

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF ENVIRONMENTAL PROTECTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009*

**AUDITORS OF PUBLIC ACCOUNTS**

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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November 18, 2011

**AUDITORS' REPORT  
DEPARTMENT OF ENVIRONMENTAL PROTECTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009**

We have made an examination of the financial records of the Department of Environmental Protection (DEP, Department or Agency) as they pertain to the agency's departmental operations for the fiscal years ended June 30, 2008 and 2009. 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 operates under the provisions of Titles 22a, 23, 24, 25 and 26 of the General Statutes. 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.

Regina A. McCarthy was appointed Commissioner on December 10, 2004, and held that position until June 1, 2009. The position of Commissioner was vacant for the last month of the audited period.

**Significant Legislation:**

Public Act 2008-01, codified as Section 22a-245a of the Connecticut General Statutes, requires that beginning April 30, 2009, DEP is to receive the deposit value of unredeemed beverage containers that were sold in the state.

Public Act 2007-242, effective July 1, 2007, and codified as Section 22a-200c of the Connecticut General Statutes, deals with the Regional Greenhouse Gas Initiative and the auctioning of emission allowances. Related regulations provide that auction proceeds be used for DEP administrative expenses and to support the development of renewable energy sources and energy efficiency measures.

Public Act 09-03, effective October 1, 2009, which is subsequent to the audited period, repealed various sections of the Connecticut General Statutes affecting DEP. The Environmental Quality Fund and the Conservation Fund were eliminated. Accounts within the eliminated funds were transferred to the General Fund.

Public Act 11-80, effective July 1, 2011, which is subsequent to the audited period, established the Department of Energy and Environmental Protection (DEEP). DEP was merged into (DEEP) on that date.

**Councils and Commissions:**

The following entities are associated with 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 also is 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	None
Expenditures	\$170,212 in the 2007-2008 fiscal year and \$150,907 in the 2008-2009 fiscal year

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

**Connecticut Emergency Response Commission:**

Statutory Authority	Sections 22a-600 through 22a-611
Relation to DEP	Within the DEP for all purposes
Number of Members	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

**RÉSUMÉ OF OPERATIONS:**

During the fiscal years ended June 30, 2008 and 2009, DEP activity was accounted for in the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds and Fiduciary/Trust Funds. These funds are discussed in more detail in the sections that follow.

A summary of revenue and expenditures during the audited period in all funds, except trust funds, is shown below:

<b>Fund</b>	<b>Revenue</b>		<b>Expenditures</b>	
	<b>2007-2008</b>	<b>2008-2009</b>	<b>2007-2008</b>	<b>2008-2009</b>
General Fund	\$ 5,128,010	\$ 11,287,730	\$ 39,802,773	\$ 38,887,492
Special Revenue Funds	79,880,026	98,832,022	126,164,107	143,548,221
Capital and Non-Capital Project Funds	0	0	28,931,362	17,939,503
Enterprise Funds	<u>10,590,050</u>	<u>19,167,258</u>	<u>2,373,282</u>	<u>35,163,809</u>
Total	<u>\$95,598,086</u>	<u>\$129,287,010</u>	<u>\$197,271,524</u>	<u>\$235,539,025</u>

The above revenue and expenditures are detailed by major category below:

	<b>2007-2008</b>	<b>2008-2009</b>
<b>Revenue:</b>		
Restricted Aid:		
Federal	\$ 40,123,826	\$ 50,539,607
Other	17,627,550	18,221,582
Licenses, Permits and Fees:		
Outdoor Recreation	10,237,419	10,338,552
Compliance Permits	10,516,895	10,021,533
Regional Greenhouse Gas Initiative	0	18,718,498
Other	4,660,005	3,868,000
Vehicle and Vessel Registrations	5,988,849	5,762,596
Bottle Deposit Escheats	0	6,032,310
Gasoline Tax	3,000,000	3,000,000
Civil Penalties	1,948,120	1,371,184
All Other	<u>1,495,422</u>	<u>1,413,148</u>
Total Revenue	<u>\$ 95,598,086</u>	<u>\$129,287,010</u>
<b>Expenditures:</b>		
Personal Services and Employee Benefits	\$100,371,204	\$104,277,276
Purchased and Contracted Services	10,407,274	11,763,296
Motor Vehicle/Aircraft/Watercraft Costs	3,525,784	4,232,072
Premises and Property Expenses	5,997,350	5,738,215
Information Technology	3,770,230	2,766,956
Purchased Commodities	2,533,407	1,744,923
Grants, Loans, Other Aid	50,881,300	93,223,719
Capital Outlays	22,181,056	8,489,039
All Other Expenditures, Adjustments	<u>(2,396,081)</u>	<u>3,303,529</u>
Total Expenditures	<u>\$197,271,524</u>	<u>\$235,539,025</u>

**GENERAL FUND:**

General Fund receipts for the audited period and the prior fiscal year are summarized below:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
License Fees	\$2,155,395	\$2,218,708	\$2,366,898
Escheats – Bottle Bill*	0	0	6,032,310
Air, Water and Waste Compliance	1,657,583	466,370	1,243,215
Civil penalties and fines	1,594,710	1,942,451	1,361,822
Sales	588,635	499,080	371,305
Other	<u>3,242</u>	<u>1,401</u>	<u>(87,820)</u>
Total General Fund Receipts	<u>\$5,999,565</u>	<u>\$5,128,010</u>	<u>\$11,287,730</u>

\* DEP had receipts in the 2008-2009 fiscal year from the deposit value of unredeemed beverage containers that were sold in the state.

General Fund expenditures for the audited period and the prior fiscal year are summarized below:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Personal Services	\$33,062,113	\$33,737,417	\$32,796,709
Purchased and Contractual Services	2,676,154	4,475,778	5,120,462
Grants and Aid	500,196	1,460,447	859,195
All Other Expenditures	<u>152,946</u>	<u>129,131</u>	<u>111,126</u>
Total General Fund Expenditures	<u>\$36,391,409</u>	<u>\$39,802,773</u>	<u>\$38,887,492</u>

Expenditure fluctuations were mainly in the categories of motor vehicle cost, premises and property expenses and grants and aid.

**SPECIAL REVENUE FUNDS:**

During the audited period, DEP utilized nine 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 four largest funds follow this schedule.

<b><u>Fund</u></b>	<b><u>Revenue</u></b>		<b><u>Expenditures</u></b>	
	<b><u>2007-2008</u></b>	<b><u>2008-2009</u></b>	<b><u>2007-2008</u></b>	<b><u>2008-2009</u></b>
Environmental Quality Conservation	\$10,447,651	\$27,838,558	\$ 43,523,158	\$ 55,037,071
Federal and Other Restricted Accounts	17,897,147	17,764,918	14,886,954	16,606,007
Grants to Local Governments and Others	51,534,797	53,228,546	48,816,592	51,455,002
Capital Equipment Purchase	0	0	18,082,122	19,648,108
All Other Funds	0	0	802,371	649,936
	<u>431</u>	<u>0</u>	<u>52,910</u>	<u>152,097</u>
Total Special Revenue Funds	<b><u>\$79,880,026</u></b>	<b><u>\$98,832,022</u></b>	<b><u>\$126,164,107</u></b>	<b><u>\$143,548,221</u></b>

**Environmental Quality Fund:**

The Environmental Quality Fund operates under Section 22a-27g of the General Statutes. The fund is used by 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:

	<b><u>2006-2007</u></b>	<b><u>2007-2008</u></b>	<b><u>2008-2009</u></b>
Revenue:			
Air, water and waste compliance	\$7,727,864	\$ 9,219,927	\$ 8,135,795
Air emission auctions*	0	0	18,718,498
Land Use Application Fees	975,561	828,931	652,066
Other	<u>521,620</u>	<u>398,793</u>	<u>332,199</u>
	<b><u>\$9,255,045</u></b>	<b><u>\$10,447,651</u></b>	<b><u>\$27,838,558</u></b>

\* DEP had receipts in the 2008-2009 fiscal year from the auction of emission allowances under the Regional Greenhouse Gas Initiative program.

In addition to revenue collected by DEP, in accordance with Sections 22a-449b and 22a-451 of the General Statutes, petroleum company assessments and solid waste assessment taxes totaling \$38,282,993 and \$52,710,240 in the fiscal years ended June 30, 2008 and 2009, respectively, were collected by the Department of Revenue Services and credited to the Environmental Quality Fund.

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Expenditures:			
Personal Services and Employee Benefits, Allowances	\$22,505,841	\$23,926,158	\$26,071,582
Grants and Aid*	12,505,913	11,910,056	23,815,540
Purchased and Contracted Services	4,019,303	6,210,714	4,170,659
Capital Outlays	832,966	630,682	166,214
Prior Year Expenditure Adjustments	221,425	(541,811)	0
All Other Expenditures	<u>1,105,626</u>	<u>1,387,359</u>	<u>813,076</u>
Total Expenditures	<u><b>\$41,191,074</b></u>	<u><b>\$43,523,158</b></u>	<u><b>\$55,037,071</b></u>

\*In the 2008-2009 fiscal year, DEP had \$12,984,568 in disbursements from the proceeds of the auction of emission allowances under the Regional Greenhouse Gas Initiative program.

**Conservation Fund:**

The Conservation Fund operates under Section 22a-27h of the General Statutes. The fund is to be used by 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>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Revenue:			
Hunting and Fishing	\$ 2,869,617	\$ 2,973,960	\$ 3,319,885
Vessel Registration Fees	5,773,339	5,749,851	5,576,573
Sales and Rent	5,510,186	6,129,614	5,836,174
Gasoline Tax*	3,000,000	3,000,000	3,000,000
Other	<u>31,585</u>	<u>43,722</u>	<u>32,286</u>
Total Revenue	<u><b>\$17,184,727</b></u>	<u><b>\$17,897,147</b></u>	<u><b>\$17,764,918</b></u>

\*Section 12-460a of the General Statutes provides that the Commissioner of Revenue Services deposit into the Conservation Fund \$3,000,000 of the state's receipts from the tax attributable to sales of fuel from distributors to any boat yard, public or private marina or other entity renting or leasing slips, dry storage, mooring or other space for marine vessels.

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Expenditures:			
Personal Services and Employee Benefits, Allowances	\$ 8,149,036	\$ 9,179,774	\$10,018,316
Purchased and Contracted Services	845,042	1,748,419	2,267,150
Motor Vehicle/Aircraft/Watercraft Costs*	1,622,398	875,244	760,438
Premises and Property Expenses	2,019,287	1,454,594	1,731,505
Information Technology	478,052	471,659	336,310
Purchased Commodities	804,065	706,664	917,453
Grants and Aid*	2,092,593	180,595	179,761
Capital Outlays	617,584	307,027	395,074
Prior Year Expenditure Adjustments	34,147	(37,022)	0
Total Expenditures	<u>\$16,662,204</u>	<u>\$14,886,954</u>	<u>\$16,606,007</u>

\*The grants and aid shown above for the 2006-2007 fiscal year include those processed by the Office of the State Treasurer. Motor vehicle rental and fuel costs were reduced in the 2007-2008 fiscal year.

**Federal and Other Restricted Accounts Fund:**

The purpose of the fund is to account for certain federal and other revenue that are restricted from general use. During the period under review, the Department utilized 37 non-federal restricted accounts. 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. DEP also charged expenditures to this fund for 84 federal programs. The largest federal programs were related to sport fishing; wildlife restoration; air pollution control; air, water, and waste management; and Performance Partnership Grants. In addition to activity recorded in the Federal and Other Restricted Accounts Fund, federal funds were also deposited in the Federal Account of the Clean Water Fund. (See additional comments under the Clean Water Fund section of this report.)

Federal and Other Restricted Accounts Fund revenue and expenditure totals are presented below:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Revenue:			
Federal Aid	\$31,472,142	\$29,533,775	\$31,372,348
Non-Federal Aid	18,435,984	17,477,537	18,076,582
Miscellaneous Fees	5,391,375	4,496,134	3,774,943
Other	39,401	27,350	4,673
Total Revenue	<u>\$55,338,902</u>	<u>\$51,534,796</u>	<u>\$53,228,546</u>

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Expenditures:			
Personal Services and Employee Benefits, Allowances	\$29,413,800	\$31,576,450	\$32,299,869
Purchased and Contracted Services <sup>1</sup>	1,842,630	1,848,556	2,297,516
Premises and Property Expenses <sup>2</sup>	599,955	1,533,500	1,116,729
Information Technology <sup>3</sup>	573,044	947,320	1,079,366
Grants and Aid <sup>4</sup>	6,246,566	10,086,625	9,134,595
Capital Outlays <sup>5</sup>	1,659,635	1,295,107	3,791,986
All Other Expenditures	<u>1,351,569</u>	<u>1,529,034</u>	<u>1,734,941</u>
Total Expenditures	<u><b>\$41,687,199</b></u>	<u><b>\$48,816,592</b></u>	<u><b>\$51,455,002</b></u>

Fluctuations were mainly in: <sup>1</sup>engineering and architectural services; <sup>2</sup>premises repairs; <sup>3</sup> development or modification of Agency automated systems; <sup>4</sup>grants and transfers of grants within various programs; and <sup>5</sup>purchases of land.

**Grants to Local Governments and Others Fund:**

The Grants to Local Governments and Others Fund is used by various state departments to account for bond authorizations for grants to local governments, organizations, and individuals. Expenditures totaled \$18,082,122 and \$19,648,107 during the 2007-2008 and 2008-2009 fiscal years, respectively. The majority of expenditures were for acquisition of open space conservation/recreation, grants for hazardous waste, recycling facilities, and/or landfills.

**ENTERPRISE FUNDS:**

**Clean Water Fund:**

The Clean Water Fund (CWF) operates under the provisions of Section 22a-475 through 22a-483 of the General Statutes. This fund is 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/funds.

<u>Account</u>	<u>Enterprise Fund</u>
• Water pollution control state account	• CWF – State Account
• Water pollution control federal revolving loan account	• CWF – Federal Account
• Long Island Sound clean-up account	• Long Island Sound Account
• Drinking water state account	• CWF – Drinking Water Account
• Drinking water federal revolving loan account	• CWF – Drinking Water Federal Loan Account

The schedule below shows the revenue and expenditures for the Clean Water Funds recorded by DEP, the Office of the State Treasurer and the Department of Public Health.

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2007-2008</u>	<u>2008-2009</u>
State Account:				
DEP	\$ 0	\$ 0	\$ 2,295,342	\$ 11,681,567
Office of the State Treasurer	<u>633,438</u>	<u>439,197</u>	<u>37,548,099</u>	<u>31,805,534</u>
Total	<u>633,438</u>	<u>439,197</u>	<u>39,843,441</u>	<u>43,487,101</u>
*Federal Account:				
DEP	10,590,050	19,167,258	0	23,537,495
Office of the State Treasurer	<u>521,856</u>	<u>1,137,169</u>	<u>116,635,041</u>	<u>93,867,231</u>
Total	<u>11,111,906</u>	<u>20,304,427</u>	<u>116,635,041</u>	<u>117,404,726</u>
Long Island Sound Account:				
DEP	0	0	77,940	(55,253)
Office of the State Treasurer	4,655,035	5,326,058	2,418,461	2,334,968
Department of Transportation	<u>0</u>	<u>0</u>	<u>0</u>	<u>169,549</u>
Total	<u>4,655,035</u>	<u>5,326,058</u>	<u>2,496,401</u>	<u>2,449,264</u>
*Federal Loan Account:				
Office of the State Treasurer	13,292	27,607	11,041,836	4,005,989
Department of Public Health	<u>9,895,456</u>	<u>2,353,338</u>	<u>0</u>	<u>0</u>
Total	<u>9,908,748</u>	<u>2,380,945</u>	<u>11,041,836</u>	<u>4,005,989</u>
Total Clean Water Funds	<u><b>\$26,309,127</b></u>	<u><b>\$28,450,627</b></u>	<u><b>\$170,016,719</b></u>	<u><b>\$167,347,080</b></u>

\*These funds were audited by independent public accountants for the period under review.

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. Beginning in the 2008-2009 fiscal year, expenditures for loans were recorded by DEP, whereas in prior years they were recorded by the Office of the State Treasurer.

**CAPITAL and NON-CAPITAL PROJECTS FUNDS:**

Expenditures from capital/non-capital projects funds totaled \$28,931,362 and \$17,939,503 in the fiscal years ended June 30, 2008 and 2009, respectively, and were mainly for grants and sites for parks and public places. The largest programs were the community conservation and development grant program; the recreation and natural heritage trust program; dam repairs and other flood controls; and improvements to state parks.

**TRUST FUNDS:**

During the audited period, DEP exercised custody over the trust funds 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

*Auditors of Public Accounts*

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Receipts, disbursements and fund balances follow:

Fund:	<b><u>July 1, 2007 through June 30, 2009</u></b>		<b><u>Fund Balance*</u></b>
	<b><u>Receipts</u></b>	<b><u>Disbursements</u></b>	<b><u>June 30, 2009</u></b>
Culpeper	\$ 1,086	\$ 0	\$ 20,203
Eastern Tribe Pequot Indians	1,878	0	34,942
James L. Goodwin	113,080	125,741	321,494
Hopemead	2,327,778	2,103,371	1,954,438
Kellogg	665,113	596,954	1,221,113
Topsmead	137,627	107,151	1,256,288
Wagner-Firestone	11,061	0	205,766
Flora Werner	22,775	0	423,673
John J. White and White Memorial Foundation	278,651	151,871	2,486,374
Total	<b><u>\$3,559,049</u></b>	<b><u>\$3,085,088</u></b>	<b><u>\$7,924,291</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. For those funds, DEP only has a right to investment income, not the investment principal.

During the period under review, the resources of all but one of these trust funds were administered by DEP. The State Treasurer administered the investments of the Hopemead State Park Fund. The receipts and disbursements shown above for the Hopemead Fund represent mainly investment purchases and sales.

## CONDITION OF RECORDS

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

(Although the Agency was the Department of Environmental Protection (DEP) during the audited period, and was not merged into the Department of Energy and Environmental Protection (DEEP) until July 1, 2011, the Agency Responses shown below refer to the Agency as DEP or DEEP.)

### **Federal Grants – Accounting and Collection of Receivables:**

*Criteria:* Sound business practice requires that drawdowns of federal funds to reimburse state funded expenditures be made shortly after the expenditures occur.

State accounting practices require that all federal expenditures, and only federal expenditures, be accounted for within designated coding, the Federal and Other Restricted Accounts Fund, 20000 Special Identification Codes (SIDs).

Each state agency is required to submit annual reports of federal receivables to the Office of the State Comptroller for incorporation into the state's financial statements.

*Condition:*

Drawdowns:

The following indicate that drawdowns of federal funds for reimbursement-type grants were not made in a timely manner:

- DEP records indicate roughly \$8.8, \$11.9 and \$13.4 million in receivables as of June 30, 2008, 2009 and 2010, respectively; an increase of \$3.6 million in two years.

During those same three fiscal years, DEP had federal program expenditures totaling \$100,311,504 and federal receipts totaling \$93,150,604. State funds totaling over \$7 million were expended during that three-year period and the corresponding federal reimbursements were not drawn down.

Because DEP can only draw down when the required state match has been met, the exact amount eligible for reimbursement during that period was not determined. Certainly, as of June 30, 2010, the state was entitled to some of the \$13.4 million it had disbursed.

- Examples of late or lack of drawdowns:  
As of March 2011, the Recreational Trails Program had

receivables dating back to 2001. The amount of receivables reported for June 30, 2010 was \$2.4 million.

- Another example of a late drawdown is a Fish and Wildlife Program that had a drawdown of \$29,667 more than one year after the state's expenditure of that amount.

Accounting Deficiencies:

- For the audited period, DEP was unable to provide accurate, up-to-date accounting for each of its federal grants or federal grant SIDs.
- As of June 30, 2010, DEP records indicate that there were expenditures totaling at least \$4,003,503 that were coded to state accounts and the federal reimbursements of those expenditures were credited to federal accounts.

Inaccurate Reporting:

On its June 30, 2008, 2009 and 2010, annual reports of federal receivables:

DEP reported receivables in as many as 91 federal grants within 67 federal programs and nine federal agencies. Included in the reported receivables were as many as 35 reported with negative balances. Receivables with negative balances indicate either inaccurate recordkeeping or that funds were received before the corresponding expenditures were incurred, which should not happen for reimbursement-type grants.

Twenty four grants were reported with the same receivable amount for at least three years in a row; nine of those were reported with the same amounts for at least five years in a row. Either the amounts of receivables were inaccurate or cash receipts were not realized for those receivables for years. As of April 15, 2011, the Agency had not determined the accuracy of its receivable balances.

*Effect:*

Federal drawdowns were not made within a short time-period of the corresponding expenditures.

Receivables cannot be accurately reported.

If receipts of federal funds are coded to a federal account but the corresponding expenditure is coded to a state account, state funds would be held within federal accounts. Circumvention of the budgeting process would go undetected and state funds may be used improperly.

*Cause:*

Lack of attention to this area caused the above conditions.

*Recommendation:* DEP should improve its accounting for federal grants and process timely drawdowns of federal funds.

- DEP should code only federally funded expenditures to federal accounts.
- DEP should determine both the status of SIDs with the same calculated receivable balances for multiple years, and whether all 91 of the grants with calculated receivable balances are still active.
- If there are SIDs with no active grant accounting within them, those SIDs should be closed out.
- DEP should determine the true receivables within its SIDs and process federal drawdowns. For already known receivables, drawdowns should be processed in a timely manner.  
(See Recommendation 1.)

*Agency Response:* “DEP agrees with the finding as it relates to management of federal receivables and the timeliness of drawdowns. The Agency has initiated corrective action in order to streamline the review process, ensure match requirements and maximize the use of federal proceeds. Through use of Core-CT modules and guidance offered by OSC [Office of the State Comptroller], the Agency will be making adjustments to current federal receivables in order to better represent the balance of federal funds available to the State. It should be noted that the comparison of federal expenditures to federal receipts does not accurately represent pending drawdowns. The 20000 series SIDs include both federal receivable accounts and federal advance accounts. It also should be noted that there are multiple factors that comprise the Core-CT balance, which are prevalent in concurrent and multi-year grants. In order to accurately track grant balances the Agency continues to work with the Core-CT Projects Team to develop the necessary accounting configuration to ensure program compliance. As the configuration is being developed, the Agency continues to catalog all active grants, CFDA ids, grant periods, drawdown status, grant balances, match requirements and other grant activity in a supplemental database, which compliments Core-CT.

The Agency continues to improve the frequency of federal drawdowns with the goal of automating this process on a monthly cycle. In order to achieve the goal, the state match must be in line with federal expenditures. Proper configuration and the use of Core-CT projects will offer the necessary assurance. The Agency has initiated this reconciliation and began processing budget adjustments. Other more complex adjustments will be implemented with the help of Core-CT, OSC and OPM.

In summary, the Agency has 126 active grants across nine federal agencies all of which are unique. Additional time and effort will be made configuring the grant award and segregating the program match

in Core-CT in order to streamline the drawdown process and improve reporting. In addition, the Agency will continue to make the necessary accounting adjustments to better represent current federal receivable balances and will update the Agency's directive on federal grants to ensure consistency and sound business practices."

**Accounts Receivable – Emergency Spill Response:**

*Criteria:* DEP operates an emergency spill response program pursuant to Section 22a-451 of the General Statutes. If DEP determines there is a potential threat to human health or the environment and incurs expenses in investigating, containing, removing, monitoring or mitigating discharge, spillage, loss, seepage or filtration, any person, firm or corporation which caused that condition shall be liable for DEP's expenses.

At the DEP Commissioner's request, the Attorney General shall bring a civil action to recover its expenses. If the responsible party is unknown, DEP shall request the federal government assume liability for some of DEP's expenses to the extent provided by the Federal Water Pollution Control Act.

CT General Statutes Section 22a-452a provides that any amount paid by the Commissioner of Environmental Protection to contain and remove or mitigate the effects of a spill or to remove hazardous waste shall be a lien against the real estate on which the spill occurred or from which it emanated.

Each state agency is required to submit annual reports of receivables to the Office of the State Comptroller for incorporation into the state's financial statements. Governmental Accounting Standards Board (GASB) Statement 33 provides that a receivable should not be recognized until there is an "enforceable legal claim."

For the emergency spill response receivables and those accounts pending identification of the responsible party, an adequate system of internal controls should include at least annual reconciliations of beginning balances, activity and ending balances. Reconciliations should identify any errors or improper entries made to receivable balances so that corrections to balances and accurate reporting can be performed.

An initial collection letter is to be sent to debtors within 45 days of the establishment of a receivable, and a second collection letter is to be sent within 30 days of the first collection letter if no response was received. This policy is unwritten, but understood by DEP staff responsible for sending the collection letters.

*Condition:*

Lack of Reconciliation of Account Activity:

DEP did not reconcile changes in accounts receivable balances to activity. There were originally unreconciled variances of \$697,226 and \$1,902,334 for the fiscal years ended June 30, 2008 and 2009, respectively. While performing our own tests, we became aware of \$1,885,234 in unauthorized write-offs. We were informed that adjustments were made to accounts by removing accrued interest in anticipation of referring them to the Office of the Attorney General (OAG), but the interest was not added back into the account balances on the Cost Recovery System. It is standard DEP practice to provide the OAG balances both with and without interest calculations for the referrals. DEP would have recognized these adjustments and made corrections if reconciliations had been performed.

The fact that controls were not in place to prevent this exception from occurring, the amount of the variances and the ability of staff to make unauthorized changes to account balances were considered by us to constitute a significant control deficiency.

Reporting of Accounts with no Identified Responsible Party:

For June 30, 2009, DEP reported accounts receivable totaling \$22,310,708 for the emergency spill response program. Included was \$2,969,318 for 575 spill cases that had no identified responsible party. These accounts represented 13.3 percent of the total amount reported. Since DEP did not have anyone identified to collect the receivables from or enforce a claim against, there was no enforceable legal claim. The Agency should not have reported those accounts as receivables.

Billing and Collection Efforts:

As of June 30, 2009, DEP records contained 894 receivable accounts. Of those, 575 had no responsible party identified, leaving 319 with responsible parties identified. Of those 319, 130 had not received payments during the audited period or been referred to the Office of the Attorney General for legal action.

DEP records indicate that 39 accounts, with potential collections of \$1,022,451 were in the process of being referred to the Office of the Attorney General, but had stalled within DEP. These accounts date back to 2001.

Individual Cases Reviewed:

- Three of the ten new cases we reviewed had initial collection letters sent to the responsible parties 61, 76 and 118 days after the creation of the receivable (the 118 day letter was only sent as a result of our audit inquiries). In addition, second collection letters were sent 82 and 101 days after the first collection letters were sent to those parties.

- The Agency failed to follow through on four of the ten individual cases we reviewed for potential lien placements. Initial preparation of lien documents was initiated in 1999, 2000, 2006 and 2007.
- Receivable accounts for five of the ten new cases we reviewed were established between two and four months after DEP made the initial payments for clean-up. Delays in recording receivables result in delays in collecting receivables.

*Effect:*

There are inherent risks that initial recording of receivables is not done, that appropriate increases and reductions to account balances are not made, or that incorrect or falsified entries are recorded. There is also a risk that reasonable and required collection efforts are not made. By not implementing adequate control procedures to help mitigate these risks, there has been identified and potential inaccurate recordkeeping and reporting, and lack of timely and effective collection efforts.

*Cause:*

Management had not identified this as a high priority.

*Recommendation:*

DEP should improve controls over the emergency spill response cost recovery receivables by performing reconciliations of activity and by improving recordkeeping, reporting, billing and collection efforts, including referrals to the Office of the Attorney General. (See Recommendation 2.)

*Agency Response:*

“DEP agrees with the finding and has taken steps to address the deficiency within the Spills Cost Recovery Database. The resolution will include migrating the Spills receivable information into the Agency’s Site Information Management System (SIMS). In doing so, the agency ensures proper segregation of duties as it relates to receivables, payments, subsequent adjustments and collection efforts. In addition, the consolidation of the two receivable applications maximizes the use of the Agency’s resources and eliminates duplicative administrative responsibilities related to processing and reporting. In regard to the retention and reporting of receivables, in which a responsible party has not been identified, the Agency will continue to manage the open items in order to complete the annual reconciliation and will remove them from the State’s GAAP report to satisfy audit concerns. The unassigned items will be represented until they are assigned to a responsible party or written off by the State.

In regard to the reconciliation process, the Agency reconciles annual revenue and expenses in the Spills Cost Recovery Database prior to completion of the annual GAAP report. Subsequent accruals and other adjustments have impacted prior period data retroactively and result in the discrepancies presented. Immediate constraints have been implemented in the Spills database to suspend prior period

adjustments. As noted previously, the SIMS account receivables application has the capability and necessary internal controls/approval workflow to manage adjustments. Collection practices will be consistent with Agency's collection efforts which result in a notice and/or statement directed to the Responsible Party on thirty days intervals. After 120 days the Spills related items will be referred to the Attorney General for lien purposes and/or additional collection action.

The Agency understands the importance of immediate collection action in order to improve collection success but also it should be noted that additional time is warranted to complete the necessary review process required to establish the State receivable. The Agency will also seek advice from the Office of Attorney General and Department of Administrative Services Collections Unit in order to streamline the lien and collection process and will review the program workflow with the goal of identifying efficiencies, maximizing resources and improving collections."

### **Property Control and Reporting:**

*Criteria:* Section 4-36 of the Connecticut General Statutes requires each state agency to keep inventory records in the form prescribed by the State Comptroller and to submit to the Office of the State Comptroller an annual report of its inventory balances.

The State Property Control Manual prescribes the inventory records and procedures, including the requirement that only capitalized assets, individual assets with a value or cost over \$1,000, be reported on GAAP Reporting Form CO-59.

*Condition:*

Annual CO-59 Report:

The current balances of real and personal property reported for June 30, 2008 and 2009 totaled over \$400 million, with around 90 percent of that being real property, nine percent equipment and one percent other.

- There were computation errors on the CO-59 exceeding \$5,000,000.
- Reconciliation of Expenditures to Reported Additions:  
DEP did not reconcile reported additions of real property and equipment to expenditures as recorded in the Core-CT general ledger. Without reconciliations, the accuracy of inventory records and reporting could not be determined.

	<u>Reported</u> <u>Additions</u>	<u>Expenditures</u>	<u>2-year</u> <u>variance</u>
Real Property	\$23,351,572	\$21,648,889	\$1,702,683
Equipment	<u>13,312,734</u>	<u>5,077,476</u>	<u>8,235,258</u>
Total	<u>\$36,664,306</u>	<u>\$26,726,365</u>	<u>\$9,937,941</u>

Physical Inspection of Equipment:

Two out of a sample of 20 items listed on the inventory records could not be found. Fourteen out of 20 types of supplies had different counts on hand than on the inventory records.

Bookstore:

The quantities of purchased items were recorded on the inventory records incorrectly for three items.

Rental Property:

We were unable to locate seven of the 48 rental properties on Core-CT inventory records.

*Effect:*

Without a reconciliation of expenditures made from capital equipment accounts on the general ledger to the annual changes reported on the CO-59, the accuracy of balances reported on the CO-59 could not be determined.

Deficiencies in the control over inventory result in a decreased ability to properly safeguard state assets. The Agency is not in compliance with the requirements of the State Property Control Manual.

*Cause:*

It appears that managerial oversight of the CO-59 preparation has been lacking. Also, there may be a need for training of staff responsible for the reporting of inventory.

Because the cost of construction of real property may span multiple years, involve multiple projects, and is comprised of expenditures in addition to those coded as capital items, it is understandable that the reconciliation of real property totals may be difficult. However, if the Agency tries and is unable to reconcile that category, it should, at a minimum, reconcile the cost of equipment purchased to the additions reported on the CO-59.

*Recommendation:*

The Department should strengthen internal controls over inventory to better comply with the requirements of the State Property Control Manual and CO-59 reporting instructions as provided by the State Comptroller’s Office. (See Recommendation 3.)

*Agency Response:*

“DEP recognizes that there is a need for more training and managerial oversight for the reporting of the annual CO-59. No prior attempts were

made by DEP staff to reconcile GL expenses to the reported value of additions on the CO-59 as the requirement is not clear in either statute or the State Property Control Manual. As such, GL corrections were not made for capital assets/additions purchased against incorrect account codes. A process has been implemented to insure that as assets are captured and tagged, GL adjustments are processed to properly reflect the capital account for the purchase.

DEP acknowledges that there was a math error in a previous CO-59 filing. A subsequent memo dated 3/10/10 ... was submitted to OSC to correct this error. To ensure this type of error is not repeated, DEP will use the pre-formatted Excel form provided by OSC for future reporting.

With regard to purchase quantities improperly reflected in the DEP Bookstore, QuickBooks was a new product to the business process at that time. As irregularities in data entry are identified through the daily business process, additional procedural guidance is developed and provided to staff to ensure the proper reporting of inventoried quantities in real-time. The quantity errors reported were adjusted within the audit period.

With respect to inventoried supplies, the Core-CT Manual Stock Request system has a recurring error that has been reported to the Core-CT Help Desk multiple times. The effect of this error is inaccurately reported on-hand quantities. DEP will perform monthly inventory counts to verify quantities reported through Core-CT. Lastly, DEP will minimize the warehousing of supply items to only those items not readily available next-day from State contract vendors.”

### **Monitoring of State Grants:**

*Criteria:*

General:

As an agency that grants state funds to non state entities, DEP has the responsibility for monitoring grantee compliance with program and financial requirements. Monitoring techniques may include: reviewing reports, monitoring budgets, performing site visits, offering technical assistance, verifying receipt of audit reports, following up on audits and monitoring findings, and requiring grantees to take timely corrective action on deficiencies identified in audits and other monitoring.

Connecticut General Statutes:

Section 4-231 requires each non state entity that expends at least \$100,000 in state financial assistance in any of its fiscal years to have either a single audit or a program-specific audit made for that fiscal year.

Section 4-232, subsection (b)(1) requires that the grant recipient must file copies of the audit report with the state grantor agency no later than six months after the end of the audit period.

The Office of Policy and Management (OPM) provides agencies with guidelines for desk reviews of audit reports.

*Condition:* We reviewed a sample of 23 grants and found that DEP has implemented monitoring techniques for the state grants it administers. However, the following deficiencies were identified:

- Documentation was not prepared for either the determination of whether on-site monitoring inspections were considered necessary for each specific project or the extent and findings of any performed inspections. Some project managers informed us that they did perform on-site monitoring inspections, but they did not document those inspections.
- There was no desk review of received audit reports.
- The Memorandum of Understanding (MOU) between DEP and the State Treasurer does not identify which agency is responsible for reviewing the State Single Audit Reports for the Clean Water Funds (CWF).

*Effect:* Without performing and completely documenting the review of each grantee's use of state funding, DEP cannot demonstrate that it has fulfilled its responsibility for monitoring the grantees' compliance with program and financial requirements. Noncompliance may go undetected and uncorrected.

*Cause:* The Department had assigned a low priority for the review of audit reports received and does not require documentation of on-site monitoring of its state funded projects.

*Recommendation:* DEP should improve its monitoring of grantee use of state funding and the documentation of its monitoring. This should include review of audit reports received from grantees and documentation of either on-site monitoring inspections or the reasons for no on-site inspections. (See Recommendation 4.)

The Department should seek to amend its Memorandum of Understanding with the State Treasurer to clarify which agency is responsible for reviewing the State Single Audit Reports for the Clean Water Funds. (See Recommendation 5.)

*Agency Response:* "DEP is in the process of developing a comprehensive approach to both the review of single audits for its grantees, and monitoring of programs/contracts for DEP's major programs as outlined in our latest revisions to our audit compliance supplement submitted to OPM.

The comprehensive review includes additional year-end financial reporting by grantees, issuance of audit confirmations for funds disbursed to grantees at year end, and tracking receipt and reconciliation of all audit findings with coordination to DEP program/contract managers for each municipality and non-profit agency who have received a single audit. In doing this, every situation for which DEP has disbursed funds that are subject to both auditing and monitoring will be identified so as to determine whether compliance has been met as a result of the above finding.

CWF – DEP will revise our MOU with the Treasurer to recommend that there is a shared audit responsibility with regard to the Treasurer’s fund management responsibility i.e. determination of whether the Loan recipient is able to pay back their loan (on-going concern issue), and DEP’s grant responsibility to monitor the construction phase of the project for grant management purposes.”

**Revenue Collected at State Parks:**

*Background:*

The Department operates state parks and forests that generate revenue. Fees are collected for parking, admissions, camping, facility rentals and season passes. Each park accounts for this revenue by either a pre-numbered ticket or cash register tape. Season passes are also sold at the various parks. Sales, ticket numbers used, and deposits are recorded by park personnel on a daily field deposit report (FDR).

Any discrepancies between the amounts collected and the amounts that should have been collected are reflected as a shortage or overage on the FDR. A written explanation is required to be submitted to the central office by the state park personnel with the FDR for any variance over \$25 for the park as a whole. Annually, the DEP central office accounts for the pre-numbered tickets and passes issued to and returned by the various parks.

*Criteria:*

Amounts deposited should agree with total sales, and if any shortages or overages occur, a review should be undertaken to determine the cause for these variances.

Pre-numbered ticket and/or season pass use should agree with or be reconciled to deposit activity.

*Condition:*

We reviewed a sample of 30 field deposit reports and found the following:

Twenty seven of 30 field deposit reports reviewed showed that the total fees due, based on recorded sales, did not agree with the total

deposited. The amount of discrepancies ranged from overages of \$162 to shortages of \$103.

The following occurred and were not questioned within DEP:

- On one field deposit report, 253 ticket numbers were reported sold; however, the deposit amount was for 267 tickets. The variance is \$700.
- For one field deposit report, there was a reported overage of \$76 and a discrepancy report was filed. However, the explanation on the discrepancy report detailed overages of a minimum of \$160.
- For one field deposit report, there was a reported overage of \$50 and there was no discrepancy report on file.

*Effect:* Without proper oversight, the probability of theft or misuse of revenue at state parks is more likely to occur.

*Cause:* The cause was not determined.

*Recommendation:* Reports of ticket sales and revenue collected should accurately account for all numbered season passes and/or ticket sales, and if any variances are noted, a review should be undertaken to determine the cause for these variances. (See Recommendation 6.)

*Agency Response:* “DEP recognizes deficiencies existed within the FDR system. As a corrective measure, DEP deployed SIMS-AR in February 2009 to replace the existing FDR system and ran in parallel to the end of FY09 on a test basis. Beginning on July 1, 2009, SIMS-AR became the department’s system of record for detailed receipt activity. SIMS-AR provides greater control over inaccurate reporting of overages or shortages by utilizing a fixed fee revenue schedule and forcing users to present a balanced document. Also, any difference in amount must be accompanied by an explanatory comment prior to submitting the receipt document. These features provide central office staff the tools necessary to more easily identify errors and season ticket variances for immediate follow up with field reporting staff.”

### **Timeliness of Deposits:**

*Criteria:* Section 4-32 of the General Statutes requires that an agency deposit receipts of \$500 or more within 24 hours of receipt.

The Office of the State Treasurer’s January 6, 2006 Memorandum on Deposit Reporting Timeframes requires that agencies should complete the confirmation of bank data and journalizing steps by the end of the

day that the deposit information is received by the agencies through the Core-CT accounting system.

Due to the way deposits are processed in the Core-CT system, it is not possible for receipts to be fully recorded within 24 hours of receipt. On a daily basis, the bank deposit information is entered into Core-CT through an interface between the bank and state.

The entered date recorded on Core-CT represents the date the deposit information was loaded into the system and was ready to be recorded by the agency. The posted date represents the date that the agency recorded the receipts on the general ledger. Therefore, the posted date for the deposit should be no later than one day after the entered date.

*Condition:* Sales, ticket numbers used, and deposits are recorded by park personnel on a daily field deposit report. We reviewed a sample of 30 field deposit reports and found that after the deposits were entered into Core-CT, 14 of them were not posted in a timely manner. The postings ranged from one to eight days late.

We reviewed a sample of ten deposits made by the Agency bookstore. All ten deposits were made between one and two days late.

*Effect:* Late depositing increases the risk of lost revenue to the state.

*Cause:* The cause was not determined.

*Recommendation:* The Agency should deposit and account for cash receipts in a timely manner. (See Recommendation 7.)

*Agency Response:* “DEP acknowledges the late deposit of Bookstore receipts. Corrective measures are being taken at this time to adjust the deposit schedule and have cash receipts deposited the next business day.

With regard to the Posted Date for field deposit receipts, steps are taken on a daily basis to reconcile errors, validate discrepancies and ensure the proper reporting of season passes prior to posting deposits. This frequently delays the General Ledger posting date for cash deposits held at the bank, but does not compromise the security of these funds in any way. Additionally, recent guidance from the State Treasurer’s office has expanded the time requirement on GL posting from 1 to 4 days.”

**Payroll and Personnel – Segregation of Duties:**

*Criteria:* Adequate segregation of duties should be present between payroll and personnel functions. Access to the Human Resource Management System module in Core-CT should be limited in such a manner that payroll and personnel employees do not share roles in the system.

Core-CT HRMS Segregation of Duties Procedures for Justification & Approval provides the following HRMS Security Guidelines:

- In an effort to maintain a segregation of duties between the HRMS responsibilities, agencies should not be requesting the Agency HR Specialist role be assigned to an employee who has either the Agency Payroll Specialist or Agency Time and Labor Specialist roles. Access to any combination of those roles could allow an individual to hire and pay someone inappropriately and without oversight.
- For those agencies that currently have employees with these combinations of roles, agency Security Liaisons must provide supporting documentation to explain the necessity of the dual roles, as well as explaining what their internal audit procedures are to prevent inappropriate or fraudulent transactions in the system.

*Condition:* Our review of 18 employees within the payroll and personnel departments of DEP revealed seven with access to both personnel and payroll functions in Core-CT. Those seven had been assigned the HR Specialist role along with the Payroll Specialist and/or Time and Labor Specialist roles. This allows them the ability to change both time and attendance information and pay rate information.

After we originally reviewed this area, and at the request of the Office of the State Comptroller, DEP provided limited justification of the need for the dual roles for some of the seven employees. Full justification of the need for seven employees to have the ability to change payroll and personnel information in Core-CT was not documented.

*Effect:* When there is no separation of duties between the payroll and personnel functions, employees have the ability to falsely enter someone into the Core-CT system as an employee and then process payment in that name.

*Cause:* We were informed that a lack of staffing caused the condition of dual roles.

*Recommendation:* There should be segregation of duties between payroll and personnel functions. If such segregation is not possible, there should be complete, written justification detailing why the agency needs both

payroll and personnel roles for each employee and what the compensating controls are for entries made by each of those employees. (See Recommendation 8.)

*Agency Response:*

“During the audit period of 2008-2009, the Office of the State Comptroller did not question roles assigned to personnel and payroll functions in Core-CT. In fact, roles assigned in Core-CT were initially requested and approved by their Security team. In November 2010, Core-CT Security notified our agency Security Liaison that seven staff were identified with access to both personnel and payroll functions in Core-CT. Two employees had separated and no longer required dual access. The following procedure was reviewed and accepted by Core-CT Security at that time for remaining employees:

- a. In order to continue with the process of hiring/rehiring over 600 seasonal employees on an annual basis we have added internal audit procedures to prevent inappropriate or fraudulent transactions in the system. DEP Payroll Clerk enters the seasonal employee information into Core-CT.
- b. We run Core-CT reports to compare the seasonal paperwork received to the hires/rehires on the report to make sure there is paperwork for each hire/rehire and that the entries are accurate.
- c. We run a Core-CT Reported Time report every pay period for all employees. We audit all hours that are coded on the timesheets.
- d. If there are any timesheet revisions entered by one of the Payroll staff the entries are approved by another staff member.

Other factors to consider include that as a self-service agency, timesheets and hours coded are reviewed and approved by a supervisor. In order for staff to hire or pay individuals in a non-seasonal position, an approved position must exist. That requires the review and approval of the HR Director and/or Chief of Fiscal /Administrative Services 2 first.”

*Auditors’ Concluding Comments:*

The risk associated with the dual roles is mainly that without independent oversight, someone may be falsely entered into the Core-CT system as an employee, which may allow salary payments to that individual. Although the seasonal employees may be one legitimate reason for dual roles, the higher paid permanent employees present a higher risk. If there are compensating controls in place for the seasonal employees, staff responsible for processing those employees should be given temporary, seasonal access to both personnel and payroll.

Regarding the Agency's response in the last paragraph shown above, the HR director is one of the seven employees mentioned in the finding and the Chief of Fiscal/ Administrative Services 2 is the direct supervisor of another employee in the finding, which reduces the strength of that approval as a compensating control.

DEP needs to periodically evaluate the necessity for employees to have dual roles or roles that provide other than read-only access to both personnel and payroll.

**Purchasing:**

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

Proper internal controls related to purchasing require that commitment documents be properly authorized prior to receipt of goods or services.

The State Accounting Manual establishes guidelines for processing vendor payments. The guidelines include criteria for determining the correct receipt date to be used in processing state invoices. Proper entry of receipt dates into the Core-CT accounting system is important because receipt dates are used to calculate vendor accounts payable for inclusion in year-end GAAP Reporting.

*Condition:* In our review of 66 expenditure transactions, we found:

- Receipt dates were recorded incorrectly for 13 transactions. Two dates were recorded in the wrong fiscal year.
- Fourteen purchase orders were created and/or approved after the receipt of goods or services

*Effect:* When expenditures are incurred prior to the commitment of funds, there is less assurance that Agency funding will be available at the time of payment.

Receipt dates posted to the wrong fiscal year result in the improper reporting of year-end accounts payable, and expenditures would be recorded in the wrong fiscal year.

*Cause:* The cause was not determined.

*Recommendation:* The Department should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. (See Recommendation 9.)

The Agency should institute procedures to ensure that the proper receipt date is recorded on vouchers processed through Core-CT. (See Recommendation 10.)

*Agency Response:*

“DEP recognizes that there are inconsistencies in the reporting of receipt dates on AP [accounts payable] vouchers. DEP has taken efforts to provide staff with additional guidance for the determination of the appropriate receipt date.

With regard to PO’s [purchase orders] created and/or approved after the receipt date on the voucher, during the contracting process for grant payments often times vendors will deliver an invoice for payment once they receive confirmation that the contract has been executed. In these scenarios it is not uncommon for the receipt date of the invoice to predate the Core-CT PO. DEP will make every effort to minimize the frequency of this occurrence, but does not believe it will be eliminated entirely.”

**Rental Housing Program:**

*Background:*

Section 26-3b, subsection (a), of the General Statutes provides that for buildings or property in the custody and control of DEP, the commissioner may rent to and execute leases with any person. If the Agency assigns departmental employees to occupy such property, it may impose whatever conditions the commissioner deems necessary upon such assignment. Any rental fee charged to a DEP employee shall be determined by the commissioner, notwithstanding any other provision of the general statutes or of any regulations of any state agency.

DEP records indicate that during the audited period there were 48 state-owned houses available for rent and that 32 of these were occupied. The Department has instituted a policy for collecting rental payments on these occupied homes based upon a varying degree of discounts ranging from 40 percent to 100 percent of the market rental value of the house.

*Criteria:*

Sound business practice dictates that there should be complete lease agreements during the entire lease term to define the duties and rights of both parties to the lease. The completion of lease agreements should be considered a key internal control for the protection of the state’s assets.

Section 18.2 of the standard lease provides that the lease shall not be binding on DEP unless and until approved by the Attorney General of the State of Connecticut and delivered to the resident.

If the Office of the Attorney General (OAG) is not timely in signing/approving the leases, DEP is responsible for pursuing the signatures.

*Condition:* DEP did not have complete contracts with the tenants of its properties. Although all 32 leases were signed by the tenants occupying the state-owned houses, 19 of those leases were not approved by the OAG. One of the 19 leases was also missing a DEP signature.

*Effect:* The lack of complete lease agreements represents a control deficiency and may prevent the state from enforcing the lease provisions.

*Cause:* DEP's explanation is that it sent its leases to OAG for signature before July 2009. Correspondence between DEP and OAG, dated in 2009, indicates that the Office of Policy and Management was reviewing the rent amounts before the OAG signed the leases. Although this would explain a delay in the OAG signatures, it does not explain why, two years later in July 2011, there are no OAG signatures on DEP leases.

*Recommendation:* The Department should ensure that for all of its rental properties, there are lease agreements signed by both the Department and the Office of the Attorney General. The Department should take follow-up action when circumstances prevent timely signatures. (See Recommendation 11.)

*Agency Response:* "DEEP has determined that renting certain residential housing to DEEP employees is in the business interest of DEEP and the State. DEEP has experienced difficulty receiving approval as to form from the Office of the Attorney General (OAG) of the DEEP housing lease template and actual signed leases. Between March 10, 2009 and April 23, 2009, DEEP transmitted signed leases to the OAG for their review and approval as to form. DEEP continued to inquire on the status of the OAG's review on a periodic basis. On November 1, 2009, the OAG returned the signed leases unsigned due to concerns regarding the DEEP housing policy.

Since the OAG returned the DEEP housing leases without their approval, DEEP has worked to revise the DEEP housing policy. On March 7, 2011, DEEP issued a new directive regarding its housing program policies and procedures. On April 27, 2011, DEEP sent to the OAG for review and approval the DEEP employee housing lease template and the March 7, 2011 Directive. On June 7, 2011, the OAG returned the lease template with a memo from the Office of Policy and Management (OPM) regarding the review by OPM of the DPW/DAS employee housing lease template. On August 8, 2011, DEEP sent a comprehensive response to the OPM memo regarding the DPW/DAS employee housing lease template and provided justification for differences in business needs and statutory authorities regarding agency rental housing programs.

It is critical to DEEP business operations that DEEP is able to rent DEEP-owned housing to DEEP employees, as authorized by section 26-3b of the General Statutes. DEEP has endeavored to receive approval as to form from the OAG for all rental housing leases in the past, and will continue to do so in the future.”

## RECOMMENDATIONS

Twelve recommendations were presented in our prior report. As indicated below, five recommendations have been resolved or implemented. Seven of the recommendations are being repeated in this report.

### *Status of Prior Audit Recommendations:*

- The Department should maintain and reconcile inventory records as prescribed by the State of Connecticut Property Control Manual. Controls over the transfer of property should be strengthened.

This recommendation was partially implemented. A modification of this recommendation is shown as Recommendation 3.

- The Department should conduct, at least annually, a physical inventory and reconciliation of the store inventory as prescribed in the State of Connecticut Property Control Manual, Chapter 6, "Maintaining the Property Control System." The Department should arrange training in the use of QuickBooks Point of Sale in order to fully utilize all features available in the system.

This recommendation was implemented.

- 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 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.

This recommendation is being modified as Recommendations 4 and 5.

- All divisions of the Department that do not have an approved record retention schedule should prepare the schedule and have it approved by the Public Records Administrator.

This recommendation was implemented.

- The Department should enforce the Acceptable Use Policy for using computer resources. The Department should also regularly review other sites visited by the top Internet users and custom block sites that are non-business related.

This recommendation was implemented.

- The Department should establish a separation of duties between its payroll and personnel functions. Payroll and personnel staff should be assigned roles specific to their function.

This recommendation is being repeated as Recommendation 8.

- The Department should follow established policies and procedures to monitor seasonal employees' work hours to ensure that these employees do not exceed the maximum allowable hours.

This recommendation was implemented.

- The Department should grant compensatory time only when properly authorized and pay overtime to those employees not authorized to receive compensatory time.

This recommendation was implemented.

- The Department should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. The Department should also consider obtaining from the Comptroller's Office non-purchase order approval for certain types of transactions.

This recommendation is being modified as Recommendation 9.

- The Agency should deposit all receipts in accordance with Section 4-32 of the General Statutes.

This recommendation is being repeated as Recommendation 7.

- The daily field deposit reports should account for all numbered season passes and/or ticket sales and, if any variances are noted, a review should be undertaken to determine the cause for these variances. An annual reconciliation should be undertaken promptly for all entrance fees collected for the year and the reasons for any missing tickets or season passes should be documented.

The annual reconciliation portion of this recommendation was implemented. Recommendation 6 reflects our current findings on revenue collected at State parks.

- The Department should have properly signed lease agreements in place for all of its rental properties which detail the terms of the lease. Greater care should be made in calculating and verifying the bi-weekly payroll deduction, if required.

This recommendation was partially implemented. Our current Recommendation 11 deals with the completion of lease agreements.

*Current Audit Recommendations:*

- 1. DEP should improve its accounting for federal grants and process timely drawdowns of federal funds.**

Comment:

DEP should code all federally funded expenditures to federal accounts.

DEP should determine both the status of SIDs with the same calculated receivable balances for multiple years, and whether all 91 of the grants with calculated receivable balances are still active. If there are SIDs with no active grant accounting within them, those SIDs should be closed out.

DEP should determine the true receivables within its SIDs and process federal drawdowns. For already known receivables, drawdowns should be processed in a timely manner.

- 2. DEP should improve controls over the emergency spill response cost recovery receivables by performing reconciliations of activity and improving recordkeeping, reporting, billing and collection efforts, including referrals to the Office of the Attorney General.**

Comment:

DEP did not reconcile all changes in accounts receivable balances to authorized activity. This allowed an inappropriate adjustment to go undetected.

Accounts without an identified responsible party were incorrectly reported as receivables. Over one-third of those accounts with responsible parties received no payments or referrals to OAG during the audited period.

- 3. The Department should strengthen internal controls over inventory to better comply with the requirements of the State Property Control Manual and CO-59 reporting instructions as provided by the State Comptroller's Office.**

Comment:

DEP did not reconcile reported additions of real property and equipment to expenditures recorded in the Core-CT general ledger. Without reconciliations, the accuracy of inventory records and reporting could not be determined.

The annual CO-59 report contained computation errors exceeding \$5,000,000.

We were unable to physically locate two items or locate seven rental properties on Core-CT inventory records. We found variances between our count of supplies

and inventory records. Also, quantities of bookstore purchases were entered on inventory records incorrectly.

- 4. DEP should improve its monitoring of grantee use of state funding and the documentation of its monitoring. This should include review of audit reports received from grantees and documentation of either on-site monitoring inspections or the reasons for no on-site inspections.**

Comment:

There were no audit report desk reviews performed. Documentation was not prepared regarding on-site monitoring inspections.

- 5. The Department should seek to amend its Memorandum of Understanding with the State Treasurer to clarify which agency is responsible for reviewing the State Single Audit Reports for the Clean Water Funds.**

Comment:

The Memorandum of Understanding between the Department and the State Treasurer does not identify which agency is responsible for reviewing the State Single Audit Reports for the Clean Water Funds (CWF).

- 6. Reports of state park ticket sales and revenue collected should accurately account for all numbered season passes and/or ticket sales, and if any variances are noted, a review should be undertaken to determine the cause for these variances.**

Comment:

Twenty seven out of 30 field deposit reports showed discrepancies between deposits and recorded sales. Thorough, accurate explanations were not obtained for some of these variances.

- 7. The Agency should deposit and account for cash receipts in a timely manner.**

Comment:

Bookstore deposits were made later than allowed in Section 4-32 of the General Statutes. Postings of cash receipts to Core-CT were not made within the Office of the State Treasurer timeframe.

- 8. There should be segregation of duties between payroll and personnel functions. If such segregation is not possible, there should be complete, written justification detailing why the agency needs both payroll and personnel roles for each employee and what the compensating controls are for each of those employees.**

Comment:

Without independent oversight, dual personnel and payroll roles may allow someone to be falsely entered into the Core-CT system as an employee and be falsely paid. During the audited period, there were seven employees with dual roles.

- 9. The Department should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services.**

Comment:

Fourteen purchase orders were created and/or approved after the receipt of goods or services. This decreased the assurance that funding would be available at time of payment.

- 10. The Agency should institute procedures to ensure that the proper receipt date is recorded on vouchers processed through Core-CT.**

Comment:

Receipt dates were recorded incorrectly for 13 transactions, two of which were in the wrong fiscal year. The recorded receipt dates are used for assigning expenditures to the correct fiscal year for reporting purposes.

- 11. The Department should ensure that for all of its rental properties, there are lease agreements signed by both the Department and the Office of the Attorney General. The Department should take follow-up action when circumstances prevent timely signatures.**

Comment:

DEP did not have complete contracts with the tenants of its properties. Although all 32 leases were signed by the tenants occupying the state-owned houses, 19 of those leases were not approved by the OAG. One of the 19 leases was also missing a DEP signature.

## **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, 2008 and 2009. This audit was primarily limited to performing tests of the agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the agency are complied with, (2) the financial transactions of the agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Environmental Protection for the fiscal years ended June 30, 2008 and 2009, 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the agency's ability to

properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the agency's internal control. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendations:

1. federal funding accounting and drawdowns;
2. accounts receivable accounting, collection and reporting;
3. inventory recordkeeping and reporting;
5. review of audit reports for State grants; and,
8. separation of payroll and personnel functions

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

Our consideration of the internal control over the agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the federal funding accounting and drawdown deficiency to be a material weakness.

### **Compliance and Other Matters:**

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Condition of Records and Recommendations sections of this report as the following item: Recommendation 2. Reporting of accounts receivable.

We also noted certain matters which we reported to agency management in the accompanying Condition of Records and Recommendations sections of this report.

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

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

**CONCLUSION**

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.



Elaine C. O'Reilly  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts