

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
OFFICE OF POLICY AND MANAGEMENT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005, AND 2006*

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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May 7, 2010

**AUDITORS' REPORT  
OFFICE OF POLICY AND MANAGEMENT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004, 2005, AND 2006**

We have examined the records of the Office of Policy and Management (OPM) for the fiscal years ended June 30, 2004, 2005, and 2006. This report on the 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 internal control structure policies and procedures established to ensure such compliance.

**COMMENTS**

**FOREWORD:**

The Office of Policy and Management 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. The OPM's statutory authority is broad. It serves as a centralized management and planning agency. As described in Section 4-65a, the 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, the 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, the OPM makes payments in lieu of taxes (PILOT) on qualifying manufacturing machinery and equipment exempt from local taxation. The 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, the OPM partially refunds the rent and certain utilities of eligible renters who meet income and age or disability requirements.

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Pursuant to Section 4-66 of the General Statutes, the 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

The 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 through 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 the 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 4-219) 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 the 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") (Sections 5-270 through 5-280) 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 the 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, (Sections 16a-1 through 16a-107) of the General Statutes.
- The provisions of Chapter 588z (Section 32-655) construction of Adriaen's Landing and Rentschler Stadium and administration (Sections 32-655 through 32-669) of the General Statutes.

In addition, the 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)

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- 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)
  
  - Drug Enforcement Grant Program (Section 21a-274a of the General Statutes)
  - Neighborhood Youth Center Grant Program (Section 7-127d of the General Statutes)
  - Juvenile Justice Advisory Committee (Federally funded Juvenile Justice and Delinquency Prevention Act)

Marc S. Ryan served as the Secretary of the Office of Policy and Management until his resignation January 3, 2005. Robert L. Genuario was appointed Secretary of the Office of Policy and Management on January 5, 2005, and continues to serve as Secretary.

**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 must 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, 2006, were:

Ex Officio Members:

Governor M. Jodi Rell  
Lieutenant Governor Kevin B. Sullivan  
State Treasurer Denise Nappier  
State Comptroller Nancy Wyman

Legislative Members – Appointed:

Senator David J. Cappiello  
Senator Toni N. Harp  
Representative Denise Merrill  
Representative Arthur J. O’Neill  
Representative Peter Tercyak

Legislative Members - Appointed Alternate:

Senator Judith G. Freedman  
Senator Joan V. Hartley  
Representative Douglas McCrory

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Representative Joan A. Lewis  
Representative Robert M. Ward

Senators Robert L. Genuario and Representatives William R. Dyson, Annette Carter and Peter Metz also served during the audited period. The Secretary of OPM 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).

### **Significant Legislation:**

Notable legislative changes which took effect during the audited period, are presented below:

Public Act 04-2 (May Special Session), required the OPM to submit a comprehensive *Report Regarding Revaluation Policies and Procedures* to members of the General Assembly. The report explains the ways that real property of various types is valued, methods of collecting and verifying property information, the impact of the recent real estate market on property values and programs available to mitigate resultant shifts in the tax burden.

Public Act 05-178 placed the Criminal Justice Information System Governing Board in OPM for administrative purposes only.

Public Act 05-205, revised the existing requirements for the State Plan of Conservation and Development requiring OPM to designate priority funding areas, among other requirements. Public Act 06-24 made further revision to allow OPM to make interim changes to the five year plans.

Public Act 05-249 created the Criminal Justice Policy and Planning Division within OPM and assigned responsibilities to promote a more effective and cohesive state criminal justice system. Public Act 06-193 made revisions to these responsibilities.

Public Act 05-262, required the Office of Policy and Management to produce a fiscal accountability report that included multi-year estimates of state revenues, expenditures and ending balances of all appropriated funds.

Public Act 05-287, Section 5, located the State Board of Accountancy within the Office of Policy and Management for administrative purposes only, effective July 1, 2005. The OPM provides personnel, payroll, business office and information technology functions to the State Board of Accountancy under this legislation.

Public Act 06-136 assigned coordination and reporting responsibilities to the Office of Policy and Management regarding transportation. The Office of Transportation Policy was established as a result. It also placed the Transportation Strategy Board within OPM for administrative purposes only.

**RÉSUMÉ OF OPERATIONS:****Receipts:**

Receipts of the Office of Policy and Management totaled \$568,044,197, \$573,151,966, and \$564,218,711, for the 2003-2004, 2004-2005, and 2005-2006 fiscal years, respectively. A summary of those receipts follows:

	<u>Fiscal Year</u>		
	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
<b><u>General Fund:</u></b>			
Casino Gaming Receipts:			
Mashantucket Gaming	\$ 197,819,236	\$ 204,532,489	\$ 203,837,253
Mohegan Gaming	<u>205,615,121</u>	<u>211,928,281</u>	<u>222,215,526</u>
Total Indian Gaming Receipts	403,434,357	416,460,770	426,052,779
Federal restricted contributions	17,067,232	22,361,149	25,081,487
Federal Flex Grant-Jobs and Growth Tax Relief	115,806,960	0	0
Other restricted contributions	15,106,407	15,300,475	3,489,815
Refunds of grants and other expenditures	420,967	254,196	106,687
All other receipts	<u>126,468</u>	<u>165,692</u>	<u>309,381</u>
Total General Fund	<u>551,962,391</u>	<u>454,542,282</u>	<u>455,040,149</u>
<b><u>All Other Funds:</u></b>			
Tobacco Settlement Fund Proceeds (1507)	116,578,313	118,320,645	108,618,906
Investment Interest Tobacco Settlement	10,028	185,439	451,240
All other	<u>71,778</u>	<u>103,600</u>	<u>108,416</u>
Total All Other Funds	<u>116,660,119</u>	<u>118,609,684</u>	<u>109,178,562</u>
Budgeted Transfer Out	<u>(100,578,313)</u>	<u>0</u>	<u>0</u>
<b>Total Receipts, all funds</b>	<b><u>\$ 568,044,197</u></b>	<b><u>\$ 573,151,966</u></b>	<b><u>\$ 564,218,711</u></b>

As indicated, casino gaming receipts comprise the bulk of receipts. Although these receipts are credited to the 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 the 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.

In accordance with the Federal Flex Grant Jobs and Growth Tax Relief Reconciliation Act, \$115,806,960 was received from the United States Treasury. The Funds were deposited directly into the General Fund. The funds were not designated or earmarked for a particular purpose.

Sections 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 2003-2004, 2004-2005, and 2005-2006 fiscal years, the total revenue received was \$116,578,313, \$118,320,645, and \$108,618,906, 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, the OPM is responsible for processing payments charged to certain appropriation accounts maintained by the State Comptroller. Also, certain special revenue and capital project funds recorded as the OPM's accounts were processed by other agencies. Total expenditures processed by the OPM were as follows:

	<u>2003-2004</u>	<u>Fiscal Year</u> <u>2004-2005</u>	<u>2005-2006</u>
<b><u>OPM Appropriations:</u></b>			
General Fund	\$ 195,236,805	\$ 176,734,572	\$ 160,270,222
Special Revenue Funds	86,353,180	54,906,547	46,855,151
Capital Project Funds	<u>7,242,357</u>	<u>11,271,419</u>	<u>5,529,713</u>
Total OPM Appropriations	<u>288,832,342</u>	<u>242,912,538</u>	<u>212,655,086</u>
<b><u>State Comptroller's Appropriations:</u></b>			
General Fund	165,890,952	175,890,952	186,542,952
Special Revenue Fund	<u>85,000,000</u>	<u>85,000,000</u>	<u>86,250,000</u>
Total State Comptroller's Appropriation	<u>250,890,952</u>	<u>260,890,952</u>	<u>272,792,952</u>
<b>Total Agency Expenditures</b>	<b><u>\$ 539,723,294</u></b>	<b><u>\$ 503,803,490</u></b>	<b><u>\$ 485,448,038</u></b>

Capital Project Funds increased in the fiscal year ended June 30, 2005, primarily due to Criminal Justice Information System expenditures in the amount of \$5,548,698.

**OPM General Fund Expenditures:**

General Fund expenditures charged to the OPM's appropriations for the 2003-2004, 2004-2005 and 2005-2006 fiscal years, were \$195,236,805, \$176,734,572 and \$160,270,222 respectively. A summary of those expenditures are presented below:

	<u>2003-2004</u>	<u>Fiscal Year</u> <u>2004-2005</u>	<u>2005-2006</u>
<b><u>Budgeted Appropriations:</u></b>			
Personal Services	\$ 10,759,932	\$ 11,242,953	\$ 12,115,047
Other Expenses	2,279,213	1,417,657	1,847,989
Equipment	1,000	1,000	100
Special Program or Project	4,841,359	6,282,762	13,198,401
Budgeted Program of Aid:			
To Other Than Local Government	14,196,228	15,155,011	16,949,293
To Local Governments	<u>90,198,531</u>	<u>87,335,958</u>	<u>91,373,879</u>
Total Budgeted	<u>122,276,263</u>	<u>121,435,341</u>	<u>135,484,709</u>

**Restricted Contributions:**

Non-Federal	44,234,175	30,652,224	4,277,801
Federal	<u>28,726,367</u>	<u>24,647,007</u>	<u>20,507,712</u>
Total Restricted	<u>72,960,542</u>	<u>55,299,231</u>	<u>24,785,513</u>
<b>Total General Fund</b>	<b><u>\$ 195,236,805</u></b>	<b><u>\$ 176,734,572</u></b>	<b><u>\$ 160,270,222</u></b>

The special program or project budgeted appropriation expenditures increased in the 2005-2006 fiscal year primarily due to increased spending for Contingency Needs Grants in the amount of \$8,101,882.

The decrease in non-federal restricted contributions in the fiscal year ended June 30, 2006, is mostly attributed to the completion of the Connecticut Convention Center at Adriaen's Landing. The building was substantially completed on May 31, 2005.

**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.

<b>Special Revenue Funds:</b>	<b><u>2003-2004</u></b>	<b><u>Fiscal Year</u></b>	<b><u>2004-2005</u></b>	<b><u>2005-2006</u></b>
Inter-Agency/Intra-Agency Grants-Tax				
Exempt Proceeds(1169)(12021)	\$ 326,030	\$	0	\$ 0
Local Capital Improvements (12050)	9,899,292		36,466,950	30,017,762
Capital Improvement Purchase(1872)(12051)	328,276		102,577	30,747
Grants to Local Governments (1873)(12052)	0		467,500	359,500
Htfd Downtown Redevelopment(1971)(12059)	<u>75,799,582</u>		<u>17,869,520</u>	<u>16,447,142</u>
Total Special Revenue Funds	<b><u>\$ 86,353,180</u></b>		<b><u>\$ 54,906,547</u></b>	<b><u>\$ 46,855,151</u></b>

The decrease in the Hartford Downtown Redevelopment Fund expenditures is due primarily to the progress related to the Adriaen's Landing Project. The Connecticut Convention Center at Adriaen's Landing was substantially completed in the 2004-2005 fiscal year. The project was initiated under Section 17 and Sections 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. The 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.

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**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 the OPM for costs involving construction of the Connecticut center for Science and Education and development of a Criminal Justice Information System.

<b>Capital Projects Funds:</b>	<b>Fiscal Year</b>		
	<b><u>2003-2004</u></b>	<b><u>2004-2005</u></b>	<b><u>2005-2006</u></b>
Offender Based Tracking System(3001) 17001	\$ 2,739,224	\$ 499,243	\$ 5,997
Criminal Justice Info. System(3011) 17011	2,963,965	4,458,912	4,018,096
Purchase/Install. Energy(3931) 17931	50,000		7,711
Capital Imprv.-Criminal Justice Info 17041		5,548,698	831,302
Agencies (3951) 17951		6	
Offender Based Tracking System(3971) 17971		558,393	666,607
Offender Based Tracking System(3981) 17981	<u>1,489,168</u>	<u>206,167</u>	<u>0</u>
Total Capital Projects Funds	<u>7,242,357</u>	<u>11,271,419</u>	<u>5,529,713</u>
Urban Act-Science Center	<u>0</u>	<u>579,880</u>	<u>13,031,923</u>
Total Capital Projects and Urban Act Funds	<b><u>\$ 7,242,357</u></b>	<b><u>\$ 11,851,299</u></b>	<b><u>\$ 18,561,636</u></b>

**Comptroller Appropriations:**

By statute, the 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.

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:

<b>General Fund:</b>	<b>Fiscal Year</b>		
	<b><u>2003-2004</u></b>	<b><u>2004-2005</u></b>	<b><u>2005-2006</u></b>
PILOT-State Owned Real Property	\$ 64,959,215	\$ 69,959,215	\$ 75,311,215
PILOT-PrivateColleges/General Hospitals	100,931,737	105,931,737	111,231,737
<b>Special Revenue Fund:</b>			
Mashantucket Pequot and Mohegan	<u>85,000,000</u>	<u>85,000,000</u>	<u>86,250,000</u>
Total Expenditures	<b><u>\$ 250,890,952</u></b>	<b><u>\$ 260,890,952</u></b>	<b><u>\$ 272,792,952</u></b>

## CONDITION OF RECORDS

Areas warranting comment are presented below:

### **Casino Gaming Regulatory Costs:**

*Background:* The Auditors of Public Accounts responded to a special request made on February 26, 2008, by the Secretary of the Office of Policy and Management (OPM), Robert L. Genuario to conduct an audit to evaluate the expenditures of the Department of Public Safety, the Division of Special Revenue, and the Department of Consumer Protection, as pertains to their regulation of the Mohegan Sun and Foxwoods Casinos. The State is compensated for these regulatory costs by means of an assessment comprised of Direct and Indirect cost estimates paid by the Casinos in accordance with the Gaming Compact agreements.

*Criteria:* The provisions of the State of Connecticut's Compact with the Mashantucket Pequot Tribe for the Foxwoods Casino and the Mohegan Tribe for the Mohegan Sun Casino, stipulates that the Tribes, "reimburse the State for reasonable and necessary costs of regulating gaming operations and conducting law enforcement investigations."

*Condition:* We examined the Direct costs and Indirect costs associated with regulating gaming operations and conducting law enforcement investigations for the fiscal year ended June 30, 2007. We determined that for the fiscal year ended June 30, 2007, the State of Connecticut was not sufficiently compensated by either the Mashantucket Pequot or Mohegan Tribes. Together the Mashantucket Pequot and Mohegan Tribes were under-assessed a total of \$3,081,152. A report on the results of our review was transmitted to the Secretary on July 14, 2008. The Secretary then negotiated compromised increased assessments with both Tribes for the 2008-2009, 2009-2010 and 2010-2011 fiscal years. These were based on the actual costs determined for the 2006-2007 fiscal year. The increased assessment of \$12,900,000 for 2008-2009 was approximately 30 percent over the 2006-2007 assessment of \$9,964,629. For the 2010-2011 fiscal year the assessment totaled \$14,086,800 or approximately 41 percent over the 2006-2007 assessment of \$9,964,629.

*Effect:* It appears that the Mashantucket Pequot Tribe for the Foxwoods Casino and the Mohegan Tribe for the Mohegan Sun Casino did not sufficiently reimburse the State for reasonable and necessary costs of regulating gaming operations and conducting law enforcement investigations at the Casinos for the fiscal year ended June 30, 2007. However, the Office of Policy and Management

did negotiate substantially increased assessments with the Mashantucket Pequot Tribe and the Mohegan Tribe for subsequent fiscal years through June 30, 2011.

*Cause:* It appears that the OPM was not accurately tracking the actual costs associated with regulating gaming operations and conducting law enforcement investigations at the Mohegan Sun and Foxwoods Casinos.

*Recommendation:* The Office of Policy and Management should monitor the expenditures of the Department of Public Safety, the Division of Special Revenue, and the Department of Consumer Protection, as pertains to their regulation of the Mohegan Sun and Foxwoods Casinos and continue to negotiate annual assessments computed on actual costs. (See Recommendation 1.)

*Agency Response:* “OPM does not agree with this finding. The Secretary negotiates the amount assessed to each casino for the subsequent biennial period based on the actual regulatory costs incurred by State agencies for the previous biennium and makes adjustments to reflect changes to the regulatory process that may impact such costs. Since the assessments occur prospectively on a biennial basis based on actual expenditures, there is no requirement to collect expenditure data on an interim basis. OPM will continue to evaluate the assessment process and may consider changes to the methodology if necessary.”

*Auditor’s Concluding*

*Comment:*

The OPM should have procedures in place to direct the Department of Public Safety, the Division of Special Revenue, and the Department of Consumer Protection in the collection of Direct and Indirect regulatory cost data. This regulatory cost data which is compiled by OPM should be monitored, including being assessed for accuracy. The process should be ongoing, not once every two years.

**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 the 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 superseded, all of the subsequent documents must be examined.

*Cause:* It appears that the review process is ongoing. 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 Retirement Division of the State Comptroller's Office. The Office of the State Comptroller has been furnished with the documents containing the proposed codifying language.

*Recommendation:* The Office of Policy and Management's Office of Labor Relations Division should determine and take the necessary action to hasten the codification of the SEBAC agreements. In the future, the 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 Office of Policy and Management (OPM) agrees with the substance of this finding but not the recommendation. The Retirement Division in the Comptroller's Office has developed a draft codification document. It was provided to SEBAC several months ago for their review. As this is a mutual process, their concurrence with the draft is required before further action can be taken. Inquiries have been made regarding the status of the review by SEBAC and they have not had time to review the same. OPM has taken all possible steps to have the SEBAC agreement codified."

*Auditor's Concluding*

*Comment:* Including codification provisions in future agreements, as

recommended, would advance the process, leading to timely codification of negotiated changes to modifications of Chapter 66 of the General Statutes.

**Inventory Control:**

*Criteria:* Sound business practice requires accurate tracking for physical assets.

The State of Connecticut Property Control Manual prescribes procedures for the maintenance of equipment inventory records. It states that assets should be assigned an identification number, which should be recorded in Core-CT, that the identification number should be affixed to the item, and that a person should be assigned responsibility for each asset as the custodian.

*Condition:* Our review of the Agency's inventory control system revealed the following inaccuracies:

One tested item on the inventory (a projector) was transferred to a locked storage closet without being noted on the inventory. Another similar item (a projector) was physically in the place of the original item per the inventory. The inventory should be adjusted to show the correct locations for each projector.

The scanner bar code reader on the inventory was replaced by a new scanner bar code reader, the same model number. The inventory was adjusted to reflect the new item. The old scanner was exchanged for a new one, with the proper software loaded. This exchange should be properly reflected on the inventory.

The serial number listed on the inventory was incorrect for the data backup drives. The inventory should be corrected to reflect the correct serial number.

The model number for an equipment inventory item, a Laserjet printer, was incorrect, and should be corrected on the inventory.

Three equipment items, a server, a firewall flash based system, and a network traffic router, were listed on the inventory as being located at the Armory, 360 Broad St., Hartford, are actually located at DOIT, in East Hartford. We were told that these items are being configured and will be returned to the Armory.

The location for two items that we physically inspected, then traced back to the inventory had the incorrect locations listed for the items on the inventory. A laptop and a desktop computer were listed on the inventory as being in the computer room at OPM, but

they were actually at the Capitol Office on the fourth floor of the State Capitol.

- Effect:* Where inventory records are not accurate, there is an increased risk that the physical assets of the agency could be lost, misplaced, stolen and/or unrecorded.
- Cause:* Although the agency did put some time and resources into it, they did not adequately perform inventory and property control procedures.
- Recommendation:* The Office of Policy and Management should maintain and reconcile inventory records as prescribed by the State of Connecticut Property Control Manual. Controls over the transfer of property should be strengthened. (See Recommendation 3.)
- Agency Response:* “OPM agrees with this finding. The inaccuracies identified in the audit report were a result of data entry errors in the Assets Management system and a lack of notification from OPM employees when they move equipment within the agency. OPM will improve controls over the accurate recording of asset information and the transfer of property, including the development and announcement of a procedure to advise the OPM Business Office when equipment is relocated.”

### **Lack of Competitive Procurement:**

*Criteria:* Sections 4-212 through 4-219 inclusive, of the General Statutes, require the Office of Policy and Management to establish procedures to be followed by executive branch agencies entering into Personal Service Agreements. Those standards detail procedures to be followed when it has been determined that a non-competitive solicitation is necessary.

Section 4-213, of the General Statutes, prohibits an agency from hiring a personal service contractor without executing a personal service agreement.

The standards define a personal service agreement as a written agreement defining the services or end product to be delivered by a personal service contractor to a state agency. A personal service contractor is defined as any person, firm or corporation not employed by the State, that is hired by a state agency for a fee to provide services to a state agency.

Section 4-215, subsection (a), of the General Statutes requires competitive bidding for personal service agreements having a cost of more than \$20,000 but not more than \$50,000 and a term of not

more than one year. Also set out in the Statute are stipulations for sole source purchases and the granting of the associated waiver of competitive bidding by the Secretary of the Office of Policy and Management.

Section 4-216, of the General Statutes, sets out competitive bidding requirements for personal service agreements having a cost of more than \$50,000 or a term of more than one year.

*Condition:* The Office of Policy and Management hired a non profit company to perform a comprehensive study of the Juvenile Transfers in Connecticut. The Office of Policy and Management issued a grant without benefit of competitive solicitation. The \$120,000 grant was issued in lieu of a Personal Service Agreement.

*Effect:* The procurement of services by means of a grant circumvents the Personal Service Standards and Procedures established by the Office of Policy and Management.

The ability of the State to obtain the best price for services is weakened when services are not procured based on competitive solicitation.

*Cause:* It appears the staff was not aware that the Personal Service Agreement procedures applied to services paid for with grant funds. The staff used the same contactor based on satisfaction with previous work.

*Recommendation:* The Office of Policy and Management should procure services on a competitive basis. Contracts for services should adhere to the established Personal Service Agreement procedures. (See Recommendation 4.)

*Agency Response:* "OPM agrees with this finding. Staff are now aware that Personal Service Agreement procedures apply to services paid for with these grant funds and unless a waiver from procuring services on a competitive basis is obtained in accordance with C.G.S. Section 4-215(a), staff shall follow Chapter 55a of the Connecticut General Statutes when entering into a Personal Service Agreement."

**Statutory Reporting Requirements/ Connecticut Progress Council:**

*Criteria:* Numerous sections of the General Statutes require the Secretary of the OPM to prepare and submit various reports to the Governor, the joint committees of the General Assembly and other cognizant entities. Section 4-67m related to budgets requires OPM to develop biennial goals, objectives and quantifiable outcome measures and the submission of an annual summary report 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 annual reporting on personal service agreements and Section 4d-14 requires the preparation of an annual 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 the OPM for use in developing and reviewing the budget.

*Condition:*

The Office of Policy and Management has compiled a data base of required reports and the associated due dates. A process to track the completion of the reports and their timely submission has not been established. The above statutory reporting requirements are being reviewed for continued relevance. The agency is considering a legislative package to eliminate reporting requirements that are no longer required.

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

*Effect:*

In the absence of preparation and submission of the required reports, there is a lack of oversight by the cognizant entity.

Without updated benchmarks from the Connecticut Progress Council, the 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 a combination of staffing concerns and department reorganizations have been an issue in addressing the preparation of reports.

The Agency has determined that some of the reports required by the statutes are obsolete.

*Recommendation:* The Office of Policy and Management should comply with all statutory reporting provisions under its purview. The OPM should also review the reporting requirements and obtain legislative action regarding reports considered to be obsolete. The OPM should 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 agrees with this finding and has continued its efforts to develop an automated data base to centrally organize and monitor OPM’s compliance with statutory provisions under its purview. Although development has taken longer than anticipated, progress has and continues to be made on this important system.

In addition to completing the initial design and functionality of the data base, OPM recently completed a review of the Connecticut General Statutes to identify those provisions that should be included in the data base. The next phase of the project is to populate the data base, test the functionality of the system, and train staff. During the population phase of the automated data base, OPM will assess the relevance of statutory reports and will propose legislative changes to those reporting requirements determined to be irrelevant and/or obsolete.

Regarding the Connecticut Progress Council, OPM will revisit with the General Assembly during the 2010 legislative session whether the statute relating to the Council should be amended or repealed to incorporate the General Assembly’s efforts relating to Results Based Accountability, which efforts are similar though not identical to the Connecticut Progress Council.”

**Human Services Procurement Procedures:**

*Criteria:* Section 4-70b, subsection (c), of the General Statutes states 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:* Our prior audit recommended that the Office of Policy and Management comply with Section 4-70b of the General Statutes. We determined that the Office of Policy and Management has implemented mandatory policies and procedures for obtaining and managing human services. However, the Office of Policy and Management has not implemented mandatory policies and

procedures for evaluating the cost effectiveness of human services purchased from private providers.

*Effect:* The agency lacks a standardized means of evaluating the purchased services due to the lack of uniform policies and procedures which measure the quality and cost effectiveness of human services purchased from private providers.

*Cause:* It appears that the Office of Policy and Management has not completed the implementation of uniform policies and procedures regarding human services purchased from private providers.

*Recommendation:* The Office of Policy and Management should establish and make mandatory uniform policies and procedures for evaluating the quality and cost effectiveness of human services purchased from private providers. (See Recommendation 6.)

*Agency Response:* “OPM does not fully agree with this finding. OPM recently established new policies and procedures for executive branch agencies to follow when evaluating the quality and effectiveness of human services purchased from private providers. See Office of Policy and Management, *Procurement Standards: For Personal Service Agreements and Purchase of Service Contracts*, (February 2009), “Client-Based Outcomes” on page 38. In these standards, OPM encourages Purchase of Service (POS) agencies to use generally accepted models for measuring the efficiency, quality, (etc.) of the services they purchase on behalf of their clients. OPM continues to monitor implementation of the *Procurement Standards*, which will include determining the extent and sufficiency of the POS agencies’ compliance with the new policies and procedures for performance measurement.”

**Special Project Grants (includes Contingency Needs):**

*Criteria:* 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.

Sections 4-230 through 4-236, of the General Statutes require organizations expending a total amount of State financial assistance equal to or in excess of \$100,000 in that fiscal year, to submit a program-specific or State Single Audit report for such fiscal year. The report is due no later than six months after the end of the audit period.

The Office of Policy and Management has implemented new grant application, and reporting procedures. Those procedures establish

reporting requirements for all grant recipients including those exempt from the State Single Audit reporting requirements.

*Condition:*

The Office of Policy and Management has established new procedures to document the process used to award grant funds and obtain grantee reports and/or State Single Audits.

During the fiscal year ended June 30, 2004, the Office of Policy and Management issued \$1,111,660 in grant funds for special projects of various municipal and non-profit entities from its other expenses appropriation.

Section 49, of Public Act 05-251 created the Contingency Needs Account, and appropriated \$18 million during the fiscal year ended June 30, 2005. There were no expenditures from the fund during the fiscal year. The funding was carried forward to the next two fiscal years. The Office of Policy and Management disbursed \$8,101,882 from the fund during the fiscal year ended June 30, 2006.

We were informed that the grants are issued by the OPM without solicitation, but merely upon communication from political leaders. Final program-specific audit reports and/or State Single Audits regarding the grantees' use of funds were not always available.

We examined the files associated with five grants totaling \$975,000 which were issued during the fiscal year ended June 30, 2006. A \$250,000 grant was issued to a company that ceased operations. OPM did not receive an accounting of how the funds were used. One \$100,000 grant was not entirely expended, the grantee did not provide an accounting of the expenditures and OPM was not able to provide evidence of the unused funds being returned.

*Effect:*

Without the required State Single Audit, program-specific audit reports, or final accounting from grantees, it is not known if grant conditions were met and/or if the funds were fully expended. Unused funds due to the State are not being identified and recovered.

*Cause:*

It appears that the grant monitoring procedures are not sufficient to compel grantees to submit required financial accountings, or to refund unused funds to the State.

*Recommendation:*

The Office of Policy and Management should monitor the award of grant funds, obtain required grantee audit reports, and identify and recover unused funds. (See Recommendation 7.)

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*Agency Response:* “OPM does not fully agree with this finding. OPM has established procedures to obtain grantee reports and to recover unused funds. The procedures include providing written grant award conditions to grantees during the application process and written notification to grantees at the end of the grant period to submit reports and unexpended funds. OPM’s procedure also includes follow-up communication with the grantees. Regarding the Contingency Needs Account, OPM does not have any authority to compel the compliance of recalcitrant grantees. OPM will continue to follow up with grantees to obtain grantee reports and unexpended funds, if any, and if necessary, will seek assistance from the political leaders who authorized such grants to bring grantees into compliance.”

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

*Background:* Property taxes are not collected by cities and towns on State-owned real property. The State of Connecticut makes payments to cities and towns for State-owned properties located therein to compensate for tax revenue losses. These payments are payments in lieu of taxes (PILOT).

*Criteria:* Section 12-19a of the General Statutes states that the Office of Policy and Management shall determine the amount due, as a State grant in lieu of taxes, to each town where State-owned real property is located.

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 the property control record for accurate reimbursement for the municipality’s claim.

*Condition:* We determined that the reporting mechanism in place to monitor when State property is conveyed is not sufficient to verify such information to claims for PILOT payments.

*Effect:* Due to the lack of a sufficient reporting mechanism the risk of an incorrectly calculated reimbursement is increased. However, it should be noted that total expenditures of this program are a fixed amount and not affected; in the case of an incorrect calculation, the pro-ration of funds to individual municipalities would be in error.

*Cause:* It appears that the OPM is relying on the diligence of the municipality regarding the accuracy of its claims.

*Recommendation:* The Office of Policy and Management should take steps to ensure the accuracy of PILOT payments for State-owned real property. (See Recommendation 8.)

***Auditors of Public Accounts***

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*Agency Response:*

“OPM agrees with this finding and implemented a new process for the 2007 Grand List. OPM staff who administer the PILOT for State-owned real property receive and review from OPM’s Assets Management Unit a list of state owned property sales to ensure that overpayments do not occur. The new process does, however, need to be adjusted as the system maintained by the OPM Assets Management Unit does not include the date the property was sold and only includes those properties that have been approved for sale by the Secretary. OPM is working on finding alternatives to resolve the issues identified with using the system maintained by the OPM Assets Management Unit.”

## RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2002 and 2003, contained a total of eight recommendations. Of those recommendations, three have been implemented, satisfied, or otherwise, regarded as resolved. The status of those recommendations contained in this prior report is presented below.

### *Status of Prior Audit Recommendations:*

- The Office of Policy and Management should continue to implement improved procedures over the Distressed Municipalities Grant. This recommendation has been satisfied.
- The Office of Policy and Management's Office of Labor Relations Division should determine and take the necessary action to hasten the codification of the SEBAC agreements. In the future, the OPM should take steps to ensure that similar agreements contain the proper provisions needed to result in timely codification. This recommendation is being repeated. (See Recommendation 2.)
- The Office of Policy and Management should acquire and retain detailed substantial justification when awarding a waiver from the competitive personal service agreement solicitation process. This recommendation has been satisfied.
- The Secretary should approve or disapprove applications for the execution of personal service contracts within fifteen days after receiving them from the State agencies. This recommendation has been satisfied.
- The Office of Policy and Management should comply with all statutory reporting provisions under its purview. The OPM should also review the reporting requirements and obtain legislative action regarding reports considered to be obsolete. The OPM should 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. This recommendation is being repeated. (See Recommendation 5.)
- The Office of Policy and Management should establish and make mandatory uniform policies and procedures for evaluating the quality and cost effectiveness of human services purchased from private providers. This recommendation is being repeated. (See Recommendation 6.)
- The Office of Policy and Management should monitor the award of grant funds and obtain required grantee audit reports. This recommendation is being repeated. (See Recommendation 7.)
- The Office of Policy and Management should take steps to ensure the accuracy of PILOT payments for State-owned real property. This recommendation is being repeated. (See Recommendation 8.)

*Current Audit Recommendations:*

1. **The Office of Policy and Management should monitor the expenditures of the Department of Public Safety, the Division of Special Revenue, and the Department of Consumer Protection, as pertains to their regulation of the Mohegan Sun and Foxwoods Casinos and continue to negotiate annual assessments computed on actual costs.**

Comment:

We found that the State of Connecticut had not been fully reimbursed for costs related to the regulation of gaming operations and conducting law enforcement investigations at the Casinos.

2. **The Office of Policy and Management’s Office of Labor Relations Division should determine and take the necessary action to hasten the codification of the SEBAC agreements. In the future, the OPM should take steps to ensure that similar agreements contain the proper provisions needed to result in timely codification.**

Comment:

The OPM Office of Labor Relations and the State Employees’ Bargaining Agent Coalition (SEBAC), successfully negotiated modifications to Chapter 66 of the General Statutes. The modifications have not yet been codified in the General Statutes.

3. **The Office of Policy and Management should maintain and reconcile inventory records as prescribed by the State of Connecticut Property Control Manual. Controls over the transfer of property should be strengthened.**

Comment:

Our review and physical test of the OPM inventory control system revealed several inaccuracies.

4. **The Office of Policy and Management should procure services on a competitive basis. Contracts for services should adhere to the established Personal Service Agreement procedures.**

Comment:

We noted that the OPM issued a grant without benefit of competitive solicitation.

- 5. The Office of Policy and Management should comply with all statutory reporting provisions under its purview. The OPM should also review the reporting requirements and obtain legislative action regarding reports considered to be obsolete. The OPM should 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:

We noted that although the OPM has compiled a data base of required reports and the associated due dates, a process to track the completion of the reports and their timely submission has not been established. In addition, the Connecticut Progress Council has not convened in many years and has not submitted biennial benchmarks to the OPM and the General Assembly.

- 6. The Office of Policy and Management should establish and make mandatory uniform policies and procedures for evaluating the quality and cost effectiveness of human services purchased from private providers.**

Comment:

We determined that the OPM has implemented mandatory policies and procedures for obtaining and managing human services. However, the Office of Policy and Management has not implemented mandatory policies and procedures for evaluating the cost effectiveness of human services purchased from private providers.

- 7. The Office of Policy and Management should monitor the award of grant funds, obtain required grantee audit reports, and identify and recover unused funds.**

Comment:

Our review noted that the OPM had not consistently obtained required audits or final reports for all grants administered.

- 8. The Office of Policy and Management should take steps to ensure the accuracy of PILOT payments for State-owned real property.**

Comment:

We determined that the reporting mechanism in place to monitor when State property is conveyed is not sufficient to verify such information to claims for payments in lieu of taxes (PILOT).

## 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, 2004, 2005 and 2006. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Office of Policy and Management for the fiscal years ended June 30, 2004, 2005 and 2006, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

In planning and performing our audit, we considered the Office of Policy and Management's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws,

regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation numbers 1 – Casino Gaming Regulatory Costs, 7 – Special Project Grants (includes Contingency Needs), 8 – State Owned Property Payment in Lieu of Taxes (PILOT) Program.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

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

As part of obtaining reasonable assurance about whether the Office of Policy and Management complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

The Office of Policy and Management's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Office of Policy and Management's responses and, accordingly, we express no opinion on them.

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

**CONCLUSION**

In conclusion, we wish to express our appreciation for the courtesies 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.

Josepha M. Brusznicki  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts