

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
DEPARTMENT OF ENVIRONMENTAL PROTECTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

**AUDITORS OF PUBLIC ACCOUNTS  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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February 2, 2005

**AUDITORS' REPORT  
DEPARTMENT OF ENVIRONMENTAL PROTECTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

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, 2002 and 2003. 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.

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.

Arthur J. Rocque, Jr. served as Commissioner for 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  |
| Receipts            | \$785 in fiscal year 2001-2002 and none in fiscal year 2002-2003   |
| Expenditures        | \$132,048 in fiscal year 2001-2002 and \$109,111 in fiscal year 2002-2003  |

**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 five Soil and Water Conservation 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 25-102i                 |
| 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   | 19  |
| 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. |
| Funding                | State funding for the Connecticut Hazardous Waste Management Service ceased on June 30, 2001. Therefore, the Board of Directors significantly reduced its activities including the elimination of its staff. This action effectively put it out of business July 1, 2001.  |

*Auditors of Public Accounts*

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Board of Directors            Eleven 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, 2002 and 2003, 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>2001-2002</u>            | <u>2002-2003</u>            | <u>2001-2002</u>            | <u>2002-2003</u>            |
| General Fund           | \$53,345,102                | \$ 41,603,530               | \$75,193,871                | \$78,057,685                |
| Special Revenue Funds  | 44,077,755                  | 33,764,173                  | 74,173,094                  | 70,991,328                  |
| Capital Projects Funds | 747,350                     | 716,745                     | 121,664,835                 | 38,242,705                  |
| Enterprise Funds       | <u>19,943,404</u>           | <u>33,665,869</u>           | <u>86,781,250</u>           | <u>97,208,980</u>           |
| Total Civil List Funds | <b><u>\$118,113,611</u></b> | <b><u>\$109,750,317</u></b> | <b><u>\$357,813,050</u></b> | <b><u>\$284,500,698</u></b> |

**GENERAL FUND:**

General Fund receipts are summarized below:

|                                 | <u>2000-2001</u>            | <u>2001-2002</u>            | <u>2002-2003</u>            |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Receipt Type:                   |                             |                             |                             |
| Hunting and Fishing             | \$ 2,646,493                | \$ 2,605,556                | \$ 2,388,788                |
| Air, water and waste compliance | 1,058,298                   | 1,068,766                   | 1,013,307                   |
| Civil penalties and fines       | 1,962,423                   | 1,679,839                   | 3,128,636                   |
| Federal                         | 21,918,412                  | 28,335,279                  | 20,193,645                  |
| Other grants and donations      | 21,012,998                  | 16,619,343                  | 12,246,640                  |
| Sales and rent                  | 1,460,863                   | 1,764,493                   | 1,515,015                   |
| Refunds of expenditures         | 1,504,241                   | 438,324                     | 667,001                     |
| Other                           | <u>921,110</u>              | <u>833,502</u>              | <u>450,498</u>              |
| Total General Fund Receipts     | <b><u>\$ 52,484,838</u></b> | <b><u>\$ 53,345,102</u></b> | <b><u>\$ 41,603,530</u></b> |

Total receipts increased by \$860,264 during the 2001-2002 fiscal year and then decreased by \$11,741,572 during the 2002-2003 fiscal year. Although total General Fund receipts showed a net increase of \$860,264 during the 2001-2002 fiscal year changes in several categories accounted for the increase. This increase was primarily the result of an increase in Federal receipts of \$6,416,867 and was partially offset by decreases of \$4,393,655 and \$1,065,917 in the

“Other grants and donations” and “refunds of expenditures” categories, respectively. The primary reason for the decrease reflected in “Other grants and donations” in the 2001-2002 fiscal year can be attributed to the \$6,000,000 one-time revenue transfer from the Comptroller’s Office to convert the Emergency Spill Response account, a previous State line appropriation, to a new separately funded account in the 2000-2001 fiscal year. This \$6,000,000 decrease was partially offset by increases of \$1,500,107 and \$701,856 in receipts in the Clean Air Act and the Stationary Air Emissions Monitoring accounts, respectively.

Total receipts decreased by \$11,741,572 during the 2002-2003 fiscal year. This decrease was primarily due to decreases of \$8,141,634 and \$4,372,703 reflected in the Federal receipts and “Other grants and donations” categories, respectively. These decreases were partially offset by an increase of \$1,448,797 in civil penalties and fines receipts. The \$4,372,703 decrease in “Other grants and donations” receipts was due primarily to a reduction in revenue in the Stationary Air Emissions Monitoring account and was caused by the timing of the collection of revenue.

General Fund expenditures are summarized below:

|                                     | <u>2000-2001</u>                | <u>2001-2002</u>                | <u>2002-2003</u>                |
|-------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Budgeted Accounts:                  |                                 |                                 |                                 |
| Personal services                   | \$ 35,013,705                   | \$ 33,762,250                   | \$ 33,178,301                   |
| Contractual services                | 6,320,689                       | 6,341,629                       | 3,893,810                       |
| Commodities                         | 1,126,197                       | 618,362                         | 387,698                         |
| Sundry charges                      | 803,750                         | 1,249,500                       | 2,897,732                       |
| State Aid Grants                    | 9,440                           | 57,721                          | 248,000                         |
| Land                                | 4,000,000                       | 0                               | 0                               |
| Equipment                           | 270,047                         | 555,174                         | 118,837                         |
| Capital Outlays                     | 0                               | 0                               | 3,529                           |
| Agency funds                        | 400                             | 0                               | 53                              |
| Total Budgeted Accounts             | <u>47,544,228</u>               | <u>42,584,636</u>               | <u>40,727,960</u>               |
| Restricted Accounts:                |                                 |                                 |                                 |
| Federal                             | 22,691,168                      | 23,105,283                      | 27,091,674                      |
| Other than Federal                  | 10,892,528                      | 9,503,952                       | 10,238,051                      |
| Total Restricted Accounts           | <u>33,583,696</u>               | <u>32,609,235</u>               | <u>37,329,725</u>               |
| <br>Total General Fund Expenditures | <br><u><b>\$ 81,127,924</b></u> | <br><u><b>\$ 75,193,871</b></u> | <br><u><b>\$ 78,057,685</b></u> |

General Fund expenditures decreased by \$5,934,053 and then increased by \$2,863,814 during the fiscal years ended June 30, 2002 and 2003, respectively. The primary reasons for the decrease of expenditures noted in the 2001-2002 fiscal year were that land expenditures of \$4,000,000 were made in the 2000-2001 fiscal year for the purchase of approximately 515 acres of land with funds from the Charter Oak Open Space Trust. Funds provided for this purchase in the 2000-2001 fiscal year were not provided in the 2001-2002 fiscal year. Also, expenditures for Personal Services decreased \$1,251,455 during the 2001-2002 fiscal year primarily because expenditures for the Emergency Spill Response account, formerly charged to the State General Fund were charged to the Environment Quality Fund, a Special Revenue Fund, effective July 1, 2001.

Expenditures for Budgeted Accounts decreased \$1,856,676 during the 2002-2003 fiscal year. Although budgeted account expenditures for fees for outside professional services decreased by \$2,447,819, this decrease was partially offset by the increase in expenditures of \$1,648,232 in sundry charges. This increase in sundry charges was reflected in expenditures for the transfer of State grants. Expenditure increases of \$3,986,391 and \$734,099 were noted in the Federal and Other than Federal restricted accounts, respectively.

**General Fund Restricted Accounts – Other than Federal:**

The DEP utilized 42 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 65 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 eight special revenue funds established to account for expenditures of revenues that have been restricted to specific programs. A summary of revenues 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.

| Fund:  | <u>Revenue</u>      |                     | <u>Expenditures</u> |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | <u>2001-2002</u>    | <u>2002-2003</u>    | <u>2001-2002</u>    | <u>2002-2003</u>    |
| Environmental Quality                                      | \$ 30,541,314       | \$ 19,829,051       | \$ 29,937,000       | \$ 30,727,446       |
| Conservation   | 13,421,326          | 13,891,511          | 9,944,712           | 9,516,252           |
| Low-level Radioactive Waste                                | 49                  | 0                   | 0                   | 0                   |
| Special Contaminated Property<br>Remediation and Insurance | 0                   | 16,050              | 460,000             | 0                   |
| Inter Agency/Intra Agency<br>Grants – Tax Exempt Proceeds  | 9,350               | 0                   | 247,770             | 69,384              |
| Capital Equipment Purchase                                 | 0                   | 18,573              | 784,371             | 772,779             |
| Grants to Local Governments<br>And Others                  | 105,716             | 8,988               | 32,376,858          | 29,604,198          |
| Economic Development And<br>Other Grants                   | <u>0</u>            | <u>0</u>            | <u>422,383</u>      | <u>271,269</u>      |
| Total Special Revenue Funds                                | <u>\$44,077,755</u> | <u>\$33,764,173</u> | <u>\$74,173,094</u> | <u>\$70,961,328</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>2000-2001</u>            | <u>2001-2002</u>            | <u>2002-2003</u>            |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Revenue:                        |                             |                             |                             |
| Petroleum company assessments   | \$ 11,070,248               | \$ 20,505,687               | \$ 8,000,000                |
| Air, water and waste compliance | 7,744,101                   | 7,812,718                   | 6,989,012                   |
| Accrued Tax Receipts            | 0                           | 0                           | 3,435,667                   |
| Fines and penalties             | 21,950                      | 31,100                      | 3,000                       |
| Refunds of Expenditures         | 127,158                     | 1,712,457                   | 1,032,708                   |
| Other                           | <u>586,778</u>              | <u>479,352</u>              | <u>368,664</u>              |
| Total Revenue                   | <u><b>\$ 19,550,235</b></u> | <u><b>\$ 30,541,314</b></u> | <u><b>\$ 19,829,051</b></u> |
| <br>                            |                             |                             |                             |
|                                 | <u>2000-2001</u>            | <u>2001-2002</u>            | <u>2002-2003</u>            |
| Expenditures:                   |                             |                             |                             |
| Payroll                         | \$ 9,186,441                | \$ 15,313,692               | \$ 14,501,030               |
| Contractual services            | 9,193,522                   | 2,074,057                   | 2,783,976                   |
| Other                           | <u>3,324,812</u>            | <u>12,549,251</u>           | <u>13,442,440</u>           |
| Total Expenditures              | <u><b>\$ 21,704,775</b></u> | <u><b>\$ 29,937,000</b></u> | <u><b>\$ 30,727,446</b></u> |

Total revenue increased by \$10,991,079 during the 2001-2002 fiscal year and decreased by \$10,712,263 in the 2002-2003 fiscal year. The fluctuation in revenue is primarily due to the petroleum company assessments revenue. The Comptroller credits the clean-up account at the DEP by revenue transfer when this account falls below \$5,000,000, in accordance with General Statute 22a-449, section (b).

Total expenditures increased \$8,232,225 and \$790,446 during the 2001-2002 and 2002-2003 fiscal years. The increase noted in the 2001-2002 fiscal year is primarily due to the transfer of the Emergency Spill Response Account from the General Fund to the Environmental Quality Fund, effective July 1, 2001. The decrease noted in the "Contractual Services" classification and the increase in the "Other" classification during the 2001-2002 fiscal year was primarily due to how expenditures were classified. The DEP was instructed by the State Comptroller's Office, to categorize claims for reimbursement for the Underground Storage Tank Petroleum Cleanup Program to sundry (other) expenditures instead of contractual services beginning February 2001.

State Comptroller records indicate that Fund assets totaled \$47,286,004 on June 30, 2003.

**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>2000-2001</u>     | <u>2001-2002</u>     | <u>2002-2003</u>     |
|--------------------------|----------------------|----------------------|----------------------|
| Revenue:                 |                      |                      |                      |
| Hunting and fishing      | \$ 1,695,874         | \$ 1,616,815         | \$ 2,393,660         |
| Vessel registration fees | 5,330,687            | 5,512,991            | 5,562,152            |
| Sales and rent           | 2,235,142            | 2,798,240            | 3,499,773            |
| Other                    | <u>3,367,350</u>     | <u>3,493,280</u>     | <u>2,435,926</u>     |
| Total Revenue            | <u>\$ 12,629,053</u> | <u>\$ 13,421,326</u> | <u>\$ 13,891,511</u> |
| Expenditures:            |                      |                      |                      |
| Payroll                  | \$ 5,959,865         | \$ 6,205,230         | \$ 5,594,803         |
| Contractual services     | 1,827,109            | 1,654,612            | 1,876,609            |
| Other                    | <u>2,823,757</u>     | <u>2,084,870</u>     | <u>2,044,840</u>     |
| Total Expenditures       | <u>\$ 10,610,731</u> | <u>\$ 9,944,712</u>  | <u>\$ 9,516,252</u>  |

Total revenue increased by \$792,273 and \$470,185, respectively during the 2001-2002 and 2002-2003 fiscal years. Revenue increases reflected in the 2001-2002 fiscal year can primarily be attributed to increased revenue in camps and parking receipts. During the 2002-2003 fiscal year increases were noted in the camps and parks revenue as well as in fees for fish and game licenses, permits and tags. These increases were partially offset by the reduction noted in the "Other" classification. Section (a) of Public Act 02-1 of the May 9, 2002, Special Session reduced from \$3,000,000 to \$2,000,000 the amount that the Commissioner of Revenue Services shall deposit into the Conservation Fund. These funds are received by the State from the taxes imposed under Section 22a-27h of the General Statutes, which are attributable to the sales of fuel from distributors to any boat yard, public or private marina or other entity renting or leasing slips, dry storage, mooring or space for marine vessels.

Total expenditures decreased by \$666,019 and \$428,460, respectively during the 2001-2002 and 2002-2003 fiscal years.

State Comptroller records indicate that Fund assets totaled \$20,776,788 on June 20, 2003.

**Grants to Local Governments and Others:**

The Grants to Local Governments and Others is a fund that is used by various State Departments to account for bond authorizations for grants to local governments, organizations, and individuals. In both the 2001-2002 and 2002-2003 fiscal years, the majority of expenditures made were for grants for the acquisition of open space, grants for hazardous waste, recycling facilities, and/or landfills, and grants for the residential underground storage tank program.

**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 five separate accounts. These accounts are the water pollution control Federal revolving loan account, the water pollution control State account, the Long Island Sound clean-up account, a drinking water Federal revolving loan account, and a drinking water State account. These accounts are identified by the State Comptroller as five separate Enterprise Funds: the State Account (Grants), the Federal Account (Loans), the Long Island Sound Account, the Drinking Water State Account and the Drinking Water Federal Account.

Clean Water Fund revenue and expenditure totals are presented below:

|                                | <u>Revenue</u>             |                            | <u>Expenditures</u>        |                            |
|--------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                                | <u>2001-2002</u>           | <u>2002-2003</u>           | <u>2001-2002</u>           | <u>2002-2003</u>           |
| Grants                         | \$ 758,611                 | \$ 35,376                  | \$ 29,256,961              | \$ 21,140,141              |
| Loans                          | 14,591,197                 | 19,384,487                 | 48,222,717                 | 53,396,967                 |
| Long Island Sound Account      | 214                        | 514,253                    | 790,644                    | 5,343,850                  |
| Drinking Water Federal Account | <u>4,593,382</u>           | <u>13,731,753</u>          | <u>8,510,928</u>           | <u>17,328,022</u>          |
| Total Clean Water Fund         | <u><b>\$19,943,404</b></u> | <u><b>\$33,665,869</b></u> | <u><b>\$86,781,250</b></u> | <u><b>\$97,208,980</b></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 and Drinking water Account.

**CAPITAL PROJECTS FUNDS:**

Expenditures on capital projects totaled \$121,664,835 and \$38,242,705 during the fiscal years ended June 30, 2002 and 2003, respectively as compared to \$42,940,154 for the 2000-2001 fiscal year. The large increase in expenditures noted in the 2001-2002 fiscal year can be attributed to \$80,000,000 expended for the acquisition of open space by the purchase of water company land. Other expenditures were mainly for land acquisitions, improvements to State parks, dam repairs, flood and erosion control projects, and improvements to State recreational facilities. In addition to expenditures charged for capital projects, expenditures were also charged to Capital Projects funds for personnel services and other expenditures.

**TRUST FUNDS:**

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

| <b>Fund</b>                                 | <b>Purpose</b>  |
|---|---|
| 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:

| Fund:  | <u>July 1, 2002 through June 30, 2003</u> |                           | <u>Fund Balance*</u>      |
|--|---|---------------------------|---------------------------|
|  | <u>Receipts</u>                           | <u>Disbursements</u>      | <u>June 30, 2003</u>      |
| Culpeper                                       | \$ 6,394                                  | \$ 79,200                 | \$ 112,799                |
| James L. Goodwin                               | 9,304                                     |                           | 232,256                   |
| Hopemead                                       | 1,140,657                                 | 939,352                   | 1,812,802                 |
| Kellogg  | 607,708                                   | 717,243                   | 950,946                   |
| Eastern Tribe Pequot Indians                   | 1,194                                     |                           | 28,998                    |
| Topsmead                                       | 396,317                                   | 370,895                   | 1,808,505                 |
| Wagner-Firestone                               | 7,031                                     |                           | 170,764                   |
| Flora Werner                                   | 14,478                                    |                           | 351,604                   |
| John J. White and White<br>Memorial Foundation | <u>1,168,799</u>                          | <u>1,175,456</u>          | <u>2,818,434</u>          |
| <b>Total</b>                                   | <b><u>\$3,351,882</u></b>                 | <b><u>\$3,282,146</u></b> | <b><u>\$8,287,109</u></b> |

\*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.

## CONDITION OF RECORDS

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

### **Revenue – Rent of State Forest Buildings:**

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

Lease agreements between the State of Connecticut and its tenants should specify the amount of rent to be paid, the due date, and the requirements for property insurance.

Good business practices include having written lease agreements for the rental of property and procedures for the collection of delinquent payments.

*Condition:* Leases have not been updated and/or initiated for any DEP or non-DEP employees specifying such terms as rental amounts, due dates, term of the lease, lack of payment penalties, and/or property insurance requirements.

Our review of rental payments or lack thereof disclosed that DEP employees residing in Department facilities are not paying any rent nor have they since at least June 30, 1998. Because leases were not updated and/or executed, the State may have lost revenue.

We reviewed the account statements for eight non-DEP employees residing in Department facilities and found that seven were currently being billed a rental charge per month. However, our review disclosed that as of February 5, 2004, five non-DEP employees had \$77,550 in outstanding rental amounts, of which \$70,530 was over 90 days past due. The one non-DEP employee not being assessed a rental fee per month has not been billed because he has occupied this property under a verbal life-use agreement.

During our review, it came to our attention that there are eight additional Department facilities occupied by non-DEP employees who are not being assessed a rental fee. Two facilities have life-use agreements that

document that the tenant is not required to pay a rental fee. One facility, located at Hammonasset State Park, is occupied by a former DEP employee who was subsequently laid-off but remains in the property. This former DEP employee now works for the Department of Public Safety. Three facilities located in East Haven, although not yet in place, will have a Memorandum of Understanding with Quinnipiac University and two buildings located in Canaan have a Memorandum of Understanding with Friends of Beckley Furnace, Inc.

The DEP could not provide us with documentation that they obtained approval from the State Properties Review Board for 13 of the 16 facilities occupied by non-DEP employees.

This matter was reported to the Governor and other State officials on April 16, 2004, in accordance with Section 2-90 of the General Statutes.

*Effect:* The State is losing revenue by not charging and/or collecting rents on its rental property. The maintenance, repair and improvement account of the Conservation Fund is not receiving the funds due this account for the maintenance and repair of such rental property.

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

*Recommendation:* Leases should be updated and/or initiated for all DEP rental property. All property leased to non-DEP employees should be approved by the State Properties Review Board. The DEP should collect all amounts currently owed. (See Recommendation 1.)

*Agency Response:* “The department agrees that leases should be updated and/or initiated in a uniform and well documented manner for all agency properties. The department has completed the process of identifying which properties it will continue to maintain as rental property and which properties it will discontinue renting. The final lease agreement is complete, and final preparations are being made to distribute the lease agreement to all properties that will be continued as rental property. During the process the department also completed updated assessments of all properties, which will be the baseline from which rental amounts will be established.”

### **Equipment Inventory and Reporting:**

*Criteria:* Section 4-36 of the 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 on an annual basis. The State of Connecticut’s Property Control Manual prescribes procedures for the maintenance of equipment inventory records.

The State of Connecticut's Property Control Manual also defines land as non-expendable, real property whose title is held by a State agency. The recorded asset cost should include, in addition to the acquisition price, ancillary costs such as legal and title fees, unpaid taxes assumed, surveying and recording fees, and appraisal and negotiation fees. Assets acquired by gift are generally capitalized at their estimated fair market value at time of acquisition.

*Condition:*

Our review of the Department's CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2002 and 2003, disclosed errors in five reporting categories.

- Our review of the real property category revealed that one purchase of 26.24 acres for \$40,000, which does not include ancillary costs, was not reported on the CO-59 during our audited period. In addition, 10.5 acres of land transferred from another State agency was reported at zero cost instead of fair market value, and a donation of sixty acres of land was not reported in the fiscal year ended June 30, 2003.
- Reported amounts in the equipment and automobile categories were understated by approximately \$34,000 and contained unsubstantiated adjustments that totaled \$3,047 in the fiscal year ended June 30, 2002. Reported amounts in the equipment and automobile categories were understated by approximately \$604,000 and contained unsubstantiated adjustments that total \$60,808 in the fiscal year ended June 30, 2003. The Department has not yet removed from the inventory system approximately \$182,000 of capitalized equipment which could not be located during a physical inventory taken in 2001.
- Reported livestock was understated by approximately \$33,900 during the fiscal year ended June 30, 2003.
- Reported works of art and historical treasures contained unsupported additions of approximately \$497,000 during the fiscal year ended June 30, 2002.
- We found equipment totaling approximately \$32,000 which was not recorded on the inventory system during our test of equipment purchases for the fiscal year ended June 30, 2003.

*Effect:*

The CO-59 report cannot be relied upon for accuracy.

*Cause:*

The DEP did not appropriately adjust reported amounts in its reconciliation between the inventory system and the State Agency Appropriation Accounting System (SAAAS). Although the Department has submitted a revised CO-59 for the fiscal year ended June 30, 2003, the incorrect figures were used in the Comptroller's financial statements.

We could not determine why land was not recorded or incorrectly recorded.

*Recommendation:* The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual. (See Recommendation 2.)

*Agency Response:* "The department agrees with the recommendation, and will take steps to maintain inventory records as required by the State's Property Control Manual. Particular attention will be focused on land acquisition values, recording those values on the CO-59 report, and subsequent follow-up in documenting those values on the financial statements submitted to the Comptroller."

**Store Merchandise Inventory:**

*Criteria:* The State of Connecticut's Property Control Manual requires that a complete physical inventory of all property must be taken at the end of the fiscal year (June) to insure that property control records accurately reflect the actual inventory on hand within the fiscal year. In addition, the ending inventory of the DEP store should be reported on the CO-59 Fixed Assets Report each June 30.

The State Accounting Manual states that accountability reports or cash proofs of the total receipts as recorded in the Cash Receipts journal should be prepared to compare the moneys that were actually recorded with the moneys that should have been accounted for.

An important internal control and sound business practice for the administration of a retail store is the maintenance of an accurate perpetual inventory.

*Condition:* Our review of the Department's store operations revealed several areas of concern which are shown below:

We noted that the Department did not include the ending merchandise for sale inventory on the CO-59 Fixed Assets Report at June 30.

Our reviewed disclosed that the DEP did not record daily cash shortages or overages of the store's operations. We were informed that cash overages are kept in an envelope and are used to offset any cash shortages that may occur.

Although the Department maintains a perpetual merchandise inventory of all items on a computerized retail accounting system, we determined that this inventory is not reliable. Our review of a current listing of the merchandise inventory revealed that many items shown had negative balances. During our physical inventory of store merchandise we noted

various discrepancies between our physical count and the quantities shown on the perpetual inventory records.

*Effect:* The CO-59 Fixed Assets Report is understated.

Because cash overages and shortages are not recorded, the cause of these errors may not be identified and resolved in a timely manner.

Without accurate perpetual inventory records the Department is unable to accurately assess the store's operations and determine whether or not it is operating effectively.

*Cause:* We were informed that the MicroBiz system, a computerized system used for the store's operations, is incapable of meeting the store's needs.

We were also informed that due to staffing constraints the Department was not able to conduct a complete physical inventory of the store's merchandise for sale.

*Recommendation:* The Department should conduct, at least annually, a physical inventory of the items in the store and the dollar value of this inventory should be reported on the CO-59 Fixed Assets Report. The DEP should prepare accountability reports for the store and should record all overages or shortages. (See Recommendation 3.)

*Agency Response:* "The department agrees with this recommendation, and will take steps to perform the required physical inventory, report that information on the CO-59 report, and record daily overages and shortages in store account receipts."

**Portraits, Paintings and Museum Articles:**

*Criteria:* The State of Connecticut'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 General Statutes requires that the property in the custody of the Department having a value of \$1,000 or more be reported to the Comptroller annually.

*Condition:* The Department still has not had its portraits, paintings, and museum articles appraised.

During our verification of paintings at one site, we noted numerous paintings and other historical treasures that were not shown on any inventory listing.

We again noted that loss reports have not been filed for items not found during prior inventories and which are still missing.

- Effect:* The Department does not have an accurate value of the various portraits, paintings, and museum articles. Therefore, valuable items may be undervalued or not included on the inventory.
- Cause:* The Department claims it does not have the financial resources to have appraisals performed on its portraits, paintings, and museum articles.
- Recommendation:* The DEP should have periodic appraisals made of its various portraits, paintings and museum articles in accordance with the Property Control Manual. All artwork should be properly inventoried so that property is accurately reported. Items not found during physical inventories should be reported to the State Comptroller and the Auditors of Public Accounts. (See Recommendation 4.)
- Agency Response:* “The department continues to respond by referencing the lack of appropriate resources to perform appraisals of art and museum articles, basically the department doesn’t have expertise in these areas, and the agency has made repeated attempts to recommend constructive approaches to addressing this recommendation. For example, DEP has recommended that funding be provided to other agencies and/or offices with the appropriate expertise to oversee such appraisals for DEP and any other agency/office that may have possession of or responsibility for maintaining works of art or historical significance in order to record accurate and consistent assessments of such articles. DEP will continue to raise this recommendation with appropriate agencies to seek assistance in meeting this recommendation.”

### **Record Keeping of the Land Records:**

- Criteria:* The State’s Property Control Manual states that the property control record for land must contain, at a minimum, the following:
- Name of town
  - Town number per the State Accounting Manual
  - Location of plot (Book or Volume as recorded in the Town Clerk’s Office)
  - Date of acquisition
  - Method of acquisition
  - Complete expenditure coding (Agency, Fund, etc.)
  - Original cost (Plus other related costs)
  - Appraised by
  - Number of acres
  - Local Zoning Code
  - Additional costs (Amount, description, purchase order reference)
  - Deed (Kind, date, where recorded, where filed)
  - Date of disposal
  - Manner of disposal

-Amount received

*Condition:* Although the Department's Land Acquisition and Management Division is making an effort to conform to the requirements of the Property Control Manual, the computerized worksheet of land records being developed does not contain all the required information.

*Effect:* The Department's computerized land records are incomplete.

*Cause:* The Department does not believe that all the data required by the State Property Control Manual for the land property control record is relevant.

*Recommendation:* The Department's computerized land records should be maintained in accordance with the requirements of the State's Property Control Manual. (See Recommendation 5.)

*Agency Response:* "The department agrees with the recommendation; however, DEP will continue to work with the Comptroller's Office with regard to changes that may be appropriate to information that must be recorded for land records. The department has already had preliminary meetings with Comptroller's representatives, and follow-up meetings are planned to address this issue. Once details have been finalized, DEP will make the necessary changes to the computerized land record system being completed."

**State Grants:**

*Criteria:* Section 4-231, subsection (a)(1), of the General Statutes requires that each nonstate entity which expends a total amount of State financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year shall have either a single audit or program specific audit made for such fiscal year.

Section 2-232, subsection (b)(1), of the General Statutes requires that subrecipients of State assistance file copies of the audit report with the State agency. Copies of the report shall be filed not later than six months after the end of the audit period.

Section 4-233, subsection (b)(2), of the General Statutes states that within this audit report there shall be a Schedule of Expenditures of State Financial Assistance.

The Office of Policy and Management (OPM) provides agencies with guidelines for all grantor agencies to "review the Schedule of Expenditures of State Financial Assistance to determine that the agency's grants are properly recorded on the Schedule". In addition, OPM instructs all grantor agencies to review the Independent Auditor's Report on the Financial Statements to determine the existence of an explanatory paragraph or qualified opinion regarding substantial doubt about the

auditee's ability to continue as a going concern, as well as reviewing the cognizant (i.e., OPM) Agency's Summary of Audit Findings.

*Condition:* Our review of the Department of Environmental Protection's State Grants revealed several areas of concern which are detailed below.

We previously recommended in our audit report for the fiscal years ended June 30, 2000 and 2001, that "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. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit Reports for the Clean Water Funds."

In our current audit for the fiscal years ended June 30, 2002 and 2003, we noted that our recommendation had not been implemented. We also noted that the Department has not been reviewing the required audit reports for compliance with the State Single Audit Act and/or the guidelines as provided by the Office of Policy and Management

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

*Cause:* Desk reviews have not been completed since January 17, 2003, when the employee who was completing these reviews was laid off.

The Department has assigned a low priority for the review of audit reports of State grants.

*Recommendation:* The Department should review audit reports required by Section 4-231 of the General Statutes using the guidelines published by the Office of Policy and Management. The Department should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of Expenditures of State Financial Assistance for each subrecipient. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit Reports for the Clean Water Funds. (See Recommendation 6.)

*Agency Response:* "The department agrees with the recommendation, and even though the person that was beginning to track this information was lost during the layoffs, we are reviewing current staff assignments to reassign this work. The department continues to believe however that the most effective assessment and management of the information contained in the audit reports is at the point of authorizing payment to such entities. Reviewing the information at a much later date in an audit report serves a purpose;

however, it doesn't afford the most effective management of the dispersal and/or approval of the use of funds provided (under the grant and/or contract). The most effective management of fund disbursement is at the time the agency originally disburses the funds, not a year or more later."

**Reporting Systems:**

*Criteria:* Section 22a-134q of the General Statutes requires the Commissioner to "compile an inventory of contaminated wells and leaking underground storage tanks known to him and shall submit such inventory to the joint standing committee of the General Assembly having cognizance of matters relating to the environment not later than February 1, 1990 and annually thereafter."

Section 22a-97, subsection (c), of the General Statutes requires that the Commissioner of the DEP submit to the General Assembly and the Governor, on or before December first of each year, a written report summarizing the activities of the Department concerning the development and implementation of the General Statute chapter "Coastal Management" during the previous year.

Section 26-67c, subsection (c), of the General Statutes requires that "on or before February 1, 1995, and annually thereafter, the Commissioner of Environmental Protection shall submit a report to the joint standing committee on the General Assembly having cognizance of matters relating to the environment which sets forth for the preceding year ending December thirty-first the number of complaints received and investigations conducted along with the action taken."

*Condition:* As previously noted in our prior audit report, the Department was not submitting to the General Assembly the reports required by Section 22a-97, subsection (c), and 22a-134q of the General Statutes. We also noted that the Department did not report to the General Assembly the number of complaints received, investigations conducted, and the action taken as required by Section 26-67c, subsection (c), of the General Statutes.

*Effect:* Statutory requirements are not followed.

*Cause:* We were informed that because the report required by Section 22a-134q of the General Statutes may involve information which may be deemed confidential, the Department wants to ensure that the information supplied compiles with other legal requirements.

There appears to be a misinterpretation of Section 26-67c, subsection (c), of the General Statutes in regards to the information reported.

We were informed that the Department has requested a legislative change to subsection (c) of Section 22a-97 of the General Statutes which would remove this reporting requirement.

*Recommendation:* Reports required by the General Statutes should be prepared and submitted in accordance with the requirements of the Statutes. (See Recommendation 7.)

*Agency Response:* “The department agrees with the recommendation; reports will be prepared as required, and in the instances cited, certain reports that are no longer relevant or appropriate will be requested to be discontinued with the legislatures approval.”

**Contract concerning Harkness Memorial State Park:**

*Background:* Summer Music Inc., (SMI), a nonprofit, has had the exclusive right since 1983 to hold concerts at Harkness Memorial State Park. The DEP and SMI currently have a five-year contract in place for the 2000 to 2004 concert seasons. There has been at least one prior contract with SMI, which covered a 5-year period from 1991-1996. Our prior review covered the period since the inception of the contract beginning in 2000 through October 2002. Our current review covers the period since our prior audit through February 2004.

*Criteria:* The current contract between the DEP and SMI states that SMI must reimburse the DEP for the DEP’s actual personnel costs and expenses within 30 days, electric usage by December 1<sup>st</sup> and SMI must pay the DEP \$1.00 per full price ticket by September 1<sup>st</sup> of each season for the 2000, 2001 and 2002 seasons. For the years 2003 and 2004, SMI must pay the DEP \$1.00 for all revenue generating tickets. The contract also states that if timely reimbursements are not received, the DEP can terminate the contract.

The current contract states that SMI must have an annual audit conducted by an independent accounting firm. A copy of the audit shall be filed with the DEP no later than the first Monday in May of each calendar year.

*Condition:* SMI has been in noncompliance with the contract with the DEP since the inception of the contract. Noncompliance is as follows:

Our prior audit report noted that SMI owed the DEP a total of \$110,970 as of November 5, 2002. As of February 5, 2004, Summer Music Inc. owes the Department a total of \$105,361 of which \$104,613 is over 90 days past due. The amounts over 90 days past due include \$52,940, \$10,283, \$971, and \$40,419 for the 2000, 2001, 2002, and 2003 concert seasons, respectively. The overdue amounts consist mainly of the reimbursement of personnel costs.

Although the Department has made repeated requests to Summer Music Inc. for payment, it has not exercised its option to terminate the contract due to the lack of timely reimbursements.

The audit report for SMI for the fiscal year ended October 31, 2002, was to be filed with DEP no later than May 5, 2003. However, the DEP did not receive the audit report until July 29, 2003.

*Effect:* The DEP budget does not include funds for SMI to hold concerts at Harkness Memorial State Park. As stated by the Bureau Chief of Outdoor Recreation to SMI, “lack of payment has created a cash flow problem for the State Parks Division’s operating budget which will result in diminished services to the public.” The DEP State Parks Division’s budget is impacted since there is no revenue from SMI to match the expenditures made by the DEP.

By not receiving audit reports on a timely basis, the DEP may not be aware of any financial hardships SMI may have in holding concerts and making payments to the DEP.

*Cause:* The DEP did not enforce the terms of the contract.

*Recommendation:* The Department should collect all monies due from Summer Music Inc. and enforce the provisions of the current contract for non-payment. The Department should seek competitive bids for all future concerts at Harkness Memorial State Park. (See Recommendation 8.)

*Agency Response:* “The department agrees with the recommendation, and it can be stated that SMI has just recently made payment in full for all outstanding balances from prior years. The only outstanding amount is now only the most recent billing, which only recently was sent to SMI for the conclusion of this past summer season. We anticipate payment of this most recent billing shortly. Also, DEP has taken steps to publicly seek competitive bids for the next contract period beginning with the summer of 2005 season.”

**Public File Room:**

*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:* Good internal controls over public file room operations require that files be inventoried periodically to determine if any files are lost or misfiled, that the files should be secured against loss or alteration, and that

procedures are established for the transfer of files to the file room and employees' responsibilities with regard to the files are clarified.

*Condition:*

It appears that the DEP does not have adequate control over the file room.

- The DEP still has not established standard procedures for ensuring the files are complete or for tracking the location of files. Files are not periodically inventoried to determine if files are lost or misfiled. There is no written directive in place for the transfer of files from the various bureaus to the file room. The files that are brought into the file room do not have any listing of the contents of the file.
- Current files are not maintained in the file room, as space is limited. A tour of the file room revealed various files are stored on top of the filing cabinets even though there were empty filing cabinets with no files in them. Also, some of the more current files that should be stored in the file room are maintained in the various bureaus of the DEP because of the space problem. When the public wants a file that is located in the bureau, he/she is allowed to go to the bureau to obtain the file and bring the file back to the file room unsupervised.
- Files are not secured against loss or alteration. Files that are stored on top of cabinets are not protected from water damage. The file room manager showed us an area of the ceiling where there was water leakage. The basement where the file room is located has had a history of water leakage problems.

*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). Missing files or missing items within the file could affect legal cases if critical documentation is not in the file.

Files could be lost or altered when the public is able to obtain files from bureaus unsupervised.

Files could be damaged when they are not stored properly in file cabinets.

*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 regularly, many papers could be misfiled or taken for use and never returned.

It appears that the DEP does not place a high priority on the condition of the file room.

*Recommendation:*

The DEP 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 physical handling of the documents by the public and agency staff.

The DEP should issue a directive for the transfer of files from the bureaus to the file room.

The DEP should periodically inventory its file room to determine which files are missing or misfiled. (See Recommendation 9.)

*Agency Response:*

“The department agrees with the recommendation and plans to take steps to address both the physical file handling procedures and documentation of file transfer procedures. Ultimate computerization of the file room is a major undertaking, which is being worked-on, but will take time before being fully implemented.”

**Accounts Receivable – Cost Recovery System:**

*Criteria:*

In accordance with 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. If unpaid within the specified time period and if applicable, an allowable administrative, recovery and interest charge may also be assessed.

Section 22a-452a, subsection (a), requires that for spillcases for which repayment is not received, liens are to be executed against the real property 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 a first demand letter within 45 days of the DEP having paid an invoice. If payment is not made, a second demand letter is sent within 60 days from the date of the first demand letter. In addition, interest and administrative charges should be assessed 30 days after the first demand letter is sent and unpaid.

Court ordered judgments and agreed upon payment plans should be enforced. According to the Unit’s procedures, the system has in place a query which identifies payment plans in default and delinquent accounts and this query should be run monthly to evaluate if the responsible party is maintaining his/her payment schedule.

*Condition:*

Our review of the Department of Environmental Protection’s Cost Recovery System revealed several areas of concern which are detailed below:

Our review of 12 spillcases, for which a second demand letter was sent, disclosed that the second demand letters for four spillcases were not sent

within 60 days of the first demand letter. These four second demand letters were sent between six and 234 days after the required time period.

We noted an inconsistency in the application of administration and recovery charges between the cases sampled.

Our review of repayment schedules revealed that the Billing and Repayment reports were not automatically updated when payments were received and were not in agreement with the Billings and Delinquency reports. We noted that the Billing and Delinquency report generated on April 28, 2004, did not accurately reflect the cases that are delinquent in payments. This report showed three delinquent cases whereas the Billing and Repayment report generated on April 28, 2004, indicated 25 cases with delinquent payments. We also noted that five of the 25 spillcases did not have a documented repayment plan agreement, even though they appeared on the Billing and Repayment report as having outstanding repayment plans.

For these 25 cases reviewed, we noted that nine cases had payments in arrears and for four cases the review of the spillcase file was inconsistent with the supporting documentation received.

We again noted that the Unit still does not have standard written procedures for the placement of liens. What the Department does is to review each case individually for potential lien placement. As of June 2, 2004, the Unit determined that 90 cases are potential lien candidates.

As of April 28, 2004, there were only 11 property liens in place for the 1,806 spillcases on the system. Also, when comparing the Environmental Property Liens Recorded report to the Referred to Attorney General Environmental Unit report, we noted that the lien dates for three of the eleven were different.

*Effect:*

Information contained on the Cost Recovery System could not be relied upon in all cases.

The collection of receipts is delayed if demand letters are not sent in a timely manner, and judgments are not being enforced.

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

*Cause:*

The Cost Recovery System contained programming errors that led to inconsistent reporting.

Due to staffing constraints, the Department of Administrative Services could not perform title searches for the DEP which caused a delay in the placing of liens.

In certain cases, demand letters were not sent according to stated procedures due to additional information being received on the responsible party and/or a delay in processing information in order to bill the responsible party.

*Recommendation:* The Department should update and/or follow existing procedures for the cost recovery of emergency spillcase accounts receivable. These procedures should include the maintenance of accurate and updated records. (See Recommendation 10.)

*Agency Response:* “The department agrees with the recommendation, and with the recent reassignment of the Cost Recovery Office to the Financial Management Division, it’s expected that existing procedures will be either adhered-to where effective or improved where defective.”

**Purchase of Electronic Document Management Software:**

*Background:* On September 22, 1998, the Department of Information Technology (DOIT) issued a request for proposal (RFP) that was due October 28, 1999, for an electronic document management system (EDMS). An EDMS is a system used to create, access, and manage documents on-line. The system can then be integrated with other related systems in a department. The first objective of this RFP was to obtain electronic document software products and maintenance at a reduced rate for all State agencies. The second objective was to obtain a list of recommended integrators who would design, implement and maintain the electronic document management software. The third objective was to obtain an integrator for the Department of Labor (DOL) which had already defined the business process that would use the electronic document management software.

A Master Software License Agreement was entered into with FileNet Corporation on June 13, 2000, by DOIT.

*Criteria:* According to Section 27 of Public Act 99-225, “An Act Concerning Revisions to Certain Programs and Operations of the DEP,” the DEP is to “develop a comprehensive file management system that ensures that case files contain any and all documents important for decision-making by the agency in a particular case and any documents required by department policy.” The system was to have files maintained in a consistent manner and in an accessible format. This Act also requires the Department to have a case file database for the use of all the Department’s bureaus.

*Condition:* Our review disclosed that although the Department is continuing the development of the EDMS it has not fully implemented the system throughout the Department.

*Effect:* The Department has not fully complied with the requirements of Public Act 99-225.

*Cause:* It appears that the reason the DEP has not completed a comprehensive file and document management system for the entire agency is due to the complex nature of developing such a system.

*Recommendation:* The Department should comply with the requirements of Public Act 99-225 which requires the Department to develop a comprehensive file management system and database. This system and database should be usable by all the Department's bureaus. (See Recommendation 11.)

*Agency Response:* "The department agrees with the recommendation, and will continue working on a fully automated, electronic document management system. Progress is being made through a series of pilot projects to establish workable solutions in smaller, more manageable steps. The department continues to work towards an overall agency solution as part of a recent request for proposal currently under review that is intended to standardize information access across all programs in the department. The implementation of the RFP will take several years, but again, the approach will be to implement portions of the system as they become workable solutions."

**Record Retention Schedules:**

*Background:* The Connecticut State Library is the Public Records Office for the State of Connecticut. The State Librarian is given the authority and responsibility to administer a public records program for State agencies. This authority is found in Sections 11-8 and 11-8a of the General Statutes.

*Criteria:* Section 11-8a of the General Statutes states that State agencies have responsibilities which include inventorying all books, records, papers and documents under its jurisdiction and submitting record retention schedules to the State Library for approval. The State Library may inventory records and establish retention schedules, based on administrative need for retaining materials within agency offices.

The State Library's Records Management Manual instructs the State agencies on how to implement a Records Management Program by starting with the inventory of records.

*Condition:* Although the Department has been working towards developing schedules with the State Librarian's Office, there are several divisions within the Department, including the Land Acquisition and Management Division that still do not have record retention schedules approved by the State Librarian.

- Effect:* If record retention schedules are not developed, then the administrative, legal, fiscal, historical and research value of the records can not be determined.
- Cause:* Although the Department has been working towards developing the record retention schedules for all of its offices, it has not completed this task.
- Recommendation:* All divisions in the Department that do not have an approved record retention schedule should prepare the schedule and have it approved by the State Librarian. (See Recommendation 12.)
- Agency Response:* “The department agrees with the recommendation, and is working toward attaining full compliance from all program offices in terms of implementing records retention schedules for the entire agency. Since the date of the recommendation, another major program bureau has submitted their preliminary records retention schedule to the State Librarian’s Office for review, and the preliminary response from the State Librarian is favorable, so DEP anticipates implementation of another major program bureau’s retention schedule shortly.”

**Surveys and Debris/Contamination on State Land:**

- Criteria:* Good internal controls require written policies and procedures in the purchase of land. These controls should include survey requirements and consideration of various elements, such as contamination and cleanup of the property, prior to acquisition.
- Condition:* Although the Department has developed a written policy and has revised its property acquisition procedures to require a documented field visit prior to incurring costs, these policies and procedures were not in effect during our audited period.
- Effect:* Controls are weakened when adequate documentation to support purchases is not obtained. If a survey is not conducted before the acquisition of property, major or minor problems can go undetected until after the purchase. Encroachments on State property could also go undetected if the State is not familiar with its boundaries.
- If there is any contamination or debris on the property, a significant amount of additional cost can be incurred to cleanup the land at the taxpayers’ expense. The State bears the cleanup cost by having DEP employees or contractors hired by the DEP cleanup the properties. Also, if the DEP is not aware of items on the property, the DEP could be offering a higher price when a lower price should have been offered.
- Cause:* The DEP has previously stated that they rely on the opinion of the Attorney General’s Office as to whether the DEP made an appropriate decision regarding whether a survey is needed on a piece of property.

The DEP's employees did not always conduct field visits of properties that were being acquired. When a field visit was conducted, the visit was not always documented as to who walked the property and what observations were made regarding the property.

*Recommendation:* The DEP should implement written policies and procedures for the purchase of land. These policies and procedures should include when and what type of survey is to be conducted and require a field visit of the property prior to incurring costs for surveying and appraisals. (See Recommendation 13.)

*Agency Response:* "The department agrees with the recommendation, and anticipates that the new policies and procedures referred to in the report will begin to address many (if not all) of the shortcomings reported."

### **Personal Service Agreements:**

*Criteria:* Section 4-213 of the General Statutes requires that no State agency may hire a personal service contractor without executing a personal service agreement.

The Office of Policy and Management's (OPM) Personal Service Agreements Standards and Procedures dictate that no contractor should be working without an executed personal service agreement.

OPM defines an executed personal service agreement as an agreement that has been signed by all parties, including the Office of the Attorney General, if applicable.

Section 4-216, subsection (a), of the General Statutes states that no State agency may execute a personal service agreement having a cost of more than \$50,000 or a term of more than one year, without the approval of the Secretary of OPM.

OPM's Personal Service Agreements Standards and Procedures require that the State agency prepare a written evaluation sixty days after a contractor completes work and maintain these evaluations as part of the agency's contract file.

*Condition:* We reviewed ten personal service agreements and found that for one agreement the contractor had commenced working prior to an executed contract and that two did not have the required OPM approval.

In the first instance services totaling \$900 were rendered prior to the executing of the agreement. The contract periods for the other two agreements were from February 7, 1996, to December 31, 2002, and from September 7, 2001 to August 1, 2004, and totaled \$504,240 and \$500,000, respectively. OPM's approval is required for both the duration of the

contract (i.e. over one year) and/or the cost of the personal services (i.e. over \$50,000).

Our review of the ten personal services agreements also disclosed that, in nine instances, the Department was unable to provide documentation that a written evaluation of the contractor's performance was completed. This written evaluation is required no later than 60 days after a personal service contractor completes his or her work.

*Effect:* The DEP is not in compliance with Sections 4-213 and 4-216, subsection (a), of the General Statutes and OPM's Personal Service Agreements Standards and Procedures.

*Cause:* The Department is aware of the requirement that contracts must be fully executed prior to the commencement of work. However, this agreement was delayed inadvertently for causes unknown.

The Department did not believe that it had to obtain OPM's approval for the two agreements.

The Department's contract files did not contain a copy of the contractor's written evaluation and is unsure if these had been completed.

*Recommendation:* The Department should ensure that an executed contract is in place and that the necessary approvals are obtained prior to a contractor commencing work. Written evaluations of the contractor's performance should be prepared and maintained as part of the agency's contract file. (See Recommendation 14.)

*Agency Response:* "The department agrees with the recommendation, and has taken steps to distribute the workload associated with processing contracts, which includes obtaining approval in advance from OPM when necessary, coordinating the start of work with the program offices and obtaining program office compliance in submitting contractor evaluations."

**Telecommunications:**

*Criteria:* Section 3-117 of the General Statutes allows the Commissioner of Administrative Services to charge telecommunication service costs to the agency's appropriation prior to the agency certifying this charge. This Statute also states that each State agency has 30 days after it 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, each agency is responsible for reviewing the charges for appropriateness and accuracy.

DEP's Directive D1, Manual Code 5340, dictates that the use of State-owned telephones is reserved for official State business. Emergency notifications and other calls of minimal duration and frequency are

allowed if these cannot be made at any other time. However, costs for toll calls that are not official State business should be reimbursed to the State.

*Condition:*

We reported in our prior audit report that the Department's control over telecommunication was deficient. Our current review of telecommunication charges revealed that these deficiencies still exist. Our review of the use of calling cards, desk set extensions, and dial-in access lines disclosed the following:

Our review of the latest Active Calling Card list which was updated through January 31, 2004, disclosed that the calling cards for 32 former DEP employees had not been cancelled.

We reviewed calls made from 25 desk set extensions and noted that on nine extensions repetitive calls were being made. Upon further review of the calls made from these nine extensions we noted that the repetitive calls from one extension were business related, we could not determine if calls made from another four extensions were business related or not, and we determined that the calls made from the last four extensions were non-business related. It should be noted that some of these non-business related repetitive calls were made to an employee's home telephone which was a toll call and that the employee had not reimbursed the Department for the cost of these calls.

We previously reported in our prior audit report that the Department paid for dial-in access charges for employees that call in and do not disconnect in a timely manner. Our review of the May 2001 telephone charges disclosed that 15 employees had remained on the telephone line for periods in excess of eight hours. The telephone charges for dial-in access for the month of May was \$4,707. Our review of the dial-in access charges for May 2003, disclosed that 11 employees had remained on the line for periods greater than eight hours and that the telephone charges for dial-in access totaled \$5,833. Because of the increase in the charges for the dial-in access, we reviewed the telephone charges for dial-in access for May 2004, the latest telecommunication bill, to see if any corrective action had been taken. Our review disclosed that apparently no corrective action had been taken as both the number of employees failing to disconnect in a timely manner and the total monthly charges had increased. We noted that 18 employees did not disconnect for periods over eight hours and that the total telephone charges for dial-in access for the month of May 2004 had increased to \$7,389.

*Effect:*

The Department is not in compliance with its Directive D1, Manual Code 5340, and Section 3-117 of the General Statutes.

Internal controls are weakened when there is an inadequate review of the telecommunication charges and could lead to the possibility of inappropriate charges being made and not discovered.

*Cause:* Procedures were not established and/or followed for the handling of calling cards for terminating employees.

There appears to be an inadequate review of calls made from desk set extensions.

The Department stated that it had stopped running monthly activity reports for the dial-in access line and disconnecting the connections due to inactivity because it proved to be unfeasible. Therefore, monitoring and regulating the dial-in access line is not being done.

*Recommendation:* The Department should review the detailed phone call listings for excessive and/or repetitive calls. Calling cards should be cancelled once an employee has terminated his/her employment. The Department should reiterate and disseminate its directive on telephone usage. The Department should seek reimbursement of toll charges for the personal calls made. The Department should disconnect employee's dial-in access when there is no activity for a specified time period. (See Recommendation 15.)

*Agency Response:* "The department agrees with the recommendation. Since the audited period, the department has implemented new procedures and made program offices aware of steps necessary to record and return to the agency all equipment (including items such as calling cards) upon employee separation from the agency. The department will review existing random audit processes for telephone use to consider adding additional monthly reviews such as the highest volume or cost users. Finally, the department is currently testing several new technologies that would eliminate the current dial-in access methods, which would eliminate that specific finding."

## RECOMMENDATIONS

Nineteen recommendations were presented in our prior report. As indicated below, five recommendations have been complied with. Fourteen of the recommendations have not been resolved and are therefore repeated in this report.

*Status of Prior Audit Recommendations:*

- 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 1.
- Statutory requirements should be followed for personal service agreements. Terms of contracts should be followed. Prior to making payments for goods and services, the DEP should insure that the terms of payments are in agreement with the terms of the purchase order. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 14.
- The DEP should follow the policies and procedures outlined in the State of Connecticut's Property Control Manual and comply with Section 4-33a of the General Statutes, which specifies inventory procedures and requires the Department to promptly report the loss of State property. As insufficient action has been taken on this recommendation, it is in essence being repeated as Recommendation 4.
- The DEP should have periodic appraisals made of its various portraits, paintings and museum articles. Items recorded on the inventory should be completely recorded and their values accurately reported. Further, items not located after physical inventories should be reported to the State Comptroller and State Auditors. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 4.
- The DEP should assure itself that cellular phone usage is in compliance with State and DEP policies. This recommendation has been implemented.
- The DEP 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 physical handling of the documents by the public and agency staff. The DEP should issue a directive for the transfer of files from the bureaus to the file room. The DEP should periodically inventory its file room to determine which files are missing or misfiled. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 9.
- The DEP should have filters to limit employees' access to non-business related sites as well as periodically monitor Internet use on State computers. Also, the DEP should strengthen access controls by assigning system administrators' access to Department records. This recommendation has been implemented or otherwise resolved.

- 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 Expenditures of State Financial Assistance for each subrecipient. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit reports for the Clean Water Funds. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 6.
- The DEP should review monthly billings for telephone charges for appropriateness. Calling cards should be cancelled once an employee has terminated his/her employment. The DEP should disconnect employees' dial-in access when there is no activity for a specified period of time. The DEP should assure itself that only authorized employees have dial-in access. As insufficient action has been taken on this recommendation it is being repeated as Recommendation 15.
- Reports required by Section 22a-134q and Section 26-15a of the General Statutes should be prepared in accordance with the requirements of the Statutes. The Department should seek legislation to amend Section 22a-97, subsection (c), of the General Statutes. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 7.
- The DEP should assure itself that only authorized employees have access to the appropriate level of the Automated Personnel Database System (APDBS) and this level of access should be documented. Employees who terminate from the DEP should be removed promptly from APDBS. Each employee should have a separate user identification number. This recommendation has been resolved.
- The DEP should conduct, at least annually, a physical inventory of the items in the store and the dollar value of this inventory should be reported on the CO-59 Fixed Assets Report. All items in the store should have a Stock Keeping Unit number. The DEP should prepare a profit and loss statement for the store. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 3.
- The DEP should improve its control over the aerial photos to protect the photos from loss. This recommendation has been resolved.
- The DEP should seek competitive bidding for concerts at Harkness Memorial State Park and enforce the provisions of current contracts for non-payment and receipts of audit reports. If the DEP does not seek competitive bidding, then the next contract with Summer Music Incorporated (SMI) should include language where funds are paid to the DEP prior to the event. The DEP should amend its regulations in order to allow for charges for parking for special events. As insufficient action has been taken on this recommendation, it is in essence being repeated as Recommendation 8.
- All divisions in the DEP that do not have an approved records retention schedule should prepare the schedule and have it approved by the State Librarian. As insufficient action has been taken on this recommendation, it is being repeated as Recommendation 12.

- The DEP should create a database of all the land records to comply with the requirements of the State's Property Control Manual. As insufficient action has been taken on this recommendation, it is in essence being repeated as Recommendation 5.
- The DEP should develop written policies and procedures for the purchase of land with regard to when and what type of survey should be conducted. If a compilation plan is used instead of a survey for large purchases, the DEP should conduct surveys on a sample of the maps or other information used to determine acreage, to determine the accuracy of the acreage per the compilation plan. The DEP's evaluation system for the purchase of land should include a documented field visit of the property prior to incurring incidental costs such as surveying and appraisals, better documentation on the score sheet on any items on the property that involve cleanup costs, and documentation that all bureaus were part of the evaluation process. As insufficient action has been taken on this recommendation, it is in essence being repeated as Recommendation 13.
- The DEP should comply with the requirements set forth in the Code of Ethics. The DEP should amend its directive on the Employment of Family Members (Nepotism) to include contractors. This recommendation has been resolved.
- The DEP should document its business processes and establish milestones before expending significant resources. The Department should seek to renegotiate a maintenance fee based on the number of licenses in use. The Department should comply with Public Act 99-225 and develop a comprehensive file management system and database that can be used by all of the Department's bureaus. As insufficient action has been taken on this recommendation, it is in essence being repeated as Recommendation 11.

*Current Audit Recommendations:*

- 1. Leases should be updated and/or initiated for all DEP rental property. All property leased to non-DEP employees should be approved by the State Properties Review Board. The DEP should collect all amounts currently owed.**

Comment:

We again noted that the DEP did not have leases in place for the rental of all DEP controlled property. We noted that the Department was not pursuing the collection of past due rent nor were they always getting the approval from the State Properties Review Board for the rental of property to non-DEP employees.

- 2. The Department should maintain inventory records as prescribed by the State of Connecticut's Property Control Manual.**

Comment:

Our review of the Department's CO-59 Fixed Assets/Property Inventory Reports disclosed errors in five reporting categories.

3. **The Department should conduct, at least annually, a physical inventory of the items in the store and the dollar value of this inventory should be reported on the CO-59 Fixed Assets Report. The DEP should prepare accountability reports for the store and should record all overages and shortages.**

Comment:

We noted that the Department did not include the ending merchandise for sale inventory on the CO-59 Fixed Assets Report. Daily cash overages or shortages were not reported and the perpetual inventory of merchandise for sale was inaccurate.

4. **The DEP should have periodic appraisals made of its various portraits, paintings and museum articles in accordance with the Property Control Manual. All artwork should be properly inventoried so that property is accurately reported. Items not found during physical inventories should be reported to the State Comptroller and Auditors of Public Accounts.**

Comment:

The Department has still not had an appraisal of its portraits, paintings, and museum articles. Our review also disclosed that the inventory of these items was inaccurate. We found items that were not included on the inventory and items not found were still being included.

5. **The Department's computerized land records should be maintained in accordance with the requirements of the State's Property Control Manual.**

Comment:

We again noted that the Department's computerized land records were incomplete.

6. **The Department should review audit reports required by Section 4-231 of the General Statutes using the guidelines published by the Office of Policy and Management. The Department should determine for each fiscal year the amount of State assistance that was distributed and determine whether these amounts are on the Schedule of Expenditures of State Financial Assistance for each subrecipient. All unreconciled differences should be investigated. The DEP and State Treasurer should amend the current Memorandum of Understanding to determine who should be responsible for reviewing the State Single Audit Reports for the Clean Water Funds.**

Comment:

Our review disclosed that the Department was not reviewing audit reports required for compliance with the State Single Audit Act and/or the guidelines as provided by the Office of Policy and Management. We noted that desk reviews have not been completed since January 2003.

7. **Reports required by the General Statutes should be prepared and submitted in accordance with the requirements of the Statutes.**

Comment:

The Department was not submitting to the General Assembly reports required by Section 22a-97, subsection (c), and 22a-134q of the General Statutes. The Department did not report to the General Assembly the number of complaints received, investigations conducted, and the action taken as required by Section 26-67c, subsection (c), of the General Statutes.

8. **The Department should collect all monies due from Summer Music Inc. and enforce the provisions of the current contract for non-payment. The Department should seek competitive bids for all future concerts at Harkness Memorial State Park.**

Comment:

Our review of the DEP's contract with Summer Music Inc. found several areas of noncompliance with the contract since the contract's inception. These areas include non-payment or late payment and the late submission of the audit report for the fiscal year ended October 31, 2002.

9. **The DEP 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 physical handling of the documents by the public and agency staff.**

**The DEP should issue a directive for the transfer of files from the bureaus to the file room.**

**The DEP should periodically inventory its file room to determine which files are missing or misfiled.**

Comment:

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

10. **The Department should update and/or follow existing procedures for the cost recovery of emergency spillcase accounts receivable. These procedures should include the maintenance of accurate and updated records.**

Comment:

As discussed in the "Condition of Records" section, our review disclosed several areas in which improvement is needed regarding accounts receivable.

- 11. The Department should comply with the requirements of Public Act 99-225 which requires the Department to develop a comprehensive file management system and database. This system and database should be usable by all the Department's bureaus.**

Comment:

Although progress has been made by the Department to comply with the requirements of Public Act 99-225, additional work needs to be done for the complete implementation of the system.

- 12. All divisions in the Department that do not have an approved record retention schedule should prepare the schedule and have it approved by the State Librarian.**

Comment:

We again noted that not all divisions have an approved record retention schedule.

- 13. The DEP should implement written policies and procedures for the purchase of land. These policies and procedures should include when and what type of survey is to be conducted and require a field visit of the property prior to incurring costs for surveying and appraisals.**

Comment:

During the period under review the DEP did not have in place written policies and/or procedures for the purchase of land.

- 14. The Department should ensure that an executed contract is in place and that the necessary approvals are obtained prior to a contractor commencing work. Written evaluations of the contractor's performance should be prepared and maintained as part of the agency's contract file.**

Comment:

Our review disclosed that in one instance a contractor had commenced work prior to a signed personal service agreement; OPM approval was not obtained for two personal service agreements as required; and the Department did not provide documentation that written evaluations of the contractor's performance for nine of ten personal service agreements reviewed.

- 15. The Department should review the detailed phone call listings for excessive and/or repetitive calls. Calling cards should be cancelled once an employee has terminated his/her employment. The Department should reiterate and disseminate its directive on telephone usage. The Department should seek reimbursement of toll charges for the personal calls made. The Department should disconnect employee's dial-in access when there is no activity for a specified time period.**

Comment:

Our review of telecommunication charges continued to show that improvement is needed in this area.

## 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, 2002 and 2003. 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, 2002 and 2003, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2002 and 2003, 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: failure to ensure collection of all rental income on State forest buildings and at Harkness Memorial State Park; deficiencies in the purchasing and expenditures processes; deficient inventory records and reporting; inadequate subrecipient monitoring; lack of physical inventory at the DEP store and incorrect amounts reported as inventory; lack of record retention schedules; inadequate record keeping of land records; and lack of written policies and procedures for the purchase of land.

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.

Edward C. Wilmot  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts