

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF POLICY AND MANAGEMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT



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September 21, 2011

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OFFICE OF POLICY AND MANAGEMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008**

We have examined the records of the Office of Policy and Management (OPM) for the fiscal years ended June 30, 2007 and 2008. 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. 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 (PILOT) on qualifying manufacturing machinery and equipment exempt from local taxation. OPM also reimburses towns for various tax relief programs (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 assist agencies in the creation 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, including the following:

- The preparation and implementation of the state's budget - Chapter 50, Part II (Sections 4-69 through 4-107a) of the General Statutes.
- OPM's Office of Finance, pursuant to Section 4-70e of the General Statutes, is responsible for establishing state agency financial policies; reviewing, amending and approving budget requests for financial systems and operations and taking actions to remedy any deficiencies in said systems and operations; reviewing agency financial staff needs; reviewing performance evaluations of financial management personnel; recommending career development programs and coordinating interagency transfers of financial managers; monitoring financial reports of all state agencies.
- 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 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 OPM's Strategic Management Unit is responsible for carrying out the statutory purposes of Title 16a - Planning and Energy Policy, Chapters 295 through 298a, Sections 16a-1 through 16a-107 of the General Statutes.

- The provisions of Chapter 588z, Section 32-655 through 32-669 of the General Statutes, pertaining to the construction and administration of Adriaen’s Landing and Rentschler Stadium.

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)
- Criminal Justice Policy Advisory Commission (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)

Robert L. Genuario was appointed Secretary of the Office of Policy and Management on January 5, 2005, and served throughout the audited period.

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, 2008, were:

<u>Ex Officio Members</u>	
Governor	M. Jodi Rell
Lieutenant Governor	Michael Fedele
State Treasurer	Denise Nappier
State Comptroller	Nancy Wyman

Appointed Legislative Members

<u>Appointee</u>	<u>Alternate</u>
Senator David Cappiello (R)	Senator John McKinney (R)
Senator Toni Harp (D)	Senator Joan Hartley (D)
Representative Kevin DelGobbo (R)	Representative Lawrence Cafero (R)
Representative Denise Merrill (D)	Representative Joan Lewis (D)
Representative Peter Tercyak (D)	Representative Douglas McCrory (D)

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 07-140, Sections 1 to 3, effective June 19, 2007, modified the requirements of the Manufacturing Machinery and Equipment Payment in Lieu of Taxes (MME PILOT) grant payable to municipalities. The act expanded the tax exemption to include recycling and biotechnology equipment, and extended the tax exemption for older purchased equipment.

Public Act 07-195, Section 1, effective July 1, 2007, delayed the date upon which the Secretary of OPM is required to report to the General Assembly regarding the policies and procedures for the purchase of health and human services by state agencies from January 1, 2004 to January 1, 2008. The act also allows the Secretary to waive procurement procedures for the purchase of a human service contract between a state agency and a private provider of health and human services. The Secretary is also required to develop a plan for the competitive procurement of such services to be presented to the joint standing committee of the General Assembly on or before February 1, 2008, and implemented on or after July 1, 2008.

Public Act 07-209, Section 4, effective July 1, 2007, changed the requirements used by the Secretary of OPM when approving the recommendation of the Commissioner of the Department of Social Services to increase the rate paid to convalescent homes in receivership for persons aided or cared for by the state. The rate increase can now be approved if the higher rate is needed to keep the facility open and to ensure the health, welfare, and safety of the facility's patients, instead of requiring the use of various averages and other convalescent home statistics.

Public Act 07-239 made certain changes to various OPM statutes:

Section 1, effective July 11, 2007, created a Responsible Growth Task Force to be chaired by the Secretary of OPM. The purpose of the task force is to identify responsible growth criteria to help guide the state's future investment decisions and to study land-use laws. The task force shall submit a report no later than February 15, 2008, and shall dissolve upon submission of the report.

Section 7, effective July 1, 2007, requires OPM, within available funds, to conduct a review of regional tax-based revenue-sharing programs and the establishment of regional asset districts.

Section 8, effective July 1, 2007, requires OPM to administer a regional performance incentive program. The purpose of this program is to have municipalities combine purchases, thus increasing purchasing power and providing a cost savings.

Public Act 07-242 made certain changes to various OPM statutes:

Section 1, effective July 1, 2007, requires OPM to provide a five hundred dollar rebate for the purchase and installation of a qualified furnace or boiler. Other restrictions are placed on the type of property and the owner's income level. This rebate is to last from July 1, 2007 to July 1 2017.

Section 101, effective June 4, 2007, requires OPM, in consultation with the Department of Public Works, to develop a strategic plan to improve the management of energy use at state facilities. The strategic plan shall be filed annually with the Connecticut Energy Advisory Board. OPM may perform all tasks necessary for the negotiation, execution and administration of any contract that will further the needs of the state pursuant to this legislation's purpose. Third party services may be utilized for consulting or the performance of some or all required duties.

Public Act 07-2, Section 1, of the June 2007 Special Session, effective July 1, 2007, requires the Secretary of the Office of Policy and Management, in consultation with the Commissioner of the Department of Social Services, to establish the rates and percentages used when determining the resident day user fee at nursing homes.

Public Act 07-4 of the June 2007 Special Session made certain changes to various OPM statutes:

Section 3, effective October 1, 2007, requires OPM to conduct a study to review and prioritize the recommendations and goals of the Water Planning Council. The act also requires the Secretary to submit a report regarding ongoing water resource planning in the state no later than February 1, 2008 and annually thereafter, to the applicable joint standing committees of the General Assembly and to the Water Planning Council.

Section 9, effective July 1, 2007, requires OPM to administer the urban violence reduction grant program by providing grants for programs and services for youth in urban centers of the state.

Sections 39 through 49, effective July 1, 2007, provide that the Secretary of OPM shall be responsible for the administration, review and reporting on the incentive housing zone program.

Section 60, effective July 1, 2007, requires the Secretary of OPM to establish a program, within available appropriations, designed to encourage the use of biodiesel-blended heating fuel in state buildings and facilities.

Section 62, effective June 29, 2007, provided that no municipality shall receive less in state grants-in-aid in fiscal year 2008 than they received in fiscal year 2007. The “grants-in-aid” refers to the PILOT grants (Payment in lieu of taxes). Up to \$100,000 of the New Manufacturing Machinery and Equipment PILOT grant will be used for this purpose.

Section 88, effective June 29, 2007, established a Juvenile Jurisdiction Planning and Operations Coordinating Council. The Secretary of OPM and a member of the General Assembly shall be the cochairpersons of the council. Prior to January 1, 2009, the council shall monitor the implementation of the central components of the implementation plan contained in the final report of the Juvenile Jurisdiction Planning and Implementation Committee dated February 8, 2007 as well as study and develop recommendations regarding the issues identified in the committee’s report. Status reports shall be given January 1, 2008 and quarterly thereafter to the Governor and the applicable joint standing committees of the General Assembly. The council shall submit its final report no later than January 1, 2009.

Section 100, effective June 29, 2007, established a Streamlined Sales Tax Commission and designated the Secretary of OPM and a General Assembly member as the cochairpersons. The commission’s purpose is to study and evaluate the changes that would need to be made in the general statutes for the state to become a full member of the Streamlined Sales Tax Governing Board and the benefits this would bring to the state and retailers. The final report is due to the Governor and General Assembly no later than January 15, 2008.

Section 101, effective June 29, 2007, established a Property Tax Cap Commission and designated the Secretary of OPM and a General Assembly member as the co-chairpersons. The commission shall study and evaluate the impact to taxpayers and municipalities of various methods available to limit the rate of growth of local property taxes. The commission’s report is due to the Governor and General Assembly no later than January 15, 2008.

Public Act 07-5, Section 66, of the June 2007 Special Session, effective October 6, 2007, provided five million dollars for OPM to fund a one-time clean-slate program to target persons with high overdue utility bills. The program will be administered by Operation Fuel, Incorporated during the calendar year 2007.

Public Act 07-7 of the June 2007 Special Session made certain changes to various OPM statutes:

Section 13, effective November 2, 2007, provided \$6,900,000 in funding for OPM for various grants-in-aid and other projects and programs, including grants-in aid to municipalities, the Responsible Growth Incentive Fund, Geospatial Information Systems data collection use and mapping, and the planning and development of a web-based information system allowing all criminal justice and related agencies to access case files.

Section 18, effective November 2, 2007, allows OPM and other state agencies to provide grants-in-aid and other financing to agencies for various projects as described.

Section 32, effective July 1, 2008, instructs OPM to use funding from the sale of bonds to provide \$10,500,000 for grants-in-aid to municipalities and for the Responsible Growth Incentive Fund.

Section 37, effective July 1, 2008, allows OPM and other state agencies to provide grants-in-aid and other financing to agencies for various projects as described.

Public Act 07-1, Section 16, of the September 2007 Special Session, effective January 1, 2010, requires the Office of Policy Management, in consultation with the State Contracting Standards Board, to develop policies and procedures regarding the cost-benefit analysis to be conducted by state agencies prior to entering a privatization contract. The Office of Policy and Management and each state agency must review the budgetary impact of any privatization contract and the need to request budget adjustments in connection with the contract.

Public Act 08-98, Section 2, effective October 1, 2008, requires state agencies that are members of the Governor's Steering Committee on Climate Change to submit a report to the Secretary of the Office of Policy and Management and the Commissioner of the Department of Environmental Protection on or before January 1, 2010 and biannually thereafter. The report is to identify existing and proposed activities and improvements that are designed to meet the state agency energy savings goals established by the Governor. The public act also requires the Commissioner of the Department of Environmental Protection, the Secretary of the Office of Policy and Management, and the Governor's Steering Committee on Climate Change to consult and report on proposed regulations, policies, and strategies to achieve greenhouse gas emission limits. This is to be done no later than January 1, 2012 and every three years thereafter.

Public Act 08-168, Section 2, effective June 12, 2008, requires the Office of Policy and Management to conduct a petroleum sensitivity study of state agencies. The results of the study are to be reported to the joint standing committee of the General Assembly on or before December 1, 2008. The Office of Policy and Management is to consult with the Renewable Energy Investment Fund and is to spend no more than \$250,000 from the fund to complete the study.

Public Act 08-176, Section 11, effective June 12, 2008, requires the Secretary of the Office of Policy and Management and the State Treasurer to enter into a contract or contracts with the Connecticut Housing Finance Authority that provide for the state to pay the authority for specified debt service fees and interest rates on up to \$50 million of bonds issued by the authority for the Emergency Mortgage Assistance Program.

Public Act 08-182 expanded the capacity for state and regional planning by requiring the reassessment of boundaries of state planning regions at least once every 20 years, requires regional planning organizations to prepare 10-year regional plans of development, requires OPM to develop uniform criteria for evaluating the plans, and expands the range of projects eligible for regional performance incentive grants.

Public Act 08-185, Section 1, effective July 1, 2008, removed the requirement that the Board of Accountancy be included in the Office of Policy and Management for administrative purposes.

Public Act 08-1, Section 4, of the August 2008 Special Session, effective August 26, 2008, eliminated the \$5 million aggregate cap on the rebate program for the purchase of an energy efficient furnace or boiler. The act requires the Office of Policy and Management to consider the purchaser's Connecticut personal income tax return for the tax year prior to the tax year in which the purchase was made.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund Receipts of the Office of Policy and Management totaled \$426,165,356, \$429,789,704, and \$414,639,191, for the 2005-2006, 2006-2007, and 2007-2008 fiscal years, respectively. A summary of those receipts is presented below:

	<u>2007-2008</u>	<u>Fiscal Year</u> <u>2006-2007</u>	<u>2005-2006</u>
<u>Revenues:</u>			
Casino Gaming Receipts:			
Mashantucket Gaming	\$ 191,572,760	\$ 200,821,303	\$ 203,837,253
Mohegan Gaming	<u>223,043,160</u>	<u>228,863,727</u>	<u>222,215,526</u>
Total Indian Gaming Receipts	414,615,920	429,685,030	426,052,779
Refunds of grants and other expenditures	20,102	98,458	106,687
All other receipts	<u>3,169</u>	<u>6,216</u>	<u>5,890</u>
Total General Fund Revenues	<u>\$ 414,639,191</u>	<u>\$ 429,789,704</u>	<u>\$ 426,165,356</u>

As indicated, casino gaming receipts comprise the bulk of the revenues. 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 in the Comptroller's Appropriations section below.

General Fund expenditures charged to OPM's appropriations for the 2005-2006, 2006-2007 and 2007-2008 fiscal years, were \$135,484,709, \$169,176,735 and \$159,740,935 respectively. A summary of those expenditures are presented below:

	<u>2007-2008</u>	<u>Fiscal Year</u> <u>2006-2007</u>	<u>2005-2006</u>
<u>Expenditures:</u>			
Personal Services	\$14,641,565	\$ 13,240,059	\$ 12,115,047
Other Expenses	3,477,294	2,103,315	1,847,989
Equipment	100	18,100	100
Special Program or Project	19,417,182	13,036,870	13,198,401
Budgeted Program of Aid:			
To Other Than Local Government	29,028,754	17,709,449	16,949,293
To Local Governments	<u>93,176,040</u>	<u>123,068,942</u>	<u>91,373,879</u>
Total General Fund Expenditures	<u>\$ 159,740,935</u>	<u>\$ 169,176,735</u>	<u>\$ 135,484,709</u>

The increase in Special Program expenditures during the 2007-2008 fiscal year was attributable to an increase in the Contingency Needs grants and the establishment of Energy and Urban Youth Policy grants. The increase in Budgeted Grants to Other than Local Governments stemmed primarily from the establishment of Regional Performance grants and increases in the amounts expended for Property Tax Relief grants.

Special Revenue Fund - Federal and Other Restricted Accounts:

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.

Beginning with the 2003-2004 fiscal year, restricted accounts that had previously been reported in the General Fund are now being reported by the Comptroller in a newly-established Special Revenue Fund.

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 2005-2006, 2006-2007, and 2007-2008 fiscal years, the total revenue received was \$108,618,906, \$113,691,116, and \$141,347,315, 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.

Special Revenue Fund Receipts of the Office of Policy and Management totaled \$137,946,748, \$134,840,854, and \$171,844,271, for the 2005-2006, 2006-2007, and 2007-2008 fiscal years, respectively. A summary of those receipts is presented below:

	<u>2007-2008</u>	<u>Fiscal Year</u> <u>2006-2007</u>	<u>2005-2006</u>
<u>Revenues:</u>			
Tobacco Settlement (12037)			
Tobacco Settlement Fund Proceeds (15070)	\$141,347,315	\$113,691,116	\$108,618,906
Investment Interest Tobacco Settlement	431,639	1,247,888	344,633
Federal and Other Restricted (12060)			
Federal restricted contributions	11,188,214	16,238,390	25,081,487
Investment interest other			303,491
Other restricted contributions	17,482,046	3,229,673	3,489,815
Rentschler Stadium (21019)	<u>1,395,057</u>	<u>433,787</u>	<u>108,416</u>
Total Special Revenue Fund Revenues	<u>\$ 171,844,271</u>	<u>\$ 134,840,854</u>	<u>\$ 137,946,748</u>

The increase in the investment interest tobacco settlement portion of the Tobacco Settlement fund for fiscal year 2007 is due to increased interest rates during the fiscal year.

The increase in the Federal and Other Restricted Fund, for fiscal year 2008, is primarily due to an increase in Connecticut Science Center grants and private donations as well as increased funding for energy-related projects.

The increase in the Stadium Facilities Fund (Rentschler Field), is due primarily to an increase in the recoveries-general account.

Special Revenue Fund Expenditures of the Office of Policy and Management totaled \$71,640,664, \$60,143,358, and \$49,410,083, for the 2005-2006, 2006-2007, and 2007-2008 fiscal years, respectively. A summary of those expenditures is presented below:

<u>Expenditures:</u>	<u>Fiscal Year</u>		
	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>
Local Capital Improvements (12050)	\$ 29,898,820	\$ 39,971,622	\$ 30,017,762
Capital Improvement Purchase (1872)(12051)	137,792	188,464	30,747
Grants to Local Governments (1873)(12052)	120,611	1,200,826	359,500
Htfd Downtown Redevelopment (1971)(12059)	1,332,808	4,087,672	16,447,142
Federal and Other Restricted (12060)			
Federal	8,524,530	12,930,104	20,507,712
Non Federal	<u>9,395,522</u>	<u>1,764,670</u>	<u>4,277,801</u>
Total Special Revenue Fund Expenditures	<u>\$ 49,410,083</u>	<u>\$ 60,143,358</u>	<u>\$ 71,640,664</u>

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.

The increase in the non-federal portion of the Federal and Other Restricted Fund for fiscal year 2008 was primarily due to increased expenditures relating to the Connecticut Science Center.

The Local Capital Improvement Program (LoCIP) Fund comprises most of the Special Revenue Fund 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 building and housing renovations and improvements.

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 construction of the Connecticut Science Center and development of a criminal justice information system.

Capital Projects Funds:	<u>Fiscal Year</u>		
	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>
Offender Based Tracking System (3001) 17001	\$ 0	\$ 0	\$ 5,997
Criminal Justice Info. System (3011) 17011	-8,525	1,059,027	4,018,096
Purchase/Install. Energy (3931) 17931	0	0	7,711
Capital Imprv.-Criminal Justice Info 17041	11,691	973,828	831,302
Capital Imprv.- Infrastructure 17051,17061	194,802	0	0
Offender Based Tracking System (3971) 17971	<u>0</u>	<u>0</u>	<u>666,607</u>
Total Capital Projects Funds	197,968	2,032,855	5,529,713
Urban Act-Science Center	<u>31,545,798</u>	<u>29,953,449</u>	<u>13,031,923</u>
Total Capital Projects and Urban Act Funds	<u>\$ 31,743,766</u>	<u>\$ 31,986,304</u>	<u>\$ 18,561,636</u>

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.

The two General Fund grants consist of PILOT 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>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>
General Fund:			
PILOT-State Owned Real Property	\$ 80,019,144	\$ 78,371,215	\$ 75,311,215
PILOT-Private Colleges/General Hospitals	122,430,256	120,731,737	111,231,737
Special Revenue Fund:			
Mashantucket Pequot and Mohegan	<u>92,998,519</u>	<u>91,050,000</u>	<u>86,250,000</u>
Total Expenditures	<u>\$ 295,447,919</u>	<u>\$ 290,152,952</u>	<u>\$ 272,792,952</u>

Expenditures Combined:

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 project funds recorded as OPM's accounts were processed by other agencies. Total expenditures processed by OPM were as follows:

Auditors of Public Accounts

	<u>Fiscal Year</u>		
	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>
<u>OPM Appropriation Expenditures:</u>			
General Fund	\$ 159,740,935	\$ 169,176,735	\$ 135,484,709
Special Revenue Funds	49,410,083	60,143,358	71,640,664
Capital Project Funds	<u>31,743,766</u>	<u>31,986,304</u>	<u>18,561,636</u>
Total OPM Appropriation Expenditures	<u>240,894,784</u>	<u>261,306,397</u>	<u>225,687,009</u>
<u>State Comptroller's Appropriation Expenditures:</u>			
General Fund	202,449,400	199,102,952	186,542,952
Special Revenue Fund	<u>92,998,519</u>	<u>91,050,000</u>	<u>86,250,000</u>
Total State Comptroller's Appropriation	<u>295,447,919</u>	<u>290,152,952</u>	<u>272,792,952</u>
Total Agency Expenditures	<u>\$ 536,342,703</u>	<u>\$ 551,459,349</u>	<u>\$ 498,479,961</u>

The overall decrease in the Special Revenue Fund expenditures is primarily due to near completion of the Convention Center portion of the Adriaen's Landing project.

The overall increase in the Capital Projects Fund expenditures is primarily due to the increase of the Urban Act funding for the Connecticut Science Center.

CONDITION OF RECORDS

Our review of the records of the Office of Policy and Management revealed several areas requiring improvement:

Administration of the State Single Audit Process:

Background: The Office of Policy and Management performs two different functions related to the State Single Audit process. For those entities for which OPM is the cognizant agency, OPM receives and reviews the audit reports to confirm that the amounts recorded in the accounting records of the subrecipient are generally in agreement with the amounts paid by OPM to the subrecipient. In addition, OPM is statutorily charged with responsibility for serving as a clearinghouse for all audit reports of entities subject to the State Single Audit process.

Criteria: Section 4-231 of the General Statutes requires a State Single Audit for each non-state entity that expends a total amount of state financial assistance equal to or in excess of \$100,000 in any fiscal year.

OPM has instituted a checklist for use in reviewing audits provided by non-state entities.

Condition: In two of the 10 audits that we reviewed, we noted that the checklist established by OPM to perform desk reviews of the audit reports was not used.

Cause: OPM staff performing the review of subrecipient audits informed us that they do not utilize the established checklist if the audits do not contain any findings and the amounts of funding claimed to be expended agrees with OPM's records.

Effect: The failure to use an established process to examine the audit reports increases the risk that a condition may go undetected because that item is not examined. In one of the instances we noted, OPM failed to detect that a management letter was issued by the CPA firm.

Recommendation: The Office of Policy and Management should revise its procedures relating to the management of the State Single Audit process to ensure that reviews are done in a consistent manner. (See Recommendation 1.)

Agency Response: "While the Office of Policy and Management agrees that reviews should be done in a consistent manner, the Office of Policy and

Management does not have the operational capacity to review in detail every State Single Audit report received annually, which was more than 700 for the 2008 reporting period. A system was developed, therefore, that placed greater emphasis on the reports of nonprofit entities as the number of these reports is much larger than municipal audits and only 21 different firms conduct audits for municipalities.

The Office of Policy and Management reviews all State Single Audits to determine whether there are findings and questioned costs identified by the independent auditor. The Office of Policy and Management uses a preliminary checklist for all nonprofit State Single Audit reports. The Office of Policy and Management does not use the preliminary checklist for governmental entities but does review in detail at least one report from each audit firm.”

Compliance with OPM Reporting Requirements:

- Criteria:* The Office of Policy and Management is required to issue over 100 reports each year. In order for these reports to serve their intended purpose, they should contain the specified content, present that information accurately, and be produced in a timely manner. Connecticut General Statutes specify the due dates for most of these reports.
- Condition:* We examined 23 of the reporting requirements that OPM has to meet. We found that five of the 23 reports were not prepared and six of the 23 were not submitted in a timely manner.
- Effect:* The failure to adhere to statutory reporting requirements prevents the intended distribution of information to the individuals that desire that data in order to make informed decisions.
- Cause:* At the time of our review, OPM had not compiled a complete database of all of the required reports. This prevented the efficient monitoring of OPM’s reporting requirements.
- Recommendation:* The Office of Policy and Management should finish compiling the database of reporting requirements in order to provide an automated tickler process toward the goal of meeting its mandated reporting requirements. (See Recommendation 2.)
- Agency Response:* “The Office of Policy and Management agrees with this finding and has continued its efforts to develop an automated data base to centrally organize and monitor the agency’s compliance with statutory provisions under its purview. Although development and implementation has taken longer than anticipated, progress has and

continues to be made on this important system. A data base has been designed and has been successfully piloted. The Office of Policy and Management is in the process of developing a plan to implement the system agency wide.”

Processing of Expenditures:

- Criteria:* Section 4-98 of the General Statutes requires that a purchase order exist to encumber funds prior to an agency incurring an obligation.
- Condition:* Our review of routine expenditures processed by OPM revealed three instances in which the agency had incurred an obligation prior to the creation of a purchase order. These three transactions totaled \$17,498 and the corresponding purchase orders were created between 14 and 90 days after incurring the obligation.
- Effect:* Obligations were incurred without commitments being recorded on the accounting system, presenting the risk that obligations could exceed budgeted amounts.
- Cause:* The incurring of obligations without a properly executed purchase order appeared to result from a lack of communication between the business office and the other offices within OPM.
- Recommendation:* The Office of Policy and Management should reinforce procedures already in place to prevent staff from incurring obligations without confirming that a purchase order has been generated. (See Recommendation 3.)
- Agency Response:* “The Office of Policy and Management agrees with this finding. A notification to agency staff will be issued to remind employees of existing procedures and will be re-issued on a periodic basis.”

Awarding of Grants to Subrecipients:

- Criteria:* The various state and federal grant programs administered by OPM contain requirements applicable to the issuance of grants to subrecipients. Adherence to these requirements is the responsibility of OPM.
- Condition:* We examined grants awarded to subrecipients by the Energy Division, the Criminal Justice Division, and the Intergovernmental Policy Division of OPM. Documentation of the review of these grant applications for adherence to the competitive process and other necessary provisions was not evidenced, as the files were not retained.

- Effect:* There is reduced assurance that the applications of the subrecipients are being evaluated in accordance with promulgated criteria. If the process is challenged, it would be difficult for the Agency to defend its actions.
- Cause:* A policy to retain the related documentation was not in place.
- Recommendation:* The Office of Policy and Management should implement a policy to retain all the documentation necessary to permit an independent review of the evaluation of grant proposals' conformance to established requirements. (See Recommendation 4.)
- Agency Response:* "The Office of Policy and Management agrees with this finding and will promulgate an agency policy to retain, for a period of three (3) years or until audited, the necessary documentation to permit an independent review of the evaluation of grant proposals' conformance to established requirements."

Grant Payments from Appropriations Scheduled to Lapse:

- Criteria:* Sound grant management practices suggest that funding provided in advance to subrecipients should minimize the length of time that the cash is in the custody of the subrecipient without being expended.
- Condition:* Approximately \$8,600,000 was expended in June 2008 for the Regional Performance Incentive Program authorized by Section 4-124s of the General Statutes. All of these funds were paid to the subrecipients in advance, despite the fact that projects funded by the grant program were given a full year to expend the funds, and at least one subrecipient was given an additional year to carry out the proposed plan. As of February 2010, only three projects were completed, accounting for \$1,000,000 of the total advanced.
- Effect:* The immediate funding of these grant proposals caused lost investment income for the state and permitted the subrecipients to receive investment income to which they otherwise would not be entitled. In the event that the subrecipients do not expend the entire amount of the awards, the state would have to wait for grant expenditure reports and reimbursements from the subrecipients to recover these funds.
- Cause:* OPM staff explained that the funds had to be expended immediately to avoid the lapse of the appropriation on June 30, 2008. However, there was no evidence that OPM tried to obtain legislative authority to carry these funds over to the next fiscal year to avoid expending the entire amount at once.

Recommendation: The Office of Policy and Management should consider obtaining legislative approval to carry forward appropriations for grants when it is in the best interest of the state. (See Recommendation 5.)

Agency Response: “The Office of Policy and Management agrees that legislative approval should be obtained to carry forward appropriations for grants when it is in the best interest of the State. When staff learned that the carry forward of these funds was in jeopardy, the Office of Policy and Management decided to advance these funds to preserve the program and its benefits. The advance payment was structured to advance the program, and not the sub-recipient, by requiring the advance payment be deposited in an investment account with the proceeds to be reinvested in Regional Performance Incentive projects.”

Administration of Juvenile Justice Funds:

Background: The Criminal Justice Division of OPM administers juvenile justice grants. In order to comply with the federal requirements for this funding, OPM established a Juvenile Justice Advisory Committee (Advisory Committee) to make the decisions on the awarding of grants after reviewing grant proposals. At the beginning of each year, the committee allocates funding to various initiatives. It is not uncommon for funds to become de-obligated when a project comes in under budget or is not able to be carried out by a subrecipient within established timeframes.

Criteria: In order for the Advisory Committee to maintain funding for the originally budgeted initiatives, it would be necessary for the committee to know which projects are the source of the de-obligated funds. In that fashion, consideration can be given to reallocating that funding for a similar project.

Condition: When OPM has received de-obligated funds from juvenile justice grant subrecipients, there typically has not been any notification to the committee to permit consideration of awarding the available funds to a same or similar initiative. Instead, de-obligated funds have generally been awarded to the Connecticut Consortium for Law and Citizenship Education, Inc., (Consortium) which is associated with the Office of the Secretary of the State. The awards to the Consortium have been for “capacity building” and have funded initiatives that did not appear to be contemplated within the original grant projects, and that process normally circumvented the committee. Additionally, the types of services funded through the capacity building grants appear closer to contractual services rather than grants.

Cause: OPM staff explained that the committee was not consulted in such circumstances because of time constraints. These time constraints were evident because it is often well into the grant period before it is determined that the funds will not be spent as planned.

Effect: These conditions give the appearance of favoritism in the awarding of grants to the Consortium and prevent the committee from directing the available funds to projects that the group may view as more advantageous.

The established procurement process for contractual services also appears to be circumvented. The procurement of contractual 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.

Recommendation: The Office of Policy and Management should consider modifying the process used to award de-obligated juvenile justice grants in order to avoid the appearance of circumventing the Advisory Committee and established procurement processes. (See Recommendation 6.)

Agency Response: “The Office of Policy and Management respectfully disagrees with this finding.

The Office of Policy and Management regularly updates the Advisory Committee when federal grants are being applied for and when subgrants are being awarded. The Advisory Committee is also provided with Allocation Sheets, which document all funding by program area and include all changes some of which are returned funds from grant awards.

Since 2009, all federal juvenile justice funding services, other than services provided by state agencies, have been procured on a competitive basis utilizing either a grant award or a Personal Service Agreement if the services are contractual.

The Advisory Committee is aware of the use of federal funds for capacity building and the projects that are funded under this program. Decisions on the use of these funds are made with Advisory Committee input and are supported through a Personal Service Agreement that was competitively bid.”

Auditors' Concluding

Comment:

The changes referenced above occurred in 2009, after the period of review. During the period covered by this audit, we found no evidence to document prior notice to the Advisory Committee and the committee's concurrence with the decision to award the funding to the "capacity building" projects.

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 superseded, all of the subsequent documents must be examined.

For example, the state was recently cited for exceeding the Internal Revenue Service limits for the amount of annual pension benefits that can be paid to a retiree, as well as exceeding the limit on the amount of annual earnings that can be credited to an employee for retirement purposes.

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.

The exceeding of the Internal Revenue Service pension limitations may have been less likely if the relevant provisions were codified and readily available for reference.

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, OPM should take steps to ensure that similar agreements contain the proper provisions needed to result in timely codification. (See Recommendation 7.)

Agency Response: "The Office of Policy and Management agrees with this finding and has taken all possible steps to codify the SEBAC agreement. Codification language has been drafted and is pending SEBAC concurrence before further action can be taken."

Management of Federal Grant Receivables:

Criteria: Sufficient records should be maintained in order to minimize the time between the expenditure of state funds for federal programs and the subsequent reimbursement by the federal government.

Condition: Our review of the June 30, 2009 federal grant receivables noted a receivable of \$567,000 related to the Safe and Drug Free Schools Program from fiscal years 2003 through 2005. Upon further inquiry, it seemed clear that OPM had exceeded the timeframes in which it could draw down these funds, rendering the receivable uncollectible.

Effect: The State incurred costs that should have been recovered but were not likely to be reimbursed absent special permission from the United States Department of Education.

Cause: Records indicated that collection efforts over the last two years had not been made, apparently due to an oversight.

Recommendation: The Office of Policy and Management should improve its efforts to draw down federal funds in a timely manner to enhance cash flows and avoid the risk that reimbursement opportunities are lost. (See Recommendation 8.)

Agency Response: “The Office of Policy and Management agrees with this finding and revised its draw down procedures in 2004 when it had exceeded the timeframe to draw down the federal Safe and Drug Free Schools Program funds from the U.S. Department of Education. There have been no further uncollectible federal receivables subsequent to implementation of the revised procedures in 2004. Despite extensive efforts, in 2006 the U.S. Department of Education denied a request from the Office of Policy and Management to draw down the funds. The Office of Policy and Management has been untimely in writing off the receivable and is taking steps in accordance with C.G.S. Sec. 3-7(b) to do so.”

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2004, 2005 and 2006 contained a total of eight recommendations. Of those recommendations, five 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 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. This recommendation is not being repeated at this time as OPM had not had sufficient time to implement intended procedures.
- 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, 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 7.)
- 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. This recommendation has been adequately addressed.
- 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. This recommendation is being modified to reflect current conditions. (See Recommendation 6.)
- The Office of Policy and Management should comply with all statutory reporting provisions under its purview. OPM should also review the reporting requirements and seek legislative changes regarding reports considered to be obsolete. 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 finding has been modified to reflect current conditions. (See Recommendation 2.)
- 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 finding has been adequately addressed.
- The Office of Policy and Management should monitor the award of grant funds, obtain required grantee audit reports, and identify and recover unused funds. This recommendation was primarily the result of the grants made through the Contingency Needs account, which ceased to exist after June 30, 2009. Therefore, we will not repeat this finding.

- The Office of Policy and Management should take steps to ensure the accuracy of PILOT payments for state-owned real property. This recommendation is not being repeated.

Current Audit Recommendations:

- 1. The Office of Policy and Management should revise its procedures relating to the management of the State Single Audit process to ensure that reviews are done in a consistent manner.**

Comment:

Checklists used by OPM to document the review of audits were not utilized in all cases.

- 2. The Office of Policy and Management should finish compiling the database of reporting requirements in order to provide an automated tickler process toward the goal of meeting its mandated reporting requirements.**

Comment:

OPM did not have a system in place to effectively monitor the due dates of its many reporting requirements.

- 3. The Office of Policy and Management should reinforce procedures already in place to prevent the agency staff from incurring obligations without confirming that a purchase order has been generated.**

Comment:

We noted three instances in which obligations were incurred without the benefit of a purchase order.

- 4. The Office of Policy and Management should implement a policy to retain all of the documentation necessary to permit an independent review of the evaluation of grant proposals' conformance to established requirements.**

Comment:

The failure to retain these records impedes the ability to determine whether OPM staff thoroughly reviewed the grant applications.

- 5. The Office of Policy and Management should consider obtaining legislative approval to carry forward appropriations for grants when it is in the best interest of the state.**

Comment:

OPM advanced approximately \$8,600,000 in order to avoid lapsing the funds, despite the fact the subrecipients had an entire year to spend the funds.

- 6. The Office of Policy and Management should consider modifying the process used to award de-obligated juvenile justice grants in order to avoid the appearance of circumventing the Advisory Committee and established procurement processes.**

Comment:

De-obligated funds were consistently reallocated to the same entity without the benefit of competitive proposals and without the concurrence of the Advisory Committee.

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

Comment:

The lack of codification makes the administration of the Retirement Act more difficult because the provisions are fragmented throughout the various documents.

- 8. The Office of Policy and Management should improve its efforts to draw down federal funds in a timely manner to enhance cash flows and avoid the risk that reimbursement opportunities are lost.**

Comment:

OPM appeared to have missed the opportunity to draw down federal funds after incurring the expenditures.

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, 2007 and 2008. 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, 2007 and 2008 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.

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 deficiency to be a significant deficiency: Recommendation 3, Processing Expenditures.

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 would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the agency's financial operations, safeguarding of assets, and compliance with requirements that we consider to be material weaknesses, as defined above.

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.



Kenneth Post
Administrative Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts