

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE ATTORNEY GENERAL
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005 AND 2006*

AUDITORS OF PUBLIC ACCOUNTS

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June 9, 2010

**AUDITORS' REPORT
OFFICE OF THE ATTORNEY GENERAL
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005 AND 2006**

We have made an examination of the financial records of the Office of the Attorney General for the fiscal years ended June 30, 2004, 2005 and 2006. This report of that examination consists of the Comments, Recommendations and Certification that follow.

This audit examination of the Office of the Attorney General (OAG) has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to insure such compliance. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies.

COMMENTS

FOREWORD:

The Attorney General is an elected State officer whose duties are set forth in Title 3, Chapter 35, of the Connecticut General Statutes. The Attorney General is the chief legal officer of the State and has general supervision over all legal matters in which the State is an interested party, except those legal matters over which prosecuting officers have direction. Richard Blumenthal has served as Attorney General since January 9, 1991. Carolyn Querijero has served as Deputy Attorney General since May 19, 2000.

The Office of the Attorney General is divided into 14 departments which serve as legal counsel to State agencies which provide particular categories of service to State residents. A description of the major functions of each department is presented below:

Antitrust:

The Antitrust Department's primary responsibility is to administer and enforce the Connecticut Antitrust Act, and has authority to enforce major provisions of the Federal antitrust laws. The

Department also relies on other Federal and State laws to investigate and prosecute antitrust and other competition-related actions on behalf of consumers, businesses and governmental units.

Consumer Protection Department:

The Consumer Protection Department is responsible for proving counsel and representation of the Department of Consumer Protection, providing consumer education and complaint mediation, conducting consumer protection investigations, appearing before State and Federal agencies on consumer matters and litigation under various State and Federal laws with a major reliance on the Connecticut Unfair Trade Practices Act.

Child Protection Department:

The Child Protection Department is responsible for representing the Connecticut Department of Children and Families in State and Federal court proceedings brought on behalf of abused and neglected children.

Environmental Department:

The Environmental Department provides advice and representation in State and Federal administrative and court proceedings to the Department of Environmental Protection, the Department of Agriculture, the Connecticut Agricultural Experiment Station, the Connecticut Marketing Authority, and in court proceedings to the Underground Storage Tank Petroleum Cleanup Account Review Board.

Finance and Public Utilities Department:

The Finance and Public Utilities Department's primary responsibility is the handling of legal issues involving State regulations of the financial services industry. The Department provides legal services to the Department of Economic and Community Development, the Department of Revenue Services, the Office of Policy and Management, the State Bond Commission, and the Insurance Policy and Risk Management Board.

Health Care Fraud/Whistleblower/Health Insurance Advocacy Department:

The Health Care Fraud/Whistleblower/Health Insurance Advocacy Department is composed of three units. The Health Care Fraud Unit conducts investigations of Medicaid provider fraud. The Whistleblower Unit reviews and investigates allegations by whistleblowers of improper behaviors of State employees, State agencies, Quasi-Public agencies and large State contractors. The Health Care Advocacy Unit provides advisory assistance to consumers who have health care related problems, such as health insurance and managed care coverage denials.

Collections and Child Support:

The Child Support and Collections Department represents the Financial Services Center of the Department of Administrative Services in the recovery of public assistance benefits and costs of incarceration; it also provides representation in connection with collection activities of the

Departments of Social Services, Revenue Services, Correction, and Higher Education as well as John Dempsey Hospital, the Second Injury Fund, the Connecticut State University System, and the Secretary of State. The Department also provides legal services to the Department of Social Services Bureau of Child Support Enforcement and to the Support Enforcement Services division of the Judicial Branch in enforcing orders for the support of children.

Employment Rights:

The Employment Rights Department defends State agencies and State officials in employment related litigation and administrative complaints, and provides legal advice and guidance to State agencies on employment issues.

Public Safety and Special Revenue:

The Public Safety and Special Revenue Department represents the Department of Public Safety, including the Division of State Police and the Division of Fire, Emergency and Building Services, the Military Department, the Department of Correction, the Department Emergency Management and Homeland Security, Division of Special Revenue, and the Department of Consumer Protection Liquor Control Division. It also provides legal services and representation to a number of associated boards, commissions and agencies.

Special Litigation and Charities:

The Special Litigation and Charities Department represents the Governor, the Judicial Branch, the General Assembly, and the Secretary of the State, the Treasurer, the Comptroller, the Auditors of Public Accounts, and the Office of State Ethics. It also represents various State commissions and boards. Through its Public Charities Unit, the Department protects the public interest in gifts, bequests and devises for charitable purposes; and in cooperation with the Department of Consumer Protection, administers and enforces State laws regulating charities and professional fundraisers that solicit the public.

Health, Education and Human Services Department:

The Health, Education and Human Services Department provides legal services and representation to the University of Connecticut, the Connecticut State University System, the Connecticut Community College System, the State Department of Education and all other State agencies that have an education function. It also represents the Department of Public Health, the Department of Social Services, the Department of Mental Health and Addiction Services, the Office of Health Care Access, the Psychiatric Security Review Board, the Department of Developmental Services, the Department of Veterans' Affairs, the Commission on Medical and Legal Investigations overseeing the Office of the Chief Medical Examiner and the various health licensing boards.

Torts/Civil Rights:

The Torts/Civil Rights Department defends State agencies and employees in tort and tort-like civil rights cases brought at the Office of the Claims Commissioner and in the State and Federal courts.

Transportation:

The Transportation Department provides representation for the Department of Transportation, Department of Public Works, Department of Administrative Services, Department of Motor Vehicles, Department of Information Technology, Department of Economic and Community Development, Housing Matters, the Department of Environmental Protection real property matters, and the Connecticut Historical Commission. It also represents various occupational licensing boards within the Department of Consumer Protection.

Workers' Compensation and Labor Relations Department:

The Workers' Compensation and Labor Relations Department represents the Second Injury Fund in Workers' Compensation cases and provides a wide range of legal services to the Connecticut Department of Labor.

SIGNIFICANT LEGISLATION:

Public Act 05-287, which amended Section 1-89 of the General Statutes, changed who the Attorney General may bring a civil action against for ethics violations, from a person who may be liable for damages under the provisions of subsection (d) of Section 1-88, to someone who knowingly realizes a financial gain from an ethics violation.

Public Act 05-287 also amended Section 4-61dd of the General Statutes, requiring the Attorney General to consult with the Auditors of Public Accounts prior to conducting an investigation of any information reasonably derived from the Auditor's report to the Attorney General under this Section. It also requires any such subsequent investigation shall only be conducted with the concurrence and assistance of the Auditors of Public Accounts.

RÉSUMÉ OF OPERATIONS:

During the fiscal years under review, funding for general operations of the Office was provided by budgeted appropriations from the General Fund and restricted contributions. The Office collects significant revenues, including collections transferred and credited to the accounts of other State agencies.

General Fund:

Revenues and Receipts:

General Fund receipts deposited to the Office of the Attorney General for the three fiscal years under review are summarized below:

	<u>Fiscal Year 2003-2004</u>	<u>Fiscal Year 2004-2005</u>	<u>Fiscal Year 2005-2006</u>
Revenue and Receipts	<u>\$ 2,030,145</u>	<u>\$ 4,317,962</u>	<u>\$ 25,073,859</u>

General Fund receipts generally fluctuate to a large degree, as individual large settlements or recoveries are received intermittently. Total General Fund revenue and receipts increased by \$23,043,714 for the two-year period ended June 30, 2006, compared to the fiscal year ended June 30, 2004. For example, during 2005-2006 the Office of the Attorney General received \$13,000,000 in fines and court costs from Zurich Capital Markets and \$8,000,000 in fines and court costs from ACE Insurance. In addition, receipts received by the Office and forwarded to other State agencies for deposit amounted to \$12,457,134, \$34,394,520, and \$17,881,764 for the fiscal years ended June 30, 2004, 2005, and 2006, respectively.

Expenditures:

General Fund expenditures during the fiscal years ended June 30, 2004, 2005, and 2006, are presented below:

	<u>Fiscal Year 2003-2004</u>	<u>Fiscal Year 2004-2005</u>	<u>Fiscal Year 2005-2006</u>
Personal services/fringe benefits	\$ 23,210,906	\$ 24,617,565	\$ 26,487,822
Other Expenses	<u>1,396,933</u>	<u>1,444,436</u>	<u>1,433,669</u>
Total Expenditures	<u>\$ 24,607,839</u>	<u>\$ 26,062,001</u>	<u>\$ 27,921,491</u>

Total General Fund expenditures increased by \$1,454,162 and \$1,859,490 during the fiscal years ended June 30, 2005 and 2006, respectively. The increases were mostly attributable to increases in personal services expenditures as the result of collective bargaining increases and the hiring of new staff. The average number of full-time employees increased from 323 to 337 during the audited period.

Special Revenue Funds:

Grants and Restricted Accounts Fund:

Revenue and Receipts:

Grants and Restricted Accounts Fund revenues and receipts during the audited period are summarized below:

	<u>Fiscal Year 2003-2004</u>	<u>Fiscal Year 2004-2005</u>	<u>Fiscal Year 2005-2006</u>
Total Receipts	<u>\$ 279,849</u>	<u>\$ 214,280</u>	<u>\$ 397,156</u>

Expenditures:

Expenditures from the Grants and Restricted Accounts Fund during the audited period are summarized below:

	Fiscal Year <u>2003-2004</u>	Fiscal Year <u>2004-2005</u>	Fiscal Year <u>2005-2006</u>
Total Expenditures	<u>\$ 7,356,757</u>	<u>\$ 5,436,156</u>	<u>\$ 6,597,145</u>

Restricted accounts are reported 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 maintained by the Office. The Office pays the contractors with those transferred funds.

A summary of the restricted accounts used within the Grants and Restricted Accounts Fund to account for restricted funds received and the expenditures charged thereto follows:

Consumer Protection Case Account:

This account is used to fund expenses incurred from bringing consumer protection cases. A portion of the settlements from consumer cases goes into this account to fund other consumer protection cases' other expenses. Receipts deposited to this account totaled \$100,725, \$73,547, and \$357,156 for the fiscal years ended June 30, 2004, 2005 and 2006, respectively. Expenditures totaled \$46,330, \$63,988, and \$99,621, for those same three respective fiscal years.

Client Agency Costs:

This account serves 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. Expenditures totaled \$7,186,634, \$5,313,795, and \$6,439,507 for the fiscal years ended June 30, 2004, 2005, and 2006, respectively. Funds reimbursed totaled \$9,433,716, \$6,050,228, and \$4,856,445 for each respective fiscal year. In addition, receipts to this account totaled \$105,733 and \$5,000 for the fiscal years ended 2005 and 2006. The amount of client agency costs depends on 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. Due to timing differences with respect to the transfer and payment of funds, expenditures for outside legal services vary between periods. As such, when transfers from State agencies to the Office exceed payments by the Office, the amounts reported at year-end are presented as being negative. This occurred during the 2003-2004 and 2004-2005 fiscal years.

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 is used to record Agency non-personnel costs related to the second injury program and is 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 \$1,822,315 for the 2003-2004 fiscal year, \$1,980,505 for the 2004-2005 fiscal year and \$2,097,417 for the 2005-2006 fiscal year. As of June 30, 2006, 14 such employees were charged to the fund. Receipts to this account totaled \$70,000, \$35,000, and \$35,000 for the fiscal years ended June 30, 2004, 2005, and 2006, respectively. Expenditures other than personal services totaled \$45,944, \$49,224, and \$51,635, for each respective fiscal year.

Capital Equipment Purchase Fund:

The Office of Attorney General also made expenditures from the Capital Equipment Purchase Fund during the audited period. A total of \$207,357, \$30,226 and \$233,235 were expended during the 2003-2004, 2004-2005 and 2005-2006 fiscal years, respectively. Purchases in the 2005-2006 fiscal year increased by \$203,008 over the 2004-2005 fiscal year. This increase was mainly attributed to the purchase of five servers and several rack systems with various information technology components.

Other Funds and Accounts:

Adjudicated Settlements:

The Funds Awaiting Distribution Fund and an Escrow Account were used to account for the collection and distribution of settlements due to the Office, other State agencies, or consumers. The Funds Awaiting Distribution Fund is a suspense account for receipts waiting for the final distribution to consumers. The Escrow Account is a bank account that is used to deposit receipts when there are contingencies in a case where the outcome is dependent on factors yet to occur. Distributions are made in accordance with the corresponding court orders:

	<u>Fiscal Year</u> <u>2003-2004</u>	<u>Fiscal Year</u> <u>2004-2005</u>	<u>Fiscal Year</u> <u>2005-2006</u>
<u>Funds Awaiting Distribution Fund</u>			
Balance Beginning of Year	\$ 1,366,772	\$ 1,441,654	\$ 1,833,295
Receipts	7,420,507	2,841,011	1,935,070
Disbursements	<u>7,345,625</u>	<u>2,449,370</u>	<u>376,919</u>
Balance End of Year	<u>\$1,441,654</u>	<u>\$1,833,295</u>	<u>\$ 3,391,446</u>
 <u>Escrow Account</u>			
Balance Beginning of Year	-	-	\$ 36,012
Receipts	-	\$ 77,500	838,308
Interest Income	-	12	518
Disbursements	-	<u>41,500</u>	<u>816,239</u>
Balance End of Year		<u>\$ 36,012</u>	<u>\$ 58,599</u>

CONDITION OF RECORDS

Our audit of the Office of the Attorney General identified the following areas that needed improvement and warrant comment:

Receipts:

Criteria: Section 4-32 of the Connecticut General Statutes requires that receipts of \$500 or more be deposited and accounted for within 24 hours. Individual receipts under \$500 may be held until the combined sum of all receipts totals \$500, but may not be held for more than seven calendar days before being deposited and accounted for.

The Office of the Attorney General obtained two waivers to Section 4-32, covering fiscal years 2005 and 2006, which granted them a one business day waiver for the deposit of checks received at the main office, and a two business day waiver for the deposit of checks received at field offices. This extension is only granted when such checks are received as a result of litigation and require review by an attorney.

An Office of the State Treasurer memorandum to all State agencies dated January 6, 2006, clarifies the timeframes under which agencies should account for deposits. This memo indicates that deposit information obtained from the State's depository banks gets passed back to agencies on the day after the deposits are recorded at the bank, and that agencies "should complete the confirmation and journalizing steps by the end of the day that the deposit information is received by the agencies through the Core-CT system."

The Office's policy states that all moneys received by a department will be recorded immediately in a collection log. Adequate internal control over receipts dictates that a collection log with the date the receipt was received and other identifying information is maintained for accountability purposes.

Condition: Out of 30 receipt transactions tested we found that eight receipts totaling \$77,426.95 were deposited between one and 11 days late. These deposits were accounted for between three and 12 days late. In addition, we found that three receipts totaling \$10,850,000, which were deposited in a timely manner, were posted to the agency's accounting records between one and three days late.

During our test of receipts, we found that one department did not maintain a collection log. We also found that another department

maintains a collection log with the collection report number, case name, amount, and the type of receipt however it does not state the date received, check number or who it was received from or when it left the department.

Effect: The Office of the Attorney General did not comply with Section 4-32 of the General Statutes or the State Treasurer's memorandum.

Cause: One receipt was late due to attempts by a staff member to determine the terms and conditions attached to the check, which was delayed by necessary court appearances, and office closures. Another receipt was late because a staff member responsible for completing the collection report was out for a couple of days. The causes for other late receipts could not be determined.

We were informed by both departments that they were not advised that they needed to maintain collection logs.

Recommendation: The Office of the Attorney General should improve its internal controls over receipts to ensure that all receipts are recorded immediately when received and are deposited and accounted for in a timely manner. (See Recommendation 1.)

Agency Response: "Many of the receipts received by this office are the result of legal actions and must be reviewed by the legal department handling the matter to ensure compliance with the settlement or judgment before being sent to the agency Business Office for deposit and as a result, a small number of receipts were not deposited within the 24 hour period required by statute. We continue to emphasize to all agency staff the importance of complying with the 24 hour requirement.

Our deposits were made in a timely manner, but accounting steps to allocate the funds to the correct line item were not always completed in a timely manner. This posting to agency accounting records is a new function of the Core-CT system that was implemented in July 2003. Agency business staff was not aware of the directive issued by the Office of the State Treasurer in January 2006 establishing a timeframe for this accounting function. When brought to our attention, procedures were immediately changed to accomplish this task on the same day the deposit becomes available in Core-CT.

We recently became aware that one of our legal departments did not maintain its collections log as required by agency policy and that one department's collection log failed to include all of the information required. While the remaining 12 departments all maintained their collections log in the proper manner, we

immediately developed and implemented a standardized collection log process in our Casetrack program and fully trained agency staff in its use. We anticipate that these steps will satisfy the concerns raised.”

*Auditors’ Concluding
Comments:*

Section 4-32 of the Connecticut General Statutes requires that receipts of \$500 or more be accounted for within 24 hours. The Office of the State Treasurer memorandum to all State agencies dated January 6, 2006, clarifies the timeframes under which agencies should account for deposits. This memo in essence informs State agencies that due to the way Core-CT processes deposit information they now have more than 24 hours to account for deposits, extending the timeframes already established by Section 4-32.

Compensatory Time:

Criteria:

The Department of Administrative Service’s (DAS) Management Personnel Policy (MPP) 80-1 (Revised), Section 2 and MPP 06-02 (replaces MPP 80-1 Revised) provides that for a manager to earn compensatory time the manager must be authorized in advance to work the extra time by the Agency Head or his/her designee. It also states that compensatory time earned during the twelve months of the calendar year must be used by the end of the succeeding calendar year and cannot be carried forward.

The collective bargaining contract for the Engineering, Scientific and Technical (P4) employees states that “exempt employees who are required by the State to perform extended service outside the normal work week to complete a project or for other State purpose shall be authorized to receive compensatory time off.

Sound fiscal practice dictates that compensatory time should not be used as the basis for additional compensation.

Agencies were informed by the Core-CT team that the Core-CT Human Resource Management System (HRMS) is unable to expire compensatory time to meet the State’s requirements. The Core-CT system can only expire compensatory time after a specific period of time has passed and that State policies do not expire compensatory time in the same manner.

According to a Core-CT HRMS Job Aid - “Time may be retained in an employee’s record longer in Core-CT than is allowed. Agencies should be reviewing comp time records and manually deducting it at the appropriate time if it has not been used.”

- Condition:* Our review of ten employees, which included both managerial and non-managerial employees who were granted and charged compensatory time, disclosed the following:
- Three managerial employees earned compensatory time for which the Office could not provide written documentation of advance compensatory time authorization.
 - We found one instance where the Office couldn't provide supporting documentation for an adjustment of 19.5 hours of comp-time added to one individual's balance during November 2004.
 - We found that one managerial employee's compensatory time balance was not lapsed in Core-CT by the Office in accordance with DAS' MPP 80-1 (Revised) and MPP 06-02 allowing the employee to charge as much as 213 hours of ineligible compensatory time in the fiscal year ended June 30, 2006. A further review revealed that this employee continued to charge ineligible compensatory time from August 8, 2005 to January 19, 2008.
 - We found that during our audit period one employee earned thirty minutes of compensatory time each day they worked from October 17, 2003 to June 30, 2006. During this time period the majority of this employee's leave time was charged to compensatory time enabling their vacation balance to remain near the maximum. Further review revealed that this employee continued to earn 30 minutes of compensatory time each day throughout fiscal years 2007, 2008 and 2009. In addition, their vacation time continued to remain near or at the maximum balance allowed.
- Effect:* Employees may be using time they are not entitled to or conversely losing time that they are entitled to. The Office may be allowing employees to earn compensatory time that is unnecessary.
- Cause:* There is no monitoring process in place to ensure compliance with the State's requirements for compensatory time and sound fiscal practices. We were informed that the agency relies on Core-CT to monitor the balance of compensatory time.
- Recommendation:* The Office should improve its internal controls over pre-approving compensatory time and implement controls over monitoring compensatory time. (See Recommendation 2.)

Agency Response:

- “Compensatory time is only authorized for work that is done in our office or in court on holidays and weekends. All compensatory time earned by legal staff must be pre-approved by the Associate Attorney General. Such approval is generally sought by email message to the Associate with approval returned to the department head and the payroll section. In some rare cases emergencies arise that require an individual to perform work outside of normal work hours on short notice that precludes prior approval. The agency also requires that an email message submitted by the employee and approved by his/her department head must be submitted to the Associate Attorney General for his approval prior to the work being performed. A copy of the approval message must now be attached to the employee’s time sheet when it is submitted to the payroll section. Compensatory time will not be posted to an employee’s record without the approval copy attached to the time sheet.
- We acknowledge a correction was made to one individual’s compensatory time balance in 2004 and that documentation supporting the subject adjustment could not be readily located. The agency has undertaken a complete review of the employee’s record to ensure that the balance is correct.
- Contrary to the assertion of this report, agency records reflect that 192 hours of accrued compensatory time for the one employee who was identified to us during the course of audit was properly expired in 2005. The cancelation of this time is supported by both the employee’s attendance sheet that clearly shows the change in balance and an email exchange between the employee and our payroll office questioning the change. The payroll office also correctly explained the comp time expiration policy to the employee. However, a full examination of this employee’s attendance records showed that some accrued leave charges were inexplicably charged to compensatory time when the employee’s approved time sheet showed charges to other accrued leave balances. It appears that an inexperienced former payroll clerk mistakenly changed charges to other leave accruals to compensatory time without consultation with or approval of her supervisors. These improper entries have now been corrected and the appropriate leave balances have now been charged.

- To ensure that all other compensatory time records are complete and accurate, the agency has undertaken a comprehensive review of all compensatory time both earned and used since 2003. Our review confirmed that, with the exception of the employee referenced above, all compensatory time earned and taken by other agency employees was posted correctly and corresponds with the entries on the employee's time sheet. Our review has also confirmed that compensatory time was expired properly in every case. The agency has instituted a vigorous review of comp time balances at set intervals throughout the year to ensure that all compensatory time is properly approved and that expired hours have been removed in a timely manner. We anticipate that this review and the changes implemented in the approval and internal audit process will prevent further incidents and satisfy the concerns raised.
- In 1998, virtually all of the agency staff moved to a forty hour work week. The notable exception to this was our information technology staff that remained at thirty-five hours per week. We felt it was critical to have technical support available to our employees during all of their scheduled working hours. With only two bargaining unit staff members available, volunteers were solicited to work thirty extra minutes per day to address this pressing need. One employee, the parent of two young children, could not work additional time but the other employee consented and has been working the extra thirty minutes since that time. Due to the small staff and lack of flexibility in our IT Department, we had little choice but to assign comp time for the additional time worked, pursuant to the relevant collective bargaining agreement. We intend to have managerial staff cover the additional time without receiving compensatory time in the future.”

*Auditors' Concluding
Comments:*

The Core-CT Human Resource Management System expired 30 hours of compensatory time for the employee listed above in 2005 which is reflected on the employee's attendance record. However, in accordance with the Management Personnel Policy (MPP) 80-1 (Revised), Section 2, these hours and an additional 194 hours for a total of 224 hours (earned prior to calendar year 2004 and not used in 2004) should have been expired on December 31, 2004.

Second Injury Fund:

- Background:* The Workers' Compensation and Labor Relations Department represents the Treasurer as the custodian of the Second Injury Fund in cases involving potential liability of the Fund for Workers' Compensation benefits and for the State of Connecticut in contested workers' compensation claims filed by State employees.
- Criteria:* Proper coding of personnel services is essential in providing fiscal and budgetary accountability over costs. The Core-CT accounting system provides a comprehensive chart of accounts for coding personnel service transactions so that costs may be charged to the corresponding activity.
- Condition:* We found that an accountant in the Business Office who performs the accounts payable function and other accounting tasks for all of the 14 departments in the Office of the Attorney General, charged 100 percent of her hours worked during the fourth quarter of fiscal year ended June 30, 2004, and throughout fiscal years 2005 and 2006, to the Second Injury Fund.
- Effect:* The Second Injury Fund may be overcharged.
- Cause:* There is no written agreement in place between the Office of the Attorney General and the Office of the State Treasurer to identify the costs properly charged to the Second Injury Fund.
- Recommendation:* A Memorandum of Understanding should be put into place that defines the terms of the agreement between the Office of the Attorney General and the Office of the State Treasurer regarding the Second Injury Fund. (See Recommendation 3.)
- Agency Response:* "The subject position was established in May 1991 by agreement with the Second Injury Fund to provide business support to our SIF unit. It was understood that the incumbent may provide business services to other constituent units of the Office of the Attorney General and that full funding for this position recognizes that other agency administrative, business and technical staff provide significant support that was not, and is not, charged to the Fund. We agree that a Memorandum of Understanding between the two agencies should be developed to clarify this arrangement."

Purchasing, Receiving and Expenditures:

Criteria: Section 4-98(a) of the General Statutes states that except for emergency purchases no budgeted agency shall incur any obligation, by order, contract or otherwise, except by the issuance of a purchase order or any other documentation approved by the Comptroller.

Section 4a-71 of the General Statutes requires agencies to pay vendors within 45 days from receipt of a properly completed claim or receipt of goods and services, whichever is later.

Proper internal controls require the correct recording of expenditure receipt dates to ensure the correct calculation of vendor accounts payable for inclusion in the State's Comprehensive Annual Financial Report.

Condition: Our review of 25 expenditure transactions for the audited period disclosed the following:

- Fifteen transactions had purchase orders that were created after outside counsel services were received. Services were received prior to a contract being signed for one out of these fifteen transactions. We noted in another transaction that outside counsel services were received and the cost exceeded the obligated amount by \$71,932. Approximately one year after the services were rendered an amendment to the original contract was completed to increase the obligated amount and payment was made later than one month after the amendment was signed.
- Fourteen transactions were not paid in a timely manner. Four out of these expenditures were paid a year after a claim had been received by the Agency for outside counsel services rendered. Three out of these fourteen expenditures were paid two years after a claim for outside counsel services rendered had been received.
- Three transactions had incorrect receipt dates recorded.

Effect: Incurring an obligation without a valid commitment circumvents budgetary controls and increases the risk that funding will not be available at the time of payment.

Untimely payment of contractual obligations could result in the State incurring additional costs.

The incorrect recording of receipt dates could result in the incorrect reporting of vendor accounts payable at year end.

Cause: We were informed that during the audit period there were staffing issues. This contributed to the delay in payments to outside counsel. Staff changes were made to address this situation. We were unable to determine other causes for the conditions noted.

Recommendation: The Office of the Attorney General should strengthen internal controls to ensure that funds are committed prior to purchasing goods and services, obligations are paid in a timely manner, and receipt dates are correctly recorded. (See Recommendation 4.)

Agency Response: “This finding relates solely to contracts for outside legal services. It should be noted that contrary to the assertions in this proposed finding, at no time has this agency processed a payment for legal services unless a valid contract was in place.

- There was a period of time in the past when purchase orders were issued following provision of the services, in some instances; however, this practice was corrected quickly. Following the implementation of Core-CT the agency completed a purchase order for each invoice, a process not required by the previous system. Recognizing that this practice would result in the type of issue cited in these findings, we revised our procedures to issue a purchase order upon receipt of the executed contract.
- The Office of the Attorney General does not receive any litigation funding as part of its appropriation. Funding for outside legal services is the responsibility of the client agency that has requested such services. When a contract is executed, the client agency provides funding as invoices are received. While steps were taken some years ago to streamline the process, due to the need to notify and await transfer from other agencies, it remains cumbersome. Delayed payments fall into three general categories: funding not received from the client agency in a timely fashion, invoice disputes that must be resolved before payment is issued and contracts that must be amended. In the first case, the Attorney General is unable to process payment absent fund transfer from the client agency since, as mentioned above, the office is not provided with a litigation budget to pay these items. Delayed payments in these cases are well beyond our control. The second issue often requires further information from the contractor to justify payment and extensive negotiation to reach a reasonable result. Again, we often times have no control over how long this

process might take. As for the third issue, contracts needing amendment require a request from the client agency along with their commitment to provide continued funding. The request must then be submitted to our Litigation Management Committee for approval. Once LMC approval is granted, the amendment must then be negotiated with the vendor. All of these steps are essential to protecting the interest of the state and require significant time to complete.

- This finding also cites a contract where services were received after the maximum obligated amount had been reached. The cost of those services exceeded the obligated amount by \$71,900. The subject contract provided legal services directly to the Office of Policy and Management. In late October 2003, the Office of Policy and Management requested an amendment to increase the contract maximum in the amount of \$250,000. Our Litigation Management Committee approved the request for amendment in November 2003 and the Office of the Attorney General submitted a formal request for the approval of the amendment to OPM on or about December 15, 2003. OPM approval however, was not completed until April 24, 2004 and not received by the OAG until April 28, 2004. By April 2004, concerns about corruption in state contracting and allegations about then Governor Rowland had grown and the legislature was considering contract reforms. Accordingly, by letter dated April 23, 2004, the Office asked the law firm to complete a gift affidavit, similar to that which the legislature would soon require for all state contracts, prior to execution of the amendment. It should be noted that on June 1, 2004, the legislature enacted Public Act 04-245 which required among other things, gift affidavits from contractors being awarded large state contracts. For unspecified reasons, the law firm did not provide the requested affidavit until August 10, 2004. Upon receipt, the Office of the Attorney General completed processing of the amendment on September 13, 2004 and payment was made soon after.”

Purchasing Cards:

Criteria:

The State Comptroller, in conjunction with the Department of Administrative Services, has issued the State of Connecticut Purchasing Card Cardholder Work Rules Manual and the Agency Purchasing Card Coordinator Manual, which provides guidelines and procedures on the use of the purchasing cards by State employees.

Condition: We reviewed 25 purchasing card statements during the audited period. During our review, we noted the following:

- The Office's P-Card Coordinator is a cardholder and the reviewer of his own transactions and reconciliations.
- Three instances of purchases split into multiple payments. One purchase was for cellular phone expenses totaling \$2,466.48 that was split into five payments. Another purchase was for cellular phone expenses totaling \$3,947.41 and split into eight payments. Four of the eight payments totaling \$2,000 were not charged until the month after, bypassing the cardholder's monthly transaction limit of \$15,000. A purchase of a podium costing \$1,440 that was split into two payments.
- We found that the podium purchased was not added to the Office's asset records. In addition we found one instance of software purchased but not added to the Office's software inventory records.
- One instance of a vendor being used that was not listed on the State Comptroller's list of Approved P-Card Service Providers.
- Five out of 25 P-Card logs tested were either not signed by the cardholder or not signed by the reviewer. In four of these cases, neither the cardholder nor the reviewer signed, and in one instance the reviewer signed but not the cardholder.
- One out of the 25 P-Card logs selected for review could not be provided; and the transactions totaling \$2,922.66 listed on the statement were not supported by receipts.

Effect: The Office of the Attorney General is not in compliance with the State Comptroller's Agency Purchasing Card Coordinator Manual or Purchasing Card Cardholder Work Rules. In addition the Office has poor internal controls over P-Card purchases.

Cause: We were informed that the Office contacted the State Comptroller's Office regarding the practice of their agency card coordinator signing off on his own P-Card statements, and were told that it was not an issue because of the size of their staff.

Each of the noted purchases were split because the desired vendors would not accept purchase orders as a form of payment. Two transactions were for payment of phone bills of which the Office

did not initially expect would exceed the cardholder's dollar transaction limit.

With respect to the podium, we were informed that there were no alternate vendors for the item, and that it was a joint purchase among two other agencies, leading to confusion as to who should add the item to their asset records, which is why it was never added to the Office's asset listing.

The Office never requested the unapproved vendor to be added to the Comptroller's list of approved P-Card vendors prior to their conduct of business with them.

Causes for other conditions could not be determined.

Recommendation: The Office of the Attorney General should strengthen internal controls over purchasing card purchases by complying with the Agency Purchasing Card Coordinator Manual and the Purchasing Card Cardholder Work Rules. (See Recommendation 5.)

Agency Response:

- “It should be noted that several hundred P-Card transactions were made during this audit period and this finding has taken issue with just two purchases.
- The first issue relating to the agency's P-Card Coordinator was addressed with both the Office of the State Comptroller and the Department of Administrative Services, the administrators of the State P-Card Program. While recognizing that it was not an optimal arrangement, neither expressed any concern given the low number of the Business Office staff available. In several regular audits conducted by the Office of the State Comptroller, no concern was expressed for this practice. However, based upon the concerns raised by this proposed finding, the agency P-Card coordinator's log sheet will now be reviewed and signed by a different administrator. It is essential to note that no P-Card purchase made by the administrator has been called into question.
- No purchases were intentionally split into multiple payments, nor was there any deliberate attempt on the part of this agency to bypass the established monthly transaction limit. The referenced cellular vendor preferred to receive payment via the P-Card and declined to accept our purchase order for their services. They subsequently charged an agency P-Card in amounts, and at intervals, purely of their own choosing until

the balance was satisfied. As the services had already been provided, we had little recourse but to pay.

- The podium referred to in the proposed finding was acquired as a shared resource for the tenant agencies at 55 Elm Street. The vendor required an upfront deposit of 50% with the remaining 50% due on delivery. Again the agency preferred to process the transaction by purchase order, but the vendor declined to accept. The failure to place the podium in the asset record occurred when each of the tenant agencies believed that the other had added it to their asset records. It was immediately added to our inventory and future purchases of this sort will be added to the asset records of the agency making the purchase.
- With respect to the finding regarding a vendor not being on the list of approved vendors maintained by the Office of the State Comptroller, our review found that the purchasing officer had inadvertently failed to send an email to the Comptroller requesting that the vendor be added to the approved list. Such request has been made and the vendor has been added.
- Once we discovered that some signatures were missing from the P-Card log sheets we assigned an employee of the Business Office to review all P-Card documentation to ensure that all required signatures have been applied.
- P-Card payment logs are regularly audited by the Office of the State Comptroller P-Card audit unit and the Auditors of Public Accounts and one log may have been misplaced following audit. The Comptroller had previously audited the subject log and, had the receipts been missing at the time of that audit, a finding most certainly would have been issued. To ensure that logs do not get lost in the future, any entity requesting access to the logs will be required to sign them out when they are received and sign them back in upon their return.
- The Office of the Attorney General has undertaken a complete review of our P-Card process and has made the changes noted above to strengthen our controls.”

*Auditors’ Concluding
Comments:*

This finding addresses five purchases in addition to internal control weaknesses.

Telephone Usage:

Criteria: The statewide Telecommunications Equipment Policy issued by the Department of Information Technology states that “Telecommunications Equipment shall be used solely for official state business. Telecommunications Equipment shall not be used for personal or private purposes.”

The Office of the Attorney General’s Office Manual, section 7.1, states “Employees may not use for non-office purposes any resources of the office. These resources include, but are not limited to, copy machines, long-distance telephone calls, supplies, the mail systems, computers and the fax machine.”

Condition: Our review of the Office’s telephone usage during the audit period revealed that the Office lacks the controls necessary to ensure that telephone usage is properly reviewed and verified prior to payment being made. In our review of eight telephone charges we found no documentation evidencing that the telephone activity and charges were reviewed prior to payment. In addition, we requested documentation from three out of 14 departments to support that employees’ telephone activities are reviewed and signed as approved. One of the three departments did not retain records of its review and two out of the three departments did not provide us with documentation to support that they reviewed and verified their employees’ telephone activities.

Effect: Unauthorized telephone usage can occur and go undetected.

Cause: The Office does not have adequate internal controls in place to monitor telephone usage.

Recommendation: The Office of the Attorney General should implement controls to reasonably ensure that its employees’ telephone activity is properly reviewed and verified and that the Business Office is notified of the review prior to paying the associated telephone costs. (See Recommendation 6.)

Agency Response: “Our telephone system automatically provides, by email, monthly phone usage reports directly to the Department Heads. They are requested to review all charges and report those that are not appropriate to the agency Business Office. While we believe that every reasonable effort is already being taken to ensure that the charges are properly reviewed, we acknowledge that our documentation was not complete. We have modified our existing reporting system to require department heads to provide written confirmation that the review process has been completed.

It should be noted that the Office of the Attorney General does not directly process invoices for telecommunication services; rather the Department of Information Technology makes payments directly to the vendors and then charges our account directly for the services, often before providing detailed billing information for our review.”

Property Control and Reporting:

Criteria:

Section 4-36 of the Connecticut General Statutes provides that each State agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all of the following property owned by the State and in the custody of such agency: (1) Real property, and (2) personal property having a value of one thousand dollars or more. For audit purposes, each State agency shall establish and keep a list of personal property having a value of less than one thousand dollars and defined as "controllable property" in the property control manual published by the Comptroller.

The State of Connecticut’s *Property Control Manual* requires that all State agencies have policies and procedures in place to ensure that all assets currently owned or in the possession of the State be properly recorded and reported. It also requires agencies that maintain a library with a librarian assigned to it maintain a separate inventory for library materials. It mandates that each agency maintain a written listing of controllable property that has been approved by the agency head.

In July 2005, the Core-CT Asset Management Module, a property control system, went live and was required to be utilized by most State agencies to track assets.

Condition:

Our review of the Office’s Fixed Assets/Property Inventory Report/GAAP Reporting Form (CO-59) for the fiscal years ended June 30, 2004, 2005, and 2006, revealed the following:

- The Office did not report beginning balances, additions, or deletions, for any items on its fiscal year 2004 CO-59 form.
- The Office erroneously classified five controllable assets as capital during fiscal years 2005, 14 in fiscal year 2006, and 20 as of April 29, 2009, when our review of these assets was conducted.

- For both fiscal years 2005 and 2006 there was an \$8,334 difference between the total capital equipment amount reported on the CO-59 form and the amount reported on the Core-CT Cost Activity Detail Report.
- The Office's law library, with a reported value at the fiscal years ended 2004, 2005, and 2006, of \$1,519,050, \$1,542,526, and \$1,551,787, respectively, was not supported by an inventory listing that contained any cost information to support the value.

Our review of 25 inventory items randomly sampled from the Office's asset listing and 25 items identified by a random inspection of the Office's premises disclosed:

- A server valued at \$35,816.83 listed in a different office from which it was located.
- Three server racks, a desktop computer, and an obsolete card access system, totaling \$7,445, were listed on Core-CT, but were either already recycled or waiting to be recycled.
- Nine items were recorded on the asset listing in error. Seven were located in a building other than that which was listed and two were excluded from the asset listing. These assets total \$102,966, excluding the two whose value cannot be determined due to their exclusion from asset records.

Our review of loss reports revealed that four loss reports indicating \$1,105 of property were filed in FY 2006 but the corresponding assets were not removed from the Office's asset listing until April 2008.

During our review we also noted that 390 computer monitors did not appear on the Office's list of controllable equipment despite other monitors being on the list. In addition, the Office does not maintain a written list of asset types that it deems should be classified as controllable.

Effect:

The Office's Fixed Assets/Property Inventory Reports to the State Comptroller contained errors. The Office is not in compliance with the State's *Property Control Manual*. In addition, the Office is exposed to risk with respect to the safeguarding of State assets.

Cause:

Due to layoffs, early retirements, and the implementation of Core-CT, the Office of the Attorney General was not able to complete

the CO-59 report for fiscal year 2003, and as a result only the ending balances could be completed on the CO-59 for fiscal year 2004.

Some Office personnel were not trained in the use of Core-CT the Asset Management Module when it first went live.

Although the Office maintains a list of the volumes in its library, it has not considered assessing the values of each volume to be a priority.

The cause of other errors could not be determined.

Recommendation: The Office of the Attorney General should take steps to improve its controls over the accurate recording, reporting, and safeguarding of assets. (See Recommendation 7.)

Agency Response: “We acknowledge that we experienced some deficiencies in our asset management in the years covered in this audit. The unexpected retirement of the employee long responsible for this function contributed to the misclassification and reporting issues cited in this finding. Progress in addressing these issues was further stymied when the employee trained to assume these duties unexpectedly left the agency. The duties are now assigned to an employee who has received extensive training on the Core-CT Asset Management module and developed an excellent understanding of the major aspects of the Asset Management process. We are confident that these deficiencies will not be repeated. To support his efforts, the agency has implemented an asset review several times throughout the fiscal year to identify and resolve problems prior to preparation of the annual inventory report.

The inventory of our print law library has long been maintained by our librarian and we are confident that the valuation based upon purchase records and her professional experience is reasonable and accurate. We have nevertheless undertaken a project to review and update the inventory, if necessary.”

*Auditors’ Concluding
Comments:*

The inventory listing of the Office’s printed publications contained in the law library is missing the publications’ corresponding values. Therefore, the values of the Office’s law library reported on its CO-59 at the fiscal years ended 2004, 2005, and 2006 are not supported.

E-Mail Usage:

Criteria: Section 4d-2, subsection (c)(1), of the General Statutes, gives the Chief Information Officer of the Department of Information Technology (DOIT) the authority to establish policies on the use of information systems.

The DOIT's Acceptable Use of State Systems Policy prescribes the State's policies on appropriate and inappropriate use of State systems. An example of unacceptable use is, "checking and/or responding to personal e-mail via another (second party) e-mail system such as Yahoo! or Hotmail." It further states that, "Use of a personal Internet account using state systems is strictly prohibited."

The Office of the Public Records Administrator issued General Letter 2009-2 (Formerly General Letter 98-1) Management and Retention of E-mail and other Electronic Messages under the authority granted it by Section 11-8 and 11-8a of the General Statutes.

General Letter 2009-2 provides guidance for managing and retaining electronic messages, including e-mail. The letter states "...electronic messages sent or received in the conduct of public business are public records. Therefore, public officials should not use private e-mail accounts to conduct public business. These messages are subject to disclosure under [the Freedom of Information Act] FOIA, a court action, or an audit and should be treated in the same manner as any other recorded information."

Condition: Office employees have unlimited and unfiltered access to private e-mail accounts and have been given permission to use personal e-mail accounts for business purposes if their duties require them to have remote access to their State e-mail. These employees have the ability to both check and respond to their personal e-mail messages.

Effect: The Office of the Attorney General is not in compliance with the Acceptable Use of State Systems Policy or General Letter 2009-2. In addition, the communication of business information and the transfer of business data through private e-mail accounts presents the risk of confidential and/or privileged information being viewed by third parties.

Cause: We were informed that there are currently no means of remote access to the Office's State e-mail system. The Office stated that OAG employees are allowed to use private e-mail accounts for

State business use when they are outside of the building where the Office is housed.

Recommendation: We recommend that the Office of the Attorney General take steps to allow remote access to the State e-mail system in order for its employees to be able to access their State business e-mail remotely. In addition, the Office of the Attorney General should filter access to personal e-mail providers, to ensure compliance with the Acceptable Use of State Systems Policy and General Letter 2009-2. (See Recommendation 8.)

Agency Response: “We strongly disagree. We share the auditors’ concern regarding access and use of private email accounts; however, there was never a time when all agency employees had unfettered access to private email accounts.

For the last several years the agency has maintained its own email server. The unfortunate result of hosting our own mail was our inability to provide our employees remote access to their state email accounts, a situation that has caused great inconvenience for both our employees and our clients. We recently became aware that two of our attorneys, who spend many days each week in court and away from the office, and therefore unable to access their state email accounts, began using their private email accounts to communicate with their client agency. This was done without our knowledge or approval. We became aware of this practice when we received a request to open an internet mail site to permit them access when they were in the office. As a business necessity, access was granted. It should be noted that when the auditors concerns were brought to our attention, all access to such sites was immediately terminated.

The agency has spent over eighteen months working with the Office of Information Technology to migrate our mail service to their system, which will provide all of our employees with remote access to their state email account on a 24 hour basis. We are confident that this step will resolve this issue in the future. We are hopeful that the migration process will be completed in the next few months.”

Auditors’ Concluding Comments:

We cite that Office employees had access to unlimited and unfiltered access to private e-mail accounts. However, we did not state that all Office employees had this access. In our review of Internet activity indicating data being transferred from private e-mail account servers to Office IP addresses used at the Office’s central location, for a one month duration, we found evidence which reasonably suggests that at least eight unique Office IP addresses from six different departments within the Office

accessed private email provider accounts. In addition, we were informed by Office personnel that there are situations where employees must access their private email account outside of the Office's central office and that such employees have verbally requested permission and were granted access to private email accounts during these times because there were no means for these employees to access their State e-mail accounts from a remote location.

Annual GAAP Form 2 – Accounts Receivable:

- Criteria:* The State Comptroller's Office annually requires each State agency to submit GAAP Closing Packages to enable the State Comptroller to prepare accurate financial reports in accordance with generally accepted accounting principles (GAAP).
- Condition:* Our review of the filed GAAP Reporting Form No. 2– Receivables for the fiscal year ended June 30, 2004, contained several errors resulting in total receivables being overstated by \$361,053. Receivables reported for the fiscal year ended June 30, 2005, contained errors resulting in receivables being overstated by \$384,053 and fiscal year June 30, 2006, was overstated by \$5,000.
- Effect:* The Comprehensive Annual Financial Report for the State did not reflect the correct accounts receivable balance for the Office of the Attorney General.
- Cause:* We were informed that in 2004 an employee who handled the accounting of receivables left the Office without training other staff how to perform the reporting of receivable information.
- Recommendation:* The Office of the Attorney General should take steps to improve its controls over the accurate recording and reporting of receivables. (See Recommendation 9.)
- Agency Response:* "The employee responsible for preparing the annual GAAP report accepted the early retirement incentive presented in 2003. These early retirement incentive programs, typically offered with short notice, deprive the agency of operational and institutional knowledge with little time to arrange background and training to other staff members that are critical to the proper preparation of this report. Another employee has been assigned this task and has developed a full understanding of the elements required to produce this report accurately. We are confident that the deficiencies have been addressed and that these errors will not be repeated."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. A modification of this recommendation is shown as Recommendation 1.
- The Office of the Attorney General should take appropriate steps to perform a complete physical inventory, update equipment inventory records and maintain them in an accurate manner. The annual Fixed Assets/Property Inventory Report/GAAP Reporting Form should be prepared and submitted, as required by the State Comptroller. This recommendation has been implemented in part. The Office has taken steps to ensure that a physical inventory was conducted each fiscal year during the audited period and that the Asset Management/Inventory Report/GAAP Reporting Form was submitted for each fiscal year under review. However, we found equipment inventory records were not maintained in an accurate manner and the annual Asset Management/Inventory Report/GAAP Reporting Form for each fiscal year was misstated. This recommendation is repeated, in part, and shown as Recommendation 7.
- The Office should ensure that payments for goods and services are only for those goods and services actually received. Overpayments should be collected from vendors. We found that the overpayment was recovered and we didn't find evidence of any other overpayments. However, we did note that there were services paid for that did not have supporting documentation indicating acknowledgement of receipts of services for which payments were made. This recommendation is repeated, in part, and shown as Recommendation 6.
- The Office should review the State Accounting Manual procedures for maintaining a petty cash fund and adhere to those procedures. This recommendation has been adequately addressed.
- The Office should devise and implement an effective system to bring about a timely submission of request for reimbursement forms from employees after travel. This recommendation has been adequately addressed.

Current Audit Recommendations:

- 1. The Office of the Attorney General should improve its internal controls over receipts to ensure that all receipts are recorded immediately when received and are deposited and accounted for in a timely manner.**

Comment:

Out of 30 receipt transactions tested we found eight receipts that were deposited between one and 11 days late; and accounted for between three and 12 days late. In addition, we found three receipts that were deposited in a timely manner but posted to the Office's accounting record between one and three days late.

During our test of receipts, we found that one department did not maintain a collection log. We also found that another department maintains a collection log that did not document the date received, check number, who it was received from, or when it left the department.

- 2. The Office of the Attorney General should improve its internal controls over pre-approving compensatory time and implement controls over monitoring compensatory time.**

Comment:

Three managerial employees earned compensatory time for which the Office could not provide written documentation of advance compensatory time authorization.

We found that one managerial employee's compensatory time balance was not lapsed in accordance with DAS policy.

We also found one employee earned thirty minutes of compensatory time each day they worked from October 17, 2003 to June 30, 2006. During this time period the majority of this employee's leave time was charged to compensatory time enabling their vacation balance to remain near the maximum.

- 3. A Memorandum of Understanding should be put into place that defines the terms of the agreement between the Office of the Attorney General and the Office the State Treasurer regarding the Second Injury Fund.**

Comment:

There is no written agreement in place between the Office of the Attorney General and the Office of the State Treasurer to identify the costs properly charged to the Second Injury Fund.

- 4. The Office of the Attorney General should strengthen internal controls to ensure that funds are committed prior to purchasing goods and services, obligations are paid in a timely manner, and receipt dates are correctly recorded.**

Comment:

We found transactions that had purchase orders that were created after outside counsel services were received. We noted one transaction that outside counsel services were received and the cost exceeded the obligated amount by \$71,900.

Fourteen transactions were not paid in a timely manner. Seven out of these fourteen expenditures were paid a year or more after a claim for outside counsel services rendered had been received.

We found three transactions had incorrect receipt dates recorded.

- 5. The Office of the Attorney General should strengthen internal controls over purchasing card purchases by complying with the Agency Purchasing Card Coordinator Manual and the Purchasing Card Cardholder Work Rules.**

Comment:

The Office's P-Card Coordinator is a cardholder and the reviewer of his own transactions and reconciliations. We found three instances of purchases split into multiple payments, and two purchases of items that were not added to the Office's asset records.

We found P-Card logs that were either not signed by the cardholder or not signed by the reviewer.

- 6. The Office of the Attorney General should implement controls to reasonably ensure that its employees' telephone activity is properly reviewed and verified and that the Business Office is notified of the review prior to paying the associated telephone costs.**

Comment:

Our review of the Office's telephone usage during the audit period revealed that the Office lacks the controls necessary to ensure that telephone usage is properly reviewed and verified prior to payment being made.

- 7. The Office of the Attorney General should take steps to improve its controls over the accurate recording, reporting, and safeguarding of assets.**

Comment:

Our review of the Property Inventory Report revealed the Office did not report beginning balances, additions, or deletions, for any items on its report for the 2004 fiscal year. The office erroneously classified controllable assets as capital assets on its report for the 2005 and 2006 fiscal years. The Office's law library, with a reported value of \$1,519,050, \$1,542,526, and \$1,551,787, as of June 30, 2004, 2005 and 2006, respectively, was not supported by an inventory listing.

Our review of inventory items randomly sampled from the Office's asset listing and items identified by a random inspection of the Office's premises disclosed errors in the asset listing.

We noted that 390 computer monitors did not appear on the Office's list of controllable equipment despite other monitors being on the list. In addition, the Office does not maintain a written list of asset types that it deems should be classified as controllable.

- 8. We recommend that the Office of the Attorney General take steps to allow remote access to the State e-mail system in order for its employees to be able to access their State business e-mail remotely. In addition, the Office of the Attorney General should filter access to personal e-mail providers, to ensure compliance with the Acceptable Use of State Systems Policy and General Letter 2009-2.**

Comment:

There were employees with unlimited and unfiltered access to private e-mail accounts and given permission to use personal e-mail accounts for business purposes if their duties require them to have remote access to their State e-mail.

- 9. The Office of the Attorney General should take steps to improve its controls over the accurate recording and reporting of receivables.**

Comment:

Our review of the filed GAAP Reporting Form for the fiscal year ended June 30, 2004, contained several errors resulting in total receivables being overstated by \$361,053. Receivables reported for the fiscal years ended June 30, 2005 and 2006, contained errors resulting in receivables being overstated by \$384,053 and \$5,000, respectively.

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, 2004, 2005 and 2006. This audit was primarily limited to performing tests of the Office's compliance with certain provisions of laws, regulations, contracts and grant agreements 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, contracts and grant agreements applicable to the Office are complied with, (2) the financial transactions of the Office are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2004, 2005, and 2006, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

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

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

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

properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 – Receipts; Recommendation 2 – Compensatory Time; Recommendation 4 – Purchasing, Receiving and Expenditures; Recommendation 5 – Purchasing Cards; Recommendation 6 – Telephone Usage; Recommendation 7 – Property Control and Reporting; Recommendation 9 – Accounts Receivable.

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

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters:

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

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

The Office of the Attorney General's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Office of the Attorney General's response and, accordingly, we express no opinion on it.

Auditors of Public Accounts

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

CONCLUSION

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

Jessica Parent
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts