

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT STATE LIBRARY
FOR THE FISCAL YEARS ENDED
JUNE 30, 2007, 2008 AND 2009*

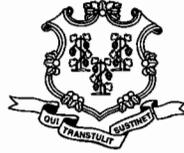
AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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
Fraudulent Timesheet Reporting.....	7
RECOMMENDATIONS	9
CERTIFICATION	10
CONCLUSION	13

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

April 15, 2011

**AUDITORS' REPORT
CONNECTICUT STATE LIBRARY
FOR THE FISCAL YEARS ENDED JUNE 30, 2007, 2008 AND 2009**

We have examined the financial records of the Connecticut State Library for the fiscal years ended June 30, 2007, 2008 and 2009.

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.

Auditors of Public Accounts

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, 2009, were as follows:

Mollie Keller, Chairman	Barbara Westwater
Joy W. Hostage	Francis X. Hennessy
John N. Barry	Allen Hoffman
Eileen DeMayo	Daphne Deeds
William Lavery	Robert D. Harris, Jr.
Scott Hughes	Linda Anderson

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

Mary J. Etter	Jackie I. Hemond
Joseph P. Flynn	

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 \$17,060, \$4,846 and \$3,413 for the fiscal years ended June 30, 2007, 2008 and 2009, respectively, compared with \$6,258 for the fiscal year ended June 30, 2006. 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 is presented below:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Budgeted Accounts:	\$	\$	\$
Personal services	5,935,758	6,174,352	6,339,979
Contractual services	3,454,838	4,456,873	4,199,987
Commodities	116,700	155,877	94,511
Sundry charges	1,466	3,521	924
Grants-in-aid	1,623,137	1,923,137	1,905,637
Equipment	<u>662,972</u>	<u>534,224</u>	<u>559,240</u>
Total General Fund Expenditures	<u>\$11,794,871</u>	<u>\$13,247,984</u>	<u>\$13,100,278</u>

For comparative purposes, total General Fund expenditures amounted to \$11,153,086 during the 2005-2006 fiscal year. Expenditures from budgeted accounts increased over 17 percent during the audited fiscal years. Increases in personal services were primarily the result of (1) an increase of eight filled full and part-time positions from 89 to 97 during the audited period, representing a nine percent increase in filled positions, and (2) 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 80, 76 and 77 percent of total contractual services during the respective audited fiscal years. Decreases in equipment purchases were due to decreases 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 and a brief description of each program are presented below:

	<u>State-Aid-Grants</u>		
	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
General Fund Budgeted Accounts:	\$	\$	\$
Cooperating Library Service Units	300,000	350,000	332,500
Grants to Public Libraries	347,109	347,109	347,109
Connecticard Payments	<u>976,028</u>	<u>1,226,028</u>	<u>1,226,028</u>
Total State-Aid-Grants	<u>\$ 1,623,137</u>	<u>\$ 1,923,137</u>	<u>\$ 1,905,637</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 is presented below:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Federal and Other Restricted Accounts:	\$	\$	\$
Federal Grants	1,978,263	2,215,128	2,199,705
Non-Federal Aid	1,739,618	1,527,668	1,251,409
All other	<u>294,293</u>	<u>182,123</u>	<u>47,569</u>
Total Receipts	<u>\$4,012,174</u>	<u>\$3,924,919</u>	<u>\$3,498,683</u>

For comparative purposes, total Federal and Other Restricted Accounts receipts amounted to \$4,318,806 during the 2005-2006 fiscal year. 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. Decreases in receipts resulted primarily from decreases in fees collected for the Historic Documents Preservation program due to a slumping real estate market.

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

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Federal and Other Restricted Accounts:	\$	\$	\$
Restricted Federal Accounts	2,337,548	1,931,653	1,931,522
Restricted Private Accounts:			
Historic Documents Preservation Account	2,324,354	2,196,972	2,011,312
All other private accounts	<u>183,111</u>	<u>226,525</u>	<u>337,385</u>
Total Expenditures	<u>\$4,845,013</u>	<u>\$4,355,150</u>	<u>\$4,280,219</u>

For comparative purposes, total Federal and Other Restricted Accounts expenditures amounted to \$5,162,454 during the 2005-2006 fiscal year. Federal grant activity was responsible for the majority of the \$882,235 decrease 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 \$175,075, \$141,757 and \$90,134 during the fiscal years ended June 30, 2007, 2008 and 2009, 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 \$3,365,148, \$2,194,840 and \$3,340,550 during the fiscal years ended June 30, 2007, 2008 and 2009, 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 \$328,308, \$110,518 and \$7,166 during the fiscal years ended June 30, 2007, 2008 and 2009, 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) Equipment: The State Library reported over \$93,000,000 in Equipment on its annual reports for the fiscal years ended June 30, 2007, 2008 and 2009, respectively. Additions for *Furnishings and Equipment* were overstated by approximately \$39,000 due to duplicate postings for the 2006-2007 fiscal year; and, *Books, Maps, Records, and Videos* were understated some \$309,000 for the 2007-2008 fiscal year. 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.

A physical test check of 26 equipment items showed six items (23 percent) had different Asset ID numbers and five items (19 percent) were found in different locations than recorded on the inventory list.

2) Works of Art and Historic Treasures: The State Library reported over \$215,000,000 in Works of Art and Historic Treasures on its annual reports during the audited periods ended June 30, 2007, 2008 and 2009. 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.

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 Response: "Condition 1: The State Library will continue efforts to improve its recordkeeping using the Core-CT asset management system and other resources. The loss of key staff members and their institutional knowledge to retirement created a learning curve for existing staff who took on these responsibilities. The Agency remains committed to improving the information available for documenting additions and deletions from inventory.

Condition 2: The State Library, in its role as the main repository of Connecticut's history, is custodian of an increasing museum collection (currently over 35,000 items) as well as the expanding State Archives containing 36,000 cubic feet of documents, maps, manuscripts, photographs, and other material documenting State history. Faced with the physical and financial constraints of conducting a complete inventory of all the items, the Agency continues to refine its sampling method of testing these assets.

Condition 3: The State Library acquired a computer software tool to assist in the effort of updating software inventory. We are continuing to integrate this tool and evaluate how to maximize the potential benefit."

Fraudulent Timesheet Reporting:

Background: We investigated a whistleblower complaint alleging that an employee at a satellite office was falsifying her timesheets and compensated for hours not worked.

Auditors of Public Accounts

Criteria: Proper internal controls provide assurances that employee timesheets are accurately completed and approved and duties for payroll processing are adequately segregated.

Condition: Our investigation revealed that an employee falsified her timesheets by changing leave time taken to time worked after being signed by the supervisor. The same employee also had the responsibility of faxing the unit's timesheets to the payroll department for processing. The fraudulent activity began in July 2007 and ended on March 25, 2010, upon the conclusion of the investigation, resulting in a loss of about \$6,600 of leave time taken which was paid as time worked.

On April 21, 2010, we reported the results of our review to the Office of the Attorney General.

Effect: Inadequate controls provided an employee the opportunity to submit fraudulent timesheets resulting in a loss of \$6,600.

After reviewing this matter, Management, in conjunction with union representation for the employee, accepted the employee's resignation on April 5, 2010.

Cause: Since the employee had the responsibility of faxing her supervisory-signed timesheet to the payroll department for processing, the employee had the opportunity to take advantage of the inadequate separation of duties and falsify her timesheet by changing leave time taken to time worked.

Recommendation: The State Library should develop internal control procedures prohibiting employees from receiving their own timesheet after supervisors sign them and the payroll department should be diligent in comparing faxed timesheets to originals that are received at a later date. (See Recommendation 2.)

Agency Response: "Allegations of timesheet fraud was brought to the attention of the State Library on March 3, 2010, and an investigation was started on March 4, 2010. On April 5, 2010, the Library's Human Resource Manager met with the employee and their union representatives. That meeting resulted in the resignation of the employee by stipulated agreement.

The Library developed guidelines for timesheet reporting which incorporated the suggestions of the State Auditors. All Library managers, supervisors, employees, and payroll staff were informed of the guidelines for timesheet reporting. The Library promptly resolved the specific incidence of timesheet fraud; developed procedural guidelines to prevent future occurrence and reinforced with all employees the obligation to report their time accurately."

RECOMMENDATIONS

Our prior audit report on the State Library contained two recommendations. Of the recommendations, one has been implemented or otherwise resolved and one has been repeated. One new recommendation is being presented as a result of our current examination.

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 conducted in each of the 2006-2007 and 2007-2008 fiscal years and an upgrade in the museum's inventory system; however, deficiencies in this area still exist. As a result, this recommendation is being repeated. (See Recommendation 1.)
- ***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 were resolved; therefore, this recommendation is not being repeated.

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 collections were not conducted due to a lack of resources.

2. **The State Library should develop internal control procedures prohibiting employees from receiving their own timesheet after supervisors sign them and the payroll department should be diligent in comparing faxed timesheets to originals that are received at a later date.**

Comment:

An employee submitted fraudulent timesheets over a 32-month period resulting in a loss of \$6,600 of leave time taken, which was paid as time worked.

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, 2007, 2008 and 2009. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, and contracts and grant agreements, 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2007, 2008 and 2009, 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, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Connecticut State Library's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 - weaknesses in property control and reporting; and, Recommendation 2 – fraudulent timesheet reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that neither of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Connecticut State Library complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

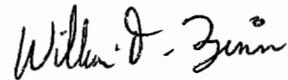
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections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

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

This report is intended for the information and use of the Agency's management, 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
Principal Auditor

Approved:


John C. Geragosian
Auditor of Public Accounts


Robert M. Ward
Auditor of Public Accounts