

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
OFFICE OF POLICY AND MANAGEMENT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2012*

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

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

State Capitol  
210 Capitol Avenue  
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

March 19, 2014

### **AUDITORS' REPORT OFFICE OF POLICY AND MANAGEMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2012**

We have examined the records of the Office of Policy and Management (OPM) for the fiscal years ended June 30, 2011 and 2012. 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, including OPM. This audit examination has been limited to assessing OPM'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**

OPM operates under the provisions of various state statutes. Primarily, it operates under Title 4, Chapter 50, and Title 16a, Chapters 295 through Chapters 298b, of the General Statutes. The department head, the secretary of OPM, is appointed by the Governor. OPM's statutory authority is broad. It serves as a centralized management and planning agency. Section 4-65a of the General Statutes states 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 including reimbursing 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, analyze and 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 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; recommendations 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 energy unit was transferred to the newly created Department of Energy and Environmental Protection effective July 1, 2011 through Public Act 11-80.
- 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)
- Juvenile Justice Advisory Committee (Established under the federal Juvenile Justice and Delinquency Prevention Act)
- 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)
- Connecticut Sentencing Commission (Section 54-300 of the General Statutes)

Brenda L. Sisco served as acting secretary from May 9, 2010 until Benjamin Barnes was appointed secretary of the Office of Policy and Management on January 5, 2011 and continued in that position through the audited period.

### **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 board operates under OPM for administrative purposes only. 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.

Statutory board members as of June 30, 2012 were:

Michael Lawlor, Undersecretary, Criminal Justice, OPM, Co-Chairperson  
Barbara M. Quinn, Judge, Chief Court Administrator, Judicial Branch, Co-Chairperson  
Kevin T. Kane, Chief State's Attorney  
Leo C. Arnone, Commissioner, Department of Correction  
Susan O. Storey, Chief Public Defender  
Erika M. Tindill, Chairperson, Board of Pardons and Parole  
Melody A. Currey, Commissioner, Motor Vehicles  
Michelle Cruz, Office of Victim Advocate  
Donald J. DeFronzo, Commissioner, DAS  
Reuben F. Bradford, Commissioner, DEMHS  
Jack Daly, Chief, Connecticut Chiefs of Police Association  
John Kissel, Senator  
Eric Coleman, Senator  
Gerald M. Fox, Representative  
John Hetherington, 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 as of June 30, 2012 were:

### Ex-Officio Members

Governor Dannel P. Malloy  
Lieutenant Governor Nancy Wyman  
State Treasurer Denise L. Nappier  
State Comptroller Kevin Lembo

### Appointed Legislative Member

Senator Toni Harp  
Senator Robert J. Kane  
Representative Henry Genga  
Representative Craig Miner  
Representative Toni Walker

### Alternate

Senator Edith Prague  
Senator John McKinney  
Representative Lawrence Cafero  
Representative Gail Hamm  
Representative Sandy Nafis

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. The 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:

<b>Revenues</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>
Casino Gaming Receipts:			
Mashantucket Gaming	\$169,897,924	\$173,974,617	\$166,386,107
Mohegan Gaming	189,958,807	185,760,916	179,241,312
Total Casino Gaming Receipts	<u>359,856,731</u>	<u>359,735,533</u>	<u>345,627,419</u>
Economic Transition Change		29,327,654	14,994,588
Refunds of Grants & Other Expenditures	3,531,645	4,182,746	43,416
All Other Receipts	18,549	1,522	1,572
<b>Total Revenues</b>	<b><u>\$363,406,925</u></b>	<b><u>\$393,247,455</u></b>	<b><u>\$360,666,995</u></b>

<b>Expenditures</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>
Personal Services	\$12,322,241	\$11,900,848	\$10,783,953
Other Expenses	1,461,808	1,672,041	717,619
Special Program or Project	4,522,582	4,326,048	2,952,648
Aid to Other than Local Government	23,872,963	23,645,031	23,795,835
Aid to Local Government	94,821,276	85,980,569	225,014,039
<b>Total Expenditures</b>	<b><u>\$137,000,870</u></b>	<b><u>\$127,524,537</u></b>	<b><u>\$263,264,094</u></b>

Most of OPM's revenues are from casino gaming. Although these receipts are credited to OPM, they were processed by the Department of Revenue Services, Division of Special Revenue through June 30, 2011. Public Act 11-51, effective July 1, 2011, transferred the oversight and administration of casino gaming to the Department of Consumer Protection. Audit coverage of gaming receipts processed for the 2010-2011 and 2011-2012 fiscal years would be performed as part of the audits of those agencies. A substantial portion of these funds was transferred into the Mashantucket Pequot and Mohegan Fund and used for grants to towns.

The decrease in expenditures for the 2010-2011 fiscal year was mainly due to an expenditure reduction in the Aid to Local Government category. This reduction, totaling \$8,840,707, reflected reduced funding from the grant program providing payments in lieu of taxes on new manufacturing machines and equipment. Expenditures for the program were reduced from \$57,348,215 to \$47,895,199 for the 2010-2011 fiscal year. Funding for the program was eliminated for the 2011-2012 fiscal year.

The significant increase in Aid to Local Government for the 2011-2012 fiscal year was the result of Public Act 11-6, moving the general fund appropriations for two grant programs from the State Comptroller to OPM, effective July 1, 2011. The two programs were payments in lieu of taxes for partially reimbursing lost local tax revenue on (1) certain tax-exempt state property and (2) the property of private colleges and general hospitals. These programs operate under Sections 12-19a through 12-20b of the General Statutes with OPM responsible for calculating and distributing the grants to towns. Payments for these two programs totaled \$73,519,215 for state property and \$115,431,737 for private property for the 2011-2012 fiscal year. During the

2010-2011 fiscal year, the identical amounts for town reimbursements for the two programs were paid from the appropriations of the State Comptroller.

**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. A summary of special revenue fund revenues and expenditures for the fiscal years under review and the preceding year follows:

**Revenues**

	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
Tobacco Settlement (12037)	\$1,384,386	\$123,054	\$127,555
Federal & Other Restricted (12060):			
Sales & Use Taxes:			
General Sales & Use Tax			46,764,370
Real Estate Conveyance Tax			25,210,645
Room Occupancy & Sales Tax			5,484,662
Other Use Taxes			520,054
Total Sales & Use Taxes			<u>77,979,730</u>
Federal Restricted Contributions	20,462,643	20,886,696	8,700,175
Interest Income	66,544	35,928	21,416
Non-Federal Restricted Contributions	6,820,704	3,933,444	5,043,894
Total Federal & Other Restricted	<u>27,349,891</u>	<u>24,856,068</u>	<u>91,745,216</u>
<b>Total Revenues</b>	<b><u>\$28,734,277</u></b>	<b><u>\$24,979,122</u></b>	<b><u>\$91,872,771</u></b>

**Expenditures**

	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
Insurance Fund (12004)		\$345,642	\$340,939
Consumer Counsel/DPUC Fund (12006)		1,149,538	
Mashantucket & Mohegan (12009)			61,678,907
Grants - Tax Exempt Proceeds (12021)	\$17,165	60,969	66,225
Economic Development (12033)	2,067,050	5,450	
Local Capital Improvements (12050)	26,099,656	19,981,893	37,895,399
Capital Equipment Purchase Fund (12051)	7,140	15,950	9,309
Small Town Economic Assistance			
Program (STEAP)- Grants (12052)		288,000	489,288
Htfd Downtown Redevelopment (12059)	2,066,601	583,090	226,071
Federal & Other Restricted (12060):			
Federal Restricted Contributions	31,929,584	24,252,297	14,082,541
Non-Federal Restricted Contributions	6,055,837	5,618,456	38,459,720
Total Federal & Other Restricted	<u>37,985,421</u>	<u>29,870,753</u>	<u>52,542,261</u>
<b>Total Expenditures</b>	<b><u>\$68,243,033</u></b>	<b><u>\$52,301,285</u></b>	<b><u>\$153,248,399</u></b>

### **Mashantucket Pequot and Mohegan Fund**

The Mashantucket Pequot and Mohegan Fund is a formula-based grant to towns operating under Sections 3-55i through 3-55k of the General Statutes. The formula is based on a number of factors, including the value of the payment in lieu of taxes, grant payments to towns, town population, equalized net grand property list, and per capita income.

Although OPM has been continuously calculating and distributing these funds, the fund previously was paid from appropriations of the State Comptroller. The fund expenditures totaled \$61,779,907 for the 2010-2011 fiscal year. Under Public Act 11-6, the fund was transferred to OPM effective July 1, 2011.

### **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. Tobacco proceeds were \$121,421,995 and \$123,798,921 for the 2010-2011 and 2011-2012 fiscal years, respectively. The proceeds are offset by transfers to the Department of Public Health, which administers the disbursement of the funds. These transfers totaled \$121,303,934 and \$123,678,908, respectively.

### **Federal and Other Restricted Accounts**

The large increase in fund revenues for the 2011-2012 fiscal year was the result of Public Act 11-6, effective July 1, 2011, allocating a portion of several sales and use taxes for financing two new accounts. The Municipal Sharing Account was created to provide manufacturing transition grants to municipalities. The Regional Performance Incentive Account provides funds to municipalities for jointly performing a service they are currently providing separately. The increase of \$32,841,264 in expenditures under the Non-Federal Restricted Contributions category for the 2011-2012 is mostly the result of \$35,153,453 in expenditures for the new Municipal Revenue Sharing Account. There were no expenditures for the Regional Incentive Performance Account for the 2011-2012 fiscal year.

The decrease of \$12,186,521 in Federal Restricted Contribution revenues and \$10,160,756 in expenditures for 2011-2012 was mostly due to the transfer of the OPM Energy Unit to the Department of Energy and Environmental Protection effective July 1, 2011. The transferred grant activity was mostly for energy grants funded by the American Recovery and Reinvestment Act (ARRA). The decrease of \$7,677,287 in Federal Restricted Contribution expenditures for the 2010-2011 fiscal year as compared to the preceding year was mainly due to reduced funding for several ARRA grants.

**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 \$373,727 and \$286,994 for the 2010-2011 and 2011-2012 fiscal years, respectively. Expenditures totaled \$129,084 and \$129,266, respectively, for the same period.

**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 annual LoCIP expenditure totals will fluctuate from year to year since projects authorized by OPM must wait until the State Bond Commission decides to place the request on their agenda and subsequently approve the project at their meeting.

**Capital Projects Funds**

Capital projects funds account for bond sale proceeds used to acquire capital facilities financed from state bond sale 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 \$6,834,612 and \$7,032,184 for the 2010-2011 and 2011-2012 fiscal years, respectively. Expenditures were primarily for the development of a criminal justice information system and parking improvements at Rentschler Field in East Hartford.

## CONDITION OF RECORDS

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

### **Criminal Justice Grants**

*Criteria:*

1. Quarterly reports – Quarterly financial and progress reports are to be submitted by grantees within 15 days after the quarter end date and final reports are to be signed by grantees. A sound business practice would be to date stamp reports when they are received by OPM.
2. Cash management – The United States Office of Justice Programs (OJP) Financial Guide explains that federal funds will be disbursed as costs are incurred or anticipated and idle funds in the hands of subrecipients will impair the goals of effective cash management. Federal cash on hand should be kept at or near zero. The U.S. Department of Justice (DOJ) periodically conducts financial reviews to ensure this requirement is met.
3. Grant closeout – According to the OJP Financial Guide, all award recipients have 90 days after the project period end date to close out the award. If the closeout is not initiated within this timeframe, the closeout process will begin without the state's consent and the state will be unable to draw any additional funds on the award.
4. Grant extensions – Requests to extend project periods may be submitted by the recipient within 30 calendar days before the project period end date. Complete details must be provided with the request, including the justification and the circumstances necessitating the proposed extension.
5. Grant matching – For state grants, matching funds must be explained in detail in the budget. Support letters or other documentation from each source providing the match must be included and must specify the amount of support being provided.
6. Budgets – In accordance with OPM's general grant conditions, grantees agree to submit a revised budget equal to and in the same distribution as the grant award not later than 30 days after signing of the grant. Cash requests will be withheld until the revision is received and approved.

7. Receipt dates – According to State Comptroller Memorandum 2007-24, the receipt date for grant payments that are a reimbursement for grantee expenses is the end of the billing period and the receipt date for other types of grants is the invoice date.

*Condition:*

1. Quarterly reports – We reviewed 119 financial and progress reports and found issues with 57, or 48 percent, of the reports. Seven reports were not on file and 20 reports were submitted between six and 207 days late. We could not determine whether 21 reports were submitted timely because of inconsistencies in dates and a lack of date stamps by OPM. In addition, 12, or 52 percent, of the 23 final reports reviewed were not signed by grantees.

2. Cash management – We noted inefficient cash management for one grant. The Office of the Probate Court Administrator was awarded \$887,880 for the period of October 1, 2011 through September 30, 2013. The full \$887,880 was disbursed by August 23, 2012, when the office had only expended \$132,664, or 15 percent, of the total award. As of June 30, 2013, the office had still only expended \$589,043, or 66 percent, of the award. There did not appear to be an urgent need for cash.

3. Grant closeout – We noted one instance in which OPM did not close out an award within 90 days of the project period end date. This resulted in an administrative hold on the award and delayed the drawdown of \$98,437 by 44 days.

4. Grant extensions – We noted two instances in which OPM voluntarily offered grantees extensions without grantees first requesting them. One extension was for an additional six months and was offered approximately five months before the end of the initial award period. The other extension was for an additional two months and was offered more than one month before the end of the initial award period. No documentation was on file to justify why the extensions were necessary.

5. Grant matching – No documentation was on file to support the sources and specific amounts provided by each source for a \$20,264 grantee match, which was comprised of a \$10,132 cash match and a \$10,132 in-kind match.

6. Budgets – We found two grants that were not adequately supported by budgets. One grant for \$25,115 was supported by a budget for \$28,858 and another grant for \$50,000 was supported by a budget for \$86,388.

7. Receipt dates – There appears to be some confusion as to the correct receipt date to use for grant payments. We reviewed 65 transactions from the audited period and found inconsistencies, in which 42 receipt dates were the start of the cash request period, 20 receipt dates were the end of the cash request period, and three receipt dates were the invoice date. We note that the start of the cash request period is never the proper receipt date; thus, it appears that at least 42, or 65 percent, of the receipt dates were incorrect.

*Effect:*

1. Quarterly reports – When quarterly reports are not submitted or are submitted late, it can delay cash drawdowns and overstate grant balances, which could hinder the state’s ability to obtain federal grants.

2. Cash management – Cash disbursements are not being managed in accordance with standards established by the U.S. DOJ. If the federal government was to conduct a financial review, the state could be penalized for noncompliance.

3. Grant closeout – The untimely closeout of grants can delay cash drawdowns and overstate grant balances, which could hinder the state’s ability to obtain federal grants.

4. Grant extensions – Unnecessarily extending grants can delay cash drawdowns and overstate grant balances, which could hinder the state’s ability to obtain federal grants.

5. Grant matching – Without adequate documentation on file, we cannot verify that the grantee is meeting the required cash and in-kind match. Since in-kind matches can consist of donated goods and services and indirect costs that need to be valued, there is an increased risk for error and fraud.

6. Budgets – Budget compliance cannot be monitored when the budgets on file do not reflect the actual grant awards.

7. Receipt dates – Incorrect receipt dates could result in the improper reporting of year-end payables and a lack of compliance with generally accepted accounting principles.

*Cause:*

It appears the above mentioned conditions were mainly due to managerial oversight, limited staffing and resources, and prioritizing grant management tasks over monitoring grant compliance.

*Recommendation:* The Office of Policy and Management needs to improve its oversight over criminal justice grant processing and payments. (See Recommendation 1.)

*Agency Response:* “1. Quarterly reports -

OPM does not agree with this finding. The quarterly reports finding presents two issues—timeliness of grantee reporting and signatures on final reports. Neither of these issues negatively affects cash disbursements, subjects the state to penalties for noncompliance, or hinders the state’s ability to obtain future federal grants. On the timeliness concern, there are due dates for reports and it would be ideal if all grantees submitted their reports on time and grant managers in the Criminal Justice Policy and Planning Division (CJPPD) had time to review each report upon submission. With limited personnel, it is important to focus on critical tasks and the date a report is actually received by OPM is not critical. The reporting forms ask for the date of the reporting period and the date of preparation by the grantee. Any lateness in reporting delays the grantee’s receipt of funding so there is a natural penalty to motivate compliance. If grantees are significantly late, they can be identified and pursued. If there is a question of returned funds lapsing, grant managers can be more vigorous in contacting grantees about late submissions. The lack of original signatures on final reports has not lead to any problems to date. OPM is in the process of implementing an automated grants management system. Both of these issues will be addressed when the new system is fully implemented.

2. Cash management -

OPM agrees with this finding. The implementation and application of appropriate cash management is the responsibility of the program manager administering the award. The sub-award in question was provided to the Office of the Probate Court Administrator (OPCA) to implement a Mental Health Adjudication Repository (e.g., a database of involuntary commitment conservator data) – which is, in effect, an extension to the OPCA case management system. The provision of the funds to the OPCA was done based upon representations by the OCPA and its IT vendor as to the timetable for the project and the necessity for the funds to be available to meet contractual obligations. Clearly, both estimates by the OCPA and its IT vendor were in error.

3. Grant close-out -

OPM does not agree with this finding. The state may draw down funds beyond the 90 day close-out period. Close-out may be delayed beyond 90 days due, in part, to delays at the federal agency while reviewing compliance of special conditions. The federal agency of cognizance has made it clear to us that they have staffing issues of their own and are further subject to unforeseen circumstances like the recent 16-day-long shutdown of October 2013 of the federal government.

4. Grant extensions -

OPM does not agree with this finding. The federal rules regarding “extensions” do not apply to OPM sub-recipients. CJPPD staff are responsible for assessing progress of a grant project and determining if an extension is needed. Extensions may be required well in advance of existing end-date in order to address the sub-contracting process. Determination of extension may be based on information found in progress reports, financial reports or verbal explanation provided by sub-recipients.

5. Grant matching

OPM does not agree with this finding. No source information was provided for the cash match in the budget process, however, adequate documentation of expenditures is found in the financial reports.

6. Budgets

OPM agrees with this finding. Budgets need to reflect the grant award amounts. Unfortunately, in these two cases revised budgets were not submitted for approval, but were provided on the financial reports. One grantee had offered more match than required and the other grantee had its budget cut during the competitive grant review process.

7. Receipt dates

OPM does not agree with this finding. Accounts payable staff are following OPM guidelines established in January 2004, which were based on a review of Core-CT Daily Mail No. 2, Accounts Payable Procedures dated December 12, 2003 and the State Comptroller’s Accounting Manual regarding Expenditures. See excerpt below:

- If the cash request reflects an advance payment (i.e. the “end” or “to” date of the Cash Request is a date in the future), use the

“beginning” or “from” date of the Cash Request as the “accounting date” (now termed “receipt date”)

- If the cash request reflects a reimbursement (i.e. the “end” or “to” date of the Cash Request is a date that has passed), use the “end” or “to” date of the Cash Request as the “accounting date”
- For other types of grants or if the aforementioned guidelines are not applicable, use the date the Cash Request was signed by the grantee as the “accounting date”

The guideline for state agency cash requests accompanied by a Core-CT billing invoice was subsequently changed from the guidelines established in January 2004. The Office of the State Comptroller (OSC) advised OPM to use the invoice date as the receipt date regardless of the cash request period in this scenario.

Furthermore, OPM’s handling of receipt dates for grants has not been questioned by OSC’s Accounts Payable Division during their monthly post audit reviews.”

*Auditors’ Concluding Comments:*

Quarterly reports – OPM’s response does not disagree with our findings, it appears they are explaining why such findings are not a concern.

Grant closeout – OPM’s assertion that the state may draw down funds beyond the 90 day closeout period does not agree with the OJP Financial Guide as noted above in the *Criteria* section. Also, the late submission of a report by OPM is unrelated to the federal government’s processing of reports.

Grant extensions – Our review showed the agreements signed by the subrecipients specifically stated that the grantee agrees to comply with the financial and administrative requirements set forth in the OJP Financial Guide.

Grant matching – The agency disagrees with the finding and yet states no source information was provided. Source documentation is clearly stated as being required in the grant application.

## **Intergovernmental Grants and Programs**

*Background:*

Tax relief programs – The state offers various property tax relief programs for disabled, elderly, and veteran taxpayers.

Municipalities accept applications from individual taxpayers participating in the programs and submit annual claims to OPM. OPM then reimburses municipalities for the tax revenue losses sustained from these programs.

Renters' Rebate Program – State law provides a rebate program for Connecticut renters who are elderly or totally disabled and whose incomes do not exceed certain limits. Applications are filed with designated municipal agents and submitted to OPM for review and processing. OPM cross-checks renters' rebates with homeowners' tax relief programs to ensure there are no individuals benefiting from both programs, known as "double dippers". When "double dippers" are identified, such individuals are notified and repayment schedules are established. Due to resource limitations, OPM has elected to recoup overpayments through voluntary submission rather than offsetting future rebates, which would require due process hearings.

*Criteria:*

1. Records retention – In accordance with program requirements, applicants for tax relief and renters' rebate programs are required to file applications and provide sufficient evidence to substantiate their claims. The municipal records retention schedule established by the State Library requires municipalities to maintain such data for two years or until audited, whichever is later.

Under Section 2-90 of the General Statutes, each state agency shall make all records and accounts available to the state auditors and their agents on demand.

2. Double dippers – A "double dipper" is someone who incorrectly receives payments from both the renters' and homeowners' rebate programs. A sound business practice would be to establish preventative controls to identify double dippers before renters' rebates are paid because it is unlikely that OPM will fully recoup overpayments. Since the 2007 program year, recoupments have averaged 54 percent.

3. Lack of signatures and approval – Taxpayers are required to sign applications certifying that their statements are true and complete and assessors are required to sign applications certifying the eligibility of the taxpayer. Once claims for reimbursement are received, OPM employees examine each claim for accuracy and approve the total reimbursement amount.

4. Incomplete records – The tax relief applications prescribed by OPM require assessors to document information pertinent to

determining and verifying taxpayer eligibility, the value of the tax relief, and the total revenue loss incurred by the municipality.

*Condition:*

1. Records retention – We could not test the validity of 14 of 30 transactions totaling \$123,344 because records were not properly retained by municipalities.

a) Three municipalities prematurely destroyed the documentation supporting two tax relief reimbursements and two renters' rebates.

b) Three renters' rebates could not be located by the municipalities.

c) Four municipalities did not maintain sufficient documentation to substantiate one tax relief reimbursement and three renters' rebates.

d) Two municipalities did not respond to OPM's request for documentation supporting three renters' rebates.

2. Double dippers – It appears that OPM's internal controls over "double dippers" are insufficient. Overpayments increased significantly during the audited period from \$2,203 for the 2009 program year to \$21,847 for the 2010 program year. We note that \$200, or nine percent, and \$10,845, or 50 percent, of the overpayments remain uncollected as of September 2013, respectively.

3. Lack of signatures and approval – For one tax relief reimbursement totaling \$2,717, five of the 19 applications were missing taxpayer signatures and 15 of the 19 applications were not signed and certified by the assessor. There was no evidence that four tax relief reimbursements totaling \$58,259 were reviewed and approved by OPM program staff.

4. Incomplete records – For one tax relief reimbursement totaling \$2,717, 13 of the 19 applications were not fully completed by the assessor; the assessor did not provide the required information such as the approved exemption amounts, the income levels used to determine eligibility, or the properties to which the exemptions were applied.

*Effect:*

1. Records retention – Municipalities are not maintaining records in accordance with program or state record retention requirements. In addition, without the appropriate documentation on file, issues

that arise regarding past program years may not be properly resolved.

2. Double dippers – When “double dippers” are identified after renters’ rebates have been paid, there is an increased risk for loss to the state because of the inability to fully recoup monies owed.

3. Lack of signatures and approval – The lack of taxpayer signatures could result in negative legal implications. Without proper approval, it is uncertain whether only eligible taxpayers are benefiting from the tax relief programs and municipalities are being reimbursed for actual losses incurred.

4. Incomplete records – Without complete applications on file, OPM program staff cannot verify the validity and accuracy of municipal reimbursement claims.

*Cause:* It appears that the above mentioned conditions were the result of various factors, including oversight by program staff, miscommunication of program and records retention requirements, the extensive size and structure of the programs, and the limited staffing and resources within OPM as well as municipalities.

*Recommendation:* The Office of Policy and Management should ensure intergovernmental grant program and records retention requirements are clearly communicated and properly implemented by municipalities and agency personnel. (See Recommendation 2.)

*Agency Response:* “1. Record retention -

OPM agrees in part with this finding. It does appear that one town destroyed renters rebate records without proper authorization from the State Library, however, the municipal records retention schedule from the State Library for both the homeowners and the renters rebate program requires a retention period of “two years from date of application” with no mention of “or until audited.” Therefore, those towns that destroyed their records from the 2009 program year (applications dated and submitted during 2010) were following the schedule established by the State Library.

OPM does advise municipalities to maintain their records for three years plus the current year records for these programs but the legal requirement is two years from date of application.

Some municipalities did not retain sufficient documentation to support applications, as in the past OPM was advising municipalities that if they itemized applicant expenses using the provided computer software they did not have to keep copies of the actual documentation. Effective with the 2011 program year (fiscal 2012) OPM requires that all municipalities retain copies of all documentation to support an application for tax relief.

2. Double dippers -

OPM agrees with this finding. Although OPM does have controls in place to identify double dippers before checks are issued, issues do sometimes arise where checks are issued before the double dippers are identified. There was a significant increase in double dippers for the 2010 program year due to insufficient controls to identify double dippers. This was not discovered until after checks were issued causing the increase in the amount of double dippers. The amount of double dippers for program years 2011 and 2012 was greatly reduced as controls have been strengthened since the Renters Rebate Program has been moved onto the OPM Application Portal. OPM does plan to eventually move the Homeowners Circuit Breaker Program onto this same electronic platform which should help to provide even greater controls. OPM has also put forth a proposal for a 2014 legislative change that would allow OPM to recover any Renters Rebate Program overpayment amounts from future grants an applicant may receive under the Program. If passed, this change should increase the recovery rate for overpayment amounts.

3. Lack of signatures and approval -

OPM agrees with this finding. There were instances where OPM staff did not sign that the claims for reimbursement were reviewed and where applications were not signed by the taxpayer or assessor. OPM staff have been made aware that all applications must be complete prior to audit by OPM staff and of the importance of filling in the review section on all claims after the review is complete.

4. Incomplete records -

OPM agrees with this finding. OPM staff have been instructed to ensure that all applications are completed by the assessor before their audit is performed. “

## **Reconciliation of Grantee Expenditures and Single Audits**

*Background:*

1. Single audits – The Single Audit Act of 1984 requires non-federal entities that expend \$500,000 or more in a year in federal awards to have a single or program audit conducted for such year. Similarly, the State Single Audit Act established by Chapter 55b of the General Statutes requires non-state entities that expend \$300,000 or more in a year in state financial assistance to have a single or program audit conducted for such year.

2. OPM as granting agency – During the two-year audited period, OPM awarded over \$500 million in federal and state funding to more than 300 state agencies, local governments, and non-governmental organizations. OPM is responsible for monitoring such awards and ensuring that the expenditures reported by grantees are accurate, supported, and in compliance with program requirements. To do this, OPM reconciles grantees' periodic financial reports to the federal and state single audits certified by independent auditors. It is crucial for expenditures to be verified because they are heavily relied upon by OPM and the federal government for monitoring compliance and awarding future grants.

*Criteria:*

A key internal control over grant expenditures is to verify that expenditures reported to the state reconcile to grantees' financial records and to federal and state single audit reports certified by independent auditors.

*Condition:*

We reviewed 20 criminal justice grants, 24 grants to municipalities, and 10 energy grants totaling \$7,822,569 and could not sufficiently verify that grantee expenditures were accurately reported or in compliance with program requirements because of the following deficiencies in the agency's internal controls.

1. Inadequate reconciliations – Inadequate reconciliations were performed for 13 grants totaling \$1,511,894.

a. We noted six instances in which expenditures reported in periodic financial reports did not agree with expenditures reported in single audit reports. The variances totaled \$860,839 and ranged from \$58 to \$807,782. While the variances may be justified, there was no documentation on file to support the causes, nor was there evidence that the agency took action to resolve the discrepancies.

b. While OPM performed reconciliations for two grants and found variances totaling \$239,965, the discrepancies noted were not satisfactorily resolved.

For the first grant, OPM found variances totaling \$182,240 in federal and state expenditures. The grantee informed OPM that they met with their auditors and the discrepancies were resolved through \$167,515 of adjustments. However, the grantee did not provide any documentation supporting the adjustments, nor was there evidence that the adjustments were certified by an independent auditor. Also, we noted that for another state program, the grantee was cited two years in a row because the quarterly financial reports filed with the state did not reconcile to the grantee's general ledger. Given these factors, it appears that further explanation and documentation are required for a sound resolution.

For the second grant, OPM worked with the grantee to reconcile \$57,725 in variances and was left with a net variance of \$335, which was accepted by OPM as a sufficient resolution. However, upon further examination, we noted that the following issues were left unresolved by the agency.

i.) Quarterly financial reports filed with OPM overstated federal expenditures by \$19,072 and understated state expenditures by \$18,737, which resulted in a net overstatement of \$335.

ii.) OPM was owed a \$335 refund from the grantee, which was never invoiced or collected by OPM.

iii.) The grantee was not in compliance with the matching requirements of the grant. Grant expenditures were required to be split 75 percent federal and 25 percent state, but were instead split 70 percent federal and 30 percent state.

c. OPM could not reconcile the state single audit reports for one grantee receiving \$638,722 in state funding because the grantee's year-end of August 31st does not correspond with the quarterly financial reports filed with OPM. We note that no additional information was requested from the grantee in an attempt to reconcile the reports.

d. Five grants totaling \$170,155 were inaccurately reported in single audit reports. We noted one instance in which an OPM grant was reported under another state agency, two instances in which a grant was omitted from a single audit report, and two instances in which expenditures for multiple state programs were combined and reported under one state program.

2. Lack of reconciliations – Agency reconciliations of grant expenditures for 12 grants totaling \$1,697,175 were unavailable during our review. The grantees were exempt from the state single audit since expenditures were less than \$300,000. In testing such grants, we noted one state agency overstated federal expenditures by \$20,099; the overstatement was not identified by the agency.

*Effect:* When grantee expenditures are not adequately or timely reconciled to single audits and other financial records, there is an increased risk that errors will go unnoticed and that unspent or improperly spent funds will not be identified and recovered by the state.

*Cause:* 1. Inadequate reconciliations – OPM had one employee reconciling all federal and state single audits to the financial records maintained by the agency. It appears that OPM does not have the resources or staffing required to perform adequate and timely reconciliations. Also, we noted that the agency does not have any formal procedures in place dictating what records should be obtained for different types and levels of discrepancies identified and what constitutes a satisfactory resolution.

2. Lack of reconciliations – The cause was not determined.

*Recommendation:* The Office of Policy and Management needs to improve its processes for reconciling grant expenditures to grantee financial and audit reports (See Recommendation 3.)

*Agency Response:* “OPM agrees in part with this finding.

Cause 1 – As noted, there is one employee reconciling all federal and state single audits to grantee expenditure reports and this employee was out on leave for five months which created a backlog in reconciliations. As a result of this backlog, all samplings performed by the Auditors of Public Accounts for fiscal year 2012 were reviewed prior to OPM’s review of these records. Additionally, OPM was not able to reconcile the energy grants due to the legislative transfer of energy policy and planning from OPM to the Department of Energy and Environmental Protection. OPM made numerous unsuccessful attempts to obtain the required records to complete its reconciliation. OPM acknowledges that not all reconciliations were documented. Going forward, staff have been directed to document all variances and to request and obtain supporting documentation. In many cases, although not documented, funds have been accounted for in subsequent reports and/or at the time the grant was closed. Furthermore, as recommended, formal procedures will be developed stating what

records should be obtained for different types and levels of discrepancies and what constitutes a satisfactory resolution.

Cause 2 – OPM does have procedures in place to ensure the validity of expenditures for non-profit and municipal grantees that are not required to file single audit reports. A letter is sent to the grantee requesting confirmation of their exemption from State/Federal Single Audit and also requests expenditure information and a copy of an audit report if a financial audit was performed during the applicable fiscal year. Grant expenditures are then reconciled with the grantee financial and audit reports.”

### **Personal Service Agreements**

*Criteria:* The Department of Administrative Services maintains a portal on its website called the State Contracting Portal for the posting of all bids, requests for proposals and all resulting contracts and agreements. The postings are required for all executive branch agencies under Governor Rell’s Executive Order Number 3, effective December 15, 2004.

OPM’s procurement standards for personal service agreements require that a project file must be established once a contract has been approved. The project file should be detailed enough to enable someone with no knowledge of the process to construct an accurate account of what occurred. The file should include an evaluation plan that provides step-by-step procedures to be used by the evaluation team for reviewing a contract proposal.

*Condition:* Our test check of 15 personal services agreements showed that three agreements were not posted to the State Contracting Portal. We also noted two personal service agreements did not have a project file and there were eight project files that did not have the required evaluation plan.

*Effect:* The lack of posting agreements in accordance with an executive order denies public access and awareness to such information. The lack of a project file lessens the assurance that the contract was properly managed. The lack of an evaluation plan lessens the assurance that proper guidelines were followed for evaluating and approving contract proposals.

*Cause:* It appears that the initial requests for proposal were posted to the State Contracting Portal but were removed after the contract was approved with no subsequent posting of the contract. Regarding the lack of project files and evaluation plans, the agency did not

consider it necessary to maintain documentation for smaller sole source contracts.

*Recommendation:* The Office of Policy and Management should comply with the executive order regarding the posting of contracts and comply with its standards for personal service agreement documentation. (See Recommendation 4.)

*Agency Response:* “In accordance with Governor Rell’s Executive Order No. 3, it is OPM’s policy to post all personal service agreements resulting from a request for proposals (RFP) to the State Contracting Portal (Portal). OPM cannot explain why there are three missing contracts other than it was an oversight or two of the three may not have been transferred when the Portal was upgraded in 2008.

It should be noted that one of the features of the Portal is to automatically remove an RFP immediately following the RFP deadline; state agencies are not authorized to remove an RFP from the Portal. Another feature of the Portal is to automatically send reminders to a state agency if the results of an RFP are not posted within a certain time period following the RFP deadline. In addition to this valuable feature, OPM will continue to use its checklist to ensure contracts resulting from an RFP are posted to the Portal.

Moving forward, staff will be reminded of their responsibility to maintain a project file for all contracts and an evaluation plan upon commencement of an RFP. Regarding the finding that two contracts did not have a project file, it was incorrectly communicated to an Auditor that a project file did not exist for one of these contracts. It was also misinterpreted that OPM does not consider it necessary to maintain documentation for smaller sole source contracts. While a copy of the contents of a sole source contract are most likely also in the contractor file maintained by the Business Office, OPM requires a project file be maintained for all contracts.”

## **Property Control**

*Criteria:* The State Property Control Manual requires inventory to be kept on a current basis with accurate, detailed recordkeeping

*Condition:* Our current review continued to show that property control records for Rentschler Field were insufficient. A sample of 26 assets belonging to Rentschler Field found that 25, or 96 percent of the assets, were either insufficiently recorded in Core-CT or missing

elements such as identifying the manufacturer, model or serial number. A further review of property control records revealed that 331 of the 386 Rentschler Field assets, as of June 30, 2012, were not recorded with adequate identifying information, such as a manufacturer, model, or serial number. This represents \$2,652,417.34, or 96 percent, of Rentschler Field's total assets value of \$2,780,857 as of June 30, 2012.

*Effect:* The lack of complete property records increases the risk of undetected losses to the state.

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

*Recommendation:* The Office of Policy and Management should improve the efficiency of its property control records for Rentschler Field. (See Recommendation 5.)

*Agency Response:* "OPM agrees in part with this finding and has directed the Capital Region Development Authority (the State quasi-public agency now responsible for operation of Rentschler Field) and Global Spectrum (the new Rentschler Field manager) to update the inventory records to include this missing information by the end of fiscal year 2014. In September 2011, OPM implemented a change in procedure to capture this information in a timely manner for all new items. Thus, complete information has been provided in a timely manner since this time and will continue to be provided for new items added to the inventory."

### **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 Office of the State Comptroller 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 System more difficult because the provisions are fragmented throughout the various documents. In order to ascertain whether 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. The parties, through the Office of the State Comptroller, utilized a law firm to perform this work. The law firm, however, was unable to complete its work and has since resigned. Subsequently, the Retirement Commission has gone out for an RFP to engage another law firm to complete this work.
- Recommendation:* The Office of Policy and Management should continue its efforts to ensure the timely codification of the SEBAC agreements. (See Recommendation 6.)
- Agency Response:* “OPM agrees with this finding and will continue its efforts to ensure timely codification of the SEBAC agreements.”

## RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2009 and 2010 contained a total of eight recommendations, of which five have been implemented, satisfied, or otherwise resolved. The recommendations contained in the prior report are presented below.

*Status of Prior Audit Recommendations:*

- OPM should seek to remove any statutory reporting requirements that are no longer cost effective and/or outdated. This recommendation has been resolved.
- OPM needs to improve its oversight of grant processing and payments. This recommendation has been expanded to three separate recommendations. (See Recommendations 1, 2 and 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. We are not repeating this recommendation since we have found sufficient improvement.
- OPM should establish procedures with the Auditors of Public Accounts for reporting substandard audits. The agency has complied with this recommendation.
- 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. The agency has sufficiently resolved this recommendation.
- OPM should improve the efficiency of its property control records for Rentschler Field and controllable items. OPM has resolved the issue regarding controllable items. The recommendation is repeated for Rentschler Field property control records. (See Recommendation 4.)
- 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 efforts and sharing information with the University of Connecticut. This recommendation has been withdrawn in consideration of the current lack of resources to implement.
- OPM should continue its efforts to ensure the timely codification of the SEBAC agreements. This recommendation will be repeated. (See Recommendation 6.)

*Current Audit Recommendations:*

- 1. The Office of Policy and Management needs to improve its oversight over criminal justice grant processing and payments.**

Comment:

Our review found issues with late and unsigned quarterly reports; questionable cash management practices; untimely grant closeouts; unsupported grant extensions, matches and budgets; and improper receipt dates.

- 2. The Office of Policy and Management should ensure intergovernmental grant program and records retention requirements are clearly communicated and properly implemented by municipalities and agency personnel.**

Comment:

Our review found a lack of records retention for numerous tax relief and renters' rebate transactions. We also found instances in which such transactions were supported by late, incomplete and/or unsigned applications and program documentation. Our examination revealed insufficient internal controls over "double dippers," with a significant increase in individuals receiving payments from both the renters' and homeowners' rebate programs during the audited period.

- 3. The Office of Policy and Management needs to improve its processes for reconciling grant expenditures to grantee financial and audit reports**

Comment:

Our review found numerous instances of deficiencies in the reconciliation of grant payments to grantee financial and audit reports.

- 4. The Office of Policy and Management should comply with both the executive order regarding the posting of contracts and its standards for personal service agreement documentation.**

Comment:

We found a lack of complete compliance with Governor Rell's Executive Order Number 3 regarding the posting of contracts on the Department of Administrative Services State Contracting Portal. We also noted cases in which OPM did not have the required project file and evaluation plans for personal service agreements.

**5. The Office of Policy and Management should improve the efficiency of its property control records for Rentschler Field.**

Comment:

Our review showed that property control records for Rentschler Field were mostly insufficient to identify the items listed.

**6. 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 System 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, 2011 and 2012. This audit was primarily limited to performing tests of OPM's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of OPM's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to OPM are complied with, (2) the financial transactions of OPM are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of OPM are safeguarded against loss or unauthorized use. The financial statement audits of OPM for the fiscal years ended June 30, 2011 and 2012 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 OPM 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 OPM 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 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 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 OPM's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of 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 noncompliance 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 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 1-Criminal justice grants, 2- Intergovernmental grants, 3- Reconciling grantee expenditures to financial and audit reports and 5-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 OPM 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.

OPM'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 OPM's response and, accordingly, we express no opinion on it.

The report is intended for the information and use of OPM 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