

STATE OF CONNECTICUT

**AUDITORS' REPORT
OFFICE OF THE ATTORNEY GENERAL
FOR THE FISCAL YEARS ENDED
JUNE 30, 2000 AND 2001**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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August 5, 2002

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

We have made an examination of the financial records of the Office of the Attorney General for the fiscal years ended June 30, 2000 and 2001.

Financial statements pertaining to the operations and activities of the Office of the Attorney General for the fiscal years ended June 30, 2000 and 2001, are presented and audited on a Statewide Single Audit basis to include all State agencies and funds. This audit examination has been limited to assessing the Office of the Attorney General's compliance with certain provisions of financial related laws, regulations, and contracts, and evaluating the internal control structure policies and procedures established to ensure such compliance.

This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The Attorney General is an elected State officer whose duties are set forth in Title 3, Chapter 35, of the General Statutes. The Attorney General has general supervision over all non-criminal legal matters in which the State has an interest. Richard Blumenthal has served as Attorney General since January 9, 1991. Aaron Bayer served as Deputy Attorney General until March 31, 2000. Carolyn Querijero has served as Deputy Attorney General since May 19, 2000.

RÉSUMÉ OF OPERATIONS:

Revenues and Other Receipts:

The Office collects significant revenues including collections transferred and credited to the accounts of other State agencies. Receipts deposited to the Office of the Attorney General totaled \$7,716,177 and \$5,454,010 during the fiscal years ended June 30, 2000 and 2001, respectively, and are summarized below by fund:

	<u>1999-2000</u>	<u>2000-2001</u>
General Fund:		
Revenue:		
Fines and court costs	\$ 504	\$ 45,763
Civil penalties - court settlements	66,801	35,000
Recoveries - attorney fees	5,304,678	114,978
Recoveries - negotiated court settlements	37,000	2,925,260
All other revenues	<u>120,852</u>	<u>17,147</u>
Total Revenues	5,529,835	3,138,148
Restricted contributions	349,391	675,048
Expenditure refunds	<u>1,332,395</u>	<u>666,520</u>
Total General Fund Receipts	<u>\$ 7,211,621</u>	<u>\$ 4,479,716</u>
Pending Receipts Fund:		
Settlements and recoveries	<u>\$ 504,556</u>	<u>\$ 974,294</u>
Total Receipts	<u>\$ 7,716,177</u>	<u>\$ 5,454,010</u>

Total General Fund receipts generally fluctuate to a large degree, as individually large settlements or recoveries are received intermittently. For example, in the fiscal year ended June 30, 2000, the State received recovered attorney fees of \$883,124 from BASF Corporation and Knoll Pharmaceutical Company and \$4,154,394 related to tobacco litigation. In the fiscal year ended June 30, 2001, the State received negotiated court settlements of \$685,000 from Brand Direct Marketing, Inc. in accordance with a Consent Decree, \$630,033 from the City of New Haven related to incarceration and public defender costs and \$1,400,000 from Providian Financial in accordance with a final stipulated judgment. In addition, receipts received by the Office and deposited to other State agencies amounted to \$12,588,185 and \$14,370,453, for the fiscal years ended June 30, 2000 and 2001, respectively.

Expenditures:

Expenditures by fund and within the General Fund by categories of appropriation accounts follow:

	<u>1999-2000</u>	<u>2000-2001</u>
General Fund:		
Budgeted accounts	\$ 25,322,491	\$ 25,408,647
Restricted contributions:		
Federal contributions	67,746	62,040
Other restricted contributions	<u>457,198</u>	<u>1,028,862</u>
Total General Fund	25,847,435	26,499,549
Capital Equipment Purchase Fund	0	84,993
Pending Receipt Fund withdrawals	<u>259,736</u>	<u>816,840</u>
Totals	<u>\$ 26,107,171</u>	<u>\$ 27,401,382</u>

General Fund expenditures by type were:

	<u>1999-2000</u>	<u>2000-2001</u>
Personal services	\$ 22,897,720	\$ 23,699,543
Telecommunications	138,555	141,733
Fees for outside professional services	137,911	(3,178)
Data processing hardware maintenance	16,007	42,329
Travel and mileage expenses	175,584	182,720
Dues and Subscriptions	452,896	409,193
All other contractual services	1,737,290	1,775,372
Commodities	192,728	172,466
Revenue refunds	3,794	462
Sundry charges	89,373	77,909
Equipment	<u>5,577</u>	<u>1,000</u>
Total General Fund Expenditures	<u>\$ 25,847,435</u>	<u>\$ 26,499,549</u>

Personal services expenditures accounted for approximately 89 percent of General Fund expenditures during the fiscal years ended June 30, 2000 and 2001. Comparatively, personal services expenditures were \$20,398,788 for the fiscal year ended June 30, 1999. Personal services expenditures thus increased approximately 12.3 percent and 3.5 percent during the fiscal years ended June 30, 2000 and 2001, respectively. The increase in personal service expenditures was primarily attributable to an increase in the number of employees and to salary increases. The number of filled permanent positions averaged 367, 375 and 376 for the fiscal years ended June 30, 1999, 2000 and 2001, respectively. Salaries for some employees were charged directly to the expenditure accounts of other State agencies served by this Office. As of June 30, 2001, 25 full time positions were charged in this manner.

Fees for outside professional services are presented net of amounts received for reimbursement from other State agencies. The Office bills other State agencies for legal services based upon invoices from outside contractors. The State agencies transfer their funds for payment to an account held by the Office. The Office pays the contractors with those transferred funds. Due to timing differences in the transfer and payment of funds at fiscal year end, expenditures for fees for outside professional services vary significantly between periods. In fact, when transfers from State agencies to the Office exceed payments by the Office, the amount reported at year end can be negative. At the end of the 1999-2000 and 2000-2001 fiscal years, the Agency had received reimbursements of approximately \$1,077,214 and \$499,417, respectively, which were not expended until the next fiscal year.

Additional Agency expenditures, including personal services, were recovered by billing other State agencies for services. These expenditures were recovered through expenditure transfers to the Office of the Attorney General and are therefore not included in the expenditure totals presented. Such expenditure transfers amounted to \$4,206,220, \$4,295,779 and \$7,018,644, during the fiscal years ended June 30, 1999, 2000 and 2001, respectively.

As noted above, certain General Fund restricted appropriation accounts are used to account for various Federal and other restricted funds received, and the expenditures charged thereto. A summary of these accounts follows:

Client Agency Costs:

This account served as a clearing account for charges processed for other State agencies. These expenditures are usually for outside legal services. Upon receipt of an invoice from a service provider by the Office, the user agencies are requested to transfer funds to the Client Agency account to pay the service provider. Funds transferred and expended amounted to approximately \$3,185,690 and \$6,095,317 for the fiscal years ended June 30, 2000 and 2001, respectively. Client agency costs are dependant upon the number and types of services performed by the Office and on the timing of payments made on behalf of the agencies by the Office to outside contractors.

Low Level Radioactive Waste Management Facility Account:

Transfers from the State Department of Environmental Protection (DEP) provide funding for this account. Expenditures were primarily for salaries and fringe benefits of employees devoted to legal matters that relate to the siting of a low-level radioactive waste management facility. An unexpended balance of \$38,420 was carried forward on July 1, 1999, and additional transfers of \$81,780 and \$110,745 were received from the DEP during the 1999-2000 and 2000-2001 fiscal years, respectively. Expenditures totaled \$111,645 during the 1999-2000 fiscal year and \$118,733 in 2000-2001.

Second Injury Account:

Pursuant to Subsection (d) of Section 31-355 of the General Statutes, all expenses incurred by the Office of the Attorney General in carrying out its role in second injury cases shall be paid from the Second Injury and Compensation Assurance Fund. The State Treasurer administers this fund. The Attorney General's Second Injury account was used to record Agency non-personnel costs related to the second injury program and was funded by transfers from the State Treasurer. Personal services costs of certain employees were charged directly to the Treasurer's Second Injury Fund, and totaled approximately \$1,525,612 for the 1999-2000 fiscal year and \$1,630,573 for the 2000-2001 fiscal year. As of June 30, 2001, 16 such employees were charged to the fund. Receipts to this account totaled \$15,000 and \$65,010 for the fiscal years ended June 30, 2000 and 2001, respectively. Expenditures totaled \$64,060 and \$58,602, for those same two fiscal years.

Legal Assistance - Omnibus Budget Reconciliation Act (OBRA) of 1987 Account:

This account is used to fund activity related to a State Department of Public Health (DPH) contract with the State Department of Social Services (DSS.) The purpose of the contract is to provide Federally required surveys of Medicare / Medicaid providers. The State was reimbursed, in part, through recoveries made by the Department of Social Services. The Office of the Attorney General and DPH have an agreement whereby the Office provides legal assistance to DPH in fulfilling its obligation as the survey agency for Medicare / Medicaid health care providers. Receipts totaled \$135,526 and \$101,889, for the fiscal years ended June 30, 2000 and 2001, respectively. Expenditures for the same periods totaled \$135,526 and \$101,889 and consisted primarily of employee salaries and fringe benefits.

Adjudicated Settlements:

As indicated above, an Agency trust fund (Attorney General Settlement Fund) and the State Pending Receipts Fund were also used to process transactions. Both were used to account for the collection and distribution of settlements due to the Agency and consumers. Distributions are made in accordance with the corresponding court orders. The Trust Fund was used to hold settlements required to be deposited into an interest-bearing account until final distribution. The Fund is in essence an investment fund. Subsequent to the fiscal year ended June 30, 1998 the State Treasurer established an interest credit program that the Office uses to invest its settlement funds. When disposition is finalized by the court, the money is transferred to the Pending Receipts Fund or General Fund, as applicable. Settlements, not required to be held in an interest-bearing account, are recorded in the Agency's Pending Receipts Fund. Transfers from the Trust Fund are also received in the Pending Receipts Fund to process payments to consumers or other State agencies through the

State's accounting system. A summary of Agency transactions in its Trust Fund and its Pending Receipts Fund follows:

	Attorney General Settlement Fund	Pending Receipts Fund
Balance July 1, 1999	\$ 9,831	\$ 346,350
Receipts (1999-2000)		504,556
Interest income (1999-2000)	87	
Disbursements (1999-2000)	<u>(9,918)</u>	<u>(259,736)</u>
Balance June 30, 2000	0	591,170
Receipts (2000-2001)		974,294
Interest income (2000-2001)		
Disbursements (2000-2001)	<u>0</u>	<u>(816,840)</u>
Balance June 30, 2001	<u>0</u>	<u>748,624</u>

There were no funds awaiting court determination as of the fiscal years ended June 30, 2000 or June 30, 2001.

CONDITION OF RECORDS

Areas warranting comments are presented below:

Prompt Deposit of Receipts:

Background: During the audited period, the Office received and deposited \$7,716,177 and \$5,454,010, for the fiscal years ended June 30, 2000 and 2001, respectively.

Criteria: Section 4-32 of the General Statutes generally requires that any State agency receiving any money or revenues for the State amounting to more than \$500 shall deposit such receipts in depositories designated by the State Treasurer within 24 hours of receipt.

Condition: The procedures for audit of the Office of the Attorney General include the examination of the internal controls over cash receipts in the Office Administration Unit and a sampling to test compliance with prompt deposit requirements. This sampling consisted of all Agency receipts over \$10,000 for the fiscal years ended June 30, 2000 and 2001. The examination of these receipts revealed that two checks totaling \$196,756, were deposited at least two business days late. Three checks totaling \$248,142, were deposited at least one business day late. Accordingly, five checks totaling \$444,898 were deposited between one and two business days late.

This matter was reported by us to the Governor and other State Officials in a letter dated January 23, 2002.

Effect: Agency procedures do not fulfill statutory requirements for prompt deposits. Untimely deposits may cause a loss of income earned on the deposits, and a breakdown in the safekeeping of the State's assets.

Cause: A significant portion of the revenues and receipts of the Office are from various legal actions that result in settlements and judgements. These receipts need to be processed through the applicable legal division within the Office. This often results in a one to two day delay in completing the receipting process.

Recommendation: The Office of the Attorney General should revise its procedures so that cash receipts can be deposited within the period required by Section 4-32 of the General Statutes as amended by any waiver obtained. (See Recommendation 1.)

Agency Response: “We agree that many of the receipts deposited by this office are the result of legal actions and must be reviewed by the legal department handling each case to ensure compliance with the settlement or judgment before being forwarded to the Business Office for deposit and that because of this, some receipts were not deposited within the twenty-four hour period required by Section 4-32 of the General Statutes.

We have requested, and have been granted, a two day extension of the deposit requirements for all receipts that must be reviewed by our legal departments prior to deposit. We have also instituted a warning system that alerts legal departments of instances where the statutory deposit requirements have not been met so these problems do not recur.”

Property Control:

Background: The Office maintains an inventory of equipment. The total amounts reported to the State Comptroller at June 30, 2000 and 2001, were \$3,822,528 and \$3,598,970 respectively.

Criteria: Standards and procedures for recording and maintaining inventory records are set forth in the State of Connecticut’s Property Control Manual, issued by the State Comptroller. The Manual states that a complete physical inventory of all property must be taken at the end of the fiscal year to ensure that the property control records accurately reflect the actual inventory on hand.

Section 4-36 of the General Statutes requires that an inventory report be submitted by August first of each year. The Office is required to report its equipment and other fixed assets annually on a Fixed Assets/Property Inventory Report/GAAP Reporting Form. Subsidiary records must be maintained to support the amounts reported. Amounts added to and deleted from such records should agree with purchasing and disposal records.

Condition: Our current review of equipment inventory records revealed the following:

- A required physical inventory was not performed at fiscal year end June 30, 2000 or 2001.
- Items not meeting the \$1,000 threshold for capitalization were included on the inventory.
- Items were listed on the inventory at amounts that differed from acquisition cost.
- A listing of controllable items at fiscal year end June 30 2000 or 2001, was not available.
- A trade in of inventory items resulted in the wrong items being removed from the inventory.
- Inventory totals reported to the State Comptroller were not in agreement with detailed Agency equipment listings.
- Missing items were not reported.
- The Inventory was reduced by \$33,410 at June 30, 2001, as the result of an unidentified variance.
- The carrying value of the inventory was not reduced to reflect a reimbursement of costs.

Our physical inventory examination revealed the following:

- We were unable to find and the Agency was unable to locate one item of equipment inventory during our physical inventory check.
- Three inventory items were found without inventory tags affixed.
- One item was listed on the inventory with the incorrect serial number.
- One item found during a “walk through” was not included on the inventory.

Effect: Inventory records have not been maintained on a current basis, in a manner consistent with the State of Connecticut’s Property Control Manual. The Office can not clearly support the amounts it reports on its annual inventory report.

Cause: We could not determine why the Office did not perform an annual physical inventory or adequately maintain subsidiary inventory records.

Recommendation: The Office of the Attorney General should take appropriate steps to perform a complete physical inventory, bring the equipment inventory records up-to-date and maintain them in an accurate manner and prepare and submit the annual Fixed Assets/Property Inventory Report/GAAP Reporting Form accurately, as required by the State Comptroller. (See Recommendation 2.)

Agency Response: “To date, we have been performing an ongoing inventory rather than an annual inventory. In light of your recommendation, we are reviewing our current process to identify areas of deficiency and will revise it as necessary to ensure that records are kept in an accurate manner.”

Reporting - GAAP Form No. 7 - Compensated Absences:

Criteria: Under Generally Accepted Accounting Principles (GAAP), accrued compensated absences represent a liability of the State for additional compensation earned by employees. This compensation is to be paid in the future in the form of vacation and sick leave benefits. It is required that an entry be made for all employees for the total number of accumulated vacation leave hours as of June 30.

The State Accounting Manual specifies that Agencies are required to maintain their financial records in a manner which will enable them to provide the required adjustments to legal balances and other information necessary for the Comptroller to prepare a GAAP annual report. This information must be in the format required by the Comptroller and is susceptible to audit and verification by the Auditors of Public Accounts.

Condition: The Office was not able to provide documentation to support the June 30, 2000, GAAP Form No. 7 (Compensated Absences.)

Effect: We were not able to verify the accuracy of the information reported.

Cause: The Agency attributes the inability to locate the items to a change in personnel.

Recommendation: The Office of the Attorney General should maintain records that support GAAP forms in a manner that allows for auditing and verification. (See Recommendation 3.)

Agency Response: “We agree that the GAAP report for the fiscal year ended June 30, 2000 could not be located as the result of a change in staffing. Greater care will be taken in the future to ensure proper maintenance of all records.”

Payroll\Personnel – Medical Certificates:

Criteria In accordance with the collective bargaining agreement covering the administrative clerical unit, an acceptable medical certificate is required to support any sick leave absence consisting of more than five consecutive working days.

Condition The procedures for audit of the Office of the Attorney General include a verification of medical certificates on file for persons absent for more than five consecutive days of sick time. Our examination revealed that two employee files did not contain medical certificates supporting sick leave absences of more than five consecutive working days.

Effect The Agency is not assured that the time taken is for a valid medical reason.

Cause The Agency attributes the inability to locate the certificates to filing errors.

Recommendation The Office of the Attorney General should document extended sick leave by obtaining supporting medical certificates and retaining these certificates in the employee personnel file. (See Recommendation 4.)

Agency Response: “We agree. A more systematic process has been put in place to assure strict compliance. The medical certificate report is generated from the Time and Attendance System and medical certificate requests are entered into a logbook. Responses are entered into the log as they are received. The logbook is reviewed on a regular basis to verify response to each request.”

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 1998 and 1999, contained two recommendations. Neither of these recommendations has been resolved. The status of the recommendations contained in this prior report is presented below.

Prior Audit Recommendations:

- The Office should request a one to two day waiver of the deposit requirements from the Treasurer to cover the time required for the legal divisions to properly process settlements and judgements. The Office should revise its procedures so that cash receipts can be deposited within the period required by Section 4-32 of the General Statutes as amended by any waiver obtained. This recommendation is repeated. (See Recommendation 1.)
- Care should be taken to ensure that subsidiary records support the amounts added and deleted from Office inventory records, and that amounts in total are supported with subsidiary lists of such items. This recommendation is repeated. (See Recommendation 2.)

Current Audit Recommendations

- 1. The Office of the Attorney General should revise its procedures so that cash receipts can be deposited within the period required by Section 4-32 of the General Statutes as amended by any waiver obtained.**

Comment:

Our examination of deposits revealed five checks totaling \$444,898 that were deposited between one and two business days late. This was a violation of Section 4-32 of the General Statutes and as such was reported to the Governor and other State Officials in a letter dated January 23, 2002.

- 2. The Office of the Attorney General should take appropriate steps to perform a complete physical inventory, bring the equipment inventory records up-to-date and maintain them in an accurate manner and prepare and submit the annual Fixed Assets/Property Inventory Report/GAAP Reporting Form accurately, as required by the State Comptroller.**

Comment:

The Agency did not perform an annual physical inventory. The review of the inventory records noted many inaccuracies.

3. **The Office of the Attorney General should maintain records that support GAAP forms in a manner that allows for auditing and verification.**

Comment:

The Office was not able to provide documentation to support the June 30, 2000, Generally Accepted Accounting Principles Compensated Absences Form for compensated absences.

4. **The Office of the Attorney General should document extended sick leave by obtaining supporting medical certificates and retaining these certificates in the employee personnel file.**

Comment:

Medical certificates supporting sick leave absences of more than five consecutive working days were not located.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Office of the Attorney General for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Office's compliance with certain provisions of laws, regulations, and contracts, and to understanding and evaluating the effectiveness of the Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, and contracts applicable to the Office are complied with, (2) the financial transactions of the Office are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Office are safeguarded against loss or unauthorized use. The financial statement audits of the Office of the Attorney General for the fiscal years ended June 30, 2000 and 2001, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

Compliance with the requirements of laws, regulations, and contracts applicable to the Office of the Attorney General is the responsibility of the Office of the Attorney General's management.

As part of obtaining reasonable assurance about whether the Office complied with laws, regulations, and contracts, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Office's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the Office of the Attorney General is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, and contracts applicable to the Office. In planning and performing our audit, we considered the Office's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Office's financial operations in order to determine our auditing procedures for the purpose of evaluating the Office of the Attorney General's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, and contracts, and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Office's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, and contracts or failure to safeguard assets that would be material in relation to the Office's financial operations of noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Office being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving internal control over the Office's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the Attorney General during the course of our examination.

Josepha M. Brusznicki
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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