

STATE OF CONNECTICUT

**AUDITORS' REPORT
OFFICE OF POLICY AND MANAGEMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

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

Table of Contents

INTRODUCTION	1
COMMENTS:	1
FOREWORD	1
Finance Advisory Committee	3
RÉSUMÉ OF OPERATIONS	4
Receipts.....	4
Expenditures	5
OPM General Fund Expenditures.....	5
Special Revenue Funds.....	6
Capital Projects Funds	7
Agency Fund.....	7
Trust Fund.....	8
Comptroller Appropriations.....	8
PERFORMANCE EVALUATION	8
CONDITION OF RECORDS:	11
Procedures - Distressed Municipalities Grant	11
Codification of the Pension Agreement Changes	12
Contractual Services Payment Processing.....	14
Inventory Control.....	15
Statutory Reporting Requirements/Connecticut Progress Council.....	16
Human Services Procurement Procedures	17
Accounts Receivable.....	18
Special Project Grants.....	19
Additional Veterans' Program	20
Mashantucket Pequot Mohegan Grant.....	22
State-Owned Property Payment in Lieu of Taxes (PILOT) Program.....	23
Private Colleges and General Hospitals PILOT Program	24
RECOMMENDATIONS	26
CERTIFICATION	30
CONCLUSION	32

September 5, 2002

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We have examined the records of the Office of Policy and Management (OPM) for the fiscal years ended June 30, 2000 and 2001. This report on that examination consists of the Comments, Condition of Records, 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 ensure 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, the Secretary of OPM (Secretary), 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".

Pursuant to Sections 12-1c and 12-1d of the General Statutes, OPM's function also encompasses responsibilities related to municipal finance and local taxes. These tasks include processing various tax-related grants to towns. For instance, OPM makes payments in lieu of taxes on qualifying manufacturing machinery and equipment exempt from local taxation. OPM also reimburses towns for various tax relief programs (e.g. 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.

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 is also responsible for various oversight and control functions, for instance:

- The preparation and implementation of the State's budget - Chapter 50, Part II (Sections 4-69 to 4-107a) of the General Statutes.
- The establishment of agency financial policies; the review and approval of budgets for financial systems and taking action to remedy deficiencies in such systems; the advising of agencies of financial staff needs; the recommending of career development programs for managers; and the coordination of transfers of financial managers are responsibilities assigned to OPM's Office of Finance under Section 4-70e of the General Statutes.
- The oversight and coordination of contracting by State agencies for 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.
- The administration of the Capital Equipment Purchase Fund used to purchase capital equipment for State agencies - Section 4a-9 of the General Statutes.
- 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 ensuring adequate audit coverage of State grants to certain recipients.
- 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.
- The Energy Research and Policy Development Unit within OPM's Strategic Management Unit is responsible for carrying out the statutory purposes of Title 16a - Planning and Energy Policy, Chapters 295, 296, 297 and 298.

In addition, OPM is responsible for coordinating the activities of certain advisory bodies and other programs pursuant to various statutes.

- Municipal Finance Advisory Commission (Section 7-394b of the General Statutes)
- Connecticut Energy Advisory Board (Section 16a-3 of the General Statutes)
- Connecticut Advisory Commission on Intergovernmental Relations (Section 2-79a of the General Statutes)

- Commission on Prison and Jail Overcrowding (Sections 18-87j and 18-87k of the General Statutes)
- Connecticut Partnership for Long Term Care (Section 17b-252 of the General Statutes)
- Tobacco and Health Trust Fund Board of Trustees (Section 4-28f of the General Statutes)
- Juvenile Justice Advisory Committee
- Drug Enforcement Grant Program
- Youth Center Program

Marc S. Ryan has served as the Secretary of the Office of Policy and Management since being appointed on November 23, 1998.

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, State Treasurer, State Comptroller, two Senate members, and three House members of the Appropriations 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 FAC meets on the first Thursday of each month and at such other times as the Governor designates.

Committee members at June 30, 2001, were:

Ex Officio Members:

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

Legislative Members – Appointed:

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

Legislative Members - Appointed Alternate:

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

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

Various statutes authorize the FAC 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:

Receipts:

OPM receipts totaled \$475,421,440 and \$462,348,322 for the 1999-2000 and 2000-2001 fiscal years, respectively. A summary of those receipts, with 1998-1999 fiscal year figures used for comparison, follows:

	<u>2000-2001</u>	<u>Fiscal Year</u> <u>1999-2000</u>	<u>1998-1999</u>
<u>General Fund:</u>			
Indian Gaming Receipts:			
Mashantucket Gaming	\$ 174,567,112	\$ 174,452,716	\$ 158,783,073
Mohegan Gaming	<u>128,589,966</u>	<u>118,248,215</u>	<u>105,370,434</u>
Total Indian Gaming Receipts	303,157,078	292,700,931	264,153,507
Federal restricted contributions	30,441,562	20,519,473	21,395,398
Other restricted contributions	1,377,816	8,029,918	100,651,760
Refunds of grants and other expenditures	10,545,258	2,230,444	89,410
All other receipts	<u>52,933</u>	<u>42,113</u>	<u>26,099</u>
Total General Fund	<u>345,574,647</u>	<u>323,522,879</u>	<u>386,316,174</u>
<u>All Other Funds:</u>			
Tobacco Settlement Fund Proceeds (1507)	112,534,760	149,960,500	40,000
All other	<u>4,238,915</u>	<u>1,938,061</u>	<u>11,448</u>
Total All Other Funds	<u>116,773,675</u>	<u>151,898,561</u>	<u>51,448</u>
Total Receipts, all funds	<u>\$ 462,348,322</u>	<u>\$ 475,421,440</u>	<u>\$ 386,367,622</u>

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

The most significant General Fund revenue that OPM processes is Federal restricted contributions. 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.

In comparing the other restricted contributions figures for the fiscal periods under audit to fiscal year 1999, we found that the \$100,000,000 reported for 1999 was due to a one-time appropriation transfer from a lapsing account to a continuing account for stadium construction.

In the June Special Session, Public Act 99-2, effective July 1, 1999, (now codified as Section 4-28e through 4-28f of the General Statutes) established the Tobacco Settlement Fund to account for funds received by the State in conjunction with the Tobacco Litigation Master Settlement Agreement executed on November 23, 1998. For the 1999-2000 and 2000-2001 fiscal years, the total revenue received was \$149,960,500 and \$112,534,760, respectively. These receipts are a product of the sales of the major tobacco companies and are calculated in advance by a CPA firm assigned to the Settlement by the courts.

Expenditures:

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 appropriation accounts maintained by the State Comptroller. Also, certain special revenue and capital projects funds recorded as OPM accounts were processed by other agencies. Total expenditures processed by OPM were as follows:

	<u>Fiscal Year</u>	
	<u>2000-2001</u>	<u>1999-2000</u>
<u>OPM Appropriations:</u>		
General Fund	\$245,853,731	\$206,772,697
Special Revenue Funds	103,318,070	33,714,188
Capital Projects Funds	4,744,814	3,731,445
Funds Awaiting Distribution	1,657,977	1,965,675
Local Property Tax Relief Trust Fund	-	95,416
Total OPM Appropriations	<u>355,574,592</u>	<u>246,279,421</u>
<u>State Comptroller's Appropriations:</u>		
General Fund	161,922,488	159,645,434
Special Revenue Fund	130,094,559	135,000,000
Funds Awaiting Distribution	560,050	-
Total State Comptroller's Appropriations	<u>292,577,097</u>	<u>294,645,434</u>
Total Agency Expenditures	<u>\$648,151,689</u>	<u>\$540,924,855</u>

OPM General Fund Expenditures:

General Fund expenditures charged to OPM appropriations for the 1999-2000 and 2000-2001 fiscal years, are summarized below:

	<u>Fiscal Year</u>	
	<u>2000-2001</u>	<u>1999-2000</u>
<u>Budgeted Appropriations:</u>		
Personal services	\$ 12,935,196	\$ 12,755,557
Other expenses	3,268,061	534,879
Equipment	1,000	1,000
Special Program or Project	13,100,510	16,771,981
Budgeted Program of Aid:		
To other than Local Governments	22,511,581	19,290,647
To Local Governments	<u>164,936,675</u>	<u>132,839,572</u>
Total Budgeted	<u>216,753,023</u>	<u>182,193,636</u>
 <u>Restricted Contributions:</u>		
Non-Federal	6,641,103	6,584,736
Federal	<u>22,459,605</u>	<u>17,994,325</u>
Total Restricted	<u>29,100,708</u>	<u>24,579,061</u>
 Total General Fund	 <u>\$ 245,853,731</u>	 <u>\$ 206,772,697</u>

The increase reflected in Other Expenses for the 2000-2001 fiscal year is primarily due to an increase in grants issued for special projects at the Secretary's discretion pursuant to Public Act 00-192, Section 13 and Public Act 00-1, Section 13 of the June Special Session and a letter from the Joint Committee on Legislative Management to the Office of Fiscal Analysis regarding the legislative intent for the use of such funds.

The increase reflected in payments to Local Governments for the 2001 fiscal year is primarily due to the One-Time Surplus Revenue Sharing Grant of \$34,000,000 pursuant to Sections 35 and 82 of Special Act 00-13.

The expenditures under Special Program or Project for both fiscal years 2000 and 2001 were primarily made up of Justice Assistance Grants, Neighborhood Youth Centers, Children and Youth Programs Development, and the Leadership, Education, Athletics in Partnership Program during fiscal year 2001. The largest of the special programs in fiscal year 2000 was OPSAIL with expenditures totaling over \$7,000,000.

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.

	<u>Fiscal Year</u>	
	<u>2000-2001</u>	<u>1999-2000</u>
Special Revenue Funds:		
Inter-Agency/Intra-Agency Grants – Tax Exempt Proceeds (1169)	\$ 111,651	\$ 1,837,023
Local Capital Improvement (1870)	29,999,985	30,235,021
Capital Improvement Purchase Fund (1872)	496,880	28,553
Grants to Local Governments and Others (1873)	4,243,500	370,216

Hartford Downtown Redevelopment (1971)	<u>68,466,054</u>	<u>1,243,375</u>
Total Special Revenue Funds	<u>\$ 103,318,070</u>	<u>\$ 33,714,188</u>

The increase in the Hartford Downtown Redevelopment Fund expenditures is due primarily to the progress related to the Adraien’s Landing Project, the UCONN football stadium at Rentschler Field, the convention center and other project components initiated under Sections 17, and 26 through 46 of Public Act 99-241 and amended under Sections 1 through 40 of Public Act 00-140.

Outside of the Hartford Downtown Redevelopment project, the Local Capital Improvement Program (LOCIP) Fund comprises most of the expenditures. The program operates under Sections 7-535 to 7-538 of the General Statutes. State bond proceeds finance the program. OPM reimburses towns for up to 100 percent of the cost of eligible capital improvement projects. Eligible projects generally consist of the construction, renovation, repair, and resurfacing of roads; sidewalk and pavement improvements; and public buildings and public housing renovation and improvements.

The increase in Grants to Local Governments and Others is primarily due to the transfer of funds to the Department of Economic and Community Development for administering a grant-in-aid to the Naugatuck Valley Development Corporation for planning, design and land acquisition related to the relocation of The University of Connecticut Waterbury Campus and a new city cultural, arts and academic magnet school not to exceed \$4,000,000 in accordance with Section 13 of Public Act 99-242.

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 primarily made available to OPM for costs involving energy conservation and development of an offender based tracking system.

	<u>Fiscal Year</u>	
Capital Projects Funds:	<u>2000-2001</u>	<u>1999-2000</u>
Community Conservation and Development Projects (3795)	\$ (14,536)	\$ 306,456
Energy Conservation (3911)	2,469,333	1,056,614
Purchase/Installation of Energy Efficiency Devices (3931)	100,000	34,342
Planning and Phase I Development for the Criminal Justice Agencies (3951)	60,336	985,337
Develop Offender Based Tracking System (3961)	1,738,699	1,348,696
Offender Based Tracking System (3991)	<u>390,982</u>	<u>-</u>
Total Capital Projects Funds	<u>\$ 4,744,814</u>	<u>\$ 3,731,445</u>

Agency Fund:

The agency fund with expenditures listed for both fiscal years is Funds Awaiting Distribution (7013). For fiscal year 2000, the \$1,965,675 is made up primarily of the amount received from the Patriots settlement and eventually transferred to Other Expenses in accordance with Public Act 00-

192, Section 13 and June Special Session Public Act 00-01, Section 13. For fiscal year 2001, the \$1,657,977 amount expended was due primarily to a duplicate drawdown of Federal monies from the U.S. Department of Justice. The monies have since been returned. The \$560,050 amount expended under the Comptroller's purview for Funds Awaiting Distribution (7013) was due to certain towns which wished to receive their Mashantucket Pequot and Mohegan grant by electronic funds transfer as opposed to check.

Trust Fund:

During fiscal year 2000, the Local Property Tax Relief Trust Fund (7208) recorded an expenditure for \$95,416. In accordance with Public Act 99-10, Section 46, subsection (b), the unexpended balance of the fund was used for a grant to the Connecticut Institute for the 21st Century for a study of regional economic frameworks.

Comptroller Appropriations:

By statute, OPM is responsible for calculating and distributing three unrestricted grants to towns paid from appropriations of the State Comptroller. Two of these grants are paid from the State's General (operating) Fund while the other is paid from a special revenue fund, the Mashantucket Pequot and Mohegan Fund (#1114).

The two General Fund grants consist of PILOT (Payment in Lieu of Taxes) programs partially reimbursing lost local tax revenue on certain tax-exempt State property and the property of private colleges and general hospitals. These programs operate under Sections 12-19a through 12-20b of the General Statutes. The Mashantucket Pequot and Mohegan 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 to towns, town population, equalized net grand property list, and per capita income. This program operates under Sections 3-55i through 3-55k of the General Statutes.

A summary of the expenditures for these programs follows:

	<u>Fiscal Year</u>	
	<u>2000-2001</u>	<u>1999-2000</u>
General Fund:		
PILOT – State-Owned Real Property	\$ 64,759,334	\$ 62,482,280
PILOT – Private Colleges/General Hospitals	97,163,154	97,163,154
Special Revenue Fund:		
Mashantucket Pequot and Mohegan	<u>130,654,154</u>	<u>135,000,000</u>
Total Expenditures	<u>\$292,576,642</u>	<u>\$294,645,434</u>

PERFORMANCE EVALUATION:

In accordance with Section 2-90 of the General Statutes, the Auditors of Public Accounts are authorized to conduct examinations of performance in order to determine the effectiveness in achieving expressed legislative purposes. During this engagement, we chose to examine some of the operations of the Office of Policy and Management's Office of Finance.

Section 4-70e of the General Statutes created the position of Executive Financial Officer to administer the Office of Finance within OPM. The duties of that Office include:

- Establishing State agency financial policies
- Review and approval of State agency budget requests for financial systems and remedy of deficiencies in existing systems
- Review and advise State agencies concerning financial staffing needs
- In cooperation with the Department of Administrative Services, review performance evaluations of State agency financial management personnel, recommend career development programs, coordinate interagency transfers and advise State agencies concerning personnel policies and salary scales for financial managers
- Monitor financial reports of all State agencies
- Implement programs for the exchange of information and technology concerning financial systems

At the time of our review, the primary focus of the Office of Finance was the Core-CT Project. The goal of this endeavor is to replace the State's legacy systems (accounting, payroll, personnel, time and attendance, worker's compensation and accounts payable) with an integrated system that will utilize enterprise resource planning software. Prior to the Core-CT project, much of the Executive Financial Officer's efforts from 1998 to 2001 were expended overseeing matters related to the Hartford Downtown Redevelopment and the corresponding Adraien's Landing and UCONN football stadium projects. A master development plan was created, bonds were authorized, site acquisition was done, Environmental Impact Evaluations were completed and site work began.

The monitoring of agencies' financial reports is typically done through the normal budget management process. The involvement of the Office of Finance in Core-CT has required, in conjunction with the State's other central administrative agencies, efforts aimed toward establishing new financial policies, the review of all budget requests for related financial systems, and the implementation of procedures for the exchange of information. These efforts appear to be extensive, and will be ongoing during the phase-in of the implementation of the project. The targeted completion date for the project is 2004.

The Executive Financial Officer of the Office of Finance also chairs the Council of Fiscal Officers, which is a Statewide organization that meets on a regular basis to share information related to fiscal policies, practices and systems. In such capacity, he has the ability to make recommendations to the Secretary to improve the financial management policies, practices and systems of State agencies.

The degree to which the Office of Finance has exercised its duties relative to the management of personnel resources was less clear. Recent examples of work related to staffing changes in certain agencies were presented to us, but those changes were limited in scope. There was no evidence available to indicate that the Office had engaged in any large-scale review of staffing levels or performance evaluations. While the Office routinely receives copies of audit reports

issued by the Auditors of Public Accounts, there was nothing to suggest that personnel management issues were given any more attention than any other issues. The OPM website lists the functions and objectives of the Office of Finance, and does not specifically include the evaluation of financial management personnel in that scope.

The lack of effort in the area of financial staffing is understandable given the major initiatives that have consumed the time of the Executive Financial Officer. However, with the implementation of a new Statewide system and the presumed efficiencies that should result, the need for increased involvement by OPM in financial staffing issues may increase. Training will have to be evaluated in order to ensure that staff are able to perform as intended and continue along in career progressions. A review of agencies' financial organizational structure and staffing assignments will have to be done.

OPM should position itself so that it can perform its statutory duties. We intend to revisit this issue after the completion of the Core-CT project to determine if any actions have been taken.

CONDITION OF RECORDS

Areas warranting comment are presented below.

Procedures - Distressed Municipalities Grant:

Background: OPM is responsible for various tax exemption-related grants to towns.

Subdivision (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 Sections 12-94b and 12-94c of the General Statutes, OPM fully reimburses towns for taxes lost due to this exemption.

Subdivision (60) of Section 12-81 provides an 80 percent exemption for machinery and equipment in a manufacturing facility in a distressed municipality. 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.

The same manufacturing machinery and equipment could appear to qualify under both statutory provisions. However, the programs are mutually exclusive.

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; and ensuring that towns are not reimbursed twice for the same item under the two different tax exemptions discussed above. Subparagraph (C) of Subdivision (72) of Section 12-81 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: As noted in the prior audit, OPM did not have procedures in place requiring an itemized listing of items initially being claimed. Also, complete documentation of other acquisitions and agency verifications and follow-ups did not exist.

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 had not been comparing the Department of Economic and Community Development's "Declaration of Machinery and

Equipment” Form 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. As a result, it cannot be determined if OPM is making payments for eligible items or if payments are made for the same items in the two tax exemptions. In the second to fifth years of the distressed municipal exemption, manufacturers must submit renewal forms which require the itemization of new items claimed. Manufacturers are also required to submit copies of invoices for new items to the town assessor. 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 items in the Distressed Municipalities Grant.

Effect: In the absence of such procedures, the risk that equipment may be duplicated on claims under both tax-exempt grants and not be detected is increased.

Cause: We were not readily able to verify resolution of the prior audit recommendation regarding payments made for personal property exemptions in the Distressed Municipalities Grant because OPM had just begun the implementation of new procedures in December 2001.

Recommendation: The Office of Policy and Management should continue to implement improved procedures over the Distressed Municipalities Grant. (See Recommendation 1.)

Agency Response: “OPM is committed to continuing the implementation of improved procedures over the Distressed Municipalities Grant and in fact, for some time now has been requiring additional documentation from municipalities regarding machinery and equipment items claimed for reimbursement for each new company located in a distressed municipality in the first year of eligibility. Upon receipt of this information, an internal audit is conducted to assure that there is no duplication between this program (under section 12-81 (60)) and the traditional Machinery & Equipment Program (under section 12-81 (72)). This is reinforced by an internal policy, which requires the filing of this documentation as a precondition of reimbursement.”

Codification of the Pension Agreement Changes:

Criteria: In accordance with Sections 4-65a, 5-271 and 5-278(f)(1) of the General Statutes, the Office of Labor Relations (OLR) within OPM has been designated to act on behalf of the State in all dealings with representatives of employees of the Executive Branch of government

with respect to collective bargaining issues, including the negotiation of retirement benefits.

In accordance with Section 5-155a, subsection (c) of the General Statutes, the Retirement Division of the State Comptroller's Office is responsible for the general supervision of the operation of the retirement system, in accordance with Chapter 66 (the State Employees' Retirement Act) and applicable law. Said Section further states that the Retirement Commission shall act in accordance with the provisions of the General Statutes and applicable collective bargaining agreements.

Condition: The Office of Labor Relations negotiated various memoranda of agreements with the State Employees' Bargaining Agent Coalition (SEBAC) regarding modifications to provisions of Chapter 66. These agreements, commonly referred to as SEBAC II through SEBAC V(a), provided that the language of the agreements be codified in the General Statutes. However, such codification has never been achieved.

Effect: The failure to codify the terms of the SEBAC agreements, while violating the specific terms of the agreements, has no apparent effect on the validity of the modifications to the terms of the pension agreements. However, the lack of codification makes the administration of the Retirement Act more difficult because the provisions are fragmented throughout the various documents. In order to ascertain if a provision is superceded, all of the subsequent documents must be examined.

Cause: The Office of Policy and Management had apparently not submitted proposed statutory language for legislative approval. As part of the negotiations of the most recent SEBAC agreement, a verbal understanding was apparently reached providing for an independent review of the proposed language by a representative of the State Comptroller's Office. That review has not been performed, preventing the submission of the language for codification.

The provisions of the SEBAC agreements calling for codification into the General Statutes were not always consistent with the established legislative procedures. The SEBAC V agreement indicated that both parties agreed to submit proposed statutory language to the Legislative Commissioner's Office. However, the codification process calls for introduction of new legislation to either go through as a Governor's bill or via a legislative committee before the Legislative Commissioner's Office receives it.

Recommendation: The Office of Policy and Management's Office of Labor Relations Division should consult with all parties impacted by the proposed codification of the SEBAC agreements in order to determine what

action needs to be taken to hasten the process. In the future, OPM should take steps to ensure that similar agreements contain the proper provisions needed to result in timely codification. (See Recommendation 2.)

Agency Response: “The SEBAC agreements are the result of collective bargaining, which is a bilateral process. The Director of the Office of Labor Relations has drafted language, which codified all of the SEBAC provisions in one document. The language was submitted to the representative of SEBAC. Such representative will not agree to the language until the Retirement Division within the Office of the State Comptroller approves it. The Retirement Division has indicated it has been unable to perform this function due to staffing issues and the inability to devote the requisite time to this project. OPM has taken all steps that are within its span of control to address this recommendation.”

Contractual Services Payment Processing:

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 of Connecticut’s State Accounting Manual (“SAM”) makes State agencies 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: As indicated in the prior audited period, controls over contractual services payments were decentralized and inconsistent. Payments were generally processed through OPM’s various operational

divisions. In some cases the Agency obtained 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. We did not review changes that were made by OPM in December 2001.

- Effect:* In processing contractual services expenditures, OPM has not always complied with statutory and State Comptroller's requirements regarding expenditure documentation and itemization.
- Cause:* These situations apparently occurred, in part, because the Agency had not established and implemented uniform procedures or centralized responsibility regarding the approval and documentation of contractual services expenditures. OPM had not been able to implement its new procedures to address the issue until November/December of 2001.
- Recommendation:* OPM should monitor its newly-implemented procedures to ensure proper internal control policies over the documentation of contractual services expenditures. (See Recommendation 3.)
- Agency Response:* "OPM has taken steps to educate agency personnel with budgetary control of their responsibilities in reviewing invoices. Additionally, contract language has been changed to clearly define the contractor's responsibilities in documenting claimed expenses. Also, the Business Office has set up a monitoring procedure wherein all Personal Service Agreement (PSA) payment authorizations are reviewed for compliance with the PSA requirements before payment is made. If any required items are missing or if an error has been made, the vendor's invoice is returned for correction."

Inventory Control:

- Criteria:* The State of Connecticut's Property Control Manual states that a complete physical inventory must be taken at the end of the fiscal year to ensure that property control records accurately reflect the actual inventory on hand for that fiscal year.
- Condition:* OPM has not conducted a physical inventory of its equipment since December 1999.
- Effect:* In the absence of proper internal control, the risk of inaccurate reporting of inventory value and undetected loss is increased.
- Cause:* It appears that OPM management has not placed a high priority on inventory controls.
- Recommendation:* The Office of Policy and Management should increase efforts to maintain controls over equipment. (See Recommendation 4.)
- Agency Response:* "Due to a lack of resources, OPM has had difficulty in performing an annual physical inventory. As the agency has advanced

technologically, the taking of a physical inventory has become easier, faster, and can be performed within existing resources. It is the intention of OPM to perform a physical inventory in the last quarter of each fiscal year. The annual physical inventory for fiscal year 2002 has been completed.”

Statutory Reporting Requirements/ Connecticut Progress Council:

Criteria: Numerous State statutes require the Secretary of OPM to prepare and submit various reports to the Governor, the joint committees of the General Assembly and other cognizant entities. Sections 4-67m and 4-67r related to budgets and benchmarks established by the Connecticut Progress Council require biennial reports to the General Assembly. Section 4-70b is related to the purchase of human services in the State and requires a biennial report to the General Assembly. Sections 4-85d, 16a-37u, and 16a-46b require submission of reports to the General Assembly concerning energy management. Section 4-218 requires reporting on personal service agreements and Section 4d-14 requires the preparation of a strategic plan and a report on the activities of the Department of Information Technology, including the cost savings attributable to that Department.

In accordance with Section 4-67r of the General Statutes, the Connecticut Progress Council was established to develop a long-range vision for the State and define benchmarks to measure progress and achieve the vision. The vision shall address areas of State concern, including, but not limited to, the areas of economic development, human resources and services, education, health, criminal justice, energy resources, transportation, housing, environmental quality, water supply, food production and natural and cultural resources. The Council is responsible for biennially submitting its benchmarks to OPM for use in developing and reviewing the budget.

Condition: The above statutory reporting requirements, most of which are under the purview of OPM’s Strategic Management Division, have not been met.

The Connecticut Progress Council has not submitted biennial benchmarks to OPM and the General Assembly.

Effect: In the absence of such required reports, there is a lack of oversight by the cognizant entity.

Without updated benchmarks from the Connecticut Progress Council, OPM has not been able to comply with the reporting requirements under Sections 4-67m and 4-67r of the General Statutes.

Cause: We were informed that staffing concerns have been an issue in addressing the preparation of reports.

The Connecticut Progress Council has apparently not convened in a few years.

Recommendation: The Office of Policy and Management should comply with all statutory reporting provisions under its purview. OPM should attempt to encourage the Connecticut Progress Council to convene, establish/modify benchmarks, and biennially report such to the Office of Policy and Management as indicated in Section 4-67r of the General Statutes. (See Recommendation 5.)

Agency Response: “OPM is in the process of developing an internal monitoring system to ensure compliance with all statutory reporting requirements. A separate plan will be developed to address the specific reporting deficiencies identified by the Auditors of Public Accounts and to bring the agency into compliance with such provisions. As part of this plan, OPM will assess the continued relevance of such reports and will propose legislative changes to those reporting requirements determined to be irrelevant.

OPM will work with the General Assembly to fill vacancies on the Connecticut Progress Council and encourage the Council to meet. If the General Assembly has no interest to convene the Council, OPM will seek a legislative change to Section 4-67r of the General Statutes.”

Human Services Procurement Procedures:

Criteria: Section 4-70b of the General Statutes indicates that the Secretary of OPM shall establish uniform policies and procedures for obtaining, managing and evaluating the quality and cost effectiveness of human services purchased from private providers. The Secretary shall ensure that all State agencies which purchase human services comply with such policies and procedures.

Condition: The policies and procedures provided by OPM to State agencies for the procurement of human services are identified as “suggested” and “not to be interpreted as a requirement for” agencies that procure human services.

Effect: The issuance of “suggested” rather than established policies and procedures inhibits OPM’s ability to effectively meet its statutory responsibility to determine whether State agencies are complying with such.

- Cause:* The condition appears to result from a lack of administrative oversight.
- Recommendation:* OPM should comply with Section 4-70b of the General Statutes by formally issuing uniform policies and procedures regarding the procurement of human services by which State agencies may be evaluated for compliance. (See Recommendation 6.)
- Agency Response:* “The development of uniform standards for Connecticut’s human services purchasing system has been a demanding task. OPM, state agencies and provider representatives have continued to work together to reach consensus wherever possible. Each has been willing to present varied perspectives and formulate recommendations. Our progress thus far has resulted in the issuance of suggested policies and procedures. OPM will continue in its ongoing role as coordinator to utilize input from provider and agency representatives to try and create uniform policies and procedures concerning agency procurement of human services. When this process has achieved consensus, OPM will issue the requisite policies and procedures.”

Auditor’s Concluding Comment:

While we acknowledge the value of consensus between OPM and State agencies in the development of uniform standards for the procurement of human services, it appears that a reasonable amount of time has already been allowed to achieve such. Public Act 92-123, which amended Section 4-70b of the General Statutes to include the requirement, does not appear to require the need for a consensus prior to the establishment of such policies and procedures.

Accounts Receivable:

Criteria: Sound internal control principles dictate that procedures should be in place to properly account for amounts that are due to the State. Such procedures should include the maintenance of an accounts receivable ledger with prompt recording of amounts due and amounts received.

Section 3-7 of the General Statutes indicates that an Agency head may authorize the cancellation of any uncollectible claim in an amount less than \$1,000 upon the books of a State department or agency.

Condition: We noted that OPM’s receivable ledger was last updated for the fiscal year ended June 30, 1998. Receivables and corresponding collections were not being recorded in a timely fashion. We were informed that long-outstanding receivables existed and were presented to, but never acted on, by the former Secretary for cancellation.

- Effect:* The lack of a current accounts receivable ledger with timely recording of receivables and receipts increases the risk for revenue loss.
- Cause:* It appears that a lack of administrative oversight contributed to this condition.
- Recommendation:* The Office of Policy and Management should establish written procedures covering the recognition and recording of accounts receivable and consider canceling uncollectible items in accordance with Section 3-7 of the General Statutes. (See Recommendation 7.)
- Agency Response:* “OPM has recently established and distributed written procedures covering the recognition and recording of accounts receivable. In addition, in accordance with Section 3-7 of the General Statutes, OPM has submitted and received approval from the Secretary to cancel uncollectible claims on its records as of June 30, 2001. OPM plans to review the status of accounts receivable annually at the end of the fiscal year.”

Special Project Grants:

- Background:* Under Section 13 of Public Act 00-192, \$1,900,000 was transferred from the New England Patriots Settlement Account to OPM’s Other Expenses appropriation. Section 13 of Public Act 00-1 of the June Special Session provided for the unexpended balance of those funds to be continued for expenditure “for such purposes” during the 2001 fiscal year. On January 9, 2001, the legislative leaders wrote to the Director of the Office of Fiscal Analysis (OFA) to “convey legislative intent” to earmark funds for certain needs identified subsequent to the enactment of the revised FY01 budget. In this letter, the leaders specified that the Patriots’ Settlement Funds may be expended for “special projects at the discretion of the Secretary”. This letter formed the basis for a note within the OFA budget book for the 2000 legislative session.
- Criteria:* The State of Connecticut’s State Accounting Manual indicates that Other Expenses appropriations should not be used for grants.
- Sound grant management practices suggest that documentation of the process used to award grant funds be established and grantee reports and/or State Single Audits regarding use of such grant funds should be pursued.
- Condition:* During the 2001 fiscal year, OPM had issued approximately \$1,500,000 in grant funds for special projects of various municipal and non-profit entities from its Other Expenses appropriation.

We were informed that the Other Expenses grants are issued by OPM without solicitation, but merely upon communication from political leaders. Final reports and/or State Single Audits regarding the grantees' use of funds were not always available or pursued. There was no evidence available to suggest that an evaluation of the relative merit of the projects was performed by the Secretary.

Effect: It appears questionable whether adequate authorization exists for the issuance of such grants without being formally identified in legislation. The OFA budget document does not appear to have the effect of law.

Without an open solicitation of such grant proposals, it does not appear that OPM's method of allocation is equitable. In the absence of final reports and State Single Audits from grantees, it is not known if grant conditions were met and/or if the funds were fully expended.

Cause: The practice of making the grant payments from the Other Expenses appropriation was permitted because the Office of Fiscal Analysis' inclusion in the budget document was viewed as being authoritative.

It appears that the lack of grant monitoring is due to a lack of administrative oversight.

Recommendation: The Office of Policy and Management should establish formal criteria, consistent with the intentions of the legislature, over the issuance and monitoring of special project grants authorized out of the Other Expenses appropriation. (See Recommendation 8.)

Agency Response: "OPM is in the process of establishing uniform procedures over the issuance and monitoring of grants administered by the agency. These procedures will be applied to all grants administered by the agency, including special project grants authorized by the legislature out of the Other Expenses appropriation.

OPM is aware that in accordance with the State of Connecticut Accounting Manual, the Other Expenses appropriation should not be used for grant awards. Funds were expended from this appropriation, however, consistent with legislative intent."

Additional Veterans' Program:

Criteria: Proper internal control dictates that OPM should have a procedure in place to verify the accuracy of applicants' benefit amounts reported by municipalities to the benefit types allowed by statute. The applications provided by OPM for the program should include such reference.

Condition: We were informed that the three-letter abstract coding once used by OPM to determine the accuracy of the benefit applied for is no longer required from municipalities. As such, OPM cannot determine, without assistance from the municipality, the accuracy of the benefit applied for.

Effect: Without OPM's review of the propriety of the benefits allowed by municipalities, the risk of over-reimbursement is increased.

Cause: Since the usage of abstract coding for identifying benefits applied for was not part of the information required by State Regulations, OPM does not feel compelled to continue obtaining such information from municipalities.

Recommendation: OPM should consider amending its State Regulations regarding the information required from municipalities to include the identification of the specific benefits applied for and include as part of its procedures to review the propriety of such benefits and their respective amounts. (See Recommendation 9.)

Agency Response: "The requirement that the towns submit the specific exemption codes was removed several years ago in order to reduce the amount of paperwork required to be filed by municipalities. Unfortunately, while the coding issue for this program was removed, many municipalities still file more paperwork with OPM than they need to. This measure to reduce paperwork has actually increased the workload on OPM staff due to the need to separate the unnecessary paperwork submitted by the municipalities and as it has required staff to make repeated inquiries of the municipalities in order to evaluate the accuracy of the coding and the correctness of the benefit amounts applied.

OPM plans to establish methods to require municipalities to provide additional information in those cases requiring further review rather than a wholesale return to a coding system that places an onerous reporting duty on the municipalities. In addition, OPM plans to notify the municipalities that they only need to file those applications and paperwork pertaining to the so-called "B" codes, which are paid for by the State of Connecticut."

Auditor's Concluding Comment:

In the absence of information identifying the specific benefit applied for on Veteran's claims, it is not clear how OPM can evaluate the accuracy of benefit amounts applied. It would appear that OPM is placing heavy reliance on municipalities' integrity and diligence in reviewing the claims.

Mashantucket Pequot Mohegan Grant:

Criteria: Section 3-55j, subsection (e) of the General Statutes provides that "thirty-five million dollars of the moneys available in the Mashantucket Pequot Mohegan Grant established by Section 3-55i shall be paid to municipalities in accordance with the provisions of Section 7-528, except that for the purposes of Section 7-528, "adjusted equalized net grand list per capita" means the equalized net grand list divided by the total population of a town, as defined in subdivision (7) of subsection (a) of Section 10-261...".

Section 7-528, subsection (b), indicates the funds are allocated based on the following formula. The population of each town multiplied by the inverse of the adjusted equalized net grand list per capita of such town multiplied by the inverse of the per capita income of such town represents the numerator of the fraction, and the resulting products shall be added together and the sum shall be the denominator of the fraction.

Section 7-528, subsection (a), subdivision (3) of the General Statutes indicates that "...population for each town means that enumerated in the most recent federal decennial census of population or that enumerated in the most recent current population report series issued by the United States Department of Commerce, Bureau of the Census available on January first of the fiscal year prior to the fiscal year in which payment is to be made pursuant to this section, whichever is most recent."

Section 10-261, subsection (a), subdivision (7) indicates that total population of a town is defined as that enumerated in the most recent federal decennial census of population or that enumerated in the current population report series issued by the United States Department of Commerce, Bureau of Census available on January first of the fiscal year two years prior to the fiscal year in which the grant is to be paid.

Condition: Upon review of the entitlement calculation for the Local Property Tax Relief portion of the Mashantucket Pequot Mohegan Grant, we noted that the population figures used in the calculation came from the 1996 Population Update rather than the available 1998 Population Update.

Effect: Although the total amount of expenditures for the grant is not affected, there is a risk that the distributions to towns may be affected to some degree.

Cause: OPM management was not aware of the availability of the more recent population data for use in the calculation.

Recommendation: OPM should comply with Section 3-55j, subsection (e) and Section 7-528, subsection (a) of the General Statutes by utilizing the proper population data when calculating grants. (See Recommendation 10.)

Agency Response: “OPM used the most up to date population information when calculating this grant. The calculation for the fiscal year 2000-2001 payment required the use of population data available on January 1, 1999. The most current population information available on that date was the 1996 Population Update, which was released on November 23, 1998. The 1998 Population Update was released in June of 1999, after the calculations had been made.”

Auditor’s Concluding Comments:

We note that in accordance with Section 7-528, subsection (a), subdivision (3), “population” for each town means that enumerated and available on January first of the fiscal year prior to the fiscal year in which payment is to be made. Section 3-55j, subsection (e), indicates that only the adjusted equalized net grand list per capita would be affected by the population for each town enumerated and available two years prior to the fiscal year in which payment is to be made in accordance with Section 10-261, subsection (a), subdivision (7). Thus, it appears that both the 1996 and 1998 population data are required for the calculation under Section 7-528 of the General Statutes.

State-Owned Property Payment in Lieu of Taxes (PILOT) Program:

Background: Section 12-19a of the General Statutes indicates that a PILOT payment is based on a municipality’s State-owned real property, reservation land held in trust by the State for an Indian tribe or a municipally-owned airport, except that which was acquired and used for highways and bridges, but not excepting property acquired and used for highway administration or maintenance purposes.

Criteria: Proper internal control dictates that a mechanism should be in place to determine when State property is conveyed in order to ensure its removal from a municipality’s claim for reimbursement for tax revenue loss.

Condition: OPM does not appear to have a reliable process in place to monitor when State property is conveyed and in turn to verify such information to claims for PILOT payments.

Effect: In the absence of such process, the risk of overpayment due to untimely detection of ineligible properties on municipality claims is increased. We noted two such instances in our review of grand list 1998 claims. Non-State property was determined eligible for exemption for two municipalities and resulted in an apparent

overpayment of approximately \$24,000. However, it should be noted that overall there is no impact to total expenditures under this program; only the pro-ration of funds to individual municipalities is affected.

Cause: OPM tends to rely on the diligence of the municipality regarding the accuracy of its claims.

Recommendation: In cooperation with the Departments of Transportation, Environmental Protection and Public Works, the Office of Policy and Management should establish a prompt reporting mechanism for the conveyance of State property as a tool for determining the accuracy of municipal claims for the State-Owned Property PILOT program. (See Recommendation 11.)

Agency Response: “OPM will contact the Departments of Transportation, Environmental Protection and Public Works for a report of the State owned property conveyed by each agency and will establish procedures and a schedule for the timely reporting of this information to OPM in the future.”

Private Colleges and General Hospitals PILOT Program:

Criteria: Section 12-20a of the General Statutes indicates that OPM shall determine for each municipality the amount of State grant in lieu of taxes with respect to real property owned by any “private nonprofit institution of higher education” or any “nonprofit general hospital” or “free standing chronic disease hospital” or “urgent care facility” as defined in such Section.

The Office of Policy and Management has relied on the annual submission of a listing of General and Chronic Disease Hospitals from the Department of Public Health to determine eligibility.

Condition: In our review of eighteen claims for the PILOT for Private Colleges and General Hospitals, we noted that three municipal claims appeared to include ineligible property which was not detected by OPM. The ineligible properties involved resulted in an apparent over-reimbursement of \$1,100,972, \$109,678, and \$339,114 based on the assessed values.

Effect: The inclusion of ineligible properties on claims affect the proper distribution of such funds to all municipalities, although there is no effect on the total amount distributed by OPM for the program.

Cause: OPM apparently considers that any property owned by a non-profit general hospital or free-standing chronic disease hospital qualifies for the exemption.

Recommendation: OPM should exercise greater scrutiny in determining the eligibility of property for purposes of reimbursement under Section 12-20a of the General Statutes. (See Recommendation 12.)

Agency Response: “OPM relies upon the Department of Public Health (DPH) to assist in determining the eligibility of private hospitals for payments in lieu of taxes under this program. DPH provides an annual listing of licensed general and chronic disease hospitals. OPM reviews this list and checks it against hospital facilities claimed by the municipalities. In addition, OPM also reviews the actual hospital license and in certain situations, the actual license application. OPM also reviews the assessor’s records of the facilities claimed by a municipality. OPM does consider any real property owned by a non-profit general hospital or free-standing chronic disease hospital to be eligible for a PILOT payment. The specific language contained in Section 12-20a is broad and extends to all property of an eligible facility and not just the facility itself.”

Auditor’s Concluding Comments:

Since Section 12-20a of the General Statutes goes to great length to define an “eligible facility” for purposes of this PILOT, it would appear that any real property not meeting such definition should be considered ineligible.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Office of Policy and Management (OPM) needs to establish procedures for enforcing its security interest in tax-exempt property. Based upon recent legislation passed in the 2002 General Assembly session, it appears that this issue is resolved.
- The Office of Policy and Management (OPM) needs to improve procedures over the Distressed Municipalities Grant. Since implementation was not planned until December 2001, there was no opportunity to review it. (See Recommendation 1.)
- The Office of Policy and Management (OPM) needs to improve procedures over the collections of Federal aid receivables. Based upon our review of OPM's new procedures and the receivable balances, it appears that this issue is resolved.
- 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. No action has been taken by OPM thus far and we are repeating this recommendation. (See Recommendation 2.)
- 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. It appears this issue has been resolved.
- 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. Since implementation of OPM's planned action did not occur in a timely fashion, we were unable to determine its effectiveness. Thus we are repeating this recommendation. (See Recommendation 3.)

Current Audit Recommendations:

- 1. The Office of Policy and Management should continue to implement improved procedures over the Distressed Municipalities Grant.**

Comment:

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. The same machinery or equipment items cannot be claimed under both exemptions. 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. Therefore, we could not verify that they are not duplicated in the new manufacturing machinery and equipment grant.

- 2. The Office of Policy and Management's Office of Labor Relations Division should consult with all parties impacted by the proposed codification of the SEBAC agreements in order to determine what action needs to be taken to hasten the process. In the future, OPM should take steps to ensure that similar agreements contain the proper provisions needed to result in timely codification.**

Comment:

Under Sections 4-65a, 5-271 and 5-278(f)(1) of the General Statutes, the Office of Labor Relations (OLR) within OPM has been designated to act on behalf of the State in all dealings with representatives of employees of the Executive Branch of government with respect to collective bargaining issues, including the negotiation of retirement benefits. OLR negotiated various memoranda of agreements with the State Employees' Bargaining Agent Coalition (SEBAC) regarding modifications to provisions of Chapter 66. These agreements provided that its language be codified in the General Statutes. However, such codification has never been achieved.

- 3. OPM should monitor its newly-implemented procedures to ensure proper internal control policies over the documentation of contractual services expenditures.**

Comment:

Section 3-117 of the General Statutes provides that each claim against the State shall be supported by vouchers or receipts for the payment of any money exceeding twenty-five dollars. 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.

- 4. The Office of Policy and Management should increase efforts to maintain controls over equipment.**

Comment:

State Comptroller's Property Control Manual states that a physical inventory of equipment should be conducted annually. OPM has not conducted a physical inventory since December 1999.

- 5. The Office of Policy and Management should comply with all statutory reporting provisions under its purview. OPM should attempt to encourage the Connecticut Progress Council to convene, establish/modify benchmarks, and biennially report such to the Office of Policy and Management as indicated in Section 4-67r of the General Statutes.**

Comment:

A multitude of State statutes require the Secretary of OPM to prepare and submit various reports to the Governor, the joint committees of the General Assembly and other cognizant entities. We noted that particularly for the Strategic Management Division these reporting requirements were not being met.

Under Section 4-67r of the General Statutes, the Connecticut Progress Council was established to develop a long-range vision for the State and define benchmarks to measure progress in various areas of State concern. The Council is responsible for biennially submitting its benchmarks to OPM for use in developing and reviewing the budget. We noted that they have not met for quite some time.

- 6. OPM should comply with Section 4-70b of the General Statutes by formally issuing uniform policies and procedures regarding the procurement of human services by which State agencies may be evaluated for compliance.**

Comment:

Section 4-70b of the General Statutes indicates that the Secretary of OPM shall establish uniform procedures for obtaining, managing and evaluating the quality and cost effectiveness of human services purchased from private providers. Since the policies and procedures provided by OPM to State agencies for the procurement of human services are identified as “suggested” and “not to be interpreted as a requirement”, it would appear difficult for OPM to ensure compliance with such.

- 7. The Office of Policy and Management should establish written procedures covering the recognition and recording of accounts receivable and consider canceling uncollectible items in accordance with Section 3-7 of the General Statutes.**

Comment:

Proper internal control dictates that procedures should be in place to promptly record receivables once recognized; posted when such revenue is received; and that a receivable ledger be maintained on a perpetual basis. We noted that OPM’s receivable ledger was last updated for the fiscal year ended June 30, 1998. We were informed that long outstanding receivables existed and were presented to, but never addressed by, the former Secretary for cancellation.

- 8. The Office of Policy and Management should establish formal criteria, consistent with the intentions of the legislature, over the issuance and monitoring of special project grants authorized out of the Other Expenses appropriation.**

Comment:

The State Comptroller’s State Accounting Manual indicates that Other Expenses appropriations should not be used for grants. Sound grant management dictates that documentation of the process used to award grant funds be established and grantee reports and/or State Single Audits regarding the use of such grant funds should be obtained.

During the 2001 fiscal year, OPM had issued approximately \$1,500,000 in grant funds to various municipal and non-profit entities from its Other Expenses appropriation for special projects. We were informed that these grants were issued without solicitation, but merely upon communication from political leaders. Final reports and/or State Single Audits regarding the grantees use of funds were not always available or pursued.

- 9. OPM should consider amending its State Regulations regarding the information required from municipalities to include the identification of the specific benefits applied for and include as part of its procedures to review the propriety of such benefits and their respective amounts.**

Comment:

We were informed that the three-letter abstract coding once used by OPM to determine the accuracy of the benefit is no longer required from municipalities. As such, OPM cannot determine, without assistance from the municipality, the accuracy of the benefit applied for.

- 10. OPM should comply with Section 3-55j, subsection (e) and Section 7-528, subsection (a) of the General Statutes by using the proper population data when calculating grants.**

Comment:

In our review of the entitlement calculation for the Local Property Tax Relief portion of the Mashantucket Pequot Mohegan Grant, we noted that the population figures used in the calculation were from the 1996 Population Update rather than the 1998 Population Update which was available to be used.

- 11. In cooperation with the Departments of Transportation, Environmental Protection and Public Works, the Office of Policy and Management should establish a prompt reporting mechanism for the conveyance of State property as a tool for determining the accuracy of municipal claims for the State-Owned Property PILOT program.**

Comment:

OPM does not have a reliable process in place to monitor when State property is conveyed and in turn to verify such information to claims for PILOT payments.

- 12. OPM should exercise greater scrutiny in determining the eligibility of property for purposes of reimbursement under Section 12-20a of the General Statutes.**

Comment:

In our review of eighteen claims for this program, we noted that three municipal claims appeared to include ineligible property which was not detected by OPM. The ineligible properties involved appeared to result in an apparent over-reimbursement to the three municipalities totaling approximately \$1,550,000.

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, 2000 and 2001. 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, 2000 and 2001, 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, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the 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.

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 material or significant weaknesses. 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 failure 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. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or 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.

Ken Post
Principal Auditor

Approved:

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