

STATE OF CONNECTICUT

**AUDITORS' REPORT
OFFICE OF POLICY AND MANAGEMENT
FINANCE ADVISORY COMMITTEE
FOR THE FISCAL YEARS ENDED JUNE 30, 1998 AND 1999**

**AUDITORS OF PUBLIC ACCOUNTS
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August 1, 2001

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We have examined the records of the Office of Policy and Management (OPM) and the Finance Advisory Committee (FAC) for the fiscal years ended June 30, 1998 and 1999. This report on that examination consists of the Comments, Recommendations and Certification, which follow.

Financial statement presentation and auditing is being done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Office of Policy and Management's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Office of Policy and Management's internal control structure policies and procedures established to insure such compliance.

COMMENTS

FOREWORD:

OPM operates under the provisions of various State Statutes. Primarily it operates under Title 4, Chapter 50, and Title 16a, Chapters 295 through Chapters 298b, of the General Statutes. The department head, Secretary (Secretary) of OPM, is appointed by the Governor. OPM's statutory authority is broad. It serves as a centralized management and planning agency. As described in Section 4-65a, OPM is responsible "for all aspects of state planning and analysis in the areas of budgeting, management, planning, energy policy determination and evaluation, intergovernmental policy, criminal and juvenile justice planning and program evaluation."

Also Pursuant to Sections 12-1c and 12-1d of the General Statutes, OPM's function includes responsibilities related to municipal finance and local taxes. These responsibilities include processing various tax-related grants to towns. For instance, OPM makes payments in lieu of taxes on some property exempt from local taxation. OPM also reimburses towns for various tax relief programs (e.g. for elderly homeowners, veterans, and the totally disabled). Also, pursuant to Sections 12-170bb and 12-170d through 12-170g, OPM partially refunds the rent and certain utilities of eligible renters who meet income and age or disability requirements.

Auditors of Public Accounts

Pursuant to Section 4-66 of the General Statutes, OPM's fiscal and program responsibilities include the following:

- To keep on file information concerning the State's general accounts
- To participate in the making of State capital (physical plant and equipment) plans
- To prescribe reporting requirements to State agencies and to analyze and to act upon such reports
- To convey financial information to the General Assembly and the State Comptroller
- To review and assist in improving the operations of State agencies

OPM has been responsible for various oversight and control functions, for instance:

1. The preparation and implementation of the State's budget-- Chapter 50, Part II (Sections 4-69 to 4-107a) of the General Statutes.
2. The oversight and coordination of contracting by State agencies of outside personal service contractors. Personal service contractors provide consulting or other contractual services to State agencies -- Chapter 55a (Sections 4-205 through Sections 4-229) of the General Statutes.
3. The administration of the Capital Equipment Purchase Fund used to purchase capital equipment for State agencies - Section 4a-9 of the General Statutes.
4. The administration of the State Single Audit program - Chapter 55b (Sections 4-230 to 4-236) of the General Statutes. This program is responsible for insuring adequate audit coverage of State grants to certain recipients.
5. The Office of Labor Relations (OLR) within OPM acts on behalf of the State in collective bargaining and other roles requiring employer representation. Under the provisions of Chapter 68 ("Collective Bargaining For State Employees") of the General Statutes, the governor has designated OLR to act as the representative of the State.

In addition, OPM is responsible for other programs (e.g., drug enforcement grant program and Youth Center Program) pursuant to various statutes.

SECRETARY:

Effective, October 18, 1996, Michael Kozlowski began service as the Secretary and served until November 26, 1998. Marc S. Ryan succeeded him on that date.

FINANCE ADVISORY COMMITTEE:

The Finance Advisory Committee (FAC), is authorized under Section 4-93 of the General Statutes. It consists of the Governor, Lieutenant Governor, Treasurer, Comptroller, two Senate members, and three House members of the Appropriation Committee. The senators must be of different political parties. No more than two of the three representatives can be of the same party. The President Pro Tempore of the Senate appoints the senators. The Speaker of the House appoints the representatives. Those legislative leaders also appoint alternate members equal to their number of regular appointees. The party affiliations of the alternates match those of the regular members.

The alternates serve in the appointees' absence.

The legislative members are appointed upon the convening of the General Assembly in each odd numbered year. They serve until the convening of the next regular legislative session in an odd-numbered year. The Committee meets on the first Thursday of each month and at such other times as the Governor designates.

Committee members at June 30, 1999, were:

Ex Officio Members:

Governor John G. Rowland
Lieutenant Governor M. Jodi Rell
State Treasurer Denise Nappier
State Comptroller Nancy Wyman

Legislative Members: - appointed members

Senator Robert Genuario
Senator Joseph Crisco, Jr.
Representative William R. Dyson
Representative Annette Carter
Representative Peter A. Metz

Legislative Members: - appointed alternate members

Representative Robert M. Ward
Representative Terry Backer
Senator Judith G. Freedman
Representative Kevin Ryan
Senator Toni N. Harp

Other members who served during the audited period were:

State Treasurer Paul J. Silvester
Representative Terry Concannon, alternate
Senator Brian McDermott, alternate

OPM's Secretary serves as the clerk and records the minutes of the Committee's meetings.

Various statutes authorize the Committee to approve appropriation transfers and other budgetary changes. A majority of the items approved by the FAC are done in accordance with the provisions of Section 4-87 of the General Statutes. That section requires Committee approval for all appropriation transfers between accounts of the same agency when those transfers exceed a certain amount (\$50,000 or ten percent of the specific appropriation whichever is less.)

Our examination did not include a review of all transactions subject to the approval of the Finance Advisory Committee. Our audit of the State Comptroller did include such a review and any exceptions arising out of that review are set forth in the report on that examination.

RÉSUMÉ OF OPERATIONS:

Agency Expenditures:

Expenditures by Fund and Account:

As required by generally accepted accounting principles (GAAP) for government, agency transactions are accounted for through various State funds. Funds account for State resources designated for particular purposes and/or under certain requirements. As indicated below, in addition to its own accounts, OPM is responsible for processing payments charged to certain State Comptroller's accounts. Also, certain special revenues and capital projects funds recorded as OPM accounts were processed by other agencies. Total expenditures actually processed by OPM were as follows:

<u>Miscellaneous Comptroller's Appropriations:</u>	<u>1997-1998</u>	<u>1998-1999</u>
General	\$115,640,260	\$158,818,279
Special Revenue Fund	<u>135,000,000</u>	<u>135,000,000</u>
Total Comptroller's Special Appropriations	<u>250,640,260</u>	<u>293,818,279</u>
<u>OPM Appropriations and Funds:</u>		
General Fund	163,177,531	285,286,898
Special Revenue	40,604,927	35,791,890
Capital Projects	1,287,002	2,819,197
Agency	<u>6,158</u>	<u>4,453</u>
Total OPM appropriations	<u>205,075,618</u>	<u>323,902,438</u>
<u>Total Agency Expenditures</u>	<u>\$455,715,878</u>	<u>\$617,720,717</u>

Miscellaneous Comptroller's Appropriations:

By Statute (detailed below), OPM determines three unrestricted grants to towns paid from appropriations of the State Comptroller. Two are paid from the State's General (operating) Fund and the other from a special fund - the Mashantucket Pequot Fund. The State has an agreement with the Mashantucket Pequot Indian tribe regarding tribal gambling revenues. A portion is earmarked for the fund bearing the tribe's name. (The remaining portion is credited to the State's General Fund).

The two General Fund grants consist of PILOT (Payment in Lieu of Taxes) programs partially covering lost local taxes on certain tax-exempt property. The Mashantucket Pequot Fund grant is a formula-based grant to towns. The formula is based on a number of factors including the value of the PILOT grant payments for State property and private-colleges/general-hospitals. The formula also includes, among other things the town's population, equalized net grand property list, and per capita income. A summary of the three programs with their statutory references follows:

<u>Program – Statutory Reference</u>	<u>1997-1998</u>	<u>1998-1999</u>
<u>General Fund</u>		
Grants to towns for part of lost taxes on exempt State real property - Sections 12-19a,b,c	\$ 33,319,723	\$ 61,697,742
Grants to towns for part of lost taxes on exempt real property of private colleges and general hospitals -		

Sections 12-20a and b	<u>82,320,537</u>	<u>97,120,537</u>
<u>General Fund Portion</u>	115,640,260	158,818,279
<u>Mashantucket Pequot Fund</u>		
Grants to towns - formula including lost taxes on certain tax exemptions- Sections 3-55i,j,k	<u>135,000,000</u>	<u>135,000,000</u>
<u>Total Miscellaneous Comptroller's</u>		
<u>Appropriations</u>	<u>\$250,640,260</u>	<u>\$293,818,279</u>

General Fund:

The General Fund is the State's main operating fund. Unless a specified fund is set up for certain transactions, the General Fund is used. It is financed by taxes, Federal aid, various licenses and fees, lottery receipts, various sales, recoveries, etc. Accounts within the General Fund restrict expenditures by type, purpose, etc., to the authorized spending limit. Expenditures authorized by the General Assembly are recorded in budgetary accounts. Restricted contributions are used for contributions received with provisions limiting how the money is used. Separate accounts are set up to control and document how this money is spent. The bulk of restricted contributions are from the Federal government.

As noted above, OPM processes some General Fund appropriations of the State Comptroller. A summary of OPM's own General Fund expenditures follows:

<u>Budgeted</u>	<u>1997-1998</u>	<u>1998-1999</u>
Operating - payroll and other expense	\$11,712,969	\$ 15,016,955
Special Program or Project	7,846,687	116,572,789
Budgeted Program of Aid		
To other than local governments	13,103,009	13,504,122
To local governments	<u>115,311,012</u>	<u>122,269,386</u>
<u>Total budgeted</u>	<u>147,973,677</u>	<u>267,363,252</u>
<u>Restricted Contributions</u>		
Non Federal	1,284,489	1,615,689
Federal	<u>13,919,365</u>	<u>16,307,957</u>
<u>Total Restricted</u>	<u>15,203,854</u>	<u>17,923,646</u>
<u>Total General Fund</u>	<u>\$163,177,531</u>	<u>\$285,286,898</u>

The operating appropriations consist of the "Personal Services", "Other Expenses" and "Equipment" appropriations. These pay for OPM's payroll and other general operating expenses (such as supplies, commodities, services, etc.) Payroll and other operational expenses may also be charged to Restricted Contributions account, Special Program or Project accounts, and to other funds. This can only occur when those expenditures are directly related to the purpose of those accounts or funds.

The General Assembly also appropriated money to OPM in Special Programs or Projects appropriations. These programs included a one-time rebate program - the Elderly Renters and Circuit Breakers Relief program. This provided a supplemental \$100 payment to existing participants in the elderly homeowners and renters relief programs. Eligibility was based on age or a condition of permanent disabilities. Expenditures were only made in the 1998-1999 fiscal year and amounted to \$7,702,100. It was authorized by Section 40 of Special Act 98-6.

Expenditures amounting to \$5,304,885 were paid out of the “Justice Assistance Grants” appropriation account established to match Federal Funds. OPM receives Federal program money for a number of justice related (drug programs, juvenile justice, law enforcement, violence against women, etc.) state and local programs. These programs require that a part (“match”) of the funded project be paid locally (the State or town.) This appropriation finances that match.

In the 1998-1999 fiscal year, a single appropriation transfer of \$100,000,000 was recorded as an expenditure in the special program or projects group of appropriations. A transfer of construction money for a proposed (Patriot) stadium was made from a lapsing appropriation to a non-lapsing appropriation account. The money was originally appropriated in a lapsing appropriation. Section 39a of Public Act 98-1 of the December 1998 Special Session provided that the stadium construction account be a non-lapsing account.

The General Assembly also appropriated money to OPM in Budgeted Programs of Aid appropriations. These exist to provide funding for programs of grant assistance. The largest portion of OPM’s General Fund expenditures was from these accounts. Most were for grants to towns. Accounts were also set up for budgeted aid to non-local government entities (such as nonprofit social agencies and individuals.)

In the non-local government group, the Tax Relief for Elderly Renters program had the largest expenditures. That program provides direct relief to individuals. Renters who are elderly or totally disabled and are within income guidelines qualify. Sections 12-170d through 12-170g and Section 12-170bb of the General Statutes authorize this program. Benefits are based on income and total charges for rent and certain utilities. Program expenditures amounted to \$10,666,391 (1997-1998), and \$10,972,022 (1998-1999). Other budgeted aid is given to nonprofit agencies for drug enforcement and other justice assistance grants. As noted in the “Forward”, OPM is statutorily responsible for all aspects of criminal and juvenile justice and planning). Also, as noted below, OPM is statutorily required to administer a drug enforcement grant program. In addition, aid is given to Regional Planning Agencies pursuant to Section 4-124q of the General Statutes.

Budgeted aid to towns consists primarily of grants in partial or full reimbursement of various local property tax exemptions or reductions. Sections 12-1c and 12-1d of the General Statutes give OPM responsibility in this area. These programs include some “PILOT” (payments in lieu of taxes) on tax exempt property. OPM also helps fund various tax relief programs for certain groups (elderly homeowners, veterans, totally disabled, etc.) by providing reimbursements to the towns. In addition to the local tax-related grants, significant grants were made to towns for Drug Enforcement. OPM administers the Drug Enforcement program pursuant to Section 21a-274a, (a) of the General Statutes.

Totals for major programs in the “Budgeted Aid to Towns” group of appropriations follow:

<u>Program</u>	<u>1997-1998</u>	<u>1998-1999</u>
<u>Local Tax Related Reimbursement Grant Programs:</u>		
Newly-acquired manufacturing machinery and equipment	<u>\$61,826,753</u>	<u>\$68,341,985</u>
Property Tax Relief, Elderly Homeowner Freeze Program	<u>\$6,496,692</u>	<u>\$5,317,461</u>
Property Tax Relief, Elderly Homeowner Credit Program	<u>\$22,493,973</u>	<u>\$21,982,098</u>
Property Tax Relief, Veterans	<u>\$8,155,337</u>	<u>\$8,022,979</u>

Drug Program

Drug Enforcement Grant Program \$12,973,200 \$13,533,280

The newly acquired manufacturing machinery and equipment grant program is authorized by Section 12-94b of the General Statutes. OPM reimburses towns for lost revenue resulting from the tax exemption on qualified newly acquired manufacturing machinery and equipment. In addition, beginning in the 1997-1998 fiscal year, new large commercial motor vehicles became eligible.

Sections 12-129b through 12-129p of the General Statutes authorize the freeze program. Under the freeze program, income qualified elderly homeowners have their property tax frozen in their qualifying year. OPM reimburses towns for the lost taxes. Since 1979, it has been closed to new applicants. After 1979, elderly homeowners “frozen out” of this program might be covered in the tax credit program.

The elderly homeowners tax credit program was previously referred to as the “Circuit Breaker” program. It provides a property tax credit to income eligible elderly or totally disabled homeowners. The tax credit is statutorily based on a graduated income scale. The maximum credit is \$1,250 for wedded couples and \$1,000 for singles. OPM reimburses towns for the lost taxes. Program authorization is contained in Sections 12-170aa through 12-170dd of the General Statutes.

The Property Tax Relief for Veterans Program reimburses towns for property tax losses from the additional exemption of property assessments. Subsection (19) to (26) of Section 12-81 of the General Statutes provides for property tax assessment exemptions (the “basic” exemption) for certain veterans, servicemen, surviving spouses, etc. The exemption varies. Usually it exempts \$1,000 of the veteran’s property from taxation. However, different categories with different exemptions exist. It can be as high as \$10,000 for certain individuals (e.g., a severely disabled veteran.) The basic exemption is entirely borne by the towns. Section 12-81g of the General Statutes provides for an additional State reimbursed veterans’ property assessment exemption. Veterans meeting income limits get an additional exemption amounting to twice (200 percent) the basic exemption. The State’s additional exemption for veterans not income qualifying is 50 percent of the basic exemption.

Restricted contributions appropriations are set up to account for expenditures from donations, grants, and other receipts that are restricted in use for a particular purpose. Most were from Federal program grants. A summary of expenditures follows:

<u>Program</u>	<u>Federal Number</u>	<u>Fiscal Year Ended June 30</u>	
		<u>1998</u>	<u>1999</u>
Byrne Formula (Criminal Justice) Grant	16.579	\$5,451,323	\$5,766,752
Violent Offenders Incarceration and Truth in Sentencing	16.586	2,142,657	4,424,582
Violence Against Women Formula Grant	16.588	1,388,265	1,225,884
Safe and Drug-Free Schools	84.186	1,010,060	872,414
All Other Federal programs	Various	<u>3,927,060</u>	<u>4,018,325</u>
Total Federal Programs		\$13,919,365	\$16,307,957
Non Federal Restricted Contributions programs		<u>1,284,489</u>	<u>1,615,689</u>
Total Restricted Accounts		<u>\$15,203,854</u>	<u>\$17,923,646</u>

OPM's largest Federal programs generally relate to criminal and juvenile justice. As noted above, Section 4-65a of the General Statutes provides, among other things, that OPM is responsible for all aspects of State planning and analysis of criminal and juvenile justice. A small portion of major program expenditures was for OPM's administrative expenses such as salaries. (No administrative expenses were charged to the Safe and Drug Free Schools program.) The bulk of expenditures were grants to other State agencies, local governments and community service organizations. OPM applied for the Federal funds, coordinated the programs and transferred funds to the other agencies. Descriptions of these programs follow:

Byrne Formula Grant Program (16.579)

The Byrne Formula Grant Program was formally known as the Drug Control and System Improvement Program. The (Federal) Omnibus Crime Control and Safe Streets Act of 1968, as amended, authorizes this program. It is a broad-based criminal justice system grant that funds a wide range of justice programs. Emphasis is placed upon programs to reduce drug-related and violent crime and to improve the functioning of the criminal justice system. A State policy board, the Narcotics Enforcement and Crime Control Committee (NECCC) develops overall policy. NECCC includes a number of representatives from criminal justice agencies. A Statewide Strategy for Drug Control, Violence Prevention and System Improvement is prepared annually as part of the grant application process. The majority of expenditures were for grants. The bulk of the grants went to other State agencies to fund grant programs of those agencies. A smaller portion went to towns.

Violent Offenders Incarceration and Truth in Sentencing (16.586)

The (Federal) Violent Crime Control and Law Enforcement Act of 1994, as amended, authorizes this program. The Department of Justice contributes this formula grant. It provides funds to build or expand correctional facilities and to increase the bed capacity for the confinement of violent offenders. In exigent circumstances, funds can be used for facilities for nonviolent prisoners to free space for violent offenders. OPM expenditures consist almost entirely of grant transfers to other State agencies (Judicial Department, Department of Corrections, and Board of Parole.) This program helped fund such projects as 1) construction of a new facility for juvenile offenders, 2) expansion of halfway house facilities, 3) support of a program that provides detention beds for juvenile females with children, 4) support of community-based beds for non-violent offenders, 5) alternate detention beds for male juveniles and 6) expansion of beds for an adult alternatives to incarceration program.

Violence Against Women Formula Grant (16.588)

The (Federal) Violent Crime Control and Law Enforcement Act of 1994 and the Omnibus Crime and Safe Streets Act of 1968, as amended, authorizes this program. It develops and strengthens law enforcement and prosecution of violent crimes against women and strengthens services for such victims. To qualify states must not require that domestic violence victims bear the cost of filing charges, witness subpoenas or protection orders. The Federal Share of program cost is 75 percent with a match of 25 percent. The bulk of OPM's expenditures were grants to various State and community service agencies involved in law enforcement, prosecution and victim services.

Safe and Drug-Free Schools (84.186)

The (Federal) Safe and Drug-Free Schools and Communities Act of 1986 authorizes this program. Objectives are to make schools free of drugs, violence, alcohol and the unauthorized presence of firearms; to prevent school violence; to strength alcohol, drug, and

tobacco prevention programs; and to involve and coordinate program efforts with parents and community based organizations. Funds were provided to local schools for drug abuse resistance education. Also, funds are provided to community groups and to other State agencies involved in drug and violence prevention programs and activities.

Special Revenue Funds:

Special revenue funds are used to finance a particular activity in accordance with specific State laws or regulations. Funds in this group are financed with bond sale proceeds or through specific State revenue dedicated to a particular activity. As indicated above, OPM’s Special Revenue Fund expenditures amounted to \$40,604,927 (1997-1998) and \$35,791,197 (1998-1999). By far, most of OPM’s Special Revenue Funds expenditures were for the Local Capital Improvement Program (“LOCIP”) Fund (Fund 1870). LOCIP expenditures amounted to \$40,027,923 (1997-1998), and \$24,972,707 (1998-1999).

LOCIP’s governing statutes are Sections 7-535 to 7-538 of the General Statutes. State bond proceeds finance the program. OPM reimburses towns up to 100 percent for the cost of eligible capital improvement projects. Eligible projects generally consist of the construction and the major renovation and repair of local infrastructure items including roads, bridges, dams, and public housing. Pursuant to Section 7-538,(a) and Section 7-536,(b) of the General Statutes, \$30,000,000 was made available each fiscal year of the audited period. Funds are apportioned to towns by a statutory formula. Unspent apportioned funds can be carried forward to succeeding years. Projects must be approved by OPM before reimbursement. Section 8 of Public Act 97-1 of the June 5, 1997 Special Session increased the total authorized cumulative funding to \$350,000,000 as of June 30, 1999. As of that date, accumulated expenditures totaled \$274,764,937.

Capital Projects Funds:

Capital projects funds account for bond sale proceeds used to acquire capital facilities financed from State bond sales proceeds. The Legislature authorizes funds through bond act legislation. Subsequent State Bond Commission approval is generally required to make the funds available. Capital projects funds were made available to OPM for urban action grants and other projects. Expenditures for these projects totaled \$7,487,303 (1997-1998), and \$6,038,181 (1998-1999). However, for the most part, these urban action grants and other projects were administered by other agencies. The other agencies, primarily were the Department of Economic and Community Development, the Department of Environmental Protection and the Department of Public Works. Expenditures from Capital Project Fund projects actually administered by OPM follows:

<u>Program Description</u>	<u>1997-1998</u>	<u>1998-1999</u>
Safe neighborhoods - police substations & security enhancement	\$350,010	\$
Geographical Information System	446,768	
Planning and Phase 1 – Development for the Criminal Justice system – (part of CJIS project)	490,224	2,303,876
Develop Offender based tracking system – (part of CJIS project)		515,321
Totals	<u>\$1,287,002</u>	<u>\$2,819,197</u>

Expenditures consisted primarily of costs related to the development of an integrated Criminal Justice Information System (CJIS). This is a program to improve, integrate and provide appropriate interagency (State and local) access of criminal records. It will include data

accessibility via terminals in police cars. It will also provide for uniform crime reports for State statistical or administrative purposes. Project funding was authorized by sections 2,(a),(3) and 22,(a),(3) of Special Act 95-20.

Expenditures by Type:

Expenditures from all funds, classified as to type are summarized below:

	<u>1997-1998</u>	<u>1998-1999</u>
Grants and Grant Transfers:		
Grants/grant transfers - non State agencies	\$425,893,758	\$480,795,332
Grant transfers - State agencies	<u>14,194,545</u>	<u>18,064,754</u>
Total Grants and Grant Transfers	440,088,330	498,860,086
Intra-agency appropriation transfer		100,000,000
Personal services	11,147,199	12,761,541
Outside consulting/professional services	1,780,615	3,916,786
All Others	<u>2,699,734</u>	<u>2,182,304</u>
Total Expenditures by Type	<u>\$455,715,878</u>	<u>\$617,720,717</u>
Increase of total expenditures from the prior fiscal year	<u>\$91,593,165</u>	<u>\$162,004,839</u>

Approximately 87 percent of OPM’s expenditures during the audited period consisted of grant payments to non-state agencies and grant transfers to other State agencies. This is primarily reflective of its statutory responsibilities (as noted above) for tax related grants to towns and the Drug Enforcement Grant Program. The large grant transfers to other State agencies also reflects OPM’s program coordination function. Program money is appropriated to or restricted money is received by OPM and transferred to other State agencies.

As noted earlier there was a single intra-agency appropriation transfer of \$100,000,000 from a lapsing account to a continuing appropriation account of construction money for what was to be the Patriot stadium.

In each audited year total agency expenditures increased from the prior fiscal year. The increases were approximately \$92,000,000 for the 1997-1998 fiscal year and \$162,000,000 for the 1998-1999 fiscal year. One hundred million dollars of the increase in the 1998-1999 fiscal year can be attributed to the single appropriation transfer discussed above. The rest of the increases were primarily due to increases in tax related grants, and the increases in the Mashantucket Pequot Fund and the Local Capital Improvement Fund grants to towns. Expenditures for grant programs that had significant increases are summarized below:

Approximate amount in thousands of dollars

	<u>Fiscal year Ending June 30</u>		
	1997	1998	1999
Mashantucket Pequot and Mohegan Fund – formula grant to towns	<u>\$85,000</u>	<u>\$135,000</u>	<u>\$135,000</u>
Grants to towns – tax losses on State Property	<u>\$30,360</u>	<u>\$33,320</u>	<u>\$61,698</u>
Grants to towns – tax losses on private colleges and general hospital	<u>\$68,521</u>	<u>\$82,321</u>	<u>\$97,121</u>
Grants to towns –tax losses on manufacturing machinery and equipment	<u>\$51,798</u>	<u>\$61,827</u>	<u>\$68,342</u>
Elderly renters and circuit breaker relief			<u>\$7,702</u>

Many of the increases can be attributed to legislation that increased grant levels during the audited period. For instance, the Mashantucket Pequot and Mohegan Fund is a formula grant to towns that statutorily (Section 3-55i of the General Statutes) had been set at \$85,000,000. However, Section 55 of Special Act 97-21 (the “budget act”) provided that notwithstanding Section 3-55i the grant during each of the 1997-1998 and 1998–1999 fiscal years was to be \$135,000,000. Section 3-55i provides that monies received by the State in conjunction with Indian gaming agreements would be deposited into the General Fund with a portion transferred to this Fund to finance this grant.

Grants to towns for lost taxes on exempt State property increased approximately \$28,000,000 in the 1998-1999 fiscal year. This was the result of Section 40, subsection (c) of Special Act 98-6. That act provided an additional \$28,000,000 to proportionally increase grant payments.

During the audited period, Section 12-20a of the General Statutes provided for a 60 percent reimbursement to towns for property taxes lost on exempt real property of private colleges and general hospitals. Section 52, subsection (k) of Public Act 97-11 of the June 18, 1997 Special Session and Special Act 97-21 provided for proportional increases to the amount appropriated. Except for the effects of those 1997 acts the amount of this grant would have been \$74,960,939 instead of \$82,320,537 in the 1997-1998 fiscal year and \$75,586,092 instead of \$97,120,537 in the 1998-1999 fiscal year.

Grants to towns for the tax losses on manufacturing machinery and equipment increased, in part, because of various legislated program changes. The property tax exemption was extended from four years to five years, additional types of businesses (such as biotechnology and motion picture companies) were covered, and the exemption was extended to commercial vehicles and trailers. As a result of these changes and because apparently more companies took advantage of this tax exemption, the number of claims processed increased by 9.7 percent in the 1997-1998 fiscal year and 8.6 percent in 1998-1999 fiscal year. Payments also increased because of inflation (cost of new machinery and equipment increasing) and tax (mill rates) increases. In addition, in the 1998-1999 fiscal year, approximately \$1.4 million was paid from this account for preliminary (Patriot) stadium construction expenses. This was authorized by Section 40 of Public Act 98-1 of the December 1998, Special Session of the General Assembly.

The Elderly Renters and Circuit Breaker Relief Program in effect for only the 1998-1999 fiscal year is more fully discussed above.

Receipts

Receipts credited to OPM were as follows:

	<u>1997-1998</u>	<u>1998-1999</u>
General Fund:		
Indian Gaming Receipts:		
Mashantucket Gaming	\$151,104,212	\$158,783,073
Mohegan Gaming	<u>82,143,447</u>	<u>105,370,434</u>
Total Indian Gaming Receipts	233,247,659	264,153,507
Federal restricted contributions	4,934,553	21,395,398
Other restricted contributions	190,018	100,651,760
Refunds of grants and other expenditures	55,564	89,410

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All other receipts	<u>28,154</u>	<u>26,099</u>
Total General Fund	<u>238,455,948</u>	<u>386,316,174</u>
All Other Funds:		
Grant transfers from other agencies	409,122	40,000
All other	<u>4,772</u>	<u>11,448</u>
Total All other Funds	<u>413,894</u>	<u>51,448</u>
<u>Total Receipts - all funds</u>	<u>\$238,869,842</u>	<u>386,367,622</u>

As indicated, the bulk consists of Indian gaming receipts. Although these receipts are credited to OPM, the Division of Special Revenue processes them. Audit coverage is performed by the audit of that agency. A substantial portion of these funds were transferred into the Mashantucket Pequot and Mohegan Fund and used for grants to towns as discussed above.

The 1998-1999 fiscal year appropriation transfer discussed earlier of \$100,000,000 for the (Patriot) stadium construction money was recorded as a (non Federal) restricted contribution receipt.

Except for that transfer, the most significant revenue that OPM processes is Federal restricted contributions. As noted above, these contributions financed various Federally assisted programs. The use of these receipts is restricted for particular programs or projects by Federal law.

Typically Federal Aid is accounted for on a receivable basis. Collections are delayed until money is spent on eligible program or project costs. The large 1998-1999 increase appears to be due to more timely collection of receivables in that year. As of June 30, 1997, the Federal aid receivable amounted to \$9,612,916 of which approximately \$7,200,000 had been outstanding for over four months. Of the \$7,200,000 approximately \$5,900,000 had been outstanding for at least six months. During the 1997-1998 fiscal year only approximately \$3,000,000 of Federal aid receivable was collected and the receivable balance at June 30, 1998 rose to \$18,908,807. It appears that greater efforts to collect Federal aid receivables during 1998-1999 resulted in the higher level of receipts, approximately \$18,000,000 in that year. Additional comments concerning the Agency's collections of Federal Aid receivable are contained in the "Condition of Records" section of the report.

CONDITION OF RECORDS

Areas warranting comment are presented below.

State's Security Interest - Tax Exemption, Newly Acquired Manufacturing Machinery and Equipment

Background: Section 12-81, subsection (72), (c) of the General Statutes provides that the State is to hold a security interest in items exempt from taxation under the new and newly acquired manufacturing machinery and equipment exemption. OPM reimburses towns for taxes lost from that exemption.

Condition: OPM has not established policies and procedures to enforce this security interest.

Cause: This recommendation was contained in our prior audit report. Since that time OPM has been reviewing this situation. OPM has introduced to the 2001 General Assembly proposed legislation that would establish procedures over this area.

Effect: The State might have lost some revenue because it failed to enforce this security interest. The amount lost is not readily determinable. The security interest is equal to the amount of the State's reimbursement. It is enforceable against any manufacturer who received this exemption but ceased operations in the State. It exists for five years after the assessment year. The grant is paid in the year following the assessment year. As of June 30, 1999, for example, the State had a security interest from grant payments paid from the 1992-1993 fiscal year to the 1996-1997 fiscal year as follows:

<u>Fiscal Year</u>	<u>Payments</u>
1994-1995	\$38,417,362
1995-1996	\$50,357,425
1996-1997	\$51,797,713
1997-1998	\$61,826,753
1998-1999	<u>\$68,341,985</u>
<u>Total</u>	<u>\$270,741,238</u>

It is not known how much of these payments went for companies that ceased operations or moved out of State.

Recommendation: The Office of Policy and Management (OPM) needs to establish procedures related for enforcing its security interest in tax exempt property. (See Recommendation 1.)

Agency Response: "OPM has introduced legislation that will create a process that requires local officials to notify OPM if recipient benefits under the "Newly Acquired Manufacturing Machinery and Equipment Program" ceases such business operations or moves such operations

entirely out of the state. OPM will then file a notice of lien upon personal property, under Part 4 of Article 9 of Title 42a, to recapture the amount of tax revenue reimbursed. Upon passage of the proposed legislation, OPM will develop procedures for the implementation of the security interest.”

Procedures - Distressed Municipalities Grant:

Background

OPM is responsible for various tax exemptions-related grants to towns. The same manufacturing machinery and equipment could be exempt under two different statutory provisions. OPM pays grants based on both statutory exemptions.

Subsection (72) of Section 12-81 of the General Statutes provides a full exemption for new and newly acquired manufacturing machinery and equipment. Individual items are exempt for five years. After the fifth year, an item is no longer eligible for this exemption. However, the company can exempt new items. Pursuant to Section 12-94b and 12-94c of the General Statutes, OPM fully reimburses towns for taxes lost due to this exemption.

Subsection (60) of Section 12-81 provides an 80 percent exemption for machinery and equipment in a manufacturing facility in a distressed area. This exemption lasts five years. (After the fifth year, manufacturers can no longer claim this exemption even for new items.) Pursuant to Section 32-9s of the General Statutes OPM reimburses towns for 50 percent of the taxes lost due to this exemption.

Criteria:

OPM is responsible for maintaining effective controls over its expenditures. This includes providing an accounting/audit trail over payments and processing them based on itemized billings. In addition, procedures should be sufficient to ensure that towns are not reimbursed twice for the same item under the two different tax exemptions discussed above. Section 12-81, subsection (72), subsection (c) of the General Statutes provides that the same machinery or equipment item cannot be claimed under both exemptions. (The new and newly acquired manufacturing machinery and equipment exemption takes preference.)

Condition:

We were not readily able to verify OPM’s grants made for personal property exemptions in the Distressed Municipalities Grant. This is because as indicated below under “*Cause*”, OPM’s procedures do not require an itemized listing of items initially being claimed. Also, as described below, complete documentation over other acquisitions and Agency verifications and follow-ups did not exist.

Cause:

Documentation is lacking related to a major portion (first year items) of the personal property exemptions being claimed in the distressed

areas exemption. As a result, it cannot be readily ascertained if OPM is making payments for eligible items or if payments are made for the same items in the two tax exemptions.

Towns bill OPM for the tax loss under the distressed municipalities' exemption. Their claim does not list the items actually being claimed for that company in the first year of the exemption. OPM relies on the town assessor to not include items under both exemptions. In the second to fifth years of the distressed area exemption, manufacturers must submit renewal forms which requires the itemization of new items claimed. Manufacturers are also required to submit copies of invoices for new items to the town assessor. However, OPM never receives an itemized list of the items claimed in the initial year. These items continue to be claimed over the second to fifth years. These are the bulk of the items being claimed. OPM's established procedure is to check new items claimed in the second to fifth years of this exemption. If duplication exists, OPM would not reimburse the duplicated item or items in the Distressed Municipalities Grant.

However, we noted an instance in which payments of approximately \$150,000 were processed for a company that did not provide an itemized listing for the new items being acquired during the audited period. In many cases, documentation was lacking to indicate that the Agency had checked new purchases for duplication in the other program. There was a lack of documentation that the Agency followed up on failures of town assessors to sign the annual renewal forms required from eligible companies to continue the exemption. For one town the assessor failed to sign 20 out of the 38 forms submitted.

Effect: Because of deficient documentation, we were unable to adequately review the eligibility of some claimed equipment and the possibility of duplicate reimbursement on items that are tax exempt under both grants

Recommendation: The Office of Policy and Management (OPM) needs to improve procedures over the Distressed Municipalities Grant. (See Recommendation 2.)

Agency Response: "OPM does receive a listing of personal property items that are claimed as exempt from local property tax for the five years of a company's exemption period including the first year of exemption and reimbursement. This list is attached to the company's certification papers issued by DECD. The form is DECD's Form M-47. OPM will review claims to ensure that items listed on the Form M-47 for a company is not also listed on the company's M-65 claim for exemption pursuant to the "Newly Acquired Manufacturing Machinery and Equipment Program". Also, OPM will review the feasibility of requiring the town's auditors under the Single Audit Act to review, if a company files both the M-47 and M-65 claims,

the claims to ensure that a duplication of listing of items does not occur.”

*Auditors’ Concluding
Comments:*

To claim the distressed area exemption, claimants are required to file annually written applications on forms prescribed by the Secretary of OPM per Subdivisions 59 and 60 of Section 12-81 of the General Statutes. OPM’s instructions call for the filing in the first year of eligibility a “Declaration of Machinery and Equipment” form (form M-47). This form is a Department of Economic and Community Development (DECD) form. DECD is responsible for various aspects of this program. Form M-47 is a listing of machinery and equipment eligible for this exemption. It is not a claim form itemizing the machinery and equipment actually being claimed. As noted above, some eligible items may also be eligible for the new equipment exemption. We were informed that because the M-47 is not a listing of the items actually being claimed, OPM had not been checking the M-47 to the new equipment exemption listings for duplications. Instead it has relied on the town assessor to not include items under both exemptions. Towns bills OPM for the tax loss reimbursement but the towns’ invoices do not itemize the distressed area exemption items being claimed. Subsequently to the above “Agency Response”, we were told that OPM is changing its procedures and will now check items listed on the M-47 to the new equipment program listings to insure that a duplication does not occur.

Attorney General Approval of OPM’s Grant Contracts:

Criteria: Section 3-125 of the General Statutes gives the Attorney General supervision of all civil legal matters of State agencies. Moreover, Section 3-125 also provides that all legal services required by State agencies are to be performed by the Attorney General or under his direction. In addition, Section 4a-59, (e) of the General Statutes states, in part, that “All contracts shall be approved as to form by the Attorney General.” Accordingly, we understand that it is standard practice by State agencies to have the Attorney General approve their individual grant award agreements or, at least, when applicable, their standardized grant award agreements.

Condition: OPM uses standardized grant award agreements for various grants. Those agreements have the appearance of a contract. They are signed by a representative of OPM and by a representative of the grantee. OPM agrees to make the specified grant award and the grantee agrees to a number of grant conditions. These conditions include statutory (Sections 4a-60 and 4a-60a of the General Statutes) provisions required to be in State contracts. These agreements, however, are not individually approved by the Attorney General. Also OPM has not been able to show us any documentation that the Attorney General has approved their standardized grant award agreements.

- Cause:* We were unable to determine the cause.
- Effect:* Grant contracts were finalized without the approval of the Attorney General, who has general legal supervision of all civil matters of OPM.
- Conclusion:* No recommendation appears warranted. We brought this to the Agency's attention, and in July 2000, the Agency submitted its standardized contract to the Attorney General's Office for approval.

Delays in Collections of Federal Aid Receivable:

- Background:* OPM receives significant Federal aid on a reimbursement basis. Section 3-39a of the General Statutes, authorizes written Federal support commitments to be recorded as State receivables and State appropriations. In these cases, the State requests Federal reimbursement after spending its own money. When it makes grants from that money, the State must wait for the grantee to report spending that money before requesting Federal reimbursement.
- Criteria:* State agencies should request Federal reimbursement in a timely manner. Otherwise, the State will lose income on the use of those funds.
- Condition:* In the prior audit we found delays in OPM's requesting reimbursements for these receivables. We again reviewed OPM's expenditure records including, where applicable, compilations of grantee's expenditure reporting. We noted improvement in this area, but delays continued. For instance, as of June 30, 2000, receivables amounting to approximately \$1,200,000 were delayed for at least four months. In another case there was a delay in collecting approximately \$150,000 for over a year. Receivables for another account fluctuated between approximately \$400,000 to \$700,000 during the period between March 1999 to June 2000.
- Cause:* Delays appear to have been caused by staff time constraints.
- Effect:* Delays in obtaining reimbursement cost the State up to \$80,000. That figure was arrived at by applying the State's Short-Term Investment Fund's interest rate to the delays of the amounts reviewed by us. Pursuant to Section 2-90 of the General Statutes we reported this situation to the Governor and other State Officials on January 24, 2001.
- Recommendation:* The Office of Policy and Management (OPM) needs to improve its procedures relative to the collection of Federal aid receivable. (See Recommendation 3.)
- Agency Response:* "OPM is in the process of reviewing its procedures related to the collection of Federal aid receivable. Business Office procedures have already been reviewed and modified, which will result in more timely

requests to draw down eligible funds. Effective January 2001, drawdowns will be done on a quarterly basis, immediately following the submission of required Federal Financial Status Reports.

As noted by the Auditors of Public Accounts, a significant amount of Federal support to OPM is provided on a receivable basis. This requires OPM to request Federal reimbursement after spending State money. OPM advances State money to its sub-grantees. In accordance with Federal requirements, OPM must wait for sub-grantees to report their expenditures before requesting Federal reimbursement. OPM will conduct a further analysis regarding the relationship between the advancing of funds to sub-grantees and the receipt of expenditure reports from such sub-grantees. In addition, OPM will review its procedure concerning the return of unexpended funds from sub-grantees. Procedures will be modified, as necessary, to further assist in the timely collection of Federal aid receivable.”

Codification of the Pension Agreement changes:

Background: The Governor has designated OPM to act on behalf of the State in collective bargaining and other roles requiring employer representation. That designation was made under the provision of Chapter 68 (“Collective Bargaining for State Employees”) of the General Statutes. OPM’s Office of Labor Relations (OLR) has responsibility in this area.

Criteria: In March 1997, OLR was a signatory on behalf of the State to a pension agreement -- “SEBAC V”. The agreement was negotiated with the State Employees Bargaining Agent Coalition (SEBAC). The agreement included a provision that the “parties have agreed to submit the language of the Pension Agreement in statutory form to the Legislative Commissioner’s Office for codification in the Connecticut General Statutes.”

Condition: The pension agreement resulted in a number of changes to the statutory provisions of the State Employees’ Retirement System. However, these changes have not been codified.

Cause: An OLR administrator indicated that OLR had prepared language in statutory format for submission to the Legislative Commissioners’ Office for codification. Subsequently, however, SEBAC officials wanted to have a legal review done of the language before submission. Apparently, that review was never done. The Office of Labor Relations informed us that they have followed up with SEBAC officials. Despite this, the pension agreement language has not been submitted for codification.

Effect: Existing pension benefits are the end result of the Connecticut General Statutes being modified by an arbitrated award and five separate

negotiated agreements. Keeping track of benefits is extremely cumbersome and much too complicated. The potential exists that some changes could be omitted and never detected.

Recommendation: The Office of Policy and Management's Office of Labor Relations Division should implement the process of submitting the Pension Agreement changes to the Legislative Commissioner's Office for codification in the Connecticut General Statutes (See Recommendation 4.)

Agency Response: "The State Employees Bargaining Agent Coalition (SEBAC) 5 agreement provides the following: "The parties have agreed to submit the language of the Pension Agreement in statutory form to the Legislative Commissioner's Office for codification in the Connecticut General Statutes". SEBAC and the Office of Labor Relations have drafted the language that accomplishes that objective. The parties have requested that the Office of the Comptroller review the language. OPM understands that the Office of the Comptroller is working on that project."

Auditors Concluding Comments:

Based on discussions with management of the State Comptroller's Office, we were informed that that office is not actively working on this project as of March 16, 2001.

Inactive Accounts:

Criteria: Accounts for completed grant programs and other projects for which no additional transactions will be made should be closed out. Failure to do so results in inaccurate State financial records and statements. It also weakens expenditure control.

Also, it would be good business practice to develop programs to use restricted inactive "settlement" accounts.

Condition: Completed OPM grant programs and project accounts continue to have appropriation balances, Federal grant awards balances, and/or Federal aid receivable balances outstanding on the State's records.

In addition, we noted various largely inactive accounts financed from receipts of Federal legal settlements against oil companies. One account with a balance of over \$1,000,000 had expenditures of approximately \$6,700 during the audited period. Some smaller inactive settlement accounts also have existed. In some of these accounts, interest is earned on the unexpended account balances and remains in those accounts.

Cause: The Agency indicated that in some cases (e.g., Federal disaster assistance grants) account balances are left outstanding for an extended period because there may be additional claims. In other cases, however, this is not relevant. For instance, we noted some closed non-

disaster assistance programs that have had no expenditures since at least fiscal year 1994-1995 but still have appropriation balances, Federal grant award balances, and Federal aid receivable balances outstanding.

Agency staff informed us that the inactive settlement accounts had been subject to expenditure plans approved by the State legislature and Federal government. However, for various reasons these funds have not been completely expended. The Agency has been expending newly acquired settlement funds. OPM might develop plans to use the money from these inactive accounts rather than continue to carry them.

Effect:

Inaccurate financial information is on the State's records. Also, expenditure control is weakened. This is because appropriations are expenditure authorizations and expenditures could be charged to any account which has an appropriation balance.

No negative effect seems to have occurred as a result of the non-use of the inactive settlement accounts. Staff indicated that they are putting together plans to spend that money in the near future.

Recommendation:

The Office of Policy and Management should periodically review its inactive grant and settlement accounts and close out or timely use those accounts when appropriate. (See Recommendation 5.)

Agency Response:

“On an annual basis, OPM reviews accounts and takes action to close inactive accounts. The most recent review was conducted in December 2000, which resulted in a request to the Office of the Comptroller to close several accounts. OPM will follow-up with the Office of the Comptroller to confirm its paperwork has been processed and inactive accounts have been closed. In addition, OPM will change its procedures to review accounts on a semi-annual basis.

Currently, an account is held open until the audit reports of all sub-grantees have been received, reviewed, and a determination made that all sub-granted moneys were used appropriately. Accounts need to remain open in the event a sub-grantee needs to return funds to the State for disallowed expenditures and in turn, for the State to return such funds to the grantor. This closeout process could take several years to finalize, resulting in seemingly inactive accounts on the State's records.

OPM, with the Office of the State Comptroller, will pursue alternative ways to address this lengthy close-out process, which would allow the more timely closing of a grant account. One alternative might be the establishment of a dedicated account for the purpose of handling disallowed costs.”

Personal Services Payment Processing:

Background: As noted in the “RÉSUMÉ OF OPERATIONS” section of the report, OPM made significant expenditures to personal services contractors for outside consulting and professional services. Such expenditures amounted to approximately \$1,800,000 and \$3,900,000 in fiscal years 1997-1998 and 1998-1999, respectively..

Criteria: Section 3-117, subsection (a) of the General Statutes provides, in part, that “Each claim against the state shall be supported by vouchers or receipts for the payment of any money exceeding twenty five dollars at any one time, and an accurate account, showing the item of such claim, and a detailed account of expenses, when expenses constitute a portion of it, specifying the day when and purpose for which they were incurred.”

Article Fourth, Section 24 of the State Constitution and Section 3-112 of the General Statutes provide that the State Comptroller shall prescribe the mode of keeping and rendering all public accounts of the State. The State Comptroller through her State Accounting Manual ("SAM") requires that State agencies are responsible to implement uniform procedures that contain proper internal control policies over their expenditures. SAM further requires that an agency employee must certify the accuracy and completeness of expenditure documents.

Condition: Controls over personal services payments are decentralized. These payments are generally processed through OPM’s various operational divisions. A division employee might handle the process through completion including the approvals of vendors’ invoices and expense documentations. In some cases the Agency obtains adequate expenditure documentation and itemization. In other cases OPM did not meet the requirements of Section 3-117 of the General Statutes and the procedural guidelines of the State Comptroller. For instance, we noted that OPM processed the following:

- Invoices for professional services from one contractor totaling approximately \$96,000 for professional services itemized what days were worked but not what services were performed.
- An invoice from another contractor amounting to approximately \$9,800 did not itemize, as required, the days worked or the services rendered.
- Another provider was paid \$4,000 for expenses without providing itemization or supporting documentation.
- Another provider was paid approximately \$56,000 for advertising expenses without providing supporting documentation such as bill, invoices, and receipts. Instead, the provider provided copies of (accounting) ledgers. That same provider did not provide supporting documentation for various “out of pocket expenses” despite the fact that the contract (and State law) require it.

- Cause:* These situations apparently occurred, in part, because the Agency has not established uniform procedures or centralized responsibility regarding the approval over personal services expenditure documentation and itemization.
- Effect:* In processing personal service expenditures, OPM has not always complied with statutory and State Comptroller's requirements regarding expenditure documentation and itemization.
- Recommendation:* OPM should establish a uniform procedure over (outside) personal service expenditures that includes proper internal control policies over the documentation and itemization of such expenditures. (See Recommendation 6.)
- Agency Response:* "OPM is in the process of implementing a uniform procedure that includes proper internal control over the documentation and itemization of Personal Service Agreement (PSA) expenditures. To this end, a reminder is being sent to all agency staff with signatory authority for bill payments explaining their responsibility for receiving, reviewing, and approving vendor invoices. The 'Approved for Payment' stamp is being changed to reflect a certification as to the accuracy and completeness of the invoice. A new procedure will be implemented advising contractors that invoicing must be in compliance with the terms and conditions as stated in the PSA and that invoices improperly completed will be returned for correction and resubmission. This notification process will occur at the time a copy of the executed PSA is forwarded to the contractor. Additionally, payment terms and conditions on the PSA template are being changed to reflect the requirements contained in Section 3-117 of the Connecticut General Statutes."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- OPM should review and clarify, if needed, Section 12-19a and subsection 60 of Section 12-81 of the General Statutes. — The Agency has reviewed this area and feels its interpretation of these sections is correct. We have not repeated this recommendation. However a recommendation concerning the need to clarify Section 12-19a of the General Statutes has been contained in our 1997, 1998, 1999, and 2000 annual reports to the General Assembly.
- Greater care needs to be exercised over policies and procedures concerning tax-related grants. — OPM corrected the errors noted in the prior audit and no errors were noted during the current review. Also, the report that was required by Section 31 of Public Act 90-270 is no longer required. This is because Section 31 was repealed by Section 101 of Public Act 00-192. Accordingly, this recommendation is not being repeated.
- OPM needs to establish procedures for enforcing its security interest in tax exempt property. — This is essentially repeated as Recommendation 1.
- OPM needs to improve procedures over the Distressed Municipalities grant. — This is essentially being repeated as Recommendation 2.
- OPM should improve its documentation over various grants. — We noted improvements in the documentation over those grants. Accordingly, this recommendation is not being repeated.
- OPM needs to improve its documentation of employee time charged to its non-personal services appropriations. — Our current review indicated that employee time was properly allocated. Also, during the 1999-2000 fiscal year, the Agency implemented a payroll cost allocation reporting system. Accordingly, this recommendation is not being repeated.
- OPM needs to improve procedures over the collections of Federal aid receivables. — We noted improvements, but delays continued. This is being repeated as Recommendation 3.
- OPM should follow State Comptroller's guidelines concerning the depositing and recording of unrestricted Federal money. — Legislation (Section 5 of Public Act 99-97) was passed that allowed for the Federal moneys discussed in the prior report to be maintained in a separate account within the General Fund. Accordingly this recommendation is not being repeated.
- OPM should review policies and procedures related to the Capital Equipment Purchase Fund. — The Agency changed its policies regarding the Capital Equipment Purchase Fund. Accordingly, this recommendation is not being repeated.
- OPM should implement the process of codifying the pension agreement changes into the Statutes. — This is being repeated as Recommendation 4.

- OPM should make periodic review of its grant programs to close out outstanding balances of completed grant programs on a timely basis. — This is being repeated as Recommendation 5.
- OPM should distribute the balances remaining in the Local Property Tax Relief Trust Fund. — In accordance with Section 46, subsection (b) of Special Act 99-10, the balance in the Local Property Tax Relief Trust Fund was distributed. Accordingly, this recommendation is not being repeated.

Current Audit Recommendations:

- 1. The Office of Policy and Management (OPM) needs to establish procedures for enforcing its security interest in tax exempt property.**

Comments:

Section 12-81, subsection (72), (c) of the General Statutes provides that the State is to hold a security interest in certain commercial tax-exempt property. The property consists of items covered under the new and newly acquired manufacturing machinery and equipment exemption. OPM reimburses towns for lost taxes from that exemption. The security interest is equal to the State reimbursement. It is enforceable against any manufacturer who received this exemption but ceased operations in the State. This interest lasts for five years after the assessment year. OPM has made significant reimbursements under this program. However, it has not yet established procedures to enforce its security interest. OPM has introduced to the 2001 General Assembly proposed legislation that would establish procedures.

- 2. The Office of Policy and Management (OPM) needs to improve procedures over the Distressed Municipalities Grant.**

Comments:

Manufacturing machinery and equipment could be tax exempt under two different statutory provisions. Such items might qualify as new manufacturing machinery and equipment or, in some cases, as property in distressed municipalities. Section 12-81, subsection (72), (c) provides that the same machinery or equipment items cannot be claimed under both exemptions. (The new manufacturing machinery and equipment exemption takes preference.)

We were not able to verify OPM's grants made for personal property exemptions in the Distressed Municipalities Grants. This is because OPM's procedures do not require an itemized listing of items initially being claimed in the first year. (Those items could continue to be exempted in the next succeeding four years.) Also because those items are not itemized we could not verify that they are not duplicated in the new manufacturing machinery and equipment grant.

- 3. The Office of Policy and Management (OPM) needs to improve procedures over the collections of Federal aid receivables.**

Comments:

A significant amount of Federal support to OPM is provided on a reimbursement basis. This requires the State to spend its own money prior to requesting Federal reimbursement. State agencies should request Federal reimbursement in a timely manner. Otherwise, the State will lose income on the use of these funds. We noted that OPM's delays in collecting some of these Federal aid receivables cost the State approximately \$80,000.

- 4. The Office of Policy and Management's Office of Labor Relations Division should implement the process of submitting the Pension Agreement changes to the Legislative Commissioner's Office for codification in the Connecticut General Statutes.**

Comment:

The Office of Policy and Management (OPM) acts on behalf of the State in collective bargaining and other roles requiring employer representation. OPM's Office of Labor Relations (OLR) is responsible for this. Statutory provisions concerning the State Employees' Retirement System have been significantly modified. Changes resulted from modifications by an arbitrated award and five separate negotiated collective bargaining agreements. OLR and the unions negotiated the agreements. These changes should be incorporated into the General Statutes. The last pension agreement provides for the codification of pension agreement changes to the State employees retirement provisions. However, this has yet to be done. These changes should have been submitted to the Legislative Commissioner's Office for codification as provided for in that pension agreement.

- 5. The Office of Policy and Management should periodically review its inactive grant and settlement accounts and close out or timely use those accounts when appropriate.**

Comment:

We noted many instances of accounts of closed grant programs continuing to carry balances. These accounts should be closed out. We also noted various essentially inactive oil settlement accounts that could be used for current programs, but have remained idle.

- 6. OPM should establish a uniform procedure over contracted personal service expenditures that includes proper internal control policies over the documentation and itemization of such expenditures.**

Comment:

State Comptroller's guidelines require each State agency to implement uniform procedures that contain proper internal control policies over its expenditures. Section 3-117 of the General Statutes provides, in part, that "Each claim against the state shall be supported by vouchers or receipts for the payment of any money exceeding twenty five dollars at any one time, and an accurate account, showing the item of such claim, and a detailed account of expenses, when expenses constitute a portion of it, specifying the day when and purpose for which they were incurred."

OPM makes significant outside professional services expenditures. Controls over personal services payments are decentralized and not uniform. Payments are processed through OPM's various operational divisions. We noted instances in which OPM failed to meet the requirements of Section 3-117 of the General Statutes. For instance, OPM processed payments to personal services providers for expenses that lacked sufficient documentation (such as receipts or bills) and/or itemization (specification of the day and purposes for which they were incurred.)

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Office of Policy and Management for the fiscal years ended June 30, 1998 and 1999. 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 Office of Policy and Management for the fiscal years ended June 30, 1998 and 1999, 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 generally accepted auditing standards and the standards applicable to financial-related 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 Policy and Management 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 Office of Policy and Management is the responsibility of the management of the Office of Policy and 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, 1998 and 1999, 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 an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying "Condition of Records" and "Recommendations" sections of this report. That finding is that the Office of Policy and Management did not enforce its security interest over certain commercial property.

We also 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 Office of Policy and Management 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 Office of Policy and Management'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 a matter involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable condition. 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 finding represent a reportable condition: the Agency's failure to establish procedures to enforce its security interest over certain commercial property.

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 the failure to enforce its security interest over certain commercial properties is a significant weakness.

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

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

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the Office of Policy and Management greatly facilitated the conduct of this examination.

Charles Woolsey
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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