

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION
OFFICE OF CONSUMER COUNSEL
CONNECTICUT SITING COUNCIL
FOR THE FISCAL YEARS ENDED JUNE 30, 2012, 2013 AND 2014*

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

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AUDITORS OF PUBLIC ACCOUNTS

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September 27, 2016

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

We have audited certain operations of the Department of Energy and Environmental Protection (DEEP), Office of Consumer Counsel (OCC), and the Connecticut Siting Council (CSC) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2012, 2013, and 2014. 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, as well as certain external parties; 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) the need for improvement in management practices and procedures that we deemed to be reportable. The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Energy and Environmental Protection, Office of Consumer Counsel and the Connecticut Siting Council.

COMMENTS

FOREWORD

The Department of Energy and Environmental Protection (DEEP) operates under the provisions of Titles 15, 16, 16a, 22a, 23, 25 and 26 of the General Statutes. DEEP was created by Public Act 11-80, effective July 1, 2011, and brings together the former Department of Environmental Protection and the Department of Public Utility Control, along with the energy policy group from the Office of Policy and Management. DEEP has jurisdiction over all matters relating to the preservation and protection of the air, water and other natural resources of the State of Connecticut. The principal areas of operation, stated in terms of broad purpose, are as follows: conservation of land and water resources, parks and recreation, fish and wildlife, water resource management, solid waste management, air and water pollution, geological survey, and energy efficiency. Robert J. Klee was appointed commissioner in January 2014 and continues to serve in that capacity. He succeeded Daniel C. Esty as commissioner.

The major divisions within DEEP are Energy, Environmental Conservation, and Environmental Quality. The Energy Division includes the Public Utilities Regulatory Authority (PURA), which reviews utility rates, and the Bureau of Energy and Technology Policy (BETP), which develops energy efficiency, infrastructure and alternative power programs. The Environmental Conservation Division is concerned primarily with our natural resources represented by open spaces and underdeveloped land areas; fish life; streams and coastal areas; and state-owned parks and forests. The Environmental Quality Division maintains and improves the quality of the air, land, and water resources of the state by preventing pollution or mismanagement thereof by private, public, or business interests.

PURA, formerly the Department of Public Utility Control (DPUC), operates under the provisions of Title 16, Chapter 277, Section 16-1 to 16-50f of the General Statutes. PURA, along

with the Bureau of Energy and Technology Policy, is part of the energy division of DEEP, effective July 1, 2011. PURA regulates the rates and services of Connecticut's investor-owned electricity, natural gas, water, and telecommunication companies and is the franchising authority for the state's cable television companies. PURA is responsible for balancing the public's right to safe, adequate, and reliable utility service at reasonable rates with the provider's right to a reasonable return on investment. PURA monitors utility companies to promote equity among competitors, while customers benefit from competition and are protected from unfair business practices. PURA expenses and assessment revenues are accounted for in the Consumer Counsel/DPUC Fund, a special revenue fund in accordance with Section 16-48a of the General Statutes. Amounts in this fund may be expended only pursuant to appropriation by the General Assembly, and any balance remaining in the fund at the end of any fiscal year is to be carried forward to the succeeding fiscal year. As of June 30, 2014, PURA consisted of three directors appointed by the Governor: Arthur House, Chairman, John W. Betkoski III, Vice-Chairman, and Michael A. Caron, Commissioner.

The Bureau of Energy Technology Policy (BETP) was previously part of the energy policy group from the Office of Policy and Management's Strategic Management Unit, but was transferred to DEEP effective July 1, 2011 through Public Act 11-80. BETP is responsible for carrying out the statutory purposes of Title 16a – Planning and Energy Policy, Chapters 295 through 298a, Sections 16a-1 through 16a-107 of the General Statutes. BETP develops plans and policies to implement Connecticut's Comprehensive Energy Strategy, oversees the planning and implementation of the state's energy efficiency programs, works with the state's Energy Efficiency Board, administers the state's Weatherization Program, and develops and implements the Connecticut Climate Change Action Plan.

The Office of the Consumer Counsel (OCC) operates under the provisions of Title 16, Chapter 277, Section 16-2a of the General Statutes and is within DEEP for administrative purposes only. OCC advocates for consumer interests in matters that may affect Connecticut consumers with respect to public service companies, electric suppliers, and certified telecommunications providers. OCC participates in any regulatory or judicial proceedings in which interests of Connecticut consumers may be involved, or in which matters affecting utility services rendered may be involved. OCC is a party to each contested case before PURA and may appeal decisions in any such proceeding. OCC is under the direction of a Consumer Counsel, who is appointed by the Governor with the advice and consent of either house of the General Assembly. The expenses of OCC are assessed in accordance with the provisions of section 16-49. The Consumer Counsel as of June 30, 2014 was Elin Swanson Katz who continues in that capacity today. She succeeded Mary J. Healey on October 3, 2011.

The Connecticut Siting Council (CSC) established under Title 16, Chapter 277a, Section 16-50j, is within DEEP for administrative purposes only. The council's primary mission is to provide a regulatory process for balancing the need for adequate and reliable public utility services with the need to protect the environment and ecology of the state. The council reviews and acts on applications for approval of sites for construction, operation, and maintenance of facilities for electric generation and transmission, fuel transmission, telecommunications,

hazardous waste management, low-level radioactive waste management, and ash residue management. The CSC chairman as of June 30, 2014 was Robert Stein.

The Council on Environmental Quality, established under Section 22a-11 of the General Statutes is within DEEP for administrative purposes only. The nine member council can receive and investigate citizen complaints and refer such matters to the appropriate regulatory agency for action. Annual reporting to the Governor is required. Expenditures in the amount of \$162,824, \$155,745 and \$165,755 were made during the fiscal years ended June 30, 2012, 2013 and 2014, respectively. There were no revenues within this council.

The Connecticut Emergency Response Commission, established under 22a-601 of the General Statutes is within DEEP. The 19 member commission is responsible for implementing the provisions of the Emergency Planning and Community Right-to-Know Act. There were no receipts or expenditures during the audited period.

Significant New Legislation

Public Act 12-1, Sections 18 and 29, of the December 2012 Special Session effective December 21, 2012, authorized the transfer of \$2,300,000 and \$3,600,000 to the General Fund from the Consumer Counsel/DPUC Fund and the Public Educational and Governmental Programming and Education Technology Investment Account, respectively. Section 20 authorized the transfer of any balance remaining in the boating account administered by DEEP to also be transferred.

Public Act 12-104 Section 13, effective July 1, 2012, required that \$2,000,000 of the funds collected through the systems benefit charge on electric utility customers be transferred to DEEP to provide energy assistance through Operation Fuel. Section 17, effective June 8, 2012, also transferred \$65,000 from the Probate Court Administration Fund surplus to DEEP for a Connecticut Greenways Council grant.

Public Act 12-148 made various changes to the state's emergency preparedness and response practices. Section 3 subsection (b), effective June 15, 2012, required PURA to initiate a docket to review utility emergency preparation and service restoration practices, identify the most cost-effective levels of electric company tree trimming and system hardening needed to achieve system reliability and minimize outages, and establish electric and gas company emergency performance standards. Section 4 allows PURA to issue civil penalties against utility companies. Section 7 subsection 5(b) requires DEEP to establish a microgrid grant and loan pilot program to fund infrastructure for onsite electricity generation for critical facilities.

Public Act 12-183 Section 9 subsection (h), effective July 1, 2012, divided the administrative duties of the Brownfield Liability Protection Program between the Department of Economic and Community Development (DECD) and DEEP. The DECD commissioner accepts brownfields into the program and the DEEP commissioner monitors their remediation. Subsection (h) requires that applicants accepted into the program must pay a fee equal to 5 percent of the brownfield's assessed value to the DEEP commissioner, who must deposit the fee revenue in the

Special Contaminated Property Remediation and Insurance Fund. The revenue must be used for the fund’s statutory purposes, including removing or mitigating spills into the state’s waters and making low-interest loans for remediating brownfields. DEEP reported that \$263,561 was received, and there have been no expenses as of January 28, 2016.

Public Act 13-247 Section 236, effective June 19, 2013, required DEEP and the Connecticut Resources Recovery Authority (CRRA) to enter into a memorandum of understanding (MOU) requiring DEEP to assume all legal obligations from closing the Ellington, Hartford, Shelton, Wallingford, and Waterbury landfills. Public Act 13-285 Section 7, effective July 12, 2013, required DEEP to initiate an audit of CRRA, which shall be paid for by CRRA, and provide recommendations regarding the future of such facilities to the Governor and legislative committees by December 15, 2013. Public Act 14-94, effective June 6, 2014, section 1 established the Materials Innovation and Recycling Authority (MIRA) as a successor to CRRA. Section 4 created Recycle CT Foundation, Inc. as a state-chartered nonprofit foundation, and the Recycle CT Foundation Council, requiring it to seek nonprofit tax-exempt status. Section 29 subsection (d)(1)(C) made Connecticut Green Bank the successor agency to the Clean Energy Finance and Investment Authority.

RÉSUMÉ OF OPERATIONS

During the fiscal years ended June 30, 2012, 2013, and 2014, DEEP activity was accounted for in the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds and Fiduciary/Trust Funds. These funds are discussed in more detail in the sections that follow.

GENERAL FUND

General Fund revenues decreased and then increased by 11 and 5 percent during the fiscal years ended June 30, 2013 and 2014, respectively, due mostly to changes in Other Revenue, Fees, Permits, and Sales-Commodities and Services. Other Revenue is primarily from fish and game licenses, vessel registration licenses and pesticide licenses. Permits and fees are collected for a variety of environmental and energy activities including air, water, and hazardous waste compliance and management services. Included in fee revenue is approximately \$7,000,000 for the federal Clean Air Act and \$2,000,000 from pesticide fees. Sales–Commodities & Services represent camp and parking revenue from state parks. Receipts and expenditures for the General Fund are summarized below.

General Fund Receipts by Account	<u>Fiscal Year Ended June 30,</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Other Revenue	\$12,033,599	\$11,882,919	\$11,690,147
Fees	11,517,807	11,562,088	11,681,311
Permits	10,163,902	7,327,866	9,272,406
Sales – Commodities & Services	6,527,440	6,530,210	6,703,665
Rents, Fines and Escheats	2,118,390	1,269,248	1,015,898
Refunds and Miscellaneous	<u>(164,255)</u>	<u>(920,960)</u>	<u>(754,125)</u>
Total Receipts	<u>\$42,196,883</u>	<u>\$37,651,371</u>	<u>\$39,609,302</u>

General Fund Expenditures by Account

Personal Services & Employee Benefits	\$56,456,099	\$54,048,654	\$53,878,328
Premises and Property Expenses	2,952,813	2,625,735	3,339,196
Purchases & Contracted Services	4,184,455	3,665,500	3,255,647
Information Technology	750,768	1,276,117	2,103,320
Capital Outlays	1,108,271	551,859	2,891,562
Motor Vehicle Costs	2,974,325	2,739,070	2,587,026
Purchased Commodities	1,254,102	1,419,690	1,742,023
Fixed Charges	2,074,452	38,000	898,860
Employee Expenses, Allowances & Fees	244,429	290,005	354,772
Other Charges	<u>(562,986)</u>	<u>(352,967)</u>	<u>(313,012)</u>
Total General Fund Expenditures	<u>\$71,436,728</u>	<u>\$66,301,663</u>	<u>\$70,737,722</u>

Total General Fund expenditures decreased by a total of \$5,135,065, or 7.2 percent, and increased \$4,436,059, or 6.7 percent, during the fiscal years ended June 30, 2013 and 2014, respectively. The decrease was due to a reduction in personal services and employee benefits and fixed charges related to the Statewide Cost Allocation Program. The increase during the fiscal year ended June 30, 2014 was due mostly to capital outlays, information technology and fixed charges. Fixed charges fluctuated due to the charges allocated by the State Comptroller to account for the Statewide Cost Allocation Program.

SPECIAL REVENUE FUNDS

DEEP utilized special revenue funds to account for expenditures for specific programs. The largest receipts and expenditures were for Federal and Other Restricted Accounts, Consumer Counsel/DPUC Fund, and STEAP Grants to Local Government. Receipts and expenditures for all Special Revenue Funds are summarized below.

Federal and Other Restricted Accounts Fund

The purpose of this fund is to account for certain federal and other revenue that is restricted from general use. The largest federal programs were related to sport fishing; wildlife restoration; air pollution control; air, water and waste management; and Performance Partnership Grants. Receipts for the Federal and Other Restricted Accounts Fund increased \$5,656,171, or 6 percent, and then decreased \$5,247,095, or 5 percent, during the fiscal years ended June 30, 2013 and 2014, respectively. Receipts for Non-Federal Aid-Restricted fund increased during the fiscal year ended June 30, 2014 due to the settlement agreement between NSTAR and Northeast Utilities, other amounts collected for environmental settlements, and program transfers related to the Nuclear Safety Emergency Account. Federal Aid-Restricted decreased during the fiscal year ended June 30, 2014 due to a reduction in federal grants, including those authorized by the American Recovery and Reinvestment Act. Receipts and expenditures for the Federal and Other Restricted Accounts Fund are summarized below.

Federal and Other Restricted Accounts	Fiscal Year Ended June 30,		
Revenue	<u>2012</u>	<u>2013</u>	<u>2014</u>
Non-Federal Aid-Restricted	\$31,149,012	\$ 35,271,565	\$57,864,323
Federal Aid-Restricted	62,047,770	64,150,843	36,851,181
Fees	3,730,926	3,922,726	3,619,389
Grant Transfers and Other	<u>1,036,415</u>	<u>275,160</u>	<u>38,306</u>
Total Revenue	<u>\$97,964,123</u>	<u>\$103,620,294</u>	<u>\$98,373,199</u>
Expenditures by Account	<u>2012</u>	<u>2013</u>	<u>2014</u>
Personal Services & Employee Benefits	\$30,928,095	\$30,353,150	\$31,179,114
Other Charges	7,119,636	22,047,868	23,956,289
Fixed Charges	44,040,787	24,095,329	15,972,459
Purchases and Contracted Services	4,964,908	5,675,330	4,470,391
Capital Outlays – Building/Improvements	81,738	87,937	3,211,145
Capital Outlays	2,190,060	410,226	1,716,593
Premises and Property Expenses	1,051,205	1,326,719	1,492,216
Capital Outlays – Equipment	1,441,697	2,062,476	1,098,332
Information Technology	1,284,510	1,331,416	1,064,503
Motor Vehicle Costs	528,421	548,993	650,433
Purchased Commodities	713,510	570,430	562,044
Employee Expenses, Allowances & Fees	<u>220,298</u>	<u>474,030</u>	<u>315,122</u>
Total Expenditures	<u>\$94,564,865</u>	<u>\$88,983,904</u>	<u>\$85,688,641</u>

Total expenditures decreased \$5,580,961 and \$3,295,263, or 6 and 4 percent, during the fiscal years ended June 30, 2013 and 2014, respectively. Other Charges increased in fiscal years ended June 30, 2013 and 2014 due to Regional Greenhouse Gas Initiative (RGGI) auctions and fluctuated based on the timing and magnitude of the auctions. Fixed Charges decreased in the fiscal years ended June 30, 2013 and 2014 due to extensive federal fund expenditures for energy programs during the fiscal year ended June 30, 2012. Capital Outlays increased in the fiscal year ended June 30, 2014 due to the cost for construction of a fish bypass at Tingue Dam in Seymour using federal funds.

Consumer Counsel/DPUC Fund

This fund includes receipts and expenditures for the Public Utilities Regulatory Authority (PURA), formerly known as the Department of Public Utility Control (DPUC), and the Office of Consumer Counsel (OCC). PURA is part of the energy branch of DEEP and OCC is part of DEEP for administrative purposes only. Receipts consist primarily of assessments from utility companies. Receipts and expenditures for the Consumer Counsel/DPUC Fund are summarized below.

Consumer Counsel/DPUC Fund	Fiscal Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Receipts			
Recoveries of Expenses	\$22,223,285	\$26,253,425	\$24,518,524
Fees for Examinations	29,369	41,537	29,500
Fines	8,441	30,000	-0-
Total Receipts	<u>\$22,261,095</u>	<u>\$26,324,962</u>	<u>\$24,548,024</u>
 Expenditures by Account			
Personal Services & Employee Benefits	\$18,399,210	\$18,342,935	\$20,007,272
Premises and Property Expenses	1,325,460	1,466,878	1,412,791
Fixed and Other Charges	1,455,796	1,427,122	1,191,856
All Other Expenditures	<u>1,332,158</u>	<u>1,528,317</u>	<u>1,597,927</u>
Total Expenditures	<u>\$22,512,624</u>	<u>\$22,765,252</u>	<u>\$24,209,846</u>

Total expenditures increased \$252,628 and \$1,444,594, or 1.1 and 6.4 percent during the fiscal years ended June 30, 2013 and 2014, respectively. The increase during the fiscal year ended June 30, 2014 was due to changes in personal services, which included an increase of \$1,085,926 of expenses for the State Employees Retirement System.

Grants to Local Governments and Others Fund

The Grants to Local Governments and Others Fund is used by various state departments to account for bond authorizations for grants to local governments, organizations, and individuals. Expenditures totaled \$28,024,430, \$22,104,768 and \$16,983,185 during the fiscal years ended June 30, 2012, 2013 and 2014, respectively. The majority of expenditures were for acquisition of open space, conservation/recreation, grants for hazardous waste, recycling facilities, flood control and remediation of polluted sites.

ENTERPRISE FUND – CLEAN WATER FUND

The Clean Water Fund (CWF) operates under the provisions of Section 22a-475 through 22a-483 of the General Statutes. This fund is used for grants, loans for research, planning and construction of water quality projects and improvements. Receipts of the Clean Water Fund were primarily from federal grants and the sale of bonds. Receipts and expenditures for the Clean Water Fund are summarized below.

Clean Water Fund	Fiscal Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Receipts by Account			
Federal Grants	\$ 189,661	\$41,165,009	\$15,973,465
Investment Income	3,805,111	5,505,699	745,324
Miscellaneous	-0-	-0-	119,105
Total Receipts	<u>\$3,994,772</u>	<u>\$46,670,708</u>	<u>\$16,837,894</u>
 Expenditures by Account			
State Account	\$ 32,666,389	\$ 34,908,735	\$ 40,844,448
Federal Account	72,715,910	125,779,459	98,575,274

Drinking Water Fed Loan	-0-	-0-	25,253
Total Expenditures	<u>\$105,382,299</u>	<u>\$160,688,194</u>	<u>\$139,444,975</u>

Expenditures above represent DEEP expenditures only. Expenditures were mainly for grants to municipalities for the construction, expansion or improvement of wastewater treatment facilities, loans and administrative expenses. The Clean Water Fund was audited by independent public accountants for the period under review.

CAPITAL AND NON-CAPITAL PROJECTS FUNDS

Expenditures from capital and non-capital projects funds totaled \$9,881,627, \$8,966,780 and \$17,246,725 during the fiscal years ended June 30, 2012, 2013 and 2014, respectively, and were primarily for grants and sites for parks and public places. There were no revenues recorded for the Capital and Non-Capital Projects Funds. Expenditures in this category increased significantly during the fiscal year ended June 30, 2014 due to IT Capital Investment programs, dam repairs, and improvements to state parks.

TRUST FUNDS

DEEP is responsible for maintaining administrative control over eight accounts, with other trustees responsible for two other accounts, as follows:

<u>DEEP Funds</u>	<u>Purpose</u>	<u>Balance at June 30, 2014</u>
Culpeper	Repair of facilities at the American Shakespeare Theater	\$ 20,411
James L. Goodwin	Provide educational activities and maintain the Goodwin Center	261,199
Hopemead	Develop property previously conveyed to the state	3,396,496
Kellogg	Maintain Kellogg Environmental Center and Osborndale State Park	820,084
Topsmead	Maintain Topsmead State Forest	2,780,329
Wagner-Firestone	Maintain a bird and game sanctuary in Lyme and East Haddam	207,881
Flora Werner	Benefit of the real estate devised to the state	418,771
White Memorial	Maintain wildlife sanctuaries, including Werner Woods	<u>3,999,512</u>
Subtotal - DEEP		<u>\$11,904,683</u>
<u>Trustee Funds</u>		
James L. Goodwin	Provide educational activities and maintain the Goodwin Center	\$ 860,565
Kellogg	Maintain Kellogg Environmental Center and Osborndale State Park	<u>15,046,162</u>
Subtotal - Other		<u>\$15,906,727</u>
Total Funds		<u>\$27,811,410</u>

Since June 30, 2011, the DEEP fund balance increased \$1,337,078, or 13 percent, and the balance within the trustee-controlled accounts increased \$2,342,753, or 17 percent, due mostly to investment earnings. The Eastern Tribe Pequot Indians Fund, which had a balance of \$35,141 as

of June 30, 2011, was closed as of June 30, 2014 and the funds were sent to the Eastern Pequot Tribal Nation to be used in accordance with Section 47-65 of the General Statutes.

OFFICE OF CONSUMER COUNSEL

The Office of the Consumer Counsel (OCC) advocates for consumer interests in matters that may affect Connecticut consumers with respect to public service companies, electric suppliers, and certified telecommunications providers. Expenses of OCC are recovered through assessments from utility companies and accounted for within the Consumer Counsel/DPUC Fund. There were no notable receipts for OCC during the audited period.

Consumer Counsel Expenditures by Account	Fiscal Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Personal Services & Employee Benefits	\$1,850,635	\$1,882,762	\$1,895,562
Premises and Property Expenses	189,530	202,063	218,039
Purchases & Contracted Services	105,706	103,516	75,036
Other Charges – Indirect Expenses	364,667	67,695	69,625
Employee Expenses, Allowances & Fees	14,738	27,329	60,535
Other	<u>37,897</u>	<u>44,826</u>	<u>23,647</u>
Total Consumer Counsel Expenditures	<u>\$2,563,173</u>	<u>\$2,328,191</u>	<u>\$2,342,444</u>

Expenditures within the Consumer Counsel/DPUC Fund decreased and increased by 9 and 0.6 percent due mostly to changes in Premises and Property Expenses and Other Charges – Indirect Expenses.

CONNECTICUT SITING COUNCIL

The Connecticut Siting Council (CSC) is within DEEP for administrative purposes only in accordance with Section 16-50j of the General Statutes. The operations of the council are accounted for within the Siting Council Fund. Receipts consisted primarily of assessments on applicable energy and telecommunications services and recoveries of expenditures from applicants for costs incurred in conducting hearings and proceedings, in accordance with Section 16-50v of the General Statutes. Annual assessment receipts received for the fiscal years ended June 30, 2012, 2013 and 2014 totaled \$2,043,003, \$2,363,669 and \$1,347,537, respectively. Expenditures for CSC are summarized below.

Siting Council Fund Expenditures by Account	Fiscal Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Personal Services & Employee Benefits	\$1,066,961	\$1,180,656	\$1,126,620
Other Charges – Indirect Expenses	523,777	97,634	319,675
Purchases & Contracted Services	339,412	236,985	147,947
Premises and Property Expenses	189,594	122,030	131,913
Capital Outlays – Equipment	-0-	-0-	29,621
Purchased Commodities	4,698	6,461	8,426

Information Technology	14,151	6,265	7,884
Employee Expenses, Allowances & Fees	5,726	12,608	7,049
Motor Vehicle Costs	<u>8,025</u>	<u>6,836</u>	<u>6,756</u>
Total General Fund Expenditures	<u>\$2,152,344</u>	<u>\$1,669,475</u>	<u>\$1,785,891</u>

Expenditures within the Siting Council Fund decreased and increased by 22 and 7 percent, mostly due to changes in indirect expenses calculated annually by the State Comptroller and accounted for within Other Charges – Indirect Expenses. The reduction in overhead between 2012 and 2013 was attributed to DEEP’s role for administrative purposes only for OCC instead of the DAS Small Agency Resource Team (SMART) unit, which was to bring human resources and payroll personnel from multiple agencies under one administrative process.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of the records of the Department of Energy and Environmental Protection disclosed areas of concern that are discussed below.

OTHER MATTERS—EMERGENCY RESPONSE AND SPILL PREVENTION DIVISION

Our office received a complaint pursuant to Section 4-61dd (whistleblower law) on June 22, 2015 about an individual DEEP hired as a supervising emergency response coordinator (SERC), who allegedly was not performing those duties. The employee was hired on August 22, 2014 from outside of state service as one of three supervisors within the Emergency Response and Spill Prevention Division. According to job specifications provided by the Department of Administrative Services, the position is accountable for supervising emergency response personnel engaged in controlling hazardous spills, discharges, and releases. Examples of duties associated with this position include scheduling, overseeing, and reviewing the work of staff engaged in hazardous materials spills and releases; mitigation containment and cleanup; coordinating on-the-scene spill clean-up efforts with federal, state, and municipal agencies; monitoring threats to public health and safety; and assuming primary responsibility in the field for all on-site activities. It was evident that the employee was not performing in this capacity, which burdened other employees with excessive compensatory time usage to fulfill their duties in the interest of public safety.

DEEP informed us that the employee does not supervise staff and is unable to manage field investigations despite multiple trainings. We questioned the employee's lack of a 6-month evaluation and the "good" rating he received on his annual review. The employee received benefits commensurate with the supervisory position, including a biweekly salary of \$2,604, credit toward a hazardous duty pension, and a vehicle with unlimited access. The vehicle was driven over 19,000 miles from November 2014 to October 2015, despite the employee only responding to a "handful" of emergency calls and in apparent conflict with state policy to prevent the personal use of state vehicles.

We note that before the employee was hired, the other two supervisors in the unit were accumulating more than 400 hours of compensatory time each year. His hiring was intended to help lower the amount of compensatory hours earned by those supervisors and reduce their workload. The hiring did not lessen the compensatory hours earned by the other supervisors, as they continued to earn significant compensatory time in 2015. Also, for the past few years, the director of the unit has been providing supervisory coverage for after-hours calls and earning compensatory time. Typically, a director would not receive compensatory time; however, because the department needs after-hours supervisory coverage, he has been granted a blanket authorization to receive such time. The hiring of the employee as a supervisor did not alleviate the situation DEEP was trying to address.

On November 10, 2015, the employee indicated that he was not comfortable performing his supervisory duties for safety reasons and requested a demotion to Emergency Response Coordinator I. The demotion was granted on January 26, 2016 by agreement of all of parties.

DEEP continues to train the employee and indicated he will be involved in emergency response situations in the future.

It was evident that the employee hired to fill the SERC position was incapable of performing the duties of the position before the demotion, yet was compensated at a supervisory level. We have significant concerns about the apparent waste of resources and the burdens placed on the other employees within the division, which could potentially threaten the safety of employees and the public at large. The excessive compensatory time at the supervisory level, and the fact that only one supervisor is available for approximately five months per year (as the other is away from work using the compensatory time earned during the year), appeared to have a detrimental effect on the unit overall. This matter was reported to the Office of the Attorney General on February 3, 2016, in accordance with our responsibilities under Section 4-61dd of the General Statutes.

Agency Response

DEEP responded that, “DEEP hired an employee in August 2014 from outside of state service as one of three supervisors with the Emergency Response and Spill Prevention Division. As the report indicates, the individuals in these supervisory positions are responsible for supervising personnel engaged in controlling hazardous spills, discharges and releases. In addition to these responsibilities, the supervisors are responsible for a variety of planning activities and development of policies and procedures for the unit. Prior to being hired by DEEP, the employee worked in a lead/supervisory capacity for 12 of his 32 years at a major private utility. Of all the candidates that were interviewed, this employee was the only candidate that had the requisite level of supervisory skills and experience to serve as the third supervisor in this Division. While recognizing that the employee would need additional training to build the experience and exposure to the wide range of release types that the unit responds to, DEEP maintains that this individual was the strongest candidate for the job and that the decision to select him was supported by his application materials and job interview. After the employee joined DEEP, he began participating in a training program to expand and strengthen his emergency response skills. These additional skills were needed to cover the scope and complexity of the calls and safety requirements necessary for these activities. Emergency responders are prepared to handle incidents of great variety – everything from a spill of a few gallons to a whole tanker-full of petroleum, from a single abandoned drum to biological and chemical weapons. As part of this training program, the employee attended and passed EPA training in November 2014 and Weapons of Mass Destruction (WMD) Training in August 2015. DEEP disagrees that the employee hired to fill the SERC position was incapable of performing the duties of the position. In addition to undertaking additional response training, the employee was prepared to work with the Coast Guard in the event of a large oil or chemical spill into Long Island Sound, and was also on call and prepared to oversee DEEP Desk operations at the Hartford Armory in the event of a statewide emergency. The employee took on several projects to strengthen the Emergency Response Unit’s policies and procedures and responded to eighteen (18) incidents requiring unscheduled emergency responses. While it would have been preferable to hire an individual that had experience in dealing with all of the release types to which DEEP has to respond, his substantive experience on other types of releases and his actual experience as a supervisor provided reasonable grounds for believing that the employee would function as a

good supervisor. DEEP does agree with the Auditors that a six-month review was not done and that this was a mistake, especially given that the employee was undergoing additional training. That review period should have served as an opportune time to review whether the employee was on track to serve in the capacity for which the employee was hired. In retrospect, it would have made sense to do the review and then extend this probationary period another six months. DEEP recognizes this failing and has taken steps to remind its managers of the need to do these six-month reviews. DEEP further acknowledges that the employee decided to step down from his role as a supervisor and serve the Unit as an emergency response coordinator. While DEEP agreed to grant the employee's request, DEEP does not agree that this action was needed for safety reasons. DEEP strongly disagrees with any suggestion that the decision to hire this individual at any time threatened the safety of the public or other DEEP employees. Similarly, DEEP strongly disagrees with any suggestion that the employee's time served as a supervisor in any way threatened the safety of the public or other DEEP employees. Finally, in terms of the employee's vehicle use, Emergency Response Coordinators are all assigned vehicles as soon as they start working at DEEP; the nature of the work is to be prepared to respond at any time of day. Even when not on call, DEEP's expectation is that all work in the Spills Unit, whether they are managers, supervisors or staff, are to be ready to respond when warranted and needed. As a result, the employee's use of vehicle is in line with the current use and expectation for all members of the Unit."

Reporting Deficiencies – GAAP Financial Data and Statutorily-required Reports

Criteria: The Office of the State Comptroller (OSC) requires each state agency to submit closing packages annually to enable OSC to prepare accurate financial statements in accordance with Generally Accepted Accounting Principles (GAAP), including obligations to be reported for landfill closures within GASB 18. Following the instructions provided by OSC, agencies are expected to report accurate financial information that is not readily available on the state's Core-CT accounting system.

Section 4-33a of the General Statutes requires that state agencies responsible for state property shall promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular, or unsafe handling or expenditure of state funds or breakdowns in the safekeeping of any other resources of the state. Various other statutes require reporting to the General Assembly.

Condition: DEEP did not accurately report the following to OSC during the audited period:

- \$6,128,881 of payable amounts were not recorded
- \$1,016,183 of receivables were overstated
- \$6,106,569 of contractual obligations were not disclosed
- \$18,759,028 of reported pollution remediation liability was not supported with evidence required by GASB 49
- over \$30,000,000 of long-term liabilities were not reported in accordance with GASB 18
- \$2,098,296 of inventory reporting was inaccurate
- \$6,734,228 of trust funds were not reported to the State Treasury

DEEP did not report the following breakdowns in the safekeeping of the following state resources:

- A vacant home in Rocky Hill owned by DEEP was irreparably damaged due to a leaking basement and a water pipe burst. Town records show the value of the home improvements were \$101,920. It is now slated for demolition.
- DEEP had a list of 98 missing items totaling \$354,579, including some that have not been located for nearly 10 years. According to DEEP, distinguishing between bad data and the potential loss of assets was difficult, and it is continuing to work to verify the information.

In addition, during our review of reports required to be submitted by statute, it was discovered that:

- 15 of 42, or 36 percent were not available for review
- 20 others, or 48 percent, were not submitted in a timely manner

Cause: There was a lack of management oversight over the GAAP reporting process, an apparent lack of guidance regarding GASB 18 reporting from OSC, and a lack of monitoring for compliance with certain other reports required under the General Statutes.

Effect: There was \$64,607,729 of reporting errors, which we brought to the attention of OSC for GAAP reporting. There is an increased risk that errors, irregularities or losses may not be reported. Reporting required by the General Statutes is not available for review.

Recommendation: The Department of Energy and Environmental Protection should improve oversight over GAAP reporting and report promptly in accordance with Section 4-33a and other requirements under the General Statutes. (See Recommendation 1.)

Agency Response: “The Department recognizes the importance of annual GAAP report and complying with GASB 18 and 49 respectively. The above finding lists a number of discrepancies, most notably the recording of pollution liabilities. Although each item can be defended our response will focus on the \$18,759,028 GASB 49 calculation and the reporting of the pollution liabilities related to newly acquired CRRA landfill responsibilities which resulted in \$31,000,000 of closure reserves transferred to the General Fund. The GASB 49 discrepancy is a repeat finding and represents a difference of interpretation on how the assessment should be evaluated on an annual basis. The Department’s remediation and fiscal staff continue to spend a considerable amount of time working with the State Comptroller’s Office developing guidelines for the requirement. We continue to work diligently developing forms, analyzing data, drafting guidance documentation, developing criteria, documenting cost estimate methodology and reevaluating our assessments. The Comptroller’s GAAP Unit continues to provide additional guidance to the agency. As noted previously, our estimates are based on data collected from consultants and expenditure projections by remediation staff. The information is analyzed on an annual basis and will change based on updated monitoring results, federal guidance and participation and a variety of other factors. The majority of remediation projects will span several years. In these cases, the agency’s estimate of current value should be based on reasonable assumptions about future events. The reasonableness of remediation liabilities should be reassessed as new information becomes available and, at a minimum, estimates should be

updated for each reporting period. The Agency will continue to use available resources to collect data and update estimates for reporting. The Department's primary goal is to evaluate and consistently project pollution liabilities with guidance from the State's Comptroller and concurrence with the State Auditors of Public Accounts. Pollution remediation liability may be relatively limited at initial recognition but would increase over time as more components become measurable. Therefore staff assessments and projections, based on experience and available data, will continue to be our primary basis for calculating the liability. In regards to the reference of over \$30,000,000 of long term liabilities absent within the report, the Department recognizes the need to include this liability on behalf of the State. This new responsibility was assigned to the Department in accordance with the requirements of section 99 of PA 13-184 and section 236 of Public Act 13-247. The Connecticut Department of Energy and Environmental Protection and the Connecticut Resources Recovery Authority ("CRRRA"), transitioned post closure responsibilities for five landfill sites including Hartford, Ellington, Shelton, Wallingford and Waterbury. This transition plan was phased in over fiscal years 2014 and 2015 with Hartford being the last of the five landfills to transfer their post closure activities to the State. GASB 18 provides guidance to municipalities relating to accounting for Municipal Solid Waste Landfill Closure and Post-closure Costs. The Department continues to work with the Comptroller's Office in order to properly assess this obligation and report it within the State financial reports. We will look for concurrence between our assessment of costs with the Comptroller's prescribed format, which may or may not align with the transfer of proceeds from the five landfill entities. This finding estimates the costs to be \$30,000,000 which represents the \$31,000,000 that was deposited into the general fund from reserves of the five entities but was not validated as expected future costs related to the new responsibilities by remediation staff. At the time of the FY14 GAAP filing, guidance indicating DEEP's requirement to report on municipal landfills had not been provided to the agency. The Comptroller's Office GAAP Division will continue to provide guidance and the Department will continue to compile costs estimates based on information received through current monitoring reports and site analysis. It is DEEP's understanding that the full impact of the legal obligation for these liabilities is still being investigated. As such, future reports may be adjusted as additional guidance is provided through OPM or OSC."

Payments not Conforming with Statutory Provisions

Criteria: Section 22a-174-31(f)(6)(C)(i)(III) of the Regulations of State Agencies states that the distribution of auction proceeds derived from the sale of certain pollution allowances from January 1, 2014 to June 30, 2015 shall be transferred to, among others, an account held by a utility and overseen by

the Energy Efficiency Board. Internal controls should prevent overpayments from being issued.

Public Act 13-285, section 7, subsection (a), effective July 12, 2013, required that no later than June 30, 2013, DEEP shall initiate an audit of the CRRA and that the CRRA shall pay the cost of the audit.

Condition: During our audit, we found that DEEP overpaid an electric provider \$498,774. DEEP planned to recover the funds during the next quarterly auction.

DEEP, rather than CRRA, paid the \$460,000 cost of the audit without legislative authority.

Cause: The overpayment appears to have been an inadvertent error, as the amount paid matched the payment amount due to another vendor. There appears to have been a lack of management oversight when another business officer was absent.

Management did not comply with Public Act 13-285, section 7, which required CRRA, not DEEP, to pay for the cost of an audit.

Effect: Nearly \$1,000,000 of cash was not available to the state during this time, overpayments need to be recovered, and there is less assurance that such errors will be prevented in the future.

Recommendation: The Department of Energy and Environmental Protection should recover overpayments totaling \$958,774 and improve internal controls to prevent such payments. (See Recommendation 2.)

Agency Response: “The Department agrees with the finding and was successful with identifying this pass-through overpayment to CL&P through its post audit review of financial transactions. The payment represents a pass-through payment made to five energy related entities including Connecticut Light & Power Company ("CL&P") doing business as Eversource Energy. The proceeds are related to Regional Greenhouse Gas Initiative ("RGGI") auction funds. Auction proceeds are distributed in accordance with R.C.S.A section 22a-174-31 (f)(5)(C), effective 12/9/2013. The RGGI funds were added to CL&P's energy efficiency budget primarily to support the Residential Home Energy Solutions program. The deficiency resulted from an accounting transaction that replicated a purchase order payment. Corrective action was immediately implemented which included the requirement to complete the distribution of auction proceeds on a single requisition. In addition, vendor invoices were required to compliment payment distribution. The Department does not agree with the statement

pertaining to \$1,000,000 was not available to the State as the proceeds are restrictive and can only be used for its prescribed purpose. Furthermore, the pass-through distribution is limited to auction proceeds therefore limited through budget control. The overpayment would have to be resolved prior to completing the full distribution of the auction proceeds. In regard to the CRRA audit obligation, the Department agrees with the finding and has recouped the funds from the former CRRA. The legislative language and the acknowledgement of the transfer of \$31,000,000 made it unclear to the agency whether the funds would have been included in the transfer to the General Fund. The Department was tasked with developing the scope of the review which was referred in the legislation as an audit. The State was successful in obtaining a comprehensive operational review of the Connecticut Resources Recovery Authority (CRRA) in an independent manner. The information from the review assisted DEEP and the Resources Recovery Task Force in forming policy recommendations concerning the future status of CRRA. The State had to maintain independence throughout the development of the scope of the review, solicitation of qualified vendors, contracting, deliverables and payment of invoices. This obligation as well as the payment responsibility deviated slightly from the legislation which resulted in the transfer of landfill responsibilities. The requirement for CRRA to directly fund the audit has since been made clear to the Department and those costs have since been reimbursed by CRRA.”

Segregation of Duties over Payroll and Personnel

Criteria: Core-CT Human Resource Management System (HRMS) Segregation of Duties Procedures for Justification and Approval provides HRMS Security Guidelines indicating that, for proper segregation of duties to be maintained, agencies should not be requesting the Agency HR Specialist role be assigned to an employee who has either the Agency Payroll Specialist or Agency Time and Labor Specialist roles. Access to any combination of those roles could allow an individual to hire and pay someone inappropriately and without oversight. For those agencies that currently have employees with these combinations of roles, Agency Security Liaisons must provide supporting documentation to explain the necessity of the dual roles and what their internal audit procedures are to prevent inappropriate or fraudulent transactions in the system.

Condition: Our review of employees within the payroll and personnel departments at DEEP revealed that two employees had dual access to both the payroll and human resource functions in Core-CT. These two employees had been assigned the HR Specialist role along with the Payroll Specialist and/or Time and Labor Specialist roles. This allows them the ability to change both time and attendance information and pay rate information.

- Cause:* Internal controls are not sufficient to prevent or detect and correct errors.
- Effect:* Employees have the ability to falsely enter an employee into the Core-CT system and then process payments in that name.
- Recommendation:* The Department of Energy and Environmental Protection should improve segregation of duties between payroll and personnel functions. (See Recommendation 3.)
- Agency Response:* “DEEP agrees with the audit finding and recognizes the need for segregation of duties. The Department has continued to improve managing roles with limited resources and has begun using additional control procedures based on recommendations we received from Core-CT security. These have been included in our established audit procedures. The internal audit procedures will continue as follows:
- a. A Core-CT Reported Time report is run every pay period for all employees. All hours that are coded on the timesheets are audited.
 - b. Any timesheet revisions/changes entered by an HR user are approved by a separate individual with HR roles.

With attrition and the loss of payroll resources, shared responsibilities will be reviewed by separate offices through post payroll audit. This segregated responsibility will ensure that payroll transactions are reviewed, tested and audited by the Department on a bi-weekly basis. Additional controls will limit the possibility of data errors, errant entries and overpayments.”

Monitoring Personnel Actions History

- Criteria:* Appropriate agency personnel should review and authorize changes to employee personnel records to ensure the propriety of the changes. The Core-CT system has various reports and queries available to identify employee record changes so they can be confirmed as authorized.
- Condition:* The Core-CT Personnel Actions History Report reflects changes to an employee’s job data. DEEP did not have a valid process in place to provide a review of the report or another means of reviewing all manual changes to job data on a regular basis.
- Cause:* DEEP was unaware that another control was available to review Core-CT manual changes.
- Effect:* In the absence of such a review, erroneous and unauthorized changes to an employee’s job data in Core-CT may not be detected in a timely manner.

Recommendation: The Department of Energy and Environmental Protection should improve its monitoring of changes to employee job data on a regular basis to verify the authorization of any changes made to employee records. (See Recommendation 4.)

Agency Response: “Although the agency was unaware of the need to use the Core-CT Personnel Actions History Report, the Human Resources Division does have its own method to review job data on a regular basis. Bi-weekly reports are issued documenting each employee transaction after it is processed by our payroll or human resources staff. The Department tracks, monitors and reviews both position and employee actions and changes in Core-CT.”

Auditors’ Concluding

Comment: The DEEP method does not use the automated reports from Core-CT to verify that all manual changes are verified.

Sick and Compensatory Time Errors

Criteria: Section 5-247 subsection (a) of the General Statutes requires that each employee who retires under the provisions of Chapter 66 shall be compensated at the rate of one-fourth of such employee’s salary for sick leave accrued as of the last day on the active payroll up to a maximum equivalent to sixty days’ pay.

Article 17, section 3 of the Engineering, Scientific and Technical (P-4) Contract allows for compensatory time to be granted to certain employees for extra time worked.

Condition: Three of 19 employee payments at retirement for accumulated time were calculated incorrectly, resulting in errors totaling \$3,758. Two of 19 employees used 38 hours of compensatory time valued at \$1,195 despite not earning it. DEEP has sought recovery from the employees.

Cause: It appears that a Core-CT system error contributed to the compensatory time error and the internal controls were not sufficient to detect the error. Human error was the cause of the miscalculations for the payments at separation.

Effect: Benefits totaling nearly \$5,000 were overpaid or overcompensated, and there is less assurance that these types of payments are made accurately.

Recommendation: The Department of Energy and Environmental Protection should have internal controls to prevent or detect errors resulting from compensatory or sick time processing. (See Recommendation 5.)

Agency Response: “The Department agrees with the finding and has implemented bi-weekly post audits of overtime and compensatory time. Payout transactions will be audited internally and by the Comptroller’s Office. Reductions on comp time balances as well as constraints on the accumulation and use of compensatory time will limit exposure for overpayments. Bi-weekly reconciliation and review of compensatory time will insure integrity in accruals and final payouts of leave balances. However, the Department disagrees in part with the finding as follows. The condition references that three of 19 employee’s payments at retirement for accumulated time were calculated incorrectly; and that two of the 19 used 38 hours of compensatory time and that DEEP has sought recovery of these earnings. One employee was overpaid sick time upon retirement due to human error. The Department recovered that overpayment from the retired employee. Two current employees accumulated compensatory time and used it, however the Core system did not deduct that time from their balances. One of these errors was discovered in this audit, the other error was detected by payroll staff. Requests to Core to adjust the compensatory and vacation balances were made accordingly. These did not result in overpayments and no recovery was necessary.”

Monitoring of Periodic Financial Reporting for Grants

Criteria: Non-federal entities receiving federal awards must establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Good internal control practices include adequate monitoring of the required periodic financial reporting.

Condition: Periodic financial reporting for an undetermined number of grants was not monitored in a way that, when requested, could be easily obtained to reconcile to Core-CT, the state’s accounting system.

Cause: DEEP indicated that the accounting for overlapping grants had grown complex over multiple years.

Effect: There is an increased risk that errors or irregularities may go undetected.

Recommendation: The Department of Energy and Environmental Protection should implement internal controls that include monitoring of periodic financial reporting. (See Recommendation 6.)

Agency Response: “The Department agrees with the finding and recommendation and continues to allocate additional resources to establish, reconcile, and close out federal grants. Additional roles have been assigned to eligible staff to allow for timely drawdowns of federal funds. Grant configuration using

Core-CT Project Module tools have improved the agency's ability to isolate grant eligible costs. Financial reports have improved insuring compliance with federal and state requirements. Inactive accounts have been closed and residual funds credited to the general fund. In addition, DEEP recognizes that there are some delays in the management of its allotments related to federal grants and while some of the inadequacies are federally driven (e.g. federal budget cuts, late arriving or partially funded grants), the agency continues to devote additional resources to manage the multitude of diverse grants efficiently."

Trust Funds Administered by DEEP

Criteria: Section 4-213 of the General Statutes states that no state agency may hire a personal service contractor without executing a personal service agreement with such contractor.

Bequests include provisions that require proper administration of funds by DEEP. Adequate internal controls and sound business practices provide that two signatures be required for the withdrawal of funds, an investment custody agent should provide a Service Organization Controls (SOC) report, and written objectives should be established and monitored.

Section 3-32 of the General Statutes allows the State Treasurer to accept any bequest to the state of cash or securities. The investment department established under Section 3-13a of the General Statutes has investment professionals that can evaluate risks, invest funds, monitor performance, maintain controls and oversee contracts with investment advisors, among other responsibilities.

Condition: DEEP has administrative and custodial control over four trust accounts valued at \$6,734,228 as of June 30, 2014. Contracts for the investment and custodial services do not exist and fees totaling \$232,424 were netted from income during the audited period and were not disclosed on the state's financial statements.

Generally, certain DEEP investments totaling \$7,133,035 appear inactive. We question whether some other action may be necessary for the following accounts (with balances as of June 30, 2014):

- \$3,396,496 is being held for the "development" of Hopemead Park; however, the state decided during the 1970s that Hopemead Park would not be developed. It appears that no withdrawals have been made from this fund in nearly 40 years.

- \$20,410 is being held to benefit the Shakespeare Theater State Park; however, DEEP transferred the related property to the Town of Stratford over ten years ago.
- \$3,716,129 of other funds appear to be administered in a similar manner and include Topsmead (\$2,773,872), Goodwin (\$261,199), Flora-Werner (418,771), Wagner-Firestone (207,881), and White Funds (\$54,406).

We found that only one signatory is needed to withdraw funds from the investment accounts, and there is no supervisory approval on the account reconciliations, which is insufficient for proper internal controls. We were not provided with the custodian's SOC report.

Cause: DEEP does not have the resources to administer investment funds. Furthermore, there appears to be a hesitancy to expend the entrusted amounts, as the funds may be insufficient to support a given project, or certain legal aspects have arisen. The SOC report was not provided, for it was not stipulated as required within a valid contract.

Effect: The risks and fees of the investment accounts may not be reduced to an acceptable level and the State Treasury's expertise is underutilized. State funds are committed without a valid agreement in violation of Section 4-213 of the General Statutes. The SOC report could not be used to determine whether funds were appropriately safeguarded. It is unclear whether bequests are being used to their full potential.

Recommendation: The Department of Energy and Environmental Protection should administer entrusted funds in accordance with the General Statutes, legal provisions, and good business practices, and should consider seeking advice from the Office of the State Treasurer's Pension Fund Management Division and the Office of the Attorney General regarding the disposition or retainage of these funds. (See Recommendation 7.)

Agency Response: "The Department continues to manage trust funds in accordance with requirements of the Trust Agreements with the State. The Department has made a number of changes over time insuring greater visibility to trust related activities. These changes included migrating trust activities from separate proprietary accounts to transacting within the State's general ledger and Core CT modules. All trusts related fees, use of proceeds and investment earnings are reconciled on a quarterly basis. Distribution of trust proceeds are through the State's Short Term Investment Fund (STIF) and Core-CT. The distribution is tracked from the originating Trust Account currently held by Bank of America, US Trust through the deposit and expenditures made within Core-CT. The funds are managed by Bank of

America, US Trust as they originated in local banks as directed by bequest and which have now been consolidated or absorbed by Bank of America. In 2013, US Trust, Bank of America, has made a decision to not manage “public” funds any longer providing official notice of termination for 4 accounts that they provide Investment Management services. Prior to their notice, the Department began discussion with the State’s Treasurer’s office to transfer management of the trust to their office. We continue to work on this arrangement as the Department cannot secure investment services without consent and oversight of the State Treasurer. The Treasurer’s Office has asked US Trust to continue to manage funds until a successor service provider is chosen.”

Expenditures Processing

Criteria: Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller. Proper internal controls related to purchasing require that commitment documents be properly authorized prior to receipt of goods or services.

A Memorandum of Understanding (MOU) is an agreement that state agencies enter into for the purpose of clarifying each agency’s role when undertaking a project of mutual interest. Section 22a-439 authorized such a project for the construction of pollution abatement facilities. The State Accounting Manual mandates accounting and other requirements that must be met by state agencies. The manual stipulates that agencies are responsible for the existence and implementation of internal controls and procedures designed to ensure accurate payments. The agency must certify the accuracy and completeness of expenditure documents and ensure payments are supported by purchase orders and/or contracts. An MOU documents which agency will provide such services to ensure proper accountability.

Condition: During the audit of DEEP expenditures for the fiscal years ended June 30, 2012, 2013, and 2014, we found that:

- Purchase orders were created after certain Regional Greenhouse Gas Initiative auction proceeds were received in eight of 25 instances. This process may be better served by DEEP requesting a waiver of this requirement from the State Comptroller for such transactions.
- Payments were not verified to contractual terms in four of 25 expenditures, including telephone services at an estimated annual cost of \$66,888.

- Expenditures in the amount of \$365,259 were processed through the Department of Construction Services using DEEP funding without a signed MOU.
- We questioned the lack of documentation to support an expenditure of \$6,495 made to the State of Vermont but did not receive any further documentation or explanation, despite our request.

Cause: There was a lack of management oversight.

Effect: There is an increased risk that funds may not be appropriately reserved for certain payments. Payments may not be accurate if not verified to contractual terms, including expenditures made without an MOU.

Recommendation: The Department of Energy and Environmental Protection should comply with Section 4-98 of the General Statutes and complete memorandums of understanding when necessary. (See Recommendation 8.)

Agency Response “While there are several items in the finding listed above, this response is limited to the two most significant issues noted. The Department recognizes the requirement for the timely commitment of funds prior to receipt of goods or services and the requirement for entering into MOU’s with State agencies. The purchase orders processed for the Regional Greenhouse Gas Initiative (RGGI) pass-thru were initiated immediately following their respective auctions where the obligation for the State was incurred. Within the same auctions, the revenue for these pass-thru payments was generated through auction proceeds. In this unique program, the receipt and obligation occur in the same instance and do not allow for the purchase order to predate the obligation. The agency utilizes the full benefits of Core-CT e-procurement to ensure that funds obligated are properly authorized and transactions are transparent. To request a waiver from this process would forego some of the reporting benefits available through Core-CT. With respect to the Department of Construction Services utilizing DEEP budgets without appropriate authorization, DEEP routinely enters into MOU’s with other state agencies inclusive of the Department of Construction Services (DCS) and is unaware of any instances where payments were made from DEEP funding by DCS without an associated MOU. Also, through routine monitoring of expenses, the potential for errant transactions is further limited.”

Auditors’ Concluding

Comments: The agency’s response appears to indicate that DEEP’s violation of the statute is somehow appropriate, that DEEP obtains MOUs, but not in the case we mentioned, and that DEEP’s potential for errant transactions is “limited,” despite the evidence we found to the contrary. We suggest that

such efforts to minimize our concerns should instead be focused on encouraging a culture that corrects mistakes, obtains MOUs, and complies with the General Statutes.

Deficiencies in Inventory Reporting and Internal Controls

Criteria: Section 4-36 of the General Statutes requires each state agency to keep inventory records in the form prescribed by the State Comptroller and to submit an annual report of its inventory balances to the State Comptroller. The State Property Control Manual prescribes the inventory procedures that agencies should follow.

Condition: During the audit of DEEP inventory for the fiscal years ended June 30, 2012, 2013, and 2014, we found that DEEP does not have proper segregation of duties for asset management, as the same employee receives and tags assets and conducts the annual inventory. During the fiscal years ended June 30, 2012, 2013, and 2014, we found that among other general issues, the inventory reported to the comptroller had:

- \$4,316,270 of unreconciled differences when compared to the supporting accounting records;
- \$1,658,750 of errors accounting for land and easements;
- \$1,567,153 of improvements were underreported;
- \$428,464 of materials and goods that were not supported;
- \$354,579 of inventory that could not be found by DEEP;
- \$115,400 of an operating lease was coded as equipment;
- \$84,968 of software added twice;
- \$9,560 of equipment that did not appear to be in service;
- Exclusion of its agency-developed software;
- Certain software license agreements that did not reconcile to users; and
- Inaccurate records of items stored at the Portland oil house.

Cause: There was a lack of management oversight over asset management.

Effect: Without a reconciliation of expenditures to additions reported on the CO-59 inventory form, the accuracy of balances reported to the Comptroller could not be determined. Deficiencies in the controls over inventory may result in a decreased ability to properly safeguard state assets.

Recommendation: The Department of Energy and Environmental Protection should strengthen internal controls over inventory to better comply with the requirements of

the State Property Control Manual and reporting instructions as provided by the Office of the State Comptroller. (See Recommendation 9.)

Agency Response: “The Department agrees with the finding and recognizes that there is a need for more training and oversight for the reporting of the annual CO-59. As such, GL [general ledger] corrections were not made for capital assets/additions purchased against incorrect account codes. The department is working with the State Comptroller’s Property Control unit to develop a methodology and schedule for revaluing agency assets including software development. Several staff have been dedicated to assist in both the implementation of controls and to assist with ensuring that assets are properly captured in both CO-59 reporting and on the Core-CT GL. Several steps have been taken by the Department to identify and correct inaccuracies in the reporting of State owned assets.”

Organizations Supporting DEEP

Criteria: The General Statutes outline the requirements for foundations established for the principal purpose of supporting or improving state agencies. Section 4-37e (2) of the General Statutes defines a foundation as an organization, fund, or any other legal entity that is (A) exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and (B) established for the principal purpose of receiving or using private funds for charitable, scientific, cultural, educational or related purposes that support or improve a state agency. If a foundation exists, it should provide DEEP with a written agreement that releases the state from liability for actions of the foundation, reimbursement of expenses if needed, and an audit report, among other requirements. If the audit report indicates that state funds were deposited into foundation accounts or that state resources have been used in violation of the General Statutes, the Auditors of Public Accounts may conduct an audit of the foundation in accordance with section 2-90 of the General Statutes. DEEP should be responsible for determining whether certain organizations that support DEEP are foundations as defined in 4-37e (2).

Condition: We found at least one organization, the Friends of Harkness State Park, that appears to meet the definition of a foundation under section 4-37e (2) of the General Statutes. If foundations exist that support DEEP, DEEP should consider monitoring for compliance aspects set forth within the General Statutes. DEEP has not made individual determinations on any of the “Friends of” state park groups.

Cause: There was no previous attention paid to this matter by management.

Effect: Private funds collected to support state parks may not be monitored as intended by the General Statutes.

Recommendation: The Department of Energy and Environmental Protection should determine which foundations exist that support the department and the appropriate action regarding the monitoring of these organizations. (See Recommendation 10.)

Agency Response: “The Department will conduct a review to ensure that its relationship with our “Friends of State Parks” groups is done in accordance with the law.”

Home Garaging of State Vehicles

Criteria: DEEP rents vehicles from the Department of Administrative Services (DAS). DAS General Letter 115 requires that an agency head decide whether an employee has a justifiable need to park a state-owned or rental vehicle at the employee’s home on a continuous basis, and if so, to request permission from the Director of DAS Fleet Operations. Also, agencies shall keep daily mileage logs and, on a monthly basis, shall submit a usage report to DAS Fleet Operations. Our prior audit recommended that DEEP’s state vehicle usage documentation should be improved.

Condition: DEEP responded to our prior audit recommendation that the department was validating all department staff garaging state vehicles at home to ensure that staff are properly authorized and that the requirements for business need and reporting identified in DAS General Letter 115 are adhered to. DEEP indicated the work would be completed by December 31, 2014. However, when we requested the information, we were told it was not complete as of September 18, 2015.

Cause: Management was unable to implement a prior audit recommendation relating to vehicle usage in a timely manner.

Effect: State vehicles may be used inappropriately.

Recommendation: The Department of Energy and Environmental Protection should improve documentation of state vehicle usage and approval from the Department of Administrative Services should be obtained for employees who have a justifiable need to park a state vehicle at home on a continuous basis. (See Recommendation 11.)

Agency Response: “The Department agrees with the finding and continues to review use of state vehicles including home garaging. The Department further intends to reduce its vehicle fleet, adjust field service requirements and migrate towards pooled vehicles to be used across agency services. The Department continues to analyze vehicles use, mileage, fuel consumption and

maintenance requirements. The goal will be significant reductions to agency fleet and shared responsibilities to those assigned agency vehicles. Also, the department has recently completed an exercise to validate that all department staff garaging state vehicles at home are properly authorized and that the requirements for business need and reporting identified in DAS General Letter 115 are adhered to. It is expected that this task will require ongoing compliance monitoring.”

Ground Water Permitting Revenues Sacrificed

Criteria: Section 22a-430 subsections (c) and (i) of the General Statutes indicate that water pollution control permits shall be issued for a period between five and 30 years. Section 4-182 of the General Statutes provides that, when a permittee has made a timely and sufficient application for the renewal of a permit or a new permit with reference to any activity of a continuing nature, the existing permit shall not expire until the application has been finally determined by the agency. DEEP does not collect fees for water pollution control permits while the applications are pending.

Condition: Applicants for groundwater discharge permits are required to pay an application fee, as well as an annual fee to cover the cost of monitoring compliance with permit terms and conditions. Individual groundwater applications are generally issued for a period of five, ten, or 30 years, depending on the agreement. A few months prior to the expiration of the permit, the client must submit a new application form and pay another application fee to renew the permit. Although review and approval for most applications takes years, the permits are considered "active" until the renewal has occurred, even if the permit has expired. This is allowed under Section 4-182 of the General Statutes, which states that an application will remain active as long as such application is made in a timely manner and the client continues to pay the annual fee based on the current fee schedule. However, by not renewing the applications on time, DEEP is losing revenue from application fees that are not being collected.

We found that there was an excessive amount of time that permits were held in a pending status. As of June 30, 2014, there were 104 groundwater discharge applications pending. Five of those applications had been pending for more than 25 years and the state has sacrificed an estimated \$398,550 of revenues due to the failure to process those applications in a timely fashion.

Cause: There was a lack of management oversight over pending permits.

Effect: Revenue from permit fees is reduced.

Recommendation: The Department of Energy and Environmental Protection should find ways to issue permits more timely. (See Recommendation 12.)

Agency Response: “As the auditor report describes, state law allows DEEP to continue an individual permit in effect, provided that a complete and timely application has been filed. This provision of the Connecticut General Statutes is important in that it helps avoid interruption to Connecticut’s businesses when DEEP’s permit processing resources are not able to meet demand. DEEP prioritizes pending permit applications, focusing first on reviewing applications for permits to accommodate new or changing business needs while maintaining current environmental quality standards. While we agree that some permits have been continued in effect for significant periods of time, such continued permits contain terms and conditions to assure proper environmental controls and we believe that in these cases the delays have not caused any significant, negative environmental outcomes or delayed a permittee’s business activities. Furthermore, annual fees owed the State are still required to be collected for individual permits that are continued in effect. Annual fees represent a significantly larger component of the fee revenues collected for groundwater discharge applications/permits. Section 22a-430 includes the authority to issue certain permits for longer than 5 years. In particular, groundwater discharges may be issued for up to 10 to 30 years depending on when the application was filed. Prior to 1996, Section 22a-430(i) authorized the Commissioner to issue permits for discharges to groundwater from subsurface sewage disposal systems for up to 10 years. P.A. 96-145 amended 22a-430(i), authorizing the Commissioner to issue permits for discharges to groundwater from subsurface sewage disposal systems and solid waste disposal areas for up to 30 years. Longer permit terms recognize the long-term nature of these types of facilities/systems and reduce the number of applications required to be filed, thereby reducing projected application fee revenues. Based on the longer permit terms allowed not processing the five groundwater discharge applications pending for more than 25 years would have resulted in significantly lower loss of revenue than estimated by the Auditor and likely offset by some savings in resource costs from multiple reviews. Further, a number of the cases have ultimately had existing permits reissued or have come under the coverage of an alternative regulatory mechanism such as general permits. DEEP continues to monitor groundwater discharge permits coming up for renewal, target classifications for such streamlined permit mechanisms and otherwise prioritize and assign available resource to process renewal applications. DEEP has made significant progress toward streamlining the permitting process for various permits, including those for groundwater discharges. One category of groundwater discharge is now eligible for coverage under the General Permit to Discharge from Subsurface Sewage Disposal Systems Serving Existing Facilities. Since issuance of that general permit in May 2012, DEEP processed over 165 applications for such discharges to

groundwater, resulting in a substantial reduction of pending applications. Transitioning to alternative, more streamlined general permits costs the state and applicants less money.”

Auditors’ Concluding

Comments: The estimated loss of revenues totaling \$398,550 was not estimated by the Auditors but was provided by DEEP, and does take into account the increasing permit times allowed under the General Statutes. The total would be much greater if all the lost revenue associated with the 99 other pending permits were included in our testing.

Internal Controls over Facility Admission and Parking Revenues

Criteria: All revenues for camping and parking at state parks should be accounted for properly and timely. If not, section 4-33a of the General Statutes requires that agencies responsible for state property and funds shall promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of state funds, or breakdowns in the safekeeping of any other resources of the state.

Season passes to state parks and parking revenue should be accounted for in such a manner that serves to reconcile that all revenue amounts were appropriately received.

Section 4-32 of the General Statutes requires that each agency receiving any money shall account for and deposit the funds within timeframes prescribed by the State Treasurer.

Condition: DEEP did not notify the Auditors of Public Accounts and the Comptroller that, over a two year period, 4,431 season passes or daily tickets valued at \$56,667 were not accounted for. DEEP indicated that the majority of losses were because a supervisor responsible for Mount Tom State Park did not return or account for supposedly unused tickets. In addition, 11 of 25 deposits reviewed at five different state parks were deposited one to six days late.

Cause: There was a lack of control over the issuance of passes and tickets.

Effect: There is less assurance that revenues from camps and parking were deposited and accounted for properly. Revenues may be sacrificed.

Recommendation: The Department of Energy and Environmental Protection should strengthen internal controls over the issuance of camps and parking revenue and inform the Auditors and the Comptroller of any potential losses in accordance with Section 4-33a of the General Statutes. (See Recommendation 13.)

Agency Response: “The Department has made tremendous improvements in managing parking receipts. Controls include vehicle counters, security cameras and new Point of Sale (POS) registers. The Department continues to promote acceptance of credit cards for all park activity reducing the amount of cash that is managed at field locations. We will continue to audit season pass and parking ticket inventory and report discrepancies to the State Auditors using the prescribed form. We will also continue to explore new technology that provides secure day use fee management such as Iron Rangers and Parking Meters. In regard to late deposits, the Department has a number of remote locations that deliver deposits at least once a week. The Department has been successful in obtaining an exemption from the State Treasurer for these locations. Courier’s services have been added to our highest volume parks insuring timely deposits of park proceeds.”

Auditors’ Concluding

Comments: The agency’s response indicates that it will continue to audit and report discrepancies; however, the agency did not report the discrepancies; we discovered the discrepancies in the reconciliation and questioned why it was not reported appropriately. The response also does not address the most significant issue, which is that nearly \$57,000 of ticket revenue is missing or unaccounted for. The response indicates they have exemptions for late deposits; however, those exemptions did not apply to the locations we reviewed and noted above.

Collection and Reporting of Emergency Spill Costs

Criteria: DEEP operates an emergency spill response program pursuant to Section 22a-451 of the General Statutes. If DEEP determines there is a potential threat to human health or the environment and incurs expenses in investigating, containing, removing, monitoring, or mitigating discharge, spillage, loss, seepage or filtration, any person, firm, or corporation which caused that condition shall be liable for DEEP’s expenses. Section 22a-451 allows for the recovery of costs, including DEEP’s investigation. DEEP is required to submit annual reports of receivables and the amount of receivables estimated to be uncollectible to the Office of the State Comptroller for incorporation into the state’s financial statements. An adequate system of internal controls should include reconciliation of receivables and collection attempts within a timely manner.

Condition: We found that the Emergency Spill Response Unit within DEEP does not recover all potential costs related to its own administration, investigation, or other related expenses. The unit employs approximately 14 people, whose benefits, vehicles, mileage, fringe benefits, and other expenses could potentially be recovered from liable parties.

As of June 30, 2014, DEEP records contained 228 receivables, with responsible parties identified, totaling \$17,900,000. Over 80 percent of the total amount due is over six years old, does not have any liens filed, and may be considered uncollectible. Reconciliations were not performed.

Cause: There was a lack of management oversight and failure to implement the cost recovery provisions within the General Statutes.

Effect: The cost of the Emergency Spill Response Unit burdens the General Fund unnecessarily and there is less assurance that the unit is accounting for its recoveries appropriately.

Recommendation: The Department of Energy and Environmental Protection should recover all potential costs related to the Emergency Spill Response Unit, improve its collection efforts, and reconcile account activity appropriately. (See Recommendation 14.)

Agency Response: “DEEP agrees with the finding and has taken many steps to address the deficiency within the Spills Cost Recovery Program. As noted previously, the Department participated in multiple LEAN exercises documenting all components of the program from initial emergency dispatch calls through receipt processing of the recovery to include Attorney General Referrals and/or state write-off. Changes were made requiring emergency spill vendors to expedite delivery of invoices so that collection attempts can begin on a timely basis. The agency plans on using computer tablets in the field to generate authorization for vendors to proceed with clean-up work in accordance with terms of the state contract. This will ensure that vendor invoices are accurate and comply with the state contract. Incident reports will be delivered timely allowing the receivable to bill and improving our collection success. Progress has been made reducing the number of incidents in which the spills fund is open. The majority of existing debt is uncollectible. The Department has been working with the Attorney General’s Office reviewing cases in order to make a determination to pursue collections if a Responsible Party was identified or has property or resources available or discharge the debt as uncollectible through the statutory process. The Department is exploring using agency resources for lien notices and additional collection services. We will pursue a third party collection vendor and/or services of DAS Collections to assist with recoveries. In regard to the reconciliation process, the agency reconciles individual spills costs on a regular basis as each case has expenditure detail form Core-CT compiled for its basis of the receivable. The fund is reconciled on an annual basis prior to completion of the annual GAAP report.”

Nuclear Safety Preparedness Account

Criteria: Section 28-31 subsection (a) of the General Statutes requires the Public Utilities Regulatory Authority, which is within DEEP, to establish a nuclear safety preparedness account within the General Fund. PURA may assess licensees for the purposes of the account, provided the balance in the account at the end of the fiscal year does not exceed three hundred thousand dollars.

Condition: We found that the fund was accounted for within the Federal and Other Restricted Accounts Fund and not the General Fund during the audited period. In addition, the balance within the nuclear preparedness account exceeded \$300,000 as of June 30, 2011, 2012 and 2014, yet PURA assessed licensees during the subsequent fiscal years.

Cause: Lack of management oversight.

Effect: The fund is accounted for in the incorrect fund and licensees are being assessed when they should not be, according to Section 28-31 subsection (a) of the General Statutes.

Recommendation: The Department of Energy and Environmental Protection should account for the nuclear safety preparedness account within the General Fund and should not assess licensees if the fund balance exceeds \$300,000 in accordance with Section 28-31 subsection (a) of the General Statutes. (See Recommendation 15.)

Agency Response: “The Department disagrees with the finding as the account was established in concurrence with the State Comptroller’s Office, Office of Policy and Management, and Department of Emergency Services and Public Protection which has lead budgetary responsibility. The account was established as a restricted revenue account within fund 12060. This is standard practice for non-appropriated funds. The Department is not responsible for designating fund chartfields within the State’s General Ledger.

In regards to balances managed within the fund, Department of Emergency Services and Public Protection manages Nuclear Safety proceeds. DESPP provides an annual reconciliation to the Department as outlined in an MOU between DEEP, OPM and DESPP. The Department has billing responsibilities and budgetary responsibilities limited to DEEP share of the nuclear assessment. The management of the Fund, the Budget and expenditures is completely transparent and accepted by the two utilities.”

Auditors' Concluding

Comment: If noncompliance is noted, and DEEP indicates that it is unable to comply with the current legislation, particularly that it should not assess companies if the fund balance exceeds \$300,000, perhaps it should seek legislative changes.

Inaccurate PURA Assessment Calculations

Criteria: Section 16-49 subsection (b) of the General Statutes requires that that each company shall pay PURA its share of all expenses of the Bureau of Energy, the Office of Consumer Council, and the Public Utilities Regulatory Authority for each fiscal year. It is unclear whether deficit mitigation measures qualify as recoverable expenses. Subsections (c) and (d) require PURA to use the expenses as determined by the Comptroller to recalculate the assessment and to adjust amounts due from the companies. Deficit mitigation transfers do not appear to qualify as recoverable expenses.

Condition: DEEP did not include the Office of Consumer Council expenses in the assessment calculation for the fiscal year ended June 30, 2012, and did not appear to make the appropriate adjustments to credit companies for expenses for the fiscal years ended June 30, 2013 and 2014. This resulted in an estimated \$1,657,611 being underbilled for the fiscal year ended June 30, 2012, and \$3,997,894 and \$2,328,474 being overbilled during the fiscal years ended June 30, 2013 and 2014, respectively. DEEP also appeared to include deficit mitigation amounts in the assessment calculation, which does not appear appropriate, as the amount is not an expense under Section 16-49 of the General Statutes.

Cause: There was a lack of administrative control over the calculation of assessments.

Effect: Companies assessed under Section 16-49 of the General Statutes appear to have been overcharged a net total of \$4,668,757 during the audited period.

Recommendation: The Department of Energy and Environmental Protection should calculate the recovery of expenses for the Public Utilities Regulatory Authority in accordance with Section 16-49 of the General Statutes and credit companies when appropriate. (See Recommendation 16.)

Agency Response: "The Department disagrees with the finding. The Department has made a number of improvements to Public Utility Control Assessment which insures timeliness, accuracy and conformance with CGS 16-49. This includes a comprehensive review of active public utilities, validation of gross receipts supplied on financial affidavits, enforcement and compliance

review for non-compliant companies, and program follow up to insure the appropriate companies contribute to the annual assessment. The basis for the assessment is the PUC appropriation for DEEP and Office of Consumer Council. The appropriation is adjusted by realized cash receipts from the prior fiscal year and budgetary reductions including deficit mitigation charges to the Public Utility Control Account. The Department has made the process completely transparent which has resulted in saving to the utilities and accurate assessments.”

Auditors’ Concluding

Comment: The errors we identified seemed obvious. We note our concern with DEEP’s hesitation to recognize the issue that needs to be corrected.

Internal Controls over Inventory of Firearms

Criteria: Section 4-36 of the General Statutes requires each state agency to keep inventory records in the form prescribed by the State Comptroller. The State Property Control Manual prescribes the inventory records and procedures, including the requirements for firearms. By their nature, the accuracy of recorded serial numbers is critical to the proper handling of firearms.

Condition: When we asked to see 15 of the 544 firearms listed as being in-service, DEEP was unable to locate three weapons or the documents to support disposal of the firearms, which were purchased between 1989 and 1999. A fourth firearm had an incorrect serial number engraved on its saddle and a fifth had an incorrect serial number recorded in Core-CT.

Cause: It appears there was a lack of management oversight over firearms possibly disposed during a previous administration. DEEP believes the paperwork for disposals may not have been processed within the inventory system appropriately. The incorrect engraving of a serial number occurred because a gun saddle permanent attachment covered the original serial number and when the saddle was engraved, two digits were transposed. The serial number that is incorrect in Core-CT appears to include a transposition error.

Effect: There is a decreased assurance that all firearms are accounted for appropriately. The failure to record correct firearm serial numbers makes it difficult to report properly to law enforcement if a firearm is found to be missing.

Recommendation: The Department of Energy and Environmental Protection should strengthen internal controls over the accounting for its inventory of firearms. (See Recommendation 17.)

Agency Response: “The Department agrees that internal controls pertaining to firearms must be a priority for the Agency. There have been compromises in converting inventory data from various inventory systems. This has not compromised the Agency’s ability to manage firearms. Disposal records for two of the three “missing” firearms have been located through DESPP’s Special Licensing and Firearms Unit and the appropriate adjustments to Core-CT records will be made. There is one remaining item purchased over twenty years ago that was used for buoy placement (that qualifies as a firearm) which has been disposed or disassembled but does not have the necessary documentation to remove it from the current inventory. This continues to be investigated and will be properly removed from inventory once the investigation is complete.”

RECOMMENDATIONS

Our prior reports on the Department of Energy and Environmental Protection (15), PURA (formerly DPUC (6) and the Office of the Consumer Counsel (1)), and the Connecticut Siting Council (1) contained a total of 23 recommendations. Seven were implemented or otherwise not repeated and sixteen were repeated or restated.

Status of Prior Audit Recommendations:

- **The Department of Energy and Environmental Protection should improve its accounting for federal grants and process timely drawdowns of federal funds.** We found there was a lack of reconciliations and reporting of certain grants to the federal government; therefore, this recommendation is repeated. (See Recommendation 6).
- **The Department of Energy and Environmental Protection should document its development of calculations of liability for pollution remediation.** The liability was not documented fully during the fiscal year ended June 30, 2014; therefore, this recommendation is repeated. (See Recommendation 1).
- **The Department of Energy and Environmental Protection should improve controls over the emergency spill response cost recovery receivables by performing reconciliations of activity and improving recordkeeping, reporting, billing, and collection efforts, including referrals to the Office of the Attorney General.** There was still improvement needed in this condition; therefore, this matter is repeated. (See Recommendation 14).
- **The Department of Energy and Environmental Protection should strengthen internal controls over inventory to better comply with the requirements of the State Property Control Manual and CO-59 reporting instructions as provided by the State Comptroller's Office.** We found the condition still existed during the audited period; therefore, this matter is repeated. (See Recommendation 9).
- **The Department of Energy and Environmental Protection should improve its monitoring of grantee use of state funding and the documentation of its monitoring. This should include review of grantee audit reports, and documentation for on-site monitoring inspections and grantee reporting.** This matter is repeated (See Recommendation 6).
- **The Department of Energy and Environmental Protection should seek to amend its Memorandum of Understanding with the State Treasurer to clarify which agency is responsible for reviewing the State Single Audit Reports for the clean water funds.** DEEP agreed to review the report; therefore, this recommendation is not repeated.

- **The Department of Energy and Environmental Protection should find ways to issue permits more timely.** This was not implemented; therefore, this recommendation is repeated. (See Recommendation 12).
- **The Department of Energy and Environmental Protection should improve segregation of duties between payroll and personnel functions. If such segregation is not possible, there should be complete, written justification detailing why the agency needs both payroll and personnel roles for each employee and what the compensating controls are for entries made by each of those employees.** We reviewed the justification and the compensating controls and found them both to be insufficient reasons for not having proper segregation of duties. This recommendation is repeated. (See Recommendation 3).
- **The Department of Energy and Environmental Protection should review vendor invoices for compliance with contracts or other pricing requirements.** We found a similar condition during the audited period; therefore this recommendation is repeated. (See Recommendation 8).
- **The Department of Energy and Environmental Protection’s documentation of state vehicle usage should be improved and Department of Administrative Services approval should be obtained for employees who have a justifiable need to park a state vehicle at home on a continuous basis.** We were unable to obtain any information about this matter from DEEP, therefore, this recommendation is repeated. (See Recommendation 11).
- **The Department of Energy and Environmental Protection procedures for remediation contracts should be improved to reflect proper internal controls requiring that: contracts are awarded based on legitimate bids, when applicable; significant changes to contracts, such as cost overruns, are justified; expenditures are supported by detailed vendor invoices and those invoices are reviewed and approved only when in compliance with contractual and funding requirements.** We did not find exceptions related to this matter; therefore, this recommendation is not repeated.
- **The Department of Energy and Environmental Protection should strengthen its controls over budgeting for projects and compliance with state bidding requirements.** We did not find any exceptions related to this matter; therefore, this recommendation is not repeated.
- **The Department of Energy and Environmental Protection should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services.** We found purchase orders that were created and/or approved after the receipt of goods or services; therefore, this matter is repeated. (See Recommendation 8).

- **The Department of Energy and Environmental Protection should institute procedures to ensure that the proper receipt date is recorded on vouchers processed through Core-CT.** We found exceptions related to this matter; therefore, this is repeated. (See Recommendation 8).
- **The Department of Energy and Environmental Protection should establish a method to identify and comply with all applicable statutorily reporting requirements.** We did not find compliance during the current audit; therefore, this is repeated. (See Recommendation 1).
- **The Public Utilities Regulatory Authority must ensure that compensatory time is earned and used in accordance with PURA policies and bargaining unit contracts. Adequate documentation should be on file to ensure that absences are adequately supported and employees should only charge leave time within their accrual balance limitations and with proper approvals.** We noted exceptions relating to compensatory time; therefore, this matter is repeated. (See Recommendation 5).
- **The Public Utilities Regulatory Authority should update purchasing card policies to reflect current practice and monitor usage to ensure they are used in accordance with established policies and procedures.** PURA is now within DEEP and purchasing cards were included within the universe for expenditures. We did not note any exceptions; therefore, this recommendation is not repeated.
- **The Public Utilities Regulatory Authority should prepare periodic accountability reports to ensure accuracy between the monies received for license fees, number of applications received, and number of licenses or renewals issued.** We did not note any issues related to the completeness of the PURA license fees; therefore, this recommendation is not repeated.
- **The Public Utilities Regulatory Authority should maintain original revenue affidavits for verification, establish controls to ensure all companies subject to the requirements of Section 16-49 of the General Statutes submitted required affidavits and are included in the assessment calculation, and should impose civil penalties on those who fail to file annual reports in accordance with Section 16-27 of the General Statutes. The authority should clarify which revenue figures are to be used in calculating the annual assessment of regulated companies and examine large fluctuations from year to year.** We found the annual assessment revenue is still not calculated appropriately; therefore, this recommendation is repeated. (See Recommendation 16.)
- **The Public Utilities Regulatory Authority should comply with Section 28-31 subsection (a) of the General Statutes regarding the statutory limits of the nuclear safety emergency preparedness account or seek a legislative amendment.** This recommendation was not implemented; therefore, this recommendation is repeated. (See Recommendation 15.)

- **The Public Utilities Regulatory Authority should adhere to the instructions provided by the State Comptroller when completing the CO-59 annual inventory report. The authority should also establish procedures to monitor the relocation of assets and dispose of assets in accordance with state requirements.** We found several areas of concern within the annual inventory report; therefore, this recommendation is repeated. (See Recommendation 9).
- **The Office of Consumer Counsel should use the equipment appropriation only for qualifying purchases in accordance with the State Accounting Manual.** We did not find this condition during the audited period; therefore, this recommendation is not repeated.
- **The Connecticut Siting Council should strengthen its controls to ensure municipalities are filing annual telecommunications reports in compliance with Section 7-163(b) of the General Statutes.** Section 7-163(b) was repealed; therefore, this recommendation is not repeated.

Current Audit Recommendations:

- 1. The Department of Energy and Environmental Protection should improve oversight over GAAP reporting and report promptly in accordance with Section 4-33a and other requirements under the General Statutes.**

Comment:

We noted reporting errors or noncompliance related to GAAP-related adjustments, asset losses, and a multitude of statutory reports were not filed in a timely manner.

- 2. The Department of Energy and Environmental Protection should recover overpayments totaling \$958,774 and improve internal controls to prevent such payments.**

Comment:

DEEP paid nearly \$1 million due to an error or without statutory authority.

- 3. The Department of Energy and Environmental Protection should improve segregation of duties between payroll and personnel functions.**

Comment:

We found that employees have the ability to change both time and attendance information and pay rate information.

- 4. The Department of Energy and Environmental Protection should improve its monitoring of changes to employee job data on a regular basis to verify the authorization of any changes made to employee records.**

Comment:

DEEP did not have a process in place to verify all manual changes within the Core-CT system.

- 5. The Department of Energy and Environmental Protection should have internal controls to prevent or detect errors resulting from compensatory or sick time processing.**

Comment:

Payment errors totaling \$4,953 were made due to incorrect manual and computerized calculations regarding time owed to employees.

- 6. The Department of Energy and Environmental Protection should implement internal controls that include monitoring of periodic financial reporting.**

Comment:

Periodic financial reporting for an undetermined number of grants was not reconciled properly.

- 7. The Department of Energy and Environmental Protection should administer entrusted funds in accordance with the General Statutes, legal provisions, and good business practices, and should consider seeking advice from the Office of the State Treasurer's Pension Fund Management Division and the Office of the Attorney General regarding the disposition or retainage of these funds.**

Comment:

DEEP has administrative and custodial control over four trust accounts valued at \$6,734,228 as of June 30, 2014. Contracts for the investment and custodial services do not exist and fees totaling \$232,424 were netted from income during the audited period and were not disclosed on the state's financial statements. DEEP investments also appear inactive, only one signatory is needed to withdraw funds from the investment accounts, and we were not provided with the custodian's SOC report.

- 8. The Department of Energy and Environmental Protection should comply with Section 4-98 of the General Statutes and complete memorandums of understanding when necessary.**

Comment:

DEEP was not in compliance with purchasing statutes, including that purchase orders were created after services were provided, payments were not verified to contractual terms, a memorandum of understanding was not in place, and an expenditure was not supported with adequate evidence to justify the expenditure.

- 9. The Department of Energy and Environmental Protection should strengthen internal controls over inventory to comply with the requirements of the State Property Control Manual and reporting instructions as provided by the Office of the State Comptroller.**

Comment:

DEEP does not have proper segregation of duties, inventory was in disarray, and inventory reported to OSC included over \$8,500,000 of errors.

- 10. The Department of Energy and Environmental Protection should determine which foundations exist that support the department and the appropriate action regarding the monitoring of these organizations.**

Comment:

Certain of the “Friends of” state park groups may meet the definition of a foundation under section 4-37 of the General Statutes and be required to report to DEEP.

- 11. The Department of Energy and Environmental Protection should improve documentation of state vehicle usage, and approval from the Department of Administrative Services should be obtained for employees who have a justifiable need to park a state vehicle at home on a continuous basis.**

Comment:

This is a repeated recommendation to which DEEP has not provided documentation to us informing us of their progress.

- 12. The Department of Energy and Environmental Protection should find ways to issue permits more timely.**

Comment:

We found that there was an excessive amount of time that certain permits were held in a pending status. The failure to process applications in a timely fashion has an adverse effect on state revenues

- 13. The Department of Energy and Environmental Protection should strengthen internal controls over the issuance of camps and parking revenue and inform the Auditors and the Comptroller of any potential losses in accordance with Section 4-33a of the General Statutes.**

Comment:

DEEP failed to notify the Auditors of Public Accounts and the Comptroller that, over a two-year period, 4,431 season passes or daily tickets valued at \$56,667 were not accounted for.

- 14. The Department of Energy and Environmental Protection should recover all potential costs related to the Emergency Spill Response Unit, improve its collection efforts, and reconcile account activity appropriately.**

Comment:

We found that the Emergency Spill Response Unit within DEEP does not recover all potential costs related to its own administration, investigation, or other related expenses, despite the legislative authority to do so. Receivables do not appear to be written off as necessary, despite an apparent uncollectible status.

- 15. The Department of Energy and Environmental Protection should account for the nuclear safety preparedness account within the General Fund and should not assess licensees if the fund balance exceeds \$300,000 in accordance with Section 28-31 subsection (a) of the General Statutes.**

Comment:

We found that the fund was accounted for within the Federal and Other Restricted Accounts Fund and not the General Fund during the audited period. In addition, the balance within the nuclear preparedness account exceeded \$300,000 as of June 30, 2011, 2012 and 2014, yet PURA assessed licensees during the subsequent fiscal years.

- 16. The Department of Energy and Environmental Protection should calculate the recovery of expenses for the Public Utilities Regulatory Authority in accordance with Section 16-49 of the General Statutes and credit companies when appropriate.**

Comment:

DEEP did not calculate assessment calculations correctly for PURA. Therefore, it appears companies were overcharged \$4,668,757.

- 17. The Department of Energy and Environmental Protection should strengthen internal controls over the accounting for its inventory of firearms.**

Comment:

At the time of our review, DEEP was unable to locate three weapons purchased between 1989 and 1999 or provide our auditors the documents to support their disposal. A fourth firearm had an incorrect serial number engraved on its saddle and a fifth had an incorrect serial number recorded in Core-CT. According to DEEP, it appears that three firearms may not have been removed from the inventory when disposal occurred and serial number errors will be corrected.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Energy and Environmental Protection during the course of our examination.

Maura F. Pardo

Maura F. Pardo
Administrative Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts