

STATE OF CONNECTICUT



***AUDITORS' REPORT
DEPARTMENT OF ENVIRONMENTAL PROTECTION
FOR THE FISCAL YEARS ENDED
JUNE 30, 2010 AND 2011***

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

Table Of Contents

COMMENTS	1
FOREWORD	1
Significant Legislation.....	2
Councils and Commissions	2
RÉSUMÉ OF OPERATIONS.....	4
GENERAL FUND.....	5
SPECIAL REVENUE FUNDS	5
Environmental Quality Fund.....	6
Conservation Fund	6
Federal and Other Restricted Accounts Fund	7
Grants to Local Governments and Others Fund	8
ENTERPRISE FUNDS	8
Clean Water Fund	8
TRUST FUNDS	10
Management of Federal Grants.....	12
GAAP Report on Liability for Pollution Remediation	14
Property Control and Reporting.....	18
Monitoring of State Grants	21
Timeliness of Permit Processing.....	23
Payroll and Personnel - Segregation of Duties	24
Expenditures - Lack of Receipts and/or Review of Expenditure Support	26
Expenditures - Grant and Contract for Remediation	28
Purchasing - Bids and Contracts	30
Purchasing - Dates of Commitments and Receipts.....	31
Statutory Reporting Requirements.....	33
RECOMMENDATIONS	36
INDEPENDENT AUDITORS' CERTIFICATION.....	42
CONCLUSION.....	45

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

January 8, 2015

AUDITORS' REPORT DEPARTMENT OF ENVIRONMENTAL PROTECTION FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have made an examination of the financial records of the Department of Environmental Protection (DEP) as they pertain to the agency's departmental operations for the fiscal years ended June 30, 2010 and 2011. 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.

The position of commissioner was vacant for the first two months of the audited period. Amey W. Marrella served as commissioner from September 8, 2009 through February 27, 2011. Daniel C. Esty was commissioner from March 8, 2011 through the end of the audited period.

Significant Legislation

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. The agency is referred to as DEEP in the Current Audit Recommendations section of this report.

Public Act 2010-25 required that beginning October 1, 2010, the Department of Revenue Services instead of DEP would receive the deposit value of unredeemed beverage containers that were sold in the state.

Public Act 09-03, effective October 1, 2009, 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.

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 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	\$152,427 in the 2009-2010 fiscal year \$152,617 in the 2010-2011 fiscal year

Connecticut Council on Soil and Water Conservation:

Statutory Authority	Section 22a-315
Relation to DEP	Within 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 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 DEP for administrative purposes only
Number of Members	11
Duties	The commission's two basic responsibilities are the review and approval of local land use controls, and changes thereto, which affect property in the conservation zone, and to select and recommend to the commissioner of DEP the acquisition of a less than fee interests in lands and waters, including scenic easements and development rights within the Gateway Conservation Zone. The commissioner shall not acquire title to scenic easements and development rights with respect to more than 2,500 acres. A conservation fund was subsequently established specifically for the acquisition of such interests in lands and waters.
Receipts	None
Expenditures	None

Connecticut Emergency Response Commission:

Statutory Authority	Sections 22a-600 through 22a-611
Relation to DEP	Within 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, 2010 and 2011, 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:

Fund	Revenue		Expenditures	
	2009-2010	2010-2011	2009-2010	2010-2011
General Fund	\$ 54,039,137	\$ 48,382,734	\$ 69,021,669	\$ 71,200,039
Special Revenue Funds	76,673,907	82,711,282	87,146,501	101,497,173
Capital and Non-Capital				
Project Funds	0	29,556	6,570,717	14,168,920
Enterprise Funds	11,802,439	26,273,358	147,800,691	146,997,615
Total	\$142,515,483	\$157,396,930	\$310,539,578	\$333,863,747

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

Revenue	2009-2010	2010-2011
Restricted Aid:		
Federal	\$ 45,539,192	\$ 69,536,212
Other	15,092,642	18,207,868
Licenses, Permits and Fees:		
Outdoor Recreation	14,703,142	13,563,996
Compliance Permits	16,057,196	21,581,789
Regional Greenhouse Gas Initiative	18,869,751	14,709,897
Other	3,521,954	3,365,021
Bottle Deposit Escheats	25,839,161	11,128,050
Civil Penalties	1,800,812	1,810,237
All Other	1,091,633	3,493,860
Total Revenue	\$142,515,483	\$157,396,930

Expenditures	2009-2010	2010-2011
Personal Services and Employee Benefits	\$ 82,605,083	\$ 86,280,183
Purchased and Contracted Services	7,405,123	12,260,244
Motor Vehicle/Aircraft/Watercraft Costs	2,846,089	3,442,978
Premises and Property Expenses	6,364,938	6,384,678
Information Technology	2,344,364	2,970,213
Purchased Commodities	1,703,827	1,894,820
Grants, Loans, Other Aid	200,233,493	209,194,486
Capital Outlays	6,682,349	11,043,301
All Other Expenditures, Adjustments	354,312	392,844
Total Expenditures	\$310,539,578	\$333,863,747

GENERAL FUND

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

	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Outdoor Recreation Fees	\$ 2,366,898	\$10,488,203	\$13,585,728
Escheats – Bottle Bill	6,032,310	25,839,161	11,128,050
Air, Water and Waste Compliance	1,243,215	15,155,808	21,609,665
Civil Penalties and Fines	1,361,822	1,798,244	1,808,048
Sales	371,305	628,792	637,493
Other	<u>(87,820)</u>	<u>128,929</u>	<u>(386,250)</u>
Total Revenue	<u>\$11,287,730</u>	<u>\$54,039,137</u>	<u>\$48,382,734</u>

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

	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Personal Services	\$32,796,709	\$52,750,709	\$54,189,964
Purchased and Contractual Services	5,120,462	12,152,369	13,463,586
Grants and Aid	859,195	898,588	711,758
Capital Outlays	4,684	897,147	1,002,557
All Other Expenditures	<u>106,442</u>	<u>2,322,856</u>	<u>1,832,174</u>
Total Expenditures	<u>\$38,887,492</u>	<u>\$69,021,669</u>	<u>\$71,200,039</u>

The main reason for the fluctuations in receipts and expenditures is most of the activity that had been accounted for within the Environmental Quality Fund and the Conservation Fund before October 1, 2009, was accounted for in the General Fund after that date. Also, beginning during the 2010-2011 fiscal year, the Department of Revenue Services began to receive the deposit value of unredeemed beverage containers that were sold in the state that DEP received prior to that.

SPECIAL REVENUE FUNDS

During the audited period, DEP utilized seven 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.

<u>Fund</u>	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2009-2010</u>	<u>2010-2011</u>	<u>2009-2010</u>	<u>2010-2011</u>
Environmental Quality	\$ 962,513	\$ 0	\$ 4,230,455	\$ 0
Conservation	2,467,955	0	1,421,546	0
Federal and Other				
Restricted Accounts	73,243,439	82,711,282	65,521,396	78,633,618
Grants to Local				
Governments and Others	0	0	15,832,834	22,271,818
Capital Equipment				
Purchase	0	0	65,356	458,054

All Other Funds	<u>0</u>	<u>0</u>	<u>74,914</u>	<u>133,683</u>
Total Special Revenue Funds	<u>\$76,673,907</u>	<u>\$82,711,282</u>	<u>\$87,146,501</u>	<u>\$101,497,173</u>

Environmental Quality Fund

The Environmental Quality Fund operated under Section 22a-27g of the General Statutes. That fund was used by DEP for the administration of the central office and environmental quality programs authorized by the General Statutes. Pursuant to Public Act 09-03, effective October 1, 2009, the Environmental Quality Fund was eliminated and its activity was recorded mainly in the General Fund. Air emission auction activity was accounted for within the Federal and Other Restricted Accounts Fund beginning October 1, 2009.

Environmental Quality Fund revenue and expenditures for the audited period and the prior fiscal year are summarized below. There was no activity in the Environmental Quality Fund in the 2010-2011 fiscal year.

Revenue	<u>2008-2009</u>	<u>2009-2010</u>
Air, Water and Waste Compliance	\$ 8,135,795	\$2,114,059
Air Emission Auctions	18,718,498	(1,403,890)
Land Use Application Fees	652,066	187,351
Other	<u>332,199</u>	<u>64,993</u>
Total Revenue	<u>\$27,838,558</u>	<u>\$ 962,513</u>

Expenditures	<u>2008-2009</u>	<u>2009-2010</u>
Personal Services and Employee Benefits,	\$26,071,582	\$ (37,393)
Grants and Aid	10,830,972	28,424
Purchased and Contracted Services	4,170,659	(90,616)
Capital Outlays	166,214	0
Distribution of Air Emission Auction Proceeds	12,984,568	4,330,040
All Other Expenditures	<u>813,076</u>	<u>0</u>
Total Expenditures	<u>\$55,037,071</u>	<u>\$4,230,455</u>

Conservation Fund

The Conservation Fund operated under Section 22a-27h of the General Statutes. The fund was to be used by DEP for the administration of the central office and conservation and preservation programs authorized by the General Statutes. Pursuant to Public Act 09-03, effective October 1, 2009, the Conservation Fund was eliminated and thereafter its activity was recorded mainly in the General Fund.

Conservation Fund revenue and expenditures for the audited period and the prior fiscal year are summarized below. There were no revenues or expenditures in the Conservation Fund in the 2010-2011 fiscal year.

Revenue	<u>2008-2009</u>	<u>2009-2010</u>
Hunting and Fishing	\$ 3,319,885	\$ 902,072
Vessel Registration Fees	5,576,573	(798,691)
Camps and Parking	4,651,955	3,080,661
Gasoline Tax*	3,000,000	0
Rent, Other	<u>1,216,505</u>	<u>(716,087)</u>
Total Revenue	<u>\$17,764,918</u>	<u>\$2,467,955</u>

**Section 12-460a of the General Statutes provided that prior to October 1, 2009, the commissioner of the Department 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.*

Expenditures	<u>2008-2009</u>	<u>2009-2010</u>
Personal Services and Employee Benefits	\$10,018,316	\$ 154,779
Purchased and Contracted Services	6,012,856	1,282,533
Grants and Aid	179,761	(18,181)
Capital Outlays	<u>395,074</u>	<u>2,415</u>
Total Expenditures	<u>\$16,606,007</u>	<u>\$1,421,546</u>

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 58 non-federal restricted accounts. The largest accounts were the Regional Greenhouse Gas Account, the Clean Air Act Account, and the Stationary Air Emissions Monitoring Account. DEP also charged expenditures to this fund for 63 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:

Revenue	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Federal Aid	\$31,372,348	\$36,025,443	\$46,646,685
Non-Federal Aid	18,076,582	15,092,642	18,178,312
Air Emission Auctions	0	18,869,751	14,709,897
Miscellaneous Fees	3,774,943	3,258,749	3,178,177
Other	<u>4,673</u>	<u>(3,146)</u>	<u>(1,789)</u>
Total Revenue	<u>\$53,228,546</u>	<u>\$73,243,439</u>	<u>\$82,711,282</u>

Expenditures	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Personal Services and Employee Benefits	\$32,299,869	\$26,780,073	\$29,805,520
Purchased and Contracted Services	2,297,516	1,918,964	4,811,278
Premises and Property Expenses	1,116,729	1,113,839	1,549,660
Information Technology	1,079,366	1,122,112	1,859,327
Grants and Aid	9,134,595	18,842,013	19,811,106
Capital Outlays	3,791,986	3,123,190	2,236,771
Distribution of Air Emission Auction Proceeds	0	11,378,442	17,057,633
All Other Expenditures	<u>1,734,941</u>	<u>1,242,763</u>	<u>1,502,323</u>
Total Expenditures	<u>\$51,455,002</u>	<u>\$65,521,396</u>	<u>\$78,633,618</u>

The revenue and expenditures from the auction of air emissions were accounted for within the Environmental Quality Fund until October 1, 2009. Grants and aid expenditures increased mainly due to federal Clean Water Program grants.

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 \$15,832,834 and \$22,271,818 during the 2009-2010 and 2010-2011 fiscal years, respectively. The majority of expenditures were for acquisition of open space conservation/recreation, grants for hazardous waste, recycling facilities, flood control 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.

Account

- Water Pollution Control State Account
- Water Pollution Control Federal Revolving Loan Account
- Long Island Sound Clean-Up Account
- Drinking Water State Account
- Drinking Water Federal Revolving Loan Account

Enterprise Fund

- CWF – State Account
- CWF – Federal Account
- Long Island Sound Account
- CWF – Drinking Water Account
- CWF – Drinking Water Federal Loan Account

The schedule below shows the revenue and expenditures for the clean water funds recorded by all state agencies.

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2009-2010</u>	<u>2010-2011</u>	<u>2009-2010</u>	<u>2010-2011</u>
State Account:				
DEP	\$	\$	\$ 38,035,621	\$ 42,330,992
Office of the State				
Treasurer	<u>447,332</u>	<u>300,049</u>	<u>438,041</u>	<u>445,249</u>
Total	<u>447,332</u>	<u>300,049</u>	<u>38,473,662</u>	<u>42,776,241</u>
Federal Account:				
DEP	11,802,440	26,273,358	108,947,086	104,682,767
Office of the State				
Treasurer	<u>1,149,908</u>	<u>829,465</u>	<u>0</u>	<u>(33)</u>
Total	<u>12,952,348</u>	<u>27,102,823</u>	<u>108,947,086</u>	<u>104,682,734</u>
Long Island Sound Account:				
DEP	0	0	41,317	0
Office of the State				
Treasurer	5,410,486	4,204,519	3,065,716	0
Department of Transportation	0	0	6,312	12
Department of Motor Vehicles	<u>0</u>	<u>(115,931)</u>	<u>0</u>	<u>0</u>
Total	<u>5,410,486</u>	<u>4,088,588</u>	<u>3,113,345</u>	<u>12</u>
Drinking Water Federal Loan Account:				
DEP	0	0	830,691	(16,144)
Office of the State				
Treasurer	83,452	8,513	235,132	1,578,636
Department of Public Health	<u>4,632,432</u>	<u>6,050,344</u>	<u>2,998,467</u>	<u>4,414,872</u>
Total	<u>4,715,884</u>	<u>6,058,857</u>	<u>4,064,290</u>	<u>5,977,364</u>
Total Clean Water Funds	<u>\$23,526,050</u>	<u>\$37,550,317</u>	<u>\$154,598,383</u>	<u>\$153,436,351</u>

Receipts of the clean water funds were primarily from federal grants and the sale of bonds. Expenditures were mainly for grants or loans to municipalities for the construction, expansion or improvement of wastewater treatment facilities and administrative expenses.

The Clean Water Fund was audited by independent public accountants for the period under review.

CAPITAL and NON-CAPITAL PROJECTS FUNDS

Expenditures from capital/non-capital projects funds totaled \$6,570,717 and \$14,168,920 in the fiscal years ended June 30, 2010 and 2011, 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 open space 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:

<u>Fund</u>	<u>Purpose</u>
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 47-65 of the General Statutes for the care and management of reservation lands
James L. Goodwin	Educational activities and maintenance of the buildings and grounds of the James L. Goodwin Conservation Center in Hampton
Hopemead	Development of property previously conveyed to the state in Bozrah
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 follow:

	<u>July 1, 2009 through June 30, 2011</u>		<u>Fund Balance*</u>
	<u>Receipts</u>	<u>Disbursements</u>	<u>June 30, 2011</u>
Fund:			
Culpeper	\$ 115	\$ 0	\$ 20,318
Eastern Tribe Pequot Indians	198	0	35,141
James L. Goodwin	94,546	92,867	323,173
Hopemead	548,115	368,188	2,786,971
Kellogg	606,555	717,613	1,110,055
Topsmead	141,154	163,433	2,222,987
Wagner-Firestone	1,168	0	206,934
Flora Werner	2,388	9,196	416,865
John J. White and White Memorial Foundation	<u>229,998</u>	<u>143,356</u>	<u>3,445,161</u>
Total	<u>\$1,624,237</u>	<u>\$1,494,653</u>	<u>\$10,567,605</u>

**investments at market value*

Note – The fund balances for the James L. Goodwin and Kellogg funds do not include investments held by trustees other than the State of Connecticut. For those funds, DEP has the right to investment income, but may not invade the 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 action as described in the following sections.

Since DEP was merged into the Department of Energy and Environmental Protection (DEEP) on July 1, 2011, the Recommendations and Agency Responses shown below refer to the agency as DEEP.

Management of Federal Grants

Criteria: Federal cash management requirements dictate that drawdowns of federal funds to reimburse state funded expenditures be made shortly after the expenditures occur.

Core-CT is the official accounting system for the agency. Each federal program has an assigned special identification code (SID) within Core-CT. State accounting practices require that all federal expenditures be accounted for within designated coding, the Federal and Other Restricted Accounts Fund Special Identification Codes

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: Accounting Deficiencies:

DEEP was unable to provide accurate, up-to-date accounting for each of its federal grants or federal grant SIDs during the audited period.

Federal SIDs should accurately reflect activity for each of the agency's federal programs within the reporting period for each program. Because of coding inaccuracies, the agency needed to post journal entries to adjust expenditures coded to the federal SIDs. However, the adjusting entries were not timely posted. As a result, Core-CT did not support federal reports.

For the five programs we reviewed, expenditures posted to federal SIDs did not agree with expenditures reported in federal reports covering the same periods.

For fiscal year-end reporting, the agency could not provide an accurate federal receivable for each of its federal programs.

During our review of receivables activity from fiscal year 2011 through 2013:

- We noted agency records, developed from activity posted to Core-CT, indicated receivable balances in 102, 110, and 113 grants as of June 30, 2011, 2012 and 2013, respectively. In each year, agency records indicated negative receivables. We found 46 negative receivable balances totaling \$8.8 million, 33 negative receivables totaling \$10.5 million, and 48 negative receivables totaling \$19.2 million as of June 30, 2011, 2012 and 2013, respectively.
- We found that 19 grants were reported with the same receivables amounts for at least three years in a row. Either the amounts of receivables were inaccurate or cash receipts were not realized for those receivables for years.

Drawdowns:

Of the five grants we reviewed, the agency was not making drawdowns of federal funds in a timely manner on four of them. Based on information provided to us, the agency processed drawdowns between several months and three years after the corresponding expenditures were incurred.

Effect: Core-CT does not accurately reflect accounting for all federal programs.

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

Grant receivables could not be accurately reported.

Cause: Insufficient attention was dedicated to this area.

Recommendation: The Department of Energy and Environmental Protection should improve its accounting for federal grants and process timely drawdowns of federal funds.

- DEEP should code federally funded expenditures to federal accounts and process any necessary coding adjustments within grant periods or shortly afterwards.
- DEEP should determine the status of SIDs with the same calculated receivable balances for multiple years, and whether all of the grants with calculated receivable balances are still active.
- SIDs with no active grant accounting within them should be closed out.
- DEEP 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: “The Department of Energy and Environmental Protection agrees with the finding and recommendation and has allocated additional resources to configure, reconcile, and close out federal grants in a timely manner. Additional roles have been assigned to eligible staff to allow for routine federal draw downs. Grant configuration using Core-CT Project tools have improved the agency’s ability to isolate grant eligible costs and make adjustments on a timely basis. Inactive accounts have been closed and residual funds credited to the general fund. In addition, DEEP recognizes that there are some inadequacies in the management of its allotments related to federal grants and while some of the inadequacies are federally driven (e.g. federal budget cuts, late arriving or partially funded grants) the agency will devote additional resources to manage the multitude of diverse grants efficiently.”

GAAP Report on Liability for Pollution Remediation

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, requires the state to report a liability for its obligation to address current and potential detrimental effects of existing pollution by participating in pollution remediation activities.

The Office of the State Comptroller requires that DEEP annually report its liability for pollution remediation activities as of June 30th.

Condition: The agency reported liabilities for remediation of six sites totaling:

- \$55,848,113 as of June 30, 2011
- \$44,506,766 as of June 30, 2012, and
- \$37,236,411 as of June 30, 2013

When we initially reviewed the reported liabilities for June 30, 2011, the agency did not provide us with any documentation to support the \$55 million reported. We requested that DEEP compile supporting documentation and were provided with narratives and correspondence from contractors and the federal Environmental Protection Agency. The reported liabilities for five of the six sites were based on estimates. Although we were provided with various estimates, they were as of December 2011, and did not agree with amounts reported for June 30, 2011. Only \$2.7 million of the more than \$137 million of liabilities was supported.

For the June 30, 2012 and 2013 reports, the agency again did not have support for all amounts reported. Fifty-six percent and forty percent of the

dollar amounts were not supported, respectively.

Because the agency has consistently failed to maintain documentation to support all the amounts reported, there was a significant control deficiency in the preparation of this GAAP Report.

Effect: The amounts reported as liability for pollution remediation on the state's financial statements are not adequately supported and may be materially misstated.

Cause: The agency did not document the development of its original estimates, which were also used as the basis of reporting in subsequent years.

Recommendation: The Department of Energy and Environmental Protection should document its development of calculations of liability for pollution remediation for inclusion in the state's financial statements. (See Recommendation 2.)

Agency Response: "The agency recognizes the importance of complying with GASB 49 and reporting pollution liabilities. The Department's remediation and fiscal staff spent a considerable amount of time working with the State's Comptroller Office developing guidelines for the new requirement. We continue to work diligently developing forms, analyzing data, drafting guidance documentation, developing criteria, documenting cost estimate methodology and reevaluating our assessments. The Comptroller's GAAP Unit continues to provide additional guidance to the agency and plans to standardize state forms for this requirement. Our estimates are based on data collected from consultants and expenditure projections by remediation staff. The information is analyzed on an annual basis and will change based on updated monitoring results, federal guidance and participation and a variety of other factors. The majority of remediation projects will span several years. In these cases, the agency's estimate of current value should be based on reasonable assumptions about future events. The reasonableness of remediation liabilities should be reassessed as new information becomes available and, at a minimum, estimates should be updated for each reporting period. The Agency will continue to use available resources to collect data and update estimates for reporting. The Department's primary goal is to evaluate and consistently project pollution liabilities with guidance from the State's Comptroller and concurrence with the State Auditors of Public Accounts. Pollution remediation liability may be relatively limited at initial recognition but would increase over time as more components become measureable. Therefore staff assessments and projections, based on experience and available data, will continue to be our primary basis for calculating the liability. We will ask staff to clearly outline their calculation methodology using consistent elements prescribed by OSC."

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 that the federal government assume liability for some of DEP's expenses to the extent provided for by the Federal Water Pollution Control Act.

Section 22a-452a of the General Statutes provides that any amount paid by the commissioner of the Department 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 and the amount of receivables estimated to be uncollectible to the Office of the State Comptroller for incorporation into the state's financial statements.

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 should be sent to debtors within 45 days of the establishment of a receivable, and if no response is received, a second collection letter should be sent within 30 days of the first collection letter. Although this policy is unwritten, it is understood by DEP staff responsible for sending the collection letters.

Condition: Lack of Reconciliation of Account Activity:

In our last audit report, we identified a variance between the beginning balance, ending balance, and annual account activity of \$1.9 million for the fiscal year ended June 30, 2009. We recommended that annual reconciliations of account activity be performed. Reconciliations were not performed for the fiscal years ended June 30, 2010 and 2011. Variances for those years totaled \$1.3 million and \$1.8 million, respectively.

Billing and Collection Efforts / Balances Reported:

As of June 30, 2011, DEP records contained 356 receivables, with responsible parties identified, totaling \$22.6 million. Of those 356 accounts, balances totaling \$13 million were over six years old and did not have liens against the related real estate. Accounts over six years old should reasonably be deemed uncollectible. The amount reported as estimated uncollectible on that date totaled \$4.1 million, a difference of almost \$9 million.

Individual Cases Reviewed:

Five of the ten new cases we reviewed had initial collection letters sent to the responsible parties between 56 and 257 days after the creation of the receivable, which is beyond the 45-day agency policy.

Four of the ten cases we reviewed for lien referral to the Attorney General (AG) were not submitted to the AG within a reasonable time. The lengths of time between the grace periods in the second demand letters to referrals were 18 months, two years and five years. One 2008 case had not been referred as of May 2013, and the agency could not locate the case file. The agency failed to follow through on one case that was referred to the AG, but had no apparent action taken in four years.

As of May 2013, uncollectible balances for two cases totaling \$761,000 were not written off. The balances were determined to be uncollectible in 2003 and 2009.

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

Cause: Additional attention needs to be dedicated to this area.

Recommendation: The Department of Energy and Environmental Protection 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 3.)

Agency Response: “DEEP agrees with the finding and has taken many steps to address the deficiency within the Spills Cost Recovery Program. The Department participated in multiple LEAN exercises documenting all components of the program from initial emergency dispatch calls through receipt processing of the recovery to include Attorney General Referrals and/or state write-off. Changes will be made to the state contract requiring emergency spill vendors to expedite delivery of invoices so that collection attempts can begin on a timely basis. The agency plans on using computer tablets in the field to generate authorization for vendor to proceed with clean-up work in accordance with terms of the state contract. This will ensure that vendor invoices are accurate and comply with the state contract. Incident reports will be delivered timely allowing the receivable to bill and improving our collection success. The receivables will be managed in the agency’s consolidated financial application, insuring improved reporting and consistent collection attempts. 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. The Department has been working with the Attorney General’s Office reviewing cases older than five years in order to make a determination to pursue collections or submit for write-off. The Department is also using agency resources for lien notices and additional collection services. We will pursue a third party collection vendor and/or services of DAS Collections to assist with recoveries. In regard to the reconciliation process, the agency reconciles 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 from taking place.”

Property Control and Reporting

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

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, 2010 and 2011 totaled over \$500 million, with around 92 percent of that being real property (land and buildings), seven percent equipment, and one percent other.

Reconciliation of Expenditures to Reported Additions:

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

	<u>Reported Additions</u>	<u>Expenditures</u>	<u>2-year variance</u>
Land	\$5,665,609	\$5,948,419	(\$282,810)
Buildings	3,180,153	7,897,853	(4,717,700)
Equipment	4,255,957	3,435,286	820,671
Software	<u>239,170</u>	<u>590,686</u>	<u>(351,516)</u>
Total	<u>\$13,340,889</u>	<u>\$17,872,244</u>	<u>(\$4,531,355)</u>

- Although a \$1.7 million balance was reported for easements as of June 30, 2010, no amounts were reported for easements in the 2011 fiscal year. We were informed that reporting of easements was inadvertently skipped in that year.

Software Recordkeeping and Reporting:

Records for agency software should be maintained in the asset management module in Core-CT. However, the agency maintained its own record of licensed software and did not use Core-CT as its complete record. We compared the agency record to Core-CT asset and expenditure records and totals reported on the CO-59 form. We found multiple variances between the three including:

- Items costing over \$1,000 each but not reported on the CO-59 form
- Items reported on the CO-59 form but not on inventory records
- Items recorded in Core-CT as licensed software but reported as owned software, and
- Expenditures coded as software licenses/rental but on no inventory record.

- Agency developed software, to which the state has ownership, is not recorded in the asset management module of Core-CT, or reported on the CO-59 form. We were informed that five software applications were developed during the audited period.

Physical Inspections:

- Two out of a sample of 17 equipment items listed on the inventory records could not be physically verified.
- Two out of 20 types of supplies had different counts on hand than on the inventory records.

Effect: Without a reconciliation of expenditures to additions reported on the CO-59 form, the accuracy of balances reported on the CO-59 form 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.

Recommendation: The Department of Energy and Environmental Protection should strengthen internal controls over inventory to better comply with the requirements of the State Property Control Manual and CO-59 reporting instructions as provided by the Office of the State Comptroller. (See Recommendation 4.)

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

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. DEEP has further minimized the warehousing of supply

items to only those items not readily available next-day from State contract vendors to mitigate this issue. In addition, further controls have been implemented to ensure a secure warehouse operation with access for only authorized staff. DEEP will perform monthly inventory counts to verify quantities reported through Core-CT.”

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, 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 \$300,000 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 provides agencies with guidelines for desk reviews of audit reports.

For some of the agency’s grants, the agreements between the agency and grantee provide for the grantee to submit a final report and/or a final financial report.

Condition:

We reviewed a sample of 18 grants and found that DEP has implemented monitoring techniques for the state grants it administers. However, the following deficiencies were identified:

- Of the 13 projects in our sample that required site visits, we noted exceptions for five of them. On-site inspections were either not performed or not documented. Some project managers informed us that they did perform on-site monitoring inspections, but they did not document those inspections.
- Of the nine projects in our sample that required the grantee to submit either final report, five of those had no such reports. We were informed that the agency determined that those reports were not applicable for those projects. However, documentation was not maintained to confirm that sufficient information was obtained from

the grantees to eliminate the need for separate reports.

- There were no desk reviews performed of grantee 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.

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

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

Recommendation: The Department of Energy and Environmental Protection should improve its monitoring of grantee use of state funding and the documentation of its monitoring. This should include review of grantee audit reports and documentation for on-site monitoring inspections and grantee reporting. (See Recommendation 5.)

The Department of Energy and Environmental Protection should seek to amend its memorandum of understanding with the State Treasurer to clarify which agency is responsible for reviewing the State Single Audit Reports for the clean water funds. (See Recommendation 6.)

Agency Response: "DEEP 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 DEEP'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 DEEP's program/contract managers for each municipality and non-profit agency who have received a single audit. In doing this, every situation for which DEEP 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. It should also be noted that the majority of project expenditures are reimbursed by the Department through monthly progress remittances signed by an authorized municipal official attesting to the costs and eligibility of project/grant expenditures. Many remedial projects are overseen by a Licensed Environmental Professional which provides validation that the costs have been incurred and the costs are within the scope of the project. Other projects have consulting engineers providing contract administrative

and resident inspection services reviewing and signing off on payment submissions. The Department recognizes the need to be consistent across programs and will continue to work to ensure compliance with single audit requirements in manner that avoids duplicative responsibilities and makes best use of state resource time.

In regard to the Clean Water Fund Program, projects are reviewed in a similar manner mentioned above utilizing consulting engineers. Site visits by DEEP staff are routine. Progress payments are authorized by town officials and carefully reviewed by DEEP staff. The Program is reviewed by Federal and Program Auditors on an annual basis. The Department will accept the responsibility of single audit and will approach it in the same manner utilizing Core-CT reports and validation by municipal auditors.”

Timeliness of Permit Processing

Criteria: Section 22a-430 of the General Statutes deals with water pollution control permits. Permits issued pursuant to that section shall be for a period not to exceed five years.

Section 4-182 of the General Statutes provides that, when a permittee has made a timely and sufficient application for the renewal of a permit or a new permit with reference to any activity of a continuing nature, the existing permit shall not expire until the application has been finally determined by the agency.

Condition: We reviewed revenue for a sample of 20 water pollution control permits. We noted five instances in which annual or application fees had been paid within the audited period, but the permit had expired years prior to the audited period.

We were informed that, on occasion, some clients are mistakenly missed in the renewal process and that Section 4-182 allows a permit to continue as long as an application was received in a timely manner.

For three of these clients, we noted that an application was received prior to the permit expiring; however, a new permit was not issued until years later. For the other two clients, we noted that an application was not received prior to the permit expiration; however, the clients were allowed to continue operating under the expired permits.

We consider there to be an excessive amount of time to continue permits beyond expiration.

Effect: The permitting provided for in the General Statutes is in place to protect the

waters of the state. Lack of timely permitting activities within the agency may allow clients to discharge substances in excess of levels that would be allowed under a current permit.

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

Recommendation: The Department of Energy and Environmental Protection should find ways to issue permits more timely. (See Recommendation 7.)

Agency Response: “DEEP agrees with the finding and has made tremendous progress in expediting permit review and processing. The State has invested in technology upgrades and begun accepting applications through a web based application. This process ensures that the application is complete and allows the applicant to monitor its review status and deliverable. As the audit condition describes, state law allows DEEP to continue a permit in effect, provided we have received a complete application in a timely manner. This provision of the Connecticut General Statutes is important in that it helps avoid interruption to Connecticut’s businesses when DEEP’s permit processing resources are not able to meet demand. DEEP prioritizes permit renewal applications and first focuses our review upon the need to modify permits to include either new environmental standards or conditions or where necessary to meet a permittee’s business needs.

While we agree that the exceptions in the tested case includes permits that have been continued in effect for significant periods of time, the continued permits contain terms and conditions to assure proper environmental controls and we believe that in these cases the delays have not caused any significant, negative environmental outcomes, delayed a permittee’s business activities nor reduced the collection of any annual fees owed the State. Further, a number of the cases have ultimately had existing permits reissued or have come under the coverage of an alternative regulatory mechanism.

We continue to monitor water discharge permits coming up for renewal, target classifications for streamlined permit mechanisms and otherwise prioritize and assign available resource to process renewal applications.”

Payroll and Personnel - Segregation of Duties

Criteria: Adequate segregation of duties should exist between payroll and personnel functions. Access to the Human Resource Management System (HRMS) 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: In our prior audit we identified seven employees with access to both personnel and payroll functions in Core-CT. We reported: “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.”

Our current review of DEP employees revealed four employees with access to both personnel and payroll functions in Core-CT. Those four 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. In our current review, DEP again did not provide full justification for the dual roles.

Effect: When there is no segregation 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 the dual roles.

Recommendation: The Department of Energy and Environmental Protection should improve segregation of duties between payroll and personnel functions. If such segregation is not possible, there should be complete, written justification detailing why the agency needs both payroll and personnel roles for each employee and what the compensating controls are for entries made by each of those employees. (See Recommendation 8.)

Agency Response: “DEEP agrees with the audit finding and recognizes the need for segregation of duties. The Department has continued to improve managing roles with limited resources and has begun using additional control procedures based on recommendations we received from Core-CT security in 2010 and controls developed by the Agency. These have been included in our established audit procedures. The internal audit procedures will continue as follows:

- a. A Core-CT Reported Time report is run every pay period for all employees. All hours that are coded on the timesheets are audited.
- b. Any timesheet revisions/changes entered by an HR user are approved by a separate individual with HR roles.

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

Purchasing, Receiving and Expenditures

We reviewed expenditure samples of 72 transactions, 35 in the 2010 fiscal year and 37 in the 2011 fiscal year. We found exceptions in 40 of those transactions (55 percent). The next five recommendations reflect the most notable exceptions.

Expenditures - Lack of Receipts and/or Review of Expenditure Support

Criteria: Expenditures should not be approved without verification of contract compliance or other pricing requirements.

The agency rents vehicles from the Department of Administrative Services (DAS). DAS General Letter 115 requires that an agency head decide whether an employee has a justifiable need to park a state-owned or rental vehicle at his or her home on a continuous basis, and if so, to request permission from the Director of DAS Fleet Operations. Also, agencies shall keep daily mileage logs and on a monthly basis shall submit a usage report to DAS Fleet Operations.

Condition: We noted payments to vendors without receipts or review of detailed support for the transactions, including the level of detail required in contracts:

- Lack of contractually required names and titles of vendor staff who

were billed to the agency

- No check of prices and invoices at different units than in contracts
- No details for vendor's vehicle usage charge
- Lack of review caused overpayment for tool rentals and vendor mileage
- Fuel purchases were not supported by required information

Support for rental of state vehicles:

- Monthly usage reports were not always prepared for the vehicles in our sample.
- Employees in our sample parked state vehicles at home on a continuous basis. The agency did not have permission from DAS for home garaging of those state vehicles.

Effect: Lack of review of vendor invoice details may cause overpayments. State vehicles may have been used inappropriately.

Cause: The cause was not determined.

Recommendation: The Department of Energy and Environmental Protection should review vendor invoices for compliance with contracts or other pricing requirements. (See Recommendation 9)

The Department of Energy and Environmental Protection documentation of state vehicle usage should be improved and DAS approval should be obtained for employees who have a justifiable need to park a state vehicle at home on a continuous basis. (See Recommendation 10.)

Agency Response: "DEEP recognizes the findings and has recently taken steps to resolve both findings identified above, but will not be apparent for several audit cycles. The latest Core-CT upgrade (March 2013) required that all purchase orders be "received" prior to payment. This role has been distributed to the Department's business officers along with the responsibility to verify contract pricing and that payments have been properly authorized prior to completing this step in workflow.

Also, the department is currently validating all department staff garaging state vehicles at home to ensure that staff are properly authorized and that the requirements for business need and reporting identified in DAS General

Letter 115 are adhered to. We expect this exercise to be completed by the end of calendar year 2014.”

Expenditures - Grant and Contract for Remediation

Criteria: Remediation Contract:

Proper internal controls require that:

- Contracts are awarded based on legitimate bids.
- Significant changes to contracts, such as cost overruns, should be justified.
- Expenditures are supported by detailed vendor invoices and those invoices are reviewed and approved for compliance with contractual requirements.

Remediation Grant:

DEP awarded two grants to a town for remediation of contamination of a school’s athletic fields. Public Act 07-7 authorizes the State Bond Commission to approve and DEP to contract for the funding of a remediation project.

Condition: Remediation Contract:

A vendor was chosen from among seven vendors as a remediation contractor for the Leaking Underground Storage Tank Program. The total contract for remediation of one site was \$117,801. The total paid was \$236,912. It is common for remediation costs to exceed the original budget because of unforeseen conditions; however, paying more than double the original estimate should be justified.

Internal controls over this contract were poor. DEP:

- Approved payments without obtaining the level of detail required in the contract and needed for adequate review.
- Approved payments that were in excess of the estimates without obtaining explanations, even when the contractor was asked for explanations.

Remediation Grant:

In the 2010 and 2011 fiscal years, DEP paid a town a total of \$2.8 million for a remediation project. The DEP project manager determined that all expenditures submitted for reimbursement by the town were not related to remediation of contamination. DEP reimbursed the town for those expenditures anyway. The amount paid that was not for remediation totaled \$1,080,346. The total amount of the contract with the town was not exceeded. However, the scope of the project was not accurate.

Effect: For the remediation contract, there are questioned costs because of the poor procedures from the contracting process until the last payment.

For the remediation grant, there appears to be a payment that was outside the scope of the contract.

Cause: Regarding the remediation contract, which was federally funded, we were informed that the agency was rushed to comply with the timing of the federal grant process.

Regarding the remediation grant, we were informed that the total grant was paid because that amount had been approved in the public act. However, the agency's contract with the grantee was only for remediation.

Recommendation: The Department of Energy and Environmental Protection's procedures for remediation contracts should be improved to require that:

- Contracts are awarded based on legitimate bids, when applicable.
- Significant changes to contracts, such as cost overruns, are justified.
- Expenditures are supported by detailed vendor invoices and those invoices are reviewed, and, approved only when in compliance with contractual and funding requirements. (See Recommendation 11.)

Agency Response: "The agency agrees that improvements can be made to the state contract. The contract provides standard costs that are carefully reviewed by DEEP staff and their management prior to payment authorization. The DAS contract is designed as a time and materials contract. It's not unusual given the nature of the tasks that unforeseen costs will present themselves from time to time. The State proposed an estimate based on preliminary information but is bound to the contractor based on terms and conditions of the state contract. Through use of the state contract, the vendor is unable to negotiate the cost for the services and must use the predefined costs included in the contract. The Agency's position is that similar results would have occurred for costs related to the UST clean-up utilizing any state

vendor under this contract. The Department had staff on-site throughout the clean-up monitoring activity and authorizing work tickets to the vendor. Work tickets are used to insure that the activity is appropriate and that services are consistent with the contract. In addition, materials are closely monitored with tickets and were matched to invoicing. This particular site had federal contributions and additional conditions on the work. Compliance with these conditions met state and federal guidelines are consistent with the State's Remediation Contract.

In regard to Fermi High School, the legislators approved \$3.3M for remedial work on the High School Field Project. A portion of the funding was cancelled (\$500K) as part of a deficit mitigation plan. The remaining \$2.8M was paid for remedial work (\$1.7M) and other field improvements (\$1.1M). The Department disagrees that the agency overpaid the project by \$1.1M. The Department carefully reviewed a payment submission by the town separating remedial costs from non-remedial costs. The Department immediately paid the remedial portion. The agency was contacted directly by the town and their representatives asking that we pay the additional costs for the project. The authorization was intended specifically for the Fermi High School Project and was not part of DEEP's capital programs. This distinction is relevant as the agency would not support or pay any non-remedial costs using the agency's authorization. After further discussion with stakeholders, the bond commission approved the remaining \$1.1M authorization and the Department entered into a contract with the town to reimburse the additional costs. The Department agrees that language pertaining to the authorization, bond commission action and contract should have included other related work at the site. A significant amount of documentation was maintained by the Agency pertaining to this request. Payment authorization will continue to be reviewed by staff, supervisors and management. Contract scopes will be carefully managed and will be consistent with legislative intent and program requirements."

Auditors' Concluding Comments:

The agency asked the remediation contractor for a detailed explanation for charges for nine extra days. Although such an explanation was not received, the contractor was paid anyway.

Purchasing - Bids and Contracts

Criteria:

The Department of Administrative Services (DAS) contract used by the agency for printing services required that the agency obtain at least three written quotes from contractors selected from those listed within the contract award.

DAS General Letter 71 requires that purchases from \$2,500 to \$10,000 be based upon, when possible, three written quotes from responsible and

qualified sources of supply.

Condition: Four purchases lacked multiple quotes:

- Two purchases lacked support for hiring the vendors as sole source. The expenditures were \$3,300 and \$9,446.
- Two transactions were for printing that was performed by one vendor. The vendor was under state contract, and the agency did not obtain the required three quotes. The total paid in the 2011 fiscal year was \$49,987. We also noted that \$51,985 was paid in the 2012 fiscal year.
- Prices for specific items purchased were not in contracts.

Effect: Expenditures may exceed the amounts necessary for the transactions.

Cause: There was a failure to implement internal controls.

Recommendation: DEEP should strengthen controls over budgeting for projects and comply with state bidding requirements. (See Recommendation 12.)

Agency Response: “DEEP recognizes the inconsistency in documenting multiple quotes for purchase under GL71b and the existing printing contract. Purchasing staff have been made aware of the requirement under the contract to obtain three quotes and have been reminded of the requirement to document the bid process under DAS General Letter 71.”

Purchasing - Dates of Commitments and Receipts

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: Receipt dates were recorded incorrectly for nine transactions. No dates were recorded in the wrong fiscal year.

Ten 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 funding will be available at the time of payment.

Inaccurate receipt dates may 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 of Energy and Environmental Protection should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. (See Recommendation 13.)

The Department of Energy and Environmental Protection should institute procedures to ensure that the proper receipt date is recorded on vouchers processed through Core-CT. (See Recommendation 14.)

Agency Response: “DEEP recognizes that there are inconsistencies in the reporting of receipt dates on AP [accounts payable] vouchers. DEEP has taken efforts to provide staff with additional guidance for the determination of the appropriate receipt date after this finding was presented in the prior audit period. It is expected that DEEP’s accuracy in recording receipt dates will improve in the future.

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. Also, often times PO’s are based on estimated amounts and/or quantities and actuals are not known until a vendor invoice is presented for payment. At that time, final adjustments are made to the PO value for payment and are as likely to result in a reduction to encumbrances as an increase to encumbrances. DEEP will make every effort to minimize the frequency of this occurrence, but does not believe it will be eliminated entirely.”

Statutory Reporting Requirements

Criteria: Connecticut General Statutes:

Reports to be submitted to the Governor and General Assembly:

Section 22a-21 requires a comprehensive plan for the development of outdoor recreation resources and other natural resources of the state. The plan is due each November of even numbered years.

Section 22a-354x requires an annual written report summarizing the activities of the department concerning the development and implementation during the previous fiscal year of various sections of the statutes regarding water resources.

Reports to be submitted to the joint standing committee of the General Assembly having cognizance of matters relating to the environment:

Section 23-8 requires annual reports due January 1st on the strategy and progress made towards the goals for acquisition of open space for recreation.

Section 26-107h requires an annual report on the program established under section 26-107f for the conservation of non-harvested wildlife.

Condition: We found the following reporting deficiencies:

- | | |
|----------|--|
| 22a-21 | The plan was prepared for six-year periods in September 2005 covering 2005 to 2010, and in September 2011 for 2011 to 2016, but should have been prepared on a biennial basis. |
| 22a-354x | Annual reports were prepared in December 2010 and December 2011. However, the content of those reports did not include all the reporting requirements such as the coordinated water system plan and the annual report on water planning process. |
| 23-8 | The reports on acquisition of open space for recreation were submitted three months and eight months late in the 2010 and 2011 fiscal years, respectively. |
| 26-107h | We were unable to obtain reports on the program established under section 26-107f for the conservation of non-harvested wildlife. |

- Effect:* Intended recipients did not receive statutorily required reports.
- Cause:* Lack of established procedures caused the condition.
- Recommendation:* The Department of Energy and Environmental Protection should establish a method to identify and comply with all applicable statutorily reporting requirements. (See Recommendation 15.)
- Agency Response:* “DEEP agrees with the finding and will continue to plan ahead in order to meet reporting deadlines. The Department has requested additional time on occasion due to budget and staffing limitations. DEEP has numerous reporting requirements dictated by both state and federal law, some tied to funding and measuring performance, while others are solely for planning purposes. Many of these reports have outlived their utility or been replaced by alternative monitoring strategies. DEEP is working with the General Assembly and its federal partners to merge duplicative reports or eliminate unnecessary reporting requirements.

Specific comments on noted conditions:

Section 22a-21

DEEP prepares a State Comprehensive Outdoor Recreation Plan (SCORP) under state statute as well as a federal requirement, these requirements have different cycles. In an effort to align the production the SCORP plan, a resource intensive exercise, we have adopted the federal 5-year cycle which is tied to federal financial assistance. DEEP will work with the General Assembly to modify the state statutory requirement.

Section 22a-354x

Section 22a-354x C.G.S. states that “The commissioner shall prepare and submit . . . , on or before December first of each year, a written report summarizing the activities of the department concerning the development and implementation of sections 19a-37, 22-6c, 22a-354c, 22a-354e, 22a-354g to 22a-354bb, inclusive, 25-32d, 25-33h and 25-33n,” (emphasis added). The submitted reports detail the efforts of DEEP regarding aquifer protection and water planning including reference to our collaborative efforts with the Department of Public Health. The water supply planning sections included in 25-33d, 25-33h, and 25-33n, fall under the purview of the Department of Public Health. Section 25-32n specifies that “the Commissioner of Public Health shall submit a report”. We do note that this finding may have been in part caused by the subject DEEP reports incorrectly citing Section 22a-354x(c) of the C.G.S. as the requirement for DEEP to submit the report to the General Assembly. This citation will be corrected in future reports.

Section 23-8

Due to staff transitions DEEP did file the 2010 & 2011 Open Space reports late, subsequently DEEP has taken steps to ensure timelier reporting and now posts monthly reports on-line at http://www.ct.gov/deep/cwp/view.asp?a=2706&Q=477776&deepNav_GID=1641 and emails them to the required parties.

Section 26-107h

DEEP's report on non-harvested wildlife is merged into an annual federally required report. While the reports were prepared for 2010 and 2011 we failed to transmit them to the General Assembly. Corrective action will ensure that future reports are transmitted to the General Assembly and available to all stakeholders."

*Auditors'
Concluding
Comments:*

Regarding Section 22a-354x reporting, if DEEP had activities covered by the cited statutes, DEEP should report on that activity.

Regarding Section 26-107h reporting, the federally required report only focused on federally funded activity. If there was state funded activity, DEEP should have reported on those expenditures.

RECOMMENDATIONS

Eleven recommendations were presented in our prior report. As indicated below, three recommendations have been resolved or implemented. Eight of the recommendations are being repeated in this report.

Status of Prior Audit Recommendations:

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

This recommendation is being repeated as Recommendation 1.

- 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.

This recommendation is being repeated as Recommendation 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.

This recommendation is being repeated as Recommendation 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.

This recommendation is being repeated as Recommendation 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.

This recommendation is being repeated as Recommendation 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.
This recommendation has been implemented.

- The agency should deposit and account for cash receipts in a timely manner.

This recommendation has been implemented.

- 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.

This recommendation is being repeated as Recommendation 8.

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

This recommendation is being repeated as Recommendation 13.

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

This recommendation is being repeated as Recommendation 14.

- The department should ensure that for all 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.

This recommendation has been implemented.

Current Audit Recommendations:

- 1. The Department of Energy and Environmental Protection should improve its accounting for federal grants and process timely drawdowns of federal funds.**

Comment:

DEEP should code federally funded expenditures to federal accounts and process any necessary coding adjustments within grant periods or shortly afterwards.

DEEP should determine the status of SIDs with the same calculated receivable balances for multiple years, and whether all of the grants with calculated receivable balances are still active.

SIDs with no active grant accounting within them should be closed out.

DEEP 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. The Department of Energy and Environmental Protection should document its development of calculations of liability for pollution remediation for inclusion in the state's financial statements.**

Comment:

The agency has failed to maintain documentation to support all the amounts reported on annual GAAP reports.

- 3. The Department of Energy and Environmental Protection 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.**

Comment:

In our prior audit report, we recommended that annual reconciliations of account activity be performed. Reconciliations were not performed for the fiscal years ended June 30, 2010 and 2011. Unreconciled variances for those years totaled \$1.3 million and \$1.8 million, respectively.

As of June 30, 2011, of the receivables with responsible parties identified, balances totaling \$13 million were over six years old and did not have liens against the related real estate. Accounts outstanding for over six years should reasonably be deemed uncollectible. The amount reported as estimated uncollectible on that date totaled \$4.1 million, a difference of almost \$9 million.

Initial collection attempts, referrals to the Attorney General, and write-off of uncollectible amounts were not always made within a reasonable time.

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

Comment:

DEEP did not reconcile reported additions of real property, equipment, and software to expenditures recorded in the Core-CT general ledger.

The value of easements was not reported for the 2011 fiscal year. Records for agency software were not recorded or reported correctly.

We found variances between inventory records and equipment and supplies physically inspected.

- 5. The Department of Energy and Environmental Protection should improve its monitoring of grantee use of state funding and the documentation of its monitoring. This should include review of grantee audit reports and documentation for on-site monitoring inspections and grantee reporting.**

Comment:

There were no audit report desk reviews performed.

Documentation was not prepared regarding on-site monitoring inspections or confirming that sufficient information was obtained from grantees to eliminate the need for certain reports.

- 6. The Department of Energy and Environmental Protection should seek to amend its memorandum of understanding (MOU) with the State Treasurer to clarify which agency is responsible for reviewing the State Single Audit Reports for the clean water funds.**

Comment:

The MOU between DEEP and the State Treasurer does not identify which agency is responsible for reviewing the State Single Audit Reports for the clean water funds.

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

Comment:

We noted instances in which annual or application fees had been paid within the audited period, but the permit had expired years prior. Although Section 4-182 of the General Statutes allows a permit to continue as long as an application was received in a timely manner, we consider there to be an excessive amount of time to continue permits beyond expiration.

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

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 paid. During the audited period, there were four employees with dual roles.

- 9. The Department of Energy and Environmental Protection should review vendor invoices for compliance with contracts or other pricing requirements.**

Comment:

We noted payments to vendors without receipt or review of detailed support for the transactions.

- 10. The Department of Energy and Environmental Protection documentation of state vehicle usage should be improved and Department of Administrative Services (DAS) approval should be obtained for employees who have a justifiable need to park a state vehicle at home on a continuous basis.**

Comment:

Monthly usage reports were not always prepared and the agency did not always have permission from DAS for home garaging of state vehicles.

- 11. The Department of Energy and Environmental Protection procedures for remediation contracts should be improved to reflect proper internal controls requiring that:**
 - Contracts are awarded based on legitimate bids, when applicable.**
 - Significant changes to contracts, such as cost overruns, are justified.**

- **Expenditures are supported by detailed vendor invoices and those invoices are reviewed and approved only when in compliance with contractual and funding requirements.**

Comment:

For one remediation contract in our sample, there are questioned costs because of the poor procedures from the contracting process until the last payment. For a remediation grant, there appears to be a payment that was outside the scope of the contract.

- 12. The Department of Energy and Environmental Protection should strengthen controls over budgeting for projects and comply with state bidding requirements.**

Comment:

Four purchases lacked multiple quotes. The expenditures for those totaled \$3,300, \$9,446, \$49,987 and \$51,985. Prices for specific items purchased were not in contracts.

- 13. The Department of Energy and Environmental Protection should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services.**

Comment:

We found ten purchase orders that were created and/or approved after the receipt of goods or services.

- 14. The Department of Energy and Environmental Protection should institute procedures to ensure that the proper receipt date is recorded on vouchers processed through Core-CT.**

Comment:

Receipt dates were recorded incorrectly for nine transactions. No dates were recorded in the wrong fiscal year. The recorded receipt dates are used for assigning expenditures to the correct fiscal year for reporting purposes.

- 15. The Department of Energy and Environmental Protection should establish a method to identify and comply with all applicable statutorily reporting requirements.**

Comment:

We identified reporting deficiencies regarding section 22a-21, 22a-354x, 23-8 and 26-107h of the General Statutes.

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, 2010 and 2011. 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, 2010 and 2011, 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 grant management;
2. GAAP report on liability for pollution remediation;
3. Accounts receivable – emergency spill response;
4. Property control and reporting, and,
11. Expenditures – grant and contract for remediation

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 grant management deficiency and the GAAP reporting deficiency to be material weaknesses.

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 Recommendations:

2. GAAP report on liability for pollution remediation;
3. Accounts receivable – emergency spill response, and
4. Property control and reporting.

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 Energy and Environmental Protection during the course of our examination.



Kenneth Post
Administrative Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts