

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT STATE LIBRARY
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006*

AUDITORS OF PUBLIC ACCOUNTS
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Table of Contents

INTRODUCTION	1
COMMENTS	1
Foreword	1
Members of the State Library Board	2
Résumé of Operations	2
General Fund Cash Receipts and Expenditures	2
Special Revenue Funds	4
Capital Improvements and Other Purposes Fund	5
CONDITION OF RECORDS	6
Inventory and Property Control	6
Loss Reporting	8
RECOMMENDATIONS	9
CERTIFICATION	11
CONCLUSION	13

April 22, 2008

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006**

We have examined the financial records of the Connecticut State Library for the fiscal years ended June 30, 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 State Library's compliance with certain provisions of financial related laws, regulations, contracts, and grants, and evaluating the State Library's internal control policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The State Library Board, which is within the Department of Education for administrative purposes only, operates under the provisions of Title 11 of the Connecticut General Statutes and oversees the activities of the State Library. The primary functions of the Library include: providing advice, planning, and financial assistance to all libraries in the State, operating the Raymond E. Baldwin Museum of Connecticut History and Heritage, maintaining library services for the blind and other persons with disabilities, and providing library and information services for the State government and the public.

Kendall Wiggin served as State Librarian throughout the audited period.

Pursuant to Section 11-1, subsection (d), of the General Statutes, the State Library Board established the Connecticut Heritage Foundation, Inc., a nonprofit foundation to raise funds from private sources to enhance the collections and programs of the State Library and Museum. We issue a separate report on Foundation operations.

Members of the State Library Board:

Section 11-1, subsection (a), of the General Statutes provides that the Board shall consist of 12 members. The Board members, as of June 30, 2006, were as follows:

Mollie Keller, Chairman	Barbara Westwater
Joy W. Hostage	Francis X. Hennessy
John N. Barry	Allen Hoffman
Mary J. Etter	Daphne Deeds
Joseph P. Flynn	Robert D. Harris, Jr.
Jackie I. Hemond	One Vacancy

Additional members who also served on the State Library Board during the audited period were:

Ann M. Clark	Lucy B. Gangone
Larry Kibner	E. Frederick Petersen
Fran Rabinowitz	

The State Library Board has two advisory groups. The Advisory Council for Library Planning and Development, pursuant to Section 11-1, subsections (g)(1) and (g)(2), of the General Statutes, consists of 19 members appointed by the State Library Board and deals with library planning and development issues. Section 11-6a, subsection (b), of the General Statutes establishes the Museum Advisory Committee, which consists of eight members, that advises the State Library Board with respect to the policies, collections, programs, activities, and operations of the Raymond E. Baldwin Museum of Connecticut History and Heritage.

RÉSUMÉ OF OPERATIONS:

General Fund Cash Receipts and Expenditures:

General Fund receipts applicable to State Library operations totaled \$8,625 and \$6,258 for the fiscal years ended June 30, 2005 and 2006, respectively, compared with \$7,011 for the fiscal year ended June 30, 2004. These receipts consisted primarily of refunds of prior years expenditures for photocopying.

A summary of General Fund expenditures applicable to State Library operations for the audited period and the previous fiscal year, is presented below:

Budgeted Accounts:	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
	\$	\$	\$
Personal services	4,859,184	5,150,626	5,528,309
Contractual services	3,439,076	3,323,018	3,538,310
Commodities	56,514	140,805	121,235
Sundry charges	0	1,560	1,856
Grants-in-aid	1,173,137	1,323,137	1,323,137
Equipment	<u>251,000</u>	<u>216,221</u>	<u>640,239</u>
Total General Fund Expenditures	<u>\$ 9,778,911</u>	<u>\$10,155,367</u>	<u>\$11,153,086</u>

Expenditures from budgeted accounts increased over 14 percent during the audited fiscal years. Increases in personal services during the audited period were primarily attributable to filling full and part-time positions vacant after the 2002-2003 fiscal year early retirement program, as well as for annual salary increases negotiated by collective bargaining units. Contractual services were made for general operating costs, of which, electronic data processing and online services related costs made up approximately 79 and 77 percent of total contractual services during the respective audited fiscal years. Increases in equipment purchases were due to increases in book purchases.

During the audited period, the State Library administered a number of State-aid-grant programs. A schedule of grant expenditures by program for the audited period and a brief description of each program are presented below:

General Fund Budgeted Accounts:	<u>State-Aid-Grants</u>		
	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
	\$	\$	\$
Cooperating Library Service Units	150,000	300,000	300,000
Grants to Public Libraries	347,109	347,109	347,109
Connecticard Payments	<u>676,028</u>	<u>676,028</u>	<u>676,028</u>
Total State-Aid-Grants	<u>\$ 1,173,137</u>	<u>\$ 1,323,137</u>	<u>\$ 1,323,137</u>

Cooperating Library Service Units – Section 11-9e of the General Statutes provides for libraries to coordinate services through planning, resource sharing, and the development of programs too costly or impractical for a single library to maintain.

Grants to Public Libraries – Section 11-24b, subsections (b), (c), and (d), of the General Statutes authorizes three types of grants to principal public libraries: base grants, formula based equalization grants, and incentive grants.

Connecticard Payments – Section 11-31b of the General Statutes provides for a cooperative program among public libraries that allows residents to borrow materials from any participating State public library. Grant payments to participating libraries are based on the volume of program activity levels.

Special Revenue Funds:

Federal and Other Restricted Accounts Fund:

A summary of Federal and other restricted receipts applicable to State Library operations for the audited period and the previous fiscal year, is presented below:

	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
Federal and Other Restricted Accounts:	\$	\$	\$
Federal Grants	1,871,060	2,913,480	2,220,332
Non-Federal Aid	2,384,650	2,103,520	1,873,961
All other	<u>12,254</u>	<u>167,640</u>	<u>224,513</u>
Total Receipts	<u>\$4,267,964</u>	<u>\$5,167,125</u>	<u>\$4,318,806</u>

Federal Grant receipts resulted from grant agreements between the Federal government and the State Library for the administration of programs and activities supporting statewide library initiatives and services. Non-Federal Aid receipts were primarily for a grant program, entitled "Historic Documents Preservation Account," funded from a portion of fees collected by local towns, to be used for grants to towns for the preservation and management of historic documents. Receipt fluctuations were primarily due to Federal grant funding levels.

A summary of Federal and other restricted expenditures applicable to State Library operations for the audited period and the previous fiscal year, is presented below:

	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
Federal and Other Restricted Accounts:	\$	\$	\$
Restricted Federal Accounts	1,776,437	2,276,794	2,537,026
Restricted Private Accounts:			
Historic Documents Preservation Account	1,798,946	2,066,872	2,457,961
All other private accounts	<u>135,437</u>	<u>184,621</u>	<u>167,467</u>
Total Expenditures	<u>\$3,710,820</u>	<u>\$4,528,287</u>	<u>\$5,162,454</u>

Federal grant activity was responsible for the majority of the \$1,451,634 increase in expenditures during the audited period. Expenditures primarily consisted of personal services, related fringe benefits, and grant awards for the various Federal and State programs.

Capital Equipment Purchase Fund:

Capital Equipment Purchase Fund expenditures totaled \$621,292 and \$180,526 during the fiscal years ended June 30, 2005 and 2006, respectively. These purchases were primarily made for books, office equipment, and computers.

Grants to Local Governments and Others Fund:

This fund was primarily used for grants for public library construction, improvements, and other related projects. Expenditures totaled \$1,397,307 and \$2,028,885 during the fiscal years ended June 30, 2005 and 2006, respectively. Fluctuations were mainly caused by the availability of State and local funds for approved projects.

Capital Improvements and Other Purposes Fund:

Expenditures from this fund totaled \$0 and \$154,008 during the fiscal years ended June 30, 2005 and 2006, respectively. These expenditures were used primarily for the purchase of books.

CONDITION OF RECORDS

Our review of the records of the Connecticut State Library revealed the following areas that require improvement.

Inventory and Property Control:

Criteria: Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual* require each State agency to establish and maintain accurate property control records for complete accountability and the safeguarding of assets. Additional information is required for works of art and historical treasures that includes detailed descriptions of the items. Appraisals conducted every five years by an expert in the field are no longer mandatory but highly recommended when resources become available. A physical inventory should be completed annually.

Conditions: The State Library maintains separate inventory systems and records for different categories of inventory. Our audit found deficiencies regarding the following:

1) Furnishings and Equipment: The State Library reported over \$2,100,000 and \$1,900,000 in Furnishings and Equipment on its annual reports for the fiscal years ended June 30, 2005 and 2006, respectively. Additions for the fiscal year ended June 30 2006, were overstated by approximately \$75,000 due to erroneously including non-capital items. Deletions for each fiscal year were not completely supported by adequate documentation. In addition, the inventory system is not designed to fully record information required by State standards that include purchasing and expenditure information; condition of equipment; and disposition date for each item.

2) Works of Art and Historic Treasures: The State Library reported over \$210,000,000 in Works of Art and Historic Treasures on its annual reports during the audited periods ended June 30, 2005 and 2006. The State Library did not take a complete physical inventory of these items during the audited period. Also, inventory lists of archival documents and museum pieces do not detail each item's cost and are based on staff's estimates of current values. Due to the age of the collections and the lack of complete records, documentation of an item's cost at the time it was received may no longer be available. A limited professional appraisal was conducted in December 2005; however, most items have not been professionally appraised within the last five years.

3) Software Inventory: The State Library's software inventory report did not contain certain information such as initial installation date and cost as required by the State's *Property Control Manual*.

Effect: Without an effective property control system, it is difficult to assess whether inventory is missing, stolen, traded in or scrapped.

Cause: We were told that due to a lack of sufficient staff, an inventory of the Works of Art and Historic Treasures and software could not be completed. Also, the State Library did not have the necessary funds to appraise all collections.

Recommendation: The State Library should improve its controls over State property as outlined by the State of Connecticut's *Property Control Manual* in accordance with Section 4-36 of the General Statutes. (See Recommendation 1.)

Agency Comments: “*Condition 1:* The State Library’s record-keeping will improve with the recent implementation of the Core-CT Asset Management system. Adequate documentation will be maintained in future to allow explanation of agency additions and deletions from inventory. New records in the system will contain complete documentation as new equipment and property will be completely processed through the Core-CT system. The Agency will attempt to gather additional information on existing records to improve the amount of information available.

Condition 2: The State Library, through its Museum, Library and State Archives operations, serves as the main repository of Connecticut’s history, both as a Colony and as a State. The Museum collection alone contains more than 35,000 items. The State Archives contains 36,000 cubic feet of documents, maps, manuscripts, photographs, and other material documenting the State’s history. Modern State Archives are overwhelmed by paper as the result of the paper explosion in government generally since the end of WWII. The Agency is not aware of any State Archive taking a physical inventory (counting every piece of paper). It is not physically or financially possible to conduct such an inventory of all items maintained within the State Library’s collections..... The Agency will develop a sampling method similar to that being used in the Museum to test a group of records at the box level. The State Library has been unable to conduct an appraisal of its collection beyond that of a limited and sample basis due to lack of funds to conduct such an extensive project. With the change in regulations in the State Accounting Manual in late 2006, this particular issue, in the future, will not be of a recommendation nature.

Condition 3: During fiscal year 2008, the State Library will secure computer software which will allow it to update its outdated software inventory.”

Loss Reporting:

Criteria: Section 4-33a of the General Statutes requires all State agencies to promptly notify the Auditors of Public Accounts and the State Comptroller of any unauthorized, illegal, irregular, or unsafe handling of State funds or breakdowns in the safekeeping of other State resources.

Condition: During the course of our audit, management brought to our attention that two employees had falsified their timesheets resulting in one being paid for 20 hours of overtime not worked and the other for accruing 90 hours of compensatory time not earned. This unauthorized use of State resources was resolved, in part, by having the employees deduct equivalent time from their vacation and compensatory time balances, respectively. However, the State Library did not promptly notify the Auditors of Public Accounts and State Comptroller of the unauthorized use of State resources.

Effect: The State Library did not comply with Section 4-33a of the General Statutes.

Cause: Management initially discovered the misuse and resolved this matter internally including union representation for the two employees, and due to oversight, failed to report this matter as required to appropriate officials.

Recommendation: The State Library should comply with Section 4-33a of the General Statutes that requires prompt notification to the Auditors of Public Accounts and the State Comptroller when there is a breakdown in the safekeeping of State resources. (See Recommendation 2.)

Agency Comments: “The State Library was not cognizant that matters dealing with the possible falsification of time sheets were reportable under Section 4-33a of the General Statutes or the fact that settlements reached with employees over their misuse of time should be reported to the authorities cited in Section 4-33a of the General Statutes. The State Library had notified the Office of Labor Relations of our concerns regarding the potential payment for hours not worked.

In the future, the State Library will complete the necessary report about any action that results in the recognition of a loss to the State. Matters such as the possible falsification of time sheets often require investigation of the alleged incident(s) with involvement of the different parties to labor relations. This may make it difficult to file a report in as timely a manner as other types of losses.”

RECOMMENDATIONS

Our prior audit report on the State Library contained three recommendations. Of the recommendations, one has been implemented or otherwise resolved and two have been repeated herein as current audit recommendations.

Status of Prior Audit Recommendations:

- *The State Library should improve its controls over State property as outlined by the State of Connecticut's Property Control Manual in accordance with Section 4-36 of the General Statutes.* Some improvements were noted, including an in-house physical inspection of 100 museum collection items and a limited professional appraisal of some works of art and historic treasures; however, deficiencies in this area still exist. As a result, this recommendation is being repeated. (See Recommendation 1.)
- *The State Library should file an EDP records retention schedule with the Public Records Administrator as provided in Section 11-8a, subsection (b), of the General Statutes.* The State Library has filed an EDP records retention schedule with the Public Records Administrator; therefore, this recommendation is not being repeated.
- *The State Library should comply with Section 4-33a of the General Statutes that requires prompt notification to the Auditors of Public Accounts and the State Comptroller when there is a breakdown in the safekeeping of State resources.* Loss reporting deficiencies still exist; therefore, this recommendation is being repeated. (See Recommendation 2.)

Current Audit Recommendations:

- 1. The State Library should improve its controls over State property as outlined by the State of Connecticut's *Property Control Manual* in accordance with Section 4-36 of the General Statutes.**

Comment:

The State Library only performed physical inventories for a portion of its property. The amounts reported on the Annual Property Reports were not accurate and based, in part, on intuitive estimates of value rather than cost. Inventory records do not fully comply with State standards and appraisals for most collections were not conducted.

- 2. The State Library should comply with Section 4-33a of the General Statutes that requires prompt notification to the Auditors of Public Accounts and the State Comptroller when there is a breakdown in the safekeeping of State resources.**

Comment:

The State Library did not report unauthorized overtime payments and the misuse of compensatory time to the appropriate officials in a prompt manner.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Connecticut State Library for the fiscal years ended June 30, 2005 and 2006. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, and 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 State Library for the fiscal years ended June 30, 2005 and 2006, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Connecticut State Library complied in all material or significant respects with the provisions of certain laws, regulations and contracts 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 State Library is the responsibility of the Connecticut State Library'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, 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 that 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 State Library 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 State Library'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 finding represents a reportable condition: (1) inadequate property control and management.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts and grants or 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 weaknesses. However, we do not believe that the reportable condition described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over 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 State Library during the course of our audit.

William T. Zinn
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts