

STATE OF CONNECTICUT



*AUDITORS' REPORT
STATE COMPTROLLER - DEPARTMENTAL OPERATIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007*

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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November 25, 2009

**AUDITORS' REPORT
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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, 2006 and 2007. 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, 2006 and 2007 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. During the audited period, the Office of the State Comptroller was organized into an Executive Office and six divisions, as described below:

State Comptroller's Executive Office:

Provides overall policy direction and program and project monitoring for the Department. The Executive Office also oversees the budgeting, accounting, accounts payable, procurement, personnel and payroll, and inventory functions within the Comptroller's Office, and for the Office of Claims Commissioner and Judicial Review Council.

Accounts Payable Division:

Initiates and monitors the pay cycle process for the generation of payments in settlement of the State's obligations and conducts post transactional examinations of encumbrances and expenditures to determine the validity, propriety and legality of the State's submitted claims in accordance with the General Statutes and regulations established by the State's expending authorities.

Budget and Financial Analysis Division:

Performs the State's accounting and cost accounting functions, and analyzes and reports State receipts and expenditures. This Division also performs the State's financial reporting function that includes the preparation of the annual financial reports, such as the Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles that analyzes the State's overall fiscal position. In addition, this Division prepares a monthly analysis of the State's budget condition that contains the financial statements for the latest month and projects the State's fiscal condition to the fiscal-year-end, and computes and reports direct and indirect costs associated with major State programs.

Fiscal Policy Division:

The Division provides overall policy and program direction to the Office of the State Comptroller and its subsidiary programs. In addition, this Division develops and promulgates complex accounting systems and procedures for use by State agencies to maximize accountability, standardization and cost effectiveness; and conducts various other accounting and regulatory functions for the Comptroller's Office and State agencies. It also conducts independent audits of other State agencies, reviews purchasing card activities and performs agency internal control information system reviews, as well as manages the inventory of the State's real and personal property for insurance and accounting purposes, and administers the statewide tuition reimbursement, travel and training programs. Prior to the Office's administrative reorganization in April 2008, the Division's functions also included preparing, analyzing, and monitoring the Office's budget and miscellaneous appropriations; preparing and monitoring the budgets of the Office of the Claims Commissioner and Judicial Review Council; and making all purchases and vendor payments for the above-mentioned operating budgets. However, subsequent to the administrative reorganization in April 2008, these functions are now performed by the Business Services Office, which is a component unit of the State Comptroller's Executive Office.

Information Technology Division:

The Division assists in the support and maintenance of the State's Core-CT system, the State's enterprise-wide financial, human resource, and payroll system. The Division also provides assistance in the oversight of the operation of the Core-CT system. Prior to the

Office's administrative reorganization in April 2008, the Division had primary responsibility for developing and maintaining the Office's technical infrastructure, including providing assistance in strategic Information Technology planning and coordinating the Office's procurement of Information Technology hardware, software and services.

Payroll Services Division:

Preaudits and issues the payments of all earnings and salaries to State employees, and the withholding of mandatory taxes and authorized voluntary deductions.

Retirement and Benefit Services Division:

As agent of the State Employees' Retirement Commission, the Division administers all State pension plans except the Teachers Retirement System. It provides counseling services to members, administers State employee benefits, manages the State deferred compensation plan, and provides direction for plan design, benefit administration and interpretation and policy for all State insurance benefits including medical, surgical, hospital, and life insurance.

It should be noted that subsequent to the audited period, effective January 30, 2009, the Office of the State Comptroller was reorganized. As a consequence of that reorganization, the six divisions identified above were organized into a seven division configuration, with the separation of the *Retirement and Benefit Services Division* into a new *Healthcare Policy and Benefit Division* and a renamed *Retirement Division*.

Officers:

Nancy S. Wyman was elected State Comptroller in November 1994, and served continuously from January 4, 1995, through the audited period. Mark E. Ojakian has served as Deputy Comptroller continuously through the same period.

Significant Legislation:

Legislation affecting the State Comptroller was passed by the General Assembly or became effective during the audited period. Some of the more significant legislation is presented below:

Public Act 05-287, effective July 1, 2005, requires the State Comptroller to report on the Core-CT system, on an annual basis, to the Governor and General Assembly. The report shall include the status of the implementation of the system, the anticipated completion date, the total cost to date, and projected costs for the next three years, as well as the costs for future upgrades, as well as other issues surrounding the implementation of the new system.

January 2007, Regular Session, Public Act 07-130, effective October 1, 2007, establishes a Connecticut Home Care Option Program for the Elderly and a Connecticut Home Care Trust Fund, administered by the State Comptroller. The Act specifies the Comptroller's duties and authority over the program and the trust fund, establishes standards for investing the fund's assets and for offering the fund to investors, and includes the State Comptroller or the Comptroller's designee as a member of a 19-member advisory committee created for the program.

RÉSUMÉ OF OPERATIONS:

Departmental Operations – General Fund Revenues

General Fund departmental receipts totaled \$51,985,955, \$64,148,040 and \$69,608,576 during the fiscal years ended June 30, 2005, 2006 and 2007, respectively. A summary of these receipts is presented below:

	Fiscal Years		
	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Departmental Receipts:			
Recoveries of Expenditures:			
Unemployment compensation	\$ 3,109,441	\$ 2,220,327	\$ 941,035
Indirect Overhead – Federal Projects	13,595,084	10,576,628	13,357,224
Workers’ compensation	4,955,769	4,045,735	3,705,456
Employee fringe benefits	2,039,419	46,120,259	40,195,775
Miscellaneous recoveries	26,306,851	307,405	2,702
Refund of Prior Year Expenditures:			
Principal on Loan	277,941	1,141,427	9,187,443
Loan Agreement Income	75,000	75,000	75,000
Insurance Reimbursements	64,312	59,063	53,812
Recoveries - Negotiated Settlements	897,667	12,481	2,585,102
All Other Revenues	970,907	0	0
Less – Other Refunds	67,725	27,536	18,754
Less - Refunds of Payments (Statewide)	0	0	(28,449)
Total Departmental Receipts	<u>(374,161)</u>	<u>(437,821)</u>	<u>(485,278)</u>
	<u>\$51,985,955</u>	<u>\$64,148,040</u>	<u>\$69,608,576</u>

The receipts shown above primarily consisted of excess funding of unemployment compensation, workers’ compensation, retirement system administration, and Teachers’ retirement system funding costs, and fringe benefit and indirect costs initially charged 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 using salaries and wages as their approved indirect cost base. The fluctuations in agency receipts from year to year were primarily caused 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. The significant increase in recoveries relative to employee fringe benefits during the audited period was the result of the return of excess fringe benefit recoveries from the State Employees’ Retirement Fund, as explained below, and the improvement in the recognition of and accounting for such recoveries.

Fringe benefit recoveries of the employer’s cost 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. 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 \$181,137,972 and \$184,829,248 during the fiscal years ended June 30, 2006 and 2007, respectively. These recoveries were credited directly to the retirement fund. Additional recoveries for the State's share of contributions to the Higher Education Alternate Retirement Program and the Judges' and Compensation Commissioners' Retirement Fund were credited to the special appropriation accounts used to finance the State's contribution to those programs. In instances where recoveries exceed the amount required to meet the State funding obligation to the State Employees' Retirement Fund, the Comptroller credits those recoveries to the General Fund. During the fiscal years, ended June 30, 2006 and 2007, transfers of excess fringe benefit recoveries totaling \$13,346,251 and \$6,151,511, respectively, were made to the General Fund.

The Comptroller's Budget and Financial Analysis Division calculates certain fringe benefit cost recovery rates annually as part of the Statewide cost allocation plan, which is approved by the Federal government for application against salaries paid from Federal funds. Fringe benefit costs were then recovered by applying these rates to the gross salaries and wages chargeable to Federal and other-than-Federal General Fund restricted accounts and/or other State Funds, besides the General Fund. With the implementation of the Core-CT personnel and payroll system, the State share of medical and group life insurance is charged to agencies on an actual cost basis, rather than a calculated percentage. The rates for FICA-Social Security and FICA-Medicare are now calculated on the basis of existing Federal tax rates rather than a percentage rate developed by the Comptroller. The Core-CT system will automatically charge fringe benefits to the same funding source as the personal services expenditure. A comparison of the Statewide rates used during the audited period is presented below:

<u>Rate Components</u>	<u>Fiscal Years</u>	
	<u>2005-2006</u>	<u>2006-2007</u>
Full-time Employees:		
State Employees Retirement System (SERS)		
- regular employees	34.70%	34.36%
Unemployment compensation	.28%	.11%
Other Employee Classifications:		
Judges & Compensation Commissioners	48.02%	42.01%
SERS - hazardous duty employees	34.61%	34.89%
Alternate retirement plan	7.48%	9.24%
Teachers' retirement plan	13.02%	23.63%

Departmental Operations – General Fund Expenditures

Net General Fund expenditures totaled \$19,986,878, \$22,322,507 and \$23,390,163, for the fiscal years ended June 30, 2005, 2006 and 2007, respectively. The increases in contractual service expenditures during the 2005-2006 and 2006-2007 fiscal years were due to payments to information technology consultants and for software maintenance, respectively. A summary of these expenditures is presented below:

	Fiscal Years		
	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Personal services	\$15,190,368	\$16,988,145	\$18,325,062
Contractual services	4,543,506	4,882,315	4,820,600
Commodities	230,236	199,348	169,617
Sundry charges	0	230,864	55,314
State aid grants	19,570	19,570	19,570
Equipment	3,198	2,265	0
Total Departmental Expenditures	<u>\$19,986,878</u>	<u>\$22,322,507</u>	<u>\$23,390,163</u>

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 and Judicial Review Council. 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, the Claims Commissioner may authorize suit against the State on any claim which, in the opinion of the Claims Commissioner, 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, 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. Public Act No. 05-170, effective October 1, 2005, amended Section 4-159, and in a newly designated subsection (a) requires the Claims Commissioner to submit all claims where payment in an amount exceeding \$7,500 was recommended and all claims for which a request for review has been filed pursuant to Section 4-158. In addition, this Act replaced the provisions applicable to the General Assembly, as noted above, with new provisions in a newly designated subsection (b) of Section 4-159, which require the General Assembly to take action with respect to certain decisions of the Claims Commissioner, as described in subsections (a) and (b) of Section 4-158 of the General Statutes, and setting forth the dispositional options available to it for each type of decision. 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 are presented below:

	Fiscal Years	
	<u>2005-2006</u>	<u>2006-2007</u>
General Fund:		
Personal services	\$246,280	\$252,222
Contractual services	17,508	26,095
Commodities	3,323	3,134
Sundry charges-adjudicated claims	49,214	77,589
Capital Outlays	<u>0</u>	<u>475</u>
Total General Fund Expenditures	<u>\$316,325</u>	<u>\$359,515</u>

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 is presented below:

	Fiscal Years	
	<u>2005-2006</u>	<u>2006-2007</u>
General Fund:		
Personal services	\$121,667	\$131,097
Contractual services	9,453	26,890
Commodities	3,595	1,877
Sundry charges-adjudicated claims	<u>0</u>	<u>1,478</u>
Total General Fund Expenditures	<u>\$134,715</u>	<u>\$161,342</u>

Refunds of Payments:

Sections 4-37, 14-159, 22a-10 and other sections of the General Statutes authorized 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 was provided by appropriation accounts within the General Fund and Special Transportation Fund.

With the implementation of the Core-CT system in the 2003-2004 fiscal-year, the State Comptroller no longer processes refunds from a Special Appropriation. Such refunds are now processed by the corresponding State agency and are paid as a refund of revenues of the State Comptroller. Refunds of payments for the fiscal years ended June 30, 2006 and 2007, totaled \$437,821 and \$485,278, respectively, as shown in the summary of General Fund departmental receipts in this report. Refunds of payments applicable to the Special Transportation Fund totaled \$2,665,871 and \$2,715,999, respectively, for the fiscal years ended June 30, 2006 and 2007.

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.

For the fiscal years ended June 30, 2006 and 2007, a total of \$6,273,655 and \$15,748,489, 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>2005-2006</u>	<u>2006-2007</u>
Bell, Sr., et al vs. Kirk, et al	\$1,250,000	
V. Brewer, Exor vs. State of Connecticut	500,000	
White, Marion, Bourgeois vs. DPS	490,000	
Est. of Bucci vs. State of Connecticut.	350,000	
Lauretano vs. Spada	450,000	
Est. of Hernandez vs. State of Connecticut	250,000	
James Calvin Tillman Settlement – Special Act 07-5		5,000,000
Foreman vs. State of Connecticut		2,500,000
Est. of Peter J. Lavery vs. State of Connecticut		1,500,000
K. E. K. Jr., Adm. vs. State of Connecticut		550,000
Gregory K. Senick vs. State of Connecticut		500,000
Administrator of Est. of R. Hoffman vs. Peter H O’Meara, Commissioner of Mental Retardation		350,000

DCF Court Monitor's Office expenses per U. S. District Court Order No.93 and Monitoring Order No. 166	275,000	
Katherine Perruzzi, Executrix, Est. of William Packard, Jr. vs. State of Connecticut	250,000	
All Others	<u>2,983,655</u>	<u>4,823,489</u>
Total Expenditures	<u>\$6,273,655</u>	<u>\$15,748,489</u>

Fire Training Schools and Maintenance of 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 and Statewide fire radio base networks. For the fiscal years ended June 30, 2006 and 2007, a total of \$479,585 and \$36,420, respectively, was paid by the Comptroller in such grants.

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. For the fiscal years ended June 30, 2006 and 2007, a total of \$84,786 and \$113,548, respectively, was paid by the Comptroller in payments to dependents, death benefits and injury benefits.

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. For the fiscal years ended June 30, 2006 and 2007, a total of \$84,835 and \$77,710, respectively, was paid by the Comptroller in disability payments, payments to dependents, and death benefits.

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 ratios of New York and New Jersey at 45 percent each, and Connecticut 10 percent. A total of \$84,956 was appropriated by the General Assembly and disbursed by the State Comptroller during each of the fiscal years ended June 30, 2006 and 2007, to meet these expenses.

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. 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 equaled 100 percent for that year and each year thereafter.

For the fiscal years ended June 30, 2006 and 2007, a total of \$75,311,215 and \$78,371,215, respectively, was paid by the Comptroller as grant payments to towns. The amount received by each town was based on statutory formulas. The above totals are net of expenditure transfer credits of \$2,598,745 and \$2,827,361, respectively, which represent an allocation of part of the cost of the grants applicable to the Bradley International Airport, and which are charged to the Bradley International Airport Operations Fund.

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, with the exception of a campus of the United States Department of Veterans Affairs Connecticut Healthcare System and the United States Coast Guard Academy, or the State or any subdivision thereof, which is exempt from property tax under the provisions of Section 12-81 of the General Statutes. Such payments are to equal 77 percent of the property taxes that would have been paid on such exempt real property. 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 only exceptions to the grant amount payable under Section 12-20a of the General Statutes are: 1) that any payment with respect to a campus of the United States Department of Veterans Affairs Connecticut Healthcare System, for the fiscal year ended June 30, 2007, shall be only 20 percent of the grant amount payable; 2) that a payment of

\$100,000 shall be paid to the municipality of Branford, with respect to the Connecticut Hospice; and, 3) that a payment shall be paid annually to the city of New London with respect to the United States Coast Guard Academy; the payment, effective July 1, 2005, as established by Public Act No. 05-3 (June Special Session), was initially in the amount of \$500,000, which was increased to \$1,000,000, effective July 1, 2006, by Public Act No. 06-187.

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. For the fiscal years ended June 30, 2006 and 2007, a total of \$111,231,737 and \$120,731,737, respectively, was paid by the Comptroller as grant payments to towns. 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.

Total grant payments made from the Mashantucket Pequot and Mohegan Fund during the fiscal years ended June 30, 2006 and 2007, totaled \$86,250,000 and \$91,050,000, respectively. 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 employees of the Departments of Transportation and Motor Vehicles, 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 fiscal years ended June 30, 2006 and 2007, reimbursements charged to State funds totaled \$4,424,825 and \$4,322,651, respectively. Of these amounts, \$4,243,347 and \$4,184,460 were reimbursed from the General Fund and \$181,478 and \$138,191 were reimbursed from the Special Transportation Fund, respectively.

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, 2006 and 2007, totaled \$2,220,327 and \$941,035, respectively.

During the audited period, a consulting firm 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. The State's share of premium payments for this program is charged to General and Special Transportation Fund appropriations authorized for this purpose.

Premium payments are made monthly to the provider and are 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. It should be noted that, with the implementation of the Core-CT accounting system beginning with the 2003-2004 fiscal year, refunds of current expenditures and expenditure transfers are not shown separately. A summary of expenditures for the State's share of insurance premiums under the group life insurance program follows:

	<u>Fiscal Years</u>	
	<u>2005-2006</u>	<u>2006-2007</u>
Expenditures – General Fund:		
Payments to insurance companies	<u>\$4,669,202</u>	<u>\$5,812,210</u>
Expenditures - Special Transportation Fund:		
Payments to insurance companies	<u>\$186,376</u>	<u>\$198,807</u>

Tuition Reimbursements - Training and Travel:

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 fiscal years ended June 30, 2006 and 2007, funding requirements for tuition, travel, and training reimbursements, as specified in 14 collective bargaining agreements covering those years, amounted to \$2,930,601 and \$2,984,401, respectively, while another \$2,670,965 and \$1,182,117 representing unexpended reimbursement moneys from the fiscal years ended June 30,

2005 and 2006, respectively, were also made available in accordance with the terms of certain agreements. Of the total \$5,601,566 and \$4,166,518 available, \$2,499,957 and \$3,036,632 was expended during the same fiscal years, respectively. Of the unexpended balance of \$1,129,886 available at fiscal-year-end 2007, \$942,644 was carried forward for use in the 2007-2008 fiscal year.

Employers Social Security Tax:

Each fiscal year, the State's share of Social Security costs is charged to General and Special Transportation Fund appropriations authorized for this purpose. 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 gross payments to the Federal government for the employer's share of Social Security taxes are based on the rates and wage limits in effect during the audited period. It should be noted that, with the implementation of the Core-CT accounting system beginning with the 2003-2004 fiscal year, refunds of current expenditures and expenditure transfers are not shown separately.

An analysis of the total payment of the State's share of costs follows:

	<u>Fiscal Years</u>	
	<u>2005-2006</u>	<u>2006-2007</u>
Expenditures – General Fund:		
Employer's share-State employees	\$169,488,808	\$182,279,916
Grant Transfer to Other State Agencies	<u>22,578,555</u>	<u>23,856,176</u>
Total Expenditures	<u>\$192,067,363</u>	<u>\$206,136,092</u>
Expenditures – Transportation Fund:		
Employer's share-State employees	<u>\$12,887,421</u>	<u>\$13,941,802</u>

State Employees 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.

Each fiscal year, the State's share of employee health services is initially met from General and Special Transportation Fund appropriations authorized for this purpose. On the basis of payroll transactions submitted by the State agencies, the State Comptroller's Office charges the General and Special Transportation Fund appropriations 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. It should be noted that, with the implementation of the Core-CT accounting system beginning with the 2003-2004 fiscal year, refunds of expenditures and expenditure transfers are not shown separately.

An analysis of the total payment of the State's share of such costs during the audited period follows:

	Fiscal Years	
	<u>2005-2006</u>	<u>2006-2007</u>
Expenditures – General Fund:		
Payments to health insurance carriers:		
Employer's share-State employees	\$347,263,750	\$373,786,292
Payments for consulting services	376,852	416,360
Miscellaneous payments	45,669	-
Grant Transfer to Other State Agencies	<u>48,088,101</u>	<u>52,923,331</u>
Total Expenditures	<u>\$396,134,372</u>	<u>\$427,125,983</u>
Expenditures – Transportation Fund:		
Employer's share-State employee	<u>\$27,563,576</u>	<u>\$31,322,115</u>

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 payroll processing function carried out by the Comptroller's Payroll Services Division to determine that 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 Fiscal Policy Division, which is responsible for administering this account, and examining those transactions 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 97-1 (June Special Session) authorized \$400,000 in bonds for expansion and improvements of the video production facilities and \$500,000 for construction and equipment for an instructional television fixed service system for Connecticut Public Broadcasting, Incorporated. No expenditures were made during the audited period. The remaining balances of \$105,305 and \$324,000 were carried forward to the 2007-2008 fiscal year.

Special Acts 01-2 (June Special Session), 02-1 (May Special Session), 03-2 (September Special Session) and 04-2 (May Special Session), authorized a total of \$107,800,000 in bonds for the development and implementation of the Core-CT financial systems project. A total of \$107,345,125 of these bond funds was expended during the three fiscal-year periods ended June 30, 2005. A total

of \$413,755 was expended for this project during the audited period. There was an unallocated/unallotted balance of \$41,120 as of June 30, 2007.

Special Act 05-1 (June Special Session) authorized a total of \$18,256,490 in bonds for the development and implementation of the Core-CT financial system project. A total of \$14,316,319 of these bond funds was expended during the audited period; the remaining balance of \$3,940,171 was carried forward to the 2007-2008 fiscal year. In addition, Special Act 05-1 (June Special Session) also authorized a total of \$1,000,000 in bonds for the replacement of analog transmission systems for television broadcasting for Connecticut Public Broadcasting, Incorporated. A total of \$1,000,000 was expended for this project during the fiscal year ended June 30, 2006, which fully expended the project.

The Special Revenue Fund account for Conservation 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 fiscal years ended June 30, 2006 and 2007, respectively. 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 Fund

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

Funds Awaiting Distribution:

This fund is used statewide 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.

The Comptroller's Office has set up separate special identification numbers within the Funds Awaiting Distribution Fund to account for the activity of certain employee accounts, specifically payroll deductions for savings bonds and life insurance, as well as other minor functions. Receipts deposited to the Funds Awaiting Distribution Fund by the Office of State Comptroller totaled \$685,856,985 and \$792,208,077 for fiscal years ended June 30, 2006 and 2007, respectively. Disbursements and transfers from the Fund by the Office of State Comptroller totaled \$693,534,365

and \$804,629,350 for the same fiscal years respectively.

CONDITION OF RECORDS

Areas warranting comment are presented below.

Funds Awaiting Distribution Fund Accounts – Comptroller’s Unique Accounts - Reconciliation and Reporting:

Criteria: Funds Awaiting Distribution Fund accounts 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.

The *State Accounting Manual* requires that each State agency with a balance in the Funds Awaiting Distribution Fund at June 30th submit, by July 31st of each year, an annual report to the State Comptroller’s Budget and Financial Analysis Division reporting that the Funds Awaiting Distribution Fund (Agency Fund 34003, formerly the Pending Receipts Fund), has been reconciled and requesting any required corrections by the State Comptroller.

Condition: The Office of the State Comptroller administers various unique accounts within the Funds Awaiting Distribution Fund related to its administration of certain centralized functions on behalf of the State, which include the processing of the State employees’ payroll and the administration of miscellaneous appropriations, such as grants to municipalities.

During our review, we found certain unique accounts administered by the Office within the Funds Awaiting Distribution Fund had ending balances that were not reconciled in detail to the available cash trial balance. In addition, the cash balances in these accounts at June 30th were not reported to the Office’s Budget and Financial Analysis Division. These accounts consist of funds accumulated from employees’ payroll deductions to purchase savings bonds, funds accumulated from employees’ payroll deductions for the purchase of group life insurance, deferred compensation refunds and other adjustments that may occur within the deferred compensation contributions, and refund payments from towns. The ending cash balances in these accounts, as of June 30, 2007, were \$16,660, \$289,010, \$176,341, and \$43,839, respectively.

Effect: Errors could occur in the recording of receipts and/or disbursements activities to the State’s General Ledger for the Funds Awaiting Distribution Fund accounts resulting in incorrect fiscal-year end cash balances, which may not be detected by management within a reasonable period of time.

Cause: The current policies applicable to State agencies with a balance in the Funds Awaiting Distribution Fund at June 30th, as set forth in the State Comptroller's *State Accounting Manual*, do not encompass the unique accounts administered by the Office of the State Comptroller.

Recommendation: The State Comptroller should revise the *State Accounting Manual* to ensure the policies applicable to the Funds Awaiting Distribution Fund relative to the reconciliation of and annual reporting for the account balance, as of June 30th, include the accounts that are unique to the Office of the State Comptroller. (See Recommendation 1.)

Agency Response: "We agree with this recommendation. Beginning with Fiscal Year 2010 reporting, the Central Accounting Unit of this Office will broaden the scope of reconciliation within the Funds Awaiting Distribution Fund to include unique accounts established by this Office. It should be noted that the grant payment balance identified will be lapsed to the General Fund.

Implementation Date: For Fiscal Year 2010 reporting."

Controls Over Cellular Telephone Usage:

Criteria: The Department of Information Technology's (DOIT) *Telecommunications Equipment Policy* requires that the equipment be used "in conjunction with and to further current state business." DOIT's policies relative to cellular telephones include the requirement that the telephones "shall be used for approved state business as set out by the individual agencies. Each agency is responsible for determining whether the acquisition and use of cellular equipment and service is appropriate for its employees". In addition, DOIT's policy relative to the monthly billing of State agencies for the usage of State-owned cellular telephones states that "it shall be the responsibility of the individual and the agency to verify the accuracy of the bill and to confirm the usage to be appropriate." In regard to the liability for payment for the use of State-owned telecommunications equipment, DOIT's policy states that "individual telecommunications equipment holders shall be responsible for repayment of improper charges and shall be personally liable for misuse or abuse of equipment or services."

The Office of the State Comptroller's internal policy on the use of State equipment states that "All state equipment is for the exclusive purpose of conducting state business."

Condition: We reported in our prior audit report that the Office's control over the usage of cellular telephones was deficient. Our current review of the usage of cellular telephones by the Office's employees revealed that the deficiencies still continue.

Our examination of the Office's monthly cellular telephone records for a sample of employees, who were assigned the use of State-owned cellular telephones, revealed three instances where the employee's confirmation report was incomplete. In these instances, the reports required to confirm that the monthly charges were correct and the related usage was appropriate were not signed by either the employee or the employee's supervisor. In addition, we found one instance where the employee's required confirmation report was not submitted.

Effect: The Office may not be in compliance with either the Statewide Telecommunications Equipment Policy issued by the Department of Information Technology or with the Office of the State Comptroller's own internal policy on the use of State-owned equipment. Internal controls are weakened when there is an inadequate review of the charges for and usage of State-owned cellular telephones. Unauthorized usage can occur and not be detected, which could result in the Office's failure to obtain repayment for such usage.

Cause: Procedures were not followed for the review of the usage of State-owned cellular telephones.

Recommendation: The Comptroller's Office should improve its internal controls to ensure its compliance with both the Department of Information Technology's statewide telecommunications equipment policy and the Office's own policy for State-owned equipment. (See Recommendation 2.)

Agency Response: "Our Office has strengthened our internal controls to ensure compliance with both the Department of Information Technology's statewide telecommunications equipment policy and our own policy for State-owned equipment. Reports are on file for all cell phone users with proper signatures. All non-business related calls are reimbursed to the State as required by the statewide telecommunication equipment policy."

**Payroll and Personnel:
Compensatory Time - Procedures and Records:**

Criteria: The Department of Administrative Services' (DAS) *Management Personnel Policy No. 80-1* (superseded by 06-02) sets forth the criteria for the granting of compensatory time on behalf of Managerial and Confidential employees. One of the criteria for the granting of compensatory time includes: "the manager must be authorized in advance to work extra time by the Agency Head or his/her designee". The DAS' *Management Personnel Policy No. 06-02* revised the requirements to include that the employee must receive "written authorization in advance" to work extra time and that "proof of advance authorization must be retained in the employee's personnel file for audit purposes".

The Office of the State Comptroller's (OSC) has also issued its own guidance stating that requests for overtime (either compensatory time or paid time) be approved in advance. In regard to the requests for overtime related to those employees, who are covered by collective bargaining agreements and who are also subject to the Office of Policy and Management's approval, the policy requires that such overtime requests be received by the Office's Human Resources Office prior to the approval of the Deputy State Comptroller. In addition, the policy states that any such request "should be received at least 21 days before the start of the time period requested" so that all necessary approvals can be obtained in a timely manner.

Condition: During the audited period, the Office did not always obtain or, otherwise, maintain the documentation to evidence that employees granted compensatory time received the necessary advance written authorization or, if applicable, the necessary prior approvals to work the extra time. Out of our test sample of eight employees, who were granted and earned compensatory time, we found that the Office could not substantiate whether two of the employees, who were managerial employees, requested or, if requested, received written authorization in advance to work the extra time from the Deputy State Comptroller, the Office's designee.

In addition, the Office was unable to substantiate whether two other employees, who were covered by collective bargaining agreements, received the necessary prior approvals to work the extra time. Though requested, the Comptroller's Office could not provide the documentation to evidence the receipt of the prior approvals from the Office of Policy and Management and the Deputy State Comptroller for the compensatory time earned by these employees.

Effect: The Office is not in compliance with established guidelines relative to compensatory time for both its managerial and non-managerial employees.

Cause: The above condition appears attributable to a lack of adequate administrative oversight.

Recommendation: The Office of the State Comptroller should strengthen its internal control procedures to ensure its compliance with both the *Management Personnel Policy No. 06-02* and its Office's specific guidance relative to the authorization of compensatory time. (See Recommendation 3.)

Agency Response: "The agency implemented a new procedure on verifying compensatory and overtime requests when the Time and Labor process migrated to Self Service on Core-CT. The implementation date of this new process occurred in December 2007. During the reconciliation process, the Payroll Officer verifies all compensatory and overtime entries with the appropriate approved Overtime and Compensatory Request Forms.

As a result of this finding, the Unit will include additional steps to the current administrative process. The Unit will send a copy of the approved Compensatory Time Request Form to the employee that will be "proof" of written authorization and place a copy in the employee's personnel file. In addition, a copy of approved Overtime and Compensatory request will be filed in the appropriate payroll pay-period folder.

In regards to the agency overtime (either compensatory time or paid time) requests being received at least 21 days before the start of the time period requested, the agency's implementation date for this new process was October 24, 2007."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Comptroller’s Office should improve its internal controls over its Funds Awaiting Distribution Fund to ensure that the monthly and year-end reconciliations to the State’s General Ledger cash balances are being performed, that any pending items are reviewed and resolved on a timely basis, and that the required annual report, as of June 30th, is submitted in accordance with the requirements of the State Comptroller’s *State Accounting Manual*.** During the audited period, the Comptroller’s Office complied with the requirements of the *State Accounting Manual*”. The Office performed the requisite procedures by performing the year-end reconciliation of the account balance to the General Ledger year-end cash balance, reviewing and resolving any pending items on a timely basis, and submitted the required annual report, as of June 30th, for the one account currently subject to such requirements. This recommendation will not be repeated.
- **The Office of the State Comptroller should strengthen its controls over the tagging and monitoring of its inventory and the preparation of the Annual Fixed Assets/Property Inventory Report.** We have concluded that the Office complied with our recommendation. We found that the Office strengthened its controls over the tagging and monitoring of its property inventory and over the preparation of the Annual Fixed Assets/Property Inventory Report. This recommendation will not be repeated.
- **The Comptroller’s Office should improve its internal controls to ensure its compliance with both the Department of Information Technology’s Statewide telecommunications equipment policy and the Office’s own policy for State-owned equipment. The Office should implement the controls necessary to ensure that employees’ review and verify the costs and usage of State-owned cellular telephones.** The Office failed to ensure that all of the required confirmation reports related to employees’ usage were properly completed and submitted. This recommendation has not been complied with and is being repeated in a modified form. (See Recommendation 2.)
- **The Office of the State Comptroller should implement the internal controls necessary to ensure that its computer software inventory is maintained in accordance with the software inventory policy and procedures as set forth in the *State of Connecticut’s Property Control Manual*.** The Office addressed our prior audit recommendation and its related condition during the audited period. This recommendation will not be repeated.
- **The Office of the State Comptroller should establish a means to ensure that refunds of payments are properly controlled and properly accounted for.** The condition that resulted in our prior audit recommendation was addressed by the systemic and administrative changes implemented during the audited period. This recommendation will not be repeated.

- **The Office of the State Comptroller should ensure that all purchases and expenditures observe proper purchasing and payment processing procedures.** Although we found that the condition that resulted in our prior audit recommendation continued to exist into the first of the two years included in the audited period, we determined that the Office subsequently implemented the necessary corrective action and complied with our prior recommendation throughout the second year of the audited period. Thus, this recommendation has been addressed and will not be repeated.

Current Audit Recommendations:

- 1. The State Comptroller should revise the *State Accounting Manual* to ensure the policies applicable to the Funds Awaiting Distribution Fund relative to the reconciliation of and annual reporting for the account balance, as of June 30th, include the accounts that are unique to the Office of the State Comptroller.**

Comment:

The Office of the State Comptroller administers various unique accounts within the Funds Awaiting Distribution Fund related to its administration of certain centralized functions on behalf of the State. We found that, although some of these unique accounts had balances at June 30th, the current policies applicable to State agencies with a balance in the Funds Awaiting Distribution Fund at June 30th, as set forth in the State Comptroller's *State Accounting Manual*, do not encompass the unique accounts administered by the Office of the State Comptroller.

- 2. The Comptroller's Office should improve its internal controls to ensure its compliance with both the Department of Information Technology's statewide telecommunications equipment policy and the Office's own policy for State-owned equipment.**

Comment:

We noted three instances where the required confirmation to verify that the monthly charges were correct and that the related usage was appropriate was not signed by the employee or the employee's supervisor. In addition, in one instance, the employee did not submit the required confirmation to verify the monthly charges and related usage.

- 3. The Office of the State Comptroller should strengthen its internal control procedures to ensure its compliance with both the *Management Personnel Policy No. 06-02* and its Office's specific guidance relative to the authorization of compensatory time.**

Comment:

The Office did not comply with its established guidelines relative to the granting of compensatory time for both its managerial and non-managerial employees. Our testing disclosed instances where the Office did not always obtain or, otherwise, maintain the documentation to evidence that employees granted compensatory time received the necessary advance written authorization or, if applicable, the necessary prior approvals to work the extra time.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the State Comptroller for the fiscal years ended June 30, 2006 and 2007. 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 State Comptroller's departmental operations for the fiscal years ended June 30, 2006 and 2007, 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 State Comptroller's Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal control 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 State Comptroller's 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 Office'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 Office'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 Office'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 Office'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 need to revise the policies applicable to the Funds Awaiting Distribution Fund in the *State Accounting Manual* to include the unique accounts administered by the State Comptroller; Recommendation – 2 lack of control over employee cellular telephone usage; Recommendation – 3 obtaining and maintaining the documentation to support the authorization in advance, prior approval and granting of compensatory time.

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 Office'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 Office's internal control.

Our consideration of the internal control over the Office'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 State Comptroller 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 Office'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 the Office's management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The State Comptroller's response to the findings identified in our audit is described in the accompanying "Condition of Records" section of this report. We did not audit the State Comptroller's response and, accordingly, we express no opinion on them.

Auditors of Public Accounts

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

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and the courtesies extended to our representatives by the personnel of the Office of the State Comptroller during the course of our examination.

Robert Koch
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts