

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
OFFICE OF THE LIEUTENANT GOVERNOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006 and 2007***

**AUDITORS OF PUBLIC ACCOUNTS**

**KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE**

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September 29, 2008

**AUDITORS' REPORT  
OFFICE OF THE LIEUTENANT GOVERNOR  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006 and 2007**

We have examined the financial records of the Office of the Lieutenant Governor for the fiscal years ended June 30, 2005, 2006 and 2007. This report on that examination consists of the Comments, Recommendations and Certification that follow.

Financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies, including the Office of the Lieutenant Governor. This audit has been limited to assessing compliance with certain provisions of financial related laws, regulations, and contracts, and evaluating certain internal control policies and procedures established to ensure such compliance.

The Department of Administrative Services provided accounting, payroll and personnel services for the Office of the Lieutenant Governor during the audited period. The scope of our audit did not extend to the evaluation of the relevant controls at that Agency.

**COMMENTS**

**FOREWORD:**

The Lieutenant Governor operates under the provisions of Article Fourth of the Constitution of the State of Connecticut. Kevin B. Sullivan served as Lieutenant Governor during the first two years and six months of the period under review. He was succeeded by Michael Fedele who was sworn in as Lieutenant Governor on January 3, 2007. Under Section 3-2 of the General Statutes, the annual salary of the Lieutenant Governor is \$110,000.

The Department of Administrative Services was responsible for the administration of the Office's accounting, inventory, payroll, purchasing and human resource functions during the period under review. It has administered these functions since January of 1995.

**RÉSUMÉ OF OPERATIONS:**

There were no General Fund cash receipts during the fiscal years ended June 30, 2005, 2006, and 2007.

General Fund expenditures totaled \$439,263, \$417,438 and \$465,481 for the fiscal years ended June 30, 2005, 2006, and 2007. A comparison of expenditures during the audited period is presented below:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Personnel Services	\$369,689	\$378,298	\$378,427
Other Expenditures	<u>69,574</u>	<u>39,140</u>	<u>87,054</u>
<b>Total Expenditures</b>	<b><u>\$439,263</u></b>	<b><u>\$417,438</u></b>	<b><u>\$465,481</u></b>

“Other Expenditures” included such items as Catering, Printing, Motor Vehicle Rentals, General Office Supplies and Promotional Items.

Capital Equipment Purchase Fund expenditures totaled \$14,713, \$0, and \$2,600 for the fiscal years ended June 30, 2005, 2006, and 2007.

## CONDITION OF RECORDS

Our review of the Office of the Lieutenant Governor for the fiscal years ended June 30, 2005, 2006, and 2007 noted the following conditions.

### **Noncompliance with Section 4-98(a) of the General Statutes - Ordering goods or services before ensuring that an approved purchase order was in place:**

*Criteria:* Section 4-98 (a) of the General Statutes states that "...Except for such emergency purchases as are made by a budgeted agency under regulations adopted by the Commissioner of Administrative Services, no budgeted agency or any agent thereof shall incur any obligation, by order, contract or otherwise, except by the issue of a purchase order or any other documentation approved by the Comptroller...."

*Condition:* We noted 5 instances, out of 25 expenditures tested, where the Lieutenant Governor's Office had incurred an obligation by ordering goods or services before ensuring that an approved purchase order or other documentation approved by the State Comptroller was in place.

*Effect:* The instances noted represent non-compliance with Section 4-98 (a) of the General Statutes. Such a practice increases the risk that unauthorized or unbudgeted expenditures may occur that could cause the Agency to exceed its approved budgeted appropriation.

*Cause:* Communications between the Lieutenant Governor's Office and the Department of Administrative Services (DAS) with regard to proposed expenditures appear to have been inadequate in the cases in question. However, we would have expected DAS to have detected these instances and to have communicated with the Lieutenant Governor's Office requesting future compliance with the statutory requirement. We were not provided with any evidence to demonstrate that such action had occurred.

*Recommendation:* A procedure should be established to minimize the possibility of the Lieutenant Governor's Office encumbering funds prior to the Department of Administrative Services processing a purchase order or alternative authorization. (See Recommendation 1.)

*Agency Response:* (Response by the Department of Administrative Services)

“All 5 instances where the Lieutenant Governor’s Office incurred an obligation by ordering goods or services before a valid purchase order was in place happened during the previous Lieutenant Governor’s administration. On several occasions, DAS did communicate that they were not in compliance with State statute 4-98(a). There have been procedures in place but were not always adhered to by the previous administration.”

**Noncompliance with the Requirements of the State Property Control Manual and Lack of Segregation of Duties:**

*Criteria:* Chapter 3 of the State of Connecticut Property Control Manual requires the annual submission of a CO-59 “Asset Management/Inventory Report/GAAP Reporting Form.” One line of that report requires numerical data for “Other Property Owned With Trustee Funds.” This item is described as “Summary total from the agency’s inventory report, of items not owned by the State such as personal property of patients or equipment owned by Student, Patient, or Inmate Activity Funds.”

Good Business Practice requires that the responsibility for periodic physical inventories of capitalized assets should be assigned to responsible officials who have no custodial, record keeping or annual reporting responsibilities.

*Condition:* The CO-59 Reports for the fiscal years ended June 30, 2006 and 2007, both gave an opening and closing balance of \$8,713 for “Other Property Owned With Trustee Funds.” The property in question is apparently made up of thirteen items of furniture and art work on loan from two corporations. Ten of the items were given a value of less than \$1,000 and therefore do not satisfy a key criterion required in order for them to be classified as “property.” However, the 13 items are not “Owned with Trustee Funds” and therefore should not have been reported as such on the CO-59 Reports.

The Department of Administrative Services employee mainly responsible for compiling the annual CO-59 reports is also responsible for conducting periodic physical inventories of equipment and furniture, and maintaining the inventory records of such assets.

*Effect:* The CO-59 Reports for the fiscal years ended June 30, 2006 and 2007, overstate the closing balance of “Other Property Owned With Trustee Funds” by \$8,713.

The lack of required segregation of duties at DAS lessens our ability to be able to rely upon the Office's inventory of furniture and equipment records, or, the annual CO-59 Reports.

*Cause:* No direct cause is known for these weaknesses but it is likely that limited staffing levels and limited supervisory oversight at the Department of Administrative Services were contributory factors.

*Recommendation:* The Office of the Lieutenant Governor should instruct the Department of Administrative Services to follow the mandates and recommendations of the State Property Control Manual in all matters relating to the administration of the property of the Office of the Lieutenant Governor, and in the preparation of its annual CO-59 Reports. The Office should also instruct the Department of Administrative Services to provide a higher level of segregation of duties in connection with such tasks. (See Recommendation 2.)

*Agency Response:* (Response by the Department of Administrative Services)  
"The CO-59 report for the 2008 year will reflect all of the corrections. The art work and the controllable items under \$1,000 have been corrected on the June 30, 2008 CO-59. All functions, processes and procedures have been reviewed by an independent individual from HR and changes have been implemented to make the processes more efficient. There is a shortage of resources in the Property Management area as well. There are only 3 individuals and 18 agencies that they are servicing. We were in the process of hiring another person when the hiring freeze was implemented."

*Status of Prior Audit Recommendations:*

Our prior report for the period ended June 30, 2004, contained no recommendations.

*Current Audit Recommendations:*

- 1. A procedure should be established to minimize the possibility of the Lieutenant Governor's Office ordering goods or services prior to the Department of Administrative Services processing a purchase order or alternative authorization.**

Comment:

We noted 5 instances, out of 25 expenditures tested, where the Lieutenant Governor's Office had incurred an obligation by ordering goods or services before ensuring that an approved purchase order or other documentation approved by the State Comptroller was in place.

- 2. The Office of the Lieutenant Governor should instruct the Department of Administrative Services to follow the mandates and recommendations of the State Property Control Manual in all matters relating to the administration of the property of the Office of the Lieutenant Governor, and in the preparation of its annual CO-59 Reports. The Office should also instruct the Department of Administrative Services to provide a higher level of segregation of duties in connection with such tasks**

Comments:

The CO-59 Reports for the fiscal years ended June 30, 2006 and 2007, both gave an opening and closing balance of \$8,713 for "Other Property Owned with Trustee Funds." The items are not "Owned with Trustee Funds" and should not have been reported as such on the CO-59 Reports. The DAS employee mainly responsible for compiling the annual CO-59 Reports is also responsible for conducting periodic physical inventories of equipment and furniture, and maintaining the inventory records of such assets.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Office of the Lieutenant Governor for the fiscal years ended June 30, 2005, 2006 and 2007. 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 Office of the Lieutenant Governor for the fiscal years ended June 30, 2005, 2006 and 2007, 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 Office of the Lieutenant Governor 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 Office of the Lieutenant Governor'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 discussed 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

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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 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: Recommendation 1 - Noncompliance with Section 4-98(a) of the General Statutes - Ordering goods or services before ensuring that an approved purchase order was in place; Recommendation 2 - Noncompliance with the Requirements of the State Property Control Manual and Lack of Segregation of Duties.

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, we believe that neither of the significant deficiencies described above is a material weakness.

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

As part of obtaining reasonable assurance about whether the Office of the Lieutenant Governor 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency Response to the findings identified in our audit is described in the accompanying "Condition of Records" sections of this report. We did not audit the Agency 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 courtesies and cooperation extended to our representatives by the personnel of the Office of the Lieutenant Governor and the Department of Administrative Services during the examination.

Michael H. Hamilton  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts