

STATE OF CONNECTICUT

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

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

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February 8, 2005

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

We have examined the financial records of the Department of Information Technology (DOIT) for the fiscal years ended June 30, 2002, and 2003. This report on the examination consists of the Comments, Recommendations and Certification, which follow.

Financial statements pertaining to the operations and activities of the Department of Information Technology for the fiscal years ended June 30, 2002, and 2003, are presented and audited on a Statewide Single Audit basis to include all State agencies and funds. This audit has been limited to assessing the Department of Information Technology's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Agency's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Information Technology operates under the provisions of Title 4d of Chapter 61 of the General Statutes. The Agency was created by Public Act 97-9 of the June 18, 1997 Special Session of the General Assembly. The legislation that created the Department of Information Technology (DOIT) combined divisions and functions that previously were part of the Department of Administrative Services, Office of Information Technology.

DOIT was created to provide statewide guidelines, policies and procedures for use of information technology for State agencies. DOIT is responsible for the procurement of information and telecommunication systems for executive branch agencies, along with providing services to State agencies through the State Data Center.

Section 4d-2 of the General Statutes provides that the Department of Information Technology be administered by a Chief Information Officer (CIO). Gregg P. Regan served as CIO during the audited period.

Section 4d-6 of the General Statutes provides that the CIO shall prepare an implementation plan, with policy goals and strategies for management and delivery of information and telecommunication systems for State agencies.

Section 4d-7 of the General Statutes provides that the CIO shall develop, publish, and annually update an information and telecommunication systems strategic plan with the following goals: (1) To provide voice and data communications among all State agencies; (2) To promote an efficient collection, storage and use of information; (3) To develop an information policy for State agencies. The strategic plan shall include (1) Establishment of standards for the architecture for information and telecommunication systems; (2) Plans for a cost-effective State-wide telecommunication network; (3) A level of information and telecommunication systems that will ensure effective and efficient utilization and access to the State's information; (4) Identification of annual expenditures and major capital commitments; and (5) Direction and policy planning.

Section 4d-8 of the General Statutes provides that the CIO, under the provisions of Title 4a, shall purchase, lease, and contract for information and telecommunication system facilities, equipment, and services.

Commission for Educational Technology:

Section 4d-80 of the General Statutes established the Commission for Educational Technology within the Department of Information Technology for administrative purposes. The Commission is composed of twenty members from areas of education, business, information technology and government.

As of June 30, 2003 the members and their appointing authorities were:

| | |
|--------------------------|---|
| Judith B. Greiman, Chair | Connecticut Conference of Independent Colleges |
| Philip E. Austin | President, University of Connecticut (ex-officio) |
| Nancy Cetorelli | Connecticut Association of Public School Superintendents |
| William Cibes | Chancellor, Connecticut State University System (ex-officio) |
| Ashish Deshpande | Office of the Lieutenant Governor |
| Patricia Fusco | CT Federation of Educational and Professional Employees |
| Barbara Gibson | Connecticut Library Association |
| Jack Goldberg | Commissioner, Department of Public Utility Control (ex-officio) |
| Merle Harris | President, Charter Oak State College (ex-officio) |
| Cal Heminway | Connecticut Association of Boards of Education |
| Marc Herzog | Chancellor, Connecticut Technical Colleges (ex-officio) |
| Valerie F. Lewis | Commissioner, Department of Higher Education (ex-officio) |
| Denise Moynihan | Connecticut Educators Computer Association |
| Paul Picard | Connecticut Education Association |
| Gregg P. Regan | CIO, Department of Information Technology (ex-officio) |
| George Selmont | President Pro Tempore of the Senate |
| Bart Stanco | Speaker of the House |
| Betty Sternberg | Commissioner, Department of Education (ex-officio) |
| Ken Wiggin | State Librarian, Connecticut State Library (ex-officio) |

There was one Governor-appointed vacancy.

The Commission is to act as the principal educational technology policy advisor for State government; develop, oversee and direct the attainment of statewide technology goals; coordinate the activities of all State agencies, educational institutions and other parties involved in the creation and management of a reliable and secure network that will offer connectivity and allow for transmission of video, voice and data transmission to every library, school, regional educational service center and institution of higher education; be the liaison between the Governor and the General Assembly and local, state and federal organizations and entities with respect to educational technology matters; and develop and maintain a long-range plan and make related recommendations for the coordination of educational technology.

RÉSUMÉ OF OPERATIONS:

General Fund:

The Agency's General Fund receipts totaled \$2,110,008, \$74,637 and \$2,003 for the 2002-2003, 2001-2002, and 2000-2001 fiscal years, respectively. General Fund receipts consisted primarily of fees for copying services and reimbursements of current year expenditures. The increase in receipts is due to training reimbursements from the Federal government for the Health Insurance Portability and Accountability Act (HIPAA).

A comparative summary of Department of Information Technology expenditures from General Fund appropriations for the fiscal years ending June 30, 2003, 2002 and 2001 is

presented below:

| | <u>Fiscal Year</u> <u>2002-2003</u> | <u>Fiscal Year</u> <u>2001-2002</u> | <u>Fiscal Year</u> <u>2000-2001</u> |
|--|--|--|--|
| Personal Services | \$ 2,373,260 | \$ 2,556,321 | \$ 2,523,679 |
| Contractual Services | 6,790,388 | 13,450,711 | 7,937,382 |
| Commodities | 5,212 | 16,760 | 472,137 |
| Sundry | 242,060 | 1,730,657 | 10,136,122 |
| Equipment | <u>102,818</u> | <u>1,571,763</u> | <u>1,250,138</u> |
| Total General Fund Expenditures | <u>\$ 9,513,738</u> | <u>\$ 19,326,212</u> | <u>\$ 22,319,458</u> |

General Fund expenditures decreased by \$9,812,474 during the 2002-2003 fiscal year. The decrease in expenditures is due to the fact that the previous year reported a significant increase in General Fund contractual and equipment expenditures associated with EDP hardware purchases, software licensing and EDP contractual services. Other expenditures decreased since most of the rent and telecommunication service costs incurred in the previous year were associated with the move to the new facility and a “build out” of the data center.

Internal Service Funds:

During the audited period, DOIT administered two internal service funds. A brief description of each fund follows:

Technical Services Revolving Fund:

Authorized by Section 4d-9 of the General Statutes, the Fund was used to account for the operations of the Agency’s telecommunication and data processing operations. The Fund accounts for the collection of user fees and the costs associated with providing centralized data processing utilities and telecommunication service to user State agencies. Prior to July 1, 1997, this Fund was administered by the Department of Administrative Services. Revolving Fund cash receipts and disbursements for the 2002-2003, 2001-2002 and 2000-2001 fiscal years were as follows:

| | <u>2002-2003</u> | <u>2001-2002</u> | <u>2000-2001</u> |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| Cash Balance, Beginning of Year | \$ 1,541,688 | \$ 2,391,942 | \$ 4,975,200 |
| Receipts | <u>46,231,687</u> | <u>45,489,674</u> | <u>39,041,583</u> |
| Total | 47,773,375 | 47,881,616 | 44,016,783 |
| Disbursements | <u>45,504,129</u> | <u>46,339,928</u> | <u>41,624,841</u> |
| Cash Balance, End of Year | <u>\$ 2,269,246</u> | <u>\$ 1,541,688</u> | <u>\$ 2,391,942</u> |

Capital Equipment Data Processing Fund:

The Capital Equipment Data Processing Fund is a revolving fund, authorized by Section 4d-10 of the General Statutes, that is used to finance the purchase of data processing equipment and related items necessary to maintain or improve the State's data processing functions. It receives monthly reimbursements from the agencies that received the equipment. Fund cash receipts and disbursements for the 2002-2003, 2001-2002 and 2000-2001 fiscal years were as follows:

| | <u>2002-2003</u> | <u>2001-2002</u> | <u>2000-2001</u> |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| Cash Balance, Beginning of Year | \$ 2,605,487 | \$ 7,271,802 | \$ 8,675,350 |
| Receipts | <u>3,675</u> | <u>2,153,063</u> | <u>1,759,656</u> |
| Total | 2,609,162 | 9,424,865 | 10,435,006 |
| Disbursements | <u>366,849</u> | <u>6,819,378</u> | <u>3,163,204</u> |
| Cash Balance, End of Year | <u>\$ 2,242,313</u> | <u>\$ 2,605,487</u> | <u>\$ 7,271,802</u> |

The reduction in receipts and disbursements of the Capital Equipment Data Processing Fund is due to the lack of reimbursement from the Technical Services Revolving Fund for purchases made in prior years. This issue is discussed further in the Condition of Records section of this report.

Other Funds:

Capital Equipment Purchase Fund:

The Capital Equipment Purchase Fund was used by the Department to purchase EDP hardware during the audited period. Total expenditures were \$10,641 and \$3,187 for the fiscal years ended June 30, 2002 and 2003, respectively.

Connecticut Technology Initiatives Fund:

Under Section 47 of Special Act 01-1, the Connecticut Technology Initiatives Fund was used by the Department to issue grants to assist certain institutions. Total expenditures were \$1,056,011 and \$3,431,023 for the fiscal years ended June 30, 2002 and 2003, respectively.

Connecticut Education Network Fund:

For the fiscal year ended June 30, 2003, \$2,500 was expended from this Fund for a bulk subscription for internet protocol registrations for the Connecticut Education Network.

CONDITION OF RECORDS

Our examination of the records of the Department of Information Technology disclosed certain matters of concern requiring disclosure and Agency attention.

Time Processing System:

Criteria: Sound payroll practice requires that timekeeping data be recorded accurately to enable adequate tracking for payment calculation.

Condition: Supervisors or proxies can create, approve and submit timesheets and timesheet correction forms needed for recording timesheet data in the Time Processing System (TPS) Database without the employee's attestation of accuracy via electronic signature. We noted five out of 11 employees that separated from the Department had not signed their final timesheets and in a separate test, we noted two out of 20 current employees also failed to sign their timesheets.

Effect: Without employee attestations to the accuracy of the timesheet documents, timekeeping errors may go undetected and fixing responsibility for the accuracy of these records becomes difficult.

Cause: The DOIT TPS manual indicates that the supervisor or a proxy can submit a timesheet document to the TPS.

Recommendation: The Department should improve procedures over the submission, approval, and correction of employees' timesheets by requiring the employee to attest to the timesheet's accuracy whenever possible. (See Recommendation 1.)

Agency's Response: "We agree that we do not obtain the employee's attestation of accuracy when a supervisor or proxy submits the employee's timesheet. Going forward we will attempt to obtain a verification from employees that do not submit their own timesheets."

Purchasing Issues:

Criteria: Proper internal control dictates that evidence should be maintained to show that contract pricing was obtained when purchasing goods and services.

Condition: We noted several instances where price lists or other such documentation was unavailable to verify that contract pricing was obtained for purchases.

- Effect:* There is reduced assurance that the negotiated pricing levels were actually given to the State.
- Cause:* A lack of administrative oversight appears applicable to the condition.
- Recommendation:* The Department should retain sufficient evidence to document that goods and/or services are invoiced at established contractual rates. (See Recommendation 2.)
- Agency's Response:* "We agree. SP-10 requests for Master Agreements are checked against those agreements for contract terms and conditions as well as pricing. Quotes and Products Schedule Updates are obtained for new products and services within the scope of the agreement prior to approval. Some agreements are quite old and require reviewing to identify those that need to be cancelled, re-negotiated or updated. SP-10 requests for Contract Awards have the associated pricing available on the DOIT website for viewing and verification. The instances cited were from the previous staff. Appropriate controls are now in place and are strictly enforced."

Depreciation Issue:

- Criteria:* The Department's internal policy regarding the useful life and depreciation methodology for revolving fund assets indicates that all equipment and software use a straight-line depreciation method with no residual value. The Department's useful life chart indicates that all DP equipment and software generally have a life of 2 to 5 years.
- The State Property Control Manual indicates that for proprietary and internal service funds, depreciation is calculated over the realistic useful lives of the assets using the straight-line method on a yearly basis.
- Condition:* Our review of expenditures noted that software and equipment totaling over five million dollars was expensed rather than capitalized during the audited period.
- Effect:* There appears to be an ineffective matching of payphone revenue to the costs incurred.

- Cause:* We were informed that the Department chose to expense and fully depreciate equipment and software since they were unsure if continued payphone revenue would be available to cover costs.
- Recommendation:* The Department should comply with the State Property Control Manual and its own policy regarding the method of depreciation for software and equipment purchases. (See Recommendation 3.)
- Agency's Response:* “The assets referenced are included on the agency’s internal service fund’s balance sheet, but are actually purchased with a separate source of funds – payphone commission revenues. We receive approximately \$6 million in annual payphone commission revenues related to the MCI Master Agreement that includes the Connecticut Inmate Calling System. These funds are currently used to support functions and/or projects that are not part of our internal service fund’s rate based services. Since fiscal year 2001, we have been fully depreciating the assets purchased with these funds within the fiscal year they were purchased. This was based on conversations our Fiscal Office Director (who retired in April 2003) had with the Auditors of Public Accounts. The concern we had at the time was the possibility that the funding source could be discontinued as a result of a new Master Agreement that was in the RFP stage. If we depreciated these assets according to the State Property Control Manual and the funding stopped, we would have future expenses (depreciation) that could not be charged to our rate-based services. This would be a Federal audit issue according to the Federal OMB Circular A-87. We will look into establishing a separate fund and SID with the OSC that will not be a proprietary or internal service fund.”

