

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE STATE COMPTROLLER –
DEPARTMENTAL OPERATIONS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2011, 2012, AND 2013*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

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October 8, 2015

AUDITORS' REPORT STATE COMPTROLLER – DEPARTMENTAL OPERATIONS FOR THE FISCAL YEARS ENDED JUNE 30, 2011, 2012, AND 2013

We have audited certain operations of the Office of the State Comptroller (OSC) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2011, 2012, and 2013. The objectives of our audit were to:

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

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

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

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

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

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

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

COMMENTS

FOREWORD

The Office of 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, OSC was organized into seven divisions, including: (1) Accounts Payable Division; (2) Budget and Financial Analysis Division; (3) Management Services Division; (4) Information Technology Division; (5) Payroll Services Division; (6) Retirement Services Division; and (7) Healthcare Policy and Benefit Services Division.

Nancy S. Wyman served as State Comptroller during part of the audited period. On January 5, 2011, Ms. Wyman was succeeded by Kevin Lembo, who served throughout the remainder of the audited period.

Recent Legislation

The following notable legislative changes affecting OSC took effect during the audited period:

- Special Act No. 13-1 – Effective from passage (March 8, 2013), Section 1 of this act establishes the Sandy Hook Workers Assistance Program, which offers assistance, within available funds, to eligible persons who were at or scheduled to be at Sandy Hook Elementary school, its grounds and immediate vicinity, including the Sandy Hook Volunteer Fire Department during the timeframe considered the “time of crisis,” which is established in the act. Section 2 of this act establishes the Sandy Hook Workers Assistance Fund, which shall be used to make payments in relation to the Sandy Hook

Workers Assistance Program. Payments from this fund shall be paid by the State Comptroller and the State Treasurer at the discretion of the administrator of the program.

RÉSUMÉ OF OPERATIONS

Departmental Operations – General Fund Revenues

General Fund departmental receipts totaled \$37,594,509, \$41,625,638, and 23,071,423 during the fiscal years ended June 30, 2011, 2012, and 2013, respectively, compared to \$37,400,665 during the fiscal year ended June 30, 2010. These amounts reflect increases of \$193,844 (0.5 percent), and \$4,031,131 (10.7 percent) during the 2011 and 2012 fiscal years, respectively, and a decrease of \$18,554,217 (44.6 percent) in fiscal year 2013. A summary of these receipts is presented below:

	<u>Fiscal Years</u>			
	<u>2009-2010</u>	<u>2010 - 2011</u>	<u>2011 - 2012</u>	<u>2012 - 2013</u>
Departmental Receipts:				
Loan Agreement Interest	\$ 38,063	\$ 32,813	\$ 27,563	\$ 22,313
Insurance Reimbursements	295,755	3,763	105,250	75,510
Principal on Loans	75,000	75,000	75,000	75,000
Recoveries of Expenditures				
Unemployment Compensation	2,371,821	1,424,162	2,062,795	2,579,900
Indirect Overhead - Federal Projects	18,538,354	20,651,729	19,245,203	10,997,545
Employee Fringe Benefits	3,243,668	2,150,446	11,809,155	4,546,727
Workers' Compensation	5,716,627	6,801,711	8,584,822	7,322,568
General Recoveries	-	-	-	6,116
Refunds				
Refunds of Expenditures	7,646,976	6,517,941	170,995	73,164
Refunds of Health Insurance	-	-	-	35,953
All Other Revenues	74,538	499,422	33,465	36,639
Less Refunds of Payments (Statewide)	(600,137)	(562,478)	(488,608)	(2,700,012)
Total:	\$ 37,400,665	\$ 37,594,509	\$ 41,625,640	\$ 23,071,423

The receipts shown above primarily consisted of excess funding of unemployment compensation, workers' compensation, fringe benefits, and indirect costs initially charged to the 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 its approved indirect cost base. The fluctuations in agency receipts from year-to-year were primarily caused by changes in the cost recovery rates and changes in the amount of salaries charged to federal restricted accounts and state funds other than the General Fund.

Fringe benefit recoveries of employer cost for group life insurance, medical insurance (health services), and Social Security are, generally, credited to the special appropriation accounts used to finance the employer share of such costs. Additional comments on the recoveries on each of these special appropriation accounts are presented in the Comments section of this report.

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 are 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 state funds other than the General Fund. 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 calculated on the basis of existing federal tax rates, which were 6.2 percent and 1.45 percent, respectively, during the audited period. The Core-CT information system automatically charges fringe benefits to the same funding source as the personal services expenditures.

