess the effectiveness and efficiency of operations. In order to test operations, we selected actions identified as closed in the collections database. Our review of the physical case files for these actions consisted of 8 personal injury insurance claims, 6 lawsuits, 2 decedent estates, and 2 inheritances for a total of 18 case files.

Operational Effectiveness

In our review, we identified 2 instances in which the department reduced collection amounts without sufficient supporting documentation.

- In a decedent estate action, the department chose to accept 2/3 of the \$50,000 settlement from a wrongful death suit. After attorney fees and other costs, the amount collected by the department was \$10,860. The department chose to accept 2/3 settlement without evidence of a need to accept a reduced collection. The department then closed the action in September 2014.

In January 2015, the department received a subsequent and unsolicited payment from the attorney representing the decedent's estate for \$12,620. This payment was made after DAS had previously released the lien on the wrongful death settlement. Following up on our request for a cause for the payment, DAS requested the final probate settlement from the probate court, which identified proceeds from a wrongful death lawsuit of \$64,906. It appears that the \$50,000 amount used by DAS as the basis for the reduced collection was not correct.

The department stated that it is customary practice to accept 2/3 of a settlement after attorney fees and other costs in wrongful death lawsuits in which the debt to the state exceeds the wrongful death settlement. However, for this case, the settlement from the wrongful death lawsuit appeared to exceed the debt owed to the state by \$11,279.

DAS could not identify for us the source of statute or regulation that authorizes DAS employees to negotiate reduced collections on unearned income. In addition, the department could not provide the policies or procedures that outline the negotiation process or provide guidance to DAS employees on negotiating the collection of unearned income. DAS also could not provide a listing of negotiated collections with the relevant dollar amounts DAS declined to collect during the audited period.

- In 1 personal injury insurance claim action, the department accepted a write-off by the claimant's attorney for 2 services for \$9,700 and \$14,600 as non-accident related medical procedures. Non-accident related medical procedures are not subject to recovery by the state from personal injury insurance claims.

The department did not perform a review of the services, and made a determination that these services were non-accident related medical services or that additional supporting documentation was necessary to accept the write-off.

The policy of the department does not require more than an attorney statement attesting that certain charges are non-accident related for the charges to be excluded from possible recovery.

#### Operational Efficiency

In our work on insurance claim cases, we reviewed the timeliness of the response by DAS. From the date of reported bodily injury to the date DAS opened an action and began work on the case, it took the department approximately 437 days to take action. The number of days ranged from a low of 202 days to a high of 729 days.

In addition to the delays on insurance claim actions, for 1 of the 6 lawsuit actions, we noted a delay of 409 days from when the department received notification of the lawsuit to when the department began collection efforts.

The delays identified during the case file review resulted in the further audit procedures described in Recommendation 1. Those procedures identified a downward trend in the percentage of insurance claim actions that were opened during fiscal years 2013, 2014 and 2015 that resulted in a successful collection. The declining trend indicates that resources used to open aging insurance claim actions resulted in fewer successful collections relative to the effort necessary to open the action and initiate collection efforts.

Monitoring of Collections Process

We identified 3 actions that were closed and did not have documented evidence of a review by the supervisor in the physical case file.

*Effect:*

In the absence of clear policies and procedures that provide guidance on negotiating the collection of unearned income, DAS employees may accept reduced collections more often than necessary and without sufficient documentation to support the reduction.

In addition, the department may have reduced the amount of recoverable costs collected by the state from unearned income without having the statutory or regulatory authority to do so.

Because of the delays in establishing liens on unearned income by DAS, the state was unable to collect unearned income from 3 insurance claim actions and 1 lawsuit action, because these actions settled prior to DAS establishing a lien on the unearned income. It is not possible to quantify the dollar value of these collections because the settlement amounts were not disclosed in the case files.

Using analytical procedures and collection information from the database, we estimated the effects of delayed openings on the collection of recoverable costs against personal injury insurance claim actions. Our procedures included a comparison of successful collections made in 2012, a period without delayed openings, to the performance of fiscal years 2013, 2014, and 2015.

The analysis identified the following conditions:

- Overall, there was a decline in the number of insurance claim actions that resulted in payment, relative to the number of insurance claim cases opened for each year following fiscal year 2012, when given similar time frames for collection.
- We estimated the number of insurance claim actions that reasonably might have resulted in payment had DAS been timely in establishing a lien on the insurance claim settlement and determined that the department may have missed the opportunity to collect approximately \$1,100,000 in total for the 2013, 2014, and 2015 fiscal year periods.

As time delays extend further into the future, the percentage of insurance claim actions that result in a successful collection will continue to decline and so too will the overall collections of unearned income from personal injury insurance claim settlements.

*Cause:* The department stated that negotiating the collection of unearned income is necessary to maximize the collection of revenue and that the practice of negotiating collections of unearned income has been a common practice at the department. However, the department did not provide a reason for the absence of policies and procedures for DAS staff that outline the negotiation process. The department negotiates the collection of unearned income in order to maximize the collection of revenue, though it does not appear that the statutes or regulations provide the department with the authority to conduct such negotiations.

The department stated that staff shortages caused the delay in the opening of insurance claim actions. While we agree that a staff shortage appears to exist, it appears that a weakness in the system for measuring performance is responsible for not identifying the declining trend in successful collections for insurance claim actions opened during fiscal years 2013, 2014, and 2015.

Because the life cycle of insurance claim actions opened during a single fiscal year appears to average 6 years, without adequate performance monitoring for both financial and nonfinancial measures, the department was not aware of the declining performance of insurance claim actions opened only during fiscal years 2013, 2014, and 2015.

*Recommendation:* The Department of Administrative Services should establish articulate policies and procedures related to negotiating the collection of unearned income. In addition, DAS should clearly establish in statute or regulation the authority to negotiate for the reduced collection of unearned income on behalf of the state, and define the upper limits of that authority.

DAS should also develop performance measurements that include both financial and nonfinancial key performance indicators to provide management with the tools to identify and respond to problems in the collections process.

DAS should also consider redirecting efforts to pursue collections against newer insurance claim actions, as these items are more likely to result in successful collections rather than pursuing aging insurance claim actions first. (See Recommendation 2).

*Agency Response:* “We disagree with this recommendation in part. Department of Administrative Services, under statutory authority, is responsible for collection of money due to the state in public assistance cases and collection services for other state agencies through an agreement. By definition, collection agencies pursue full or partial recovery of an amount due. The concept of compromise is an integral component in an organization’s ability to provide debt collection services. Although not

specifically stated in statute, the term “collection” implies that full or partial payment may be recovered. The department will work to develop written procedures related to negotiating for the collection of unearned income. We will explore the development of performance indicators in our existing and/or future case management systems. We will also work to develop system improvements to assist us in creating efficiencies related to the collection of aging insurance actions.”

### **Safeguarding of Liquid Assets held for Legal Representative Cases**

*Background:*

In an effort to mitigate the risk of misappropriation of assets held in the custody of the Department of Administrative Services, the department designed and implemented internal controls that require liquid assets to be logged on the legal representative asset tracker when they are received. The movement of liquid assets in the custody of DAS is also tracked. In addition, liquid assets held in the custody of DAS are maintained in a safe, where access is restricted and must be logged on the safe log. The safe log includes the date and time of entry, the name of the person who entered, and the purpose for entering the safe.

*Criteria:*

Section 4a-16 of the Connecticut General Statutes states, “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”.

Appropriately designed and implemented internal controls over legal representative cases would ensure that the state consistently collects all reasonably recoverable assets from decedent estates effectively, efficiently, and in compliance with applicable laws and regulations. Effective internal controls reduce the risk that DAS would not prevent, detect, and correct errors in the recovery process or noncompliance with laws and regulations.

*Condition:*

We reviewed a total of 20 closed legal representative cases. We also performed testing on the internal controls over liquid assets held by DAS.

Case File Review

During the case file review we found:

- One closed case file contained 13 fully matured 40 year Series E savings bonds with a face amount of \$700 and a certified copy of the bond holder’s death certificate in a case file that did not belong to the bond holder. The savings bonds were received by the Collections Unit, but were not recorded on the legal representative asset tracker. In addition, the case file closing procedures did not identify that the case file contained savings bonds and documentation belonging to a different estate case was in the case file.
- One closed case file contained evidence that DAS liquidated a bank account which accumulated Social Security payments deposited into the bank account after the decedent’s date of death. The department could not obtain documentation from the Social Security Administration supporting that the source of the accumulating deposits was not Social Security payments made in error.
- One closed case file included documentation related to the liquidation of stock and the associated dividend payments. However, the department was unable to provide evidence it pursued collection efforts to secure the dividend payments made to the decedent’s estate when it became aware of the existence of the stock and dividend payments.
- One closed case file contained a 14-month gap in collection efforts. The department could not provide a reason for that gap.

Assets Held in Custody

Because of a prior audit recommendation related to the safeguarding of liquid assets and the discovery of savings bonds in a closed case file, we performed additional audit procedures to test internal controls over the safeguarding of liquid assets. These procedures resulted in the following conditions:

- During the inventory of the safe, we found one error in the physical count of shares recorded on the legal representative asset tracker. We found the number of shares contained in the safe to be greater than the quantity recorded in inventory
- During a comparison of the legal representative asset tracker and the safe log, we found 11 instances in which assets were deposited into the safe and then removed from the safe that were not entered into the log. We also identified 2 entries on the safe log that indicated the deposit of 2 assets into the safe. These assets were not found on the legal representative asset tracker, and were not identified during the physical inventory of the contents of the safe.

In addition, we identified 2 large gaps in recorded information on the safe log. There were no entries into the safe log from August 2014 through March 2015 and April 2015 until late March 2016.

- Due to the discovery of missing savings bonds and the deviations in the internal controls over liquid assets, we reviewed additional case files for estates with assets that were held in the custody of DAS. In the case file for the estate with the missing savings bonds, documentation supports that the department was aware that the savings bonds were received and signed for, but that the savings bonds could not be found. There is no documentation to support that DAS pursued further efforts to locate the missing bonds or request replacement of the bonds from the U.S. Treasury.
- As a follow-up to the missing assets, we requested a listing of all liquid assets that are missing. However, DAS stated that there is no report that lists missing legal representative assets and that it is not aware of any legal representative assets that are missing.

*Effect:*

The variety of exceptions identified in the review of selected case files suggests that DAS may not be consistently collecting all reasonably recoverable assets from decedent estates.

The results of testing suggest that these assets may go missing while in the custody of DAS. In addition, it appears that DAS may not be aware that

assets are missing or perform the necessary follow-up on assets that are identified as missing. This places assets held in the custody of DAS at an increased risk for loss or misappropriation and reduces the likelihood of discovery or recovery.

*Cause:* Documentation of the collection efforts for the transactions tested does not indicate consistent, timely, and thorough pursuit of collections of decedent estates. This appears to be caused by an absence of monitoring by management sufficient to ensure consistent and timely collections of all reasonably recoverable assets from decedent estates, while remaining in compliance with laws and regulations.

*Recommendation:* The Department of Administrative Services should document its monitoring of internal controls over collections to ensure consistent application of DAS policies. The department should address any internal control weaknesses identified during monitoring and respond with appropriate and timely action, to ensure that ongoing collection efforts are effective, efficient, and comply with laws and regulations. (See Recommendation 3).

*Agency Response:* “We agree with this recommendation. The Department will review our internal controls regarding the safeguarding of liquid assets in order to identify weaknesses in the procedures. We will update procedures to eliminate any weaknesses and will document implemented changes.”

### **Reporting on Breakdown of Safekeeping of Liquid Assets**

*Criteria:* Section 4-33(a) of the General Statutes requires state agencies to promptly notify the Auditors of Public Accounts (APA) and the Office of the State Comptroller (OSC) of any unauthorized, irregular, or unsafe handling or expenditure of state funds or breakdowns in the safekeeping of any other resources of the state or contemplated action to do the same within their knowledge.

*Condition:* As a part of its collection activities against decedent estates to which the Department of Administrative Services has been made legal representative, DAS may take into custody assets belonging to the decedent estates until the assets can be liquidated to settle costs owed to the state by the decedent.

Our review of a selection of the decedent estate case files resulted in the discovery of 13 fully-matured 40-year Series E war bonds with a face amount of \$700 along with a certified copy of the bond holder’s death certificate. The savings bonds and death certificate were found in the case file of the wrong decedent estate. A review of the case file, which was

missing the savings bonds, indicated that the department became aware that the savings bonds were received by a DAS employee on March 6, 2013 and that DAS became aware that the savings bonds were missing on July 9, 2013. The case file does not include documentation of further action taken by DAS to locate the missing savings bonds. DAS did not report to our office and the State Comptroller regarding the savings bonds that were known to have been received by DAS could not be located as required by Section 4-33(a).

*Effect:* In the absence of self-reporting, DAS limits the ability of those agencies charged with the oversight of such matters to perform their duties as required by statute.

*Cause:* This condition was the result of a breakdown in communication between staff and the appropriate levels of management with responsibility and knowledge of the reporting requirement. Required reports were not filed with APA and OSC in accordance with Section 4-33(a).

*Recommendation:* The Department of Administrative Services should assess its current system of communication between staff and management and seek to improve the existing system, while also working to educate staff about the statutory reporting requirements included in Section 4-33(a) of the General Statutes. (See Recommendation 4).

*Agency Response:* “We agree with this recommendation. The department will evaluate our current procedures regarding the collection and safekeeping of liquid assets in the Legal Rep unit. We will update and distribute procedures to staff which will include reference to statutory reporting requirements included in Section 4-33(a) of the General Statutes.”

## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

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.

#### Commission for Educational Technology – Annual Report

*Background:* Section 4d-80 of the General Statutes establishes the Commission for Educational Technology within the Department of Administrative Services.

*Criteria:* Connecticut General Statute 4d-80 section (8) states “on or before January 1, 2001, and annually thereafter, the commission shall report, in accordance with section 11-4a, on its activities, progress made in the attainment of the state-wide technology goals as outlined in the long-range plan and any recommendations to the joint standing committee of the General Assembly having cognizance of matters relating to education and appropriations and the budgets of state agencies, the State Board of Education, and the Board of Regents for Higher Education. The report shall include recommendations for adjustments to the funding formula for grants pursuant to section 10-262n if there are school districts that are at a disadvantage in terms of wiring their schools and the use of technology in their schools.”

*Condition:* The Commission for Educational Technology did not prepare the statutorily required reports due on January 1st, 2013 and January 1st, 2014.

*Effect:* The Commission for Educational Technology was not in statutory compliance with Connecticut General Statutes 4d-80 section (8) regarding reporting. The joint standing committees of the General Assembly having cognizance of matters relating to education and appropriations did not have all of the statutorily required information available for policy-making decisions.

*Cause:* The Commission for Educational Technology did not have the requisite staff to prepare the reports as required.

*Recommendation:* The Department of Administrative Services should take the necessary steps to ensure that the required report from the Commission for

Educational Technology on the attainment of statewide technology goals is prepared and submitted annually to the joint standing committees of the General Assembly having cognizance over such matters. (See Recommendation 5.)

*Agency Response:* “We agree. The Commission for Educational Technology did not have the requisite staff to prepare the reports as required. The Commission required an Executive Director to spearhead strategic planning and reporting functions. The Commission has hired an Executive Director, Douglas Casey, and submitted an annual report in January 2016 inclusive of years 2012 – 2015. Commissioner Currey addressed the staffing and reporting issue in a letter dated January 5, 2016.”

## Boards, Commissions and Committees

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

### Compliance with CGS 1-225

*Criteria:* Section 1-225 subsection (a) of the General Statutes indicates that each public agency must make its meeting minutes available no later than 7 days after the date of the session and post such minutes on the public agency's website. Subsection (b) of said section indicates that each public agency of the state shall file, not later than January 31<sup>st</sup> of each year in the office of the Secretary of the State, the schedule of regular meetings of such public agency for the ensuing year and shall post such schedule on the public agency's website.

*Condition:* We noted that the State Insurance and Risk Management Board did not appear to have its meeting schedules filed with the Office of the Secretary of the State.

*Effect:* The lack of such reporting does not comply with the applicable statutes and does not provide proper notification to the public of scheduled meetings.

*Cause:* It appears that proper oversight within the boards, commission, and council was lacking.

*Recommendation:* The Department of Administrative Services should encourage the State Insurance and Risk Management Board to comply with Section 1-225 of the General Statutes. (See Recommendation 6.)

*Agency Response:* "We agree. The Insurance and Risk Management Board meets quarterly, the minutes are done in draft form and then finalized and approved at the following Board meeting. Although the Board agenda is sent to the Secretary of the State, not all the agendas were posted to the website within 24 hours.

Moving forward the Insurance and Risk Management will identify the minutes as "DRAFT" and post on the website within 7 days. Once the minutes are approved, the finalized minutes will be posted to the website. The IRM will make sure to post the agenda to its website at least 24 hours prior to the Board meetings."

## **Board Vacancies**

*Background:*

Chapter 78 of the Connecticut General Statutes sets forth the law covering the state marshal system. Pursuant to Connecticut General Statute Section 6-38b, the State Marshal Commission consists of 8 members appointed by the specified executive, judicial, and legislative branch authorities.

In accordance with statutes, regulations, and policies, the commission also is involved in many functions, including but not limited to setting training requirements, professional standards, audit policies, disciplinary protocol, restraining order rotations, and administrative procedures for the efficient and fair operation of the state marshal system.

The Employees' Review Board was established by Section 5-201 of the Connecticut General Statutes. The board's mission is to decide personnel appeals of state managers and confidential employees or groups of such employees, who are not included in a state employee collective bargaining unit.

*Criteria:*

Section 6-38b subsection (a) of the Connecticut General Statutes states that "there is established a State Marshal Commission which shall consist of 8 members appointed as follows: (1) The Chief Justice shall appoint 1 member who shall be a judge of the Superior Court; (2) the speaker of the House of Representatives, the president pro tempore of the Senate, the majority and minority leaders of the House of Representatives and the majority and minority leaders of the Senate shall each appoint 1 member; and (3) the Governor shall appoint 1 member who shall serve as chairperson. Of the 7 members appointed pursuant to subdivisions (2) and (3) of this subsection, no more than 4 of such members may be members of any state bar. No member of the commission shall be a state marshal, except that 2 state marshals appointed by the State Marshals Advisory Board in accordance with section 6-38c shall serve as ex-officio, nonvoting members of the commission".

According to Section 6-38b subsection (c), "if any vacancy occurs on the commission, the appointing authority having the power to make the initial appointment under the provisions of this section shall appoint a person for the unexpired term in accordance with the provisions of this section."

Section 5-201 of the Connecticut General Statutes states that "There shall be an Employees' Review Board consisting of 7 members, at least one of whom shall be an attorney with experience in administrative or labor law. Each member first appointed on or after July 1, 1987, shall have substantial current experience as an impartial arbitrator of labor-management disputes. On or after January 1, 1980, the Governor shall appoint 5 persons to serve as members of the board for terms of 3 years from January 1, 1980, or until their successors are appointed. On or after

January 1, 1983, and quadrennially thereafter, the Governor shall appoint 5 persons to serve as members of the board for terms of 4 years from the first day of January preceding such appointment or until their successors are appointed. On or after July 1, 1987, and quadrennially thereafter, the Governor shall appoint 2 persons to serve as members of the board for terms of 4 years from the first day of July preceding such appointment or until their successors are appointed. No member shall serve more than 2 consecutive terms.”

*Condition:* According to State Marshal Commission meeting minutes, it was noted that the commission had vacant position(s) in both fiscal year 2013 and 2014. In fiscal year 2013 and 2014, there was 1 vacant position noted in 7 meeting minutes from July 25, 2012 through November 28, 2012 and 2 vacant positions (chairperson and a judicial position) noted in minutes from February 20, 2013 through September 18, 2013.

During our review of the Employees’ Review Board, we discovered that two board members missed more than 50% of the board’s meeting for both fiscal years 2013 and 2014.

*Cause:* The Employees’ Review Board stated that due to the loss of the agency liaison, certain administrative duties related to the boards and commissions were not performed.

We were informed by the chairperson of the Employees’ Review Board that a lack of resources may have contributed to the oversight.

*Effect:* The statutory requirements for the board and commission were not met. Without a full complement of actively participating board members, these organizations may be less effective and efficient in meeting their fiduciary responsibilities. Also, a greater burden is placed on those board members that fully participate in governance activities. The additional burden may have the unwanted effect of increased board member turnover or non-participation.

*Recommendation:* The Department of Administrative Services should support and encourage commissions and boards falling within its administrative purview to fill all vacant positions in a timely manner. Furthermore, those board members whose absenteeism statutorily disqualifies them from continued service should be identified, removed, and replaced in a timely manner by their respective commissions or boards. (See Recommendation 7.)

*Agency Response:* “The Department of Administrative Services agrees and does support and encourage Commissions and Boards under our administrative oversight to fill all vacant positions in a timely manner. There are no vacancies currently.”

## **Fleet Operations**

The DAS Bureau of Central Administration – Fleet Operations is responsible for the purchasing, leasing, and maintenance of all passenger cars and light-duty trucks owned by the State of Connecticut with the exception of those vehicles owned by the Department of Transportation and the Department of Emergency Services and Public Protection necessary to perform their respective statutory functions. The recommendation in this section addresses the monitoring of timely resolution of motor vehicle complaints.

### **Complaints Concerning Fleet Vehicles**

*Background:* The Department of Administrative Services has a state vehicle feedback form on its website that allows the public to submit compliments, complaints and comments concerning the operation of state vehicles. The complaints are tracked by the director of DAS Fleet Operations and distributed to the state agencies assigned the vehicles for their follow-up and resolution. DAS categorizes the complaints submitted by the public into several types: driving dangerously, speeding, seen in an inappropriate place, talking on the phone, or category not set.

*Criteria:* Department of Administrative Services General Letter No.115 – Policy for Motor Vehicles Used for State Business states that the director of DAS Fleet Operations is responsible for:

- Directing that complaints concerning state vehicles, drivers, and passengers are investigated and appropriate action is taken.

In addition, it states that an Agency Transportation Administrator (ATA) is responsible for:

- Promptly investigating complaints concerning state vehicles, drivers, and passengers, and notifying the director of DAS Fleet Operations of the outcome of the investigation; and
- Absent extenuating circumstances, the ATA shall notify the director of DAS Fleet Operations of the outcome of the investigation within 30 days of receiving the complaint.

Violation of any policy, rule or regulation governing the use of a state-owned vehicle or any state motor vehicle law or regulation may result in the immediate recall of the vehicle by the DAS Director of Fleet Operations.

The willful neglect or misuse of any state-owned or rental vehicle is cause for disciplinary action under the provisions of state statutes or applicable

collective bargaining contracts, and such misuse or false statements about the use of said vehicles may subject the employee to civil action.

*Condition:* Our analysis of the department’s tracking data on complaints and responses found that the department closed approximately 592 complaints between July 2012 and April 2015. Of those complaints, approximately 145, or 25%, were closed “due to the complaints exceeding the time limit for a proper investigation and with no agency response.” Another 178 complaints or 30% were closed “due to time expiration of a year.”

It does not appear that the department fully exercised its authority to recall vehicles from those state agencies with a high percentage of uninvestigated complaints.

*Effect:* For the period reviewed, a large percentage (approximately 55%) of the complaints made by the public concerning the operation of state vehicles were not addressed by the state agencies assigned the vehicles. As a result, there is an increased risk that some of those state-owned vehicles were misused by their operators and that the operators of those vehicles were not subject to the appropriate disciplinary action. Unsafe drivers of state vehicles who may have been identified by a completed investigation and who continue to drive those vehicles may subject the state and/or themselves to potential liability from civil action in the event of subsequent accidents.

*Cause:* The failure to recall vehicles from those state agencies with a high percentage of uninvestigated complaints may contribute in part to the high percentage of uninvestigated complaints.

*Recommendation:* The Department of Administrative Services should take the necessary steps to ensure that all complaints are investigated by the Agency Transportation Administrator within the 30 days allowed by DAS General Letter No. 115 and appropriate action is taken. Furthermore, DAS should exercise its authority to recall vehicles for those state agencies with a high percentage of uninvestigated complaints. (See Recommendation 8.)

*Agency Response:* “We agree in part. It is the responsibility of each agency to investigate its own complaints and the Department of Administrative Services does not have any authority to take disciplinary action against state agencies that fail to complete open complaints in a timely manner. DAS agrees, however, that it can improve its communication with the agencies. DAS has taken action to correct this matter. In March 2014 we hired an office assistant specifically for this purpose. The main focus of the office assistant’s job is to reduce the number of open complaints that exceed 30 days and we are making great progress. Additionally, DAS is planning an agency transportation administrator (ATA) training event in the spring.

The training will be comprehensive in nature and will include training on an ATA's responsibility for closing out complaints in a timely manner. With a high staff turnover in the ATA role at agencies, we feel a comprehensive training module is needed and we are hopeful that this will help clear up the remainder of the backlog."

### **MPG Rating for State Vehicles**

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

(1) On and after October 1, 2001, have a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least 35 miles per gallon and on and after January 1, 2003, have a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least 40 miles per gallon,

(2) Comply with the requirements set forth in 10 CFR 490 concerning the percentage of alternative-fueled vehicles required in the state motor vehicle fleet, and

(3) Obtain the best achievable mileage per pound of carbon dioxide emitted in its class. The alternative-fueled vehicles purchased by the state to comply with said requirements shall be capable of operating on natural gas or electricity or any other system acceptable to the United States Department of Energy that operates on fuel that is available in the state."

*Condition:* We were informed that the department's fleet average has not met the statutorily required estimated highway mileage rating of at least 40 miles per gallon. The department continues its pursuit of changes to the statute in an attempt to make it more reflective of available technology.

The state now appears to be in standard compliance with federal regulations concerning the percentage of alternative-fueled vehicles purchased for the state motor vehicle fleet. However, the E-85 alternative fuel used by those vehicles is not available at the state service facilities within Connecticut. The department's State Fleet Composition and Usage Report for the fiscal year 2014 shows that no E-85 fuel was used by the Department of Transportation or the Department of Emergency Services and Public Protection.

In effect, the department's alternative-fueled vehicles were not supported by the state's fuel service facilities necessary to utilize their flex fuel capability.

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

While hybrid electric vehicles appear in some cases to allow compliance with the Connecticut General Statute, vehicles of that type do not qualify toward the percentage of alternative fueled vehicles that must be purchased in order to comply with federal law. Also, the department indicated that it had not purchased hybrid vehicles since 2008.

*Effect:* The department is not in compliance with Section 4a-67d of the General Statutes.

*Cause:* The statutory requirement for the fleet average of at least 40 miles per gallon may not be currently achievable based upon the collective mission requirements of those vehicles and the current state of automotive technology.

The state's fuel service facilities do not carry the alternative fuel used by the state's alternative fuel vehicles.

*Recommendation:* The Department of Administrative Services should take the necessary steps to fully comply with Section 4a-67d of the Connecticut General Statutes or seek statutory relief from those requirements. (See Recommendation 9.)

*Agency Response:* "We agree. Since the law's inception, Department of Administrative Services has strived to achieve compliance in spite of some statutory aspirations that are not consistent with the vehicles that are currently available on the market. DAS works diligently to purchase as many alternative fuel vehicles (AFV) as possible and to utilize best available when an AFV isn't available in that Class of vehicle. Moreover, we are happy to report that starting in model year 2014; light-duty hybrid vehicles that are not AFVs are eligible for half of an AFV credit.

In addition, we successfully competed again this year for a statewide grant from Department of Energy and Environmental Protection (DEEP) and were awarded funding from DEEP to purchase 4 additional electric vehicles and have charging stations installed in our new office space garage at 450 Columbus Blvd.

Even with that effort, there are vehicles required for state service that do not have AFVs available with the range that agencies require to meet their mission needs. Those vehicles simply do not exist. For example, manufacturers do not currently offer AVF models of police cruisers, as well as pick-ups and vans that achieve the level of performance and the

fueling range. We will continue our efforts to get the legislation to reflect the current market.”

### **Fleet Operations – Approval of Capital Asset Disposals**

*Criteria:* The Department of Administrative Services Bureau of Central Administration – Fleet Operations Division follows the Office of the State Comptroller’s Property Control Manual Chapter 8 -Disposal of Surplus Property. Chapter 8 states “State agencies must comply with the following additional requirements for the disposal of state-owned vehicles:

“A completed, Sale Declaration Report Form (DPS-29), along with all ownership documents must accompany a surplus vehicle turned into the Property Distribution Center.”

As part of our review procedures, we requested that the department provide us with clarification regarding its disposal process for fleet vehicles. We were informed that only the director and assistant director of Fleet Operations have the authority to assign vehicles to the department’s Surplus Unit for disposal. The Surplus Unit requires a completed DPS-29 form signed by a representative of the department for each transferred vehicle. When vehicles are sold, the Surplus Unit notifies Fleet Operations, the vehicle status is changed in the fleet inventory, and the asset is removed from Core-CT.

*Condition:* We reviewed a sample of 32 capital asset disposals (i.e. computer equipment, vehicles and land) during the audited period with a combined acquisition cost of \$12,075,056. Thirteen of the samples were for the disposal of vehicles. We found 12 vehicle samples, with a combined acquisition cost of \$226,901, in which the DPS-29 Sale Declaration Report Form was not signed by an agency official (i.e. Director of Fleet Operations or designee) at the Department of Administrative Services. Included in the 12 vehicle samples was one sample with an acquisition cost of \$12,305 in which the Core-CT disposal date was prior to the submission of the DPS-29 form to the Surplus Unit.

We also noted one vehicle sample, with an acquisition cost of \$23,956, in which the Sale Declaration Form DPS-29 was signed for approval for disposal by an employee holding an executive assistant title in the Department of Emergency Services and Public Protection instead of the director or assistant director of Fleet Operations.

*Effect:* In the absence of a properly signed and approved DPS-29 form from an authorized individual, there is an increased risk that assets will be improperly disposed.

*Cause:* A lack of management oversight contributed to the conditions noted. We were informed that prior to our review, Fleet Operations had historically not signed the DPS-29 when transferring assets to the Surplus Unit.

*Recommendation:* The Department of Administrative Services should establish the necessary controls to ensure that all Sale Declaration Report DPS-29 forms submitted to the Surplus Unit are properly signed as approved for disposal by the director or assistant director of Fleet Operations or a designee prior to disposing of fleet vehicles and the removal of the vehicles from the inventory records. (See Recommendation 10.)

*Agency Response:* “We agree and have addressed this matter. We worked with our Procurement Divisions and Procurement Program Manager to implement a policy “that a DPS-29 will not be considered complete unless it is signed by a representative of the agency providing the vehicle to Surplus.” In compliance of this directive, Department Administrative Services Fleet now signs all DPS-29 forms.”

## **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**

*Background:* The mission of the department is to provide statewide policy to state agencies on matters related to purchasing, motor vehicle fleet, human resources, information technology, design and construction of state facilities, property and facilities management, along with a number of other centralized services (i.e. Small Agency Resource Team, Workers' Compensation, Master Insurance Program, Collection Services).

To accomplish this mission, the department employed an average of 650 full time employees during fiscal year 2015 and expended \$140,346,544 from the General Fund, \$125,627,451 in capital funds, and \$36,764,510 from its revolving funds.

*Criteria:* 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 once implemented, the plan elements be monitored and reviewed to determine its level of success. Risk assessment includes management's assessment of the risks related to safeguarding the agency's assets and fraudulent reporting.

The information obtained through this process may then be incorporated into the risk assessment process to determine whether plan modifications are required.

Control activities are defined as the actions established through policies and procedures that help ensure management directives to mitigate risks are carried out.

Ongoing monitoring activities are designed to assess the quality of internal control performance over time and to communicate that performance to decision makers, along with recommendations for improvement.

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

Many of the new and repeated recommendations found in this report, in Comprehensive Annual Financial Reports, and Statewide Single Audit reports describe internal control deficiencies that are significant or material, and in aggregate, diminish the ability of the department to achieve its objectives.

Avoidable direct and indirect costs associated with the conditions reported by the Auditors of Public Accounts in various audit reports and unknown costs that have yet to be identified may exceed the cost of establishing a basic risk management process within the department.

*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 assessment 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. Many of the recommendations found within our various reports could have been prevented or detected by an internal risk assessment and mitigation process.

*Recommendation:* The Department of Administrative Services 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. The cost of implementing a new system should be measured against the cost of not addressing the issue. (See Recommendation 11.)

*Agency Response:* “Department of Administrative Services agrees in part with this recommendation. While DAS would welcome the opportunity to be able to hire a Risk Assessment Team for the agency and agrees with the benefits it provides, current state budget economic circumstances will not permit the agency to hire such professionals without seriously impacting the funding needed to staff and operate core agency responsibilities. However, in spite of being unable to hire a Risk Management Team our Business Office has done a tremendous job in maintaining and even improving operational effectiveness especially for those SmART agencies we oversee as well as reducing costs and liabilities and preventing fraud.”

## **Business Office**

The Department of Administrative Services Business Office provides purchasing, accounts payable, accounts receivable, grant administration, accounting, asset management, small business set-aside goals development and reporting, budget development, administration services, and mail and courier services to DAS and several other state agencies. The SMART Unit provides personnel, payroll, and affirmative action services to DAS and several other state agencies.

### **Expenditure-Related Issues**

*Background:* Under Section (60) subsection (c) of Public Act 05-251, the Department of Administrative Services became responsible for providing the business office functions of certain agencies. In addition, the department also handles such functions on behalf of the offices of the Governor and the Lieutenant Governor.

*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 the Department 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”.

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

*Condition:* Through our testing of expenditure transactions covering the department and the agencies they serve for the audited period, we noted the following:

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

- Three out of 55 DAS-specific transactions
- Thirty-one out of 90 consolidated agency transactions

Other Significant Issues Noted:

For DAS-specific testing:

- We noted 5 out of 39 transactions involving contracts, in which

there was a difference between invoice rates paid and contractual rates issued.

- We found that the department's voucher package showed a monthly cost of \$62.50 per portable radio. The contract unit price was \$60.00 per portable radio. The department rented 49 portable radios at \$62.50 for a total of \$3,062.50. The department should have paid a total of \$2,940 which is a difference of \$122.50 per month.
- We also found that the department was unable to provide clarification on an invoice from Tyco. We asked DAS to have Tyco itemize each item in the invoice on April 30, 2015. We have not received clarification from the vendor or the department on the invoice in question.
- We found that the contract associated with Dell Marketing LP did not match the invoice amount. The contract does not specifically state a per-unit cost. The state may have been paying the wrong unit price since the inception of the contract in fiscal year 2003.
- We also noted that an invoice for \$379,987 could not be matched to the applicable data processing equipment contract.

*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 verification of prices and services charged by vendors to state contract award terms, there is an increased risk of overpayment by the state.

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

*Recommendation:* The Department of Administrative Services 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. Furthermore, contracts should specifically state the unit cost that vendors should use when billing the department for services rendered. When unit costs between the vendor invoice and the contract do not match, payment should not be made until the difference is resolved. (See Recommendation 12.)

*Agency Response:* “Department of Administrative Services agrees that we should ensure compliance with Section 4-98 of the General Statutes. We have developed a procedure that should lessen the amount of goods and services ordered without a valid purchase order in place and we are in the process of implementing these procedures.”

### **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 30th, 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 \$1,000 or more. The methods prescribed by the Comptroller are published in the State Property Control Manual. Chapter 3 of this manual includes reporting requirements and categorical inclusions for the various valuations reported on the Asset Management/Inventory Report/GAAP Reporting Form (CO-59).

Chapter 9 of the manual also requires that “if the values recorded on the CO-59 do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy in an attachment”.

*Condition:* For the period under review, our analytical testing found differences between the values recorded on the department’s CO-59 form and those found on the applicable Core-CT reports. Our analytical testing was made necessary because the department had not prepared any documented reconciliations with written explanations for the differences. The following exceptions represent 2 instances in which discrepancies between the 2 reports should have resulted in explanations attached to the CO-59 form.

- In fiscal year 2013, Core-CT included \$46,101 of non-state assets. While these non-state assets were properly excluded in the equipment balance on the CO-59 form, the department had no documented reconciliation and explanation for the accounting treatment of the variance between Core-CT and the CO-59 form.
- In fiscal year 2014, a new fleet asset category was created in Core-CT. There was no corresponding change in categories to the CO-59 form. Fleet-related assets were reclassified out of the equipment category and into the new fleet category in Core-CT. However, due to the difference in available

categories between Core-CT and the CO-59 form, the reclassified fleet asset additions and deletions were merged back into the equipment category on the CO-59 form. As a result, Core-CT reclassified additions of \$121,143,622 and deletions of \$121,143,367 were netted out and not reported on the CO-59 form. The department did not prepare a reconciliation and explanation of this significant reclassification activity in an attachment to the CO-59 form.

- Effect:* Without the disclosure of significant variances between Core-CT and the CO-59 form, the CO-59 form will not provide stakeholders with a complete presentation of DAS asset activity.
- Cause:* The department was not aware of its responsibility for providing a written explanation for variances between Core-CT and the CO-59 form.
- Recommendation:* The Department of Administrative Services should comply with the State Property Control Manual and provide written explanation for variances if the values recorded on the CO-59 form do not reconcile with Core-CT. DAS should prepare documented reconciliations between Core-CT and the CO-59 form. (See Recommendation 13.)
- Agency Response:* “Department of Administrative Services agrees with this recommendation. We did respond to the Auditors and explained the variances but we did not submit documentation with the CO-59 in 2013-2014 when the reports were submitted. For the 2015 report, we did document any variances and filed the documentation with the CO-59 as required.”

### **Incomplete Asset Management Records**

*Criteria:* The State Property Control Manual states that assets should be assigned a department-specific identification number, the records regarding the asset in Core-CT should be amended to include this information, the identification number should be affixed to the item in some manner, and 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 State Property Control Manual indicates that purchased software not owned by the state should be included in the department’s software inventory. The property control record must contain a certain amount of data, including the location, cost, and identification number of the central processing unit (CPU) device. For local area network applications, the department only needs to reference the file server, and not the individual computers if the department has installed a central copy of the software.

*Condition:* We examined the department's inventory records and performed tests to determine whether the records were an accurate reflection of the department's physical inventory on hand. Out of the 40 inventory samples traced to their physical location, one sample did not have an identification tag or serial number in Core-CT, and one sample had an asset tag that switched with another asset. Additionally, we found 3 tagged samples that were not on the department's inventory report. We noted 5 items located in a different location than identified in Core-CT. We noted 2 Core-CT assets did not have serial numbers listed in the system. We also noted 1 asset that could not be located and the department had to file a loss report.

The department's software inventory records did not identify the location and identification number of the CPU in which each software program resides as prescribed within the State Property Control Manual.

The department's Core-CT Asset Management Module has assets listed as "Summary Licensed Software" which is comprised of various smaller assets. When requested, the department was unable to provide individual asset listings for \$415,833 worth of consolidated assets. The agency did not maintain records of assets contained in Core-CT.

*Effect:* Deficiencies in the controls over equipment inventory results in a decreased ability to properly safeguard assets and decreases the accuracy of financial reporting.

*Cause:* The department did not adequately implement its process to ensure complete and accurate inventory recordkeeping. The department has also absorbed significant inventories from former state agencies and the inventory control issues associated with them.

*Recommendation:* The Department of Administrative Services should continue to take the necessary steps to ensure that asset management records completely and accurately reflect the equipment inventory within its purview. (See Recommendation 14.)

*Agency Response:* "We agree with the recommendation. The inconsistencies that were discovered during the inventory sampling test were rectified. We did inherit assets from supported agencies and we are continuing to clean up any missing information based on available history. The assets listed as "Summary Licensed Software" were made prior to this audit period in 2010, in accordance to the Office of the State Comptroller directive to capture the information. We were unable to locate back up for the \$415,833 during the previous audit period. The software is installed and controlled by the IT Department."

## Procurement

The DAS Procurement Services Division provides bidding and contracting services for other state agencies through its web-based contracting portal. It is also responsible for construction contractor prequalification, the supplier diversity program, the purchasing card program, and other acquisition services.

### Construction Contractor Prequalification Program – Contractor Evaluation Form

*Background:* Under Section 42-101 subsection (b) of the General Statutes, the department is to establish a standard contractor evaluation form that each awarding authority shall complete for each prequalified contractor who performed work on a contract.

*Criteria:* Section 4a-101-1 of the Regulations of State Agencies identifies the categories and criteria that must be included as part of the standard contractor evaluation form.

*Condition:* As in the previous audit, we noted that certain criteria identified in Section 4a-101-1 was not presented in the standard contractor evaluation form used by DAS during the audited period.

The department has taken steps to amend the evaluation form to include the missing criteria and expects to have the new evaluation form online for use by state agencies by the end of 2016.

*Effect:* By not including all the required criteria in the standard contractor evaluation form, there is the risk that certain pertinent data regarding the contractor will not be considered by the awarding authority, thus potentially subjecting the state to a higher risk of liability or loss.

*Cause:* The department agreed with this prior audit recommendation and indicated that it would work closely with the Division of Construction Services to update the elements identified in the contractor evaluation form. However, the department's efforts were not sufficient to ensure that the changes to the form were made in a timely manner.

*Recommendation:* The Department of Administrative Services should take the necessary steps to ensure that the contractor evaluation form is updated to include the missing criteria required by Section 4a-101-1 of the Regulations of State Agencies on a timely basis. (See Recommendation 15.)

*Agency Response:* "We agree. Department of Administrative Services/Procurement Division is working with the DAS/Bureau of Enterprise System and Technology staff to implement the recommended changes on the contractor evaluation form. The two teams meet bi-weekly. This is part of an entire system

rewrite by the DAS/BEST staff, and while we have a perpetual license to run the current legacy software program, we no longer have a license for development in the program, so no changes can be made to the current system. Therefore the system rewrite is occurring to replace the legacy software platform. We expect to have the new system up and running (in production) by the end of June, 2016 at which time the form will be updated online. DAS needs to update the contractor evaluation form online.

Changes to the contractor evaluation form have been identified and conceptually updated by DAS/Procurement. These changes have not been implemented on the online system as the code cannot be changed on our legacy system and we are awaiting the completion of the development of our new system by DAS/BEST. System rewrite completion dates are expected to be in production by July 1, 2016.”

## Information Technology

The recommendations found in this section address various matters related to electronic data systems.

### Terminated Employees with Active Core-CT Logon IDs

- Background:* There are 4 access modules in Core-CT: Portal, Enterprise Performance Management (EPM), Financial Module (FIN), and Human Resource Management System (HRMS). User accounts are set up in Core-CT to access the modules. A locked website portal will block access to the other modules. Modules can be individually locked.
- Criteria:* Core-CT security liaison manuals for the HRMS and FIN modules require user accounts to be locked at termination and a CO-1092 Security Request form to be completed by an assigned security liaison.
- Condition:* Our testing of 50 terminated employee user accounts noted 4 user accounts that were not locked as required by the Core-CT security liaison manual. Further audit procedures identified 26 accounts that were locked after the employees' termination date. These accounts were not locked for periods ranging from 5 to 991 days after termination.
- Of the 50 terminated employee user accounts tested, we also noted 14 user accounts that were not locked in all 4 modules of Core-CT.
- Effect:* Individuals no longer employed by the state were allowed to maintain active user accounts on the state accounting information system.
- Cause:* The Core-CT policy relating to account locking does not specify the actions required by security liaisons to limit access by unauthorized individuals to the state accounting information system. In addition, it appears that the department lacked the processes necessary to ensure that security liaisons were made aware of those individuals terminated from state service.
- Recommendation:* The Department of Administrative Services should review the existing controls related to separating employees to ensure that user accounts are locked in all modules in a timely manner. (See Recommendation 16.)
- Agency Response:* "We agree. Effective July 2015, the deletion of roles and the inactivation of one's User ID was automated by central Core-CT. When an employee is terminated in the Core-CT system, a process runs whereby all roles are removed and the User ID inactivated."

There is usually a lag time between the effective date of the termination and the time the termination is entered into Core-CT. This lag time is due to an employee's record/status in Core-CT needing to remain active until after their final pay-offs are processed of any remaining accruals they're eligible for (i.e. vacation, 1/4 sick-leave). The exact amounts of an separating employee's remaining accruals cannot be accurately be determined until after the employee's last day, as they might be using some accruals up through their last day. The pay-offs are typically processed on the pay-cycle that includes their last day, and as indicated above, their Core-CT record must remain active until after that payroll is processed.

However, the deletion of roles and the inactivation of one's User IDs can still occur while a separated employee's Core-CT record remains active. So in an effort to alleviate or even eliminate any lag time, DAS is utilizing its electronic Foot Prints System for internal agency communications pertaining to employee separations. The agency security liaisons are alerted via Foot Prints of any separating employees and asked to inactivate their User ID at that point. Please note that this is DAS's internal process for employees who separate from DAS."

## **Capital Projects – Project Management and Financial Reporting**

*Background:*

The Department of Administrative Services Division of Construction Services is the state's primary department for executive and judicial branch construction-related services, administration of the state school-construction grant program, and development, administration, and training of state building and fire safety codes.

Capital project expenditures were charged primarily to capital projects and special revenue funds. Smaller amounts were charged to the General Fund. Public works project expenditures were \$271,986,925 and \$361,033,180 for the fiscal years ended June 30, 2013 and 2014, respectively.

In 2011, the department replaced its project management software with a different software product. The purpose of this software is to help plan, organize, and manage construction projects. The new project management software includes the following features: bid management, billing and invoicing, change orders, job costing, and timesheets.

*Criteria:*

The state expended significant resources on capital projects for the fiscal years under review. Successful capital project development requires relevant and reliable information systems that collect and summarize data

into relevant information that supports management decisions, oversight, and timely corrective action.

The objective of software management is to manage, control, and protect an organization's software assets. Proper management of software assets helps minimize risks by ensuring that these assets are fully utilized and cost-effectively deployed. That is, software assets and usage should be monitored and evaluated by department management to ensure that IT investments are utilized to their maximum value taking into account costs associated with acquisition, maintenance, and training.

*Condition:*

In order to determine whether the department fully utilized and cost-effectively deployed the new project management software, we requested the following cost and user data: costs associated with the system (licensing, maintenance, and training); list of active users compared to authorized users; and number of employees using their own offline worksheets. The department was unable to provide the information requested.

It appears that DAS has not utilized all of the functionality of the new project management software. The department performs tasks and produces reports outside of the new project management software that the software should be able to perform. For instance, the department maintains project accounting logs outside of the software to keep track of all project numbers by agency. The department maintains reports outside of the software to track projects with negative fee lines. The department keeps a roster of employees charged to the project outside of the software that compares budgeted to actual personnel charges to projects obtained from the Core-CT system. The department produces a project deficit report every two weeks from Core-CT.

DAS conducted an internal evaluation of the new project management software in which it identified the following limitations of the software: it does not capture previous project tracking history; it does not have a project schedule; it does a poor job of tracking change orders; and it is not used to track agency-administered projects less than \$500,000. We asked the department to provide us with actions planned or taken to address and/or mitigate these limitations. The department was unable to provide the information requested.

*Effect:*

In the absence of usage data, it could not be determined whether the new project management software was cost-effectively deployed or whether it met user needs. It appears that the full functionality of the software has not been utilized. Internally, identified limitations in the software have not been addressed by the department.

*Cause:* The department does not have a system in place to periodically measure and evaluate project management software metrics related to employee usage.

*Recommendation:* The Department of Administrative Services should develop the necessary information system controls to ensure that its project management software is fully utilized and cost-effectively deployed. Project management software should be periodically monitored and evaluated to ensure that the department achieves maximum value for its IT investment in the software. (See Recommendation 17.)

*Agency Response:* “Department of Administrative Services agrees and has invested in a significant customization/improvement program for PMWeb over the past 18 months, which included several rounds of staff training. Management reports have been developed to review and track data. Project Managers are required to keep data in PMWeb up to date and project information is review with assistant director project managers on a monthly basis. Reports for senior management review are currently being developed. Once completed the management team will be able utilize the system to monitor project progress and see potential problems much earlier.”

### **Risk Assessment for Information Technology**

*Background:* Per Section 4d-8a of the General Statutes, the Office of Policy and Management is responsible for establishing statewide information technology policies effective July 1, 2011. OPM has established a Data Classification Policy using Department of Information Technology (DOIT) data classification methodology. The DOIT data classification methodology is based upon professional standards from both National Institute of Standards and Technology (NIST) and Federal Information Processing Standards (FIPS). NIST has released Special Publication 800-34 Contingency Planning Guide for Information Systems to aide federal agencies in developing contingency plans in accordance with professional standards.

*Criteria:* NIST Special publication 800-34 identifies 7 key steps in developing contingency plans. The second step of the process is “Conduct the Business Impact Analysis (BIA).” The BIA consists of 3 critical steps: identify critical information technology resources, identify disruption impacts and allowable outage times, and develop recovery priorities. At the Department of Administrative Services, recovery time objective (RTO) and recovery point objectives (RPO) are the identified disruption impacts and allowable outage times.

Appendix A of the OPM Data Classification Policy requires each executive branch agency to assign a classification to all data for which the

agency has custodial responsibility. Appendix B requires that executive branches shall follow the DOIT data classification methodology.

Data classification is the act of placing data into categories as defined per DOIT classification methodology. Data classification is an integral function of information security framework. The data classifications are necessary to assess risk and develop internal controls to protect the data against loss, theft, compromise and inappropriate use. Information security is best managed when the risk associated with each category of data is uniform and understood.

*Condition:* The Bureau of Enterprise Systems & Technology (BEST), a division within DAS, did not complete a documented business impact analysis as recommended per NIST standards. Instead, the department relied on the previously established RPO and RTO to identify the disruption impacts and allowable outage times.

BEST has not classified data as required by OPM policies. Also, BEST did not perform risk assessments on data in the information systems in accordance with industry standards.

*Effect:* The lack of proper, on-going risk assessments limits the capability of the department to respond to identified risks and allocate the appropriate resources to mitigate those risks.

*Cause:* The DAS process to establish and document risk assessment for information technology is not based upon industry best practices. BEST relies on static solutions already in place to assess risk.

*Recommendation:* The Department of Administrative Services Bureau of Enterprise Systems & Technology should establish a risk assessment process to comply with industry standards, which includes data classification and business impact analysis. (See Recommendation 18.)

*Agency Response:* “We agree that Department of Administrative Services should have written data classification documentation; however we disagree with the application of specific NIST standards to this finding. The OPM policy was based on NIST, it does not require the agencies to follow NIST standards.”

### **Active Directory User Account Monitoring and Administration**

*Criteria:* National Institute of Standards and Technology (NIST) Special Publication 800-14, section 3.5 establishes guidance on common IT security procedures for personnel and user issues. That guidance

indicates that the following should be considered: user account management should have a process for “tracking users and their respective access authorizations” and a process for “managing these functions.” In addition, audit and management reviews should include an examination for “conformity with the concept of least privilege,” and “whether all accounts are still active,” and whether, “management authorizations are up to date.”

*Condition:* The Department of Administrative Services is not administering active directory (network) user accounts in accordance with NIST guidance.

DAS has not developed processes to track, monitor, and manage active directory user accounts. DAS was unable to provide a listing of DAS employee user accounts with their last logon date. DAS did not confirm whether its terminated employees had user accounts removed from its active directory. DAS has not developed processes to provide data when a DAS active directory user account was terminated.

*Effect:* DAS cannot provide assurance that user accounts are authorized to mitigate the adverse consequences of unauthorized access.

*Cause:* The network has been switching to a decentralized administration approach. The decentralized approach has given DAS more administrative responsibility to monitor the active directory. The decentralized approach and reliance on department administration of user accounts resulted in user account monitoring being overlooked.

*Recommendation:* The Department of Administrative Services should develop processes to track active directory user accounts, their respective authorizations, and the ability to manage these functions. In addition, monitoring should be implemented by the department to ensure that user accounts are in conformity with the concept of least privilege are still active, and that management authorizations are up to date. (See Recommendation 19.)

*Agency Response:* “We agree that additional controls in this area would improve management oversight. We have undertaken a process review effort between the security and directory teams to bring additional controls to bear.”

### **Issues with the New Telecommunications System**

*Criteria:* Section 4d-5 subsection (a) of the Connecticut General Statute states: “The commissioner shall be responsible for purchasing, leasing and contracting for all telecommunication infrastructure for the support of the state agencies; implementing, or assisting state agencies in implementing,

such facilities; processing bills for telecommunication services used by the state agencies including telecommunication services provided at the request of state agencies to (1) private nonprofit or not-for-profit agencies whose telecommunication services are funded primarily by the state, and (2) political subdivisions of the state; and managing the operation of such infrastructure.”

*Condition:* The Department of Administrative Services implemented a new telecommunication billing system in July 2015. We found that employees throughout the state were not trained on how to use the system and there was no user manual to describe how to perform functions in the system. We were advised that the system does not have the capacity to break down billings by the type of services used by the agencies (i.e. cell phone or landline). Furthermore, we were informed that the bills cannot be broken down by user, making it impossible for employees to verify their individual service usage.

*Effect:* The ability of agencies to properly review their telecommunications billing is diminished without the necessary training and resources. In the absence of sufficient billing information, state agencies are not able to verify the content of their bills for telecommunication services with their users.

*Cause:* The DAS Telecommunications Unit has experienced several major staffing changes leading up to and subsequent to the implementation of the new telecommunications system.

*Recommendation:* The Department of Administrative Services should take the necessary steps to assist state agencies with the proper training and support for the new telecommunications system. That support should include providing state agencies with sufficient billing information to allow for the proper verification of service charges with individual system users. (See Recommendation 20.)

*Agency Response:* “We disagree. The issues with the new telecommunications system are not specific enough to identify what needs to be addressed, especially as it relates to an audit for 2013-2014. The system was not implemented during this audit period.

The telecommunications system, Tangoe, was implemented in July 2015. When the system was implemented in July, we had several issues with the vendor, including training, support and reporting.

We sent out emails to new Tangoe users on June 18, 2015 giving them their user name and password along with a training video link to Tangoe put together for us, and a link to the DAS Learning Center to sign up for

multiple training sessions in June before Tangoe rolled out on July 1, 2015. We offered the users plenty of training opportunities before, during and after the Tangoe roll out. Training began at the end of fiscal year 2015 continuing into fiscal year 2016, and Tangoe went into production during the beginning of fiscal year 2016.

We formalized a user group of agency telecom staff that have defined a list of issues that have been escalated to Tangoe.

We participate in weekly meetings with Tangoe to address the status of open items, and scheduled additional hands-on training sessions specific to reporting. We requested additional documentation from Tangoe. We are continuing to work with Tangoe and agency telecommunication staff to address any issues that surface.”

*Auditors’ Concluding  
Comment:*

The department should note that Auditors of Public Accounts may go beyond the scope of an audited period on matters brought to our attention. It is the department’s responsibility to properly provide billing information for the verification of charges. It is up to management at the agency to make that decision.

## Statewide Human Resources

The department's Statewide Human Resources Management Division 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. That methodology should include steps to ensure that the 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 these systems are used to perform critical functions, they are typically developed and maintained by information systems professionals.

In June of 2008, Governor M. Jodi Rell issued Executive Order No. 19 mandating that all state agencies comply with the Department of Information Technology 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 employment test scoring process was written and is maintained by the person who performs the scoring activity. That person is not an information technology professional by job description or training. According to the Department of Administrative Services, one person currently performs the scoring activity of all state exams.

DAS has purchased a new information technology system (ITS) scanner and software package in fiscal years 2013 and 2014; however, it appears that it is inoperable, due to the lack of IT resources and expertise needed to implement the new system. Therefore, DAS is still using a software system that was developed in-house. That system 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 file are made routinely.

- Cause:* DAS did not sufficiently allocate the necessary and appropriate financial and technical resources. The department failed to acquire an IT expert on staff to provide the necessary knowledge and skills needed to implement the new system.
- Effect:* The department would be at risk if the system currently in use fails to operate effectively and efficiently. The 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 passage of time. One person is wholly responsible for maintaining and upgrading the scoring software and system.
- Recommendation:* The Department of Administrative Services should update the information system used to score employment tests. That system should be compliant with applicable state directives, including Governor Rell’s Executive Order No. 19. (See Recommendation 21.)
- Agency Response:* “Department of Administrative Services agrees. Statewide Human Resources simply does not have the available staff and resources to re-build and continue the examination function as it once was from the customer, staffing level, and systems perspectives. A new Statewide Human Director began work in early 2016 and immediately initiated a full review of all functions, including examinations. The review has consisted of a re-organization of available staff, a 100percent review of all positions, methods and needs for examinations, a LEAN initiative to improve and simplify the examination process, and procurement of an automated system to revamp how the state recruits and hires employees.”

### **Compensatory Time Policy**

- Criteria:* Management Personnel Policy 06-02, published by the Department of Administrative Services, provides that management and confidential employees must receive written authorization in advance by the agency head or a designee for compensatory time in order to record the extra hours as time earned. Proof of advance authorization must be retained in the employee’s personnel file for audit purposes.
- Condition:* The Management Personnel Policy 06-02 – Compensatory Time for Employees Exempt from Collective Bargaining is outdated and the definition of “approved work location” is lacking.
- Effect:* The lack of clear procedures increases the risk that intended compliance will not be adhered to.
- Cause:* Administrative controls over the earning of compensatory time were inadequate.

*Recommendation:* The Department of Administrative Services should update the Management Personnel Policy 06-02 – Compensatory Time for Employees Exempt from Collective Bargaining as recommended in the prior audit review. (See Recommendation 22.)

*Agency Response:* “Department of Administrative Services agrees. Statewide Human Resources revised the Management Personnel Policy 06-02 that addresses Compensatory Time in September, 2015. The revisions addressed the concern over an approved work location and also addressed other language that was incorrect or outdated.”

**Division of Construction Services**

The Department of Administrative Services – Division of Construction Services is the state’s primary department for executive and judicial branch construction-related services; administration of state school construction grant programs; and development, administration, and training of state building and fire safety codes.

**Claims by the State**

*Criteria:* Good business practice requires the establishment and application of formally approved construction claims procedures by a claims unit independent of the construction unit. Good business practice also requires that formal policies and procedures be established to encourage the systematic review of project records to routinely determine there is a basis for potential claims by the state against construction consultants or contractors.

*Condition:* A claims procedure manual has not been prepared. The Department of Administrative Services does not have formal procedures requiring a routine review of project records to determine whether there is a basis for potential claims by the department against any construction consultant and/or contractor.

*Effect:* The absence of formal policies and procedures regarding claims by the state jeopardizes recovery of those claims.

*Cause:* The department’s financial and human resources are limited. However, it appears that claims management activities have not been allocated a sufficiently high priority.

*Recommendation:* The Department of Administrative Services should finalize and implement construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine whether there is a basis for potential claims by the state against construction consultants or contractors. (See Recommendation 23.)

*Agency Response:* “We agree with the recommendation. PMWeb will be better utilized to review project records and analyze data for potential claims by the state against consultants and/or construction contractors. Construction claims procedures will be finalized and a Claims Procedure Manual will be prepared for claims against contractors and consultants.”

## **Compliance with the Statutory Requirement to Review Subcontracts**

- Criteria:* Section 4b-95 subsection (e) of the General Statutes Chapter 60 requires the contract awarding authority to periodically review the general contractor's subcontracts to ensure compliance with statutory provisions, "...and shall after each such review prepare a written report setting forth its findings and conclusions."
- Condition:* Periodic reviews of subcontractor agreements are performed by the Department of Administrative Services. However, formal reports of these reviews are not prepared. If there are major discrepancies, the agreements are sent back to the contractors to be corrected. In the case of minor discrepancies, notes are made in the file. A transmittal memo is prepared in lieu of a formal report that sets forth its findings and conclusions. DAS has not formalized the subcontract review procedures, which would include the preparation of a report template incorporating the subcontractor provisions set forth in Chapter 60 of the General Statutes.
- Effect:* DAS is not in compliance with the requirements of subsection (e) of Section 4b-95 of the General Statutes regarding the department's responsibility for reviewing subcontracts. If reviews are not documented, there is no assurance they have been performed.
- Cause:* The department does not have staff specifically responsible for issues relating to contract compliance. It appears that contract compliance issues are not prioritized.
- Recommendation:* The Department of Administrative Services should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing subcontracts. (See Recommendation 24.)
- Agency Response:* "We agree with this recommendation. Policy statements shall be developed to address General Contractor (GC) requirements to ensure compliance with statutory provisions and subcontract review procedures will be formalized. A Biznet application is being developed for GC contract and project data input that includes provisions for the subcontractor as set forth in Chapter 60. Reports will be generated from this application that will require contract reviewers to make findings as to the subcontractor's compliance with each contract element in order to determine whether a subcontract, as a whole, is or is not compliant."

## **Real Property Reporting to Client State Agencies**

*Criteria:* The State Property Control Manual requires that each agency prepare and submit the Annual Report of all Real Property in a timely manner (Form CO-59 Fixed Assets/Property Inventory Report/GAAP Reporting Form).

According to generally accepted accounting principles (GAAP) for government, expenditures for new buildings and building additions should be capitalized (added to the inventory of capital assets), but repairs should be expensed in the year in which they occur. Detailed documentation is needed to support the determination as to which costs should be capitalized and which should be expensed. The Division of Construction Services (DCS) within the Department of Administrative Services considers the final notification to the client agencies as to the capitalized value of the asset to be the certificate of acceptance formerly called a certificate of completion and an asset valuation memorandum. DCS provides this information so that client agencies can include the building's asset finalized value on their CO-59 property inventory report. These notifications are necessary so that the cost of capitalized additions to buildings and expensed costs are documented and properly recorded by the client state agency.

*Condition:* During our audit of 8 construction projects at DCS, the department was unable to provide Asset Valuation Memorandum 7950 Form for one construction project with a total project cost of approximately \$31.3 million dollars.

The DCS asset valuation memorandum form requires that copies be submitted to the following DAS units: DCS Process Management, DAS Project Accounting, and DAS Facilities Management. The form currently does not require copies to be submitted to the client agencies to which the building is transferred, or provided to the Office of the State Comptroller for verification for financial statement purposes. Assets are capitalized and created once they have been transferred to client agencies. The client agencies report the asset on their CO-59 form. The Office of the State Comptroller will report the assets in the Comprehensive Annual Financial Report (CAFR).

Through our review, we found that 2 of the 6 asset valuation memorandums forms had total project costs that did not match the final construction costs reported for financial statement purposes. In 1 instance, a memo was signed and completed with a final construction contract value that excluded approximately \$10.8 million in DCS design fees reported in construction in progress reports. In another instance, the memorandum was completed with \$41,548 over the construction in progress report's

final amount with no explanation for additional charges on the DCS 7950 Form.

We noted 1 instance in which the asset valuation memorandum form for an approximately \$8.75 million dollars was not approved by the project manager attesting to the value of assets at the end of the project as required by DCS policies.

*Effect:* The department’s current procedures for reporting facility project costs to client state agencies can lead to GAAP form errors and overstatements or understatements of capitalized assets for financial reporting purposes.

*Cause:* The department relied on an undocumented procedure requiring the Asset Valuation Memorandum 7950 Form to be submitted to client agencies.

*Recommendation:* The Department of Administrative Services should improve documented procedures to require reporting of Asset Valuation Memorandum Form 7950 to client agencies. (See Recommendation 25.)

*Agency Response:* “We disagree with this finding. The department’s current procedure, outlined below, complies with its statutory obligations, by providing the agency with all of the information the department possesses to allow the agency to determine whether to capitalize or expense costs.

At project initiation, a Form 1105 - Capital Project Initiation Request is generated and is maintained throughout the life of the project. This Form memorializes the project budget, including the five major areas of expenditures: Haz-Mat, total construction, equipment/telecom, professional fees, percent for art, and DCS fees. At the beginning of the project, the Form reflects estimated costs. Throughout the project, the estimates are updated to reflect the actual costs as they occur.

At project completion (when the building is ready for turnover to the agency) the agency is provided Form 781 – Substantial Completion (SC), Form 785 – Insurance Notification and Transfer, and Form 1105. These documents demonstrate the various expenditures that occurred during the project. At the time of SC, project accounting costs are considered 99percent complete. Outstanding items and any change orders or incomplete work still appear in the budget. Potential claims are not included in the final costs because a vendor has up to two years to make a claim after the certificate of acceptance is given. Such costs cannot be anticipated in advance.”

*Auditors’ Concluding*

*Comments:* The forms mentioned in the department’s response above do not reflect completed and final costs. The Division of Construction Services Asset

Valuation Form 7950, used in our testing, is the final calculation of the capitalized value of an asset.

### **Management of Capital Project Revolving Fund**

*Criteria:* Section 4b-1a of the General Statutes authorized the commissioner "...to establish and administer a fund to be known as the Public Works Capital Projects Revolving Fund, which shall be used for the financing of the costs of and associated with capital projects..."

The revolving fund is designed to replenish funds for costs incurred in administrating construction projects spent by the Division of Construction Services within the Department of Administration. The client agencies are billed for the costs incurred and unpaid bills are accounted for as an accounts receivable to the fund. The intent is to allow client agency appropriations to be charged when services are rendered by DCS.

According to generally accepted accounting principles (GAAP) for governments, revenue earned but not collected should be recorded as an accounts receivable. GAAP also states that accounts receivable should be aged and receivables that are deemed uncollectible written off in the corresponding year they are deemed uncollectible.

*Condition:* The revolving fund had an ending negative balance of (\$3,772,696) in fiscal year 2014 and (\$2,812,587) in fiscal year 2013. We requested a breakdown for unbilled charges, uncollected charges, and amounts due for construction fees reported during fiscal years 2013 and 2014. The department was unable to provide the necessary breakdowns in order to trace them to the amounts in the fund balance reports.

We requested a listing of all accounts receivable written off during fiscal years 2013, 2014, 2015 and 2016 or the amounts that were identified as having been written off but had not been processed. The department provided an analysis of write-offs in the amount of \$928,703. Upon review of the report, it could not be determined whether the amount stated was for a single fiscal year or an accumulated total of all years. In addition, the DAS analysis could not be used to determine that the amounts written off were posted to Core-CT.

We also requested an aging of accounts receivable for fiscal years 2013 and 2014. In fiscal year 2014, the aging schedule provided for accounts receivable was classified into bracketed days of 01-10, 11-20, 21-30, 31 plus days, and other. In fiscal year 2014, all aging receivables were listed in bracketed days of the 31 plus category. This method of aging limited the ability to determine which of the receivables were current and which

were noncurrent for fiscal year 2014. For the aging accounts receivable for both fiscal years 2013 and 2014, the department was unable to provide data by project and client agency for outstanding receivables for construction projects.

*Effect:* By not maintaining proper accounting for accounts receivable, the department is limiting its ability to obtain reimbursement of costs incurred during the construction administration from client agencies.

*Cause:* The department received capital projects revolving funds from the Department of Public Works when it was merged with DAS. This merger created the Division of Construction Services. This agency combination resulted in a transfer of responsibilities, causing the oversight.

*Recommendation:* The Department of Administrative Services should strengthen its ability to account for accounts receivable and institute new accounting procedures for the Public Works Capital Projects Revolving Fund so the agency can enhance collection efforts and provide necessary support for fund balances. Accounts receivable should be tracked by agency and project to ensure proper collection. (See Recommendation 26.)

*Agency Response:* “We agree that administration of the Capital Project Revolving Fund should be improved. DCS and DAS are working toward that goal by improving the billing and reconciliation process and ensuring adequate funding is available to support DCS operations.”

### **Material Weakness in Construction Project Change Order Procedures**

*Background:* The Institute of Internal Auditors (IIA) has asserted that the most significant risk on a construction project is change orders. IIA noted that change orders can act as a profit center for contractors. Also, contractors and subcontractors receive overhead and profit markups related to change orders. Construction contractors use of change orders for profit increases the risk of fraud, waste, abuse, and avoidable cost overruns. The Association of Certified Internal Auditors has identified numerous post-award contract change orders as an indicator of fraud.

*Criteria:* The American Institute of Architects (AIA) has established best practices regarding the architect’s role in the construction change order process, which is to review the scope and price of proposed change orders, and respond with “as-is” or suggest changes. If the architect and contractor cannot agree on the change order, the contractor should be added to the resolution list for future review with the owner. The last step is to secure approval in writing from the owner.

The Division of Construction Services, within the Department of Administrative Services, requires management approval and review of all construction change orders prior to the commencement of additional work on the project. These approvals are documented by management signatures on change order forms. Change order forms are required to be retained in order to verify the process. The department's change order review involves a multi-step approval process with both third-party and internal approvals. The change order process includes a review by construction administrators commissioned by DCS to assist project managers in overseeing the fulfillment of all requirements of the contract documents. The change order process also includes a consultant and an architect or engineer commissioned by DCS professional services to review change orders.

*Condition:*

During the audit we reviewed 33 change orders from 2 construction projects. One project had a total cost of approximately \$170.9 million dollars with 421 change orders totaling approximately \$17.2 million dollars. The second project had approximately \$5.1 million dollars in total construction costs with 47 change orders totaling \$460,107. We found the department change order logs were inaccurate and incomplete. We noted 27 instances, 26 for the larger project and 1 for the smaller project, in which the final change orders were not processed on the logs.

We noted 16 instances in which the change orders did not contain all the necessary signatures. The consultant's (architect) signature was not present on the DCS change order form. The value of the unsigned change orders totaled \$2,265,463. DCS provided no explanation or justification as to why the consultant signature was not executed.

We noted 10 instances in which the construction administrator's signature approving the change order was not identifiable and did not match other examples of approval signatures. We could not verify that this individual was authorized to sign the change orders. The value of those change orders was \$1,375,557.

We noted 11 instances in which the signature of the consultant did not match the printed name on the change order form. We could not verify that the approval consultant signature was made by an authorized and valid approver. The value of those change orders was \$336,885.

We noted 14 instances, totaling \$999,536, in which the change orders did not have a printed name of the construction administrator that could be matched to the signature on the change order approval form. We could not verify that the individual signing the change order was the appropriate individual.

Six instances were noted in which the consultant (architect) either did not agree or only partially agreed to \$306,590 in change orders. In 3 instances, a formal letter from the consultant providing an analysis and explanation of the disagreement with the change order was not available. In 1 instance, the consultant partially agreed with the change order. However, no formal letter was present explaining the portion that the consultant agreed to. In addition, there was correspondence on file indicating that there was a disagreement with a \$7,104 change order.

We noted 1 instance in which a consultant (architect) left a signed note disagreeing with part of the change order, which totaled \$30,376. The change order form showed a different signature not belonging to the consultant. The signed note matched the name on the consultant's letter in the file, but the approval signature did not match.

We noted the construction project change order form did not require a printed name or signature date for signature authority for change orders over \$30,000 from the assistant director project manager, director project manager, or the deputy commissioner. There were 22 instances in which the department had change orders totaling \$2,506,617 requiring signature approval. The signature could not be verified to the printed name or date. We could not determine whether an approved individual signed and dated the change order form.

We noted 2 instances in which a change order form was not properly approved by department staff. In 1 instance, a change order of \$30,376 was not approved by the assistant director project manager as required by the department's change order procedures. In another instance, a change order of \$127,681 was not signed by the department project manager, but a letter was attached with a signature. The department's form states that the change order is not valid or approved until signed by a project manager.

We noted 2 instances in which the consultant claimed to have signed the change order as directed by the owners. DCS, in their review and approval of the change orders, never addressed whether and why the consultant was directed to sign the change orders. It appeared that the consultant did not express an opinion. Consultants review and approval of change orders acts as professional architectural review for the change order(s). DCS did not address why a professional opinion was not necessary.

We noted that the project manager signed 4 change orders after the contractor but before the construction administrator and the consultant (architect). A change order is considered valid and approved once signed by the project manager. A consultant and construction administrator

approval after the signature by the project manager is not in accordance with DCS policies and procedures. Project manager signing the change order prior to the consultant and construction administrator negates the internal control review prior to final approval. The value of those change orders was \$115,429.

We noted 5 instances in which the consultant did not agree with all or parts of the change order. In the review of the construction change order files, we could not find a formal analysis demonstrating a detailed review of the consultant disagreements. In all cases, a small note was included from the project manager stating the reasons why it was processed. The department did not provide the necessary analysis justifying that the change order did not contain unnecessary cost overruns. No documentation was present indicating that the matter had been discussed with the consultant. The value of those change orders was \$562,861.

*Effect:* The department authorized 26 change orders, totaling \$2,595,244, with documentation that did not conform to established controls. These change orders are at an increased risk of fraud, waste, and abuse that could go undetected during construction.

*Cause:* Deficiencies in the controls over approval of construction change orders, including an inadequate change order form and the lack of management oversight regarding levels of approvals, contributed to the conditions detailed above.

*Recommendation:* The Department of Administrative Services should adhere to internal controls over construction projects as established by the department. (See Recommendation 27.)

*Agency Response:* “We agree that the Department of Administrative Services should adhere to internal controls over construction projects as established by the department. The Change Order Manual, and all corresponding forms, will be reviewed and updated to reflect current standards. A quality control review will be included as part of this process. A legible print and written, or electronic signature, with the corresponding date of approval will be required on all construction project change orders to ensure proper authorization prior to proceeding with construction change order work. In support of these efforts, PMWeb will be better utilized to track and review project change orders.”

### **Construction Project Closeout Documentation**

*Criteria:* The Division of Construction Services, within the Department of Administrative Services, has established project closeout internal controls for construction projects. To ensure compliance with these internal

controls, DCS has developed standardized forms. The objective of the closeout paperwork is to adequately address issues of asset transfers and legal documentation of acceptance of work and substantial completion; to provide evaluation of services rendered for future use; and report the costs of assets created for capitalization.

*Condition:*

We requested closeout paperwork for a total of 8 construction projects with combined total costs of approximately \$273 million dollars. The department was unable to provide all supporting closeout documentation for one project totaling approximately \$31.3 million dollars. We requested the documentation on December 1, 2015, but did not receive any documentation even after sending a second email request dated December 30, 2015. The department started providing closeout paperwork on February 23, 2016. The last project closeout paper work was received on April 4, 2016. The department was unable to provide construction closeout documentation in a timely manner.

During our audit of 8 construction projects at DCS, the department was unable to provide Asset Valuation Memorandum 7950 Form, Certificate of Acceptance Form 7820, and Project Summary Report Form 7870 for one construction project with total project costs of approximately \$31.3 million dollars.

We tested 8 construction projects and noted 6 instances in which the Certificate of Substantial Completion form 7810 did not contain a listing of items to be completed. The Form 7810 is used for substantially completed construction projects that require additional work. A list of items to be completed with their value should be attached for verification at the project completion stage.

We noted 4 instances of incomplete or improperly prepared construction closeout forms. In 1 instance, the Certificate of Acceptance form 7820 was signed by the department but no acceptance date was listed on the form. The purpose of the form is to officially confirm the date of construction work acceptance as per Connecticut General Statutes. In 1 instance, the Asset Valuation Memorandum 7950 Form for a project totaling \$8.75 million dollars was not approved by the project manager attesting to the value of the asset at the end of the project as per DCS policies. In another instance, a Project Summary Report Form 7870 was completed with no evaluation of contractor or architect job performance as per the department's policies. In the final instance, a Certificate of Acceptance Form 7820 for a project totaling approximately \$30.1 million dollars had a reported acceptance date of August 12, 2008, but the form was not approved and signed until August 19, 2014. The project was started 6 years prior to the form being completed.

*Effect:* The department's deficiencies in closeout documentation limit its ability to report on construction projects at completion and support key construction milestones.

*Cause:* The department's monitoring and review process for construction project documentation is not sufficient to prevent the type of errors noted above. The department utilizes a closeout paper checklist. However, no formal review of supplied documents is performed for adherence to internal control procedures.

*Recommendation:* The Department of Administrative Services should implement a quality control process that establishes a monitoring function in construction project closeout documentation and conduct reviews of other areas to realize opportunities for process improvements. (See Recommendation 28.)

*Agency Response:* "We agree the department should implement a quality control process for construction project close out.

A reorganization of the department merged DCS Legal, Process Management and Procurement, and Construction Support Services. One of the responsibilities of the new unit is to review and update the procedures for project documentation review, reporting, and retention to make certain project files are complete and accurate. To help ensure quality control at project closeout, management held a training session for project team staff on project closeout procedures.

For most construction projects, a Construction Administrator (CA) will be hired to work to manage the project and ensure quality control measures are implemented. A CA Procedures Manual is being drafted to outline the administrative duties of the CA, and includes a detailed description of quality control measures and project closeout procedures that are to be implemented on construction projects. These include the establishment of project closeout progress meetings to allow the CA, Constructor, A/E, and DCS PM to do a final assessment of the project, verify that all work is complete, and ensure the closeout process is timely and orderly; a formal review of key submittals including the Certificate of Substantial Completion, Certificate of Acceptance, Asset Valuation Memo, Certificate of Occupancy, and other project specific submittals will be conducted as part of the project closeout process to ensure the submittals are complete; and a project closeout report will be prepared at project completion that captures all pertinent project data including schedule and cost information in summary form. All reports issued during the project and the signed key submittals will be attached to the closeout report in final form. The report will note the date of substantial and final completion and the commencement date for all warranties."

## 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.

Section 60 of Public Act 05-251 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.

### Monitoring - Dual Employment

*Criteria:* Department of Administrative Services General Letter 204 Dual Employment, dated May 12, 2014, provides directions for DAS and its customer agencies to comply with Section 5-208a of the General Statutes, effective July 1, 2013. It states 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.” In addition, no state employee can hold multiple positions within the same state agency without adherence to the same conditions as multiple agency employment.

*Condition:* We found that DAS customer agencies did not correct their dual employment error notices in Core-CT as suggested by DAS for fiscal years 2013 and 2014. We noted three out of six error notices related to dual employment transactions from DAS post audit review that did not correctly identify the primary and secondary agency work assignment. We also noted that the number of work hours appeared to be in conflict with the appropriate work schedule.

In addition, there was 1 dual employment error notice that did not have a signed or approved dual employment form on file. The employee, a seasonal worker, was paid an advance stipend by the customer agency (State Department of Education) for a coaching assignment.

*Effect:* In the absence of proper monitoring and guidance regarding dual employment, arrangements can result in undetected duplicate payments and conflicts of interest between state agencies.

*Cause:* It appears that a lack of administrative oversight by DAS and its customer agencies contributed to this condition.

*Recommendation:* The Department of Administrative Services 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 reestablish the DAS practice of providing semiannual reports of employees with multiple positions to state agencies to discern whether true dual employment arrangements exist and need to be addressed. (See Recommendation 29.)

*Agency Response:* “We partially agree with the findings and recommendations. As for the corrective actions that have been alleged by either not providing sufficient documentation or having not implemented, we disagree and feel sufficient evidence was shown, explained or otherwise provided. However we do agree that even tighter internal controls are needed in these regards, including compensatory and overtime. It should be noted that it’s the responsibility of the secondary employing agency to initiate a Dual Employment form CT-HR-25. This includes assuring that the employee is not being offered nor begins working in any such secondary position prior to the primary agency’s notification and opportunity to fully review and, if appropriate, give approval of the dual employment arrangement via the CT-HR-25 form. It appears that any secondary agency that fails to fully comply with this directive causes the primary agency to be agency deemed/considered to be in non-compliance. Therefore, our disagreement here is that as the primary agency, we should not be faulted for improper or lack of action by another agency. In any case, in a further attempt to further avoid such issues, DAS will communicate the need for any staff member who is considering applying for a second position in state service to notify management of such consideration and certainly prior to accepting a position offer for a second position in state service.”

### **Absence of Documented Corrective Action in Payroll and Personnel Controls**

*Background:* The Department of Administrative is responsible for providing payroll and personnel services for several agencies throughout the state. The service work is performed by the Small Agency Resource Team (SmART) at DAS. These services operate in parallel with the internal procedures for DAS employees. As a result, weaknesses identified in the SmART Unit have historically been reported in the DAS departmental audit report alongside related conditions identified in payroll and personnel testing for DAS.

*Criteria:* The updated Integrated Framework for Internal Controls published by the Committee of Sponsoring Organizations (COSO) establishes the professional standards used to evaluate internal controls for design, implementation, and operating effectiveness. Under the monitoring

component of the integrated framework, Principle 16 states that “management should establish and operate monitoring activities and evaluate the results.” Principle 17 of the same component states that “management should then remediate identified internal control deficiencies on a timely basis. An attribute of internal controls that address these principles are presence of completed and documented corrective actions that remediate internal control deficiencies in a timely manner.”

Section 5-208a of the Connecticut General Statutes states 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 such authority’s 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.”

DAS General Letter 204 provides specific guidance to state agencies when considering requests for dual employment. The letter states that a “dual employment assignment cannot be approved if there is a duplication of hours between/among positions and that agencies must be mindful of any time required to travel from one worksite to another when determining where there would be a duplication of hours.” The letter also states that “employees cannot charge paid leave time, such as vacation leave, in order to work in/travel to another state job.”

DAS Management Personnel Policy 06-02 allows an agency head to grant compensatory leave for extra time worked by managers provided that it conforms to specific criteria. The criteria includes that the manager or confidential employee receive advance written authorization by the agency head or a designee to record extra hours as compensatory time. It is also required that proof of advance authorization be retained in the employee’s personnel file for audit purposes.

*Condition:*

We followed up with DAS on the status of several prior audit recommendations. DAS responded to these recommendations with measurable corrective actions that it planned to implement. We specifically followed up on the DAS planned corrective actions related to medical certificates, compensatory time, accrual-record related issues, and the propriety of accrual adjustments and payments upon the death of an employee.

For the 4 types of recommendations, we identified 6 measurable corrective actions that DAS planned to perform to address the identified deficiencies in internal controls. Of the 6 planned corrective action types,

the department could not provide sufficient documentation that 2 of the planned corrective actions were completed and that the deficiencies in internal control were remediated in a timely manner. For 3 of the planned corrective actions, DAS could not provide documentation that it implemented the corrective actions.

Due to the identified weaknesses in internal controls in the prior audit, we performed further audit procedures in the areas of dual employment, compensatory time, and overtime. These procedures identified the following conditions:

- For dual employment, we selected 3 employees for each audited period. We selected employees who appeared to have prolonged periods of dual employment.

During testing, we identified 2 instances in which DAS was missing the required forms (PER-DE-1 or CT HR-25) as the primary agency.

For 1 individual who was dually employed during the entirety of the audited period, we identified approximately 21 instances in which the employee charged approximately 8 hours of vacation time at his primary agency while working 8 hours or more at his secondary agency. We identified another 20 instances in which the same individual recorded 16 or more work hours in a single day between both employing agencies. When we requested documentation of any follow-up action on the use of vacation or the 16-hour work days, DAS did not have documentation to support monitoring of the employee or the dual employment arrangement. However, when notified, DAS did initiate a review of the dual employment record for this individual.

- For compensatory time, we selected 10 employees with larger quantities of compensatory time relative to most DAS employees. Of the 10 selected employees, documented approvals could not be found to support the authorization of compensatory time for 3 managerial or confidential employees.
- For overtime, we selected 10 employees with larger quantities of overtime earned relative to other DAS employees. Of the 10 selected employees, we identified 3 employees who were ineligible for overtime but were given approval by OPM to work a specified number of overtime hours. The 3 employees reported a total of 123 hours of overtime above the amount submitted to OPM with the request for the overtime waiver. The department could not provide approvals for overtime other than the OPM approval,

which did not cover all of the overtime hours earned during the period.

*Effect:* DAS has not mitigated a known or foreseen risk, which has resulted in noncompliance, and other potentially more serious problems such as overpayment of accruals and possible theft of time.

*Cause:* It appears that the department did not take sufficient action to identify known deficiencies in internal controls and remediate those deficiencies.

*Recommendation:* The Department of Administrative Services should complete and document its planned corrective actions to address known deficiencies in internal controls. The department should also establish and operate monitoring activities over those internal controls designed to reduce the vulnerability of DAS to noncompliance, overpayments, and theft of time. (See Recommendation 30.)

*Agency Response:* “We disagree. As for the statement “DAS is choosing to accept rather than mitigate a known or knowable risk which has resulted in noncompliance and other more serious problems such as overpayment of accruals and possible theft of time”, we entirely disagree with this assertion. Our DAS-SmART HR/Payroll Unit has been credited and recognized for the efficiencies achieved since its establishment in 2005. In addition DAS SmART HR/Payroll Unit has been called upon with little or no notice to assist other state agencies that have experienced internal operation failures or that have unexpected staff absences or other immediate staffing needs. If the above assertion was even slightly accurate then these efficiencies would have been impossible to achieve and these agencies would not have had the confidence to ask for our unit’s assistance.”

*Auditors’ Concluding*

*Comment:* As part of the department’s corrective action plan, we noted that those actions addressing payroll were not established by the department during or prior to our audit report.

## **RECOMMENDATIONS**

Our prior report on the fiscal years ended June 30, 2011, and 2012, contained a total of 39 recommendations. Of those recommendations, 20 have been implemented, satisfied, or otherwise regarded as resolved. Thirty recommendations are new or modified and repeated.

As stated in our significant legislation section of this audit report, Public Act 11-51 effective July 1, 2011, merged the former Department of Information Technology into the Department of Administrative Services. Our prior Department of Information Technology report on fiscal years ended June 30, 2008, 2009, and 2010, contained a total of 6 recommendations. Of those recommendations, 2 have been implemented, satisfied, or otherwise regarded as resolved. Four recommendations are new or modified and repeated.

In addition, Public Act 11-51 moved the properties and facilities function from the former Department of Public Works to the Department of Administrative Services, where it became the Bureau of Properties and Facilities Management. The remaining functions of the former Department of Public Works were reconstituted into a new agency named the Department of Construction Services.

Public Act 13-247 Section 195 eliminated the Department of Construction Services as a stand-alone agency, and transferred its programs, authority, and employees to the Department of Administrative Services. The effective date of this provision was July 1, 2013.

Our prior Department of Public Works report on fiscal years ended June 2007, 2008, and 2009, contained a total of 17 recommendations. Eight of those recommendations were related to functions that were transferred to the Department of Construction Services and were addressed in our audit covering the fiscal years ended June 30, 2010, 2011 and 2012. Of those 8 DCS recommendations, 4 recommendations were repeated in modified form, and 3 recommendations were resolved. In addition, the DCS audit produced 2 recommendations new to the Department of Construction Services.

Of the 9 recommendations that were related to functions incorporated into the Department of Administrative Services, 6 recommendations were repeated in modified form and 3 recommendations were resolved.

Of those 6 recommendations from the prior Department of Construction Services report on the fiscal years ended June 2010, 2011, and 2012, 4 recommendations were repeated in modified form and 2 recommendations were resolved.

The status of the 59 prior audit recommendations is presented below.

### *Status of Prior Audit Recommendations:*

- The Department of Administrative Services should evaluate the reporting responsibilities within Sections 4b-136, 4d-12, 5-219a, 10a-151d, 46a-78 and 46a-81o of the General

Statutes and either comply with its provisions or pursue legislative change if statutory obsolescence is determined. **This recommendation has been resolved.**

- The Department of Administrative Services should comply with Section 4b-23 of the General Statutes and adopt state regulations or pursue legislative change. In addition, DAS should modify state regulations under Sections 4a-52 and 4a-61 to reflect its current processes. **This recommendation has been resolved.**
- The Department of Administrative Services should either continue to pursue the repeal of the statutory mandate or reconstitute the Committee on Career Entry and Mobility and the Committee to Encourage Employment by the State of Persons with Disabilities, in accordance with Sections 4-61t and 4-61aa of the General Statutes, respectively. **This recommendation has been resolved.**
- The Department of Administrative Services should encourage the statewide Security Management Council, the Information and Telecommunication Systems Executive Steering Committee, Commission for Educational Technology, the Employees' Review Board, and the State Properties Review Board to comply with Section 1-225 of the General Statutes. **This recommendation has been modified to reflect current conditions. (See Recommendation 6.)**
- The Department of Administrative Services should encourage the Commission for Educational Technology, the Employees' Review Board, and the State Marshal Commission to continue to pursue the respective appointing authorities to make proper timely appointments. **This recommendation has been modified to reflect current conditions. (See Recommendation 7.)**
- The Department of Administrative Services should pursue formal agreements with the Offices of the Governor and the Lieutenant Governor to clearly identify the lines of responsibility in performing personnel, payroll, affirmative action, and business office functions. **This recommendation has been resolved.**
- The Department of Administrative Services 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. **This recommendation has been resolved.**
- The Department of Administrative Services 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 whether 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. **This recommendation has been modified to reflect current conditions. (See Recommendations 29 and 30.)**

- The Department of Administrative Services should strengthen its administrative oversight to ensure that advance authorization of compensatory time for eligible employees is properly documented and that expired compensatory time accrued is promptly removed from applicable employee leave balances in accordance with the various collective bargaining agreements and the DAS Managers' Guide. **This recommendation has been modified to reflect current conditions. (See Recommendation 30.)**
- The Department of Administrative Services should take greater care to review the propriety of timesheet data from SmART agencies prior to processing for payment. **This recommendation has been resolved.**
- The Department of Administrative Services should evaluate the propriety of the practice of making accrual adjustments to increase sick leave balances to offset the potential loss of monthly accruals for employees at maximum vacation leave balances. The department should also make a concerted effort with affected agencies to correct the accrual and posting errors/oversights noted for certain employees. **This recommendation has been modified to reflect current conditions. (See Recommendation 30.)**
- The Department of Administrative Services should take greater care in ensuring the accuracy of payments at separation with supervisory review of calculations. **This recommendation has been resolved.**
- The Department of Administrative Services should determine the propriety of the recorded years of state service for the employees noted and make adjustments as necessary. **This recommendation has been modified to reflect current conditions. (See Recommendation 30.)**
- The Department of Administrative Services should comply with applicable collective bargaining unit agreements and the DAS Managers' Guide regarding adjustments and the proper payout of leave time for deceased employees, and establish a policy to ensure that longevity calculations for deceased employees are determined consistently. **This recommendation has been resolved.**
- The Department of Administrative Services should comply with subsection (b) of Section 5-248i of the General Statutes and the guidelines for telecommuting and work-at-home assignments. **This recommendation has been resolved.**
- The Department of Administrative Services 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 has been modified to reflect current conditions. (See Recommendation 11.)**

- The Department of Administrative Services 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. **This recommendation has been resolved.**
- The Department of Administrative Services should reemphasize the policy for terminating access to Core-CT for separating employees. **This recommendation has been modified to reflect current conditions. (See Recommendation 1.)**
- The Department of Administrative Services should continue to pursue 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 to comply with the intent of Section 4a-80 of the General Statutes. **This recommendation has been resolved.**
- The Department of Administrative Services should abide by the Workers' Compensation – DAS Selective Duty Program policy by reimbursing employing agencies for the paid holidays in the periods the respective employees participated. **This recommendation has been resolved.**
- The Department of Administrative Services should take the necessary steps to ensure that all complaints are investigated by the Agency Transportation Administrator within the 30 days allowed by DAS General Letter No. 115 and appropriate action has been taken. **This recommendation has been modified to reflect current conditions. (See Recommendation 8.)**
- The Department of Administrative Services should establish internal controls to determine the expected rebate due from the reverse auction process and initiate an accounts receivable account with the DAS Business Services Division. **This recommendation has been resolved.**
- The Department of Administrative Services should update the state plan for the Federal Surplus Property Distribution Program and address the requirements and recommendations as directed by the General Services Administration. **This recommendation has been resolved.**

The Department of Administrative Services should revisit its contractor evaluation form and Section 4a-101-1 of the Regulations of State Agencies to determine which needs to be amended. **This recommendation has been modified to reflect current conditions. (See Recommendation 15.)**

- The Department of Administrative Services and the Office of Policy and Management should comply with Section 4d-9 of the General Statutes by developing appropriate review procedures and accountability standards for the Technical Services Revolving Fund, as well as measures for determining the performance of the fund. **This recommendation has been resolved.)**
- The Department of Administrative Services should consider requesting the rescission of Section 4d-10 of the General Statutes. **This recommendation has been resolved.**
- The Department of Administrative Services 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. **This recommendation has been resolved.**
- The Department of Administrative Services Business Services division should reconcile with the leasing database maintained by the DAS Properties and Facilities Management Division on a monthly basis to ensure that all executed leases are billed in accordance with their applicable terms. **This recommendation has been resolved.**
- The Department of Administrative Services 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. In addition, greater care should be exercised to ensure that the vendor pricing of goods/services are verified to applicable contract awards. **This recommendation has been modified to reflect current conditions. (See Recommendation 12.)**
- The Department of Administrative Services internal policy should require that the cardholder and supervisor sign the monthly cardholder statement attesting to the proper use of the purchase card and the accuracy of the charges on the statement. In addition and at a minimum, the purchase log envelope should be signed by the cardholder to acknowledge whether a state contract award was applicable to each of the purchases made during the month. **This recommendation has been resolved.**
- The Department of Administrative Services should take greater care to abide by the State Property Control Manual in the accounting and reporting of assets. **This recommendation has been modified to reflect current conditions. (See Recommendation 13.)**
- The Department of Administrative Services 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. 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. **This recommendation has been resolved.**

- The Department of Administrative Services should continue to take the necessary steps to ensure that asset management records completely and accurately reflect the equipment inventory for which it is responsible. **This recommendation has been modified to reflect current conditions. (See Recommendation 14.)**
- The Department of Administrative Services should place more effort in ensuring that proper accountability exists over its legal representative case assets for liquidation by segregating the duties regarding custody and recordkeeping. **This recommendation has been modified to reflect current conditions. (See Recommendation 3 and 4.)**
- The Department of Administrative Services 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. **This recommendation has been resolved.**
- The Department of Administrative Services 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, comply with the current and planned Enterprise-wide Technical Architecture, be easy to maintain, and be 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. **This recommendation has been modified to reflect current conditions. (See Recommendation 21.)**

- The Department of Administrative Services should update and clarify language within the Management Personnel Policy 06-02, Compensatory Time for Employees Exempt from Collective Bargaining, to reflect intended compliance. **This recommendation has been modified to reflect current conditions. (See Recommendation 22.)**
- The Department of Information Technology should thoroughly review employee records for breaks in state service that do not count towards longevity before making these payments to employees. Also, the agency should initiate steps to recoup payments that were made in error to employees. **This recommendation has been resolved.**
- The Department of Information Technology should take steps to improve controls over all employee personnel files and ensure the proper medical certification forms are maintained. **This recommendation has been resolved.**
- The Department of Information Technology should comply with Section 5-237-1 of the Regulations of Connecticut State Agencies and perform annual performance evaluations of its employees. **This recommendation has been resolved.**

- The Department of Information Technology should promptly notify both the Auditors of Public Accounts and the State Comptroller of any unauthorized, illegal, irregular, or unsafe handling of resources to comply with Section 4-33a of the Connecticut General Statutes. **This recommendation has been resolved.**
- The Department of Information Technology should improve its internal controls over the custody and reporting of its property inventory. **This recommendation has been merged and modified to reflect current conditions at DAS. (See Recommendation 16.)**
- The Department of Information Technology should establish a statewide software policy identifying the proper method of disposal of applications from assigned hardware and the proper disposal of the physical software media. **This recommendation has been resolved.**
- The Department Public Works should adhere to accounts payable internal control procedures. The controls should include contractual cost and services reconciliations as well as reviews of supporting documentation. **This recommendation has been merged and modified to reflect current conditions at DAS. (See Recommendation 12.)**
- The Department of Construction Services should finalize and put into practice construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine whether there is a likely basis for potential claims by the state against construction consultants and/or construction contractors. **This recommendation has been modified to reflect current conditions. (See Recommendation 23.)**
- The Department of Construction Services should design and put into operation a system to monitor lease terms and lease revenue, including lease revenue receivables. **This recommendation has been resolved.**
- The Department of Public Works should, in conjunction with the Office of Policy and Management, where appropriate, establish procedures relating to compliance with the requirements of Section 4b-23 of the General Statutes. Section 4b-23 requires the department to review State Facility Plan requests submitted by state agencies to the Office of Policy and Management. Section 4b-23 also requires the department to monitor compliance with the approved State Facility Plan and to obtain approvals from the State Bond Commission, the Governor, and the State Properties Review Board for certain deviations from the plan. **This recommendation has been resolved.**
- The Department of Construction Services should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing general contractor subcontracts. **This recommendation has been modified to reflect current conditions. (See Recommendation 24.)**
- The Department of Public Works should improve its administration of the Capital Projects Revolving Fund. All project costs and, when appropriate, the applicable General Fund

appropriation should be billed. Billings for projects financed by other state and quasi-public agencies should be processed in a timely manner. Also, all applicable collections should be credited to the unfunded charges receivable balance. In addition, the department should maintain and regularly reconcile the fund's unreimbursed accounts receivable to project billings and receipts. **This recommendation has been merged and modified to reflect current conditions at DAS. (See Recommendation 26.)**

- The Department of Public Works should continue to review its processing system for the Capital Projects Revolving Fund to reduce the level of manual operations required to process billing transactions and to increase the usefulness of information provided by its system. **This recommendation has been merged and modified to reflect current conditions at DAS. (See Recommendation 26.)**
- The Department of Public Works should improve its procedures over the timely reporting of facility project costs to client agencies. **This recommendation has been merged and modified to reflect current conditions at DAS. (See Recommendation 25.)**
- The Department of Public Works should discontinue the use of the Funds Awaiting Distribution account for transacting state property operations. The net proceeds from real estate sales should be transferred to the General Fund. Expenditures for the disposal of state property should be accurately accounted for and attributable to the specific property sold. The unidentified balance in the Funds Awaiting Distribution account should be transferred to the General Fund. **This recommendation has been resolved.**
- The Department of Public Works should maintain, reconcile, and report inventory assets as prescribed by the State Property Control Manual. **This recommendation has been merged and modified to reflect current conditions at DAS. (See Recommendation 13.)**
- The Department of Public Works should take greater care in properly coding items purchased that require accountability as minor equipment. The department should identify and inventory controllable property. **This recommendation has been resolved.**
- The Department of Public Works should comply with the software inventory requirements contained in the *State Property Control Manual*. **This recommendation has been merged and modified to reflect current conditions at DAS. (See Recommendation 14.)**
- The Department of Public Works should develop and implement written procedures to provide accountability of the antiques, art objects, carpets, and other items loaned to the state by the Governor's Residence Conservancy, Inc. The department should conduct an annual inventory of the Residence and report the value of Governor's Residence Conservancy, Inc. collection on the CO-59 Fixed Assets and Property Inventory Report/GAAP Reporting Form. **This recommendation has been resolved.**
- The Department of Construction Services should ensure that all payroll and personnel records are completed with respect to authorization and retained in accordance with state

records retention requirements. In addition, employee separation procedures must include termination of access to Core-CT. **This recommendation has been resolved.**

- The Department of Construction Services must adhere to capital project construction change order approval procedures. Change order construction work should not proceed without proper authorization. The agency should better utilize the PM Web project tracking system, including the implementation of electronic signatures and date tracking. **This recommendation has been modified to reflect current conditions. (See Recommendations 27 and 28.)**

*Current Audit Recommendations:*

- 1. The Department of Administrative Services should hire additional staff to increase the collections of monies owed to the state. The Department of Administrative Services should develop the necessary analytical tools to identify revenue opportunities and the costs associated with the pursuit of those opportunities so that increases in revenue would cover the cost of additional staff. These tools should provide sufficient support for requests of additional resources, whether those resources are in the form of system improvements or additional staff.**

Comment:

While the department improved total revenue collected by redirecting staff efforts to focus on lawsuit cases, when we compared the number of case openings in fiscal year 2012 to fiscal years 2013 through 2015, we estimated that DAS missed opportunities to open an estimated 9,000 insurance claim cases. Based on the 9,000 insurance claim cases, we estimated that the department missed opportunities to increase revenue collections by as much as \$13,000,000 during fiscal years 2013 through 2015.

In the absence of corrective action, we estimated that the department will annually miss opportunities to collect as much as \$5,400,000 in money owed to the state from missed insurance claim cases.

- 2. The Department of Administrative Services should establish articulate policies and procedures related to negotiating for the collection of unearned income. In addition, DAS should clearly establish in statute or regulation the authority to negotiate for the reduced collection of unearned income on behalf of the state, and define the upper limits of that authority.**

**DAS should also develop performance measurements that include both financial and nonfinancial key performance indicators to provide management with the tools to identify and respond to problems in the collections process.**

**DAS should also consider redirecting efforts to pursue collections against newer insurance claim actions, as these items are more likely to result in successful collections rather than pursuing aging insurance claim actions first.**

Comment:

In the absence of clear policies and procedures that provide guidance on negotiating the collection of unearned income, DAS employees may reduce collections more than necessary and without sufficient documentation to support the reduction.

In addition, the department may have reduced the amount of recoverable costs collected by the state from unearned income without having the statutory or regulatory authority.

Because of the delays in establishing liens on unearned income by DAS, the state was unable to collect unearned income from three insurance claim actions and one lawsuit action, because they were settled prior to DAS establishing a lien on the unearned income. It is not possible to quantify the dollar value of these collections, as the settlement amounts were not disclosed in the case files.

- 3. The Department of Administrative Services should document its monitoring of internal controls over collections to ensure consistent application of DAS policies. The department should address any internal control weaknesses identified during monitoring and respond with appropriate and timely action, to ensure that ongoing collection efforts are effective, efficient, and comply with laws and regulations.**

Comment:

The variety of exceptions identified in the review of selected case files suggests that DAS may not be consistently collecting all reasonably recoverable assets from decedent estates.

The results of testing suggest that assets from decedent estates may go missing while in DAS custody. In addition, it appears that DAS may not be aware that assets are missing or perform the necessary follow-up on assets that are identified as missing. This places assets held in DAS custody at an increased risk for loss or misappropriation with a reduced likelihood of discovery or recovery.

- 4. The Department of Administrative Services should assess its current system of communicating between staff and management and seek to improve the existing system while also working to educate staff about the statutory reporting requirements included in Section 4-33(a) of the General Statutes.**

Comment:

In the absence of self-reporting, DAS limits the ability of those agencies charged with the oversight of such matters to perform duties required by statute.

- 5. The Department of Administrative Services should take the necessary steps to ensure that the required report from the Commission for Educational Technology on the attainment of statewide technology goals is prepared and submitted annually to the joint standing committees of the General Assembly having cognizance over such matters.**

Comment:

The Commission for Educational Technology did not have the requisite staff to prepare the reports as required.

- 6. The Department of Administrative Services should encourage the State Insurance and Risk Management Board to comply with Section 1-225 of the General Statutes.**

Comment:

It appears that proper oversight within the boards, commission, and council was lacking.

- 7. The Department of Administrative Services should support and encourage commissions and boards falling within its administrative purview to fill all vacant positions in a timely manner. Furthermore, those board members whose absenteeism statutorily disqualifies them from continued service should be identified, removed, and replaced in a timely manner by their respective commissions or boards.**

Comment:

The Department of Administrative Services stated that, due to the loss of the agency liaison, certain administrative duties related to the boards and commissions were not performed.

We were informed by the chairperson of the Employees' Review Board that a lack of resources may have contributed to the oversight.

- 8. The Department of Administrative Services should take the necessary steps to ensure that all complaints are investigated by the Agency Transportation Administrator within the 30 days allowed by DAS General Letter No. 115 and appropriate action is taken. Furthermore, DAS should exercise its authority to recall vehicles for those state agencies with a high percentage of uninvestigated complaints.**

Comment:

The failure to recall vehicles from those state agencies with a high percentage of uninvestigated complaints may contribute in part to the high percentage of uninvestigated complaints.

- 9. The Department of Administrative Services should take the necessary steps to fully comply with Section 4a-67d of the Connecticut General Statutes or seek statutory relief from those requirements.**

Comment:

The statutorily required forty mile per gallon state fleet average may not be currently achievable based upon the mission requirements of those vehicles and the current state of automotive technology.

The state's fuel service facilities don't carry the alternative fuel used by the state's alternative fuel vehicles.

- 10. The Department of Administrative Services should establish the necessary controls to ensure that all Sale Declaration Report DPS-29 forms submitted to the Surplus Unit are properly signed as approved for disposal by the director or assistant director of Fleet Operations or a designee prior to disposing of fleet vehicles and the removal of the vehicles from the inventory records.**

Comment:

A lack of management oversight contributed to the conditions noted. We were informed that, prior to our review, Fleet Operations had historically not signed the form DPS-29 when transferring assets to the Surplus Unit.

- 11. The Department of Administrative Services 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. The cost of implementing a new system should be measured against the cost of not addressing the issues.**

Comment:

The department does not have a formal, dedicated risk assessment and mitigation function. The department did not allocate the necessary and appropriate resources to ensure that a risk assessment and mitigation process was performed during the audited period. Many of the recommendations found within our various reports could have been prevented or detected by an internal risk assessment and mitigation process.

- 12. The Department of Administrative Services 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. Furthermore, contracts should specifically state the unit cost that vendors should use when billing the department for services rendered. When unit costs between the vendor invoice and the contract do not match, payment should not be made until the difference is resolved.**

Comment:

It appears that the department has not fully exercised its authority to ensure compliance with statutory and contractual purchasing provisions.

- 13. The Department of Administrative Services should comply with the State Comptrollers Property Control Manual and provide written explanations for variances if the values recorded on the CO-59 form do not reconcile with Core-CT. DAS should prepare documented reconciliations between Core-CT and the CO-59 report.**

Comment:

The department was not aware of its responsibility for providing a written explanation for inventory variances between the state's accounting system (Core-CT) and the inventory reports submitted (CO-59 forms).

- 14. The Department of Administrative Services should continue to take the necessary steps to ensure that asset management records completely and accurately reflect the equipment inventory within its purview.**

Comment:

The department did not adequately implement a process to ensure complete and accurate inventory recordkeeping. The department has also absorbed significant inventories from former state agencies and the inventory control issues associated with them.

- 15. The Department of Administrative Services should take the necessary steps to ensure that the contractor evaluation form is updated to include the missing criteria required by Section 4a-101-1 of the Regulations of State Agencies on a timely basis.**

Comment:

The department agreed with this recommendation in a prior audit and indicated that it would work closely with the Division of Construction Services to update the elements identified in the contractor evaluation form. However, the department did not ensure that the changes to the form were made in a timely manner.

- 16. The Department of Administrative Services should review the existing controls related to separating employees to ensure that user accounts are locked in all modules in a timely manner.**

Comment:

The Core-CT policy relating to account locking does not specify the actions required by security liaisons to limit access to the state accounting information system by unauthorized individuals. In addition, it appears that the department lacked the processes necessary to ensure that security liaisons were aware of individuals terminated from state service.

- 17. The Department of Administrative Services should develop the necessary information system controls to ensure that its project management software is fully utilized and cost-effectively deployed. Project management software should be periodically monitored and evaluated to ensure that the department achieves maximum value for its IT investment in the software.**

Comment:

The department does not have a system in place to periodically measure and evaluate project management software metrics related to employee usage.

- 18. The Department of Administrative Services Bureau of Enterprise Systems & Technology division should establish a risk assessment process to comply with industry standards, which includes data classification and business impact analysis.**

Comment:

The department's process to establish and document risk assessment for information technology is not based upon industry best practices. BEST relies on static solutions already in place to assess risk.

- 19. The Department of Administrative Services should develop processes to track active directory user accounts, their respective authorizations, and the ability to manage these functions. In addition, monitoring should be implemented by the department to ensure that user accounts are in conformity with the concept of least privilege, are still active, and management authorizations are up to date.**

Comment:

The network has been switching to a decentralized administration approach. This approach has put more administrative responsibility on DAS to monitor the active directory. The decentralized approach and reliance on department administration of user accounts resulted in monitoring being overlooked.

- 20. The Department of Administrative Services should take the necessary steps to assist state agencies with the proper training and support for the new telecommunications system. That support should include providing state agencies with sufficient billing information to allow for the proper verification of service charges with individual system users.**

Comment:

The DAS Telecommunications Unit experienced several major staffing changes leading up to and subsequent to the implementation of the new telecommunications system.

- 21. The Department of Administrative Services should update the information system used to score employment tests. That system should be compliant with applicable state directives, including Governor Rell's Executive Order No. 19.**

Comment:

DAS did not sufficiently allocate the necessary and appropriate financial and technical resources. The department failed to acquire an IT expert on staff who could provide the necessary knowledge and skills needed to implement the new system.

- 22. The Department of Administrative Services should update the Management Personnel Policy 06-02 – Compensatory Time for Employees Exempt from Collective Bargaining as recommended in the prior audit review.**

Comment:

The lack of clear procedures increases the risk that compliance will not occur.

- 23. The Department of Administrative Services should finalize and implement construction claims procedures. These procedures should include a requirement for a systematic review of construction project records to determine whether there is a likely basis for potential claims by the state against construction consultants and/or construction contractors.**

Comment:

The absence of formal policies and procedures regarding construction claims by the state jeopardizes the recovery of those claims.

- 24. The Department of Administrative Services should comply with the requirements of subsection (e) of Section 4b-95 of the General Statutes relating to its responsibility for reviewing subcontracts.**

Comment:

DAS is not in compliance with the requirements of subsection (e) of Section 4b-95 of the General Statutes as it relates to the department's responsibility for reviewing subcontracts. If reviews are not documented, there is no assurance they have been performed.

- 25. The Department of Administrative Services should improve documented procedures to require reporting of the Asset Valuation Memorandum 7950 Form to client agencies.**

Comment:

The department's current procedures for reporting facility project costs to client state agencies can lead to GAAP form errors and overstatements or understatement of capitalized assets for financial reporting purposes.

- 26. The Department of Administrative Services should strengthen its ability to account for accounts receivable and institute new accounting procedures for the Public Works Capital Projects Revolving Fund so the agency can enhance collection efforts and provide the necessary support for fund balances. Accounts receivable should be tracked by agency and project to ensure proper collection.**

Comment:

DAS is limiting its ability to obtain reimbursement of costs incurred during the construction administration process from client agencies when proper accounting for accounts receivable is not maintained.

- 27. The Department of Administrative Services should adhere to internal controls over construction projects as established by the department.**

Comment:

Deficiencies in controls over the approval of construction change orders, including an inadequate change order form and the lack of management oversight regarding levels of approvals, contributed to the conditions detailed above.

- 28. The Department of Administrative Services should implement a quality control process that establishes a monitoring function in construction project closeout documentation and conduct reviews of other areas to realize opportunities for process improvements.**

Comment:

The department's deficiencies in closeout documentation limit the ability to report on construction projects at completion and support key construction milestones.

- 29. The Department of Administrative Services 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 reestablish the DAS practice of providing semiannual reports of employees with multiple positions to state agencies to discern whether true dual employment arrangements exist and need to be addressed.**

Comment:

In the absence of proper monitoring and guidance regarding dual employment arrangements, undetected duplicate payments and conflicts of interest between other state agencies may occur.

- 30. The Department of Administrative Services should complete and document its planned corrective actions to address known deficiencies in internal controls. The department should also establish and operate monitoring activities over those internal controls designed to reduce the vulnerability of DAS to noncompliance, overpayments, and theft of time.**

Comment:

It appears that the department did not take sufficient action to identify known deficiencies in internal controls and remediate those deficiencies.

**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.



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Associate Auditor

Approved:



John C. Geragosian  
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Robert J. Kane  
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