Administration of Capital Equipment Data Processing Revolving Fund:

- Criteria:* In order to maintain the effectiveness of the Capital Equipment Data Processing Revolving Fund (CEDPF), amounts expended should be promptly reimbursed by using agencies on a predetermined payment schedule.

Accounting practices utilized by State agencies should reflect amounts at realizable values and provide the State Comptroller’s centralized accounting system with data sufficient to prepare combined financial statements that are net of interfund transactions.

Condition: As reflected in the “Resume of Operations” section of this report, the CEDPF received little in the way of reimbursements during the 2002-2003 fiscal year. Despite an authorized fund balance of \$10.5 million, only \$2.2 million was available to fund agency projects.

As of June 30, 2003, the CEDPF had a receivable of approximately \$8,300,000. All of this amount was due as a receivable from the Data Processing Revolving Fund. However, DOIT’s financial statements submitted to the State Comptroller’s Office did not indicate the corresponding amounts as due to/from the other funds. Therefore, the amounts are not offset when the Comptroller produces a combined statement for the two Funds.

DOIT had not implemented a method to record estimates of receivable amounts that were uncollectible. As of June 30, 2003, we examined receivables over 180 days old and estimated that \$750,000 may warrant being written down.

Effect: The Data Processing Revolving Fund receives the benefit of the resources of the CEDPF without being required to pay back these resources in a timely fashion. Amounts reported in the financial statements of DOIT and the State Comptroller are apparently overstated

Cause: Cash flow within the Data Processing Revolving Fund was not seen as sufficient to make repayments to the CEDPF. The financial statement issues had apparently never been considered by DOIT staff.

Recommendation: The Department of Information Technology should consider utilization of the Capital Equipment Data Processing Revolving Fund only when resources are available to permit adherence to repayment schedules. In addition, accounting practices should be modified to facilitate the reporting of interfund amounts and receivable balances at their net realizable values. (See Recommendation 4.)

Agency Response: “We are not aware of the processes that the Comptroller goes through to produce a combined statement for the two Funds. Since this recommendation, we have separated the liabilities of our Data Processing Revolving Fund that relate to the amount owed to the Capital Equipment Data Processing Fund into separate balance sheet accounts – “Due to Other State Agencies” and “Due to Other Funds-Long Term”. We will also review the accounts receivable to

determine if they are uncollectible and warrant being written down.”

Revolving Fund Rates:

Criteria: Proper internal control dictates that rates should be adjusted based on the fluctuating cost/use of services to ensure that billings result in the intended surplus/deficit.

Condition: Except for a mandated rate reduction due to the State budgetary crisis in 2002, we noted that for six years there was no change in rates charged to State agencies, yet there were eight rebates issued during that time period.

Effect: The frequent issuance of rebates indicates ineffectiveness in matching the cost of services to the associated revenues.

Cause: The lack of administrative oversight appears contributable to the condition.

Recommendation: The Department should make an effort to eliminate the need to issue rebates by assessing utilization levels and cost of services and adjusting the revolving fund rate structure as needed. (See Recommendation 5.)

Agency's Response: “We are currently in the process of updating and revamping our rates and services in order to adjust the revolving fund structure. We disagree that there is a lack of administrative oversight. Without this we would not be able to determine if our actual revenues were exceeding our actual expenses so that we may give rebates. This allows us to stay at an allowable profit level and comply with generally accepted accounting principles and the Federal OMB Circular A-87.”

Auditors' Concluding

Comments: Proper administrative oversight would include assessing utilization levels and cost of services and making any necessary adjustments to the rates charged in order to deter the need for rebates to user agencies.

Allocation of Personal Service Charges to Revolving Fund:

Criteria: Section 4d-9 of the General Statutes indicates that the Technical Services Revolving Fund is to be used for the purchase, installation and utilization of information systems for budgeted agencies of the State. The Chief Information Officer and the Secretary of the Office of Policy and Management shall jointly be responsible for the administration of the Fund. The Chief and Secretary shall develop appropriate review procedures and accountability standards for such Fund and measures for determining the performance of the Fund.

Proper internal control dictates that only costs related to the Technical Services Revolving Fund be charged to it.

Condition: We noted an employee's entire salary was charged to the Technical Services Revolving Fund, while certain duties appeared to be unrelated to the Fund.

Effect: Charging the employee's salary to the Fund improperly increases its cost and may affect the rate at which agencies are charged for services.

Recommendation: The Department should assess the duties of the personnel charged to the Technical Services Revolving Fund to ensure that they are properly allowed. (See Recommendation 6.)

Agency's Response: "We agree that only appropriate costs should be charged to the Technical Services Revolving Fund. During fiscal years 2002 and 2003, this employee spent the majority of his time supervising the Business Office Support Services staff which is part of our revolving fund rates. The portion of his time supporting other general fund programs should not have been charged to those funds. We will take appropriate measures to ensure that this does not happen in the future."

Statewide IT Training:

Criteria: Section 4d-17 of the General Statutes indicates that the Chief Information Officer shall, within available appropriations, provide for the professional development of the State's information technology employees. Implicit in such a requirement is the need for tracking the needs/accomplishments of the State's IT staff.

- Condition:* While the Department did negotiate a contract to provide computer technology related training courses and services to State agencies, the costs were normally left to be borne by the employing State agencies.
- DOIT does not have a centralized tracking mechanism for State IT employees training.
- Effect:* In the absence of centralized monitoring of State IT employee training, there is an increased risk that the skill sets of IT employees may not keep pace with technology, resulting in inefficient use of resources.
- Cause:* It appears that the condition exists due to a lack of administrative oversight.
- Recommendation:* The Department should consider a centralized tracking mechanism for all State technology employees' training requirements and arrange and pay for such training in accordance with Section 4d-17 of the General Statutes. (See Recommendation 7.)
- Agency's Response:* "Although DOIT is not able to track IT Training for all State IT employees (i.e., those in out of scope agencies, such as the university system, Judicial and other out of scope agencies), we do have a tracking mechanism in place for DOIT IT employee training. As invoices from vendors are received in the Business Office, staff records the details of the courses taken into an Excel spreadsheet."

Copy Fees for Computer-Stored Public Records:

- Criteria:* Subparagraph (4) of subsection (a) of Section 3 of Public Act 02-137 dictates that the Department shall monitor the calculation of the fees charged for copies of computer-stored public records to ensure that such fees are reasonable and consistent among agencies.
- Condition:* Based on our review and inquiry, it appears that the Department has established and distributed a statewide policy regarding the fees charged for copies. However, the Department is not actively monitoring agencies' calculations of such fees for conformance. Instead, the Department relies on agencies to ask questions.
- Effect:* The failure to monitor the calculation of fees charged by agencies for copies of computer-stored public records increases the risk that improper charges may not be detected.

Cause: It appears that a lack of administrative oversight contributed to the condition.

Recommendation: In accordance with Public Act 02-137, the Department should monitor the calculation of fees charged for copies of computer-stored public records to determine that such fees are reasonable and consistent among agencies. (See Recommendation 8.)

Agency's Response: "Going forward, DOIT will establish a procedure for monitoring the fees charged by agencies for computer-stored records."

Property Control:

Criteria: Section 4-36 of the General Statutes requires that an inventory report be submitted by August first of each year. The Department is required to report its equipment and other fixed assets annually on a Fixed Assets/Property Inventory Report/GAAP Reporting Form. Subsidiary records must be maintained to support the amounts reported. Amounts added to and deleted from such records should agree with purchasing and disposal records.

Standards and procedures for recording and maintaining inventory records are set forth in the State Property Control Manual, issued by the State Comptroller. The Manual states that a complete physical inventory of all property must be taken at the end of the fiscal year to ensure that the property control records accurately reflect the actual inventory on hand. The Manual provides guidelines regarding loss of State property. Part of the procedures for reporting a loss is to contact the local police department if the loss appears to be due to criminal action or under mysterious circumstances. A copy of the police investigation report should be obtained and filed with the CO-853 Report of Loss or Damage to Real and Personal Property Report.

The State Property Control Manual requires that State agencies maintain a complete and accurate software inventory control system.

Condition: We noted from our inquiries and review of the Department's records that:

- The Department has not placed inventory tags on equipment since the Department was created in July 1997.

- Required annual physical inventories have not been performed. The Department was unable to document when the last accurate physical inventory was performed.
- Inventory balances reported to the State Comptroller on Form CO-59 could not be reconciled to the Department's inventory records. Deletions from the Department's inventory records were lacking supporting documentation.
- The Department has not entered newly-acquired assets onto the perpetual inventory in a timely manner.
- The Department failed to pursue and obtain a police report regarding the apparent theft of a laptop computer issued to a consultant and possible private insurance coverage.
- The Department does not maintain a comprehensive software inventory. Only software licenses with a value of \$10,000 or greater were inventoried. This limited inventory did not include all software or comply with the State Property Control Manual.

Effect:

The Department cannot clearly support the amounts it reports on its annual inventory report. Existing conditions present the increased risk that equipment losses will not be detected in a timely manner.

The lack of control over software could lead to possible violations of software licensing agreements due to unauthorized use. The inability of the Department to document ownership of software licenses could result in the Department not being able to purchase upgrade licenses, which usually are obtained at a significantly reduced cost. The lack of accountability may lead to purchasing excessive copies of software or upgrades.

Cause:

Insufficient staffing has also been cited as the cause of the deficiencies in the Department's property control system. This condition has been claimed by the Department as a cause since 1997.

Insufficient staffing has been cited as the reason for not creating and maintaining a software inventory system.

Recommendation:

The Department should take appropriate steps to abide by the State Property Control Manual, tag all equipment, perform a complete physical inventory, develop and maintain a comprehensive software inventory system, bring the equipment inventory records up-to-date and maintain them in an accurate manner. (See Recommendation 9.)

Agency's Response: “We agree. The inventory management function still needs to be addressed. This will require additional staffing, hardware and software. In reference to the equipment losses, we immediately file a CO853 form-“Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles)” that is forwarded to the Department of Public Safety, Office of the State Comptroller and the Auditors of Public Accounts.”

Noncompliance with Statutory Reporting Requirements:

Criteria: Subsection (a) of Section 4d-14 of the General Statutes requires that the Office of Policy and Management annually submit to the Governor and the General Assembly the updated strategic plan established under Section 4d-7, and a report on the activities of the Department of Information Technology and cost savings and improvements in the efficiency of information and telecommunication systems of State agencies, which are attributable to the efforts of said Department.

Since the statute falls under the Department of Information of Technology, it appears that the Department should be cognizant as to whether the reporting requirement of OPM is complied with.

Section 4d-11 of the General Statutes indicates that the CIO shall establish a procedure for the preparation by State agencies of plans and estimates of expenditure requirements for information and telecommunication systems, for consideration for inclusion in the Governor’s budget document. It further requires the CIO to submit to the Secretary of OPM a report which sets forth the appropriation to each State agency, for the fiscal year in progress, for information and telecommunication systems and the actual expenditures for such systems by such agency as of December 31st of such fiscal year. Also, on August 1st annually, the CIO is to submit to the Secretary such report with respect to the last completed fiscal year.

Section 32 of Public Act 02-01 (May Special Session) provides that any reimbursements received by the Department of Social Services (DSS) for the costs of data processing system changes and/or hardware, required to implement the Health Insurance Portability and Accountability Act (HIPAA) shall be deposited in the General Fund and credited to a non-lapsing account in the Department of Information Technology, to be used for the costs of implementing HIPAA. It also indicates that the Department shall submit a quarterly report to the joint standing committee of the General

Assembly through the Office of Fiscal Analysis indicating the amount of funds received from DSS and the purpose for which such funds are expended.

Condition: While the reporting requirement under subsection (a) of Section 4d-14 of the General Statutes lies with the Office of Policy and Management, it is apparent that the statutory report cannot be completed without specific information obtained from the Department of Information Technology regarding its activities and cost savings pertaining to the information and telecommunication systems of State agencies. It is not evident that the Department has provided such information to the Office of Policy and Management.

A procedure has not been established by the CIO to ensure the preparation by State agencies of plans and estimates of expenditure requirements for information and telecommunication systems. Reports were not filed with OPM in accordance with Section 4d-11 of the General Statutes.

It does not appear that the Department has complied with the reporting requirement of Section 32 of Public Act 02-01, May Special Session.

Effect: In the absence of information from the Department, the Office of Policy and Management cannot meet its statutory reporting requirement under Section 4d-14 of the General Statutes.

The absence of an established procedure under Section 4d-11 of the General Statutes and the failure to submit statutorily required reports eliminates the opportunity for oversight by OPM, the Governor, and the General Assembly.

Cause: The condition appears to be due to a lack of administrative oversight.

Recommendation: The Department should establish a procedure for the preparation by State agencies of plans and estimates of expenditure requirements for information and telecommunication systems, as well as ensuring compliance with its other statutory requirements. (See Recommendation 10.)

Agency's Response: "DOIT will work toward establishing a mechanism to comply with the provisions of Section 4d-14 of the General Statutes and Section 32 of Public Act 02-01, May Special Session. Compliance with

Section 4d-11 of the General Statutes has not been achievable in the past due to the manner in which IT expenditures are tracked in other agencies; DOIT plans to seek a repeal of this statute in the upcoming session of the General Assembly.”

Statewide IT Procurement Issues:

Criteria: Section 4a-57 of the General Statutes indicates that in the case of an expenditure which is estimated to exceed \$50,000, such notice shall be inserted, at least five calendar days before the final date of submitting bids or proposals, in two or more publications, at least one of which shall be a major daily newspaper published in the State and shall be posted on the Internet.

The Department’s Bid Schedule indicates that delivery costs are to be included in the bid price.

Proper internal control dictates that signatures of approval should be provided by the committee team reviewing bids or proposals for acceptance of the winning vendor.

Condition: We were informed by the Department that only one major newspaper and the DOIT and Department of Administrative Services’ websites are utilized for advertising invitation to bids and requests for proposals.

We noted one instance in which a vendor was improperly awarded a contract on the basis of being the lowest responsible bidder. Another vendor with a lower price appeared to have been improperly disqualified from consideration.

We noted that the Department added delivery costs to the bid price documentation of one vendor. The bid schedule of the Invitation to Bid indicates that the vendor bid price should include delivery costs.

We found that committee team signatory approvals were not evident for the selection of the winning vendor in two out of the four Request for Proposals reviewed.

Effect: There is a risk that potential respondents would be unnecessarily excluded from notification without compliance with the statute. In the absence of closer adherence to procurement guidelines, the State may incur additional costs.

Cause: The condition appears to be due to an administrative oversight.

Recommendation: The Department should comply with the public notice requirements for bids and proposals as required by Section 4a-57 of the General Statutes and the Department's general procurement policy regarding vendor bid prices; and also ensure authorizing signatures from review teams are provided as evidence of vendor selection for awards. (See Recommendation 11.)

Agency's Response: "The Department of Information Technology now has a standing legal notice in the Hartford Courant and a standing advertisement in the New England Minority News, as well as in the DAS WIN Newsletter. We believe this resolves the issue.

The awards that were noted as being improperly awarded were issued by a former employee and we do not believe this will occur again. The State does not pay delivery costs and requires vendors to include these costs in their rates. We believe this condition has been corrected. The missing signatory approvals noted in the two RFPs cited were overlooked by a former employee. The Department does comply with Section 4a-57 of the CGS and also ensures that authorizing signatures from review teams are provided as evidence of vendor selection for awards."

Lack of Evaluation Criteria in Requests for Proposals:

Criteria: In accordance with Sections 4a-57 and 4d-8 of the General Statutes, the Chief Information Officer shall adopt regulations, in accordance with provisions of Chapter 54, establishing (1) the standards and procedures for using competitive negotiation for purchases and contracts, including but not limited to, criteria which shall be considered in making purchases by competitive negotiation and the weight which shall be assigned to each such criterion.

Section 4a-59, subsection (c), of the General Statutes provides that all open market orders or contracts shall be awarded to ... (2) the highest scoring bidder in a multiple criteria bid, in accordance with the criteria set forth in the bid solicitation for the contract, or (3) the proposer whose proposal is deemed by the awarding authority to be the most advantageous to the State, in accordance with the criteria set forth in the request for proposals, including price and evaluation factors.

Section 4d-3-15, subsection (a), of the Department's Regulations indicates that proposals shall be evaluated only on the basis of evaluation criteria stated in the request for proposals, including certain criteria, the relative importance of which shall vary according to the type of information technology personal property or services being procured.

Condition: We noted that the Department's established RFP procedures include developing the evaluation procedure and scoring criteria after the RFP is issued.

We noted four instances in which the evaluation and scoring criteria were developed after the issuance of the RFP.

Effect: By not including the evaluation and scoring criteria within the RFP, vendors are not aware of how certain criteria are weighed in their proposals. Thus, proposals may not meet the Department's expectations.

Cause: The condition appears to exist due to a lack of administrative oversight.

Recommendation: The Department should ensure that evaluation and scoring criteria are included in each request for proposal to prospective vendors in accordance with Section 4a-59, subsection (c), of the General Statutes and State Regulation 4d-3-15. (See Recommendation 12.)

Agency's Response: "In order to resolve this issue, DOIT will be adding a high level summary of the evaluation factors and their associated weights, such as *Technical and Business Proposal, including Key Personnel and Project Workplan, 70%, and Cost, Financial Stability and Set-Aside Achievement, 30%.*"

Master Agreements/State Contract Awards:

Criteria: Sound internal control would dictate that it is advisable for contracts or agreements to have beginning and end dates to assist in defining the obligations of the parties and minimize future conflicts. The longer an agreement is in effect without being revised or reviewed, the more likely it is that misunderstandings and cost inefficiencies will arise between the parties about performance and obligations, especially in the information technology environment, which evolves rapidly.

Section 4a-59a of the General Statutes dictates that no State agency may extend a contract for the purchase of supplies, materials, equipment or contractual services, that is subject to the competitive bidding requirements of subsection (a) of Section 4a-57, without complying with such bidding requirements, unless certain specific requirements are met.

Sections 4a-60 and 4a-60a of the General Statutes requires that every contract include provisions that the contractor agrees and warrants that in the performance of the contract such contractor will not discriminate or permit discrimination on a variety of grounds. Executive Order #16 requires adherence to the State's Workplace Violence Prevention Policy by contractors, subcontractors and vendors of the State. Thus, these directives should also be included in any contractual language with the State.

The Office of the Attorney General requires that all Agency contracts in excess of \$3,000 be reviewed and approved by that Office. If a change in the agreement involves a cost of at least \$3,000, then, not only must the parties execute an amendment to the agreement, but they also must forward the amendment to the Attorney General's Office for review and approval. An adjustment of at least \$3,000 to the fixed prices to be paid or scheduled payments to be made to the vendor constitutes a change in cost, thereby requiring review and approval.

Recently-issued master agreements include an escalation clause regarding increases in maintenance costs. The allowable price increase is normally the lesser of 5 percent or the Consumer Price Index (CPI).

Condition:

We noted numerous existing master agreements without specified end-dates and/or up-to-date required statutory language such as is provided for in Sections 4a-60 and 4a-60a, and Executive Order #16.

We additionally noted that some contract award end-dates were made indefinite or provided an option to extend for a year or two at a time. We found that certain contract award end-dates were extended without supporting documentation as required by Section 4a-59a of the General Statutes.

Master agreements provide for the long-term procurement of certain products and services from a particular vendor or vendors. Additional products and services are frequently added to an existing

master agreement rather than being competitively bid. In an environment of emerging technologies, long-term contracts may not provide optimal pricing structures due to decreasing market prices.

We noted instances where cost increases of more than \$3,000 to the agreement were not incorporated in an amendment and approved by the Attorney General's Office.

The Department has not documented its review of compliance with the escalation clause regarding maintenance cost increases. We were informed by Department staff that only the Director of Administration is knowledgeable enough to perform the necessary comparison of price increases with the CPI. In our testing of master agreements, we noted one instance which included the CPI provision; however, the price increase allowed by the Department did not comply with such terms.

Effect:

The lack of contractual end-dates and the inclusion of provisions to add products or services to master agreements appears to aid in circumventing the competitive procurement process, providing a greater potential for incurring unnecessarily higher costs.

Changes to contractual language without the Attorney General's Office review and approval may lead to ineffective vendor performance.

The failure to determine compliance with agreement provisions for price escalations increases the likelihood of overpaying for certain services.

Cause:

It appears that the conditions are due to the lack of administrative oversight.

Recommendation:

The Department should consider amending all existing State contracts and master agreements to include required statutory language; establishing end dates for same; obtaining the Attorney General's Office approval for additional product costs exceeding \$3,000; and ensure that agreement provisions regarding price increases for maintenance are monitored for compliance. (See Recommendation 13.)

Agency's Response:

"We have been advised by the Office of the Attorney General (OAG) that existing agreements do not need to be amended to include new statutory provisions unless the agreement is being amended for another purpose, in which case we have consistently

included all new mandatory provisions. Without a considerable addition of staff to the division, a project to amend over seven hundred agreements is not feasible. We have also had discussions with the OAG regarding the open-ended nature of certain Master Agreements and obtained oral permission to continue that practice when appropriate. We have been advised by the OAG that Product Schedule Updates (adding products and/or services over \$3,000) to Master Agreements do not require OAG approval so long as the products and/or services are of a similar nature and purpose to those originally on the contract. The Department staff has and does perform the necessary comparison of price increases with the CPI to ensure appropriate contract compliance.

Auditors' Concluding

Comments:

While the Attorney General's Office may have permitted DOIT to avoid amending all the contracts and continue to utilize open-ended contracts, sound business practices would suggest that the contracts be amended to increase competitive opportunities and provide assurance that the vendors are capable and willing to adhere to the statutory non-discrimination laws and Executive Orders.

The failure to establish specific end dates for master agreements, even if permitted by the Attorney General's Office, appears to circumvent the intent of Section 4a-59a of the General Statutes, which imposes a finite period on purchase agreements by limiting contract extensions to no more than two.

We were informed by the Attorney General's Office that adding products and/or services exceeding \$3,000 in cost to a master agreement would require approval by their Office.

Based upon our inquiry and observation, we could find no evidence suggesting that the Department is routinely evaluating price increases with the CPI to help ensure contract compliance.

Lack of a Statewide Cell Phone Policy:

Criteria:

Section 4d-5 of the General Statutes indicates that the Chief Information Officer shall be responsible for purchasing, leasing and contracting for all telecommunication facilities, equipment and services for the State-wide telecommunication infrastructure for the support of State agencies. The Chief Information Officer shall be

responsible for planning for such telecommunication infrastructure and assisting State agencies in planning for the acquisition of telecommunication systems and implementing such systems.

The existing State policy on cell phone use dates back to 1993. That policy generally prohibits the personal use of State phones, but also provides for reimbursement in the event that personal use does occur. Since that time, there has been numerous technological advances within the telecommunications industry that have resulted in changes to rate plans and expected usage patterns as more State officials are assigned phones.

Condition: We noted in other audits of State agencies that there is inconsistency when determining the propriety of State cell phone use and accountability. There have been questions as to whether personal use of State cell phones is allowable, and if/when reimbursement is to be obtained. Currently, the Department does not provide any additional guidance to State agencies in this area.

Effect: In the absence of guidance promulgated by the Department, State agencies may be inconsistent in their handling and treatment of personal use of State cell phones.

Cause: The condition apparently exists because the Department has not viewed the need for an updated State-wide cell phone policy to be a priority. The Department has not responded to the recent proliferation of cell phone pricing arrangements.

Recommendation: The Department should exercise the authority granted to it under Section 4d-5 of the General Statutes and consider issuing an updated State-wide policy regarding the proper treatment of personal use of State-issued cell phones. (See Recommendation 14.)

Agency's Response: "DOIT will update the existing cell phone policy."

Disaster Recovery Contract and Statewide Disaster Recovery Planning:

Criteria: Section 4d-5 of the General Statutes provides that the Chief Information Officer shall be responsible for purchasing, leasing and contracting for all telecommunication facilities, equipment and services for the Statewide telecommunication infrastructure for the

support of State agencies; and implementing, or assisting State agencies in implementing, such facilities.

Sound business practice dictates that entities that are heavily reliant on data processing environments should have a means available to provide disaster recovery services in the event that a calamity renders the data processing function inoperable for any length of time.

Condition: The Department entered into a contract with International Business Machines (IBM) in 1999 for business recovery services consulting. Despite having expended over \$1.5 million, the Department does not yet have a disaster recovery plan in place. In 2001, a recovery assessment was performed and numerous concerns were raised. These included the lack of a documented disaster recovery process for some systems, the failure to test a hot site recovery, the lack of a tested recovery network infrastructure to provide needed connectivity, and the lack of agreement with other user agencies as to what data is expected to be recovered and the expected timeframes to accomplish the task.

The assessment concluded that it was doubtful that DOIT would be able to recover its midrange processing function and network services within 72 hours of a disaster.

While it appears that DOIT is working with other State agencies to ensure their data and equipment in DOIT's Data Center is protected from disaster, it seems that the availability of hot site/cold sites for other State agencies to continue operations has not been addressed.

Effect: Operations critical to the State, some of which become elevated in importance during times of disaster, may not be able to resume in a timely fashion.

Cause: Despite the events of September 11, 2001, DOIT has not been compelled to elevate disaster recovery to a higher level of importance.

Recommendation: The Department should increase its efforts to provide for a disaster recovery process and manage the related contract so as to demonstrate that services have been obtained for the amounts expended. The Department should also make a concerted effort to assist all State agencies in the arrangement of hot site/cold sites in the event of a disaster. (See Recommendation 15.)

Agency's Response: “The contract that the Department entered into in 1999 was for a hot site subscription with consulting services included. The department has since performed a successful restoration test of its mainframe system and has tests scheduled to ensure the recoverability of critical distributed systems including the Core-CT environment.

DOIT has, as part of an overall Technical Strategy Definition, reviewed the criticality of each agency application to determine a recovery time objective (RTO) for each. Because of the upcoming Federal mandate of the Health Insurance Portability and Accountability Act (HIPAA), DOIT is focusing on the development of Information Technology Disaster Recovery (ITDR) plans with HIPAA designated agencies. The condition above has been addressed by: 1) determining the requirements and 2) testing at a hot site. This is a phased approach that has already begun with agencies that utilize a) the mainframe, b) Core-CT, and c) those with HIPAA requirements. This will be expanded to cover all agencies with disaster recovery needs.

A series of increasingly complex disaster recovery tests were scheduled at an IBM hot site in Sterling Forest, NY. Two were conducted between September and December, and one more test is tentatively scheduled for February/March 2005. This is a phased approach that will initially cover mainframe, network, Core-CT, and HIPAA requirements. Additional phases will be scheduled to address remaining production platforms as well as sessions to review and assist agencies with Business Continuity requirements. Progress will continue as long as funding is available.”

Commission for Educational Technology:

Criteria: Section 4d-80 of the General Statutes established the Commission for Educational Technology (CET) and provides that one of the Commission’s twenty board members shall be appointed by the Governor.

The bylaws of the CET indicate that the Department of Information Technology shall be the principal office of the CET where the official records of the CET shall be housed and made available for review upon request in a manner consistent with the Freedom of Information Act.

The Commission bylaws also indicate that the meeting minutes will be posted on the Internet on a regular basis.

Proper internal control dictates that the issuance of grants be monitored for propriety of use by obtaining audit reports and/or financial statements from the recipients evidencing such.

Condition: Our review noted that the Governor has not made an appointment to fill the vacancy on the Commission that has existed since December 2002.

Minutes for meetings from June 2003 forward could not be located at the Department of Information Technology. Meeting minutes after October 2001 could not be found on the Internet.

We noted that audit reports or financial reports were not obtained from two Special Act grant recipients evidencing use of funds.

Effect: The effectiveness of the Commission's actions may be hindered without the benefit of a full board.

Public access to minutes is reduced in the absence of compliance with the Commission bylaws and Freedom of Information laws.

The lack of a grant management process prevents the detection of inaccurate financial reporting by the subrecipients.

Cause: The Department has not made a concerted effort to notify the Governor's Office of such vacancy.

Administrative oversight appears contributable to the lack of availability of minutes, and the issuance of grants without monitoring the use of such funds.

Recommendation: The Department should contact the Governor's Office to request that the vacancy on the Commission for Educational Technology be filled; ensure the Commission complies with its bylaws pertaining to availability of minutes; and pursue financial reporting for grants issued to recipients to ascertain propriety of use for such funds. (See Recommendation 16.)

Agency's Response: "DOIT has verbally requested refills of these vacancies. We will continue to do so in writing."

Assessment of Hardware Maintenance:

Criteria: Proper internal control dictates that a written assessment should be made and approved by management as to the reasonableness of continuing hardware maintenance coverage as opposed to replacing certain pieces of equipment.

Condition: We noted instances in which the hardware maintenance costs incurred for certain pieces of equipment appeared excessive when compared to the original purchase price:

- Two printers purchased in 1990 for \$29,000 and \$48,000 had maintenance costs from 1990 to 2002 totaling \$87,248 and \$138,366, respectively.
- A Connectrix Bundle was purchased in July 2000 for \$83,000. The annual maintenance costs for the period of February 2003 to February 2004 was \$52,680. The maintenance costs for the period of February 2004 to February 2005 are scheduled to total \$51,168.
- An Extranet Switch purchased for \$31,500 in 1999 had maintenance charges from April 1999 to December 2003 totaling \$29,338.

There does not appear to be documented review and approval by management in determining the cost effectiveness of replacing certain pieces of equipment versus continuing hardware maintenance coverage.

Effect: The reasonableness of the hardware maintenance costs incurred appears questionable.

Cause: It appears the condition is due to a lack of administrative oversight.

Recommendation: The Department should consider documenting their consideration and approval of continuing hardware maintenance coverage versus replacing certain pieces of equipment. (See Recommendation 17.)

Agency's Response: "We agree that the Department should document the cost effectiveness of hardware maintenance charges for equipment over five years old. We will look into establishing a mechanism that will document the need for the ongoing maintenance vs. replacement of hardware from both a technical and financial point of view."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2000 and 2001, contained a total of eleven recommendations. Of those recommendations, five have been resolved. Five recommendations are repeated. The remaining recommendation will be covered in a separate Information Technology report to be issued at a later date. The status of recommendations contained in this prior report is presented below.

Prior Audit Recommendations:

- The Department should implement procedures to ensure receipts are deposited promptly in compliance with statutory requirements. This recommendation is resolved.
- The Department should comply with Sections 4-98 and 4-213 of the General Statutes and protect the State's interest with fully-executed contracts prior to incurring obligations. This recommendation is resolved.
- The Department of Information Technology should follow statutory requirements when contracting for data processing consultant services. This recommendation is resolved.
- The Department of Information Technology should take appropriate steps to tag all equipment, perform a complete physical inventory to bring the equipment inventory records up-to-date, and prepare and submit the annual Fixed Assets/Property Inventory Report/GAAP Reporting Form accurately, as required by the State Comptroller. This recommendation is being repeated to reflect current conditions. (See Recommendation 9.)
- The Department should develop and maintain a comprehensive software inventory system for the Agency. This recommendation is being repeated and combined with the issue regarding equipment inventory. (See Recommendation 9.)
- The Department should institute procedures to annually compile and report information technology expenditure estimates for all of the State's agencies as required by Section 4d-11 of the General Statutes. This recommendation is being repeated. (See Recommendation 10.)
- The Department should implement the procedures necessary to insure that all delegations of purchasing authority be in writing and exercised in accordance with the General Statutes. This recommendation is resolved.
- The Department should implement procedures to monitor and ensure compliance with the State Comptroller's petty cash employee travel advance requirements. This recommendation is resolved.
- The Department should improve controls over the time and attendance system. This

recommendation is revised to reflect current conditions. (See Recommendation 1.)

- The Department of Information Technology should complete a disaster recovery plan that addresses prompt business resumption in the event of an interruption of operations. This recommendation is being repeated and combined with an issue regarding the disaster recovery contract.
- The Department of Information Technology should implement additional controls to further safeguard assets and resources of the State Data Center. This recommendation is to be followed up on in a separate audit.

Current Audit Recommendations:

- 1. The Department should improve procedures over the submission, approval, and correction of employees' timesheets by requiring the employee to attest to the timesheet's accuracy whenever possible.**

Comments:

Supervisors or proxies can create, approve and submit timesheets without the employee's attestation to the accuracy via electronic signature.

- 2. The Department should retain sufficient evidence to document that goods and/or services are invoiced at established contractual rates.**

Comments:

We noted several instances where price lists or other such documentation was unavailable to verify that contract pricing was obtained for purchases.

- 3. The Department should comply with the State Property Control Manual and its own policy regarding the method of depreciation for software and equipment purchases.**

Comments:

We noted that software and equipment totaling over five million dollars was expensed rather than capitalized during the audited period.

- 4. The Department of Information Technology should consider utilization of the**

Capital Equipment Data Processing Revolving Fund only when resources are available to permit adherence to repayment schedules. In addition, accounting practices should be modified to facilitate the reporting of interfund amounts and receivable balances at their realizable values.

Comments:

Despite an authorized fund balance of \$10.5 million in the Capital Equipment Data Processing Revolving Fund, approximately, \$8.3 million was due as a receivable from the Data Processing Revolving Fund without any reimbursements being made in the last year. Interfund amounts were not properly identified in the submission of the Department's financial statements to the State Comptroller's Office. Receivables over 180 days old were not adjusted for through the use of an allowance account.

- 5. The Department should make an effort to eliminate the need to issue rebates by assessing utilization levels and cost of services and adjusting the revolving fund rate structure as needed.**

Comments:

Except for a mandated rate reduction due to the State budgetary crisis in 2002, we noted that for six years there was no change in rates charged to State agencies, yet there were eight rebates issued during that time period.

- 6. The Department should assess the duties of the personnel charged to the Technical Services Revolving Fund to ensure that they are properly allocated.**

Comments:

We noted an employee charged entirely to the Technical Services Revolving Fund, while certain duties appear to be unrelated to the Fund.

- 7. The Department should consider a centralized tracking mechanism for all State technology employees' training requirements and arrange and pay for such training in accordance with Section 4d-17 of the General Statutes.**

Comments:

DOIT does not have a centralized tracking mechanism for State IT employee training. While the Department did negotiate a contract to provide computer technology related training courses and services to State agencies, the costs were normally left to be borne by the employing State agencies.

- 8. In accordance with Public Act 02-137, the Department should monitor the calculation of fees charged for copies of computer-stored public records to**

determine that such fees are reasonable and consistent among agencies.

Comments:

It appears that the Department is not actively monitoring agencies' calculations of fees charged for copies for conformance with legislation.

- 9. The Department should take appropriate steps to abide by the State Property Control Manual, tag all equipment, perform a complete physical inventory, develop and maintain a comprehensive software inventory system, bring the equipment inventory records up-to-date and maintain them in an accurate manner.**

Comments:

We noted that the Department has not placed inventory tags on equipment since July 1997; required annual physical inventories have not been performed; inventory balances reported to the State Comptroller on Form CO-59 could not be reconciled to the Department's inventory records; newly-acquired assets have not been entered onto the perpetual inventory in a timely manner; and a comprehensive software inventory has not been maintained.

- 10. The Department should establish a procedure for the preparation by State agencies of plans and estimates of expenditure requirements for information and telecommunication systems, as well as ensuring compliance with its other statutory requirements.**

Comments:

We were informed that a procedure has not been established by DOIT to ensure the preparation by State agencies of plans and estimates of expenditure requirements for information and telecommunication systems; DOIT data was not provided to OPM for purposes of compliance with Section 4d-14 of the General Statutes; and reports due in accordance with Section 4d-11 and Section 32 of Public Act 02-01 (May Special Session) were not filed as required.

- 11. The Department should comply with the public notice requirements for bids and proposals as required by Section 4a-57 of the General Statutes and the Department's general procurement policy regarding vendor bid prices; and also**

ensure that authorizing signatures from review teams are provided as evidence of vendor selection for awards.

Comments:

We were informed by the Department that only one publication and two websites are utilized for advertising invitation to bids and requests for proposals. We noted one instance in which a vendor was improperly awarded a contract on the basis of being the lowest responsive bidder, while another vendor with a lower bid was improperly disqualified from consideration. We found that committee team signatory approvals were not evident for the selection of the winning vendor in two out of the four Request for Proposals reviewed.

- 12. The Department should ensure that evaluation and scoring criteria are included in each request for proposal to prospective vendors in accordance with Section 4a-59, subsection (c), of the General Statutes and State Regulation 4d-3-15.**

Comments:

We noted that the Department's established Request For Proposal procedures include developing the evaluation procedure and scoring criteria after the Request For Proposal is issued.

- 13. The Department should consider amending all existing State contracts and master agreements to include required statutory language; establishing end dates for same; obtaining the Attorney General's Office approval for additional product costs exceeding \$3,000; and ensure that agreement provisions regarding price increases for maintenance are monitored for compliance.**

Comments:

We noted numerous existing master agreements without specified end-dates and/or up-to-date required statutory language such as is provided for in Sections 4a-60 and 4a-60a, and Executive Order #16. Some contract award end-dates were made indefinite or provided an option to extend for a year or two at a time. Certain contract award end-dates were extended without supporting documentation as required by Section 4a-59a of the General Statutes. Additional products and services are frequently added to an existing master agreement rather than being competitively bid. Cost increases of more than \$3,000 were incorporated as amendments and not approved by the Attorney General's Office. The Department has not documented its review of compliance with the escalation clause regarding maintenance cost increases.

- 14. The Department should exercise the authority granted to it under Section 4d-5 of the General Statutes and consider a State-wide policy regarding the proper treatment of personal use of State-issued cell phones.**

Comments:

The Department does not provide a current policy or guidance to State agencies regarding the use of State-issued cell phones.

- 15. The Department should increase its efforts to provide for a disaster recovery process and manage the related contract so as to demonstrate that services have been obtained for the amounts expended. The Department should also make a concerted effort to assist all State agencies in the arrangement of hot site/cold sites in the event of a disaster.**

Comments:

Despite having expended over \$1.5 million in a contract with IBM, the Department does not yet have a disaster recovery plan in place.

The availability of hot site/cold sites for other State agencies to continue operations has not been addressed.

- 16. The Department should contact the Governor's Office to request that the vacancy on the Commission for Educational Technology be filled; ensure the Commission complies with its bylaws pertaining to availability of minutes; and pursue financial reporting for grants issued to recipients to ascertain propriety of use for such funds.**

Comments:

Our review noted that the Governor has not made an appointment to fill the vacancy on the Commission that has existed since December 2002.

Minutes for meetings from June 2003 forward could not be located at the Department of Information Technology. Meeting minutes after October 2001 could not be found on the Internet.

We noted that audit reports or financial reports were not obtained from two Special Act grant recipients evidencing use of funds.

- 17. The Department should consider documenting their consideration and approval of continuing hardware maintenance coverage versus replacing certain pieces of equipment.**

Comments:

We noted instances in which the hardware maintenance costs incurred for certain pieces of equipment appeared excessive when compared to the original purchase price. There does not appear to be documented review and approval by management in determining the cost effectiveness of replacing certain pieces of equipment versus continuing hardware maintenance coverage.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Information Technology for the fiscal years ended June 30, 2002, and 2003. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Information Technology for the fiscal years ended June 30, 2002, and 2003, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Information Technology is the responsibility of the Department of Information Technology's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2002, and 2003, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following findings represent reportable conditions: inadequate equipment and software inventory control systems.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable conditions described above are material or significant weaknesses.

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

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

CONCLUSION

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the Department of Information Technology during the course of this examination.

Ken Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts