

STATE OF CONNECTICUT



***AUDITORS' REPORT
CONNECTICUT COMMISSION ON CULTURE AND TOURISM
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005 AND 2006***

AUDITORS OF PUBLIC ACCOUNTS

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Table of Contents

INTRODUCTION	1
COMMENTS	1
FOREWORD	1
SIGNIFICANT LEGISLATION	4
RÉSUMÉ OF OPERATIONS:	6
General Fund.....	6
Special Revenue Funds	7
Capital Projects Funds	9
Connecticut Arts Endowment Fund.....	9
CONDITION OF RECORDS	10
Compensatory Time.....	10
Property Control and Reporting.....	11
State Accountability Directive Number One	14
Electronic Data Processing – Disaster Recovery Plan.....	15
Records Retention Schedule	15
Purchasing, Receiving and Expenditures.....	16
Expenditures – Internal Control Over Parking Garage Payments	18
Fund Management – Arts in Public Spaces	18
Internal Control Over Receipts and Late Depositing and Accounting	20
Arts Endowment Fund	22
Strategic Initiative Grants	23
Grant Contract Disclosure.....	25
Grants – Art, History and Line Item Grantees	26
Tourism Grants	28
RECOMMENDATIONS	31
CERTIFICATION	37
CONCLUSION	40

October 30, 2007

**AUDITORS' REPORT
CONNECTICUT COMMISSION ON CULTURE AND TOURISM
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005 AND 2006**

We have examined the financial records of the Connecticut Commission on Culture and Tourism for the fiscal years ended June 30, 2004, 2005 and 2006. This report on that examination consists of the following Comments, Recommendations and Certification. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Commission's compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating the Commission's internal control structure policies and procedures established to ensure such compliance.

Pursuant to Public Act 03-06 of the June Special Session of the 2003 General Assembly, effective August 20, 2003, the Connecticut Historical Commission, the State Commission on the Arts, the Office of Tourism, the Connecticut Tourism Council, the Connecticut Film, Video and Media Commission and the Connecticut Film, Video and Media Office were merged into the Connecticut Commission on Arts, Tourism, Culture, History and Film. Public Act 04-02 of the May Special Session of the 2004 General Assembly renamed the successor agency the Connecticut Commission on Culture and Tourism, effective May 12, 2004. This is the first report on the combined successor agency.

COMMENTS

FOREWORD:

The Connecticut Commission on Culture and Tourism (hereinafter referred to as "the Commission" or "CCT") operates under the provisions of Title 10, Chapter 184b, Sections 10-392 through 10-418 of the General Statutes. The primary responsibility of the Commission is to preserve and promote Connecticut's cultural and tourism assets in order to enhance the quality of life and economic vitality of the State.

The principal programs, activities and responsibilities of the Commission include:

- 1) Marketing and promoting Connecticut as a destination for leisure and business travelers through the development and implementation of a strategic state-wide marketing plan and provision of visitor services to enhance the economic impact of the tourism industry;
- 2) Promoting the arts;
- 3) Recognizing, protecting, preserving and promoting historic resources;
- 4) Interpreting and presenting Connecticut's history and culture; and
- 5) Promoting Connecticut as a location in which to conduct filming and establishing and conducting business related to the digital media and motion picture industries to enhance these industries' economic impact in the State.

Organizational Structure:

The Department is comprised of the following divisions:

Executive Director's Office
Arts Division
Film Division
Historic Preservation and Museums Division
Tourism Division

The Department's business office and human resource functions were transferred to the Department of Administrative Services' Small Agency Resource Team during the fiscal year ended June 30, 2006.

Douglas Evans served as the Executive Director of the State Commission on the Arts until his resignation on December 5, 2003. Jennifer Aniskovich was appointed Executive Director, effective January 2, 2004, and served until her resignation on January 18, 2007. Karen Senich was appointed Acting Executive Director, effective January 19, 2007, and continues to serve in that capacity.

Membership of the Commission:

As stated in Section 10-393 of the General Statutes, the Commission shall consist of twenty-nine voting commissioners and nonvoting ex-officio members. As of June 30, 2006, the following were members:

Appointed by the Governor:
Carolyn F. Cicchetti
Walter M. Fiederowicz
Fritz Jellinghaus
Michael Kintner
Lawrence D. McHugh
Michael P. Price, Chair

Clement J. Roy
Douglas H. Teeson

Legislative Appointments:

Karen Arnold
Charles F. Bunnell
Jack Condlin
Arthur Diedrick
Angelo Faenza
Carl Feen
Steven Gardiner
Betty Hale
Adam Grabinski
Astrid Hanzalek
Harvey Hubbell V
Paul Pozzi
Rita M. Schmidt
Ann Elizabeth Sheffer
Ted Yudain
Vacancy

Ex Officio Members:

Nicholas Bellantoni, Ph.D.
Bruce Fraser
Helen Higgins
Marilyn Nelson
Walter Woodward, Ph.D.

In addition to the members listed above, the following also served as commissioners during the audit period: Jennifer Aniskovich, Sid Beighley, Dr. Christopher Collier, Henry Fernandez, Hugh Macgill, Linda Roth, William Schwab, and Rose Cignatta.

Historic Preservation Council:

In accordance with Section 10-409 of the General Statutes, there is established within the Department, a Historic Preservation Council. The Historic Preservation Council shall consist of twelve members to be appointed by the Governor. As of June 30, 2006, the following were members:

Timothy R. Beeble, Chair
Dr. Nicholas Bellantoni
Richard Buel, Ph.D.
Sharon P. Churchill, Esq.
Louise G. Costello
Wayne Gannaway
Katherine W. Green

Richard L. Hughes II
Jean R. Kelley
Barbara V. Schley
Laurence R. Shaffer
Walter Woodward, Ph.D.

In addition to the members listed above, the following also served as members during the audit period: David Barkin, Christopher Collier, Ph.D., Barbara A. Hudson, C. William Kraus, Edwin R. Ledogar, and Marsha Lotstein.

Significant Legislation:

Public Act No. 03-6 of the June Special Session, effective August 20, 2003, in addition, to establishing the Commission, consolidated the eleven tourism districts into five regional tourism districts. The Act also requires that each regional tourism district submit an annual budget to the executive director of CCT for approval. No funds shall be expended by the tourism districts without prior approval of the budget by the Commission. Section 216 of the Act requires that for the fiscal years ending June 30, 2004 and 2005, the Commissioner of Revenue Services shall segregate twenty million dollars from the revenue attributable to the sales tax imposed under subparagraph (H) of subdivision (2) of subsection (a) of Section 12-407 of the General Statutes on any hotel or lodging house. Said funds shall be deposited in the Commission's account, established under Section 213 of this Act, for the administration and operation of the Commission.

Public Act 04-25, effective April 28, 2004, requires the Commission to recognize, document, and mark sites in Connecticut commemorating the abolition of slavery, the Underground Railroad and the history and movement of African-American residents toward freedom. The Act also requires the Commission, in consultation with the Amistad Committee, to establish a Freedom Trail.

Public Act 04-216, effective May 6, 2004, requires that all payments made from the Commission's account during the fiscal year ending June 30, 2004, in accordance with the provisions of Section 216 of Pubic Act 03-6 of the June Special Session, are deemed to be expenditures from appropriated funds authorized by Public Act of the General Assembly and any revenues intercepted pursuant to Section 216 are deemed to be General Fund revenue.

Public Act 04-205, effective June 3, 2004, requires the Commission to prepare an annual, instead of a biennial, budget and submit it to the Office of Policy and Management beginning with the fiscal year ending June 30, 2006. The Act requires the Commission to work with the Amistad Committee, Inc. of New Haven on commemorating sites related to African-American History. The Act allows the eleven former tourism districts to transfer their assets and liabilities to the five new districts created by Public Act 03-6 of the June Special Session. It also allows any tourism district in existence on July 1, 2003, that terminates operations prior to January 1, 2004, to file a single audit report for the period from July 1, 2002, until the termination of such district's operation. Lastly, the

Act drops the requirement that the visitor welcome centers provide certain information services to visitors and makes several technical changes.

Public Act 05-228, effective July 1, 2005, requires that town clerks shall collect a fee for each document recorded in the land records of the municipality. A portion of such fee shall be credited to a separate nonlapsing account within the General Fund to be known as the “land protection, affordable housing and historic preservation account”. Twenty-five percent of the funds in the account shall be distributed to the Commission to supplement the technical assistance and preservation activities of the Connecticut Trust for Historic Preservation and to supplement historic preservation activities as provided in Sections 10-409 to 10-415 of the General Statutes. Not more than ten percent of such funds may be used for administration of the programs for which the funds were provided.

Public Act 06-83, effective July 1, 2006, establishes corporation tax credits for producing films and digital media in Connecticut and authorizes the Commission to administer the credits.

Public Act 06-172, effective October 1, 2006, broadens the Commission’s charge to include promoting movie and digital media production and post-production in the State, rather than just film locations, and expands the Commissions’ existing film responsibilities to all types of digital media. It requires the Commission to report to the General Assembly every two years on its digital media and movie production activities, the economic impact of all productions, and the impact of each State-assisted production. The Act adds six new Commission members, all of whom must have digital media or movie production experience. The six new members are appointed by Legislative leaders. It also requires one of the Governor’s appointees to the Commission, who was formerly required to know about, have experience in, or be interested in film, to instead have direct experience in digital media or movie production. Finally, the Act exempts the Commission’s director of digital media and motion picture activities from the State classified service and requires State agencies and institutions that contract for media productions to send copies of their requests for proposals to the Commission.

Public Act 06-186, effective July 1, 2006, repealed Public Act 06-83 and restructures the tax credit for movie and digital media production expenses.

RÉSUMÉ OF OPERATIONS:

General Fund:

Receipts:

General Fund receipts for the fiscal years examined are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Sales	\$ 1,919	\$ 5,794	\$ 3,734
All other	<u>20,172,315</u>	<u>(82,840)</u>	<u>5,594</u>
Total General Fund Receipts:	<u>\$ 20,174,234</u>	<u>\$ (77,046)</u>	<u>\$ 9,328</u>

The decrease in receipts during the 2004-2005 fiscal year was due to a change in the way the Agency was funded. During the 2003-2004 fiscal year, pursuant to Public Act 03-6, twenty million dollars from the revenue attributable to the sales tax imposed on any hotel or lodging house was deposited by the Commissioner of Revenue Services into the Commission's account for the administration and operation of the Commission. For the 2004-2005 fiscal year, the Agency no longer received revenue from the Department of Revenue Services. Pursuant to Public Act 04-216, the Agency was funded through General Fund appropriations. The negative revenue balance of (\$77,046) reported for the 2004-2005 fiscal year was due to the way a prior period adjustment was processed.

Expenditures:

A summary of General Fund expenditures during the audited period follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Personal services	\$ 1,024,994	\$ 3,228,866	\$ 3,319,858
Contractual services	4,204,535	4,999,469	4,390,629
Commodities	84,895	815,673	238,983
Grants and aid	12,844,515	17,031,020	16,290,829
Capital Outlay	<u>1,899</u>	<u>36,246</u>	<u>3,868</u>
Total Expenditures	<u>\$ 18,160,838</u>	<u>\$ 26,111,274</u>	<u>\$ 24,244,167</u>

Expenditures increased by \$7,950,437 from the fiscal year ended June 30, 2004 to the fiscal year ended June 30, 2005. As mentioned previously, the fiscal year ended June 30, 2004 is the first fiscal year in which the Commission was established. Although the Commission was established effective August 20, 2003, it was several months before the Commission was operational. Transactions were initially processed by the State Library and Department of Economic and Community Development for part of the audit period and reimbursed by the Office of Policy and Management. In addition, pursuant to Section 28 of Public Act 04-216, the unexpended balance of funds appropriated to the

Commission did not lapse on June 30, 2004, and approximately \$4 million of such funds continued to be available for expenditures during the fiscal year ending June 30, 2005.

Expenditures for commodities increased during the 2005-2006 fiscal year because the Agency purchased more information technology supplies as a result of moving to a new location. Commodities decreased during the 2005-2006 fiscal year primarily because the Department changed the way in which advertising for the Tourism Division was coded. Advertising expenditures had been coded as commodities during the 2004-2005 fiscal year and were correctly coded as contractual services during the 2005-2006 fiscal year. Expenditures for contractual services decreased during the 2005-2006 fiscal year due to a decrease in expenditures for management consulting services.

Of the amount reported for grants, \$1,736,491, \$1,962,900, and \$2,805,821 for the fiscal years ended June 30, 2004, 2005 and 2006, respectively, were for the basic cultural resources grants program. Section 10-400 of the General Statutes authorizes the Commission to provide grants, loans, or advances to individuals and organizations for the development, promotion, and maintenance of artistic and cultural activities. In addition, \$10,940,024, \$13,686,000 and \$13,470,000 for the fiscal years ended June 30, 2004, 2005 and 2006, respectively, were for grants to approximately twenty line-item grantees as designated in the Commission's budget. Grants and aid decreased during the fiscal year ended June 30, 2006, primarily because a transfer invoice of \$1,360,000 was processed to transfer to OPM the unexpended balance that had been carried forward from fiscal year 2003-2004 to fiscal year 2004-2005, pursuant to Public Act 04-216, as mentioned above.

Special Revenue Funds:

Federal and Other Restricted Accounts Fund:

Receipts:

Federal and Other Restricted Accounts Fund receipts for the fiscal years examined are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Federal Grants:	\$ 76,201	\$ 661,580	\$ 1,449,493
Non-Federal Aid	26,748	276,160	3,745,176
Grant Transfers – Non-Federal	25,000	0	50,000
Sales	2,459	0	0
Private Donations	5,043	0	0
All other	<u>1,149</u>	<u>726</u>	<u>2,084</u>
Total General Fund Receipts:	<u>\$ 136,600</u>	<u>\$ 938,466</u>	<u>\$ 5,246,753</u>

Federal grant collections resulted from agreements or grants between the Federal government and the Commission for the administration of programs and activities for

historic preservation and arts programs financed in part by the Federal government. The increase in Federal grants during the 2004-2005 and 2005-2006 fiscal years is due primarily to the timing of the collection of receivables. In addition, the drawdown of Funds received from the National Endowment for the Arts for the 2003-2004 fiscal year was processed by the State Library.

The increase in non-Federal Aid during the 2004-2005 fiscal year was due to a change in the way the Agency coded receipts. Receipts that had previously been coded to sales and donations were coded as non-Federal Aid. Of the \$3,469,016 increase in non-Federal Aid for the 2005-2006 fiscal year, \$3,448,285 was for revenue collected from land recording fees from municipalities in accordance with Public Act 05-228.

Expenditures:

A summary of expenditures during the audited period follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Federal:			
Personal services	\$ 309,418	\$ 442,443	\$ 575,285
Contractual services	(78,006)	19,591	158,418
Commodities	733	2,168	2,384
Grants	512,983	553,019	395,160
Capital Outlays	<u>0</u>	<u>0</u>	<u>1,960</u>
Total Federal Accounts	745,128	1,017,221	1,133,207
Non-Federal	<u>181,384</u>	<u>204,235</u>	<u>497,877</u>
Total Expenditures	<u>\$ 926,512</u>	<u>\$1,221,456</u>	<u>\$1,631,084</u>

Personal services increased during the 2005-2006 fiscal year primarily due to the hiring of two individuals. Contractual services increased during the 2005-2006 fiscal year primarily due to an increase in printing and binding, graphic design, and management consulting services for the Arts and History Divisions. Non-Federal expenditures increased during the 2005-2006 fiscal year primarily due to increased funding available for historic preservation activities due to the passage of Public Act 05-228, effective July 1, 2005.

Other Special Revenue Funds:

The Department used a tax exempt proceeds fund to account for proceeds of capital project funds that have been allocated for artwork to be included as part of State building construction projects. Under the provisions of Section 4b-53 of the General Statutes, the Commission is authorized to select the artists and artwork style to be included as part of larger construction or renovation projects of State buildings. The Commission can set aside up to twenty-five percent of the funds that have been allocated for construction related artwork for use in purchasing artworks of distinguished Connecticut artists, for the establishment of a bank of major works of art and for the maintenance of such a

collection. A summary of financial transactions of the various operating components of this special revenue fund follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Artwork Buildings	\$ 11,300	\$440,184	\$ 71,695
Art Collection	245	1,728	17,601
Total Expenditures	<u>\$ 11,545</u>	<u>\$441,912</u>	<u>\$ 89,296</u>

Expenditures for the above artwork programs were also accounted for in the Federal and Other Restricted Accounts Fund.

The Department also used a special revenue fund entitled “Capital Equipment Purchase Fund” to purchase office equipment and electronic data processing equipment. Expenditures totaled \$10,743 for the fiscal year ended June 30, 2006. There were no expenditures for the fiscal years ended June 30, 2004 and 2005.

The Department also used another special revenue fund entitled “Grants to Local Governments and Others” for State restoration fund grants to non-profits. Expenditures totaled \$246,048, \$57,500, and \$216,314 for the fiscal years ended June 30, 2004, 2005, and 2006, respectively. These expenditures were used to preserve/restore historic structures.

Capital Projects Funds:

Expenditures from capital project funds totaled \$0, \$34,200, and \$351,96 during the fiscal years ended June 30, 2004, 2005 and 2006, respectively. Expenditures were primarily for improvements to the Agency’s museums.

Connecticut Arts Endowment Fund:

The Commission’s Connecticut Arts Endowment Trust Fund operates under the provisions of Sections 10-406 through 10-408 of the General Statutes. This Fund is financed from the proceeds of State bonds that serve as the principal balance of the Arts Endowment Fund with interest earnings from such funds being available for State matching grants to eligible arts organizations. A summary of financial transactions for the audited period follows:

	<u>As of June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Cash and Investments, beginning of year:	\$15,420,659	\$15,428,799	\$15,405,502
Investment Earnings	756,274	732,977	732,939
Less: Grants	748,134	756,274	732,976
Cash and Investments, end of year:	<u>\$15,428,799</u>	<u>\$15,405,502</u>	<u>\$15,405,465</u>

The fair market value of Trust Fund assets at June 30, 2006, was \$15,831,803.

CONDITION OF RECORDS

Our testing of the Commission's records identified the following areas that warrant comment.

Compensatory Time:

Criteria: The Department of Administrative Services' (DAS) Management Personnel Policy 80-1 states that compensatory time must be authorized in advance by the Agency Head or designee and the amount of extra time worked must be significant in terms of total and duration. Compensatory time earned during the twelve months of the calendar year must be used by the end of the succeeding calendar year and cannot be carried forward.

Collective bargaining contracts for both the Administrative and Residual (P-5) and the Engineering, Scientific and Technical (P-4) employees state that an exempt employee who is required by the State to perform extended service outside the normal workweek to complete a project or for other State purposes shall be authorized to receive compensatory time off.

The Commission's compensatory time policy requires that compensatory time must be authorized in advance and is accrued in one-hour increments. Compensatory time earned during the calendar year must be used by the end of the calendar year and cannot be carried forward.

Condition: Our review of the annual attendance records for one manager and eleven exempt union employees disclosed that five employees accrued less than one hour of compensatory time in twenty-eight instances totaling nine hours. In addition, ten employees did not use their earned compensatory time by the end of the calendar year and the expired compensatory time was not deducted from their compensatory time balances. The amount of expired compensatory time ranged from one hour to 127 hours. We did note that the compensatory time was used within the timeframes established by Management Personnel Policy 80-1.

We also reviewed a total of twenty-five timesheets in which compensatory time was earned. Our review disclosed that for fifteen timesheets there was no documentation that the compensatory time had been authorized in advance by a supervisor.

- Effect:* Employees are receiving compensatory time accruals for insignificant amounts of time and are permitted to retain compensatory time contrary to the Department's Compensatory Time Policy. Without proper oversight and documentation the Commission has less assurance that the services it has compensated its employees for have actually been received.
- Cause:* The Commission did not have adequate procedures in place to ensure that the compensatory time policy was followed.
- Recommendation:* The Commission and DAS should work together to strengthen internal controls over compensatory time. (See Recommendation 1.)
- Agency Response:* "The Connecticut Commission on Culture and Tourism was established in August 2003, and has worked to establish policies and procedures with regard to compensatory time. In August 2005, our business office and all business functions, including human resources and payroll services moved to the Department of Administrative Services Small Agency Resource Team. The Commission will continue to enforce the policies regarding compensatory time, in particular, that compensatory time must be authorized in advance, accrued in one-hour increments, and used by the end of a calendar year."

Property Control and Reporting:

- Criteria:* Section 4-36 of the General Statutes requires that each State Agency establish and keep an inventory account in the form prescribed by the State Comptroller.
- The State Property Control Manual requires that all State Agencies have policies and procedures in place to ensure that the State's property, plant and equipment are properly managed. The State Property Control Manual requires that the Core-CT Asset Management Module is the property control system to be utilized by all State Agencies with limited exceptions to record and control all property owned by and/or in the custody of a State Agency. The State Property Control Manual also requires that State Agencies maintain a detailed software inventory listing.
- The Agency is required to transmit annually, on or before October first, to the Comptroller a detailed inventory, as of June thirtieth, of all property, real or personal, owned by the State and in custody of such department.

Condition:

Our review disclosed that the Commission has not been tracking its inventory on the Core-CT Asset Management System as required by the Property Control Manual and has not maintained a detailed software inventory listing. In addition, our review of twenty-five inventory items randomly sampled from the Commission's inventory listing and five items identified by a random inspection of the Commission's premises disclosed that for three items the serial numbers were listed incorrectly on the inventory listing, two items that had been surplused were not removed from the inventory listing, and one item was entered into the inventory records twice.

Our review of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2004, 2005 and 2006 disclosed the following:

- Site improvements of \$725,362 that were reported for the 2003-2004, 2004-2005 and 2005-2006 fiscal years, respectively, were unsupported.
- Buildings totaling \$1,186,911 for the fiscal year 2003-2004 and \$1,199,181 for the fiscal years 2004-2005, 2005-2006, respectively, were unsupported. Additions to buildings of \$11,752 were incorrectly reported for the 2003-2004 fiscal year.
- Of the \$302,355 and \$428,858 reported for furnishings and equipment for the 2003-2004 and 2004-2005 fiscal years, respectively, controllable items totaling \$21,503 and \$55,533, respectively, were incorrectly reported. In addition, items for the Tourism Division were not included on the reports for these fiscal years. The additions to furnishings and equipment of \$118,573 reported for the 2005-2006 fiscal year were not supported by a detailed inventory listing and were supported only by expenditure reports that did not provide sufficient detail to identify the items that were reported.
- For the 2003-2004 fiscal year there was no documentation to support the balance of \$1,477,529 reported for works of art and historical treasures. In addition, for the 2004-2005 fiscal year, \$967,283 of the \$1,530,529 reported was unsupported. For the 2005-2006 fiscal year, the \$1,518,529 balance reported for fine arts was unsupported. In addition, although subsequent to the audit period the Commission has had appraisals performed on two of its historical collections, some items have not been appraised since 1982 and the reported values appear unreliable.

- The CO-59 Fixed Assets/Property Inventory Report was not submitted in a timely manner for the 2003-2004 and 2005-2006 fiscal years.

Effect: Deficiencies in the control over the equipment inventory result in a decreased ability to properly safeguard State assets. The Commission is not in compliance with the requirements of the State Property Control Manual and the Commission's report of inventory to the State Comptroller was unsupported.

Cause: We were informed that staff have not had the time to devote to entering inventory items into Core-CT and staff believed that the Department of Information Technology was responsible for maintaining the Department's software inventory listing. Several balances on the CO-59 were unsupported because the balances from prior years were carried forward from years in which the report was prepared by individuals who are no longer employed at the Commission.

Recommendation: The Commission should improve property control, should institute procedures to ensure that all inventory items are reported on Core-CT, should institute procedures to ensure that the inventory reported to the State Comptroller is submitted in a timely manner and is properly supported and should consider having appraisals done on the remaining museum collections and fine arts inventory. (See Recommendation 2.)

Agency Response: "The Commission was established in August 2003, merging four agencies into one. New computers and peripheral devices and the disposal of old equipment have proven difficult to track. The Commission will inventory equipment of the entire Agency prior to the Agency's move in 2007.

The Commission was incorrect in assuming that the Excel inventory was acceptable. The Agency will continue to use Excel for inventory for internal use while entering the appropriate information into Core-CT. The Commission will work to correct the Controllable Assets Report for the 2007 inventory report.

Be advised that no inventory for the Tourism Division for 2004 or 2005 was reported as the Division did not move into the building until April 2006. The Tourism Division's inventory would appear on the Department of Economic and Community Development CO-59 prior to April 2006.

The Commission is also working on appraisals for museum

collections and fine art collections. The Commission will provide supporting documentation for future inventories.”

Auditors’ Concluding

Comment:

Regardless of the physical location of the Office of Tourism, the Division was part of CCT and its equipment was considered to be owned by CCT. Thus, the Division’s equipment should have been included on the CO-59 Reports for CCT for the fiscal years ended June 30, 2004 and 2005.

State Accountability Directive Number One:

Criteria:

The State Comptroller’s Accountability Directive Number One requires all State Agencies to perform an internal control self-assessment to be completed by June 30th of each fiscal year.

Condition:

Our review disclosed that internal control self-assessments were not completed for the fiscal years ended June 30, 2004 and 2005. Although a self-assessment was prepared for the fiscal year ended June 30, 2006, the Federal funds and data processing sections were not completed.

Effect:

The Commission was not in compliance with the State Accountability Directive Number One, thereby increasing the risk that internal control weaknesses could go undetected.

Cause:

We were unable to determine why the assessments were not completed for the fiscal years ended June 30, 2004 and 2005. For the fiscal year ended June 30, 2006, DAS prepared the assessment, but did not complete the Federal funds and data processing sections because DAS staff believed these sections should be completed by the Commission. Commission staff were unaware that they had any responsibility for the preparation of the assessment for the 2005-2006 fiscal year since DAS had taken over most of the Commission’s business office functions.

Recommendation:

The Commission should comply with State Accountability Directive Number One by performing the applicable sections of the annual internal control self-assessment. (See Recommendation 3.)

Agency Response:

“The consolidation of the Agency and the loss of business office staff led to deficiencies. The Commission will work with the Department of Administrative Services to ensure that the State Comptroller’s Accountability Directive Number One is fully completed in future years.

The Commission was not established until August 2003. In 2004 and 2005, no form was provided to the Commission. In 2006, the Department of Administrative Services received and completed the form to the best of its ability.”

Electronic Data Processing – Disaster Recovery Plan:

- Criteria:* Sound business practices include provisions that organizations have comprehensive disaster recovery plans in place to enable critical operations to resume activity within a reasonable period after a disaster.
- Condition:* The Commission does not have a formal written disaster recovery plan in place.
- Effect:* In the event of a disaster, the Commission’s ability to operate satisfactorily and serve its constituents is diminished without a comprehensive formal written disaster recovery plan.
- Cause:* The Commission’s staff believed that the Department of Information Technology (DOIT) was responsible for maintaining a disaster recovery plan for the Commission. Although a memorandum of understanding with DOIT was drafted, it was never finalized and executed.
- Recommendation:* The Commission should develop a formal written comprehensive disaster recovery plan. (See Recommendation 4.)
- Agency Response:* “The Commission’s business staff was aware of a draft Memorandum of Understanding (MOU) between the Commission and DOIT, which would assign the responsibility for maintaining the Commission’s Disaster Recover Plan to DOIT. Staff was unaware that the MOU with DOIT was not finalized or executed. The Commission will work with DOIT to ensure that an MOU is executed for the maintenance of a Disaster Recovery Plan.”

Records Retention Schedule:

- Background:* The Connecticut State Library is the Public Records Office for the State of Connecticut. The State Librarian is given authority and responsibility to administer a public records program for State Agencies. This authority is found in Sections 11-8 and 11-8a of the General Statutes.

- Criteria:* Section 11-8a(b) of the General Statutes states that the State Librarian may require each such State Agency to inventory all books, records, papers and documents under its jurisdiction and to submit to him for approval, retention schedules for all such books, records, papers and documents. The State Librarian requires that State Agencies submit a Records Retention Schedule, Form RC-50, for approval as part of the State Agency Records Management Program.
- Condition:* The Commission did not submit a records retention schedule to the State Library.
- Effect:* Without a records retention schedule, the Commission decreases its ability to properly safeguard State assets. The Commission is not in compliance with the State Library's State Agency Records Management Program.
- Cause:* The Commission was unaware of the records retention schedule requirement.
- Recommendation:* The Commission should submit a records retention schedule to the Connecticut State Library. (See Recommendation 5.)
- Agency Response:* "The Commission will work with and submit to the Connecticut State Library a records retention schedule in compliance with the Connecticut General Statutes, Sections 11-8 and 11-8a. The Historic Preservation and Museum Division continues to operate under the records retention policy of the former Connecticut Historical Commission."

Purchasing, Receiving and Expenditures:

- Criteria:* Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller. The Comptroller's P-Card Program Manual requires that agencies issue an on-line purchase order prior to receipt of a bill to ensure statutory requirements regarding the encumbrance of funding.
- Proper internal controls related to purchasing require that commitment documents be properly authorized prior to receipt of goods or services.
- The State Accounting Manual requires that Agencies are responsible to ensure that accounts payable procedures are

supported by proper internal controls. Such internal controls include the proper recording of expenditure codes and receipt dates.

Condition: Our review of thirty-seven expenditure transactions disclosed the following:

- Twenty-three transactions had purchase orders that were created after goods or services were received. Of these instances, nine were for P-Card purchases.
- Five transactions were coded to the wrong account codes. We noted an additional four transactions that were not part of our sample that were also miscoded.
- Fourteen transactions had the incorrect receipt date recorded.

In a separate review of fifty-five grant transactions, we also noted that the incorrect receipt date was recorded in eleven instances.

Effect: When expenditures are incurred prior to the commitment of funds, there is less assurance that agency funding will be available at the time of payment. When account codes are incorrectly entered into the Core-CT system, the State's financial statements may be misstated. The incorrect recording of receipt dates could result in the improper reporting of year-end vendor payables and a lack of compliance with Generally Accepted Accounting Principles.

Cause: Sufficient emphasis was not placed on completing the purchasing process in an orderly manner. The importance of accurate recording of account codes and receipt dates in the Core-CT system was not adequately stressed.

Recommendation: The Commission and DAS should work together to strengthen internal controls to ensure that funds are committed prior to purchasing goods and services, and account codes and receipt dates are correctly recorded. (See Recommendation 6.)

Agency Response: "Since discussions with the representatives from the Auditors of Public Accounts, the Commission now produces a purchase order for P-Card purchases on the 15th of every month to comply with the Connecticut General Statutes Section 4-98a. The purchase order will be amended when the coding is reviewed from the museums. The Commission will continue to ensure that separate coding entry dates and use of forms are implemented prior to the purchase of any goods in the future."

Expenditures – Internal Control over Parking Garage Payments

Criteria: The State Accounting Manual requires that State Agencies are responsible to ensure that accounts payable procedures are supported by proper internal controls. An Agency employee must certify the accuracy and completeness of expenditure documents.

Proper internal controls require that appropriate supporting documentation be maintained to verify the accuracy of vendor invoices.

Condition: Our review of expenditures for parking garage payments disclosed that the Commission did not maintain a listing of validated parking tickets. The Commission paid the monthly vendor invoices without verifying that the amounts billed were accurate. When this matter was brought to the Commission’s attention, immediate action was taken, which includes the maintenance of a detailed validation log.

Effect: The Commission could be paying for unauthorized charges.

Cause: The Commission did not have a procedure in place to track validated tickets due to administrative oversight.

Recommendation: The Commission should continue to maintain a log of parking tickets and verify that charges are authorized prior to payment. (See Recommendation 7.)

Agency Response: “Since the discovery of potential inaccuracies in parking procedures, the Commission has established proper internal controls to ensue that only those authorized charges are paid. The Commission maintains a validation log and has implemented rules regarding validations. The Commission checks the validation log against the invoices received at the end of each month.”

Fund Management – Arts in Public Spaces:

Criteria: Section 4b-53, subsection (b), of the General Statutes requires the State Bond Commission to allocate not less than one percent of certain estimated construction costs for artwork. Subsections (c) and (d) of the same Section, and Sections 4b-53-1 and 4b-53-2 of the related regulations, earmark the funds so that between ten and twenty-five percent of the one percent may be used for purchases of art for two collections and the repair of art purchased under the Section. The remaining funds should be used for the costs of

construction-related art. The regulations require the Commission to notify the Commissioner of Public Works if it intends to exceed ten percent for the purchase and repair of artwork. The Commission is also required annually to determine the allocation of funds for purchases between the two art collections.

Condition: Our review disclosed the following weaknesses in complying with artwork requirements established by the General Statutes and Regulations:

Earmarking of Funds - The Commission has not documented that it annually established allocations of funds for the two art collections. In addition, our review of four projects disclosed that funds earmarked for the collection purchases and artwork repair were more than ten percent and the Commission was unable to document that it had notified the Department of Public Works of its intent to exceed the ten-percent cap placed on those funds by the regulations.

Fiscal Monitoring –Our review disclosed that the Commission did not maintain adequate financial reports. Although the Department maintains a separate paper folder on each project, the Commission did not maintain a centralized tracking worksheet to account for and monitor projects.

Effect: General Statutes and Regulations requirements may not be met if fund allocation records are not properly maintained and if project spending is not adequately monitored.

Cause: Although the former Commission on the Arts transferred a tracking worksheet that was updated through December 2003, due to staffing changes, the Commission has not had the time to devote to updating the tracking worksheet.

Recommendation: The Commission should establish policies and procedures to ensure compliance with Section 4b-53 of the General Statutes and the related regulations. (See Recommendation 8.)

Agency Response: “The Commission will work with the Department of Public Works to develop a notification procedure should the Commission intend to exceed the 10 percent cap on the collection and repairs. The Commission will develop a centralized tracking worksheet to monitor the funds expended on any particular project.”

Internal Control over Receipts and Late Depositing and Accounting:

Criteria:

Section 4-32 of the General Statutes requires that an agency shall account for receipts within twenty-four hours and if the total receipts are \$500 or more, deposit the same within twenty-four hours of receipt. Total daily receipts of less than \$500 may be held until the receipts total \$500, but not for a period of more than seven calendar days. The Comptroller's State Accounting Manual requires agencies to keep a receipts journal that indicates the date of receipt.

With the implementation of the state-wide Core-CT accounting system, on a daily basis, the bank deposit information is entered into Core-CT through an interface between the bank and State. The "Entered Date" recorded on Core-CT represents the date the deposit information was loaded into the system and is ready to be recorded by direct journal. During the audit period, the "Journal Posting Date" was the date the posting process was run and the journal actually appeared in the General Ledger.

The Office of the State Treasurer granted the Commission a five business day waiver for the reporting of deposits that was effective from June 2004 through June 2006.

Management is responsible for establishing internal control over cash receipts to minimize the risk of loss. Such internal controls should include comparisons of receipts that were recorded with the receipts that should have been accounted for.

Condition:

Our review of deposit transactions revealed six receipts totaling \$3,392 that were deposited between one and eight days late. In addition, eight deposits totaling \$8,244 were posted to the general ledger between one and twenty-one days late. We also noted three receipts totaling \$5,192 that were not recorded in a receipts journal. Our testing further disclosed that the Commission did not maintain receipts journals in accordance with the Comptroller's specifications at all of its sites.

Our review also disclosed that three deposits at the Agency's museums did not agree with supporting cash register totals and daily revenue reports. Two of these deposit amounts were greater than the supporting documentation by \$4 and \$9, respectively. The third deposit was \$18 less than the supporting documents. There was no written evidence that the variances were reviewed by management prior to our inquiry.

Effect: The Commission was not in compliance with the provisions of Section 4-32 of the General Statutes and the Commission's waiver. This deprives the State of the timely receipt and use of revenue. The lack of management oversight of receipts increases the risk that all revenue received may not be properly accounted for.

Cause: For the 2003-2004 fiscal year, the Commission continued to follow the waiver granted to the former Connecticut Historical Commission, even though it had expired during July 2003. Also, the Commission did not have a clear understanding of the deposit reporting requirements relating to the Core-CT accounting system and has not established procedures to maintain receipts journals for all its sites.

Recommendation: The Commission and DAS should strengthen internal control procedures to ensure that receipts are recorded, deposited and accounted for in a timely manner. (See Recommendation 9.)

Agency Response: "The Commission agrees in part with the finding. The Commission's museums, which were operated by the former Connecticut Historical Commission, are located at the four corners of the State and are open on weekends making deposits within five days difficult. The Commission will continue to enforce the rule that deposits must be made timely and that the receipts are recorded and accounted for in a timely manner.

The museums use daily sheets in which attendance and register receipts are recorded on a daily basis. These daily sheets are transferred to the Museum Director whose office is in Hartford. The Museum Director keeps the deposit journal, which is available upon request. All shortages and overages are reported to the Museum Director who can check the register tapes."

*Auditors' Concluding
Comment:*

Although the museum daily sheets are transferred to the Museum Director in Hartford, the original cash register tapes are stored at the respective Museum sites. Our review disclosed that the Museum Director did not compare the daily sheets to the cash register tapes and there was no evidence that the Museum Director had reviewed or reconciled the variances identified during our review.

Arts Endowment Fund:

Background: Section 10-406 of the General Statutes established the Connecticut Arts Endowment Fund. Investment earnings of the fund may be available to the Commission for matching grants pursuant to Sections 10-407 and 10-408 of the General Statutes.

Criteria: Sound business practice dictates that when funds are provided to organizations for designated purposes, a contract should be signed between the grantor and grantee.

Condition: During the audit period, the Commission awarded 284 grants totaling \$2,237,385 from the Connecticut Arts Endowment Fund. Our review disclosed that the Commission did not establish grant contracts for any of these grants.

Effect: The grantees may not be aware of the requirements and restrictions relevant to the received funds.

Cause: It appears this was a practice that originated with the former Commission on the Arts.

Recommendation: The Commission should complete written contracts for Endowment Fund awards. (See Recommendation 10.)

Agency Response: “Connecticut General Statutes, Section 10-406 et. Seq. established an Arts Endowment Fund which provides interest earnings to arts organizations based on the organizations’ ability to raise private funds. The amount awarded to the institution is dictated by a statutory formula.

Since the inception of the fund, the endowment awards have not been considered grants, and therefore, grants contracts were not used. The timing of executing the contracts is of concern to the Commission. Once the Commission is advised by the Treasurer of the amount of interest earned, the Commission must determine the eligibility of the organizations which have applied and notify DAS of the organizations’ donor contributions so DAS can calculate the award amount. Only then could a contract be sent to the eligible organization for execution. Payments must be made by April 15th.

The Commission will, however, implement the appropriate measures to execute grants contracts thereby notifying grantees of the requirements and restrictions relevant to the received funds.”

Strategic Initiative Grants:

Criteria: Section 10-400 of the General Statutes states that the Commission may enter into contracts to provide grants, loans or advances to individuals, organizations or institutions, public or private, that are engaged in or plan to engage in artistic and cultural programs or activities within the State, or that are engaged in or plan to engage in the promotion, development or encouragement of artistic and cultural programs or activities within the state. The Department refers to such grants as Basic Cultural Resources Grants. The Department maintains several such grant programs with differing requirements and criteria, one of which is the strategic initiative grants program.

The standard grant contract used to award strategic initiative grants requires that a final report be submitted within sixty days of the funding period.

Sound business practices dictate that any stipulations related to the receipt of grant awards be referenced in the grant contract and that a contract amendment be prepared for any revisions to the original contract terms.

Sound business practices dictate that formal written criteria should be established for the awarding of grants and that applicants be given equal opportunities to apply for such grants.

Condition: During the audit period the Department approved thirteen strategic initiative grants to ten grantees totaling \$397,000. Our review disclosed the following.

- The Department does not maintain formal written criteria for the awarding of strategic initiative grants. In April 2006, general guidelines for the strategic initiatives program were discussed by the Special Projects Committee of the Commission. However, the Commission does not maintain any checklists or formal documentation to support that such guidelines are met. The documentation in the grant files was not sufficient for us to determine whether all the guidelines were met.
- Strategic initiative grants are solicited by the Executive Director. Grantees must be invited to submit a proposal and information on this grant program is not readily available to the public. We did note that these grants are approved by the Commission or a Committee within the Commission.

- During the audit period, the Commission did not have a standardized final report form for the grantees to submit. The final report form was created and requested from the grantees for the 05-06 fiscal year in January 2007, which is after the forms were due. Although many of the grantees submitted forms in their own formats, for five grants there was no final report form on hand.
- For one grant in the amount of \$2,500, the supporting documentation, including the grant proposal and original grant contract, could not be located. We were also unable to document that the grant was approved by the Commission.
- Two grants in the amounts of \$34,500 and \$75,000, respectively, were awarded with stipulations that were not referenced in the grant contract. In addition, the funding period was extended for one grant award in the amount of \$20,000 without amending the grant contract.
- For one grant in the amount of \$25,000 it appears that the Agency was receiving a service rather than awarding a grant. This grant was for work on an exhibit at one of the Agency's museums.
- Three grants totaling \$67,500 should not have been charged to basic cultural resources grants, as they were history and tourism initiatives.

Effect:

When there is no formal written criteria for the awarding of grants and potential applicants are not made aware of the availability of grant programs and do not have equal opportunities to apply, there could be the appearance of favoritism. When grants are awarded for vendor type services, State purchasing laws and regulations are circumvented and when stipulations or revisions to grant contracts are not made part of the formal grant contract, there is less assurance that such stipulations/revisions will be enforced. Failure to perform timely monitoring of grantees weakens control over grant payments.

Cause:

We were informed that this grant program was started at the former Commission on the Arts and has been continued by CCT.

Recommendation:

The Commission should establish written criteria and procedures for the awarding of strategic initiative grants, should allow all potential applicants the opportunity to apply for strategic initiative grants, should institute procedures to ensure that the proper funding source is used, and should ensure grants are properly monitored and that any grant stipulations are referenced in the grant contract. (See Recommendation 11.)

Agency Response: “The Strategic Initiative Grants originated with the former Arts Commission and continued with the Commission on Culture and Tourism. Written criteria were established in April 2006 and, although not formally adopted by vote, the Commission has adhered to these criteria in the awarding of these grants. The grants are reviewed by a subcommittee of the Commission. The Commission will, however, create more detailed written criteria and requirements for the Strategic Initiative Grants and implement a check list to ensure that all guidelines are met, including the submission of final reports.

The Commission will also develop a grant contract which will ensure that all stipulations referenced in the award letter are included in the contract. The Commission will develop internal controls to ensure the Agency funds from which the grants are paid are appropriate for the grants.

The Commission is working on compiling all grants into a single database to allow for monitoring of all grants.”

Auditors’ Concluding

Comment:

In April 2006, an outline of the general guidelines for the strategic initiatives program was drafted for discussion by the Special Projects Committee of the Commission. However, formal written guidelines were not established and our review disclosed that the grant files did not contain sufficient information to determine whether such guidelines were followed in the awarding of these grants.

Grant Contract Disclosure:

Criteria:

The National Endowment for the Arts (NEA) requires that a State’s grantee receiving NEA funds comply with the same Federal laws, rules, regulations, and OMB Circulars as the State. It also requires that grant contracts identify the source(s) of the Federal funds.

Condition:

Five grant contracts totaling \$946,664 that we reviewed included funding from the National Endowment for the Arts – CFDA #45.025. Two grants were for the HOT Schools program, two were for the Urban Artists program, and one was for the Community Partnership program. The grant contracts did not indicate that any portion of the funds was from Federal sources.

- Effect:* Failure to identify Federal grant amounts in the award agreement could result in failures by the grantees to administer State and Federal funds in accordance with applicable laws and regulations.
- Cause:* For two of the five grants, the original sources of the funds were not NEA grants. Subsequent to the signing of the grant contracts, the coding was changed to charge NEA funds. For the remaining three grants, the Agency neglected to include required Federal identifying grant contract information.
- Recommendation:* The Commission should identify Federal grant amounts in its grant contracts to ensure that the grantee complies with State and Federal laws and regulations. (See Recommendation 12.)
- Agency Response:* “The Commission will review all grant contracts to ensure that all grant contracts identify the Federal grant amount to ensure that the grantee complies with State and Federal laws and regulations. The Commission is working on compiling all grants into a single database to allow for monitoring of all grants.”

Grants – Arts, History and Line Item Grantees:

Criteria: Section 4-231(a)(1) of the General Statutes requires that each non-State entity, which expends a total amount of state financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year of such non-State entity, shall have either a single audit or a program-specific audit made for such fiscal year. Section 4-232(b)(1) of the General Statutes requires that a non-State entity file copies of its audit report with State grantor agencies no later than thirty days after the completion of such report, if possible, but not later than six months after the end of the audit period.

The standardized Commission grant contract requires that grantees provide a written program evaluation narrative and financial report within sixty days after the end of the funding period, grant awards may only be expended for the project purpose described in the grant contract, payments of grant award are paid as described in the grant contract, and any unspent funds will be returned to the Commission.

The Department maintains written guidelines on the awarding of its grants. Sound business practice dictates that whenever competitive grant awards or reimbursement grant awards are granted, an agency should maintain supporting documentation to

justify the competitive selection process and to support eligible reimbursement amounts.

Sound business practice also dictates that changes to contract terms should be supported by a written contract amendment signed by all parties involved.

Condition:

In our review of thirty-eight art grant payments, twelve legislatively mandated grant payments, and five history grant payments totaling \$3,144,026, we identified the following conditions:

- For one fellowship grant of \$25,000, the application was not on hand to support applicant eligibility.
- Thirteen grants totaling \$4,184,322 were lacking grantee monitoring efforts by the Commission. In two instances, the Commission did not obtain final reports to support evidence of eligible expenses. For one grant of \$40,000 that was awarded on a reimbursement basis, there was no documentation on hand to support that the expenditures had been incurred by the grantee. In ten instances, the Commission did not obtain state single audit reports. In two instances, we identified discrepancies between amounts reported as expended by the grantees and the amounts reported in the audit reports that were not identified or followed-up by the Commission.
- Two grants were not paid according to the grant contract. For one grant in the amount of \$1,000 the payment was made directly to the scholarship recipient rather than the institution he/she attended. In another instance, the grant award was paid in one lump sum of \$145,000 upon contract signing rather than in two installments of \$72,500.
- One grantee received two grant awards of \$150,000 and \$145,000, respectively. Our review disclosed that the Commission granted an extension to the funding period indicated in the contracts without signing contract amendments. Our review also disclosed that the grantee was permitted to keep \$17,614 in unexpended funds, although the grant contracts require that any unspent funds be returned to the Commission. Finally, the activities performed by the grantee were actually services to administer a grant program that were performed without a personal service agreement.

Effect: Failure to perform timely monitoring of grantees weakens control over grant programs. The Commission has less assurance that expenditures made by grantees were used for allowable activities. There is non-compliance with contract terms regarding award payments, contract changes, unspent funds, and services performed. There is non-compliance with State purchasing regulations when procedures for personal service agreements are not followed.

Cause: Grantee monitoring and contract compliance are not being enforced.

Recommendation: The Commission should strengthen internal controls over the monitoring of grants. (See Recommendation 13.)

Agency Response: “The Commission will develop and implement internal controls to monitor the grant programs and to ensure that the grantees abide by the terms of the grant contract. The Commission will also work with DAS to ensure that the payment schedules and payees dictated by the contract are followed. The Commission is working on compiling all grants into a single database to allow for monitoring of all grants.”

Tourism Grants:

Background: Public Act 03-6 established five regional tourism districts that replaced the eleven tourism districts formed under Section 32-302 of the Connecticut General Statutes. The former tourism districts ceased operations after July 1, 2003.

Criteria: Section 10-394(b) of the General Statutes requires that each regional tourism district shall ensure that no more than twenty percent of the total annual grant amount is used for administrative costs.

Section 10-397(e) of the General Statutes requires that each regional tourism district shall, on or before January first of each year, submit to the Commission an independent audit report. Section 10-397b states that any tourism district in existence on July 1, 2003, that terminates operations prior to January 1, 2004, may file a single audit report for the period from July 1, 2002, until the termination of such district’s operations.

Section 10-397a of the General Statutes allows any former tourism district having a cash surplus, non-cash assets, and/or liabilities to transfer such assets and liabilities to the regional tourism districts.

The standardized Commission grant contracts with the tourism districts require that grantees provide a written program evaluation narrative and financial report within sixty days after the end of the funding period and any unspent funds to be returned to the Commission concurrently with the final reports.

Condition: The Commission processed legislatively mandated grants to the five regional tourism districts totaling \$4,042,500, \$4,750,000, and \$4,500,000 for the fiscal years ended June 30, 2004, 2005 and 2006, respectively.

We reviewed the audit reports covering the audit period for all of the districts. Our review disclosed that two of five audit reports were not on hand for the fiscal year ended June 30, 2005. Our review also disclosed that the Commission did not have audit reports on hand for five of the eleven former tourism districts for the stub period July 1, 2003 until the end of their operations. In addition, the Commission did not adequately follow-up on significant unanswered questions in the audit report of one former district's operations and that of its successor district that were brought to the Agency's attention by the Office of Policy and Management.

Our review of five grant files disclosed that final reports were not on hand in two instances. Total payments related to these two grants were \$950,000 and \$712,500, respectively.

Effect: There is non-compliance with Section 10-397(e) of the General Statutes and grant contract terms regarding monitoring. Failure to perform timely monitoring of grantees weakens control over grant programs. The Commission has less assurance that expenditures were within the 20 percent administrative costs allowance, were used for allowable activities, and whether there were any unexpended funds that should have been returned.

Cause: There has been turnover in personnel overseeing the tourism grants.

Recommendation: The Commission should strengthen internal controls over the monitoring of grants to the tourism districts. (See Recommendation 14.)

Agency Response: “The day the legislation creating the Agency passed in 2003, the eleven (11) then-existing tourism districts ceased to exist and five (5) new entities were created causing a good deal of confusion. Receiving and maintaining the audits of the former tourism districts was the responsibility of the former business manager who believes that all audits were received. The Commission believes that the files may have been misplaced during the physical consolidation of the agency. The Commission and the five (5) now existing districts are working together to ensure full compliance with the audit requirements. The Commission is working on compiling all grants into a single database to allow for monitoring of all grants.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

The following two recommendations were presented in the audit report for the Connecticut Historical Commission.

- The Agency should establish an inventory property control system, should institute procedures to ensure that the inventory reported to the State Comptroller is submitted in a timely manner and is properly supported, and should have appraisals done on museum collections and fine arts as required by the State of Connecticut Property Control Manual. Although the Agency has made progress in this area, the recommendation is repeated to reflect current conditions. (See Recommendation 2.)
- All receipts should be deposited and accounted for in accordance with the provisions of Section 4-32 of the General Statutes or in accordance with waivers as provided by the State Treasurer. This recommendation is repeated. (See Recommendation 9.)

The following three recommendations were presented in the audit report for the Commission on the Arts.

- The Commission on the Arts should establish policies and procedures to ensure compliance with Section 4b-53 of the General Statutes and the related regulations. This recommendation is repeated. (See Recommendation 8.)
- The Commission on the Arts should improve grant monitoring by including the timely review of audit reports and the collection of accounts receivable in compliance with the General Statutes. This recommendation is repeated. (See Recommendation 13.)
- The Commission on the Arts should include in grant contracts, Federal grant amounts and related requirements to ensure that the grantee complies with State and Federal laws and regulations. This recommendation is repeated to reflect current conditions. (See Recommendation 10).

Current Audit Recommendations:

- 1. The Commission and DAS should work together to strengthen internal controls over compensatory time.**

Comment:

Our review of the annual attendance records for one manager and eleven exempt union employees disclosed that five employees accrued less than one hour of compensatory time in twenty-eight instances totaling nine hours. In addition, ten employees did not use their earned compensatory time by the end of the calendar year and the expired compensatory time was not deducted from their compensatory time balances. Our review of twenty-five timesheets disclosed that for fifteen timesheets there was no documentation that the compensatory time had been authorized in advance by a supervisor.

2. **The Commission should improve property control, should institute procedures to ensure that all inventory items are reported on Core-CT, should institute procedures to ensure that the inventory reported to the State Comptroller is submitted in a timely manner and is properly supported and should consider having appraisals done on the remaining museum collections and fine arts inventory.**

Comment:

Our review disclosed that the Commission has not been tracking its inventory on the Core-CT Asset Management System as required by the Property Control Manual and has not maintained a detailed software inventory listing. In addition, our physical inspection of a sample of the Agency's inventory items disclosed errors on the inventory listing. Our review of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2004, 2005 and 2006 disclosed that several amounts were unsupported or reported incorrectly and that it was not submitted in a timely manner for the 2003-2004 and 2005-2006 fiscal years. Our review disclosed that several of the Agency's fine arts collections have not been appraised since 1982 and the reported values appear unreliable.

3. **The Commission should comply with the State Accountability Directive Number One by performing the applicable sections of the annual internal control self-assessment.**

Comment:

Our review disclosed that internal control self-assessments were not completed for the fiscal years ended June 30, 2004 and 2005. Although a self-assessment was prepared for the fiscal year ended June 30, 2006, the Federal funds and data processing sections were not completed.

- 4. The Commission should develop a formal written comprehensive disaster recovery plan.**

Comment:

The Commission does not have a formal written disaster recovery plan in place.

- 5. The Commission should submit a records retention schedule to the Connecticut State Library.**

Comment:

The Commission did not submit a records retention schedule to the State Library.

- 6. The Commission and DAS should work together to strengthen internal controls to ensure that funds are committed prior to purchasing goods and services, and account codes and receipt dates are correctly recorded.**

Comment:

Our review of expenditure transactions disclosed that purchase orders were created after goods or services were received, transactions were coded to the wrong account codes and incorrect receipt dates were recorded.

- 7. The Commission should continue to maintain a log of parking tickets and verify that charges are authorized prior to payment.**

Comment:

Our review of expenditures for parking garage charges disclosed that the Commission did not maintain a listing of validated parking tickets. The Commission paid the monthly vendor invoices without verifying that the amounts billed were accurate. When this matter was brought to the Commission's attention, immediate action was taken, which includes the maintenance of a detailed validation log.

- 8. The Commission should establish policies and procedures to ensure compliance with Section 4b-53 of the General Statutes and the related regulations.**

Comment:

Our review disclosed weaknesses in complying with artwork requirements established by the General Statutes and Regulations. The Commission has not documented that it annually established allocations of funds for the two art collections. In addition, our review of four projects disclosed that funds earmarked for the collection purchases and artwork repair were more than ten percent and the Commission was unable to document that it had notified the Department of Public Works of its intent to exceed the ten-percent cap placed on those funds by the regulations. Our review disclosed that the Commission did not maintain adequate financial reports. Although the Department maintains a separate paper folder on each project, the Commission did not maintain a centralized tracking worksheet to account for and monitor projects.

9. **The Commission and the DAS should strengthen internal control procedures to ensure that receipts are recorded, deposited and accounted for in timely manner.**

Comment:

Our review of deposit transactions revealed six receipts totaling \$3,392 that were deposited between one and eight days late. In addition, eight deposits totaling \$8,244 were posted to the general ledger between one and twenty-one days late. We also noted three receipts totaling \$5,192 that were not recorded in a receipts journal. Our testing further disclosed that the Commission did not maintain receipts journals in accordance with the Comptroller's specifications at all of its sites. Our review also disclosed that three deposits at the Agency's museums did not agree with supporting cash register totals and daily revenue reports. Two of these deposit amounts were greater than the supporting documentation by \$4 and \$9, respectively. The third deposit was \$18 less than the supporting documents. There was no written evidence that the variances were reviewed by management prior to our inquiry.

10. **The Commission should complete written contracts for Endowment Fund awards.**

Comment:

During the audit period, the Commission awarded 284 grants totaling \$2,237,385 from the Connecticut Arts Endowment Fund. Our review disclosed that the Commission did not establish grant contracts for any of these grants.

- 11. The Commission should establish written criteria and procedures for the awarding of strategic initiative grants, should allow all potential applicants the opportunity to apply for strategic initiative grants, should institute procedures to ensure that the proper funding source is used, and should ensure grants are properly monitored and that any grant stipulations are referenced in the grant contract.**

Comment:

Our review of strategic initiative grants disclosed that the Commission does not maintain formal written criteria for the awarding of strategic initiative grants, strategic initiative grants were solicited by the Executive Director, and information on this grant program was not readily available to the public and, during the audit period, the Commission did not have a standardized final report form for the grantees to submit. Our review also disclosed that supporting documentation could not be located for one grant, two grants were awarded with stipulations that were not referenced in the grant contract, the funding period was extended for one grant award without amending the grant contract, and for one grant it appears that the Agency was receiving a service rather than awarding a grant. In addition, three grants should not have been charged to basic cultural resources grants, as they were history and tourism initiatives.

- 12. The Commission should identify Federal grant amounts in its grant contracts to ensure that the grantee complies with State and Federal laws and regulations.**

Comment:

Five grant contracts totaling \$946,664 that we reviewed included funding from the National Endowment for the Arts – CFDA #45.025. Two grants were for the HOT Schools program, two were for the Urban Artists program, and one was for the Community Partnership program. The grant contracts did not indicate that any portion of the funds was from Federal sources.

- 13. The Commission should strengthen internal controls over the monitoring of grants.**

Comment:

Our review of art grants, legislatively mandated grants and history grants disclosed that for one grant the application was not on hand to support applicant eligibility, thirteen grants were lacking grantee monitoring efforts by the Commission, two grants were not paid according to the

grant contract, and for one grantee that received two grant awards, the Commission granted an extension to the funding period indicated in the contracts without signing contact amendments. Our review also disclosed that the grantee was permitted to keep \$17,614 in unexpended funds, although the grant contracts require that any unspent funds be returned to the Commission. Finally, the activities performed by the grantee were actually services to administer a grant program that were performed without a personal service agreement.

14. The Commission should strengthen internal controls over the monitoring of grants to the tourism districts.

Comment:

Our review disclosed that the Commission did not have audit reports on hand for five of the eleven former tourism districts for the stub period July 1, 2003, until the end of their operations. In addition, the Commission did not adequately follow-up on significant unanswered questions in the audit report of one former district's operations and that of its successor district that were brought to the Agency's attention by the Office of Policy and Management. Our review of five grant files disclosed that final reports were not on hand in two instances. Total payments related to these two grants were \$950,000 and \$712,500, respectively.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Connecticut Commission on Culture and Tourism for the fiscal years ended June 30, 2004, 2005 and 2006. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Connecticut Commission on Culture and Tourism for the fiscal years ended June 30, 2003, 2004 and 2005 are included as a part of our Statewide Single Audits of the State of Connecticut for the fiscal years ended June 30, 2004, 2005 and 2006.

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 Connecticut Commission on Culture and Tourism complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut Commission on Culture and Tourism is the responsibility of the Connecticut Commission on Culture and Tourism's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2004, 2005 and 2006, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following findings represent reportable conditions: inadequate property control and reporting, inadequate fund management – Arts in Public Spaces, inadequate policies and procedures over the strategic initiative grants, and inadequate controls over grants for arts, history and line-item grantees.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weakness. However, we believe that the reportable conditions described above are not material or significant weaknesses.

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

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

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Connecticut Commission on Culture and Tourism during this examination.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts