

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF CONSUMER PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2012, 2013, and
2014*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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AUDITORS OF PUBLIC ACCOUNTS

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September 7, 2017

AUDITORS' REPORT DEPARTMENT OF CONSUMER PROTECTION FOR THE FISCAL YEARS ENDED JUNE 30, 2012, 2013, AND 2014

We have audited certain operations of the Department of Consumer Protection (DCP) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2012, 2013, and 2014. The Department of Administrative Services (DAS) provided accounting, payroll, and personnel services for DCP during the audited period. The scope of our audit did not extend to the evaluation of the relevant controls at that agency. The objectives of our audit were to:

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

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

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

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

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department.

For the areas audited, we identified:

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

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

COMMENTS

FOREWORD

The Department of Consumer Protection operates generally under the provisions of Chapters 98, 226, 416, and 545 of the Connecticut General Statutes, to enforce statutory requirements intended to regulate legal gaming activities, to protect consumers from injury by product use or merchandising deceit, and to protect public health and safety through control over the distribution and sale of alcoholic beverages. The relevant laws are generally within various Chapters of the following General Statute Titles: Title 12 (Taxation), Title 20 (Examining Boards and Professional Licenses), Title 21 (Licenses), Title 21a (Consumer Protection), Title 42 (Business, Selling, Trading, and Collection Practices), Title 43 (Weights and Measures) and Title 30 (Intoxicating Liquors).

The department's personnel, payroll, affirmative action, and most of its business functions are performed by the Department of Administrative Services' Small Agency Resource Team and Business Office. The department's staff is responsible for receipt collection and processing; accounts receivables; and guaranty fund functions.

Effective July 1, 2011, Public Act 11-51 consolidated the Division of Special Revenue into the Department of Consumer Protection to become the Gaming Division within DCP. Revenue previously associated with the Division of Special Revenue, such as taxes on horse racing are now collected by DCP. Concurrent with the consolidation, the Division of Special Revenue's personnel, payroll, and affirmative action functions were transferred to the Department of Administrative Services' Small Agency Resource Team. The Division of Special Revenue's purchasing, central accounting and budget management duties were transferred to the business

office of the Department of Administrative Services. Additionally, effective July 1, 2013, Public Act 13-299 provided for DCP to be the successor agency to the Gaming Policy Board.

William M. Rubenstein was nominated as commissioner on February 9, 2011, and served until December 30, 2014. Jonathan A. Harris was named commissioner on December 30, 2014, and served until April of 2017. Michelle H. Seagull was named commissioner on May 1, 2017 and continues to serve in that capacity.

Legislative Changes

Notable legislative changes, which took effect during the audited period, are presented below:

- Public Act 11-51, amended Section 21a-1 of the General Statutes, effective July 1, 2011. The act eliminated the Division of Special Revenue and transferred its responsibilities to the Department of Consumer Protection. The act also eliminated the Special Revenue executive director position, transferring its authority and responsibilities to the commissioner of the Department of Consumer Protection.
- Public Act 12-55, established Sections 21a-408 through 21a-408q of the General Statutes effective May 31, 2012. This legislation authorized the palliative use of marijuana and the Department of Consumer Protection's administrative functions over its use.
- Public Act 13-299, Section 45 subsection (d), amended Section 21a-1 of the General Statutes effective July 1, 2013. On that date, the Department of Consumer Protection was named as a successor agency to the Gaming Policy Board.

Boards and Commissions

Various sections of the General Statutes provide that certain boards and commissions operate within DCP. A listing of these boards and commissions and the statutory references is presented below:

- Liquor Control Commission (Section 30-2 of the General Statutes)
- Architectural Licensing Board (Section 20-289 of the General Statutes)
- Connecticut State Board of Landscape Architects (Section 20-368 of the General Statutes)
- Electrical Work Examining Board (Section 20-331 subsection (b) of the General Statutes)
- Elevator Installation, Repair, and Maintenance Work Examining Board (Section 20-331 subsection (e) of the General Statutes)
- Fire Protection Sprinkler System Board (Section 20-331 subsection (f) of the General Statutes)
- Automotive Glass Work and Flat Glass Work Examining Board (Section 20-331 subsection (g) of the General Statutes)
- Distillate Advisory Board (Section 16a-21b subsection (e) of the General Statutes)

- Heating, Piping, Cooling, and Sheet Metal Work Examining Board (Section 20-331 subsection (c) of the General Statutes)
- Plumbing and Piping Work Examining Board (Section 20-331 subsection (d) of the General Statutes)
- Commission of Pharmacy (Section 20-572 of the General Statutes)
- State Board of Examiners for Professional Engineers and Land Surveyors (Section 20-300 of the General Statutes)
- Connecticut Real Estate Commission (Section 20-311a of the General Statutes)
- Connecticut Real Estate Appraisal Commission (Section 20-502 of the General Statutes)
- Mobile Manufactured Home Advisory Council (Section 21-84a of the General Statutes)
- State Board of Examiners of Shorthand Reporters (Section 20-651 of the General Statutes)
- Home Inspection Licensing Board (Section 20-490a of the General Statutes)
- Medical Marijuana Program Board of Physicians (Section 21a-408 of the General Statutes)

RÉSUMÉ OF OPERATIONS

General Fund

General Fund receipts of DCP were comprised mainly of payments for licenses to render professional services, to engage in skilled trades and certain businesses, for liquor permits and associated fees, as well as taxes received from horse racing. A comparison of receipts for the fiscal years under review follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Licenses	\$ 25,887,764	\$ 26,485,655	\$ 27,109,292
Permits	8,636,135	8,916,788	9,121,824
Fees	4,628,667	4,872,050	4,559,660
Taxes on Horse Racing (OTB)	3,756,643	3,352,211	3,718,655
Fines, Penalties, Forfeitures	1,624,295	1,391,492	862,760
All Other Receipts	697,305	284,147	(16,773)
Total General Fund Receipts	<u>\$ 45,230,809</u>	<u>\$ 45,302,343</u>	<u>\$ 45,355,418</u>

In comparison to the 2010-2011 fiscal year, General Fund receipts increased by approximately \$4,000,000 annually. This is primarily due to Public Act 11-51, which eliminated the Division of Special Revenue and transferred its responsibilities and revenues to the Department of Consumer Protection, effective July 1, 2011. The inclusion of receipts attributed to taxes on horse racing is the most notable among the receipts received due to the consolidation of the 2 agencies. Otherwise, General Fund receipts remained relatively constant during the fiscal years ended June 30, 2012, 2013, and 2014.

Comparative summaries of General Fund expenditures for the fiscal years under review are presented below:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Personal Services and Employee Benefits:	<u>\$ 13,625,439</u>	<u>\$ 13,649,655</u>	<u>\$ 14,449,300</u>
Purchases and Contracted Services:			
Postage	189,083	197,825	163,878
Motor Vehicle Costs	482,592	429,344	417,746
Information Technology	93,077	160,774	60,444
Purchased Commodities	54,221	75,085	65,205
Indirect Overhead-Other Projects	(1,015,422)	(840,046)	(1,174,723)
All Other	623,689	302,442	430,713
Total Purchases and Contracted Services	<u>\$ 427,240</u>	<u>\$ 325,424</u>	<u>\$ (36,737)</u>
Total General Fund Expenditures	<u>\$ 14,052,679</u>	<u>\$ 13,975,079</u>	<u>\$ 14,412,563</u>

When compared to expenditures in the 2010-2011 fiscal year, current expenditures increased by approximately \$4,000,000 annually. This is primarily due to the elimination of the Division of Special Revenue and transfer of its duties and responsibilities to the Department of Consumer Protection as noted above. Other than this factor, General Fund expenditures remained relatively constant during the fiscal years ended June 30, 2012, 2013, and 2014. The department had 201 full-time General Fund employees as of June 30, 2014.

Special Revenue Funds

Federal and Other Restricted Accounts and Special Transportation Funds

The DCP Federal and Other Restricted Accounts receipts totaled \$9,823,140, \$7,186,362, and \$7,133,172 for the fiscal years ended June 30, 2012, 2013, and 2014, respectively. These receipts consist primarily of non-federal restricted revenue, such as fines collected and deposited to the Consumer Protection Enforcement Account, registration and licensing fees collected from patients, producers and dispensaries of the palliative marijuana program, recovery of indirect and fringe costs in the operation of regulatory functions, and transfers of surpluses when available from the New Home Construction and Home Improvement Guaranty Funds.

In addition, DCP also collected and deposited revenues to the Special Transportation Fund in the amount of \$1,765,203, \$1,483,953, and \$2,006,319, for the fiscal years ended June 30, 2012, 2013, and 2014, respectively. These revenues consisted of registration fees for motor fuel dispensers and weighing or measuring devices collected pursuant to Section 43-3 of the General Statutes.

Comparative summaries of expenditures for Federal and Other Restricted Accounts for the fiscal years under review are presented below:

	2011-2012	2012-2013	2013-2014
Personal Services and Employee Benefits:			
Salaries and Wages	\$4,693,600	\$3,171,508	\$2,602,098
Employee Benefits	2,919,848	2,182,716	2,115,014
All other	16,327	28,551	44,341
Total Personal Services and Employee Benefits	<u>\$7,629,775</u>	<u>\$5,382,775</u>	<u>\$4,761,453</u>
Purchases and Contracted Services:			
Information Technology	242,392	182,302	163,736
Indirect Overhead-Federal and Other Projects	1,430,582	1,105,740	1,214,273
All Other	417,838	245,269	188,132
Total Purchases and Contracted Services	<u>2,090,812</u>	<u>1,533,311</u>	<u>1,566,141</u>
Total Federal and Other Restricted Accounts Expenditures	<u><u>\$9,720,587</u></u>	<u><u>\$6,916,086</u></u>	<u><u>\$6,327,594</u></u>

Federal and Other Restricted Accounts are used primarily to record expenditures relating to personal services and fringe benefit costs of employees working on specific projects within the department. When compared to expenditures in the 2010-2011 fiscal year, Federal and Other Restricted Accounts expenditures increased significantly, particularly, indirect overhead related to other projects. This is primarily due to the elimination of the Division of Special Revenue and transfer of its duties and responsibilities to the Department of Consumer Protection, as noted above. There were 25 full-time employees paid from these funds as of June 30, 2014.

In addition to the above expenditures, capital equipment purchases totaling \$27,876, \$112,013 and \$115,671, were paid from the Capital Equipment Purchases Fund during the 2011-2012, 2012-2013, and 2013-2014 fiscal years, respectively.

Fiduciary Funds

During the audited period, the department used a Betting Taxes Fund, a pending receipts fund, and several expendable trust funds to account for certain financial activities. A description of fiduciary fund activities for the audited period follows:

Betting Taxes Fund

This agency fund was used throughout the audited period to account for the deposit of taxes and other monies paid by pari-mutuel licensees such as off track betting facilities. Betting Taxes Fund activity remained relatively stable during the audited fiscal years. That activity is summarized below:

	Fiscal Year		
	2011-2012	2012-2013	2013-2014
Beginning Balance	\$ 258,366	\$ 237,535	\$ 500,596
Receipts:			
Betting Taxes	6,636,355	6,680,109	6,672,017
Total Available Cash	6,894,721	6,917,644	7,172,613
Disbursements:			
Payments to Towns	3,154,707	3,064,838	2,946,027
Transfers to the General Fund	3,502,478	3,352,211	3,718,655
Total Transfers and Expenditures	6,657,185	6,417,049	6,664,682
Ending Balance	\$ 237,535	\$ 500,596	\$ 507,931

Funds Awaiting Distribution Fund

The department used the Funds Awaiting Distribution Fund to hold monies in a custodial capacity until final disposition was determined. Three subaccounts were used within the agency's pending receipts fund for various purposes. A brief description of pending receipts activity and a schedule of financial transactions for the audited period follows:

1. *Real Estate Licenses* – Section 10a-125 of the General Statutes requires that 8.75% of each real estate broker and salesperson licenses and fees be paid to the University of Connecticut (UConn), Center for Real Estate and Urban Economic Studies. Fees collected for real estate salespersons and broker licenses are deposited directly to the General Fund with periodic transfers to a pending receipts account which, in turn, is transferred to UConn.

2. *Federal Appraiser Certification* – This account is used to collect annual registry fees from real estate appraisers to pay for federal registration and certification, as required by Section 20-511, subsection (c), of the General Statutes. The amount of the fee is determined by the commission.

3. *All Other* – This account is used for all other transactions pending resolution, such as closing out sales, license fees, fines, penalties, and settlements.

	<u>Total</u>	<u>Real Estate Licenses</u>	<u>Federal Appraiser Certification</u>	<u>All Other</u>
Cash Balance - July 1, 2011	\$ 329,789	\$ 140,616	\$ 21,549	\$ 167,625
Receipts	1,501,458	637,249	55,530	808,679
Disbursements				
University of Connecticut	(662,528)	(662,528)	-	-
All others	(930,198)	-	(55,670)	(874,528)
Cash Balance - June 30, 2012	\$ 238,521	\$ 115,337	\$ 21,409	\$ 101,775
Receipts	1,149,522	535,005	56,160	558,357
Disbursements				
University of Connecticut	(650,342)	(650,342)	-	-
All others	(646,373)	-	(54,200)	(592,173)
Cash Balance - June 30, 2013	\$ 91,329	\$ -	\$ 23,369	\$ 67,960
Receipts	1,171,094	618,847	54,000	498,247
Disbursements				
University of Connecticut	(618,847)	(618,847)	-	-
All others	(523,108)	-	(55,600)	(467,508)
Cash Balance - June 30, 2014	\$ 120,467	\$ -	\$ 21,769	\$ 98,698

Guaranty Funds

The department used 5 guaranty funds during the audited period to receive deposits and pay claims in accordance with statutory provisions. A schedule of financial transactions for the audited period is presented below along with a brief description of guaranty fund operations.

	Guaranty Trust Funds				
	Health Club	Real Estate	Home Improvement	Itinerant Vendor	New Home Construction
Cash Balance - July 1, 2011	\$ 348,188	\$ 521,522	\$ 236,798	\$ 22,600	\$ 21,893
Total Receipts	135,790	95,838	3,074,016	5,600	1,315,500
Investment Income	641	919	986	-	689
Transfers - Special Revenue Fund					
Restricted Accounts	-	-	(400,000)	-	-
Transfers - General Fund	(123,214)	(118,279)	(626,271)	-	-
Net Receipts	<u>\$ 12,576</u>	<u>\$ (21,522)</u>	<u>\$ 2,048,731</u>	<u>\$ 5,600</u>	<u>\$ 1,316,189</u>
Disbursements	(18,458)	-	(1,793,670)	-	(797,836)
Cash Balance - June 30, 2012	\$ 342,946	\$ 500,000	\$ 491,859	\$ 28,200	\$ 540,245
Total Receipts	145,580	111,978	3,037,383	5,800	172,031
Investment Income	572	792	1,020	-	807
Transfers - Special Revenue Fund					
Restricted Accounts	-	-	(400,000)	-	-
Transfers - General Fund	(138,284)	(41,280)	(946,043)	-	-
Net Receipts	<u>\$ 7,868</u>	<u>\$ 71,490</u>	<u>\$ 1,692,360</u>	<u>\$ 5,800</u>	<u>\$ 172,838</u>
Disbursements	(814)	(75,000)	(1,596,963)	-	(298,167)
Cash Balance - June 30, 2013	\$ 350,000	\$ 496,490	\$ 587,257	\$ 34,000	\$ 414,917
Total Receipts	128,900	132,562	3,068,447	3,400	1,267,066
Investment Income	641	631	964	-	690
Transfers - Special Revenue Fund					
Restricted Accounts	-	-	(400,000)	-	(300,000)
Transfers - General Fund	(129,541)	(54,133)	(1,437,416)	-	-
Net Receipts	<u>\$ -</u>	<u>\$ 79,060</u>	<u>\$ 1,231,995</u>	<u>\$ 3,400</u>	<u>\$ 967,756</u>
Disbursements	-	(75,550)	(1,404,322)	-	(1,128,692)
Cash Balance - June 30, 2014	\$ 350,000	\$ 500,000	\$ 414,929	\$ 37,400	\$ 253,981

Note: Guaranty Trust Fund cash balances presented above include both cash with the State Treasurer and amounts invested in the State Treasurer's Interest Credit Program.

Health Club Guaranty Fund

This trust fund operates under the provisions of Section 21a-226 of the General Statutes and is used to reimburse members of registered health club facilities for unused paid contract balances when health clubs cease operations and have no resources available to issue refunds. Receipts consisted of annual fees paid by health clubs of either \$500 or \$100, depending on the nature of the facility. The authorized balance of this fund is \$350,000. The fund balance of \$350,000 at June 30, 2014, did not exceed the authorized limit. Receipts or investment income received when the fund is at its authorized balance are credited to the General Fund.

Real Estate Guaranty Fund

This trust fund operates under the provisions of Sections 20-324a through 20-324j of the General Statutes and is used to compensate, up to \$25,000, any person aggrieved by actions of registered real estate brokers and salespersons. Receipts consisted of a one-time fee of \$20, paid by real estate brokers and salespersons when registering for the first time and \$3 annual renewal fees. The authorized balance of this fund is \$500,000 and receipts or investment income earned in excess of this limit must be transferred to the General Fund. At June 30, 2014, the fund balance of \$500,000 did not exceed the authorized limit.

Home Improvement Guaranty Fund

This trust fund operates under the provisions of Section 20-432 of the General Statutes and is used to reimburse homeowners up to \$15,000 for losses or damages per contract caused by actions of registered home improvement contractors. Receipts consisted of a \$100 annual fee paid by home improvement contractors and a \$40 annual fee paid by salespersons, investment earnings, and repayments from contractors ordered by the department as restitution. The authorized balance of this fund is \$750,000. On an annual basis, any amounts in excess of this limit are first credited up to \$400,000 to the Home Improvement Enforcement Account, a special revenue fund account used for home improvement and construction enforcement purposes. Any amounts over these thresholds are transferred to the General Fund. At June 30, 2014, the fund balance of \$414,929 was below the authorized limit of \$750,000.

Itinerant Vendor Guaranty Fund

This trust fund operates under the provisions of Section 21-33b of the General Statutes and is used to satisfy consumer claims of up to \$500 against a registered itinerant vendor. An itinerant vendor is one who engages in a temporary or transient business in this state, either in one locality or traveling from place to place. Receipts consisted of an annual fee of \$200, paid by itinerant vendors. The authorized balance of this fund is \$50,000, and any receipts or investment income earned over this balance must be credited to the General Fund. At June 30, 2014, the fund balance of \$37,400 was below the authorized limit.

New Home Construction Guaranty Fund

This trust fund operates under the provisions of Section 20-417i of the General Statutes and is used to reimburse new construction homeowners, up to \$30,000, for losses or damages caused by actions of a registered new home construction contractor. Receipts consisted of a biennial fee of \$480 paid by new home construction contractors, and investment earnings. The authorized balance of this fund is \$750,000. Amounts in excess of \$750,000, are first credited up to \$300,000, to the Consumer Protection Enforcement Account (CPEA), a special revenue fund account and any excess amounts are transferred to the General Fund. At June 1, 2014, the fund balance of \$236,959 was well below the authorized limit of \$750,000.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of the records of the Department of Consumer Protection disclosed certain areas requiring improvement or attention, as discussed in this section of the report.

Late Deposit of Receipts and Retention of Records

Criteria: Section 4-32 of the General Statutes requires that receipts of \$500 or more be deposited and accounted for within 24 hours. Individual receipts under \$500 may be held until the total sum of all receipts reaches \$500; however, individual receipts may not be held for longer than 7 calendar days before being deposited and accounted for.

Supporting documentation should be retained in accordance with the state's records retention schedule. Retained records are subject to audit.

Condition: The Department of Consumer Protection received a waiver to the 24-hour deposit and reporting rule. This waiver was in effect through April 30, 2015 and extended the 24-hour deposit period to 2 business days.

Our test of receipts consisted of an examination of 25 receipts collected by the License Services Division.

- Three of the 25 receipts sampled were deposited 2 days late. They totaled \$1,100.
- Application or renewal forms for 4 of 25 tested could not be located. As a result, we could not verify the receipt records.

Effect: Late depositing of receipts indicates noncompliance with statutory requirements, which could result in receipts being lost, stolen, or not properly recorded. When records are not retained for audit, verification cannot be completed.

Cause: Delays in depositing of receipts were attributed to problems with verification and coding of collections. We did not determine the cause for the failure to retain supporting documentation.

Recommendation: The Department of Consumer Protection should comply with Section 4-32 of the General Statutes and deposit receipts in a timely manner. Supporting documentation should be retained in accordance with the state's records retention schedule and kept available for audit. (See Recommendation 1.)

Agency Response: “We agree with the recommendation. The agency has clear protocols and processes in place for the depositing of receipts. The agency will continue to train all personnel so these occasional lapses do not occur.”

Asset Inventory

Criteria: Section 4-36 of the General Statutes states that, “Each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all of the property owned by the state and in the custody of such agency.”

The Department of Administrative Services Small Agency Resource Team performs most of the Department of Consumer Protection’s General Fund business office functions.

The Department of Administrative Services Asset Management Unit is responsible for the financial recording of newly acquired assets and controllable property; tagging the property; performing physical inventory, reconciling results to the perpetual inventory records, and reporting the annual inventory.

The Department of Consumer Protection is responsible for maintaining and safeguarding agency assets, equipment, and other property throughout its life cycle. DCP is also responsible for notifying DAS of any changes in the location or status of inventory items.

Sound business practice requires clear and accurate accounting and tracking for physical assets from purchase through disposition. As physical assets comprise a significant portion of the asset base of the state, accurate inventory valuation is essential to produce accurate financial statements.

The State Property Control Manual states that assets should be assigned a department-specific identification number, and that number should be affixed to the item in a consistent manner that makes the number visible for inventory purposes without disturbing the operation of the asset. Furthermore, an annual physical inventory must be performed to ensure the information in the Core-CT Asset Management Module is accurately presented. Additionally, the manual states that a person should be assigned responsibility for each asset as the custodian.

Condition: We reviewed a total of 37 assets, 12 selected from the Core-CT general ledger report of capital asset expenditures, 10 from a random inspection of the agency's premises and 15 from a June 30, 2014, inventory listing prepared by DAS. Our review identified the following deficiencies:

- Seven of the assets were located but not at the locations listed by DAS.
- Eight assets were not located.
- Two of the assets did not have a DCP tag number affixed, so we were unable to determine whether they were the assets selected for testing.
- One of the asset valuations did not include an installation cost of \$395 in the asset value listed in Core-CT Asset Management Module.
- One of the assets purchased during the audited period did not have a DCP tag number assigned or affixed and was not entered into the Core-CT Asset Management Module. The asset was purchased for \$31,954.

The Investigations Unit within the Department's Gaming Division investigates alleged violations of state laws and regulations pertaining to state regulated gaming and pari-mutuel operations. The investigators are appointed as special police officers by the Commissioner of Emergency Services and Public Protection. The agency is in possession of ammunition, which is securely controlled internally. However, the ammunition is not accounted for on an inventory listing by a DCP custodian. The DAS business office will not maintain these records because ammunition does not meet the controllable property definition.

Effect: Without adequate inventory records, there is a greater risk that the physical assets of the department could be lost, misplaced, stolen, or unrecorded.

Cause: It appears that lack of coordination between DAS and DCP was the cause of the inventory deficiencies.

Recommendation: The Department of Consumer Protection should work with the Department of Administrative Services to ensure that all asset items are accurately recorded, tagged, and agree to the records maintained in the Core-CT Asset Management Module. DCP

should maintain inventory records of ammunition in its possession. (See Recommendation 2.)

Agency Response: “We agree with the recommendation to work with the Department of Administrative Services on all items related to asset management and to maintain inventory records of ammunition in our possession.”

Information Technology Software Inventory

Background: The Department of Consumer Protection is responsible for maintaining software records and performing software inventory procedures.

Criteria: The State Property Control Manual specifies that a software inventory must be established by all agencies to track and control all of their software media, licenses or end user license agreements, certificates of authenticity documentation (where applicable), and related items in the Core-CT Asset Management Module.

The State Property Control Manual also requires that each agency conduct a physical inventory of software at the end of each fiscal year and compare it to the annual software inventory report. This comparison is to be retained by the agency for audit purposes.

Condition: Our review of the department’s software inventory records disclosed the following:

- DCP does not perform an annual physical inventory of software. A review of the software inventory listing is performed, but there is no comparison of software on the listing to software installed on employee computers.
- The software inventory listing does not contain sufficient detail. The serial number, initial installation date, quantity, and cost information are not entered.
- We were not able to trace 4 software items, currently installed on computers, to the software inventory listing. We conclude that the software listing is incomplete. In addition, there may be significant items on the inventory listing that are outdated or no longer used.

- The department could not provide detailed documentation to support the total amounts entered into the Core-CT module.

Effect: The lack of proper accountability increases the risk that software may be lost, stolen or improperly used. The state may also be at a higher risk of litigation from software companies for violation of licensing and copyright agreements.

Cause: It appears that, initially, these conditions were a result of the merger of the Division of Special Revenue with the Department of Consumer Protection. There appears to be a lack of administrative oversight subsequent to the merger.

Recommendation: The Department of Consumer Protection should comply with the software inventory requirements contained in the State Property Control Manual. Records should contain sufficient supporting documentation, and an annual physical inventory of software must be performed and reconciled. (See Recommendation 3.)

Agency Response: “We agree in part with the recommendation to comply with the software inventory requirements contained in the State Property Control Manual. We maintain a list of software licenses with the quantity and installation dates; the cost information is available in Core-CT. We agree with the recommendation to conduct an annual physical inventory of software.”

Auditors’ Concluding Comment: Although a list of software licenses is now maintained by DCP, the list does not include sufficient descriptive information, such as serial number and product cost. In addition, although some information is being entered on the software listing, it is not verified because DCP does not perform an annual physical inventory.

Payroll and Personnel Deficiencies

Criteria: The Department of Consumer Protection’s Handbook for Supervisors states that employees must request leave time approval from their supervisors prior to taking leave. A copy of the approval form is to be submitted with the biweekly timesheet and retained.

Guidelines for the earning and use of compensatory time are set by collective bargaining agreements and the DAS Manager’s Guide. The guidelines require advance supervisory approval to earn

compensatory time and the periodic expiration of unused compensatory time balances.

State agency retention and disposition requirements for personnel records are stipulated in the State Agencies' Records Retention/Disposition Schedule issued by the Connecticut State Library's Office of the Public Records Administrator.

The State Comptroller requires that notification of employee separation is made to ensure that Core-CT systems security is properly carried out. The notification should result in termination of access to Core-CT on the date of separation.

Condition:

Audit testing of DCP payroll/personnel files processed by the DAS Small Agency Resource Team revealed that recording errors were made and that backup documentation was not available in all cases selected for review. In some instances, when documentation was available, it was not complete. In addition, the Comptroller's Core-CT system security directive was not comprehensively applied to employee separations. The following details the results of our testing:

Leave Requests – Out of a sample of 25 leave requests, we noted that 8 were not located, not dated, or not signed in a timely manner. In addition, 1 leave request did not agree with the time indicated on the timesheet.

Compensatory Time – We noted that the agency was unable to locate documentation to support requests and/or approvals for 3 of 20 compensatory time uses sampled. In addition, there was 1 case in which compensatory time was not used in accordance with the Professional Health Care Employees Bargaining Unit (P-1) contract.

Our review of payments at retirement or termination revealed 1 overpayment of \$521. The agency contacted the retiree and obtained a refund.

A review of all department employees who separated from state service during the audited period revealed that access to the Core-CT computerized accounting system was not terminated at separation, as required by the State Comptroller. There were 18 employees with Core-CT access terminated during the audited period. Based on a review performed on May 27, 2015, 3 accounts of the 18 terminated employees had not been locked.

Effect: Lack of accountability of leave and compensatory time could result in incorrect payments to employees based on inaccurate information that has not been properly reviewed. A weakness in controls resulted in a retirement overpayment of \$521.

Unauthorized access to Core-CT can result when termination of employee access to Core-CT is not completed on the employee's separation date.

Cause: Administrative controls over leave requests, compensatory time and payments at retirement/termination were not adequately implemented. With respect to termination of access to Core-CT for separated employees, it appears that management does not have a well-defined, effective process for notification of employee separation and completion of the corresponding required termination of Core-CT access.

Recommendation: The Department of Consumer Protection must improve controls over the completion, review, and retention of payroll and personnel records. In addition, employee separation procedures must include termination of access to the Core-CT system. (See Recommendation 4.)

Agency Response: "We agree with the recommendation during the audited period. During fiscal year 2015, the agency instituted an electronic tracking system for leave requests which should mitigate lost records. As of May 2015, Core-CT implemented an automatic procedure for termination of access upon employee separation from the agency."

Controls Over Motor Vehicle Usage

Background: The Department of Administrative Services sets a policy standard regarding motor vehicle usage for state business. The policy is General Letter No. 115 – Policy for Motor Vehicles Used for State Business, and must be adhered to by all state agencies. The state motor vehicle policy requires agencies to designate an agency transportation administrator and assigns various responsibilities.

Criteria: Section 14-36 subsection (a) of the General Statutes states, "no person shall operate a motor vehicle on any public highway of this state or private road on which a speed limit has been established until such person has obtained a motor vehicle operator's license." General Letter No. 115 requires the agency transportation administrator to ensure that each agency employee who operates a motor vehicle on state business is aware of the policy and has the

ability, knowledge, skill, experience, and appropriate license to operate the type of vehicle assigned.

Condition: Our examination of controls over employee motor vehicle usage revealed that the department does not have a system in place to verify that employees with state vehicle assignments have valid driver's licenses.

Effect: The department's noncompliance with the state's motor vehicle policy may result in agency violations of Section 14-36 subsection (a) of the General Statutes, which requires all persons to possess a valid license when operating a motor vehicle.

Cause: There appears to be a lack of administrative oversight.

Recommendation: The Department of Consumer Protection should require all employees with assigned state vehicles to submit driver's licenses to verify that they are properly licensed to operate motor vehicles. (See Recommendation 5.)

Agency Response: "We agree in part as new employees provide a copy of their driver's license to Human Resources at the new employee orientation. In fiscal year 2015, the agency implemented a procedure to verify driver's licenses in the business office when employees' driver's licenses are renewed."

Lack of Established Regulations – Tuition Raffles

Criteria: Section 7-185b, subsection (b), of the General Statutes indicates that any organization qualified to conduct a bazaar or raffle under Section 7-172 of the General Statutes may conduct a special tuition raffle once each calendar year. The statutes specify that DCP shall adopt regulations to carry out these provisions.

Condition: Regulations regarding special tuition raffles have not been formally adopted. An updated draft of the special tuition raffle regulations has been prepared, but not yet submitted to the Attorney General's office for review.

Effect: The department is not in compliance with the statutory requirement that regulations be adopted. Without formal regulations, the public and department employees must interpret the applicable General Statutes.

- Cause:* Although it is the department's intent to have the regulations formally adopted, it has not been successful. It appears that a lack of timely administrative oversight exists.
- Recommendation:* The Department of Consumer Protection should comply with Section 7-185b, subsection (b) of the General Statutes by formalizing the regulations governing tuition raffles. (See Recommendation 6.)
- Agency Response:* "We agree the Department should comply with Section 7-185b, subsection (b) of the General Statutes by formalizing the regulations governing tuition raffles. The Department has drafted and will be submitting the proposed regulations governing tuition raffles by the end of calendar year 2016."

RECOMMENDATIONS

Our prior report on the Department of Consumer Protection covered the fiscal years ended June 30, 2010 and 2011, and contained 4 recommendations. Our prior report on the Division of Special Revenue covered the fiscal years ended June 30, 2009, 2010, and 2011, and contained 12 recommendations. As indicated below, 9 of those recommendations have been resolved. Four of the recommendations have not been fully resolved and are therefore being repeated. Three of the recommendations are being repeated and presented as a combined recommendation. One additional recommendation is being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- **The Department of Consumer Protection should comply with Section 4-32 of the General Statutes and deposit receipts in a timely manner. Supporting documentation should be retained in accordance with the state's records retention schedule and kept available for audit.** Our current review again found late deposits of receipts. This recommendation is being repeated. (See Recommendation 1.)
- **The Department of Consumer Protection should formally notify its staff and the auditors of which records and/ or accounts it deems to be confidential.** The department has placed proper notification procedures in place. This recommendation is not being repeated.
- **The Department of Consumer Protection should fill board, commission, and council vacancies in accordance with statutory requirements.** We have determined that the department has endeavored to fill the vacancies. However, the authority to fill the vacant positions exists outside of the department. This recommendation is not being repeated.
- **The Department of Consumer Protection should improve its documentation and maintenance of employee leave records and medical certificates. In addition, compensatory time balances should be monitored to ensure balances are properly earned, used, and lapsed.** We have determined that deficiencies related to payroll and personnel still exist; therefore, we are repeating this recommendation. Our current review revealed deficiencies in the maintenance of employee leave records and medical certificates. In addition, compensatory time was not effectively monitored. This recommendation is being repeated. (See Recommendation 4.)
- **The Gaming Division of the Department of Consumer Protection should establish and adopt formal written policies and procedures regarding the safe use and storage of firearms.** Our current audit determined that written policies and procedures have been provided to employees. The agency retains copies of the policies and procedures signed by the employees. This recommendation is resolved.
- **The Gaming Division of the Department of Consumer Protection should comply with Section 7-169e subsection (d) and Section 7-185b subsection (b) of the General Statutes by pursuing the required approval of draft regulations.** This

recommendation is being modified and repeated to reflect current conditions. (See Recommendation 6.)

- **The Gaming Division of the Department of Consumer Protection should establish and modify formal written procedures to reflect its current operational processes.** The department has implemented procedures. This recommendation is not being repeated.
- **The Gaming Division of the Department of Consumer Protection should strengthen its internal policy regarding personal use of state telephones to reflect the Acceptable Use of State Systems Policy and reiterate the policy to all division staff.** Our testing revealed that a review and approval process is in place for telephone use. The recommendation is resolved.
- **The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative services to establish policies and procedures to ensure that access to Core-CT is disabled when an employee is terminated.** Our testing of procedures regarding terminated employees determined that Core-CT access has not been removed on a timely basis. We are repeating our recommendation and combining it with other findings noted in the areas of personnel and payroll. (See Recommendation 4.)
- **The Gaming Division of the Department of Consumer Protection should comply with Section 12-577 of the General Statutes by performing annual audits of the association licensee and adopting auditing standards by which they shall be performed.** DCP has complied with this requirement by performing the required audits. This recommendation is not being repeated.
- **The Gaming Division of the Department of Consumer Protection should comply with the State Property Control Manual and conduct an annual physical inventory of its software; maintain its software library in a secure area or manner; and consider disposing of the software that has been identified as outdated or no longer used in accordance with the corresponding software publisher's or manufacturer's license or copyright agreements.** This recommendation is being repeated. (See Recommendation 3.)
- **The Gaming Division of the Department of Consumer Protection should document the supervisory review of the Gambling Regulation Unit's inspections conducted on lottery sales agents as well as the field staff accountability review.** DCP has documented the reviews. This recommendation is not being repeated.
- **The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative Services to correct the account code mapping.** Our testing of Core-CT HRMS account codes found no instances of noncompliance. This recommendation is not being repeated.

- **The Gaming Division of the Department of Consumer Protection should ensure that all records can be located and are retained in accordance with the state records retention requirements.** We are repeating our recommendation and combining it with other findings noted in the areas of personnel and payroll. (See Recommendation 4.)
- **The Gaming Division of the Department of Consumer Protection should determine what information is confidential or restricted, establish guidelines to ensure such information is properly safeguarded, provide the information to all staff, and make the information available to the auditors.** The department has complied with this recommendation. This recommendation is not being repeated.
- **The Gaming Division of the Department of Consumer Protection should work with the Department of Administrative Services to ensure that all asset items are accurately tagged and agree to the records maintained in Core-CT.** We are repeating our recommendation and combining it with additional inventory deficiencies. (See Recommendation 2.)

Current Audit Recommendations:

1. **The Department of Consumer Protection should comply with Section 4-32 of the General Statutes and deposit receipts in a timely manner. Supporting documentation should be retained in accordance with the state's records retention schedule and kept available for audit.**

Comment:

We noted that receipts were deposited late and that supporting documentation was not always available for examination.

2. **The Department of Consumer Protection should work with the Department of Administrative Services to ensure that all asset items are accurately recorded, tagged, and agree to the records maintained in the Core-CT Asset Management Module. DCP should maintain inventory records of ammunition in its possession.**

Comment:

We noted deficiencies in the accountability of inventory, including ammunition.

3. **The Department of Consumer Protection should comply with the software inventory requirements contained in the State Property Control Manual. Records should contain sufficient supporting documentation, and an annual physical inventory of software must be performed and reconciled.**

Comment:

Our review noted that the software inventory listing lacks sufficient detail, and DCP had not conducted an annual inventory.

- 4. The Department of Consumer Protection must improve controls over the completion, review, and retention of payroll and personnel records. In addition, employee separation procedures must include termination of access to the Core-CT system.**

Comment:

Our review disclosed insufficient documentation concerning leave requests and medical certificates. Also, compensatory time balances were not consistently monitored to ensure time was properly used or lapsed. Our testing of procedures regarding terminated employees determined that Core-CT access had not always been removed on a timely basis.

- 5. The Department of Consumer Protection should require all employees with assigned state vehicles to submit driver's licenses to verify that they are properly licensed to operate motor vehicles.**

Comment:

We were not provided with documentation that the department verified driver's licenses of employees assigned state vehicles.

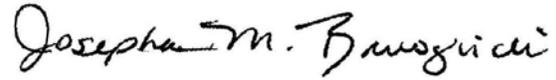
- 6. The Department of Consumer Protection should comply with Section 7-185b, subsection (b) of the General Statutes by formalizing the regulations governing tuition raffles.**

Comment:

Our review noted that, although the regulations governing tuition raffles have been prepared, they have not been formally adopted.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Department of Consumer Protection during the course of our examination.



Josepha M. Brusznicki
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert J. Kane
Auditor of Public Accounts