Departmental Operations – General Fund Expenditures

Net General Fund expenditures totaled \$24,209,468, \$25,293,958, and \$25,168,207 during the fiscal years ended June 30, 2011, 2012, and 2013, respectively, compared to \$24,776,285 during the fiscal year ended June 30, 2010. A summary of these expenditures is presented below:

	Fiscal Years			
	2009-2010	2010-2011	2011-2012	2012-2013
Personal Services	\$ 20,704,245	\$ 20,513,518	\$ 21,680,194	\$ 21,326,147
Contractual Services and Other Expenses	4,053,449	3,677,359	3,594,194	3,842,060
Equipment	-	-	-	-
State Aid Grants	18,591	18,591	19,570	-
Total Departmental Expenditures	\$ 24,776,285	\$ 24,209,468	\$ 25,293,958	\$ 25,168,207

Expenditures remained relatively consistent throughout the audited period with slight decreases of \$566,817 (2.3 percent) and \$125,751 (0.5 percent) in the 2011 and 2013 fiscal years, respectively. The \$1,084,490 (4.5 percent) increase in expenditures from fiscal year 2011 to 2012 was caused by an increase in personal services driven, primarily, by an increase in full-time employees hired by the state.

Special Appropriations Administered by the Comptroller

In addition to the budgeted and restricted General Fund appropriation accounts used by the Office of the State Comptroller to finance various departmental programs and activities, OSC administers numerous nonfunctional appropriation accounts within the General and Special Transportation Funds. Descriptions of some of the more significant activities funded by these special appropriation accounts are presented in the following paragraphs.

Refunds of Payments

Section 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 monies to persons equitably entitled to the refund of any money paid to the state. Such refunds are 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, 2011, 2012, and 2013 totaled \$562,478, \$488,608, and \$2,700,012, respectively, as shown in the summary of General Fund departmental receipts table of this report. Refunds of payments applicable to the Special Transportation Fund totaled \$2,084,064, \$2,072,167, and \$2,223,324 for the 2011, 2012, and 2013 fiscal years, respectively.

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, 2011, 2012, and 2013, a total of \$5,776,780, \$7,638,961, and \$5,958,661, respectively, was paid by the Comptroller towards the settlement of claims against the state.

Unemployment Compensation

The cost of unemployment benefits paid to former state employees is reimbursed to the Unemployment Compensation Benefit 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. During the fiscal years ended June 30, 2011, 2012, and 2013, \$333,046, \$396,853, and \$198,756 was reimbursed from the Special Transportation Fund and \$7,452,639, \$9,108,178, and \$6,602,414 was reimbursed from the General Fund, respectively.

Partial recoveries of such reimbursements are made within the General Fund for former employees whose salaries were paid from other state or federal funds. Under procedures established by the Office of the State Comptroller, the recoveries 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. Recoveries of reimbursements for the fiscal years ended June 30, 2011, 2012, and 2013 totaled \$1,424,162, \$2,062,795, and \$2,579,900, 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 consulting firm performed administrative functions, reviewed unemployment claims, attended appeal hearings, and acted as a consultant to various state agencies in such matters. A review of payments from the Unemployment Compensation Benefit Fund, verifying that payments are

properly charged to the employer's account and payable to eligible employees, is conducted as part of our office's audit of the Department of Labor.

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 appropriations in the General and Special Transportation Funds.

Premium payments are made to the provider monthly 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. A summary of the expenditures for the state's share of insurance premiums under the group life insurance program is as follows:

Fund	Fiscal Years		
	2010 – 2011	2011 - 2012	2012 - 2013
General Fund	\$ 8,254,655	\$ 8,555,731	\$ 8,688,230
Special Transportation Fund	277,907	246,197	245,448
Total	<u>\$ 8,532,562</u>	<u>\$ 8,801,928</u>	<u>\$ 8,933,678</u>

These activities are reviewed during our office's separate audit of the Office of the State Comptroller Retirement Services and Healthcare Policy and Benefit Services Divisions.

Tuition Reimbursements – Training and Travel

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

During the fiscal years ended June 30, 2011, 2012, and 2013, expenditures for tuition reimbursements totaled \$3,337,056, \$2,946,901, and \$2,843,884, respectively.

Employer's Social Security Tax

Each fiscal year, the state's share of Social Security costs is charged to General and Special Transportation Fund appropriations. 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 share of Social Security taxes are based on the rates and wage limits in effect during the audited period. An analysis of the total payments of the state's share of costs for the audited period follows:

	Fiscal Years		
	2011	2012	2013
Fund			
General Fund	\$ 217,707,343	\$ 215,042,809	\$ 206,786,245
Special Transportation Fund	14,555,654	12,950,802	13,509,857
Total	\$ 232,262,997	\$ 227,993,611	\$ 220,296,102

State Employees and Retired State Employees Retirement and Health Care Cost

The Office of the State Comptroller receives revenues and makes payments for various special appropriations and trust funds to pay for current and retired state employee retirement and healthcare costs. These activities are reviewed in a separate audit performed by our office on the Office of the State Comptroller Retirement Services and Healthcare Policy and Benefit Services Divisions.

Capital Project Outlays

Expenditures were made from capital project funds for agency equipment and upgrades of the Core-CT information system. Expenditures for agency equipment totaled \$69,258, \$63,045, and \$107,600 for the fiscal years ended June 30, 2011, 2012, and 2013, respectively. Expenditures for Core-CT upgrades totaled \$116,222, \$8,579,302, and \$10,009,742 during those same fiscal years, respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Personal Service Agreements

Criteria: Sections 4-212 through 4-219 of the General Statutes establish standards to be followed by executive branch agencies entering into personal service agreements. Among these standards is the requirement to base personal service agreements on competitive negotiation or competitive quotations when the agreement has a cost of more than \$20,000, but not more than \$50,000, and a term of not more than one year, unless a waiver is obtained for a sole source purchase. When a personal service agreement contract is expected to exceed \$50,000, these statutes require approval from the secretary of the Office of Policy and Management (OPM), and that the agreement is based on competitive negotiation or competitive quotations, unless a waiver is obtained.

It is good business practice to ensure that a written personal service agreement is in place and signed by all relevant parties before related services are provided.

Condition: Our audit of 11 personal service agreements, totaling \$31,896,412, disclosed three instances in which OSC entered into contracts, totaling \$59,997, each valued one dollar below the \$20,000 threshold and one day less than the one-year limit that would have required the contracts to be awarded through competitive negotiations or quotes. In two of these instances, the contracts were later amended, with OPM approval, increasing the amounts over the \$20,000 threshold for competitive negotiations or quotes. Further review disclosed that payments in relation to two of these contracts were made well after the contract periods had ended. These payments totaled \$49,601 and were made between 44 and 145 days after the end of the contract periods.

In addition, we noted four instances in which contracts, totaling \$15,906,272, were not approved by all relevant parties prior to the start of the contract period. In three of the instances noted, contracts totaling \$1,321,000 were signed by the contractor and OSC between 14 and 106 business days and 27 and 113 business days, respectively, after the start of the contract period. The corresponding authorization signatures from the Office of the Attorney General were obtained between 55 and 144 business days after the start of the contract period. Also, in one of these instances, the contract, which totaled \$335,000, lacked the required authorization signature from the secretary of OPM. In the fourth instance, a contract totaling \$14,585,272 was signed by OSC and the Office of the Attorney General four and eight business

days, respectively, after the start of the contract period. It was noted, however, that no payments were issued in relation to these contracts prior to obtaining all required signatures.

Furthermore, our testing disclosed eight instances in which contracts, totaling \$31,064,462, were coded as personal service agreements; however, encumbrances were made using regular state contracts rather than the state's required form (Form CO-802A).

Effect:

In some instances, internal controls over personal service agreements were weakened. Specifically, the instances in which a personal service agreement was approved by OSC after the start of the contract period lessened assurance that the terms of the agreement met the approval of OSC administration prior to the performance of the contract.

Regarding the instances in which contracts were entered into just below the \$20,000 and one-year thresholds, assurance was lessened that OSC obtained these services for the best possible price. Furthermore, these instances give the appearance of impropriety, as each contract was just below the statutory limits that would have required competitive negotiations or competitive quotes to be obtained prior to entering into the contract.

Cause:

Regarding the late signatures, we were informed that sometimes there are last minute changes to stipulations in the agreement, making it difficult to have the contract signed by all parties involved prior to the start of the contract period.

In the instances in which contracts were used instead of the required CO-802A forms, we were informed that there was some confusion as to whether the CO-802A was still relevant. It was thought that the form was obsolete, so OSC used contracts instead of the required form when entering into personal service agreements. We were also informed that this confusion has since been cleared up and that the CO-802A form will be used going forward.

It appears that the controls in place were not sufficient to prevent the above conditions from occurring.

Recommendation:

The Office of the State Comptroller should ensure that it uses the CO-802A form when entering into written personal service agreement contracts and that those contracts are signed by all relevant parties prior to the commencement of corresponding services. In addition, OSC should follow the statutory requirements for obtaining personal services through competitive negotiations or quotes when it expects the cost of a contract to exceed the \$20,000 threshold, or when the cost

is relatively close to the threshold to ensure that the best possible price is obtained for those services. (See Recommendation 1.)

Agency Response: “The Office of the State Comptroller has reviewed its procedures to ensure that going forward, the CO-802A form is used for Personal Service Agreements (PSA). The Office of the State Comptroller recognizes that competitive negotiations should be utilized each time a personal services agreement is entered into; however, the PSA examples cited in this audit were entered into by an independent commission using the OSC’s authority. The Office of the State Comptroller will work with this independent commission in the future to ensure that they are aware of the statutory requirements and assist them in maintaining proper procedures.”

Asset Management

Criteria: Section 4-36 of the General Statutes provides that each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October 1st, transmit to the Comptroller a detailed inventory, as of June 30th, of all real and personal property having a value of one thousand dollars or more.

The Core-CT Asset Management Module is the property control system utilized by the majority of state agencies to track their inventory. Per the Comptroller’s Fixed Assets/Property Inventory Report/GAAP Reporting Form (CO-59), if queries from Core-CT cannot replicate the values recorded on the CO-59, the agency must provide a written explanation of the discrepancy in an attachment.

The State Property Control Manual provides guidance on the requirements and internal controls that need to be implemented with respect to equipment and controllable items. These requirements include that equipment be assigned an identification number that is placed on the item in an area that can be easily seen. The manual also states that, “property shall not be abandoned or destroyed by a state agency unless it is certified by a duly authorized representative of the Distribution Center that the property has no commercial value, or that the estimated cost of its continued care and handling would exceed the potential income that may have been derived from its sale.”

Furthermore, the manual requires the establishment of a software inventory to track and control software media, licenses or end user agreements, certificates of authenticity, and other related items. It also requires specific information that must be included in the software

inventory, including a description of the software, the version, manufacturer, acquisition type, cost, and location.

Proper internal controls dictate that property control records consist of certain information on equipment to adequately track and maintain such items. This information should include, at a minimum, the item description, cost, tag number, and location.

Condition:

Our review of the OSC CO-59 form for the fiscal year ended June 30, 2013 disclosed various differences between the amounts reported on the CO-59 and the amounts we generated using the Asset Management Module of Core-CT. With respect to the differences noted, we found that the CO-59 included \$84,198 in deletions, whereas Core-CT indicated that OSC deletions for fiscal year 2013 were \$391,436, which is \$307,239 more than what OSC reported. We also noted that one equipment item, with a historical cost of \$1,032 was listed as a deletion on the CO-59, but had no corresponding record in Core-CT. Furthermore, our review disclosed that the reconciliation required when the amounts reported on the CO-59 do not reflect the amounts in the Asset Management Module of Core-CT was not provided with the OSC CO-59, and, therefore, we could not determine with certainty what the cause of the differences were.

We also tested 15 equipment items, with an aggregate historical cost of \$848,524, that were identified as being disposed of during the audited period. Our review of these items disclosed one instance in which an equipment item with a historical cost of \$110,088 was traded in to a vendor without obtaining and documenting proper approval to do so.

In addition, we tested 48 equipment items with an aggregate historical cost of \$2,436,700. Our testing of these items disclosed the following:

- Three instances in which equipment items, with an aggregate historical cost of \$198,707, were not tagged with a visible state identification number;
- Eight instances in which equipment items, with a historical cost totaling \$130,574, could not be located during our physical inspection. In seven of these instances, relating to items with an aggregate historical cost of \$129,920, the inventory records lacked sufficient information to locate these items; and
- Four instances in which equipment items, with a total historical cost of \$528,541, were found in a location other than the location indicated in OSC property control records.

Furthermore, we were informed that OSC maintained an adequate software inventory listing during the audited period; however, it was unable to provide us with sufficient documentation to support its claim. We were provided with its current software inventory listing, which was created in March 2015, after our initial request for it in February 2015. Our review of the listing disclosed that it did not contain all of the information required by the State Property Control Manual.

Effect: In some instances, equipment and software items were not being properly tracked and accounted for, which weakened internal controls over asset management. This increased the risk that loss or theft of items could occur and go undetected.

Additionally, OSC did not fully comply with the requirements set forth in the State Property Control Manual.

Cause: The controls in place were not sufficient to prevent these conditions.

Recommendation: The Office of the State Comptroller should improve controls over asset management and improve compliance with the State Property Control Manual by ensuring that property control records are kept up-to-date and complete with respect to location and asset information. OSC should also continue to update its software inventory to ensure that it contains all required information. (See Recommendation 2.)

Agency Response: “At the time of the audit period due to staff shortages, the Core-CT inventory module was not utilized to control and maintain agency inventory. We implemented new procedures in 2014 to strengthen our controls over recording, reporting and safeguarding of assets to ensure compliance with the Property Control Manual.

The Information Technology Division has historically maintained an Access Database that serves as our inventory system for software purchases at the Comptroller’s Office – 55 Elm Street. Admittedly, the production of a proper inventory report was not timely and was indicative of some flaws in our overall approach. Action is already being taken to address these flaws. However, the foundation for entering and maintaining the necessary information required by the Property Control Manual does presently exist.”

Information System Disaster Recovery Plan

Criteria: Disaster recovery and business continuity plans should be established to help minimize the risks of negative business impact in the event of

an information technology service interruption. These plans should be updated regularly and routinely tested to ensure systems and data can be recovered in a timely manner following a disaster or other interruption.

Condition: Our audit disclosed that, at the time of our examination in April 2015, the disaster recovery plan in place at OSC was outdated. Furthermore, we were unable to determine when the plan was last tested or the results of that test.

Effect: The lack of an adequate disaster recovery plan could extend the time required to recover and resume critical infrastructure and application systems after a disaster or interruption in service. The failure to test the disaster recovery plan on a regular basis increases the risk that the plan will not produce the intended results when executed.

Cause: We were informed that OSC was in the process of drafting an updated IT disaster recovery plan and has been relying on the outdated plan until the new plan is complete.

Recommendation: The Office of the State Comptroller should continue its efforts to develop an updated disaster recovery plan. In addition, OSC should ensure that, once in place, the disaster recovery plan is reviewed on a regular basis and updated if necessary. Furthermore, OSC should periodically test the plan to determine its adequacy. The results of those tests should be documented. (See Recommendation 3.)

Agency Response: “The current disaster recovery plan (specifically targeted at the restoration of the Local Area Network physical infrastructure at 55 Elm Street) is indeed outdated. An updated plan will need to be created and the audit recommendations need to be implemented. Restoration of the physical hardware would require the establishment of an alternate site with adequate equipment. Presently the data that is hosted at 55 Elm Street is protected from a disaster by the Data Backup routines in place.”

Information Technology System Access

Criteria: Adequate internal controls over information systems require that information system access granted to employees be promptly terminated upon separation from state service.

Condition: Our review of 19 OSC employees with Core-CT access, who separated from state service during the audited period, disclosed four instances in which OSC did not promptly terminate the Core-CT user accounts

of employees upon separation. In the instances noted, user access was maintained between 27 and 706 days after the employee had separated from OSC.

- Effect:* Internal controls over information systems were weakened.
- Cause:* Existing controls did not, at times, promote the timely deactivation of information systems access.
- Recommendation:* The Office of the State Comptroller should promptly deactivate information systems access upon an employee's separation from state employment. (See Recommendation 4.)
- Agency Response:* "The Office of the State Comptroller has implemented new procedures to promptly deactivate information system access upon an employee's separation from state employment. The process includes a user account lock-out step in Core-CT."

Dual Employment

- Criteria:* Section 5-208a of the General Statutes bars state employees from being compensated by more than one state agency unless the appointing authorities at such agencies certify that the duties performed and hours worked are outside the responsibilities of the employee's primary position, there is no conflict in schedules between the positions, and no conflict of interest exists between or among the positions.
- Condition:* Our audit of 13 dual employment situations disclosed seven instances in which OSC employees held multiple state positions and related dual employment certification forms were not on file. In the instances noted, these employees earned gross pay totaling \$176,985 and \$23,897 for work performed at OSC and the secondary agencies, respectively, without an authorized dual employment form in place.
- Effect:* In some instances, OSC failed to comply with the dual employment documentation requirements established by Section 5-208a of the General Statutes. This reduced assurance that no conflicts existed between primary and secondary positions for dually employed individuals.
- Cause:* We were told that, being the primary agency, OSC was not aware of these dual employment instances because it was not notified by either the employee or the secondary state agency.

Recommendation: The Office of the State Comptroller should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by documenting, through signed certifications, that no conflicts exist for employees who hold multiple state positions. OSC should also take steps to ensure that its employees are aware of the requirements of 5-208a, which includes notifying OSC prior to entering into a dual employment situation. (See Recommendation 5.)

Agency Response: “The Office of the State Comptroller (OSC) disagrees with this finding.

The OSC adheres to Section 5-208a of the Connecticut General Statutes when notified by the secondary agency of dual employment. The Human Resources Unit did not receive dual employment forms from the secondary agency for two employees who held multiple job assignments.”

On May 12, 2014, the Department of Administrative Services (DAS) revised General Letter (GL) No. 204 on Dual Employment. The policy in GL No. 204 references the secondary agency as being responsible for initiating and sending the Form CT-HR-25 to the primary agency for review and determination. The policy also includes Post Audit procedures that are performed by the DAS HR Business Rules Unit on dual employment transactions for employees holding multiple positions in State service. The OSC will review and communicate with agency employees regarding the revised policy on Dual Employment and implement procedures to ensure compliance.”

Leave in Lieu of Accrual Usage

Background: The Leave in Lieu of Accrual (LILA) time reporting code was established in the Time and Labor Module of Core-CT to allow employees to charge time (personal, vacation, and sick leave) for the period between the first of the month, when employees earn accruals, and when employee accruals are actually posted to the employee’s leave balances. The code is meant to be temporary and should be changed to the appropriate leave time once the accrual has been posted to the employee’s leave balance. Core-CT has developed a job aid to help agencies monitor the use of the LILA time reporting code.

Criteria: According to the Core-CT LILA job aid, agencies should be reviewing reports on a monthly basis in order to identify those employees who have used the LILA time reporting code and change it to the appropriate leave time.

Condition: Our audit disclosed that five employees used the LILA time reporting code during our audited period and did not have that time adjusted to the appropriate leave time once their accruals had posted to their leave balances. In the instances noted, the employees charged a total of 105 hours to the LILA time reporting code. Also, in one of these instances, we noted that the employee had leave time available when that employee used the LILA time reporting code.

Furthermore, while following-up on our prior audit recommendation, we noted that three of the nine employees identified during our last audit still had issues with their leave balances. In two instances, the balances were not adjusted, and in the third instance, the employee's LILA balance was reversed twice.

Effect: The lack of oversight and monitoring of the use of the LILA time reporting code increases the risk that employees are using more leave time than they earned.

Cause: It appears that the controls in place were not sufficient to prevent this condition.

Recommendation: The Office of the State Comptroller should strengthen controls over the use of the LILA time reporting code by ensuring that it follows the procedures detailed in the Core-CT job aid addressing the use of LILA. Furthermore, the Office of the State Comptroller should correct the leave balances of the affected employees noted during our audit. (See Recommendation 6.)

Agency Response: "The Human Resources Unit implemented a new procedure in March 2014 to monitor the usage of the LILA code. The process consists of generating a biweekly LILA Report to review and adjust employee's timesheet after their accruals have been posted. Corrections to the leave balances for the employees noted during the audit were processed in May 2015."

Compensatory Time

Criteria: The Department of Administrative Services Management Personnel Policy No. 06-02 establishes criteria for granting compensatory time to managerial and confidential employees. The policy states that managers and confidential employees must receive advanced written authorization to work extra hours by their agency head or a designee in order to record those extra hours as compensatory time. The policy also indicates that the amount of extra time worked must be significant in terms of total and duration, which is described by the policy as

many extra hours worked during an emergency and does not include the extra hour or two a manager might work to complete normal work assignments.

The Engineering, Scientific and Technical (P-4) collective bargaining unit contract states that, “those employees who have been allowed to accumulate compensatory time, as provided for in Section Three of this Article, shall be required to schedule and use such compensatory time no later than the first full six (6) month period following its accrediting.” It goes on to state that, “The six (6) month periods shall be July through December and January through June.”

Condition:

We reviewed ten employees who received compensatory time during the audited period. Our testing disclosed the following:

- Four managerial employees were granted and earned compensatory time, totaling 121 hours, throughout the audited period for insignificant periods of time worked. In all instances, the compensatory time was earned in increments of two hours or less;
- Two employees earned a total of 34 hours of compensatory time in excess of what they were approved to earn;
- Two employees earned a total of seven hours of compensatory time prior to receiving authorization; and
- Two employees in the P-4 bargaining unit were assigned to compensatory plans in Core-CT with rules that did not reflect the requirements set forth in the P-4 contract. In both cases, the employees were assigned to plans in which the compensatory time was not set to expire.

Effect:

In some instances, employees earned compensatory time in excess of what they had been approved or earned time for which no approval was documented. In effect, the Office of the State Comptroller was not in full compliance with the Department of Administrative Services Management Personnel Policy No. 06-02.

Regarding the two employees in the P-4 bargaining unit, the Office of the State Comptroller may not have fully complied with the requirements governing compensatory time in the P-4 contract. Furthermore, there was an increased risk that these employees may have been allowed to use compensatory time after it should have expired.

Cause: It appears that the controls in place were not sufficient to prevent these conditions.

With respect to the late authorizations, we were informed that verbal authorization to earn compensatory time is given prior to the actual form documenting that authorization. However, without the form, we cannot verify with certainty that authorization was actually given.

Recommendation: The Office of the State Comptroller should implement control procedures necessary to ensure compliance with the requirements related to compensatory time set forth in both the Department of Administrative Services Management Personnel Policy No. 06-02 and the P-4 bargaining unit contract. OSC should also ensure that the employees are assigned to the correct compensatory time plan in Core-CT. (See Recommendation 7.)

Agency Response: “The Office of the State Comptroller has established procedures to ensure compliance with the agency’s policy regarding the authorization and monitoring of compensatory time. An e-mail was sent out to Division Management on July 22, 2014 to ensure compliance with the Management Personnel Policy No. 06-02. Due to the critical state-wide functions and tasks, a need for ongoing compensatory time is approved case-by-case by the Deputy Comptroller.

The OSC will review and communicate with Division Management on the authorization and monitoring of compensatory time. The Human Resources Unit will review and implement procedures to ensure employees are assigned to the correct compensatory time plan in Core-CT.”

Timeliness of Bank Deposits

Criteria: Section 4-32 of the General Statutes requires that each state department receiving cash receipts amounting to \$500 or more deposit these monies into the bank within 24 hours of receipt unless an exception is granted by the State Treasurer. For daily receipts of less than \$500, the statute allows for seven calendar days before the funds must be deposited, or until the sum of funds collected totals \$500, whichever occurs first.

Condition: We tested 30 OSC receipts for timeliness of bank deposits and noted five instances, totaling \$166,567, in which funds were deposited late, according to the standard established by Section 4-32 of the General

Statutes. Deposit delays ranged from one to 19 days and were arrayed as follows:

- One receipt, totaling \$135,165, was deposited one day late;
- Two receipts, totaling \$30,918, were deposited three days late;
- One receipt, totaling \$144, was deposited five days late; and
- One receipt, totaling \$340, was deposited 19 days late.

In addition, our testing disclosed one instance in which we were unable to determine whether a deposit of \$40 was made in a timely manner due to lack of documentation.

Effect: In some instances, OSC failed to comply with the prompt deposit requirements established by Section 4-32 of the General Statutes. This exposed funds to an increased risk of theft or loss.

Cause: It appears that not enough emphasis was put into ensuring that funds were deposited within the required timeframe set forth in the General Statutes.

Recommendation: The Office of the State Comptroller should improve the timeliness of its bank deposits by adhering to the prompt deposit requirements of Section 4-32 of the General Statutes. In addition, OSC should ensure that all relevant documentation is maintained to support the dates it receives funds and the dates those funds are deposited. (See Recommendation 8.)

Agency Response: “The Office of the State Comptroller has reviewed and implemented procedures to ensure that all deposits are made in a timely fashion and that all relevant documentation is maintained.”

Purchasing Card Expenditures

Criteria: The Office of the State Comptroller’s Cardholder Purchasing Card Procedures Manual establishes guidelines that cardholders must follow when using purchasing cards. These procedures include cardholders emphasizing that orders are tax exempt when making purchases and that monthly reconciliations are performed between the cardholder’s monthly transaction report and receipts. It also requires the cardholder to sign the reconciliation and forward it to a supervisor for approval.

Condition: We reviewed ten purchasing card transactions totaling \$4,981, which were included on ten separate statements containing purchases amounting to \$22,547 in aggregate. Our testing disclosed four instances in which monthly reconciliations containing purchases of \$9,617 did not contain an authorization signature from the cardholder's supervisor indicating that the required review was performed. In addition, we noted one instance in which a cardholder could not provide us with documentation that a monthly reconciliation was performed. In this instance, the statement contained purchases totaling \$1,060.

Effect: In some instances, OSC did not fully comply with its established purchasing card policies and procedures.

With respect to the issues with supervisor approval of purchasing card reconciliations, there was less assurance that the purchases made complied with OSC policies prior to the issuance of the payment for the purchases.

Cause: It appears that, at times, the established controls over the use of purchasing cards were not being followed.

Recommendation: The Office of the State Comptroller should take steps to strengthen controls over purchasing card transactions by ensuring compliance with its own purchasing card procedures. (See Recommendation 9.)

Agency Response: "The Office of the State Comptroller has reviewed and implemented procedures to ensure compliance with the P-Card use policy."

RECOMMENDATIONS

Our prior audit report on OSC contained 14 recommendations for improving operations, five of which are being repeated or restated with modification in the current audit report. The current audit report presents nine recommendations, including four new recommendations in addition to the five recommendations that are being repeated or restated from the prior audit report.

Status of Prior Audit Recommendations:

- The Office of the State Comptroller should investigate, identify and reconcile the unknown liability balances in its Funds Awaiting Distribution Fund account. *The current audit disclosed that all differences noted were reconciled and explained. The recommendation has been implemented and will not be repeated.*
- The Office of the State Comptroller should follow and enforce the policies and procedures pertaining to the pre-approval of purchase orders. *The current audit disclosed that sufficient improvement has been made in this area. The recommendation is not being repeated.*
- The Office of the State Comptroller should follow the segregation of duties in Core-CT financial roles, and either remove the conflicting roles, or retain approval and supporting documentation for the exemptions. The Office of the State Comptroller should also consider reviewing all vendor roles to determine whether there are role conflicts with other roles. *The current audit disclosed that sufficient improvement was made in this area. Therefore, the recommendation is not being repeated.*
- The Office of the State Comptroller should take steps to improve its controls over the accurate recording, reporting, and safeguarding of assets. *The current audit disclosed various instances in which equipment records were not kept up-to-date. It appears that further improvement is needed in this area; therefore, the recommendation is being repeated. (See Recommendation 2.)*
- The Office of the State Comptroller should strengthen controls over petty cash funds. The Payroll Services Division should follow the steps necessary to escheat unclaimed checks to the State Treasurer's Unclaimed Property Division in accordance with Connecticut General Statutes. *Sufficient improvement was made in this area. The recommendation is not being repeated.*
- The Office of the State Comptroller should improve the preparation of its GAAP closing package. *The current disclosed that sufficient improvement was made in this area; therefore, the recommendation is not being repeated.*
- The Office of the State Comptroller should develop a business continuity plan for all critical business operations and information systems currently used by the agency. *The current audit disclosed improvement with respect to the OSC business continuity plan; however, other issues were noted with its disaster recovery plan. Therefore, the*

recommendation is being repeated in modified form to reflect our current findings. (See Recommendation 3.)

- The Office of the State Comptroller should implement control procedures necessary to ensure compliance with both the Management Personnel Policy No. 06-02 and the office's specific policies with respect to the authorization and monitoring of compensatory time. The Office of the State Comptroller should also attempt to recover the overpayments. *We noted some improvement in this area during the current audit. However, other areas of concern were noted during our testing. Therefore, the recommendation is being repeated with modification to reflect our current audit findings. (See Recommendation 7.)*
- The Human Resources Unit of the Office of the State Comptroller should follow the Core-CT Job Aid, which assists agencies in monitoring LILA code, so they can identify and adjust employee leave balances after the accruals have been posted. The Office of the State Comptroller should correct the affected employee's leave. *The current audit disclosed similar issues in relation to the monitoring of the use of the LILA code. Furthermore, we noted that not all of the issues noted in the prior audit have been corrected. Therefore, the recommendation is being repeated. (See Recommendation 6.)*
- The Office of the State Comptroller should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes. *The current audit disclosed various instances in which dual employment situations existed and no authorized dual employment forms were on file. It appears that further improvement is needed in this area. The recommendation is being repeated. (See Recommendation 5.)*
- The Office of the State Comptroller should strengthen internal controls to ensure that overtime is approved in advance by an appropriate supervisor and that overtime payments to individuals above P-5 salary grade 24 are approved by OPM. *Sufficient improvement was made in this area. Therefore, the recommendation is not being repeated.*
- The Office of the State Comptroller should adhere to its policies on attendance and tardiness regarding excessive absenteeism. *The current audit disclosed significant improvement in this area. The recommendation is not being repeated.*
- The Office of the State Comptroller should ensure that all employees receive annual evaluations as required by the Performance Assessment and Recognition System handbook, the bargaining unit contracts and its own policies. In addition, it should follow procedures set by the Department of Administrative Services for promotions and appointments. *It appears that sufficient improvement has been made in this area; therefore, it will not be repeated.*
- The Office of the State Comptroller Human Resources Unit should monitor changes to employee job data on a regular basis to verify the propriety and authorization of any changes made to employee files. *It appears that this recommendation has been implemented; therefore, it will not be repeated.*

Current Audit Recommendations:

- 1. The Office of the State Comptroller should ensure that it uses the CO-802A form when entering into written personal service agreement contracts and that those contracts are signed by all relevant parties prior to the commencement of corresponding services. In addition, OSC should follow the statutory requirements for obtaining personal services through competitive negotiations or quotes when it expects the cost of a contract to exceed the \$20,000 threshold, or when the cost is relatively close to the threshold to ensure that the best possible price is obtained for those services.**

Comment:

In various instances, OSC was using the incorrect contract form to enter into personal service agreements. We also noted instances in which contracts were not authorized by all relevant parties prior to the start of the contract period. Furthermore, we noted instances in which contracts were entered into for amounts just below the threshold that would have required competitive negotiations, which gives the appearance of impropriety.

- 2. The Office of the State Comptroller should improve controls over asset management and improve compliance with the State Property Control Manual by ensuring that property control records are kept up-to-date and complete with respect to location and asset information. OSC should also continue to update its software inventory to ensure that it contains all required information.**

Comment:

We noted various instances in which assets were either found in locations that did not match OSC inventory records or were not locatable due to the lack of information in OSC inventory records. Furthermore, we noted that a sufficient software inventory listing was not maintained during the audited period, and the current listing created by OSC did not contain all required information.

- 3. The Office of the State Comptroller should continue its efforts to develop an updated disaster recovery plan. In addition, OSC should ensure that, once in place, the disaster recovery plan is reviewed on a regular basis and updated if necessary. Furthermore, OSC should periodically test the plan to determine its adequacy. The results of those tests should be documented.**

Comment:

Although we were informed that OSC was in the process of developing an updated formal IT disaster recovery plan, we noted the plan in place during the audited period was outdated. Additionally, we were unable to determine the last time the plan was tested or the results of that test.

- 4. The Office of the State Comptroller should promptly deactivate information systems access upon an employee's separation from state employment.**

Comment:

In certain instances, information systems access was not promptly deactivated upon an employee's separation from state service.

- 5. The Office of the State Comptroller should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by documenting, through signed certifications, that no conflicts exists for employees who hold multiple state positions. OSC should also take steps to ensure that its employees are aware of the requirements of 5-208a, which includes notifying OSC prior to entering into a dual employment situation.**

Comment:

We noted instances in which employees held multiple state positions and a required dual employment form was not in place.

- 6. The Office of the State Comptroller should strengthen controls over the use of the LILA time reporting code by ensuring that it follows the procedures detailed in the Core-CT job aid addressing the use of LILA. Furthermore, the Office of the State Comptroller should correct the leave balances of the affected employees noted during our audit.**

Comment:

In certain instances, the leave balances of employees who used the LILA time reporting code were not adjusted once their leave accruals had posted to their accounts. In effect, they were allowed to accrue more leave time than they should have.

- 7. The Office of the State Comptroller should implement control procedures necessary to ensure compliance with the requirements related to compensatory time set forth in both the Department of Administrative Services Management Personnel Policy No. 06-02 and the P-4 bargaining unit contract. OSC should also ensure that the employees are assigned to the correct compensatory time plan in Core-CT.**

Comment:

We noted various instances in which employees were granted compensatory time that was not properly approved, documented, or in compliance with DAS personnel policies. We also noted instances in which employees were assigned to the incorrect compensatory plan in Core-CT.

- 8. The Office of the State Comptroller should improve the timeliness of its bank deposits by adhering to the prompt deposit requirements of Section 4-32 of the General Statutes. In addition, OSC should ensure that all relevant documentation is maintained to support the dates it receives funds and the dates those funds are deposited.**

Comment:

Our audit disclosed various instances in which funds received by OSC were not deposited in accordance with the prompt deposit requirements of Section 4-32 of the General Statutes.

- 9. The Office of the State Comptroller should take steps to strengthen controls over purchasing card transactions by ensuring compliance with its own purchasing card procedures.**

Comment:

In certain instances, monthly reconciliations did not receive approval from the cardholder's supervisor. We also noted an instance in which a monthly reconciliation was not on file.

CONCLUSION

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



Michael J. Delaney
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts