

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
STATE COMPTROLLER - DEPARTMENTAL OPERATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

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

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March 23, 2004

**AUDITORS' REPORT  
STATE COMPTROLLER - DEPARTMENTAL OPERATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have made an examination of the financial records of the State Comptroller as they pertain to the Agency's departmental operations for the fiscal years ended June 30, 2001 and 2002. We have included in that examination the records of the Office of the Claims Commissioner, which is within the Office of the State Comptroller for administrative purposes only. We have excluded from that examination the records of various retirement funds and related General Fund appropriations inasmuch as such funds and appropriations have been covered under separate audit. This report on that examination consists of the Comments, Recommendations and Certification, which follow.

Financial statements pertaining to the operations and activities of the State Comptroller's departmental operations for the fiscal years ended June 30, 2001 and 2002, are presented on a Statewide Single Audit basis to include all State agencies and funds. This audit has been limited to assessing the State Comptroller's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the State Comptroller's internal control structure policies and procedures established to ensure such compliance.

**COMMENTS**

**FOREWORD:**

The State Comptroller operates primarily under the provisions of Article Fourth, Section 24, of the State Constitution and Title 3, Chapter 34 of the General Statutes. A description of the major functions of the Department, during the audited period, by division is presented below:

*State Comptroller's Executive Office:*

Provides overall policy direction and program and project monitoring for the Department, as well as oversees the Agency's personnel and payroll function. Personnel Services implements State personnel, labor relations and Workers' Compensation standards and procedures and carries out the payroll function for the Agency.

*Accounts Payable Division:*

Post-audits the validity, propriety and legality of the State's submitted claims and makes payment in accordance with the General Statutes and regulations established by the State's expending authorities. The Accounting Support Group develops, implements and maintains the Statewide computer-based accounting system for all State agencies and all divisions of the Office of the State Comptroller.

*Budget and Financial Analysis Division:*

Performs the State's accounting and financial reporting functions, records and analyzes State receipts and expenditures, reports monthly on the State's budget, projects the State's fiscal condition, determines direct and indirect overhead costs to State agencies and prepares the Statewide Cost Allocation Plan.

*Information Technology Division:*

Provides computer processing, technical and application support for the operating divisions within the Comptroller's Office and is responsible for completing the Comptroller's Data Processing Disaster Recovery Plan. The Division's Internet Group develops and maintains the Comptroller's Internet website.

*Management Services Division:*

Business Services – prepares, analyses and monitors the Agency's budgeting, accounting, accounts payable and procurement functions and is responsible for maintaining the inventory of the State's real and personal property for insurance and accounting purposes.

Support Services – maintains the Agency's inventory, provides management oversight for State employees' travel and manages the Statewide tuition reimbursement program.

*Payroll Services Division:*

Provides the Statewide pre-audit of all agency payrolls, the payments of all earnings and salaries to State employees, and the withholding of mandatory taxes and authorized voluntary deductions.

*Policy Services Division:*

Assists in the development of accounting and payroll system procedures and conducts various other accounting and regulatory functions for the Department and State agencies. The Division also conducts independent audits of other State agencies, reviews purchasing card activities and performs agency internal control information system reviews.

*Retirement and Benefit Services Division:*

Processes the required actions and maintains the records and accounts of the various retirement plans administered by the State Employees' Retirement Commission. It provides

counseling services to members, administers State employee deferred compensation, dependent care assistance, group life and health insurance programs, and manages the State unemployment compensation accounts.

**OFFICERS:**

During the 2000-2001 and 2001-2002 fiscal years, the officers of the Office of the Comptroller were as follows:

State Comptroller:	Nancy S. Wyman
Deputy Comptroller:	Mark E. Ojakian

**RÉSUMÉ OF OPERATIONS:**

**State General Fund - Departmental Operations**

General Fund departmental receipts totaled \$23,574,890 and \$21,850,317 during the 2000-2001 and 2001-2002 fiscal years, respectively. A summary of these receipts, together with those of the preceding fiscal year, is presented below:

	<u>Fiscal Years</u>		
	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Departmental Receipts:			
Recoveries of Expenditures:			
Unemployment compensation	\$ 169,600	\$ 191,424	\$ 455,590
Indirect Overhead – Federal Projects	9,315,140	8,747,036	11,578,937
Workers’ compensation	1,867,530	2,810,285	2,600,032
Employee fringe benefits:			
Judges’ and Compensation			
Commissioners’ Retirement Plan	1,918	51,997	55,443
Excess retirement system funding costs	3,735,248	8,540,792	4,096,770
Teachers’ Retirement Plan	513,607	613,280	546,533
Teachers’ Retirement Plan – net other, Prior Year	1,187	1,018	2,303
Hazardous Duty Employees	882,353	1,163,104	1,636,115
Hazardous Duty Employees – Prior Year	151,521	266,601	205,756
Miscellaneous recoveries	4,998	37,064	121,338
Refund of Expenditures:			
Current Year	4,425	7,928	6,604
Prior Year	157,797	111,512	44,337
Principal on Loan	75,000	75,000	75,000
Loan Agreement Income	90,563	85,313	80,063
Insurance Reimbursements	482,764	577,897	254,905
Municipal/Probate Retirement Administration	20,449	19,913	22,069
Grants – Other than Federal – Transferred	665,760	270,146	66,678
All Other Revenue	<u>2,813</u>	<u>4,580</u>	<u>1,844</u>
Total Departmental Receipts	<u><b>\$18,142,673</b></u>	<u><b>\$23,574,890</b></u>	<u><b>\$21,850,317</b></u>

The departmental receipts shown above primarily consisted of excess funding of retirement

system costs, workers' compensation costs, fringe benefit and indirect costs, charged initially to the State General Fund, but subsequently reimbursed from Federal and other-than-Federal General Fund restricted accounts and/or other State funds. These costs are recovered through the Comptroller's Office primarily via the State payroll system, on the basis of reports filed by State agencies with each agency payroll. Fluctuations in agency receipts were caused primarily by changes in the cost recovery rates, increases in the recoveries of retirement system funding costs credited directly to the State Employees' Retirement Fund and changes in the amount of salaries charged to Federal restricted accounts and State funds other than the General Fund. Restricted contributions received during the audited period consisted of State grants for employee education costs covered by union contracts.

Fringe benefit costs consist of the employer's share of unemployment compensation, workers' compensation, retirement system administration, State employees', hazardous duty employees', Judges and Compensation Commissioners', Teachers' and Alternate Retirement system funding, Social Security, group life insurance and medical insurance costs. Fringe benefit recoveries for unemployment compensation, workers' compensation, retirement system administration, and Teachers' retirement system funding costs are reflected on the preceding schedule, as are indirect overhead cost recoveries from State agencies using salaries and wages as their approved indirect cost base.

Fringe benefit recoveries for group life insurance, medical insurance (health service cost), and Social Security costs are, for the most part, credited to the special appropriation accounts used to finance the employer's share of such costs. These credits are processed by either refund of expenditure receipts or expenditure transfer credits. A smaller amount of prior year refund of expenditure receipts are usually also processed; however, these are not applied as a reduction of current year expenditures. Additional comments on these recoveries are presented further on in this report in our comments on each of these special appropriation accounts.

Recoveries of retirement system funding costs, used to help meet the State's required funding obligation to the State Employees' Retirement Fund, totaled \$128,086,660 and \$138,730,339 during the 2000-2001 and 2001-2002 fiscal years, respectively. These recoveries were credited directly to the retirement fund. Additional recoveries totaled \$22,859,140 and \$28,168,669 during the 2000-2001 and 2001-2002 fiscal years, respectively, for the State share of contributions to the Higher Education Alternate Retirement Program, were credited to the special appropriation account used to finance the State's contribution to that program. In instances where recoveries exceed the amount required to meet the State funding obligation to the State Employees' Retirement Fund, recoveries are credited by the Comptroller to the General Fund. For the 2000-2001 and 2001-2002 fiscal years such excess funding totaled \$8,540,792 and \$4,096,770, respectively.

Additional fringe benefit recoveries, which are processed outside of the Comptroller's payroll procedures, are credited to the Comptroller's Fringe Benefit Recovery Fund. Additional comments on these recoveries and the operations of the Fringe Benefit Recovery Fund are presented further on in this report.

All of the aforementioned fringe benefit costs, except for workers' compensation, have been combined into a Statewide rate expressed as a percentage of gross salaries and wages on covered payrolls. The Comptroller's Budget and Financial Analysis Division calculates this Statewide fringe

benefit recovery rate, as well as several different rates for various employee classifications, which depend on the type of retirement participation and the applicability of other fringe benefit items. These rates are calculated annually as part of the Statewide cost allocation plan and are approved by the Federal government for application against salaries paid from Federal funds.

A comparison of the Statewide rates used during the audited period and the preceding fiscal year are presented below:

<b><u>Rate Components</u></b>	<b><u>Fiscal Years</u></b>		
	<b><u>1999-2000</u></b>	<b><u>2000-2001</u></b>	<b><u>2001-2002</u></b>
Full-time Employees:			
State Employees Retirement System (SERS)			
– regular employees	22.53%	21.06%	21.95%
Unemployment compensation	.00%	.03%	.06%
Group life insurance	.15%	.18%	.18%
FICA – Social Security	6.02%	6.39%	5.96%
FICA – Medicare	1.45%	1.57%	1.45%
Medical insurance	11.13%	10.03%	12.69%
Total Statewide Fringe Benefit Recovery Rate	<b><u>41.28%</u></b>	<b><u>39.26%</u></b>	<b><u>42.29%</u></b>
Other Employee Classifications:			
Judges/Compensation Commissioners	44.06%	45.90%	46.89%
SERS hazardous duty employees	21.06%	21.00%	22.38%
Alternate retirement plan	8.67%	8.51%	9.34%
Teachers’ retirement plan	16.06%	21.55%	17.73%

Fringe benefit costs are recovered by applying these rates to gross salaries and wages that are chargeable to Federal and other-than-Federal General Fund restricted accounts and/or other State Funds, besides the General Fund.

Net General Fund expenditures for the Comptroller’s departmental operations totaled \$18,435,925 and \$18,581,822, for the 2000-2001 and 2001-2002 fiscal years, respectively. A summary of these expenditures, together with those of the preceding fiscal year, is presented below:

	<b><u>Fiscal Years</u></b>		
	<b><u>1999-2000</u></b>	<b><u>2000-2001</u></b>	<b><u>2001-2002</u></b>
Personal services	\$13,629,340	\$14,585,273	\$15,303,116
Contractual services	2,589,012	3,441,991	2,990,829
Commodities	308,583	232,501	218,394
Sundry charges	90,136	52,475	43,789
State aid grants	19,570	19,570	19,570
Equipment*	174,920	104,115	6,124
Total Departmental Expenditures	<b><u>\$16,811,561</u></b>	<b><u>\$18,435,925</u></b>	<b><u>\$18,581,822</u></b>

\* Equipment purchases in a Special Revenue Fund amounted to \$165,816 and \$28,718 during the 2000-2001 and 2001-2002 fiscal years, respectively.

Total departmental expenditures increased by \$1,624,364 and \$145,897 for the 2000-2001 and 2001-2002 fiscal years, respectively. The increase in fiscal year 2000-2001 was primarily attributable to increases in personal services charges and contractual services.

### **Special Appropriations Administered by the State Comptroller**

In addition to the budgeted and restricted General Fund appropriation accounts, used by the Comptroller's Office to finance various departmental programs and activities, the Comptroller's Office also administers numerous nonfunctional General and Special Transportation Fund appropriation accounts. The Comptroller's Office also provides administrative services with regard to the maintenance of the appropriation accounts of the Office of the Claims Commissioner, as required by Section 4-142a of the General Statutes. A more detailed description of the activities funded by these special appropriation accounts is presented in the following paragraphs.

#### **Office of the Claims Commissioner:**

The Office of the Claims Commissioner operates primarily under the provisions of Sections 4-141 through 4-165b of the General Statutes. The Claims Commissioner has the statutory responsibility to hear and determine all claims against the State except for: 1) claims for the periodic payment of disability, pension, retirement or other employment benefits; 2) claims upon which suit otherwise is authorized by law; 3) claims for which an administrative hearing procedure otherwise is established by law; 4) requests by political subdivisions of the State for the payment of grants in lieu of taxes; and 5) claims for refunds of taxes. In addition, as provided for in Section 4-160, when the Claims Commissioner deems it just and equitable, he may authorize suit against the State on any claim which, in his opinion, presents an issue of law or fact under which the State, were it a private person, could be liable.

The Claims Commissioner is authorized by Section 4-151 of the General Statutes to call and examine witnesses, administer oaths, cause depositions to be taken, issue subpoenas and order the inspection and disclosure of books, papers, records and documents in order to adjudicate claims against the State. The Commissioner is required to hear all claims which exceed \$5,000 but may, in accordance with Section 4-151a, as amended by Public Act 92-34, waive the hearing of any claim for \$5,000 or less and proceed upon affidavits filed by the claimant and the State agency concerned.

As provided in Section 4-158 of the General Statutes, the Commissioner may approve immediate payment of claims not exceeding a set limit of \$7,500. On claims exceeding this amount, the Commissioner is required by Section 4-159 to make a recommendation to the General Assembly, which may accept, alter or reject any such recommendation and grant or deny the claimant permission to sue the State. Payments of legislative awards for such claims may be paid from the resources of the State agency against which the claim is effective or charged to an appropriation provided to the State Comptroller for the settlement of adjudicated claims. Additional comments on these latter payments can be found further on in this report under the heading entitled "Adjudicated Claims."

A summary of expenditures of the Office of the Claims Commissioner for the audited period and the preceding fiscal year are presented below:

General Fund:	<b>Fiscal Years</b>		
	<b><u>1999-2000</u></b>	<b><u>2000-2001</u></b>	<b><u>2001-2002</u></b>
Personal services	\$211,611	\$218,184	\$223,894
Contractual services	18,525	22,619	31,001
Commodities	1,871	1,749	3,104
Sundry charges-adjudicated claims	<u>91,984</u>	<u>125,119</u>	<u>144,632</u>
Total General Fund Expenditures	<b><u>\$323,991</u></b>	<b><u>\$367,671</u></b>	<b><u>\$402,631</u></b>

Total expenditures for the 2001-2002 fiscal year increased \$34,960, due mainly to increases in sundry charges.

Section 4-147 of the General Statutes provides for payment of a fee for entry of a claim with the Office of the Claims Commissioner, unless the fee is waived by the Commissioner for good cause. Filing fees in the amount of \$15,346 and \$14,975 were collected during the fiscal years 2000-2001 and 2001-2002, respectively.

**Judicial Review Council:**

Section 51-51k of the General Statutes provides for a Judicial Review Council to be composed of the following: three judges of the Superior Court, three attorneys-at-law, six public members and thirteen alternate members. The Council is empowered to hear complaints about the conduct of judges, make investigations and censure or suspend judges if required. Members receive no compensation for their services but are entitled to reimbursement for reasonable expenses.

A summary of expenditures of the Council during the audited period and the preceding fiscal year is presented below:

General Fund:	<b>Fiscal Years</b>		
	<b><u>1999-2000</u></b>	<b><u>2000-2001</u></b>	<b><u>2001-2002</u></b>
Personal services	\$114,491	\$115,631	\$111,006
Contractual services	15,243	18,639	15,391
Commodities	4,275	1,096	3,398
Sundry charges	<u>135</u>	<u>-</u>	<u>-</u>
Total General Fund Expenditures	<b><u>\$134,144</u></b>	<b><u>\$135,365</u></b>	<b><u>\$129,795</u></b>

Total 2001-2002 Council expenditures of \$129,795 decreased \$5,570 from the amount paid during the previous fiscal year, mainly for personal services.

**Refunds of Payments:**

Sections 4-37, 14-159, 22a-10 and other sections of the General Statutes authorize the State Comptroller to refund overpayment of fees paid by corporations and individuals and to refund moneys to persons equitably entitled to the refund of any money paid to the State. The financing of such refunds is provided by appropriation accounts within the General Fund, Special Transportation Fund and the Insurance Fund. Pursuant to Public Act 01-6 (June Special Session), the payment of such refunds is made from the fund to which the payment was initially credited, effective July 1, 2001.

Refunds processed and funds expended during the 2000-2001 and 2001-2002 fiscal years are shown below in total, by the agency requesting them, per business office records:

	<b>Fiscal Years</b>			
	<b>2000-2001</b>		<b>2001-2002</b>	
	<b>General Fund</b>	<b>Special Transportation Fund</b>	<b>General Fund</b>	<b>Special Transportation Fund</b>
Dept. of Motor Vehicles	\$	\$2,988,631	\$	\$2,399,461
Dept. of Consumer Protection	188,432		185,799	
Dept. of Environmental Protection	8,377		8,041	
Dept. of Insurance	16,819		15,755	
Judicial Department	40,397	36,458	51,297	44,514
Dept. of Public Health	38,915		33,951	
Secretary of the State	39,301		50,043	
All Other	<u>13,081</u>	<u>61,817</u>	<u>27,905</u>	<u>80,646</u>
Total Expenditures	<b><u>\$345,322</u></b>	<b><u>\$3,086,906</u></b>	<b><u>\$372,791</u></b>	<b><u>\$2,524,621</u></b>

Total expenditures amounted to \$2,149,551, \$3,432,228 and \$2,897,412 during the 1999-2000, 2000-2001 and 2001-2002 fiscal years, respectively. The net increase in expenditures of \$1,282,677 during the 2000-2001 fiscal year was due primarily to an increase of activity processed by the Department of Motor Vehicles.

**Adjudicated Claims:**

Under Section 3-7 of the General Statutes, the Governor may authorize the compromise of any claim against the State upon the recommendation of the Attorney General. Section 4-160 of the General Statutes provides for payments of claims based on court judgments entered against the State. In such cases, permission to file suit against the State must first be obtained from the State Claims Commissioner.

During the 2000-2001 and 2001-2002 fiscal years, a total of \$10,385,250 and \$13,598,849, respectively, was paid by the Comptroller towards the settlement of claims against the State. Most of these claims were the result of stipulated agreements or court judgments. A summary of the more significant court judgments and agreements follows:

<u>Court Cases</u>	<u>Fiscal Years</u>	
	<u>2000-2001</u>	<u>2001-2002</u>
Karp v. State of Connecticut	\$1,500,000	\$
Gody Martinez et al v. State of Connecticut	1,500,000	
DCF Monitoring Panel	1,187,125	870,375
Barry v. Peter O'Meara	875,000	
Smith v. Wheaton	657,610	
Pattavina v. Mills	400,000	
R. Bartley Halloran v. Armstrong et al		2,900,000
Joseph R. Frazier v. State of Connecticut		1,116,000
Gulash v. State of CT		750,000
P.J et al v. State of CT – Board of Education		675,000
Tully v. State of CT		650,000
Albert Pfadt vs.Grtr Bridgeport Mental Hlth Ctr		500,000
Ferguson v. O'Meara		500,000
All Others	<u>4,265,515</u>	<u>5,637,474</u>
Total Expenditures	<u>\$10,385,250</u>	<u>\$13,598,849</u>

The totals above represented a net increase of \$4,348,746 in expenditures during the 2000-2001 fiscal year and an increase of \$3,213,599 during the 2001-2002 fiscal year.

**Fire Training Schools and Maintenance of County Base and Statewide Fire Radio Networks:**

Section 3-123e of the General Statutes authorizes the State Comptroller to disburse, in the form of grants, funds appropriated for the fire training schools, emergency communication centers and the maintenance of county base and Statewide fire radio base networks. Each grant is to be disbursed in equal quarterly amounts. After the close of the fiscal year, each organization shall submit audited reports to the State Comptroller concerning the disbursement of the grant funds. A comparative summary of grants disbursed by the Comptroller during the audited period and the preceding fiscal year is presented below:

	<u>Fiscal Years</u>		
	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Fire Training Schools:			
Willimantic	\$ 80,050	\$ 81,650	\$ 81,650
Torrington	53,970	55,050	55,050
New Haven	36,130	36,850	36,850
Derby	36,130	36,850	36,850
Wolcott	47,350	48,300	48,300
Fairfield	36,130	36,850	36,850
Hartford	63,950	65,230	65,230
Middlesex	28,050	28,610	28,610
Fire Radio Network:			
County base network maintenance	21,420	21,850	21,850
Statewide network maintenance	<u>14,280</u>	<u>14,570</u>	<u>14,570</u>

Total Net Expenditures **\$417,460** **\$425,810** **\$425,810**

Emergency Communication Centers activity since the 1996-1997 fiscal year was processed by the Department of Public Safety in its Enhanced 9-1-1 Telecommunications Fund account.

**Police Association of Connecticut:**

Section 3-122 of the General Statutes authorizes the State Comptroller to pay claims for benefits as set forth in the constitution and bylaws of the Police Association of Connecticut upon presentation of proper proofs of claims from the Association. These relief payments are to beneficiaries of police officers killed in the line of duty. Police officers of Connecticut municipalities as well as State police officers are eligible for membership in this Association. A comparative summary of expenditures during the audited period and the preceding fiscal year are shown below:

	<b>Fiscal Years</b>		
	<b><u>1999-2000</u></b>	<b><u>2000-2001</u></b>	<b><u>2001-2002</u></b>
Disability payments to members:	\$	\$	\$
Payments to dependents	52,288	53,912	50,952
Death Benefits	10,000	10,000	-
Injury Benefits	<u>41,460</u>	<u>58,250</u>	<u>55,440</u>
Totals	<b><u>\$103,748</u></b>	<b><u>\$122,162</u></b>	<b><u>\$106,392</u></b>

**Connecticut State Firefighters Association:**

The State Comptroller is authorized, under Section 3-123 of the General Statutes, to make benefit payments to the beneficiaries of members of the Connecticut State Firefighters Association who are killed in the line of duty and who are entitled to payment under the provisions of the constitution and bylaws of the Association. Payment is to be made upon presentation of proper proof of claims from the Association. A comparative summary of expenditures during the audited period and the preceding fiscal year follows:

	<b>Fiscal Years</b>		
	<b><u>1999-2000</u></b>	<b><u>2000-2001</u></b>	<b><u>2001-2002</u></b>
Disability payments to members	\$38,060	\$51,495	\$44,218
Payments to dependents	16,146	15,928	18,039
Death Benefits	<u>9,950</u>	<u>25,000</u>	<u>-</u>
Totals	<b><u>\$64,156</u></b>	<b><u>\$92,423</u></b>	<b><u>\$62,257</u></b>

**Interstate Environmental Commission:**

The Interstate Environmental Commission, a body corporate and politic, was created by a Compact entered into by the States of New York, New Jersey and Connecticut for the dual purpose of controlling future pollution of the harbor, coastal and tidal waters in the territory surrounding and adjacent to the harbor of New York City, and the tributary waters therein, and of bringing about an abatement of the existing pollution of these waters. As a result of legislation enacted by the states of New York and New Jersey in 1960 and 1961, respectively, the Commission was authorized to engage

in activities with respect to air pollution control and prevention. Participation by Connecticut in the Commission's air pollution program was approved by legislation enacted in June 1969.

The Compact, which is codified in Section 22a-294 of the General Statutes, was joined by Connecticut on September 17, 1941. Under the Compact, the signatory states agreed to provide by annual appropriation for the salaries, office and other administrative expenses of the Commission such sum or sums recommended by the Commission and approved by the governors of the signatory states, in the following ratios:

New York	45%
New Jersey	45%
Connecticut	<u>10%</u>
Total	<u>100%</u>

It should be noted that pursuant to Article XIV of the Compact, the State of New York and the State of New Jersey obligate themselves only to the extent of \$15,000 each in any one year, and the State of Connecticut obligates itself only to the extent of \$3,333 in any one year to meet the expenses of the Commission. During the 2000-2001 and the 2001-2002 fiscal years a total of \$3,470 and \$86,250, respectively, was appropriated by the General Assembly and disbursed by the State Comptroller.

**Reimbursement to Towns for Loss of Taxes on State Property:**

Section 12-19a of the General Statutes provides for unrestricted grant payments to towns in lieu of taxes on State-owned property in different categories and at various percentages of the taxes that would have been paid to the towns. The reimbursement amount is not to exceed a specified percentage of the total tax levied by the towns. Public Act 93-388 amended this section to increase the maximum percentage of total property taxes levied by each town on real property in the preceding year, by varying increments, commencing with fiscal year ended June 30, 1994, and ending with the fiscal year ending June 30, 2004, at which point the maximum percentage will equal 100 percent for that year and each year thereafter. Public Act 99-1 of the June Special Session and Public Act 00-192 added to the reimbursable categories and increased the percentage used to calculate the reimbursable amount of one category from twenty to forty five percent and another category from forty to sixty five percent of the taxes that would have been paid. During the 2000-2001 and 2001-2002 fiscal years a total of \$64,759,334 and \$66,059,215, respectively, was distributed as payments to towns. Payments made during the 1999-2000 fiscal year totaled \$62,482,280. The above 2000-2001 fiscal year and 2001-2002 fiscal year totals are net of expenditure transfer/credits of \$1,905,573 and 1,937,765, respectively, which represent an allocation of part of the cost of the grant to the Bradley International Airport Operations Fund. The amount received by each town was based on statutory formulas.

Under the provisions of Section 12-19c of the General Statutes, these payments in lieu of taxes were made by the State Comptroller based on the certification by the Secretary of the Office of Policy and Management of the amount due to each town. Our examination was limited to a review of that certification on file with the Comptroller's Office. An examination of these payments and their calculation was made as part of our Statewide Single Audit of the State of Connecticut.

**Reimbursement to Towns for Loss of Taxes on Private Tax-Exempt Property:**

Sections 12-20a and 12-20b of the General Statutes provide that an unrestricted grant be payable to any municipality in lieu of taxes with respect to real property owned by any private nonprofit institution of higher education or any nonprofit general hospital facility, exclusive of any such facility operated by the Federal government or the State or any subdivision thereof, which is exempt from property tax under the provisions of Section 12-81 of the General Statutes. Public Act 99-1 of the June Special Session increased the percentage calculation used from 60 to 77 percent, commencing July 1, 1999. In the event that the total grants payable for a given year exceeded the amount appropriated, the grant payable to each municipality shall be reduced proportionately.

The Secretary of the Office of Policy and Management is authorized to calculate the amount due to each municipality and to certify to the Comptroller the amounts to be paid. During the 2000-2001 and 2001-2002 fiscal years, grant payments made by the Comptroller totaled \$97,163,154 and \$100,931,737, respectively. Payments made during the 1999-2000 fiscal year totaled \$97,163,154. Our examination was limited to a review of the certification on file with the Comptroller's Office. An examination of these payments and their calculation was made as part of our Statewide Single Audit of the State of Connecticut.

**Grants to Towns (Mashantucket Pequot and Mohegan Fund):**

Section 3-55i of the General Statutes, establishes the Mashantucket Pequot and Mohegan Fund which provides grants to municipalities from moneys received by the State from the tribes pursuant to a joint memorandum of understanding, as amended, and any successor thereto. Section 3-55i provides that funds of \$135,000,000, received by the State pursuant to this agreement, shall be transferred to the Fund and shall be distributed by the Office of Policy and Management in accordance with the provisions of Section 3-55j. If the total of such grants exceeds the amount of funds available, the grant to each municipality shall be reduced proportionately. Section 29 of Public Act 00-192 stated that if a payment due to the State from a municipality had not been received by July 1, 2001, the amount of the grant due to the municipality for the fiscal year ending 2000-2001 shall be reduced by the amount owed to the state.

Total grant payments made from the Mashantucket Pequot and Mohegan Fund during the 2000-2001 and 2001-2002 fiscal years amounted to \$130,094,559 and \$135,000,000, respectively. Payments made during the 1999-2000 fiscal year totaled \$135,000,000. Our examination was limited to a review of the certification provided by the Office of Policy and Management on file with the Comptroller's Office. An examination of these payments and their calculation was made as part of our Statewide Single Audit of the State of Connecticut.

**Unemployment Compensation:**

The cost of unemployment benefits paid to former State employees is reimbursed to the Unemployment Compensation Fund from appropriations within the Special Transportation Fund, for former Departments of Transportation and Motor Vehicle employees, and from the General Fund for

all other former State employees. Partial recoveries of such reimbursements are made within the General Fund for former employees whose salaries were paid from other State or Federal funds.

During the 2000-2001 and 2001-2002 fiscal years, reimbursements charged to State funds totaled \$3,003,782 and \$3,583,188, respectively. Of these amounts, \$2,890,612 and \$3,409,891 were reimbursed from the General Fund and \$113,170 and \$173,378 were reimbursed from the Special Transportation Fund, respectively. Comparative costs for the last five fiscal years is presented below:

<b>Fiscal Year Ended</b>	<b>Total</b>
<b><u>June 30,</u></b>	<b><u>All Funds</u></b>
1998	4,099,082
1999	3,103,043
2000	2,863,695
2001	3,003,782
2002	3,583,188

Under procedures established by the Comptroller's Office, recoveries are made from other State and Federal funds for those funds' share of fringe benefit costs by means of an approved fringe benefit cost recovery rate established annually and applied as a percentage of covered payrolls. As shown earlier in the "Departmental Operations" section of this report, recoveries during the fiscal years ended June 30, 2001 and 2002, totaled \$191,424 and \$455,590, respectively.

During the audited period, a consulting firm, TALX Corporation, served as addressee of record for all State agencies with respect to Unemployment Compensation claims for former employees. The consultant performs administrative functions, reviews unemployment claims, attends appeal hearings and acts as a consultant to the various State agencies in such matters. Our review of the Comptroller's records was limited to testing monthly billing amounts for proper supporting documentation. A test check of payments from the Unemployment Compensation Benefit Fund, to verify that payments are properly charged to the employer's account and are payable to eligible employees only, is conducted as part of our audit of the State Labor Department.

**Group Life Insurance:**

As provided for in Section 5-257 of the General Statutes, the State offers a group life insurance program to State employees and its retirees, as well as, to members of the General Assembly. This program offers basic term life insurance coverage, up to maximum limits of \$38,000 and \$85,000, for collective bargaining and noncollective bargaining employees, respectively. This Section also provides a supplemental group life insurance plan to noncollective bargaining employees, offering them the option to purchase additional term coverage up to a maximum limit of \$50,000.

For active employees and members of the General Assembly the amount of an individual's insurance coverage is based on that person's yearly gross compensation. For State retirees the amount of coverage is generally based on one-half the individual's life insurance in force immediately before retirement, subject, in some cases, to certain coverage limitations, as well as, certain pro rata reductions for length of State service. The entire cost of such coverage for State retirees is paid for by the State.

The State's share of premium payments for this program is initially charged to a General Fund appropriation authorized for this purpose. Premium payments, effective July 1, 1997, are made monthly to the Medical Life Insurance Company, the billing being based on the coverage in force on the first day of the month of payment adjusted for additional and/or cancelled coverage during the preceding month. Subsequently, reimbursements to the General Fund are received from certain Federal and State funds or restricted accounts charged with salaries of employees covered under the State's group life insurance program. The Comptroller's Office also administers a Special Transportation Fund account, which was established in order to allocate properly employer group life costs applicable to salaries of employees of the Departments of Transportation and Motor Vehicles.

Insurance premiums paid during fiscal years 2000-2001 and 2001-2002 for basic life insurance coverage were at the rate of 57.2 and 61.2 cents per month, respectively, per thousand dollars of coverage. The employee share remained unchanged at 43.3 cents for both years and the employer share was 13.9 cents and 17.9 cents in fiscal years 2000-2001 and 2001-2002, respectively.

The supplemental life insurance plan was established July 1, 1987, and is entirely paid for by State employees. The rate of coverage under the supplemental plan during the audited period was 55 cents per month per thousand dollars of coverage.

A summary of expenditures for the State's share of insurance premiums under the group life insurance program follows:

	<u>Fiscal Years</u>		
	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Gross Expenditures – General Fund:			
Payments to insurance companies	\$3,648,662	\$7,496,903	\$5,461,410
Add (Deduct):			
Reimbursements - State/Federal Funds:			
Refunds of current expenditures	(1,027,626	(1,268,480)	(1,363,573)
	)		
Expenditure transfers/debits (credits)			
Special Transportation Fund*	(96,206)	(158,380)	(202,493)
All other funds and accounts	72,796	156,399	198,822
Total Additions (Deductions)	<u>(1,051,036</u>	<u>(1,270,460</u>	<u>(1,367,244)</u>
	)	)	
Net Expenditures	<u><b>\$2,597,626</b></u>	<u><b>\$6,226,442</b></u>	<u><b>\$4,094,166</b></u>

\*Note: Group Life Insurance expenditures in the Special Transportation Fund equal the transfers from the General Fund.

Cumulative records maintained in the Comptroller's Office show that the group life insurance program provided life insurance to State employees, retired State employees, and members of the General Assembly as follows:

	<u>June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Individuals:			
Basic plan	56,705	56,855	57,220
Supplemental plan	977	1,142	1,151

Insurance in force:

Basic Plan	\$1,701,492,835	\$1,729,586,155	\$1,785,025,954
Supplemental plan	\$42,896,000	\$49,193,000	\$49,617,000

**Tuition Reimbursements - Training and Travel  
(Union Contract and Related Agreements):**

Most individual collective bargaining agreements require the State to appropriate stated amounts for the costs of continuing education, professional seminars, conferences and the related travel expenses. This appropriation account was established to consolidate the financing for such costs under the administration of the State Comptroller.

During the 2000-2001 and 2001-2002 fiscal years, funding requirements for tuition, travel, and training reimbursements, as specified in 14 collective bargaining agreements covering those years, amounted to \$2,677,375 and \$3,055,000, respectively, while another \$6,594,258 and \$6,972,899 representing unexpended reimbursement moneys from the 1999-2000 and 2000-2001 fiscal years, respectively, were also made available in accordance with the terms of certain agreements. Of the total \$9,271,633 and \$10,027,899 available, \$2,298,734 and \$2,457,325 were expended during the 2000-2001 and 2001-2002 fiscal years, respectively, and \$6,972,899 and \$7,570,574 were carried forward for use in the 2001-2002 and 2002-2003 fiscal years, respectively.

**Employer Social Security Tax:**

Each fiscal year, the State's share of Social Security costs is initially met from a General Fund appropriation authorized for this purpose. Subsequently, reimbursements to the General Fund are received from certain Federal and State funds or restricted accounts charged with salaries of employees covered under Social Security. The Comptroller's Office also administers a Special Transportation Fund account, which was established in order to allocate employer Social Security costs applicable to salaries of employees of the Departments of Transportation and Motor Vehicles. In addition, Sections 5-190b and 5-192d of the General Statutes require the State to pay the employer's share of Social Security costs of teachers at the E.O. Smith School that are members of the State Employees' Retirement System. An analysis of the total payment of the State's share of costs follows:

	<b>Fiscal Years</b>		
	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Gross Expenditures – General Fund:			
Employer's share-State employees	\$215,646,731	\$222,847,130	\$238,319,134
Employer's share-E.O. Smith School	46,857	48,640	47,893
Grant Transfer to Other State Agencies	<u>19,953,843</u>	<u>21,700,317</u>	<u>21,072,995</u>
Total	<u>235,647,431</u>	<u>244,596,087</u>	<u>259,440,022</u>
Add (Deduct):			
Reimbursements - State/Federal Funds:			
Refunds of current expenditures	(54,250,642)	(59,638,114)	(59,330,843)
Expenditure transfers/debits			
(credits):			
Special Transportation Fund*	(11,199,570)	(11,795,212)	(13,174,214)

*Auditors of Public Accounts*

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All other funds and accounts	<u>(17,398,198)</u>	<u>(16,460,308)</u>	<u>(15,238,394)</u>
Total Additions (Deductions)	<u>(82,848,410)</u>	<u>(87,893,634)</u>	<u>(87,743,451)</u>
Net Expenditures	<b><u>\$152,799,021</u></b>	<b><u>\$156,702,453</u></b>	<b><u>\$171,696,571</u></b>

\*Note: Employer Social Security Tax expenditures in the Special Transportation Fund equal the transfers from the General Fund.

The gross payments to the Federal government for the employer's share of Social Security taxes were based on the following rates and wage limits which were in effect during the audited period.

	<b><u>Employer's Share For Calendar Year*</u></b>		
	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
Social Security tax rate	6.20%	6.20%	6.20%
Medicare tax rate	<u>1.45%</u>	<u>1.45%</u>	<u>1.45%</u>
Total Employer Share Under FICA	<u>7.65%</u>	<u>7.65%</u>	<u>7.65%</u>
Maximum Wages on Which Social Security Contributions are Payable	<u>\$76,200</u>	<u>\$80,400</u>	<u>\$84,900</u>
Maximum Wages on Which Medicare Contributions are Payable	All Wages	All Wages	All Wages

\* The same rates applied to the employees' share

**Health Service Costs:**

Under the provisions of Section 5-259 of the General Statutes, the State is obligated to pay for each State employee and each member of the General Assembly 100 percent of the portion of the hospital and medical insurance premium charged for individual coverage and 70 percent of the portion charged for spouse or family coverage. It should be noted, however, that the portion of additional coverage costs paid for members enrolled in various health maintenance organizations (HMO) generally has exceeded 70 percent since Section 5-259 requires that the amount paid by the State for this type coverage could be no less than the dollar amount provided for the standard forms of insurance coverage. As with all statutory provisions concerning employee benefits, the provisions of Section 5-259 may be superseded by the language contained in any approved collective bargaining agreement.

Effective January 1, 1985, to and including June 30, 1994, a pension agreement, entered into by the State and representatives of its various employee groups, established a joint labor-management Health Care Cost Containment Committee. This Committee has the authority to consider and recommend proposals that may result in a reduction in the rate of increase of employee health insurance premiums, while at the same time, improving the quality of health care.

In accordance with requirements contained in the pension agreement, much of the Committee's time has been spent working on a competitive selection process for employee health insurance. This process, which was completed during July 1993, resulted in the establishment, effective October 1, 1993, of a Preferred Provider Organization (PPO) for the delivery of health care to State employees, retirees, and their eligible dependents.

During the 1999-2000 fiscal year, the Preferred Provider Organization introduced a number of changes in the medical plan offerings; MedSpan was established as a new carrier, more choices were made available and, for the most part, all medical benefits were aligned. Anthem Blue Cross and Blue Shield (Anthem), Physicians Health Services (PHS), and MedSpan each offered a Point of Service (POS), Point of Enrollment (POE) and a POE with a Gatekeeper options. In addition, the Anthem Blue Cross Preferred Plan and the Kaiser Permanente HMO were available. Dental plans were

offered by both Anthem and CIGNA Dental. Under the POS option, health care services are available both within and outside a defined network of physicians and other health care providers. POS members who obtain health care services from network providers pay a small copayment, and are eligible for all benefits provided by the plan according to the schedule of benefits. Covered services obtained from nonparticipating providers are reimbursed at the rate of 80 percent of the plan allowance for in-network services, after the annual deductible has been met. Pre-authorizations may be required for non-network services, unless the care is necessitated by a bona fide emergency. Under the POE option, health care services are available only from a defined network of physicians and other health care providers. Each covered member must choose a Primary Care Physician (PCP); however, no referral from the PCP is necessary to receive care from participating providers. POE members who obtain health care services from providers outside the network pay the full cost of these services, unless the care is necessitated by a bona fide emergency. Under the POE with a Gatekeeper option, health care services are available only from a defined network of physicians and other health care providers. Each covered member must choose a PCP who coordinates all care; a referral from the PCP is required for all specialist services. POE Gatekeeper members, who obtain health care services from providers outside the network, or without a referral from their PCP, must pay the full cost of these services, unless the care is necessitated by a bona fide emergency. State employees who do not reside in Connecticut can be covered by the State Preferred Point of Service plan.

During the 2000-2001 fiscal year, the health plan offerings were the same as the previous year, except that ConnectiCare replaced Kaiser Permanente and was only available to employees and retirees that were already enrolled in the Kaiser plan. In fiscal year 2001-2002, there were a number of changes made in health plan offerings. MedSpan was no longer a carrier, PHS changed its name to Health Net and for the first time, ConnectiCare offered POS, POE and POE- Gatekeeper options to new and existing members.

On the basis of payroll transactions submitted by the State agencies, the State Comptroller's Office charges a General Fund appropriation for the State's portion of the premiums due to the private insurance carriers and makes payroll deductions for the balance of premiums payable by individuals with additional coverage. Subsequently, reimbursements to the General Fund are received from certain Federal and State funds or restricted accounts charged with salaries of employees covered under the State's health insurance program. The Comptroller's Office also administers a Special Transportation Fund account, which was established in part to allocate employer health service costs applicable to salaries of employees of the Departments of Transportation and Motor Vehicles.

Total gross expenditures for health services costs decreased by \$56,327,988 during fiscal year 2000-2001 and increased by \$59,767,707 during fiscal year 2001-2002. An analysis of the total payment of the State's share of such costs during the audited period and the preceding fiscal year follows:

	<b>Fiscal Years</b>		
	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Gross Expenditures – General Fund:			
Payments to health insurance carriers:			
By regular payroll process	\$298,583,092	\$307,343,413	\$366,937,293
Other invoice payments processed directly by the Management Services Division:			
Payments for self-insured claims**	33,900,000	-	-
Payment for rate stabilization reserve**	31,317,979	-	-
Premiums paid to life insurance companies:			
Accidental death and dismemberment	164,039	170,031	172,968
TIAA/CREF Disability	229,753	271,176	326,219
Coverage for active outside agencies	21,605	24,025	24,733
Payments for consulting services	67,313	142,937	256,710
Premiums to Employees for premiums paid “Medicare” Part B	9,828	15,834	17,199
Total Gross Expenditures	<u>364,293,609</u>	<u>307,967,416</u>	<u>367,735,122</u>
Add (Deduct):			
Reimbursements – State/Federal Funds:			
Refunds of current expenditures	(79,334,722)	(73,235,771)	(99,051,987)
Expenditure transfers/debits (credits):			
Special Transportation Fund*	(16,863,765)	(17,096,402)	(20,246,525)
All other funds and accounts	<u>2,762,206</u>	<u>5,876,486</u>	<u>13,261,716</u>
Total Additions (Deductions)	<u>(93,436,281)</u>	<u>(84,455,687)</u>	<u>(106,036,796)</u>
Net Expenditures	<u><b>\$270,857,328</b></u>	<u><b>\$223,511,729</b></u>	<u><b>\$261,698,326</b></u>

\*Note: Health Service Costs expenditures in the Special Transportation Fund equal the transfers from the General Fund.

\*\* Special Act 99-10 appropriated \$60,000,000 to the account for Blue Cross claims run-out and rate stabilization reserve account; these payments were made after completion of audits that determined the amounts owed and were certified by the Comptroller and the Secretary of the Office of Policy and Management and totaled \$65,217,979. The additional \$5,217,979 was paid with the available General Fund appropriation. Payments for consulting services were mainly for assistance in connection with the Municipal Employees Health Insurance Program and the State Employee Health Benefit Plan that included competitive marketing of the State’s health care program.

Because most payments charged to the health services appropriation account are processed as part of the Comptroller’s central payroll operation, the major portion of the auditing of this account is conducted during our separate audit of the central State financial operations administered by the Comptroller’s Office. As part of that audit, tests were performed on the vendor payroll processing function carried out by the Comptroller’s Payroll Services Division to determine that vendor payroll transactions submitted by the various State agencies were properly processed. For the purposes of this audit, our examination of this account was limited to reviewing the procedures of the Comptroller’s Management Services Division, which is responsible for administering this account, and examining those payments which the Division processes directly.

### **Capital Outlays and Grants Financed from Other Sources**

In addition to the grants and capital outlays financed through various General Fund appropriations, the Comptroller's Office also processes grants and capital outlays financed from the proceeds of bond sales and vessel registration fee collections.

Special Act 91-7 (June Special Session) authorized \$500,000 in bonds for construction and equipment for an instructional television fixed service system and \$400,000 for expansion and improvements of the video production facilities for Connecticut Public Broadcasting, Inc. No expenditures were made during the audited period. The remaining balances of \$324,000 and \$105,305 were carried forward to the 2002-2003 fiscal year. Special Acts 97-1, 98-9 and 01-2 (June Special Session) and Public Act 99-242 authorized a total of \$12,970,000 in bonds for eight projects for a new transmitter, construction and equipment, equipment upgrades and expansion and improvement of all production facilities and transmission systems, including all equipment and related technical upgrades necessary to convert to digital television broadcasting for Connecticut Public Broadcasting, Inc. Expenditures amounted to \$2,000,000 and \$4,000,000 during the 2000-2001 and 2001-2002 fiscal years, respectively, which fully expended five projects. The remaining three projects had unallocated/unallotted balances amounting to \$2,600,000 at June 30, 2002.

Special Act 01-2 (June Special Session) authorized \$50,000,000 to the Office of the State Comptroller for the development and implementation of a core financial systems project (CORE-CT). During fiscal year 2001-2002, the Comptroller's Office received \$32,000,000 of that amount. Total expenditures amounted to \$29,252,423 during the 2001-2002 fiscal year; the remaining balance of \$2,747,577 was carried forward to the 2002-2003 fiscal year.

The Special Revenue Fund account for Boating Fund payments is used by the Comptroller to process grants, in lieu of tax revenue on vessels, to the various towns from fees collected for vessel registrations. Such vessel registration fees are collected by the Department of Motor Vehicles under Section 15-144 of the General Statutes, and credited to the Conservation Fund Boating Account administered by the Department of Environmental Protection. As provided for in Section 15-155b, the Commissioner of Motor Vehicles, not later than the first day of December each year, shall, in accordance with the provisions of Section 15-155, calculate the amount to be distributed to each town and certify these payment amounts to the State Comptroller, who shall then process the actual payments to the towns. A total of \$2,390,498 was distributed to the various towns in this manner during each of the 1999-2000, 2000-2001 and 2001-2002 fiscal years. Our examination of these distributions was limited to a review of the certification on file with the Comptroller's Office. An examination of these payments and their calculation was covered as part of our regular audit of the Department of Motor Vehicles.

## **Agency Funds**

The Comptroller's Office administers several "Fiduciary" type funds known as "Agency Funds." Funds of this type are used to account for assets held by the State as an agent for individuals, private organizations, other governments and/or other funds. A more detailed description of the operations of each "Agency Fund" administered by the Comptroller's Office is presented in the following paragraphs.

### **Pending Receipts:**

This fund is used as a suspense account for receipts where the final disposition of the monies is not known at the time of deposit. Once this determination is made the monies are either transferred to the appropriate State fund, refunded to the original source, or paid to a designated third party.

This fund was also used by the Comptroller, during the audited period, to account for Social Security installment payments made by the County Sheriffs and held by the Comptroller until the total amount owed had been collected.

The Comptroller has set up separate special identification numbers within the Pending Receipts Fund to account for the activity of certain employee accounts. These accounts are described below:

#### *Health Plan for Former Legislators:*

Section 5-259b of the General Statutes authorizes unlimited continuation of State health insurance coverage for former members of the General Assembly. The cost of this insurance is to be borne entirely by former legislators at the group rate paid for current State employees. Total premium payments for former legislators' continuation coverage totaled \$181,437, \$180,825 and \$159,375 for fiscal years 1999-2000, 2000-2001 and 2001-2002, respectively.

#### *Payroll Deductions - Savings Bonds:*

This account within the Pending Receipts Fund was established to provide a separate account for the control of payroll deductions for the purchase of United States Savings Bonds by active and retired State employees. The monies received from the deductions are sent to the Federal Reserve Bank of Cleveland; in turn, the bank issues bonds to the participating individuals.

Bonds with a maturity value of \$5,502,400, \$5,046,188 and \$4,825,300 (cost value of \$2,751,200, \$2,523,094 and \$2,412,650) were issued during the 1999-2000, 2000-2001 and 2001-2002 fiscal years, respectively, while refunds to participating individuals totaled \$12,404, \$16,841 and \$8,424, respectively.

#### *Payroll Deductions - Life Insurance:*

This account within the Pending Receipts Fund was established to account for State employees' contributions towards the group life insurance program offered to State

employees in accordance with the provisions of Section 5-257 of the General Statutes. The Management Services Division of the Comptroller's Office is responsible for recording and depositing all payroll deduction checks for group life insurance and for the respective payments including the State's share made from the General Fund. A more detailed description of this program is presented earlier in this report under the caption, "Special Appropriations Administered by the State Comptroller - Group Life Insurance."

Employee insurance premiums forwarded to the insurance company totaled \$7,306,227, \$7,519,178 and \$7,752,074 during the 1999-2000, 2000-2001 and 2001-2002 fiscal years, respectively, while refunds to employees totaled \$2,991, \$3,547 and \$2,881, respectively. Employee contribution rates in effect during these fiscal years were unchanged as follows:

Basic Life	-biweekly	\$.200 per \$1,000 of coverage
	-monthly	\$.433 per \$1,000 of coverage
Supplemental Life	-biweekly	\$.250 per \$1,000 of coverage
	-monthly	\$.550 per \$1,000 of coverage

*Tax Deduction Cancellations:*

This account within the Pending Receipts Fund was established to accommodate the Federal government's requirement regarding withholding taxes on checks reissued at the end of the calendar year. Since there are times when agencies must reissue checks for various reasons, the amount calculated for withholding taxes initially can be incorrect. Throughout the calendar year, this problem can be resolved during the next payroll cycle. However, at the end of the year in order to produce the correct amount of taxes withheld for the entire year for tax purposes, the withholding amount must be adjusted in the calendar year in which the check is reissued. This account should net to zero at the end of any given fiscal year.

*Deferred Compensation Refunds:*

This account within the Pending Receipts Fund was established to account for deferred compensation refunds and other adjustments that may occur within deferred compensation contributions. The Benefits Unit, of the State Comptroller's Retirement and Benefits Services Division, is responsible for the management of this account. Deposits consist of checks that are returned to the Benefits Unit from the financial organizations that participate in the deferred compensation program. Disbursements from this account are contributions returned to the employee. There are several reasons that money may be returned to the employee, these include: the employee has exceeded the IRS limit of the amount of contributions that could be made in a calendar year, the contribution amount was incorrect, or the employee's contribution was made to an incorrect financial organization. Receipts of \$77,902 and \$4,070 equaled disbursements during the 2000-2001 and 2001-2002 fiscal years, respectively. The account had a zero balance at June 30 for both fiscal years.

**Fringe Benefit Recovery:**

This fund is used as a suspense depository for fringe benefit cost recoveries, from restricted General Fund accounts or other State funds, which are processed outside the Comptroller's payroll procedures. In some cases, this is accomplished by the Comptroller's Management Services Division processing transfer lists based on documentation provided by reporting agencies. Other fringe benefit reimbursements are processed on transfer lists by agencies when they have temporarily used General Fund resources to finance personal service costs chargeable to restricted General Fund accounts or other State funds, or when they are billing another agency for personal services rendered and the reimbursement for the services is to be charged to a restricted General Fund account or other State fund. Any fringe benefit recoveries processed by deposit slip are also credited to this fund.

The Management Services Division transfers all recoveries monthly to the applicable revenue or refund of expenditure accounts, based upon approved fringe benefit allocation percentages. Such transfers totaled \$2,303,880, \$2,574,304 and \$2,715,822 during the 1999-2000, 2000-2001, and 2001-2002 fiscal years, respectively.

**Comptroller's Air Travel:**

This fund was established in accordance with Section 3-121 of the General Statutes, which provides for the creation of a revolving fund to be used by the Comptroller for the financing of interdepartmental and other transactions. This fund had been exclusively used by the Comptroller's Office for purchasing airline tickets for State agencies and for collecting reimbursements from the agencies involved. Such services were provided by the Comptroller's Management Services Division in conjunction with a working arrangement with a local travel agency.

Effective July 1, 1998, agencies have the authority to approve their own agency-funded travel requests. Agencies travel services are now accomplished through the State's designated travel agent. The Comptroller now uses the Statewide Air Travel – Purchasing Card account to process State agency travel purchases in this fund. The Comptroller processes monthly payments and then directly charges each agency. During the 2000-2001 and 2001-2002 fiscal years payments and transfers totaled \$1,195,609 and \$826,756, respectively.

## CONDITION OF RECORDS

Areas warranting comment are presented below.

### **Unresolved Pending Receipts Fund Detail:**

*Criteria:* Pending Receipt Funds administered by the Comptroller's Office should be supported by detailed accounting records. Good internal control calls for the reconciliation of control totals to subsidiary records.

*Condition:* During our review, we noted two accounts within the Pending Receipts Fund that had ending balances that were not reconciled in detail to the available cash trial balance. The first account had an ending balance of \$30,540. This consists primarily of the collection of the County Sheriff's unpaid Social Security payments that were deposited into the fund several years ago. These moneys were deposited by the Department of Administrative Services - Collection Services Business Center, and the detail was maintained there. The second account had an ending balance of approximately \$667. This balance is a result of collections received from former State Legislators for continued health care coverage.

*Effect:* The State Comptroller's Office cannot readily identify the composition of some accounts, which results in a weakening in control over the balances.

*Cause:* Established procedures were not being followed for all funds and account activity was not completely reviewed to determine the necessary action that should be taken.

*Recommendation:* The Comptroller's Office should ensure that the monthly reconciliations of the Pending Receipts Fund to available cash balances are being done properly and with sufficient detail, and pending items should be reviewed and resolved on a timely basis. (See Recommendation 1.)

*Agency Response:* "Our Office is in agreement that the pending items should be reviewed and resolved on a timely basis. We will take the necessary steps to resolve the item which represents the Deputy Sheriff's Social Security FICA payments so that we can bring this matter to a conclusion."

**Inventory – Equipment Tagging and Annual Inventory Reports:**

*Criteria:* Section 4-36 of the General Statutes requires each State agency to establish and keep an inventory account in the form prescribed by the Comptroller, and also requires each agency to annually transmit a detailed inventory to the Comptroller. The Comptroller's specific requirements are found in the State's Property Control Manual. Such requirements include, among other things, that all items of personal property be tagged with a unique identification number. In addition, the State's Property Control Manual also provides instructions to complete the Annual Fixed Assets/ Property Inventory Report (CO-59).

*Condition:* In a physical inspection of 15 items selected at random, we noted that one item's tag number did not agree with the tag number listed on the inventory records.

We reviewed the Annual Fixed Assets/ Inventory Report for fiscal years ended June 30, 2001 and 2002. During our review, we noted that the data presented for additions and deletions in the furnishings and equipment category was either incorrect or in some instances unsupported.

*Effect:* The Agency's inventory records and annual inventory reports do not accurately reflect the Agency's equipment inventory.

*Cause:* State property control procedures were not completely followed in all cases.

*Recommendation:* The Agency should strengthen its controls over tagging and monitoring of its inventory and the preparation of the Annual Fixed Assets/Property Inventory Report. (See Recommendation 2.)

*Agency Response:* "Under the recent reorganization within our Office, we are now in a better position to address this matter. A plan has been developed that includes a new interim inventory system, which will be converted to the Assets Management module during Phase II of Core-CT. In addition, all future Annual Fixed Assets/Property Inventory Reports will be both accurate and have supporting documentation. "

**Controls Over Cellular Telephone Usage:**

*Criteria:* Adequate controls over cellular telephone usage would ensure that the associated costs are properly documented, reviewed and verified.

*Condition:* Our review of the Agency's cellular telephone usage for 15 months during the audit period revealed that the Agency lacks the controls necessary to ensure that the associated costs are properly documented, reviewed, and verified. We found that monthly cellular telephone charges, which averaged approximately \$932 per month, were not supported by adequate documentation. In addition, we found that the monthly charges were not always reviewed and verified by the employees who were assigned the use of such telephones.

*Effect:* Unauthorized usage can occur and not be detected.

*Cause:* The cause was not determined.

*Recommendation:* The Agency should strengthen its controls to ensure that the costs associated with its employees' cellular telephone usage are properly supported, reviewed and verified. (See Recommendation 3.)

*Agency Response:* "Our Office is in agreement that we should strengthen controls to ensure that the costs associated with employees' cellular telephone usage is properly supported, reviewed and verified. We are developing written procedures and revising our current documentation."

**FOLLOW-UP OF AUDIT FINDINGS – INFORMATION SYSTEM AUDIT REPORT:**

In October 2001, our Office issued an audit report relating to the Office of the State Comptroller’s (OSC) information systems in place during the period August 7, 2000 through January 29, 2001. The primary objectives were to audit the general controls of the OSC’s computer operations and to review some of the application controls of the Central Accounting System. That audit report contained seven recommendations:

1. “Physical security of the building housing the accounting system should be improved and access should be restricted to the electrical distribution room. Distribution of access codes should be performed using a secure method.”
2. “The Office of the State Comptroller should physically count all cartons of laser check stock when received and maintain perpetual inventory records to account for laser check stock on hand. Periodically, physical counts should be performed to verify the perpetual inventory.”
3. “The Office of the State Comptroller should initiate a review of all the accounting system user Ids for accuracy of such access rights and to verify the users’ continuing need for this access. The Agency should review and modify password policies to strengthen security.”
4. “A review of all employees with active “CM” Logon Ids that have access to the Retirement Data Base System or Payroll System should be completed to ensure that only authorized and active State Employees have access.”
5. “The Office of the State Comptroller should develop and maintain a comprehensive software inventory system.”
6. “A formal written Business Contingency Plan that covers all of the Comptroller’s operations and the permanent recovery of such operations should be completed and approved by an authorized individual. Individuals involved with implementing the plan should receive periodic training in the use of the emergency procedures covered by the plan. A copy of the Business Contingency Plan should be kept in relevant off-site storage.

The Office of the State Comptroller should ensure that annually it receives and reviews a copy of an audit report of the hot-site vendor’s operations.”

7. “The Office of the State Comptroller should comply with Section 4-98 of the General Statutes and protect the State’s interest with fully executed contracts prior to incurring obligations.”

During the course of the current audit, we reviewed the status of Agency’s compliance with the above-mentioned recommendations. We found that while the Agency has implemented five of the recommendations, two of the prior audit recommendations have not been completely satisfied. Therefore, we are repeating the following two recommendations in modified form:

**Software Inventory:**

*Criteria:* The State of Connecticut's Property Control Manual requires that agencies maintain a software inventory and produce annual reports that shall be available to the Auditors of Public Accounts.

*Condition:* The Office of the State Comptroller does not maintain a current software inventory that complies with the State of Connecticut's Property Control Manual. We did note that the Agency has an *Access* database that contains information that could be used as a starting point for a software inventory listing. However, this database is not complete or up-to-date.

*Cause:* It appears that this area is not a high priority.

*Effect:* Without a software inventory being maintained, the Comptroller's Office cannot be sure that they are in compliance with the State of Connecticut's Software Management Policy Manual.

*Recommendation:* The Office of the State Comptroller should continue to work on developing and maintaining a comprehensive software inventory listing.  
(See Recommendation 4.)

*Agency Response:* "Our Office will continue to work on developing and maintaining a comprehensive software inventory listing. To date our software database has been updated and is being tested. Centralization of software media/license has begun. An agency software policy draft has been created and needs approval. Software requests, approval, purchase and installation process workflow has been drafted. We have completed an initial scan of server software and will develop a schedule to continue the scanning of our servers and user workstations. We have documented the obsolete software and will be preparing for its disposal. We will be combining this matter with our Office effort to resolve the outstanding inventory recommendations. "

**Business Contingency Plan:**

*Background:* The Central Accounting System has been in place since the early 1990's. This system is currently being replaced by the CORE-CT system, however, it is still being utilized for fiscal year 2003 reporting.

*Criteria:* Data processing security should include a comprehensive disaster recovery plan, as well as an Emergency Procedures Manual.

*Condition:* The Office of the State Comptroller has a formal schedule for backing-up critical data and for the storage of such data off-site. The Comptroller's Office has a contract in place with a vendor to provide the Agency with disaster recovery telecommunications and hot-site services. These procedures apply to the Central Accounting System. However, our review of the Emergency Procedures Manual relating to that accounting system revealed that the manual had not been updated since July 2001.

*Cause:* Due to the implementation of the CORE-CT system, the Office of the State Comptroller disaster recovery plans for the Central Accounting System have not been kept current.

*Effect:* In the event of a disaster, the Agency may not be able to restore critical historical information.

*Recommendation:* The Emergency Procedures Manual relating to the accounting system should be kept current. (See Recommendation 5.)

*Agency Response:* "Our Office is in agreement that the Emergency Procedures Manual relating to the CAS System should be kept current. We have begun the review of the manual and will have it updated where necessary so that the information is current."

**Other Matters:**

During the course of our audit, the following matter came to our attention, which resulted in a recommendation that was reported in the Auditors of Public Accounts' 2002 Annual Report to the Connecticut General Assembly.

We became aware of two contracts for data processing and accounting related services, totaling \$9,000,000, awarded to a contractor to assist in replacing the State's core financial and administrative computer systems. The first contract, valued at \$1,500,000, covered consulting services relating to requirements and definition software selection. This contract was approved as to form by the Office of the Attorney General and was signed by the appropriate officials. The second contract, valued at \$7,500,000, showed no evidence as being approved as to form by the Attorney General and did not contain any authorized signatures.

Upon discovery of this information concerning the latter contract, inquiries were made to staff of the Attorney General, as well as to the Department of Administrative Services. We confirmed that this second contract had not been approved as to form by the Office of the Attorney General. The response received from the Department of Administrative Services indicated that it was not required to obtain signatures of the parties for this second contract pursuant to the provisions of Connecticut General Statutes (CGS) 4-213. Their position was that this consulting firm did not meet the definition of "personal service contractor" as set forth in CGS 4-212; the Department of Administrative Services considered this contract an "other service arrangement" as set forth in CGS 4a-50, subsection (3).

However, it appears that this contractor would meet the definition of a "personal service contractor," as defined in Section 4-212, subsection (2) of the General Statutes. According to that Section, "personal service contractor" means any person, firm, or corporation not employed by the State, who is hired by a State agency for a fee to provide services to the agency. That Section also states that the term "personal service contractor" does not include a person, firm or corporation providing "contractual services," as defined in Section 4a-50. Section 4a-50, subsection (3), defines "contractual services" to be "any and all laundry and cleaning service, pest control service, janitorial service, security service, the rental and repair, or maintenance, of equipment, machinery and other State-owned personal property, advertising and photostating, mimeographing, and other service arrangements where the services are provided by persons other than State employees."

Based on the above difference of interpretation relating to these statutes, it appears that revisions to the State's purchasing statutes may be needed. Accordingly, as previously mentioned, a recommendation was included in our Office's 2002 Annual Report to the General Assembly.

## RECOMMENDATIONS

*Status of Prior Audit Recommendations:*

- Ensure that the monthly reconciliations of the Pending Receipts Fund to available cash balances are being done properly and with sufficient detail; and, pending items should be reviewed and resolved on a timely basis. This recommendation has not been fully complied with and is being repeated. (See Recommendation 1.)
- Strengthen its controls over the tagging and monitoring of Furnishings and Equipment and the preparation of the Annual Fixed Assets/ Property Inventory Report. During our current review, we noted that the Agency has made improvement in this area; however, similar exceptions were noted. This recommendation is being repeated. (See Recommendation 2.)

*Current Audit Recommendations:*

**1. The Comptroller's Office should ensure that the monthly reconciliations of the Pending Receipts Fund to available cash balances are being done properly and with sufficient detail, and pending items should be reviewed and resolved on a timely basis.**

Comment:

The Agency did not maintain a detailed accounting of the ending balance of two Pending Receipts accounts.

**2. The Agency should strengthen its controls over tagging and monitoring of its inventory and also in the preparation of the Annual Fixed Assets/Property Inventory Report.**

Comment:

We noted that an item's tag number did not agree with the identification number listed on the inventory records. Also, the Annual Fixed Assets/ Property Inventory Report contained data that was unsupported.

**3. The Agency should strengthen its controls to ensure that the costs associated with its employees' cellular telephone usage are properly supported, reviewed and verified.**

Comment:

Monthly cellular phone charges were not adequately supported and were not always reviewed by the individuals assigned to these cellular phones.

**4. The Office of the State Comptroller should continue to work on developing and maintaining a comprehensive software inventory listing.**

Comment:

The Agency's software inventory listing was incomplete and not kept current.

**5. The Emergency Procedures Manual relating to the Central Accounting System should be kept current.**

Comment:

We noted that the Agency does not have an up-to-date Emergency Procedure Manual relating to the Central Accounting System.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the State Comptroller as they pertain to the Agency's departmental operations, exclusive of certain retirement related programs, for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the State Comptroller's departmental operations for the fiscal years ended June 30, 2001 and 2002, 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 State Comptroller's Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants 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, contracts and grants applicable to the State Comptroller's Office is the responsibility of the State Comptroller's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, 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 for the fiscal years ended June 30, 2001 and 2002, 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 State Comptroller's Office is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the State Comptroller's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Agency'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, contracts and grants or failure to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency 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 internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Agency'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**

In conclusion, we wish to express our appreciation of the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the State Comptroller's Office in making their records readily available and in explaining transactions as required greatly facilitated the conduct of this examination.

Stephanie Gizzi  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts