

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF ENVIRONMENTAL PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 1998 AND 1999**

**AUDITORS OF PUBLIC ACCOUNTS
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**AUDITORS' REPORT
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We have made an examination of the financial records of the Department of Environmental Protection as they pertain to the agency's departmental operations for the fiscal years ended June 30, 1998 and 1999. We have also included in our examination the Council of Environmental Quality, the Connecticut Council on Soil and Water Conservation, the Connecticut River Gateway Commission and the Connecticut Emergency Response Commission. This report thereon consists of the Comments, Recommendations and Certification which follow. For the Connecticut Hazardous Waste Management Service we have relied on audits performed by independent public accountants.

Financial statement presentation and auditing has been done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Department of Environmental Protection's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Environmental Protection (DEP) operates under the provisions of Titles 22a, 23, 24, 25 and 26 of the General Statutes. The DEP 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:

1. Conservation of land and water resources
2. Parks and recreation
3. Fish and wildlife
4. Water resource management
5. Solid waste management
6. Air and water pollution

7. Geological survey

The two major branches of the Department are Conservation and Preservation and Environmental Quality. The Conservation and Preservation Branch 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 Branch's chief purpose is to maintain and improve the quality of the air, land and water resources of the State by preventing any pollution or mismanagement thereof by private, public or business interests.

Sidney J. Holbrook served as Commissioner until October 2, 1997. Arthur J. Rocque, Jr. was appointed Commissioner effective October 3, 1997, and served for the remainder of the audited period.

The following entities are associated with the DEP:

Council on Environmental Quality:

Statutory Authority	Sections 22a-11 through 22a-13
Relation to DEP	Within the DEP for administrative purposes only.
Number of Members	Nine
Duties	The Council must annually submit an environmental quality report to the Governor. The Council may require all State agencies to submit to it all plans for construction of facilities, buildings, or paving for advisory review and comment with respect to the effects of such projects on the environment. It is also empowered to receive and investigate citizen complaints which may allege that the environment is being harmed and to refer such matters to the appropriate regulatory agency for action.
Executive Director	Karl J. Wagener
Revenue	\$100 in fiscal year 1997-1998 and \$75 in fiscal year 1998-1999
Expenditures	\$105,138 in fiscal year 1997-1998 and \$111,037 in fiscal year 1998-1999

Connecticut Council on Soil and Water Conservation:

Statutory Authority	Section 22a-315
Relation to DEP	Within the DEP for administrative purposes only.
Number of Members	Nine
Duties	The Council's primary objective is to coordinate the activities of the eight Soil and Water Districts established by the Commissioner of the DEP, pursuant to Section 22a-315, with other State, regional and local agencies in the fields of soil and water conservation.
Receipts	None
Expenditures	None

Connecticut River Gateway Commission:

Statutory Authority	Sections 25-102d through 25-102l
Relation to DEP	Within the DEP for administrative purposes only.
Number of Members	11
Duties	The Commission's two basic responsibilities are the review and approval or disapproval of local land use controls and changes therein which affect property in the Conservation Zone, and the selection and recommendation to the Commissioner of DEP, of up to 2,500 acres of land within the Gateway Conservation Zone for less than fee acquisition by the State. A conservation fund was subsequently established particularly for the acquisition of land.
Receipts	None
Expenditures	None

Connecticut Emergency Response Commission:

Statutory Authority	Sections 22a-600 through 22a-611
Relation to DEP	Within the DEP for all purposes
Number of Members	18
Duties	The Commission shall implement the provisions of the Emergency Planning and Community Right-to-Know Act and shall designate local planning districts.
Receipts	None
Expenditures	None

Connecticut Hazardous Waste Management Service:

Statutory Authority	The Connecticut Hazardous Waste Management Service, hereinafter referred to as the Service, is a body politic and corporate constituting a public instrumentality and political subdivision of the State. The Service operates under the provisions of Section 22a-134aa through 22a-134oo and Section 22a-163 through 22a-164 of the General Statutes.
Duties	Promoting and encouraging appropriate management of hazardous waste in Connecticut; and assisting in the management of low-level radioactive waste.
Statutory Requirements	Under the provisions of Section 1-120 of the General Statutes, the Service is considered a quasi-public agency. As such, it is required to adopt written operating procedures, to have an annual compliance audit of its activities and to submit an annual report of its activities to the Governor, the Auditors of Public Accounts, and the General Assembly.

As required, the Service had audits performed by an independent public accountant. An unqualified opinion was given for both the

fiscal year 1997-1998 audit report and the fiscal year 1998-1999 audit report. There were no audit recommendations.

Board of Directors Ten members

Advisory Committee In accordance with Section 22a-163u of the General Statutes, an 11 member low-level radioactive waste advisory committee was established to advise the Service on the suitability of sites for the management of low-level radioactive waste.

RÉSUMÉ OF OPERATIONS:

During the fiscal years ended June 30, 1998 and 1999, DEP activity was accounted for in the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds (civil list funds) and Fiduciary Funds. These funds are discussed in more detail in the sections that follow.

A summary of revenue and expenditures in civil list funds during the audited period is shown below:

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>1997-1998</u>	<u>1998-1999</u>	<u>1997-1998</u>	<u>1998-1999</u>
General Fund	\$43,458,370	\$ 38,248,828	\$ 62,077,744	\$ 65,940,886
Special Revenue Funds	32,574,817	39,993,878	49,665,802	60,522,939
Capital Project Funds	693,272	16,921,281	441,876	28,293,858
Enterprise Funds	<u>16,148,710</u>	<u>16,810,709</u>	<u>106,271,321</u>	<u>108,209,482</u>
Total Civil List Funds	<u>\$92,875,169</u>	<u>\$111,974,696</u>	<u>\$218,456,743</u>	<u>\$262,967,165</u>

GENERAL FUND:

General Fund receipts are summarized below:

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Receipt Type:			
Hunting and Fishing	\$ 2,609,972	\$ 2,548,071	\$ 2,656,183
Air, water and waste compliance	1,055,995	1,065,262	996,968
Civil penalties and fines	1,309,613	1,374,802	2,262,994
Federal	18,140,670	20,597,931	18,525,777
Other grants and donations	9,979,478	10,505,132	8,817,849
Sales and rent	1,546,659	3,318,884	1,772,328
Refunds of expenditures	2,967,525	3,260,632	2,342,378
Other	<u>690,327</u>	<u>787,656</u>	<u>874,351</u>
Total General Fund Receipts	<u>\$ 38,300,239</u>	<u>\$ 43,458,370</u>	<u>\$ 38,248,828</u>

Total receipts increased by \$5,158,131 during the 1997-1998 fiscal year and decreased by \$5,209,542 during the 1998-1999 fiscal year. One of the reasons for increased receipts in the 1997-1998 fiscal year is an increase of approximately \$2,450,000 in federal funding receipts. The other reason is a \$1,500,000 receipt from the Mohegan Tribe for the transfer of Fort Shantok to the United States to be held in trust for the Mohegan Tribe as part of its Indian Reservation. This transfer is in accordance with Special Act 95-25, section 8 and was amended by Special Act 97-20, section 10.

General Fund expenditures are summarized below:

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Budgeted Accounts:			
Personal services	\$ 30,178,745	\$ 29,378,730	\$ 31,877,013
Contractual services	5,146,698	4,955,678	3,889,553
Commodities	619,383	604,376	728,767
Sundry charges	791,949	466,201	1,718,777
State Aid Grants	9,400	9,400	9,400
Capital outlay	209,137	278,900	803,147
Agency funds	18,171	670	730
Total Budgeted Accounts	<u>36,973,483</u>	<u>35,693,955</u>	<u>39,027,387</u>
Restricted Accounts:			
Federal	17,131,831	18,903,763	18,748,559
Other than Federal	7,073,124	7,480,026	8,164,940
Total Restricted Accounts	<u>24,204,955</u>	<u>26,383,789</u>	<u>26,913,499</u>
 Total General Fund Expenditures	 <u>\$ 61,178,438</u>	 <u>\$ 62,077,744</u>	 <u>\$ 65,940,886</u>

General Fund expenditures increased by \$899,306 during the 1997-1998 fiscal year and increased by \$3,863,142 in the 1998-1999 fiscal year. The majority of the increase in the 1998-1999 fiscal year can be attributed to normal increases in salaries.

General Fund Restricted Accounts – Other than Federal:

The DEP utilized 30 restricted accounts-other than Federal, during the audited period. The largest accounts were the Clean Air act Account which operates under Section 14-49b of the General Statutes; and the Stationary Air Emissions Monitoring Account.

General Fund Restricted Accounts – Federal:

During the audited period the DEP charged expenditures to its General Fund Federal Restricted Accounts for 52 Federal programs. The largest programs were related to sport fishing; wildlife restoration; air pollution control; air, water, and waste management; and leaking underground storage tanks. In addition to activity recorded in the General Fund, Federal funds were deposited in the Federal account of the Clean Water Fund. See comments under the Clean Water Fund section of this report.

SPECIAL REVENUE FUNDS:

During the audited period the DEP utilized nine special revenue funds established to account for expenditures of revenues that have been restricted to specific programs. A summary of revenue and expenditures for all special revenue funds follows. Comments concerning the two largest funds follow this schedule and special revenue funds for grants are discussed in a later section.

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>1997-1998</u>	<u>1998-1999</u>	<u>1997-1998</u>	<u>1998-1999</u>
Fund:				
Environmental Quality	\$22,384,014	\$29,484,493	\$26,073,954	\$28,345,337
Conservation	9,762,930	10,137,449	6,530,416	6,039,110
Low Level Radioactive Waste	280,324	294,525	1,575,913	1,453,125
Special Contaminated Property				
Remediation and Insurance	139,908	8,288	0	585,100
Capital Equipment Purchase	4,912	18,767	596,715	1,216,492
Grants to Local Governments				
And Others	1,148	2,947	13,890,169	22,228,099
Economic Development and				
Other Grants	<u>1,581</u>	<u>47,409</u>	<u>998,635</u>	<u>655,676</u>
Total Special Revenue Funds	<u>\$32,574,817</u>	<u>\$39,993,878</u>	<u>\$49,665,802</u>	<u>\$60,522,939</u>

Environmental Quality Fund:

The Environmental Quality Fund operates under Section 22a-27g of the General Statutes. The Fund is used by the DEP for the administration of the central office and environmental quality programs authorized by the General Statutes.

Environmental Quality Fund revenue and expenditures are summarized below.

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Revenue:			
Petroleum company assessments	\$10,447,378	\$13,092,974	\$14,935,422
Air, water and waste compliance	8,689,989	8,446,609	7,702,499
Underground storage tank tax	7,182,000	0	5,997,000
Fines and penalties	18,750	47,418	35,500
Other	<u>917,038</u>	<u>797,013</u>	<u>814,072</u>
Total Revenue	<u>\$27,255,155</u>	<u>\$22,384,014</u>	<u>\$29,484,493</u>
Expenditures:			
Payroll	\$ 6,636,441	\$ 7,071,965	\$ 7,494,237
Contractual services	11,025,087	18,207,947	19,683,630
Other	<u>1,135,574</u>	<u>794,042</u>	<u>1,167,470</u>
Total Expenditures	<u>\$18,797,102</u>	<u>\$26,073,954</u>	<u>\$28,345,337</u>

Total revenue decreased by \$4,871,141 during the 1997-1998 fiscal year and increased by \$7,100,479 in the 1998-1999 fiscal year. The decrease and increase for both fiscal years can be attributed to the portion of the petroleum products gross earnings tax that is credited to the underground storage tank petroleum clean-up account. The Comptroller credits the clean-up account at the DEP by revenue transfer when this account falls below \$5,000,000.

Total expenditures increased by \$7,276,852 during the 1997-1998 fiscal year and increased by \$2,271,383 in the 1998-1999 fiscal year. The increase in the 1997-1998 fiscal year was due to an effort by the DEP to reduce a backlog of applications for reimbursement to responsible parties or parties involved with the cleanups involving the Underground Storage Tank Petroleum Clean-Up Account. More payments were approved by the Petroleum Clean-Up Fund Review Board for any release from a underground storage tank or system in accordance with Sections 22a-449c to 22a-449d during this time period.

State Comptroller records indicate that Fund assets totaled \$30,209,659 on June 30, 1999.

Conservation Fund:

The Conservation Fund operates under Section 22a-27h of the General Statutes. The Fund is to be used by the DEP for the administration of the central office and conservation and preservation programs authorized by the General Statutes.

Conservation Fund revenue and expenditure totals are presented below:

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Revenue:			
Hunting and fishing	\$ 1,717,702	\$ 1,714,861	\$ 1,742,188
Vessel registration fees	4,929,149	5,347,679	5,197,930
Sales and rent	1,974,772	2,143,986	2,376,325
Other	532,941	556,404	821,006
Total Revenue	<u>\$ 9,154,564</u>	<u>\$ 9,762,930</u>	<u>\$10,137,449</u>
Expenditures:			
Payroll	3,877,859	4,383,879	3,738,730
Contractual services	885,434	923,886	821,074
Other	1,245,632	1,222,651	1,479,306
Total expenditures	<u>\$ 6,008,925</u>	<u>\$ 6,530,416</u>	<u>\$ 6,039,110</u>

Total revenue increased by \$608,366 and \$374,519, respectively during the 1997-1998 and 1998-1999 fiscal years. Revenue increases can be attributed to increased receipts for vessel registrations and rentals and easements for park properties. Effective July 1, 1998, Public Act 98-225 increased to the Conservation Fund the amount of funds received from taxes imposed on boating activities from \$250,000 to \$500,000.

Total expenditures increased by \$521,491 during the 1997-1998 fiscal year and decreased by \$491,306 during the 1998-1999 fiscal year. These decreases can be attributed to a decision made by the DEP to apply payroll costs normally attributed to the Conservation Fund to the General Fund in order to decrease the likelihood of a fund deficit.

ENTERPRISE FUNDS:

Clean Water Fund:

The Clean Water Fund operates under the provisions of Section 22a-475 through 22a-483 of the General Statutes. This fund is to be used for grants and/or loans for research; planning and construction of water quality projects; and, improvements to the Long Island Sound area.

In accordance with Section 22a-477, this fund was divided into three separate accounts. These accounts are the water pollution control Federal revolving loan account, the water pollution control state account, and the Long Island Sound clean-up account and are identified by the State Comptroller as Enterprise Funds: State Account, Federal Account and the Long Island Sound Account.

Clean Water Fund revenue and expenditure totals are presented below:

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>1997-1998</u>	<u>1998-1999</u>	<u>1997-1998</u>	<u>1998-1999</u>
State Account	\$ 524,614	\$ 305,030	\$ 29,595,507	\$ 29,142,870
Federal Account	15,621,336	16,505,679	75,785,135	78,680,597
Long Island Sound Account	<u>2,760</u>	<u>0</u>	<u>890,679</u>	<u>386,015</u>
Total Clean Water Fund	<u>\$16,148,710</u>	<u>\$16,810,709</u>	<u>\$106,271,321</u>	<u>\$108,209,482</u>

Receipts of the Clean Water Fund were primarily from Federal grants and the sale of bonds. Expenditures were mainly for grants to municipalities for the construction, expansion or improvement of wastewater treatment facilities, loans and administrative expenses. For the period under review, an independent public accountant audited the Federal Account.

CAPITAL PROJECTS:

Expenditures on capital projects totaled \$10,101,507 in fiscal year 1997-1998 and \$6,443,663 in fiscal year 1998-1999 and were charged to the General, Special Revenue and Capital Projects Funds. Expenditures were mainly for flood control, repairs to State owned dams, and improvements to State recreational facilities. In addition to expenditures charged for capital projects, expenditures were also charged to Capital Project funds for personnel services and other expenditures.

TRUST FUNDS:

During the audited period the DEP exercised custody over trust funds which are described below:

Fund	Purpose
Culpeper	Repair and restoration of facilities at the American Shakespeare Theater State Park

Eastern Tribe Pequot Indians	To be expended in accordance with the direction of the Department, with the advice of the Indian Affairs Council, as provided for by Section 47-66 of the General Statutes
James L. Goodwin	Educational activities and maintenance of the buildings and grounds of the James L. Goodwin Center
Hopemead	Development of property previously conveyed to the State
Kellogg	Support and maintain Kellogg Environmental Center and the Osborndale State Park
Topsmead	Maintain the devisor's former summer residence and the land surrounding the residence, which were also bequeathed to the State. The property has been named Topsmead State Forest in accordance with the terms of the will.
Wagner-Firestone	This Fund is for the maintenance of a bird and game sanctuary on property in Lyme and East Haddam.
Flora Werner	Benefit of the real estate devised to the State
John J. White and White Memorial Foundation	Maintain wildlife sanctuaries

Receipts, disbursements and fund balances per agency records follow:

	<u>July 1, 1997 through June 30, 1999</u>	<u>Fund Balance*</u>
	<u>Receipts</u>	<u>Disbursements</u>
Fund:	<u>Receipts</u>	<u>Disbursements</u>
Culpeper	\$ 19,648	\$ 190,477
James L. Goodwin	42,543	210,966
Hopemead	179,126	1,631,049
Kellogg	569,425	453,088
Eastern Tribe Pequot Indians	2,550	24,718
Topsmead	460,193	1,896,675
Wagner-Firestone	23,731	145,559
Flora Werner	30,916	299,707
John J. White and White Memorial Foundation	<u>1,365,134</u>	<u>164,239</u>
Total	<u>\$2,693,266</u>	<u>\$8,415,250</u>

*investments at market value

Note – The fund balances for the James L. Goodwin and Kellogg funds do not include investments held by trustees other than the State of Connecticut.

During the period under review, the resources of all but one of these trust funds were administered by the DEP; the State Treasurer administered the Hopemead State Park Fund.

PROGRAM EVALUATION:

Under the provisions of Section 2-90 of the General Statutes, the Auditors of Public Accounts have been authorized to include an examination of performance in order to determine effectiveness in achieving expressed legislative purposes.

Our program evaluation involves transfer stations. Specifically, we wanted to determine whether the amounts charged for application and annual fees for transfer stations were equitable and reasonable. According to Connecticut General Statutes 22a-208a, subsection 1(h), the Commissioner was to determine the cost of the DEP for application and annual fee process. We were also determining whether the DEP is collecting annual and late fees, if applicable. We were also reviewing whether the DEP is taking any enforcement actions if fees are not paid.

The results of our program evaluation revealed that amounts charged for application and annual fees for transfer stations are equitable and reasonable. The DEP is collecting applicable annual and late fees and taking necessary enforcement action.

CONDITION OF RECORDS

We found various areas in need of attention and corrective actions. These areas are described in the following sections:

Revenue – State Parks – Accountability Reports:

Background: The DEP operates 33 State parks or forests (parks) that generate revenue. Fees are collected for parking, admissions, camping, canoe rental and season passes. Eleven of these 33 parks collect fees on weekdays.

All of the parks that collect parking fees have a ticket booth where revenue is collected. In some parks, camping fees are collected by a park ranger, not at a ticket booth.

Each park that collects revenue is issued prenumbered tickets to give to the person paying the fee. The DEP central office tracks the prenumbered tickets assigned and used at each park. Some parks also have cash registers that issue tickets, instead of giving out the prenumbered tickets.

Due to the nature of activity at the parks, there will always be inherent risk that fees are collected, but fail to be recorded and deposited. The DEP's main control to prevent this is the tracking of the prenumbered tickets.

Criteria: Good business practice dictates that assets of the State are safeguarded and that prenumbered tickets, representing future revenues to the State be safeguarded against theft or illegal use.

Prudent management practices dictate that reports should accurately disclose information and should not be inappropriately adjusted. If receipts do not reflect the total number of tickets sold shortages or overages should be disclosed on the report.

Condition: During our previous audit we found that not all the prenumbered tickets could be accounted for at six parks. As of result of this finding, the DEP recalled all the 1999 tickets from all the State parks in order to perform their own accountability test. The DEP found that not all the tickets could be account for. Although the DEP has changed their procedures with regard to tickets at State parks, we will not able to determine the effectiveness of those controls until the 2000 season has ended.

We tested ten consecutive field deposit reports for four state parks. We noted that four Field Deposit Reports (which report ticket numbers sold and corresponding receipts) submitted by two of the parks were

adjusted by the Licensing and Revenue Unit of DEP so that the reports tie into deposits.

Overages and shortages ranging from \$5 to \$35 were reported on 11 of 38 or 29 percent of the field deposit reports included in our review.

Each year the DEP approves a “Free Fishing Day”. The Park Supervisor at one out of four State parks tested interpreted this to mean that he should not charge parking fees for that day. It also appears that this employee was not notified of the error since he proceeded to not charge for parking in the subsequent year.

Effect:

The Field Deposit Report system does not accurately account for all parking tickets assigned to a park. Due to the fact that the system is insufficient, the DEP is not able to ensure that all revenues have been reported and/or deposited. This could result in lost revenues to the State.

Adjustments to Field Deposit Reports make it impossible to ascertain the total number of tickets sold and the amount of receipts that should be collected and deposited.

Revenue not collected for parking because of the misunderstanding of “Free Fishing Day” was at least \$1,000 each year.

Cause:

We were informed by the DEP that the missing tickets were most likely old and had been disposed of by the parks. However, we also noted that the DEP Central Office’s tracking of prenumbered tickets does not appear to be totally accurate. Some tickets were returned to the DEP warehouse by the parks and were not recorded by the Central Office. We also noted that the recorded numbering sequence and value of each ticket assigned to parks was not always recorded accurately.

Recommendation:

Procedures should be established and followed for the accountability of all fees collected at State Parks and should include the reconciling of ticket sales to deposits. (See Recommendation 1.)

Agency Response:

“DEP agrees with the finding that more effective procedures should be established for tracking and accounting for all tickets issued to and used by State Parks. DEP’s own internal review of the history of tickets issued to all State parks since the implementation of the Field Deposit Report System revealed discrepancies in the assignment of tickets to specific parks and number of tickets outstanding. A large number of “old” ticket number ranges were not deleted from the database system, and other ticket ranges were not documented as returned from the park. Beginning in calendar year 2000 the Department’s Licensing and Revenue Office did a complete recall of

all outstanding tickets, performed the review and internal audit of all ticket numbers outstanding and re-issued entire new ticket series to each park. The Field Deposit Report System was cleansed of all old number ranges and only newly issued ticket ranges were entered for each park. During the 2000 park season all new ticket assignments have been monitored daily for each park, and it is planned to do a complete recall of all unused tickets at the end of the season to fully account for all tickets issued. The Licensing and Revenue Office, in cooperation with the Parks Division of the Bureau of Outdoor Recreation, will annually issue new ticket ranges to the parks, monitor ticket use daily with the Field Deposit Report System, and at the end of each park season will collect all outstanding tickets, reconcile ticket use at each park and prepare an accountability report of ticket use for each park.

The issue related to Free Fishing Day will be documented in greater detail for future seasons to clarify the issue of charging or not charging for parking at State parks that offer fishing access on the Department's Free Fishing Day."

Revenue – Accountability Reports – Other:

Criteria: The State Accounting Manual requires that accountability reports be prepared. Such reports use measures of activity such as number of permits issued or applications received to calculate the receipts that should have been accounted for. Management or supervisory personnel would compare such receipts to the receipts actually recorded in the agency's cash receipts records and investigate any variances.

Condition: We noted in our prior audit report that accountability reports were not prepared for any receipts. Accountability reports are now being prepared for the receipts collected by the Licensing and Revenue Unit of the DEP. However, there are still many types of receipts in various Bureaus where accountability reports are not prepared.

Monies received by the DEP's Central Permit Processing Unit (CPPU) are recorded on a transmittal slip. Then the receipts are entered into the DEP's Permit Application Management System (PAMS) and applied against the corresponding open invoices. The CPPU does not reconcile payments recorded on PAMS to the deposit. As a result, two payments in our sample out of 46, or 4 percent, were recorded incorrectly in PAMS and not detected.

Effect: There is a possibility that required fees were not collected.

Failure to reconcile payments entered into PAMS with actual receipts diminishes the credibility of the information reported by the PAMS.

Cause: Various Bureaus of the DEP may not be aware of the need to prepare this report.

There is a lack of procedures that would provide accountability for receipts.

Recommendation: Accountability reports should be prepared for Agency fees. (See Recommendation 2.)

Agency Response: “The Department agrees that individual bureaus are not following effective accountability reporting in all cases, and the Department will therefore continue with the consolidation of all revenue generating programs to the central Licensing and Revenue Office. The reconciliation of payments recorded in the PAMS system have been changed to more effectively record those payments to tie-into the posting of deposits to the Agency’s accounting system.”

Revenue – Coding:

Criteria: Revenue coding should enhance the accountability for receipts and provide for the compilation of the total receipts collected for each fee type.

Condition: Each DEP bureau is responsible for collecting many types of fees. In many instances various fees are coded to the same revenue account (e.g. air, water and waste management and compliance fees.) Although the DEP has developed its own coding within each revenue account to designate the individual fee types, this coding is not readily correlated with fees contained in the General Statutes. We also found that employees responsible for coding receipts were not always familiar with the established coding.

Effect: For our audited period, total revenue for each fee type is not available. This information is needed for the DEP to prepare accountability reports.

Cause: The DEP’s revenue coding was developed by personnel in the individual bureaus instead of centrally for the entire Department. Therefore, coding for different bureaus was not developed to the same extent.

Recommendation: Revenue coding should be changed and made more uniform. Coding should be correlated to fees contained in the General Statutes. (See Recommendation 3.)

Agency Response: “The Department partially agrees with the finding and in an attempt to make revenue codes more uniform the Licensing and Revenue Office has recently completed a comprehensive list of all revenue codes in the

Department and has begun to work with several program offices to recommend and implement changes that will make coding schemes more uniform and more effective in identifying specific fee or permit types."

Revenue – Maintenance of Records:

Criteria: Records should be maintained to account for all revenue producing activity within the agency. The date a fee is received should be recorded and each receipt should be traceable to deposit. This information is needed to determine the accuracy of revenue collected.

Amounts billed and collected for each fee should be recorded and receivables should be tracked and follow up procedures used to ensure collection.

Condition: We were unable to obtain complete lists of applicants, permittees, etc. and/or those entities that should have been paid the required fees for applications, permits, etc. Records for various fees within the Bureau of Waste Management are maintained manually and are not available in a form that provides complete, reliable information. This information is needed to ensure that all revenue is collected and deposited.

Some of the fees within the DEP are not part of the centralized billings and collections, and are not adequately maintained. These fees include pesticide fees, property transfer program, and licensed environmental professional program, and the dam registration and inspection fee program. We were unable to reconcile these fees to the State Agency's Appropriation Accounting System (SAAAS).

We found that receipt dates were not recorded for some of the fees. We found this in our review of receipts collected in Sessions Wood Wildlife Management Area.

Effect: There is a possibility that required fees were not collected and/or deposited or deposited to the incorrect fund and/or revenue account.

Cause: It appears that management has not established comprehensive procedures regarding the proper maintenance of records.

Recommendation: Complete records should be maintained of all individual fees collected and all individual applications, permits and other fee sources. (See Recommendation 4.)

Agency Response: "The Department agrees that specific program offices have not effectively maintained fee collection records and will work to consolidate those programs within the central Licensing and Revenue Office. The Licensing and Revenue Office has already started to work

with the Water Management Bureau to address four of the programs cited (licensed environmental professionals, property transfers and dam registrations and dam inspections). These specific programs will now be coordinated with the Licensing and Revenue Office to more effectively record, monitor and reconcile invoices, receipts and deposits associated with these programs. Once these four programs are implemented the Licensing and Revenue Office will begin working with other bureau programs.”

Revenue – Water Pollution Control, Water Diversion, and Waste Permits - Annual Fees:

Criteria:

Section 22a-430-7(l) of the Regulations of State Agencies contains the requirements for the water pollution control permit annual fee for wastewater discharge categories. Effective June 24, 1994, fees included in this section were increased by 25 percent. As a result, the annual fee for a permit to discharge groundwater remediation wastewater shall be \$2,725.

Section 22a-6f of the General Statutes requires that the fee for late payment of an annual fee charged by the DEP shall be ten percent of the annual fee due, plus one and one-quarter percent per month or part thereof that the annual fee remains unpaid.

Section 3-7 of the General Statutes states that any uncollectible claim for an amount of \$1,000 or less may be cancelled upon authorization of the Commissioner.

Sound business practice requires that adequate attempts be made at collecting outstanding receivables.

Condition:

The Bureau of Water Management is charging applicants old annual fee rates of \$62.50 and \$1,437.50 for permits to discharge car wash and groundwater remediation wastewater, respectively. For our review, this resulted in lost revenue totaling \$5,750. However, when applied to the total universe of these types of permits, this could potentially result in revenue lost of more than \$95,000 per year.

The DEP did not pursue collection of late fees, and, in some cases, applicants were not billed for applicable late charges. In total, only three of the 17 permittees in our sample that should have been billed for late charges were billed appropriately. As a result, late fees totaling \$1,700 were not billed.

When applicants received invoices that included late fees, the payment submitted did not always include the late fees. Instead of the DEP pursuing collection of the late fees, the late fees were waived and an internal credit was issued. There was no documentation to support that

the Commissioner authorized that the late fees be waived. Our review found that \$560 of late fees were waived.

The DEP does not have written policies that include collection procedures.

Effect: The DEP is not complying with the fee rates set forth in the Regulations of State Agencies, which results in lost revenue. In addition, consistently reducing a fee and not pursuing the collection of late charges may give permittees or applicants the perception that fee rates are negotiable.

Lack of written policies can cause inconsistencies in the criteria used for determining a late charge uncollectible. Also, employees who prepare internal credits may not be aware of statutory requirements for the removal of receivables.

Cause: The DEP believes that the rate for certain wastewater discharge categories is too high. In an effort to make the rates more reasonable, they have developed an unwritten practice of charging a different rate for certain wastewater discharges.

The DEP explained that, in most cases, it would cost more to pursue the collection of a late fee than the actual value of the late fee. For this reason, many of the late fees are waived.

Recommendation: The DEP should develop written procedures that would require adequate attempts at collecting late fees and compliance with the fee rates set forth in the Regulations for State Agencies. The Commissioner should authorize internal credits of \$1,000 or less. If it is felt that the rates are unreasonable, the Regulations should be revised. (See Recommendation 5.)

Agency Response: “The Department partially agrees with the finding and in order to address all the issues cited will have the Licensing and Revenue Office recommend and coordinate the implementation of more effective written procedures for authorizing internal credits, waiving fees and collecting late fees. The Water Bureau contends that the Regulation of Connecticut State Agencies Section 22a-430-7(g) allows them to waive, reduce or allow delayed payment of all or a part of a fee; however, the Department will attempt to more effectively document the application of this provision to future cases.”

Auditors’ Concluding Comments:

The Regulation mentioned above, Section 22a-430-7(g) states that the “Commissioner may waive, reduce, or allow delayed payment of all or a part of a fee.” The DEP should document that the Commissioner made the decision in accordance with this regulation and not the Water Bureau.

Revenue – Late Deposits:

Criteria: Section 4-32 of the General Statutes requires that receipts totaling at least \$500 be accounted for and deposited within 24 hours of receipt.

The State Accounting Manual (SAM) requires that all agencies maintain a receipts journal listing such items as date of receipt, name of payor, revenue classification, amount deposited, deposit slip number and date of deposit.

In accordance with the SAM, internal control over cash receipts shall be established by each agency to minimize the risk of loss. Cash held in an office should be properly safeguarded and controlled to avoid losses and should be deposited as soon as possible to decrease chances of losses and to conform with the requirements of Section 4-32.

Condition: We found 175 receipts totaling \$679,810 in the DEP's various offices and Divisions that were deposited between one and 16 days late as follows:

- Fourteen of 20 spillcase receipts tested totaling \$547,568 were deposited between one to 10 days late.
- Ten out of 35 receipts tested totaling \$6,755 for the rental of State forest buildings were deposited one to five days late.
- Eighteen out of 38 receipts tested totaling \$14,866 for State Parks were deposited one to 16 days late.
- Three out of five receipts tested totaling \$37,004 for lease payments were deposited one to six days late.
- Eleven out of 12 receipts tested totaling \$70,115 for concessions were deposited one to 14 days late.
- Five receipts out of five receipts tested totaling \$1,125 in the Bureau of Water Management were deposited one day late.
- Three receipts out of 16 receipts tested totaling \$675 in DEP's Central Permit Processing Unit were deposited one to two days late.
- One hundred eleven out of 114 receipts tested totaling \$1,702 in DEP's Bureau of Natural Resources were deposited one to five days late.

This situation was reported to the Governor and other State Officials on September 6, 2000, in accordance with Section 2-90 of the General Statutes.

In addition, we visited two State parks on July 28, 2000. At one of the parks, the employee was partially depositing the cash on hand. We found that receipts of \$6,163 that were collected from May 27, 2000 to

June 5, 2000 were deposited between four to seven days late. At this same park receipts of \$1,438 that were collected from July 12, 2000 to July 25, 2000, were deposited between two to seven days late. At the other park, we found that receipts of \$1,601 that were collected from July 20, 2000 to July 26, 2000 were deposited between one to six days late.

Effect: There was noncompliance with Section 4-32 of the General Statutes.

Cause: Procedures for processing receipts do not always allow for deposits to be made within 24 hours. For example, for spillcases, we were informed that when checks are received late in the day by the Waste Bureau's Planning and Standard's Business Office, the checks are held until the next day. On the next day these checks are sent to the DEP's Central Processing Unit for deposit. If the day's deposit has already been prepared, the money is not deposited until the following day.

With regard to cash at the State parks, there appears to be significant internal control weaknesses since cash is allowed to be on hand for an extended period of time. The DEP does not appear to be monitoring this area.

Recommendation: Deposits should be made in compliance with Section 4-32 of the General Statutes. (See Recommendation 6.)

Agency Response: "The Department agrees to address the issue of late deposits in a comprehensive manner which may require several changes including an authorized exception by the Treasurer under C.G.S. Section 4-32 for field locations that have difficulty in making daily bank deposit trips. Many of the deposits in the category of one-to-two days late occurred because of the timing of the check receipt and the trip to the bank for making the deposit. The Department will review the timing of daily deposit trips to the bank to more effectively handle central office deposits."

Revenue – Rent of State Forest Buildings:

Criteria: Section 26-3b of the General Statutes states that the commissioner has the authority to determine the rental fee to charge department employees renting state-owned facilities.

Section 26-3b of the General Statutes requires that if the DEP rents property to persons who are not employees of the DEP it shall first obtain approval of the State Properties Review and any such rent shall at least be equal to the fair market rental value of such property as determined by the Commissioner of DEP, notwithstanding any other provisions of the General Statutes or of any Regulations of State Agencies.

Per the State Accounting Manual, it is the responsibility of the agency to establish internal controls for receipts that minimize the risk of loss, which includes adequate recording and separation of duties.

The lease agreements between the State of Connecticut and various tenants specify the amount of rent to be paid by the tenants and the due date, and the requirements for property insurance.

Good business practice includes having written leases for rental of State property and procedures for collecting delinquent payments required of such leases.

Condition:

The DEP's Division of Land Acquisition within the Bureau of Outdoor Recreation informed DEP employees occupying State-owned facilities to cease paying rental fees. This decision was made without the approval of the Commissioner.

One non-DEP employee began occupancy in a State-owned facility during the period covered by our review. The DEP did not obtain approval from the State Property Review Board and did not require a formal lease agreement.

During our last audit, we noted that the DEP had not obtained evidence of property insurance coverage from seven tenants who were required to obtain such coverage per their lease agreement. As of our current review, five of the seven tenants were still occupying the facilities and the DEP still did not obtain evidence of property insurance coverage.

We reviewed rental receipts for six non-DEP employees occupying State-owned facilities. Our review noted the following exceptions:

- Two of the six non-DEP employees were not required to pay at least fair market rental value.
- Four of the six non-DEP employees failed to make rental payments according to their lease agreements.
- Records used to monitor rental receipts did not accurately reflect the receipt activity. We noted instances where the DEP failed to record receipts that had been received and the DEP applied the same monthly payment for two separate months.

We previously found that eleven tenants failed to make rental payments in accordance with lease agreements. The DEP still has not pursued collection of the past due rent.

The DEP does not have written procedures for pursuing the collection of delinquent rents.

Effect: Total lost revenue as the result of unpaid or inadequate rent from non-DEP employees amounted to \$14,955.

Total lost revenue, as the result of DEP employees not paying rent for a 13-month period is approximately \$188,760.

There is inadequate documentation of contracts and noncompliance with State lease agreements.

Cause: Internal controls are not in place to ensure the collection of rentals of State forest buildings, conformance of tenants with statutory requirements and adherence to conditions of the lease.

Recommendation: Procedures should be established and followed to ensure the proper rental of State forest buildings and collection of rent thereon. (See Recommendation 7.)

Agency Response: “The Department agrees that the rental program for Department facilities requires more effective documentation of procedures and transactions; therefore, the Department has taken steps to have the Bureau of Outdoor Recreation work with the Licensing and Revenue Office to document all facilities to be rented, all current leases, insurance records and fair market values for all such facilities. The Licensing and Revenue Office will also take steps to document the current status of all outstanding amounts owed to the Department and take any necessary steps to pursue collection. The Licensing and Revenue Office will also work with the Bureau of Outdoor Recreation to ensure appropriate segregation of duties and responsibilities related to this program. It should be noted that the Department experienced several problems in dealing with this issue directly due to Federal labor related issues and other legal issues related to lease contract terms that are still being worked-on at the Attorney General’s Office.”

Revenue – Lease Agreements:

Criteria: The lease agreement between the State and Mohawk Mountain Ski Area, Inc. (“Mohawk”), dated January 24, 1986, requires Mohawk to pay the State a yearly rental fee based upon a percentage of Mohawk’s gross income. Ninety days after Mohawk’s fiscal year, the payment is to be made and supported by its books, records, and an income tax return prepared and certified by an independent certified public accountant. The lease agreement also prohibits Mohawk from assigning or subletting the premises without the State’s written permission.

The lease agreement between the State and Valley Railroad Company states that the payment is due ninety days after the company’s fiscal year.

Good business practice dictates that adequate records of amounts owed from lessees be maintained and that adequate attempts to collect past due balances be made.

Condition: Skier Services, Inc. has been operating on the premises leased by Mohawk since the lease agreement was signed in January 1986 without written permission from the State. The DEP has been aware of this violation of the lease.

The DEP's records indicate that Mohawk has been in arrears with lease payments since 1990. As of December 31, 1999, this amounts to at least \$130,000. This amount includes Skier Services, Inc for the years in which financial information of Skier was submitted to the DEP. Mohawk did not submit any information to the DEP to calculate the lease payment for its fiscal year ended 1997. During the period July 1, 1997 to June 30, 2000, the DEP made only one written attempt to collect the past due balances.

The DEP is inconsistent about including gross receipts from Skier Services, Inc., when calculating the lease payment.

Checks received from Mohawk for lease payments due on December 31, 1997, 1998 and 1999 were dated April 24, 1999, August 16, 1999, and May 2, 2000, respectively.

Checks received from Valley Railroad for lease payments due on June 30, 1998 and 1999 were dated January 19, 1999 and August 27, 1999, respectively.

Effect: Non compliance with the terms of the lease agreements has resulted in loss revenue and unsubstantiated accounts receivable balances.

Cause: The DEP is lack in collecting lease payments and enforcing the terms of the leases.

Mohawk does not agree with the DEP that revenue generated from Skier Services, Inc. should be included in the lease payment Therefore, for the fiscal year ended 1997, financial information on Skier Services was no longer submitted. The DEP has not attempted to resolve this matter.

Recommendation: The DEP should take legal action since Mohawk is not complying with the terms of its lease. Due dates of lease payments should be enforced. Collection procedures for outstanding balances should be established. (See Recommendation 8.)

Agency Response: “The Department agrees that lease agreements require more effective documentation and on-going administration. The Department has instructed the Bureau of Outdoor Recreation to work with the Licensing and Revenue Office to document all outstanding leases, review the status of all lease agreements and begin to pursue any amounts outstanding. Specific delays in previous lease payments are attributable to several very different circumstances such as the reconciliation of credits related to physical improvements to State property that could be applied toward lease payment; the extensive damage cause by a tornado in 1989 at Mohawk Mountain; a subsequent offer to offset lease payments with an exchange of land, which hasn’t materialized. The Department has formally sent notice to Mohawk Mountain Ski Area, Inc. that the land exchange is not feasible and all amounts outstanding are due, and the Department will pursue appropriate legal action with the Attorney General’s Office if payments are not forthcoming.”

Revenue – Unpaid Invoices:

Criteria: Section 22a-6f(b)(2) of the General Statutes states that for a general fee, the fee for registration pursuant to a general permit is \$250.

Section 22a-10 of the General Statutes states that refunds determined by the Commissioner shall be processed by the Comptroller and paid by the Treasurer.

Good business practice requires that the issuance of credits to applicants be adequately documented.

Condition: The Bureau of Air Management issued five general permits to the Department of Corrections, who did not submit the required registration fees. It appears that the Department of Corrections had previously paid a fee of \$500 for a New Source Review permit application that was withdrawn. The \$500 was then allocated to the five general permits by DEP employees leaving a balance due of \$150 per permit for a total of \$750.

The Bureau of Water Management waived an application fee of \$250 for an agent of the Department of Transportation (DOT). The Bureau stated that they have a policy that waives fees for the DOT and their agents. The Bureau could not provide us with any legal authority that supports this policy.

The DEP did not refer applicants who were entitled refunds to the Comptroller. Instead, the DEP issued internal credits for fees associated with subsequent applications. These internal credits were issued without obtaining approval from the Commissioner.

Internal credits issued to applicants were not adequately documented in the DEP's PAMS, which tracks applications and permits along with their associated fees. As a result, PAMS still recorded overpayments and paid fees against withdrawn applications in the total amount of \$2500 even though credits had been issued.

Effect: Non-compliance with sections 22a-6f(b)(2) and 22a-19 of the General Statutes results in lost revenue and unauthorized refunds.

Without adequate documentation, there is no accountability for issued credits.

Cause: There are a lack of controls to ensure that the bureau responsible for issuing the permit verifies that the applicable fees have been received by the unit responsible for collecting the fees.

The DEP does not appear to be aware of the requirements regarding refunds for permits.

Recommendation: Controls should be implemented that require bureaus to verify that the applicable fees have been received before a permit is issued.

The DEP should comply with Section 22a-10 of the General Statutes when applicants are eligible for refunds. (See Recommendation 9.)

Agency Response: "The Department partially agrees with the finding and will take steps to more effectively document and record any actions taken to adjust any fee amount, and will accompany such documentation with appropriate management level authorizations. In regard to the awareness of refund procedures the Department believes that in most cases the application of credits towards future fee amounts has been applied correctly in lieu of refund. Under current State regulations (e.g. 22a-430-6(o)(1); 22a-430-7(k); 22a-174-26(m)(2)) issuing a credit towards future fees is the "first course of action" (22a-430-6(o)(5)). However, in order to provide a more complete audit trail of issuing credits in lieu of refunds, the Department will work to document the application of credits more clearly."

Accounts Receivable – Cleanup of Emergency Spills:

Background: Pursuant to Section 22a-451, subsection (a), of the General Statutes, the DEP funds emergency cleanups of spills. If a responsible party is identified, the DEP bills the responsible party for any payments made by the DEP on the spillcase, an allowable administrative charge and an interest charge, which is calculated from the date of the DEP's payment of expenditures.

Criteria: Section 22a-452a, subsection (a), requires that for spillcases for which repayment is not received, liens are to be executed against the real estate on which the spill occurred or from which it emanated.

The DEP's cost recovery procedures for emergency spills require the DEP to first negotiate with the responsible party in an effort to collect all remediation costs and send an initial collection letter within 45 days of the DEP having paid an invoice. If no payment is made, a second collection letter is sent within 60 days from the date of the initial collection letter.

Court ordered judgments should be enforced.

Condition: In our sample of 25 spill cases, we found that five cases appear to be appropriate for application of a lien since the responsible party is known, the spill occurred on the responsible party's property, and the dollar value of the case warrants the additional cost of placing a lien. However, the DEP has not initiated the placement of a lien through a referral letter to the Attorney General's office.

Also, out of 913 open cases as of March 27, 2000, only six cases have had property liens recorded and only an additional 38 are identified as lien candidates.

The DEP does not have any standard written procedures for the placement of liens.

In our sample of 25 spill cases where a responsible party was known, four cases were not billed to a responsible party within 45 days of DEP paying an invoice. The number of days late ranged from nine to 320 days.

Also, twelve spill cases were not sent second demand letter within 60 days after the first demand letter was sent and not paid. The number of days late ranged from 15 to 439 days.

In our audited period nine cases were set up as repayments. Five of these cases had not received payments as stipulated.

Effect: Since liens are not being placed against the property, there is no incentive for the responsible party to pay the outstanding amounts owed.

The collection of receipts could be delayed if billings are not being made in a timely manner and judgments are not enforced.

Cause: The DEP has stated that the placement of liens is a complicated process that requires the proper notifications and hearings. The DEP will only resort to the placement of a lien in very specific cases.

The DEP has stated that its focus for the Cost Recovery Unit has been on the conversion of the old database from Dbase to ACCESS 97. As of our testing in April 2000, this conversion was still underway. The DEP believes that the new system will rectify the amount of delays. The delay in billings could be attributed to the manual system that was in place during the audit review period. The DEP management has also stated that the policy for demand letters and the timeframe for sending those letters may not address particular issues that would slow down the process.

The DEP stated that one court ordered payment may have been received by the Attorney General's office and not forwarded to their agency. It could not be determined why the DEP was not following up on court ordered judgments.

Recommendation: The DEP should consult the Attorney General's Office and develop and follow standard, written procedures for liens as required by Section 22a-452a of the General Statutes.

Accounts receivable procedures should be improved to ensure that demand letters are sent within the required time period of DEP having paid an invoice.

Court ordered judgments should be enforced. (See Recommendation 10.)

Agency Response: "The Department partially agrees with the finding and intends to pursue legislation in the next session to clarify the application of liens to spill cases and will work with the Attorney General's Office to clarify procedures between the agencies regardless of the proposed legislative change. The Emergency Spill Response Office has made changes to its database system and is currently testing that system for effectiveness in expediting the collection of outstanding recoveries."

Accounts Receivable – Permits on PAMS:

Criteria: Good business practice requires that:

- Payments applied to accounts receivable records reflect only payments for which money was actually received;
- Amounts owed to the State be collected in the most effective and efficient manner;
- Written collection procedures be developed for all accounts that are more than 30 days past due; and
- Evidence of collection efforts is available at the agency to support classifying an account as uncollectible.

Good internal controls provide assurance that:

- Individual receivable records are posted only from authorized source documents;
- Aged accounts receivable balances be periodically reviewed by supervisory personnel; and
- The responsibilities for maintaining the accounts receivable records are segregated from collections.

Condition:

Payments that did not reflect actual receipts were applied to long outstanding invoices in the DEP's PAMS. Applying these payments closed the invoices, thus preventing PAMS from generating new invoices for the unpaid balance. (If a payment is not made on an invoice, the PAMS generates a new invoice. The balance on the original invoice remains outstanding). The DEP identified these payments by applying a payment code that categorized the invoices into one of three statuses: being reviewed by the bureaus, referred to the Department of Administrative Services or the Attorney General's office for collection, or deemed uncollectible. During the period October 1997 to September 1999, 293 invoices totaling \$520,000 were applied these payments.

The DEP has no procedures to routinely monitor the status of the invoices once they were closed. Moreover, PAMS was not programmed to generate a report that contained a list of the invoices that were applied such payments until our request for such information.

The employees with PAMS access to apply these payments are the same employees that receive and enter actual payments. The DEP stated the program staff makes the determination on the application of these payment codes, yet there was no written documentation to support the requests to enter the payment codes.

Effect:

Failure to monitor and pursue aged accounts receivable can result in lost revenue. Inadequate separation of duties between the person responsible for maintaining the accounts receivable records and applying collections creates a high risk environment for fraud.

Cause:

There is a weakness in the PAMS that it continues to generate new invoices unless a payment is entered to close the invoice. The DEP stated that they applied these types of payments after a review of long outstanding invoices. Written procedures were not established because the applications of these types of payments were not a routine process.

Recommendation:

The DEP should seek a resolution to the problem of PAMS continually generating new invoices. The DEP should establish written

procedures for removing, monitoring and collecting past due balances. (See Recommendation 11.)

Agency Response: “The Department partially agrees with the finding and will take steps to more clearly document the status of all current and outstanding invoices. The Department will seek to more clearly document managerial level sign-off for each acceptable invoice type and status (such as “bureau review”, “attorney general review” or “uncollectible”). The Department will also review the rebilling process, the generation of new invoices and the process to close an invoice. Currently bureau program staff have no problem with the various invoice status codes, which are required due to the complex nature of permit status review. Permits often require detailed program review to make decisions on complex changes in the status of a permit. Program review requires that the invoice be placed under “bureau review” but not “closed-out”. The Department prefers to not formally “close-out” an invoice until it makes a determination after a bureau review. The department will document more explicit procedures to make this process clearer.”

GAAP Reporting for Receivables:

Criteria: The State Comptroller’s Office annually requires each State agency to submit GAAP Closing Packages to enable the State Comptroller to prepare accurate financial reports in accordance with generally accepted accounting principles (GAAP). The State Comptroller requires that receivables and amounts estimated to be uncollectible as of each June 30th be reported on GAAP reports.

Condition: We could not rely on the amount reported as a receivable since the amount reported from their Dbase system did not agree with the amounts reported on the ACCESS 97 system and the DEP did not reconcile these two amounts. The difference between the two systems was \$385,252. The GAAP report also did not include 28 cases totaling \$37,988 that were written off on July 1, 1999, and included one case that was previously written off in April 1998. The amount reported as collected in the months of July and August did not agree with the supporting documentation the DEP supplied nor did it agree with the DEP’s State Agency Appropriation Accounting System (SAAAS) reports. This amount was \$1,000.

Effect: The DEP’s financial reporting of receivables, uncollectible balances, and amounts collected were inaccurate for the spill recovery system.

Cause: The DEP is in the process of converting their accounts receivable system from a Dbase to ACCESS 97 system and therefore has not reconciled the differences between the two systems. The DEP did not use the proper date for cases that were written off by the

Commissioner on July 1, 1999. It could not be determined why a case that was written off in April 1998 was included as a receivable. The supporting documentation for amounts collected was inaccurate because the amount of \$2,043 was shown under two different status codes. Also, amounts were posted incorrectly on SAAAS.

Recommendation: The DEP should ensure that financial reporting of receivables and uncollectible balances are accurate. (See Recommendation 12.)

Agency Response: “The Department agrees that the spill recovery system requires changes to reconcile more effectively with the annual GAAP report. Changes to that system have been made and are currently being tested.”

Purchasing/Expenditures:

Criteria: Section 4-98 of the General Statutes states that no budgeted agency may incur any obligation except by the issue of a purchase order and a commitment transmitted to the State Comptroller.

Payments should be made in accordance with contractual requirements.

Condition: When testing payments of the Emergency Spill Response Fund, we found a purchase order had been issued to a vendor after the work had been performed. Upon further review we found that for purchases relating to emergency spill cleanup, the purchase order is always issued upon receipt of the contractor’s invoice.

A review of 26 personal service agreements and their amendments revealed that five or 20 percent of the contractors began work prior to the commitment of funds. The dollar value of the work is approximately \$15,255.

Our previous audit revealed that the DEP paid a vendor Federal taxes even though the contract specification specifically stated that the State of Connecticut is exempt from paying State and Federal taxes. We found an instance where the DEP is still paying for taxes even though the State is exempt from paying those taxes.

Effect: There is noncompliance with Section 4-98 of the General Statutes. Payments are approved with knowledge of contract requirements.

Cause: The Purchasing and Cost Recovery Units of the DEP have informed us that contractors for on-call emergency spills only require a verbal authorization from the DEP to commence work and a purchase order is completed once the DEP receives an invoice from the contractor. Also, because of the nature of these expenses (i.e., emergency spills),

it would be difficult to adhere to issuing a purchase order prior to work being completed.

The DEP does not adequately plan to have personal service agreements in place or amended prior to the start of the work.

The management of the DEP has not notified persons approving invoices that contract requirements specifically state that the State is exempt from paying taxes.

Recommendation: The DEP should seek an exemption from the purchasing regulations for emergency spills. Statutory requirements should be followed for personal service agreements. Terms of contracts should be followed. (See Recommendation 13.)

Agency Response: “The Department agrees to seek an exemption from purchasing regulations for processing orders related to emergency spill cleanup cases.”

Inventory and Reporting:

Criteria: Section 4-36 of the Connecticut General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller and an annual report of all property that is in the custody of the department must be reported accurately annually.

For reporting, the State Property Control Manual states that the “property control system must include a control account for each reportable category on the annual Form CO-59, Fixed Assets/Property Inventory Report/GAAP Reporting Form and a detailed subsidiary record for each individual item in the category.” The Manual also states that the “dollar value and a brief description of site improvements made should be recorded.”

The State Property Control Manual also specifies that:

- “A complete physical inventory of all property must be taken at the end of the fiscal year to ensure that property control records accurately reflect the actual inventory on hand...”
- Operating lease property should only be reported up to the “total value for which the State is obligated for insurance purposes.”

Condition: Amounts reported on the Form CO-59, Fixed Assets/Property Inventory Report/GAAP Reporting Form are not supported, and others are incorrect.

- The amounts reported for buildings, land and site improvements were incorrect. We were informed by the DEP that the State Comptroller notified them on February 28, 2000 of this fact. The DEP did not include all of the expenditures made by the Department of Public Works (DPW) on DEP properties.
- The DEP does not maintain a detailed subsidiary ledger for site improvements. The DEP stated that they only maintain copies of the additions for each year.

Our physical inspection of inventory revealed:

- The DEP was unable to produce documentation to show that annual physical inventories are conducted at various sites.
- Non-capital leased equipment is carried on the inventory at full value. Also, the leases are still carried on the inventory even though the leases are no longer in effect.
- We tested 50 inventory items. Locations and/or descriptions for five items on the inventory were incorrect on the official inventory records. One item with a value of \$5,000 was also listed on the Fine Arts Inventory listing.
- We found a scanner with a value of over \$8,000 that was purchased in 1997 was still unopened in the original packaging.

Effect: The amounts included on the Form CO-59 and used for determining adequate insurance coverage are understated.

Cause: The Department of Public Works and Land Acquisitions Unit of the DEP sometimes fail to notify the DEP of additions/deletions to buildings, land and site improvements.

The DEP has not established adequate procedures for the reporting and control of equipment inventory.

Recommendation: The DEP should follow the policies and procedures outlined in the Comptroller's Property Control Manual for reporting buildings, land, and site improvements. Physical inventories should be documented. The official inventory records should be accurate. (See Recommendation 14.)

Agency Response: "The Department agrees and will continue to correct inaccuracies in the current inventory system. The Department will also continue to research new automated inventory control systems that may be applicable to the Department's needs."

Portraits, Paintings and Museum Articles:

Background: The DEP has in its possession various portraits, paintings and museum articles. The total of these items as shown on the DEP's property

inventory report, submitted to the State Comptroller's Office, at June 30, 1999, was \$570,864.

Criteria: The State Comptroller's "Property Control Manual" requires that an appraisal of portraits, paintings and museum articles be made within a maximum period of every five years for items over \$10,000.

Section 4-36 of the Connecticut General Statutes requires that all property that is in the custody of the Department must be reported accurately annually.

Condition: Previously, the DEP was unable to produce any documentation to indicate whether appraisals have ever been done. The DEP still does not have any documentation to support the values assigned. Recently, a limited appraisal of Oriental statues and pottery was conducted for \$1,200 at one of the State parks. The results of this appraisal revealed that 56 items that were appraised were valued at over \$100,000. None of these items were included in the \$570,864.

The \$570,864 reported has remained unchanged since at least 1993.

We visited two sites during our audited period. Our review at these sites revealed the following:

- The official inventory records used for reporting were significantly different from the records maintained by the two sites. At one site, 48 items are listed on the official inventory records, yet personnel at this same site are maintaining a partial inventory of 163 items. Of these 163 items, 56 items are included in the appraisal previously mentioned.
- We selected 20 items for physical inspections at this same site from the official inventory records. We found only one item of the 20.
- Personnel at these two sites have stated that changes have been submitted to the inventory to personnel responsible for the official records but it appears that these changes have not been recorded.
- Our review of the storage of items revealed that many items are not stored properly and may have been damaged as a result of their storage. Examples of some of the damaged items included pianos, rugs, vases and pottery.

Effect: The State does not have a true indication of the value of the various portraits, paintings and collections. As a result, valuable items may be undervalued or not included on the inventory. Losses of valuable items could go undetected.

Cause: The management of the DEP does not seem to place a high priority on accurately reporting the value and storage of portraits, paintings and collections in its possession.

Recommendation: The DEP should have periodic appraisals made of its various portraits, paintings and museum articles. Items recorded on the inventory for these items should be completely recorded and the value of these items should be accurately reported. (See Recommendation 15.)

Agency Response: “The Department agrees to investigate and pursue options for appraising portraits, paintings and museum articles in its possession. The Department will also look to transfer any such articles kept in storage to another (more appropriate) State agency for display and/or storage. The Department continues to believe that it does not have the resources and/or expertise to effectively assess the appraisal options or process associated with such articles, but will attempt to pursue some positive action to rectify this finding.”

Cellular Telephone:

Criteria: According to DEP’s Directive No. D2, Manual Code 5340 with regard to cellular telephones, “All calls must be approved and validated by the employee and then by the unit Director before returning the original document to the Bureau of Financial and Support Services” of the DEP.

The DEP issued an interoffice memorandum for loaner cell phones. The user of a loaner cell phone must complete a log sheet for all calls made while the cell phone is in the employee’s possession.

Condition: Monthly cellular phone bills do not always receive approval by the Unit Director. The amount of these bills average \$8,600 per month.

The DEP was paying for three cell phones for several months that were no longer being used.

Fourteen cell phone bills could not be located for the months of January and June 1999.

When we selected one employee who used a loaner cellular phone we found that the log sheet was not maintained.

Effect: Cellular telephones may be misused if internal controls are weak.

Cause: The DEP was not enforcing cellular telephone policies.

Recommendation: The DEP should assure itself that the uses of cellular phones are in compliance with State and DEP policies. (See Recommendation 16.)

Agency Response: “The Department agrees to document additional procedures for reviewing cellular phone use by implementing a director review and sign-off process for randomly selected cell phones each month. The director review will be in addition to the already existing review and sign-off required by each employee for each month’s cell phone bill. For loaner cell phones the agency will revise the sign-out sheet procedures for loaner phones to require the user to sign for the phone and acknowledge their requirement to maintain a cell phone log record to be returned when the loaner phone is returned. Other changes will also be made in the loaner cell phone form to clearly indicate the return date, etc.”

Program Evaluation (Previous audit):

Background: The DEP’s policy is to maintain completed forms and reports in its public file room. The procedures for obtaining a file starts with the individual requesting the file filling out a “Request for File Review” form for the appropriate DEP Bureau – Air, Water or Waste. This form is given to a file room employee and filed in a binder. The town and facility name must be listed on the form (e.g. East Hartford, Pratt & Whitney). One of the file room employees locates the file(s) and gives it to the requestor. The requestor may make copies only on the DEP copiers in the file room. A requestor may be referred to a Bureau if the information is not available in the file room.

Criteria: Pursuant to Sections 22a-134 through 22a-134e of the General Statutes, property transfers of establishments where hazardous waste was generated must file certain forms depending on the type of declaration by the transferor.

Pursuant to Section 22a-450 of the General Statutes, the reporting of spills shall be made to this agency and shall include items such as location, quantity, type of substance, the date and cause, and the name and address of the owner or person making the report.

Condition: General File Room Findings:
It appears that the agency does not have adequate control over the file room.

- The DEP has not established standard procedures for ensuring the files are complete or for tracking the location of files. The Waste Bureau still does not have an inventory of the files in the file room but is currently working on it.
- The files are not clearly labeled
- Files are not secured against loss or alteration.
- Current files are not maintained in the file room as space is limited.

Sample of Files Reviewed:

File room staff could initially only locate eight of ten forms requested. We had to provide additional information that may not be known by the general public in order for the staff to find the other two files.

Effect: The general public may not be informed of activity at a specific location (e.g. all the spills that have occurred or property transfers).

Cause: The file room is accessible to any employee in the DEP and he/she can remove or file paperwork. Because out cards are not being used many papers could be misfiled or taken for use and never returned.

Files are supposed to be kept in file cabinets by town, then establishment, then by form filing date with the latest filing first. File room staff informed us that the files may not be in this order and if the first, supposedly latest form is pulled, it could be the wrong form.

Recommendation: The file room should be restricted to file room personnel.

The DEP should implement a plan to computerize the records maintained in the file room and eliminate the public and staffs physically handling of the documents. (See Recommendation 17.)

Agency Response: “The Department agrees with this finding and is working on a set of recommended procedures to restrict File Room access to File Room Staff only. Currently only Department staff are allowed into the files; however, the intent is to restrict access even more effectively by limited access to File Room staff only. In addition the Department is taking steps to eventually computerize a significant portion of the File Room and thereby limit access to records via computer terminals and eliminate all access to handling physical files by the public.”

Internet Use and Software:

Criteria: The DEP’s policy states that all computer resources should only be used for “legitimate and authorized business purposes.”

Access controls such as a password and user identification codes ensure that only authorized personnel have access to files and systems.

The State’s Software Policy states that only authorized software should be installed on State computers.

Condition: Our review of the 100 top websites accessed through the proxy server for Internet use for the months of October 1999 through December 1999 revealed that there appears to be significant use of the Internet for other than business purposes. Some of the purposes we found were

for investing, sports, games, shopping, auctions, set up websites to do a family tree and get paid to surf the Web. We also found use of an American Online site that would require a personal account number. The DEP informed us that they do not have an account with America Online.

Our review of the top ten Internet users connected to the DEP's proxy server for the month of October 1999 revealed that these employees were on the Internet from 14 hours to 128 hours for that month. (All our information for this test was obtained from Webtrends software that the DEP uses). We asked the DEP to have the supervisors of these users respond as to how the employees' viewing of the site pertains to their job. The responses included:

-Three employees appropriately used the Internet.

-Four employees acknowledged that some of the sites visited were not job related.

-One employee was on maternity leave yet someone was able to access the Internet by using her user identification. It appears that some of these sites were not DEP related – games, advertising, America Online, moviefinder etc.

-An employee at the computer help desk left on his computer and seasonal employees accessed sites that were not job related.

-We were not able to verify one of the employee's responses. We asked the DEP for the detail of this employee's sites visited. We were informed that no detail could be obtained for the period July 1, 1999 through June 2000. The reason stated by the DEP was that the "Internet proxy server suffered a major crash in May 2000, which caused the destruction of all detailed Internet logs." The Internet proxy server prior to this period was backed up on a zip drive. Once storage on the proxy server was increased in July 1999, the DEP only maintained logs and did not do any backup routine to save these files. For the month of June, a DEP employee turned off the switch for maintaining the detailed logs so that all this detail data was also lost.

We also reviewed six employees to determine if any of them had unauthorized software on their desktops. We found that three employees had unauthorized software on their desktops. One of these three, had games, the game instructions, and scores for various games on their desktop located in a file called C:\temp.

Effect:

We were not able to complete all our audit procedures since data was lost. However, we were able to determine that State resources, such as computers and personnel time, appear to be misused.

Cause: Although the DEP has the software to determine if Internet use is occurring, the software is only used if a supervisor makes a request to monitor an employee's use of the Internet. However, it appears that requests for this monitoring are infrequent.

The DEP has not planned for nor established proper preventive controls with regard to Internet use.

The DEP appears to not have done a adequate risk assessment of their back up procedures.

The employee on maternity leave either did not password protect her computer or may have shared the password with other employees.

Recommendation: The DEP should have filters to prevent employees access to sites such as investing, sports, games, etc. Employees use of passwords and user identification codes should be for the employee's use only and access by other persons should be restricted. The DEP should periodically monitor Internet use and for unauthorized software on State computers. (See Recommendation 18.)

Agency Response: "The Department partially agrees with this finding and will take steps to correct any weaknesses in the procedures for reviewing Internet use and in the application of appropriate filters in conjunction with the Department of Information Technology's State Web Site. The Department will also take steps to alert staff to these specific findings related to user access codes and identification even though department technology directives and procedures have clearly alerted employees to these dangers.

The Department does have adequate back-up procedures for all Department related programs and data. The maintenance of Internet use data and the routine backup of such information were not maintained as part of the Department's routing back-up operations. The Department will review processes to maintain adequate backup of Internet use statistics in the future. The Department has recently implemented random monthly audits of computers for unauthorized software and will follow a routine process of notifying the appropriate supervisor and take steps to remove any unauthorized software. The Department will also implement random monthly audits of Internet use and use monitoring software to review excessive Internet use by employees and take appropriate steps to minimize such use in the future."

State Grants:

Criteria: Effective July 1, 1998, Public Act 98-143, which amended Sections 4-230 to 4-236 of the General Statutes, states that subrecipients of State assistance shall file copies of the audit report with the State grantor agency. Within this audit report, there shall be a Schedule of Expenditures of State Financial Assistance.

Condition: The DEP does not summarize for a fiscal year the amount of State assistance that was distributed to subrecipients. As a result, the DEP is not aware if it is receiving all the audit reports of its subrecipients. Therefore, the DEP is also not determining if all the financial assistance that was provided to a subrecipient is recorded on the financial statement of that subrecipient.

Effect: The DEP is not fulfilling its responsibilities regarding the State Single Audit Act.

The DEP was reviewing audit reports of entities that the DEP did not provide with assistance.

Cause: The DEP is relying on the Office of Policy and Management (OPM) to notify them if there are any problems with the audit reports. However, OPM cannot determine if all audits that the DEP should be receiving are received. Also, the OPM cannot determine whether amounts are reported accurately on the schedule of expenditures of state financial assistance.

Recommendation: The DEP should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of State Financial Assistance for each subrecipient (See Recommendation 19).

Agency Response: “The Department agrees to pursue a more comprehensive review of the schedule of state financial assistance for each recipient and subrecipient. In most instances the Department performs a detailed review as funds are initially disbursed and utilized by either the recipient or subrecipient. Procedures will be implemented to incorporate a more thorough post award review of the audit report.”

Personal Service Agreements:

Criteria: Section 4-211(b) of the General Statutes states that each state agency must submit a written evaluation of a consultant’s performance to the Office of Policy and Management (OPM) upon completion of their work.

- Condition:* A review of 22 personal service agreements and their amendments revealed that the DEP failed to submit a written evaluation for all of the personal service agreements that we reviewed.
- Effect:* There is noncompliance with the General Statutes. It cannot be determined whether the work performed by the consultant was satisfactory.
- Cause:* The DEP stated that a written evaluation is submitted to OPM only if the contract required OPM's approval (The contract period is over one year or the contract is greater than \$50,000).
- Recommendation:* Statutory requirements for personal service agreements should be followed. (See Recommendation 20.)
- Agency Response:* "The Department agrees to follow-up with routine contractor evaluations at the conclusion of every contract."

Telephone Charges:

- Criteria:* Section 3-117 of the General Statutes allows the Commissioner of Administrative Services to charge to the agency's appropriation for telecommunication services prior to the agency certifying this charge. This statute also states that each State agency has 30 days after its is notified of its telecommunication charges to review the charges and certify that the services were provided to the agency. Prior to paying any bill, the agency is responsible for reviewing the charges for appropriateness and accuracy. Also DEP's Directive D1, Manual Code 5340 states that "All directors are responsible for approving and validating calls charged to their division's telephones."
- Condition:* There is no review of the monthly telephone bills. These telephone bills average \$50,000 a month or \$600,000 per fiscal year.
- Our review of the Turn In Poachers (TIP) hotline for the month of March 2000 revealed that 515 calls were received on that telephone line. However, only 37 complaints were logged in as Turn In Poachers activity.
- Our review of calling cards revealed that five calling cards for employees who were no longer employed by the DEP had not been canceled.
- Effect:* Internal controls are weakened when expenditures are not reviewed for appropriateness. By not reviewing the telephone bills, the DEP could be charged for calls that they did not make. Also, by not reviewing the telephone charges inappropriate charges could be made.

Cause: Telephone bills are not distributed to directors who are responsible for approving and validating calls that are charged although these bills are available for review in the Accounts Payable section of the DEP.

There is no mechanism to notify employees responsible for paying calling card bills that an employee has separated from the DEP.

Recommendation: The DEP should review the monthly billing for telephone charges for appropriateness. Calling cards should be canceled once an employee has terminated his/her employment (See Recommendation 21).

Agency Response: “The Department agrees to implement a more detailed review of monthly telephone charges and more effectively coordinate the cancellation of telephone calling cards as employees terminate. The Department plans to implement an audit review of monthly phone bills at the director level for a combination of the highest monthly bills and a randomly selected number of phone bills (each month). The Department will also modify procedures for cancellation of calling cards upon employee termination.”

Reporting Systems:

Criteria: Section 26-15a of the General Statutes requires the DEP to submit a report each year on February 1. This report is submitted to the joint standing committee of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies. This report should include, for the twelve-month period ending the preceding September thirtieth, the amounts of federal funds for the Fish and Wildlife Restoration programs that were received by the DEP, the amount of such funds expended and the purposes for which such funds were expended.

Condition: The DEP could not provide us with a copy of this report.

Effect: Statutory requirements are not followed.

Cause: The DEP has stated that the necessary information is disseminated during several meetings and discussions with the legislature during the session.

Recommendation: The report that is required by Section 26-15a of the General Statutes should be prepared. (See Recommendation 22.)

Agency Response: “The Department agrees to prepare and submit the report as required by C.G.S. Section 26-15a.”

Access to EDP systems and Separation of Duties:

Criteria: Access to the Automated Personnel Database System (APDBS) should be limited to employees involved in personnel or payroll. Access also should be limited in such a manner that the employees involved in personnel matters do not have access to the payroll.

Condition: We obtained the various levels of access that employees at the DEP have to the APDBS. We found that 38 employees had full access to this system. Full access is defined as the “users have full rights to all modules of APDBS”. Of these 38, seven employees were no longer employed by the DEP. The DEP was not aware that these employees still had access to the system.

A Personnel Officer 2, whose prime function is to oversee the payroll unit, can perform all payroll functions including the sign off of the payroll. This employee also performs some personnel functions. The personnel functions include 301’s (The form that documents the rate of pay for an employee) for the Bureau of Financial Management, reclassifications of jobs, separations payments of employees, etc. This employee also has full access to all systems: MSA- Comptroller payroll, APDBS – DEP Personnel and Payroll, and CATER.

Effect: Internal controls are weakened when access to systems is not limited.

When there is no separation of duties between the payroll and personnel functions, the employee has the ability to influence the entire process.

Cause: The DEP does not periodically review security levels of the system.

The DEP does not believe that there needs to be a separation of duties between payroll and personnel as evidenced by their organizational chart of the Human Resource Division.

Recommendation: Only necessary employees should have access to systems. There should be a separation of duties between the personnel and payroll functions. (See Recommendation 23.)

Agency Response: “The Department agrees to review employee access to automated data systems and appropriately limit such access in the future.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- Procedures should be established and followed for the accountability of all fees collected at State Parks and should include the reconciling of ticket sales to deposits. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 1.
- Accountability Reports should be prepared for Agency fees. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 2.
- Revenue coding should be changed and made more uniform. Coding should be correlated to fees contained in the General Statutes. This recommendation was not implemented during our audit period and is repeated as Recommendation 3.
- Complete records should be maintained of all individual fees collected and all individual applications, permits and other fee sources. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 4.
- The Agency should develop written procedures that would require adequate attempts at collecting late fees and should comply with the fee rates set forth in the Regulations for State Agencies. If it is felt that the rates are unreasonable, the Regulations should be revised. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 5.
- Deposits should be made in compliance with Section 4-32 of the General Statutes. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 6.
- Procedures should be established and followed to ensure the proper rental of State forest buildings and collection of rent thereon. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 7.
- Accounts receivable records and procedures related to emergency spillcases should be improved to ensure accountability. The Agency should consult the Attorney General's Office and develop and follow standard, written procedures for liens required by Section 22a-452a of the General Statutes. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 10.
- The DEP should ensure that the financial reporting of receivables and uncollectibles balances is accurate. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 12.
- The controls over the purchasing procedures should be reviewed by the Agency. The various divisions within the DEP should be reminded of these procedures as well as the applicable General Statutes and State Purchasing Regulations. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 13.

- The Department should follow statutory requirements governing personal service agreements. Since we found other statutory exceptions for personal service agreements, this is being repeated as Recommendation 20.
- The Department should improve controls over the inventory of firearms. The number of firearms should be reviewed periodically to determine if the firearms remain necessary to the Agency. If warranted, the excess firearms should be disposed of. This recommendation has been implemented.
- The Department should follow the policies and procedures specified in the State Property Control Manual for the control of inventory. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 14.
- The DEP should have periodic appraisals made of various portraits, paintings and museum articles. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 15.
- The DEP should not be aiding Turn in Poachers by receiving and processing its receipts and should not prepare any of TIP's records and reports unless provided for in a formal agreement. This recommendation has been implemented since the DEP no longer receives and processes the receipts of TIP and does not prepare any records or reports for TIP.
- Cellular telephone logs should be maintained to permit the control of telephone usage and determination of charges for personal use. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 16.
- The file room should be restricted to file room personnel. The file room staff should have, for property transfers, a listing detailing, in alphabetical order, the towns, establishments, addresses, forms filed and dates of all the files located in the file room. This listing should also be available to cross-reference the public's request for a form filing. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 17.

Current Audit Recommendations:

- 1. Procedures should be established and followed for the accountability of all fees collected at State Parks and should include the reconciling of ticket sales to deposits. (See Recommendation 1.)**

Comment:

We were still unable to account for numerous unused tickets at several State parks and therefore were unable to reconcile ticket sales. We also noted that in four instances, the Licensing and Revenue Division in DEP was adjusting Field Deposit Reports to tie into deposits.

2. Accountability Reports should be prepared for DEP fees.

Comment:

Although accountability reports are now being prepared for some of the fees, the DEP should prepared accountability reports for all fees.

3. Revenue coding should be changed and made more uniform. Coding should be correlated to fees contained in the General Statutes.

Comment:

In many instances various fees are coded to the same revenue account. Although the DEP has developed its own coding within each revenue account to designate the individual fee types, this coding is not readily correlated with fees contained in the General Statutes.

4. Complete records should be maintained of all individual fees collected and all individual applications, permits and other fee sources.

Comment:

We were unable to obtain complete lists of applicants, permits, etc. and/or those entities that should have been paid the required fees for applications, permits, etc.

Records for fees that were not made part of the centralized billing and collections, such as pesticide registration, the Property Transfer Program, and the Licensed Environmental Professional Program are not adequately maintained. We were unable to reconcile the fees to the SAAAS. Receipt dates were not always recorded.

5. The DEP should develop written procedures that would require adequate attempts at collecting late fees and compliance with the fee rates set forth in the Regulations for State Agencies. The Commissioner should authorize internal credits of \$1,000 or less. If it is felt that the rates are unreasonable, the Regulations should be revised.

Comment:

The DEP did not pursue collection of late fees, and in some cases, applicants were not billed for applicable late charges. When applicants did receive invoices containing late fees, their payment submitted did not include the late fees. When the DEP did not pursue the collection of the late fee, an internal credit was issued without the approval of the Commissioner.

6. Deposits should be made in compliance with Section 4-32 of the General Statutes.

Comment:

We found 175 receipts totaling \$679,810 in the DEP's various offices and Divisions that were deposited between one and 16 days late.

7. Procedures should be established and followed to ensure the proper rental of State forest buildings and leases and the collection of rent thereon.

Comment:

Our review revealed several internal control weaknesses in this area. We found that DEP employees occupying State-owned facilities ceased paying rental fees without the required approval of the Commissioner. The DEP also did not obtain required approvals from the State Properties Review Board and did not require a formal lease agreement for a non-DEP employee. The DEP is not always obtaining evidence of property insurance coverage. The DEP does not pursue collection of past due rent.

8. The DEP should take legal action since Mohawk is not complying with the terms of its lease. Due dates of lease payments should be enforced. Collection procedures for outstanding balances should be established.

Comment:

We found that Skier Services Inc. has been operating on the premises leased by Mohawk since the lease agreement was signed. The DEP has been aware of this violation of the lease and has not taken any action. We found that Mohawk has been in arrears with lease payments since 1990. As of December 31, 1999, this amounts to at least \$130,000.

9. Controls should be implemented that require bureaus to verify that the applicable fees have been received before a permit is issued.

The DEP should comply with Section 22a-10 of the General Statutes when applicants are eligible for refunds.

Comment:

The Bureau of Air Management issued five general permits to the Department of Corrections, who did not submit the required registration fees. The Bureau of Water Management waived an application fee for the DOT without legal authority to do so. The DEP does not refer applicants who were entitled to refunds to the Comptroller. Instead, internal credits are issued for subsequent applications. Internal credits are not adequately documented in the DEP's PAMS.

- 10. The DEP should consult the Attorney General's Office and develop and follow standard, written procedures for liens as required by Section 22a-452a of the General Statutes.**

Accounts receivable procedures should be improved to ensure that demand letters are sent within the required time period of DEP having paid an invoice.

Court ordered judgments should be enforced.

Comment:

We again noted that the DEP does not have standard written procedures for the placement of liens. We also found that the DEP is not always billing responsible parties for spills within 45 days of the DEP paying an invoice. We also found cases where a second demand letter was not sent within 60 days after the first demand letter was sent and not paid. We also found that for five cases that were set up as repayments, payments had not been received as stipulated.

- 11. The DEP should seek a resolution to the problem of PAMS continually generating new invoices. The DEP should establish written procedures for removing, monitoring and collecting past due balances.**

Comment:

The PAMS system continually generates an invoice until a payment is applied. In order to close a long outstanding invoice, the DEP was applying a payment code to close the invoice. The same employees who apply actual payments were also applying the payment codes to close invoices. The DEP also had no procedures to monitor these invoices once the invoice was closed.

- 12. The DEP should ensure that financial reporting of receivables and uncollectible balances are accurate.**

Comment:

We noted that reported receivables and uncollectible amounts were reported incorrectly on GAAP reporting packages.

- 13. The DEP should seek an exemption from the purchasing regulations for emergency spills. Statutory requirements should be followed for personal service agreements. Terms of contracts should be followed.**

Comment:

We found when payments are made from the Emergency Spill Response Fund for work performed in cleanups, purchase orders are issued to a vendor after the work is performed. We also found instances for personal service agreements and their amendments when the contractor began work prior to the commitment of funds.

- 14. The DEP should follow the policies and procedures outlined in the Comptroller's Property Control Manual for reporting buildings, land and site improvements. Physical inventories should be documented. The official inventory records should be accurate.**

Comment:

Our review of the Form CO-59, Fixed Assets/Property Inventory Report/GAAP Reporting Form are not supported for site improvements. Amounts reported for buildings, land and site improvements were also incorrect.

The DEP was unable to produce documentation that annual physical inventories are conducted at various sites. Non-capital leased equipment is carried at full value even though it could be carried at less than full value. Also, some leases are still on the inventory even though they are no longer in effect.

- 15. The DEP should have periodic appraisals made of its various portraits, paintings and museum articles. Items recorded on the inventory for these items should be completely recorded and the value of these items should be accurately reported.**

Comment:

The DEP has reported the same value of its various portraits, paintings and museum articles at \$570,864 since at least 1993. A recent appraisal of 56 items valued these items to be worth over \$100,000. These items are not included in the \$570,864. The official records of the DEP significantly differ from records maintained at the two State parks we visited.

- 16. The DEP should assure itself that the uses of cellular phones are in compliance with State and DEP policies.**

Comment:

We found that although the DEP requires its Unit Directors to approval monthly cellular phone bills of its employees, Unit Directors are not conforming to this policy. The DEP was paying for three cell phones that were no longer being used by employees. Fourteen cell phone bills could not be located for two months tested.

- 17. The file room should be restricted to file room personnel.**

The DEP should implement a plan to computerize the records maintained in the file room and eliminate the public and staffs physically handling of the documents.

Comment:

We again noted that the Agency does not have adequate control over the file room. The DEP has not established procedures for ensuring that the files are complete or for tracking the location of files. Files are not secured against loss or alteration.

- 18. The DEP should have filters to prevent employees access to sites such as investing, sports, games, etc. Employees use of passwords and user identification codes should be for the employee's use only and access by other persons should be restricted. The DEP should periodically monitor Internet use and for unauthorized software on State computers.**

Comment:

We found significant non-business use of the Internet by employees. We found instances were other employees used others passwords to gain access to the Internet. We also found unauthorized software on State computers.

- 19. The DEP should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of State Financial Assistance for each subrecipient.**

Comment:

Since the DEP is not summarizing for a given fiscal year the amount of State assistance that is distributed to subrecipients. Therefore, the DEP is not aware if it is receiving all the audit reports from its subrecipients and whether amounts distributed have been properly reported in those subrecipients audit reports.

- 20. Statutory requirements for personal service agreements should be followed.**

Comment:

The DEP does not submit a written evaluation of a consultant's performance to OPM upon the completion of work by the consultant.

- 21. The DEP should review the monthly billing for telephone charges for appropriateness. Calling cards should be canceled once an employee has terminated his/her employment.**

Comment:

The DEP is not reviewing monthly telephone bills. Five calling cards for employees no longer working at the DEP had not been canceled.

- 22. The report that is required by Section 26-15a of the General Statutes should be prepared.**

Comment:

The DEP was unable to provide us with this report.

23. Only necessary employees should have access to systems. There should be a separation of duties between the personnel and payroll functions.

Comment:

We found that seven employees still had access to the APDBS even though they were no longer employed by the DEP.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Environmental Protection for the fiscal years ended June 30, 1998 and 1999. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Environmental Protection for the fiscal years ended June 30, 1999 and 2000, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Environmental Protection complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Environmental Protection is the responsibility of the Department of Environmental Protection's management. As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1998 and 1999, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the lack of preparation of accountability reports for revenue; the inadequacies in the maintenance of records for revenue and accounts receivable; inadequate attempts at the collection of late fees and the removal of those late fees by issuing internal credits; failure to ensure collection of all rental income on State forest buildings and leases; issuance of permits prior to verification of that the fee is received; deficiencies in the PAMS system whereby invoices are removed from the system; purchasing and expenditures processes; inventory records and reporting; computer usage and access; inadequate subrecipient monitoring; and inadequate reviewing of telecommunication bills.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

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

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

CONCLUSION

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

JoAnne Sibiga
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts