

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF POLICY AND MANAGEMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010*

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

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We have examined the records of the Office of Policy and Management (OPM) for the fiscal years ended June 30, 2009 and 2010. 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 staff 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 (e.g. elderly homeowners, veterans, and the totally disabled). Also, pursuant to Sections 12-170bb and 12-170d through 12-170g, OPM partially refunds the rent and certain utilities of eligible renters who meet income and age or disability requirements.

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

- To keep on file information concerning the state's general accounts
- To 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.
- The establishment of agency financial policies; the review and approval of budgets for financial systems and acting to remedy deficiencies in such systems; advising agencies of financial staff needs; the recommending of career development programs for managers; and the coordination of transfers of financial managers are responsibilities assigned to OPM's Office of Finance under Section 4-70e of the General Statutes.
- The oversight and coordination of contracting by state agencies for outside personal service contractors. Personal service contractors provide consulting or other contractual services to state agencies - Chapter 55a (Sections 4-205 through Sections 4-219) 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 298, 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 including:

- Municipal Finance Advisory Commission (Section 7-394b 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)
- Low Income Energy Advisory Board (Section 16a-41b of the General Statutes)
- Neighborhood Revitalization Zone Advisory Board (Section 7-600 through 7-608 of the General Statutes)

Robert L. Genuario continued to serve as Secretary of the Office of Policy and Management during the audited period until his resignation on May 9, 2010. He was immediately succeeded by Brenda L. Sisco, who served as Acting Secretary until Benjamin Barnes was appointed Secretary on January 5, 2011.

Connecticut Energy Advisory Board:

The Connecticut Energy Advisory Board (CEAB) operates under Section 16a-3 of the General Statutes. The CEAB is responsible for representing the state in regional energy planning, participating in the state's annual load forecast proceeding, and reviewing the procurement plan submitted by electric distribution companies. It operates under OPM for administrative purposes only, with its funding annually approved by the Department of Public Utility Control.

Board members at June 30, 2010, were:

Michael Cassella, Chairman	Mary Healey, Consumer Counsel
Jeff Gaudiosi, Vice Chairman	Kevin Hennessy
Tracy Babbidge, DEP designee	Jim Hoffman
Melissa Buckley	John Mengacci, OPM designee
David Carey, Dept. of Agriculture designee	Paul Nunez
Timothy Cole	Tony Sheriden
Peggy Diaz, DPUC designee	James Sime, DOT designee
Joel Gordes	

Criminal Justice Information System Governing Board:

The Criminal Justice Information System (CJIS) Governing Board operates under Section 54-142 of the General Statutes. The board is responsible for overseeing the development and implementation of information systems to support law enforcement and court functions involving apprehension, adjudication, incarceration, and supervision. The Judicial Branch's Chief Court Administrator and a person appointed by the Governor from among its board members shall serve as co-chairpersons. The daily operations of the board are supervised by an executive director, which operates under OPM for administrative purposes only.

Board members at June 20, 2010, were:

Michael Fedele, Lt. Governor, Co-Chairman
Patrick L. Carroll III, Judge, Deputy Chief Court Administrator, Co-Chairman
Kevin Kane, Chief State's Attorney
Thomas Daveron, Col., Public Safety
Brian Murphy, Commissioner, Department of Correction
Susan O. Storey, Chief Public Defender
Robert Farr, Chairman, Board of Pardons and Parole
Michelle Cruz, Office of Victim Advocate
Peter Boynton, Commissioner, DEMHS
Diane Wallace, DOIT
Robert Ward, Commissioner, Motor Vehicles
Richard C. Mulhall, Chief, Connecticut Chiefs of Police Association
John Kissel, Senator
Michael Pollard
Arthur J. O'Neill, Representative
William Tong, Representative

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 next regular legislative session convenes 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, 2010, were:

Ex Officio Members: Governor M. Jodi Rell, Lieutenant Governor Fedele, State Treasurer Denise Nappier, State Comptroller Nancy Wyman

Appointed Legislative Members

<u>Appointee</u>	<u>Alternate</u>
Senator Dan Debicella (R)	Senator May Anne Handley (D)
Senator Toni Harp (D)	Senator Robert J. Kane (R)
Representative John C. Geragosian (R)	Representative Lawrence Cafero (R)
Representative Joan Lewis (D)	Representative Deborah Heinrich (D)
Representative Craig Miner (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).

RÉSUMÉ OF OPERATIONS:

General Fund:

A comparison of OPM’s General Fund revenues and expenditures for the fiscal years under review and the preceding year follows:

Revenues:	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Casino Gaming Receipts:			
Mashantucket Gaming	\$ 191,572,760	\$ 178,608,621	\$ 169,897,924
Mohegan Gaming	<u>223,043,160</u>	<u>202,157,342</u>	<u>189,958,807</u>
Total Casino Gaming Receipts	414,615,920	380,765,963	359,856,731
Refunds of Grants and Other Expenditures	20,102	495,871	3,531,645
All Other Receipts	<u>3,169</u>	<u>6,082</u>	<u>18,549</u>
Total Revenues	<u>\$ 414,639,191</u>	<u>\$ 381,267,916</u>	<u>\$ 363,406,925</u>
Expenditures:			
Personal Services	\$14,641,565	\$ 14,933,788	\$ 12,322,241
Other Expenses	3,477,294	2,943,993	1,461,808
Equipment	100		
Special Program or Project	19,417,182	16,297,278	4,522,582
Budgeted Program of Aid:			
To Other than Local Government	29,028,754	27,990,722	23,872,963
To Local Governments	<u>93,176,040</u>	<u>101,956,694</u>	<u>94,821,276</u>
Total Expenditures	<u>\$ 159,740,935</u>	<u>\$ 164,122,475</u>	<u>\$ 137,000,870</u>

Most of OPM’s revenues are from casino gaming, which have declined during the audited period reflecting the overall economic downturn. Although these receipts are credited to OPM,

they are processed by the Department of Revenue Services, Division of Special Revenue. 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.

The decrease in Personal Services for the 2009-2010 fiscal year reflects the loss of staff due to the 2009 Retirement Incentive Program. The number of full-time General Fund employees as of June 30, 2009 and 2010 was 141 and 120, respectively.

The major factor in the decrease in Special Program or Project expenditures for the 2008-2009 fiscal year was the decrease of Contingency Needs grants from \$8,850,103 to \$3,108,407. The further \$11,774,696 decrease in 2009-2010 Special Program or Project expenditures was due to reductions in or the ending of various projects or programs. Such significant programs ending in the 2008-2009 fiscal year were Contingency Needs, Energy Initiatives, and Urban Youth Policy grants, accounting for approximately \$6,500,000 of the decrease. In addition, the reduction in program expenditures involving Energy Audit Subsidies, Litigation Settlement and Justice Assistance grants accounted for another approximately \$4,000,000 of the decrease.

The increase in Budgeted Grants to Local Governments for the 2008-2009 fiscal year was primarily from one-time funding appropriated under Public Act 08-01 during the August 2008 Special Session involving energy assistance for emergencies in home heating and heating assistance for schools, seniors 65 and over and nonprofit organizations.

Special Revenue Funds:

Special revenue funds are used to finance a particular activity in accordance with specific state laws or regulations and are financed through either bond sale proceeds or specific state revenue dedicated to a particular activity. A summary of special revenue fund revenues and expenditures for the fiscal years under review and the preceding year follows:

<u>Revenues</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Tobacco Settlement (12037)	\$141,778,954	\$153,877,243	\$1,384,386
Federal and Other Restricted (12060):			
Federal Restricted Contributions	17,147,987	21,515,023	20,462,643
Interest Income	334,058	145,175	66,544
Non-Federal Restricted Contributions	<u>11,188,214</u>	<u>20,559,332</u>	<u>6,820,704</u>
Total Federal and Other Restricted	<u>\$28,670,259</u>	<u>\$42,219,530</u>	<u>\$27,349,891</u>
Total Revenues	<u>\$170,017,574</u>	<u>\$196,038,182</u>	<u>\$28,734,277</u>

Expenditures:

Grants- Tax Exempt Proceeds (12021)	\$ - 0 -	\$29,712	\$17,165
Economic Development (12033)	- 0 -	2,911,600	2,067,050
Local Capital Improvements (12050)	29,898,820	35,149,236	26,099,656
Capital Equipment Purchase Fund (12051)	137,792	39,829	\$7,140

Small Town Economic Assistance Program (STEAP)- Grants (12052)	120,611	713,700	- 0 -
Htfd Downtown Redevelopment (12059)	1,332,807	1,314,240	2,066,601
Federal and Other Restricted (12060):			
Federal Restricted Contributions	8,524,530	7,229,195	31,929,584
Non-Federal Restricted Contributions	<u>9,395,522</u>	<u>21,472,209</u>	<u>6,055,837</u>
Total Federal and Other Restricted	<u>17,920,052</u>	<u>28,701,404</u>	<u>37,985,421</u>
Total Expenditures	<u>\$49,410,082</u>	<u>\$68,859,721</u>	<u>\$68,243,033</u>

A description of any significant funds and any substantial changes in revenues and expenditures follows:

Tobacco Settlement:

The Tobacco Settlement Fund was established under Sections 4-28e through 4-28f of the General Statutes to account for funds received by the state in conjunction with the Tobacco Litigation Master Settlement Agreement executed on November 23, 1998. The receipts are a product of the sales of the major tobacco companies and are calculated in advance by a certified public accounting firm assigned to the settlement by the courts. Revenues for the 2009-2010 fiscal year are net of \$128,977,357 in receipts offset by transfers, totaling \$127,600,000, to the Department of Public Health; which administers the disbursement of the funds.

Federal and Other Restricted Accounts:

The fluctuation in Non-Federal Restricted Contributions revenues and expenditures was the result of a State Department of Education grant and donations for the construction of the Connecticut Science Center in Hartford. The Science Center grant and donations totaled \$9,313,890, \$16,577,110 and \$1,104,043 for the fiscal years ending June 30, 2008, 2009 and 2010, respectively. Corresponding expenditures for the same period totaled \$7,312,414, \$17,127,354, and \$1,372,024, respectively.

The significant increase in Federal Restricted Contribution expenditures for the 2009-2010 fiscal year was from spending approximately \$23,200,000 in grants from the American Reinvestment and Recovery Act (ARRA). The most significant grants were for the State Energy Plan, \$12,666,872 and Justice Assistance, \$6,853,961.

Local Capital Improvement Program:

The Local Capital Improvement Program (LoCIP) Fund operates under Sections 7-535 to 7-538 of the General Statutes. State bond proceeds finance the program. OPM reimburses towns for up to 100 percent of the cost of eligible capital improvement projects. Eligible projects generally consist of the construction, renovation, repair, and resurfacing of roads; sidewalk and pavement improvements; and public buildings and public housing renovation and improvements. The state's economic downturn resulted in a decrease in available funding and expenditures for the program for the 2009-2010 fiscal year.

Other Special Revenue Funds:

The Economic Development Fund was the result of Public Act 07-242, which provided funding for a rebate of \$500 or under, depending on the applicant's income, for those who replace an existing furnace with a more efficient unit or upgrade their current furnace's efficiency. The other significant special revenue fund, Hartford Downtown Redevelopment, involved the further development of the Adriaen's Landing Project.

Stadium Facility Enterprise Fund:

The Stadium Facility Enterprise Fund is authorized under Section 32-657 of the General Statutes. Revenues and expenditures for the fund result from the operation and management of the Rentschler Field stadium facility. Revenues totaled \$439,002 and \$535,128 for the 2008-2009 and 2009-2010 fiscal years, respectively. Expenditures totaled \$1,731,861 and \$710,811, respectively, for the same period.

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. Total capital projects fund expenditures were \$991,310 and \$1,200,309 for the 2008-2009 and 2009-2010 fiscal years, respectively. The expenditures were primarily for the development of a criminal justice information system and parking improvements at Rentschler Field in East Hartford.

In addition, a total of \$16,683,550 and \$487,085 were spent during the 2008-2009 and 2009-2010 fiscal years, respectively, from Urban Act funds for the completion of the Connecticut Center for Science and Education.

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 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:

	<u>2007-2008</u>	<u>Fiscal Year</u> <u>2008-2009</u>	<u>2009-2010</u>
General Fund:			
PILOT-State Owned Real Property	\$ 80,019,144	\$80,019,144	\$ 73,519,215
PILOT-Private Colleges/General Hospitals	122,430,256	122,430,256	115,431,737
Special Revenue Fund:			
Mashantucket Pequot and Mohegan	<u>92,998,519</u>	<u>92,998,519</u>	<u>61,779,907</u>
Total Expenditures	<u>\$ 295,447,919</u>	<u>\$ 295,447,919</u>	<u>\$ 250,730,859</u>

The decrease in expenditures for the 2009-2010 fiscal year resulted from the overall economic downturn decreasing available funding.

CONDITION OF RECORDS

Our examination of the records of the Office of Policy and Management disclosed certain matters of concern requiring agency attention.

Compliance with OPM Reporting Requirements:

<i>Criteria:</i>	OPM is required to issue over 100 reports each year in accordance with various sections of the General Statutes.
<i>Condition:</i>	<p>We found that no reports were prepared during the audited period for two of the twelve statutes selected that required an annual report.</p> <p>a) Section 16a-38l- Report of the strategic plan to improve the management of energy use in state facilities. We were informed that a report had not been produced in over ten years.</p> <p>b) Section 16a-37u- Report relating to energy planning and activities for state owned or leased facilities. The last report was issued for 2007; no report has since been prepared other than a draft report for 2008.</p>
<i>Effect:</i>	The lack of reports required by the general statutes may prevent the distribution of information needed for informed decision making by management and the legislature.
<i>Cause:</i>	OPM stopped issuing reports under Section 16a-38l mainly due to resource issues. The state went to performing energy audits for projects under consideration rather than audits of existing buildings. The lack of recent reports under Section 16a-37u was also due to resource issues. Producing a report was considered an inefficient use of resources since there was no funding for any projects recommended to be implemented by the report.
<i>Recommendation:</i>	OPM should seek to remove any statutory reporting requirements that are no longer cost effective and/or outdated. (See Recommendation 1.)
<i>Agency Response:</i>	“OPM agrees with this recommendation and as recent as the 2011 legislative session, submitted proposals to repeal outdated statutory reporting requirements. Such proposals were not acted on by the legislature. OPM will continue to conduct a comprehensive review of statutory reporting requirements and continue to seek legislative action regarding reports considered to be outdated and/or no longer cost effective.”

Energy Grants:

Criteria: Standard requirements for the reporting of funds expended by grantees include the submission of timely and complete quarterly, and final, financial reports to the granting agency.

Good business practice requires that customers sign off on documentation certifying that a service eligible for reimbursement was satisfactorily completed. It would also include verifying that the individual providing the service was a licensed professional.

Condition: Our review of 21 transactions related to several energy grant programs noted the following:

1. Lack of grantee signature on forms and independent verification- In order to receive reimbursement under the Energy Audit program, approved vendors were required to submit an inspection form to OPM for each household serviced. The inspection form did not include a field for customers to sign, certifying receipt of services.

We also noted a vendor received reimbursement for inspection of his home residence heating system by a technician employed by the vendor. There was no OPM requirement that an inspection must be performed by an independent technician.

2. Lack of verification of vendor licenses- Although program requirements stipulate that all vendors receiving grants must be licensed, OPM does not verify licenses prior to approving grant funds. We noted licensing issues with two out of ten grantees reviewed where we could not verify the individuals performing the inspections were properly licensed.

3. Lack of timely reporting by the grantee- Of the three grantees tested that were funded by the Stripper Well Overcharge account, final reports for the 2008-2009 fiscal year were not on file. The third grant was closed prior to the end of the grant period from a lack of interest in the proposed technology. There was nothing in the grant file explaining the closure; however, subsequent documentation was provided upon request.

4. Incorrect reporting date- All four grant files tested for the American Reinvestment Recovery Act- State Energy Plan had instances where the date field on the quarterly reports was not updated by the grantee. For example, a report for the second quarter, October 1st through December 31st, was dated October 5, 2010.

5. Questionable awarding of funds- A grantee spent \$82,349 to replace the roof of a building to support future installment of solar panels; \$80,000 came from the Stripper Well Overcharge account while the remaining \$2,349 came from the vendor. It appears questionable since the vendor only contributed a small percentage of the total cost of the project. The grant funds should be used to supplement, not supplant, project funds. As of March 2011, OPM had not performed a follow-up site visit to verify that the grantee followed through on the installment.

6. Reimbursement for ineligible expenses- The grantee in the preceding condition was reimbursed for expenditures, totaling \$7,257, that were incurred prior to the grant award period, October 1, 2008 to September 30, 2009. We also noted that funds were used to pay utility expenses, apparently allowed by OPM but do not appear directly related to the grant purposes.

7. Alteration of invoices- Our review found that a grantee altered several invoices, totaling \$847. The invoices were submitted for reimbursement and subsequently paid by OPM. We initially questioned the authenticity of the invoices which was subsequently confirmed when OPM obtained the original invoices directly from the vendor. The dates on the invoices were altered from March 30 and April 1, 2009 to September 30, 2009 to make prior year invoices appear eligible for reimbursement. OPM has sent notice to vendor demanding repayment of the \$847.

Effect: The above conditions may result in unspent grant funds going undetected, incorrect reimbursements and unauthorized or ineligible grant awards.

Cause: There appears to be a general lack of oversight over monitoring grant payments.

Recommendation: OPM needs to improve its oversight of grant processing and payments. (See Recommendation 2.)

Agency Response: “OPM agrees with this recommendation to improve its oversight of grant processing and payments. Subsequent to the Auditors of Public Accounts finding in Condition 7, corrective action was taken and the \$847 payment that was ineligible for reimbursement was repaid by the grantee.”

Criminal Justice Grants:

Criteria: A key internal control of grant expenditures is to verify that quarterly expenditure reports submitted to OPM reconcile with the

Schedule of Expenditures of Federal/State Awards included in the grantee's single audit report certified by independent auditors. In addition, grant funds should be spent in accordance with the time frames and requirements specified in the grant award.

Condition: Of the 20 grants we reviewed, twelve were subject to single audit requirements. In four of the twelve, total expenditures reported on the grantee's quarterly financial reports did not agree with the Schedule of Expenditures of Federal/State Awards certified by the independent auditors. Three of the grantee's expenditure report totals were higher by \$38,506, \$476 and \$277, respectively, than the independent auditor's report. The fourth reported expenditures that were \$3,607 less than the audit report. In addition, one of the four reports indicated in its Notes to the Federal Single Audit that federal funds passed through to sub-recipients were \$40,941 less the amounts reported to OPM by the grantee.

In order to receive a pass-through grant, a grantee was required to submit a detailed budget to the United States Department of Justice for approval. However, when the grantee submitted its quarterly reports, expenditures were combined into one category as contractual expenditures. OPM accepted the report without obtaining any additional information to verify whether the actual expenditures were in compliance with the federally approved budget. The grant involved a domestic violence project from August 1, 2006 through December 31, 2008 with \$460,634 in total grant expenditures over the period.

Effect: The lack of reconciling audit reports to grantee financial reports could result in undetected reporting errors and unspent grant funds not being recovered. The acceptance of a financial report from the grantee without any detail prevents the determination as to whether the grantee was in compliance with its approved budget.

Cause: It appears the above conditions were mainly due to loss of staffing, limited resources and prioritizing grant management tasks over monitoring compliance of budget categories for the pass-through grants.

Recommendation: OPM needs to improve its oversight over grant processing and payments. (See Recommendation 2.)

Agency Response: "OPM agrees with this recommendation and will develop a process for the Business Office to review and reconcile grantee financial reports with the Schedule of Expenditures of Federal/State Awards."

State Single Audits- Non-profits and Municipalities:

Criteria:

1. Section 4-232(a) of the General Statutes requires entities to file the name of their independent auditor within 30 days of the end of the fiscal year. If the entity does not comply, an independent auditor may be appointed by OPM.

2. Section 4-232(b) of the General Statutes requires each entity to file a copy of their audit report with OPM no later than six months after the end of the fiscal year. The entity may request an extension from OPM for an additional 30 days to file their report. An unlimited number of requests may be made. If the entity fails to comply with the statute, a civil penalty may be assessed by OPM.

3. Section 4-233(d) of the General Statutes requires an entity to file a plan of corrective action if their state single audit finds any material or reportable noncompliance or finds any significant deficiency or material weakness with respect to internal control.

4. In accordance with Section 4-231 of the General Statutes, each non-state entity that expended \$300,000 or more in state financial assistance in any fiscal year shall have either a single audit program or a program-specific audit conducted in each fiscal year. The grantor agencies shall review the audit report, including the audit findings. The threshold for audits was increased from \$100,000 to \$300,000, effective October 5, 2009 through the passage of Public Act 09-7 during the 2009 September Special Session of the General Assembly.

Conditions:

Reviews of state single audit reports-

We reviewed 15 state single audit reports for non-profits and municipalities submitted during the 2008-2009 and 2009-2010 fiscal years and noted the following:

1. Nine entities failed to file the name of the independent auditor as required by Section 4-232(a) of the General Statutes. Five of the nine did not file at all while the other four were filed from approximately four to eight months late. Independent auditors were not appointed by OPM.

2. Three entities failed to submit their reports to OPM within six months in violation of Section 233(b) of the General Statutes. Two entities filed their report nine and 13 months late without requesting any extensions. Another entity was granted five one-month extensions, however, four of the five extensions were

requested between two and 47 days late. Civil penalties were not assessed by OPM.

3. Two entities failed to submit a corrective action plan in compliance with Section 2-233(d). The two audits for the 2008-2009 fiscal year had five and nine recommendations, respectively that required corrective action. There was minimal follow-up action taken by OPM to obtain the corrective action plans.

Review of grants administered by OPM's Intergovernmental Policy division

Of the 24 entities reviewed that received grants from the OPM's Intergovernmental Policy division, five submitted state single audit reports with errors not followed up by OPM.

a) Three audit reports omitted grant expenditures totaling \$15,033, \$32,341 and \$26,948, respectively.

b) One report included \$92,015 in state financial assistance for the 2008-2009 fiscal year that we could not trace to OPM payments.

c) One report included \$247,947 from a grant that we could not trace to payments to the grantee by OPM in the 2009-2010 fiscal year.

In addition, there was one grantee that did not submit an audit report for the 2008-2009 fiscal year despite receiving a total of \$351,231 from three state agencies, including OPM.

Effect: The lack of compliance with state single audit laws and regulations increases the risks for noncompliance, erroneous financial reporting and fraudulent activities.

Cause: It appears that OPM does not have sufficient staffing and oversight to ensure complete compliance with the state single audit statutes and regulations. We also note that OPM has not been exercising its authority to enforce compliance.

Recommendation: OPM should improve compliance with the state single audit statutes and regulations and either enforce existing penalties for noncompliance or seek modification of any existing statutes if they are ineffective. (See Recommendation 3.)

Agency Response: "Regarding Condition 1, OPM agrees that some entities fail to file the name of its independent auditor. Municipalities have a high degree of compliance with this requirement and are responsive

when notified they need to file. OPM has found that those municipalities that fail to file do so because they think they only need to file when there is a change in their independent auditor. OPM will clarify this filing requirement with municipalities.

It is difficult for the OPM to ascertain, however, whether a nonprofit entity has failed to file the name of its independent auditor as the OPM does not have the ability to determine which nonprofit entities are required to submit an audit. Furthermore, nonprofit entities are reluctant to certify prior to the end of their fiscal year whether they will meet the filing requirements of a state single audit. OPM will ask all nonprofits who receive state financial assistance to file the end date of their fiscal year and the name of their independent auditor within 30 days of the end of their fiscal year irrespective of whether they will be required to file a state single audit. Nonprofit agencies will further be asked to certify within 60 days after the close of their fiscal year whether they are required to file a state single audit.

Regarding Condition 2, OPM agrees that it has not assessed a civil penalty against nonprofits who have failed to file a timely audit report. The assessment of a civil penalty for failure to file a timely audit is permissive and not mandatory. OPM has been reluctant to do so as described in the response to Condition 1, the OPM does not have the ability to determine which nonprofits are required to file an audit and the end date of their fiscal year. Implementation of the corrective actions in the response to Condition 1 will enable the OPM to determine whether the assessment of a civil penalty is appropriate going forward.

Regarding Condition 3, OPM agrees that corrective action plans are not always submitted. OPM is the cognizant agency for those entities with findings impacting multiple state agencies. OPM will improve its efforts to request corrective action plans from such entities and will continue to notify impacted state agencies of the status of such requests.”

Communication of Substandard Audits:

Criteria:

Section 7-395 of the General Statutes requires that when an audit of any municipality or regional school district does not comply with the requirements under Section 7-394a of the General Statutes, OPM should send a copy of the report to the Municipal Finance Advisory Commission and the Auditors of Public Accounts. Section 7-394a establishes principles and standards for municipal and regional school district reports.

Section 4-236-30 of the Regulations of State Agencies requires that the independent auditor performing a State Single Audit shall make available working papers, upon request, to the cognizant agency, its designee, the Auditors of Public Accounts and awarding agencies.

Condition: Currently, there are no procedures or thresholds as to when OPM notifies the Auditors of Public Accounts of the single audit reports containing significant deficiencies. In addition, OPM has not been able to procure any contractor to perform reviews of single audit workpapers since December 2008 due to the budget cutbacks. As a result, many single audits containing significant deficiencies such as omission of grants or other material errors were discovered by OPM, but no actions were taken.

Effect: Single audit reports with significant deficiencies were not properly addressed. Therefore, the risk of improper use of state funds was not controlled sufficiently.

Cause: There is a lack of specific guidelines to notify the Auditors of Public Accounts of the substandard single audits so that, if necessary, their workpapers could be subject to further review.

Recommendation: In an effort to improve the quality of audits, a procedure is needed whereby OPM will notify the Auditors of Public Accounts of any substandard audit of a non-profit, municipality or regional school district. A possible threshold for notification could be if the independent auditor misstates state grant total expenditures by \$15,000 or more.

OPM should establish procedures with the Auditors of Public Accounts for reporting substandard audits. (See Recommendation 4.)

Agency Response: “OPM agrees with this recommendation and will develop a procedure, within existing resources, to notify the Auditors of Public Accounts of substandard audits.”

Local Capital Improvement Program (LoCIP):

Criteria: 1. Timely reimbursements- Under Section 7-536(g) of the General Statutes, each municipality may apply to OPM for expense reimbursement at the time it submits a local capital improvement project authorization request or any time after such authorization request has been approved by OPM. The municipality shall provide any such certification required by OPM. Not later than five

business days after such certification, the Comptroller shall order payment of the grant through the Treasurer.

2. Reimbursement documentation- According to the LoCIP guidelines, each reimbursement request should be accompanied by a brief expense summary sheet that shows the vendor's name, check number, date and amount of each payment, as well as copies of detailed invoices that provide a description of the items or services provided by the vendor.

3. LoCIP funding- Under Section 7-538 of the General Statutes, the State Bond Commission shall authorize the issuance of bonds when the legislature increases the funding level for LoCIP projects. Public Act 9-02 of the September 2009 Special Session increased the aggregate LoCIP authorization from \$585,000,000 to \$645,000,000, of which an additional \$30,000,000 was made available effective July 1, 2010. The other \$30,000,000 of the \$60,000,000 increase was effective July 1, 2009.

Condition:

1. Lack of timely reimbursement- Six out of seven payments reviewed were not paid within five days as required by Section 7-356(g) of the General Statutes. Towns were paid three to five months after OPM finished reviewing their reimbursement request. The six late reimbursements totaled \$371,718, ranging from \$8,058 to \$117,507.

2. Lack of sufficient documentation- Towns and cities are required to submit vendor invoices and cancelled checks in order to receive reimbursement for local capital improvement projects. Our review found that the City of New Haven was reimbursed \$1,365,794 during November 2009 without providing OPM any detailed vendor invoices with descriptions of the items or services or cancelled checks.

3. Entitlements exceeding funding authorization- In addition, we noted that as of July 1, 2010, the LoCIP entitlements of \$710,000,000, as authorized by the legislature, exceeded the aggregate bond authorization of \$645,000,000 by \$65,000,000.

Effect:

1. Lack of timely reimbursement- The untimely payments of LoCIP reimbursement requests violate Section 7-536(g) of the General Statutes.

2. Lack of sufficient documentation- A municipality was reimbursed contrary to LoCIP documentation requirements.

3. Entitlements exceeding funding authorization- The risk of an unfunded liability increased when the allowed entitlements exceeded the aggregate bond authorization.

Cause:

1. Lack of timely reimbursement- It appears that LoCIP did not receive adequate funding so that payments could be processed in a timely manner. During the audited period, there were five bond allocations made to the program at the interval of approximately every three to six months. It took an average of less than eight weeks for the program payments to completely deplete the allocated funds.

2. Lack of sufficient documentation- Due to the volume of the capital projects in New Haven and OPM's inadequate staffing level, OPM only required limited supporting documentation from New Haven.

3. Entitlements exceeding funding authorization- Sections 4 and 5 of Public Act 04-1 reduced the bond authorization and caused the program entitlement to exceed the aggregate bond authorization by \$65,000,000.

Recommendation:

OPM should pay Local Capital Improvement (LoCIP) reimbursement requests in a timely manner and require sufficient documentation for all reimbursements, and the LoCIP entitlement should not exceed the aggregate bond authorization. (See Recommendation 5.)

Agency Response:

"OPM agrees with this recommendation, however, legislation impacts the ability to process reimbursement requests in a timely manner and results in entitlements exceeding bond authorizations as described below.

Regarding Condition 1, OPM agrees that LoCIP reimbursement requests should be paid in a timely manner, however, the timing of processing reimbursements is dependent upon the availability of allotted funds from the State Bond Commission. Furthermore the legislature has authorized entitlements in excess of the aggregate bond authorization (see Condition 3), which results in a backlog of reimbursement requests that cannot be paid within the statutory timeframe.

Regarding Condition 2, OPM agrees that there should be sufficient documentation for all reimbursements and will revise the LoCIP Guidelines to clarify the required documentation for future reimbursements.

Regarding Condition 3, the Office of Policy and Management agrees that LoCIP entitlements should not exceed the aggregate bond authorization, however, the General Assembly deferred authorizations in Public Acts 02-5 and 04-1. Legislation, therefore, requires the Office of Policy and Management to treat LoCIP entitlements as though there have been no reductions in authorized amounts.”

Property Control:

Criteria: The State of Connecticut Property Control Manual requires inventory to be kept on a current basis with accurate, detailed recordkeeping. In addition, agencies are required to maintain an inventory of controllable items that have a value of less than \$1,000. Those items included on the list are up to the agency’s discretion with the guidelines that such items are those considered sensitive, portable, and/or of a theft-prone nature.

Condition 1. Rentschler Field- Our review showed that property control records for Rentschler Field were insufficient and lacked supporting documentation. Instead of notifying OPM’s business office when the items were actually received, the Rentschler Field project office would notify OPM’s business office of its recent acquisitions with an annual e-mail. After our initial testing showed inaccuracies, a further review showed that approximately 40 percent of Rentschler Field’s assets were not recorded with a location and approximately 85 percent of the total assets were not recorded with adequate identifying information, including a manufacturer, model, or serial number. There were a total of 607 items valued at \$5,274,260 on their property control list as of February 2011.

2. Controllable property- The agency’s record of controllable property appears excessive. The record includes all items valued under \$1,000, including many items that have an insignificant value and/or not prone to theft. We noted that 91 percent of the 464 controllable assets listed as of February 2011 had a value of \$500 or less.

Effect: The lack of complete property records increases the risk of undetected losses to the state. The tracking of all controllable items under \$1,000 appears to be an inefficient use of available resources.

Cause: There appears to be a lack of policies and procedures to ensure all property acquired for Rentschler Field is promptly and accurately recorded in the OPM’s property control records. OPM’s policy of

recording all items under \$1,000 results in recordkeeping for items of little value and/or not prone to theft.

Recommendation: OPM should improve the efficiency of its property control records for Rentschler Field and controllable items. (See Recommendation 6.)

Agency Response: “OPM agrees with this recommendation.

Regarding Condition 1, Rentschler Field’s Stadium Manager will be notified of this recommendation and directed to supply, upon the receipt of equipment, the appropriate information to the Business Office. In addition, an electronic form will be developed for use in supplying the information required to complete the property control record as outlined in the State of Connecticut Property Control guidelines.

Regarding Condition 2, the list of controllable assets will be reviewed to eliminate items that have an insignificant value and/or are not prone to theft.”

Bureau of Real Property Management:

Background: Section 4-67g of the General Statutes establishes a Bureau of Real Property Management (Bureau) within OPM. It is responsible for (1) long-range planning with regard to the use of all state real property, (2) determining the level of efficiency of each and every state agency’s use of any and all real property under its control, and (3) reviewing the inventory of state property maintained by the Department of Public Works (DPW) to determine the appropriate use of such properties.

The Joint Effort for State Inventory Report (JESTIR) is the state’s centralized building inventory system. Each agency with custody and control over state owned structures utilizes the JESTIR system to track and report their building information to the Bureau.

Criteria: Sound business practice would include a complete, centralized inventory system of real properties that avoids duplicating several state agency efforts.

As noted above, the Bureau is responsible for long-range planning of state real property along with determining the efficiency of its use.

Section 4b-21 of the General Statutes exempts the University of Connecticut from DPW approval when it purchases or disposes of properties.

Condition:

Our review showed that several state agencies participate in compiling real property records. However, the state does not have a centralized recordkeeping system of the real properties owned and leased by the state that could provide financial reporting and real property management needs.

Core-CT is the official system for the state's recording of real properties. It provides the location, cost and depreciation of state owned properties. However, it does not provide information such as whether a building is being occupied by the state or leased out and the lease terms.

As noted above, the Bureau uses JESTIR to track the state's building inventory. However, JESTIR does not provide accurate information on capital leases to determine which leased property may be transferred to the state at the end of the lease period. Also, as of June 2009, state agencies no longer provided data to JESTIR on the initial acquisition cost, building cost, and content value. The collecting of such data was switched to the State Insurance and Risk Management Board.

According to the State Properties Review Board's Annual Report for 2009-2010, the largest category of building space remains the floor area attributable to higher education, including the University of Connecticut. We note that the Bureau has not explored entering into a cooperative agreement with the University of Connecticut to include their real property inventory as part of determining the most effective utilization of such assets.

Effect:

The current process of collecting real property inventory does not appear to be efficient or effective. The Bureau does not have access to information essential to its decision-making process. OPM can not maximize its management of all the state's real property without a cooperative agreement with the University of Connecticut.

Cause:

It appears that the lack of resources has hindered the Bureau's ability to develop a centralized inventory system of real properties leased and owned by the state. In addition, an agreement with the University of Connecticut to share real property data has not been explored.

Recommendation: OPM should consider developing a more effective centralized real properties inventory system for its Bureau of Real Property Management, which includes eliminating any cross-agency duplication of effort and sharing information with the University of Connecticut. (See Recommendation 7.)

Agency Response: “OPM agrees with this recommendation and will endeavor to carry out the recommendation. The confines of our existing resources, however, may limit our ability to fully implement the recommendation in a timely manner.”

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 State Employees 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 State Employees 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:* At this point, OPM has indicated that it has taken all possible steps to codify the agreement and is waiting for SEBAC to complete the codification. We note that the August 2011 modification of the SEBAC agreement will require further efforts from both OPM and SEBAC to codify.
- Recommendation:* The Office of Policy and Management should continue its efforts to ensure the timely codification of the SEBAC agreements. (See Recommendation 8.)
- 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 SEBAC and the state were in concurrence. However, with the advent of the Revised 2011 SEBAC Agreement, additional changes are required. The parties will review the revised language when drafted by Retirement Division staff.”

Contingency Needs Account:

- Background:* Public Act 05-251 of the 2005 Regular Session of the General Assembly initially appropriated \$18,000,000 to a General Fund account under OPM called Contingency Needs. Additional appropriations for the following two years resulted in a total appropriation of \$30,850,000 for the account with a total of \$25,988,189 in Contingency Needs expenditures over a four-year period from the 2005-2006 through 2008-2009 fiscal years. The account was closed after the 2008-2009 fiscal year with final year expenditures totaling \$3,108,199.
- Criteria:* Expenditures from the Contingency Needs account were at the discretion of the Governor, the President Pro-Tempore of the Senate and the Speaker of the House. OPM subsequently implemented their own guidelines for Contingency Needs grants after the account was established. All grantees were required to submit documentation found in standard contracts and/or grant awards as well as information related to the project.
- Condition:* Our test check of Contingency Needs account expenditures for the 2008-2009 fiscal year disclosed the following:
- 1) Four grantees receiving grants totaling \$400,000 did not provide the agency with a final report of how their funds were actually spent.
 - 2) Two grantees did not use the Contingency Needs funds for the intended purpose. A grant award was made to an athletic entity to

renovate a baseball field. The payment for the award, totaling \$5,000, was actually for a new roof. In the other case, \$45,000 was provided for a grantee to rehabilitate housing and provide homeownership opportunities to first time buyers. The money was actually used to pay the grantee's property taxes and interest.

3) A grant for \$45,000 was given to a non-profit which indicated its project goals and methodology was to increase program enrollment but lacked any details as to how this would be accomplished.

Effect: There was a lack of documentation to verify the proper use of the above Contingency Needs funds along with instances where such funds were not spent according to the original award.

Cause: The Contingency Needs account was established without any restrictions or guidelines other than the discretion of the three officials noted above. Subsequently, OPM implemented documentation requirements as noted above, but still lacked any authority to question the nature of the expenditures.

Conclusion: Since the Contingency Needs account ceased to exist as of July 2009, we will not present a recommendation. However, we note our concern that any such future accounts need to establish sufficient internal controls and fund expenditure restrictions at their inception to protect the best interests of the state and its taxpayers.

Agency Response: "OPM agrees with this recommendation and suggests that future accounts similar in nature to the Contingency Needs account include funding for dedicated staff to manage the grant process. OPM utilized existing resources to administer approximately 600 grants totaling \$25,988,189. There were insufficient resources available to dedicate staff to the review and follow-up on all grantee financial reports in a timely manner. Subsequent to the Auditors of Public Accounts findings, corrective action was taken and additional final financial reports have since been filed with OPM."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2007 and 2008 contained a total of eight recommendations, of which seven have been implemented, satisfied, or otherwise resolved. The recommendations contained in the prior report are presented below.

Status of Prior Audit Recommendations:

- OPM should revise its procedures relating to the management of the State Single Audit process to ensure that audit thresholds are met and reviews are done in a consistent manner. This recommendation is not being repeated.
- OPM 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. This recommendation appears to have been sufficiently resolved. However, a related recommendation concerning reporting requirements is being presented. (See Recommendation 1.)
- OPM should reinforce procedures already in place to prevent the agency staff from incurring obligations without confirming that a purchase order has been generated. This recommendation is not being repeated.
- OPM should implement a policy to retain all of the documentation necessary to permit an independent review of the evaluation of grant proposal conformance to established requirements. This recommendation is not being repeated.
- OPM should consider obtaining legislative approval to carry forward appropriations for grants when it is in the best interest of the state. This recommendation has been resolved.
- OPM 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. This recommendation is not being repeated.
- OPM 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 repeated. (See Recommendation 8.)
- OPM should improve its efforts to draw down federal funds in a timely manner to enhance cash flow and avoid the risk that reimbursement opportunities are lost. This recommendation is not being repeated.

Current Audit Recommendations:

- 1. OPM should seek to remove any statutory reporting requirements that are no longer cost effective and/or outdated.**

Comment:

Our review of reports required under the general statutes found two that were not produced during the audited period due mainly to resource issues.

- 2. OPM needs to improve its oversight of grant processing and payments.**

Comment:

Our review of several energy grant programs noted instances of a lack of grantee signature on forms and independent documentation, a lack of verification of vendor licenses, a lack of timely reporting by the grantee, incorrect reporting dates for quarterly reports, a questionable awarding of \$80,000 in grant funds, reimbursement for \$7,257 in ineligible expenses and an alteration of invoices totaling \$847.

Our review of Criminal Justice division grants showed instances where the grantee's quarterly financial reports did not agree with the Schedule of Expenditures of Federal/State Awards certified by the independent auditors.

- 3. OPM should improve compliance with the state single audit statutes and regulations and either enforce existing penalties for noncompliance or seek modification of any existing statutes if they are ineffective.**

Comment:

Our review of state single audit reports found instances where grantees failed to file the name of their independent auditor, did not send a copy of their report to OPM within six months, lacked a corrective action plan, and did not resolve continuing audit findings. Our review of grants administered by OPM's Intergovernmental Policy division found instances where certain grant expenditures were omitted from state single audit reports and payments in the report not corresponding to OPM expenditures. Also, a grantee did not provide an audit report for the 2008-2009 fiscal year. We note that OPM did not impose any sanctions or penalties for the deficiencies in reporting.

4. **The Office of Policy and Management should establish procedures with the Auditors of Public Accounts for reporting substandard audits.**

Comment:

In an effort to improve the quality of the State Single Audit review process, substandard audits should be reported to the Auditors of Public Accounts. There are currently no procedures or thresholds as to when OPM notifies the Auditors of Public Accounts of single audit reports containing significant reporting deficiencies.

5. **The OPM should pay Local Capital Improvement (LoCIP) reimbursement requests in a timely manner, require sufficient documentation for all reimbursements and the LoCIP entitlement should not exceed the aggregate bond authorization.**

Comment:

Our review found a lack of timely reimbursements to municipalities, a lack of sufficient documentation for a \$1,365,794 reimbursement payment and LoCIP entitlements exceeded bond authorizations for the program by \$65,000,000 as of July 1, 2010.

6. **The OPM should improve the efficiency of its property control records for Rentschler Field and controllable items.**

Comment:

Our review showed that property control records for Rentschler Field were mostly insufficient to identify the items listed and the agency's controllable property records contained numerous items that were not necessary since they were of insignificant value and/or were not prone to theft.

7. **OPM should consider developing a more effective centralized real properties inventory system for its Bureau of Real Property Management, which includes eliminating any cross-agency duplication of effort and sharing information with the University of Connecticut.**

Comment:

Our review showed that OPM's Bureau of Real Property Management does not have a centralized recordkeeping system of the real properties owned and leased by the state that can provide financial reporting and real property management needs.

- 8. The Office of Policy and Management should continue its efforts to ensure the timely codification of the SEBAC agreements.**

Comment:

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

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 (OPM) for the fiscal years ended June 30, 2009 and 2010. This audit was primarily limited to performing tests of the OPM's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the OPM's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the OPM are complied with, (2) the financial transactions of the OPM are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the OPM 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, 2009, and 2010, 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:

Management of the Office of Policy and Management is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the OPM'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 OPM's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the OPM's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the OPM's internal control over those control objectives.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the agency's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the OPM's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendations 2-Grants processing and payments, 5- LoCIP payments and 6-Property control. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 OPM'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 response to the findings identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit the OPM's response and, accordingly, we express no opinion on it.

The report is intended for the information and use of OPM's 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.



Donald Purchla
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts