

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF POLICY AND MANAGEMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014*

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

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September 15, 2015

AUDITORS' REPORT OFFICE OF POLICY AND MANAGEMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014

We have audited certain operations of the Office of Policy and Management (OPM) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2013 and 2014. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the office's management and was not subjected to the procedures applied in our audit of the office. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. No need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Office of Policy and Management.

COMMENTS

FOREWORD

The Office of Policy and Management operates primarily, under Title 4, Chapter 50, and Title 16a, Chapters 295 through Chapters 298, of the General Statutes. The department head, the secretary of the Office of Policy and Management, is appointed by the Governor. OPM's statutory authority is broad and serves as a centralized management and planning agency for the state. 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 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.

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 tax-related grants to towns, including reimbursing towns for various tax relief programs (elderly homeowners, veterans, and the totally disabled). Section 12-170h of the General Statutes provides OPM with the power to "enforce the provisions and make all necessary regulations for carrying out, enforcing, and preventing violations of all or any of the provisions regarding property tax relief for elderly homeowners, renters and persons with permanent total disability."

OPM is also responsible for various oversight and control functions, including the following:

- The preparation and implementation of the state budget – 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 – Sections 4-205 through 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 – 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 Sections 5-270 through 5-280 of the General Statutes, the Governor has designated OLR to act as the representative of the state.
- The provisions of 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)

Benjamin Barnes was appointed secretary of the Office of Policy and Management on January 5, 2011 and continued to serve in that position through the audited period.

Criminal Justice Information System Governing Board

The Criminal Justice Information System (CJIS) Governing Board operates under Section 54-142q of the General Statutes and is under OPM for administrative purposes only. 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. An executive director, hired by the board, is responsible for overseeing the design and implementation of the CJIS system which will improve communication and sharing of information between the agencies with criminal justice responsibilities.

Statutory board members as of June 30, 2014 were:

- Michael Lawlor, Undersecretary, Criminal Justice, OPM, Co-Chairperson
- Patrick L. Carroll, III, Chief Court Administrator, Judicial Branch, Co-Chairperson
- Kevin T. Kane, Chief State's Attorney
- Donald J. DeFronzo, Commissioner, Department of Administrative Services
- Susan O. Storey, Chief Public Defender
- James Dzurenda, Commissioner, Department of Correction
- Melody Currey, Commissioner, Motor Vehicles
- Garvin Ambrose, Office of Victim Advocate
- Carleton Giles, Chairperson, Board of Pardons and Parole
- Dr. Dora Schriro, Commissioner, Department of Emergency Services and Public Protection
- Jack Daly, President, Connecticut Police Chiefs Association
- John Kissel, Senator
- Eric Coleman, Senator
- Gerald M. Fox, Representative
- Rosa Rebimbas, Representative

Finance Advisory Committee

The Finance Advisory Committee (FAC) is authorized under Section 4-93 of the General Statutes and consists of the Governor, Lieutenant Governor, State Treasurer, State Comptroller, two Senate members, and three House members of the Appropriations Committee. The senators are appointed by the president pro tempore of the Senate and must be of different political parties. The speaker of the House appoints the representatives and no more than two of the three representatives can be of the same party. Those legislative leaders also appoint alternate members to serve in the appointees' absence. The legislative members are appointed upon the convening of the General Assembly in each odd-numbered year and 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, 2014 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 Beth Bye
 Senator Robert J. Kane
 Representative Craig Miner
 Representative Toni Walker
 Representative Mae Flexer

Alternate

Senator Terry Gerratana
 Senator John McKinney
 Representative Lawrence Cafero
 Representative Catherine Abercrombie

The deputy secretary of the Office of Policy and Management serves as clerk and the executive budget officer of the Budget and Financial Management Division serves as assistant clerk. There was one vacant alternate member position as of June 30, 2014.

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 \$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

	2011-2012	2012-2013	2013-2014
Casino Gaming Receipts:			
Mashantucket Gaming	\$166,386,107	\$140,892,088	\$132,318,143
Mohegan Gaming	179,241,312	159,227,049	149,882,921
Total Casino Gaming Receipts	345,627,419	300,119,137	282,201,064
Recoveries – Negotiated Settlements	-	-	11,021,621
Economic Transition Charge	14,994,588	-	-
Refunds of Grants & Other Expenditures	43,414	1,169,489	47,422
Other Refunds	-	(2,553,465)	-
All Other Receipts	1,574	1,467	3,026
Total Revenues	\$360,666,995	\$298,736,628	\$293,273,133

Expenditures

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Personal Services	\$10,783,953	\$10,726,313	\$10,689,192
Other Expenses	717,619	1,209,212	1,181,413
Special Program or Project	2,952,648	2,372,584	5,612,023
Aid to Other than Local Government	23,795,835	25,014,656	-
Aid to Local Government	225,014,039	219,005,288	223,938,852
Total Expenditures	<u>\$263,264,094</u>	<u>\$258,328,053</u>	<u>\$241,421,480</u>

The majority of OPM’s revenues are from casino gaming, and although these receipts are credited to OPM, they are processed by the Department of Consumer Protection. A substantial portion of these funds were transferred into the Mashantucket Pequot and Mohegan Fund and used for grants to towns.

There was a large increase in revenue for recoveries for the 2013-2014 fiscal year due to the receipt of a litigation settlement payment related to construction problems at the University of Connecticut Law Library. The decrease in revenue in the 2012-2013 fiscal year can be attributed to the conclusion of the economic transition charge that was assessed to Connecticut Light and Power customers to assist in balancing the state budget in accordance with Public Act 10-179. Revenue previously collected for this program was also refunded under the “other refunds” classification.

The large increase in the Special Program or Project classification in the 2013-2014 fiscal year was attributed to a \$3,500,000 appropriation for the Youth Services Prevention Program. Also for the 2013-2014 fiscal year, Public Act 13-234 transferred the Elderly Renters’ Tax Relief Program from OPM to the Department of Housing, which eliminated expenditures in the Aid to Other Than Local Government classification. Section 49 of Public Act 14-217 transferred the program back to OPM.

Public Act 12-147, renamed the former Capital City Economic Development Authority (CCEDA) as the Capital Region Development Authority (CRDA) and established it as a quasi-public agency with its own appropriation rather than operating through OPM. The change initially reduced Aid to Local Government for the 2012-2013 fiscal year, which was then offset by an increase due to Public Act 13-247, which established the Municipal Aid Adjustment Grant Program in the amount of \$4,467,456 for the 2013-2014 fiscal year.

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	2011-2012	2012-2013	2013-2014
Tobacco Settlement (12037)	\$127,555	\$121,434	\$126,530
Federal & Other Restricted (12060):			
Sales & Use Taxes:			
General Sales & Use Tax	46,764,370	59,350,474	1,676,834
Real Estate Conveyance Tax	25,210,645	39,677,888	-
Room Occupancy & Sales Tax	5,484,662	6,883,012	6,980,751
Other Use Taxes	520,053	862,811	21
Total Sales & Use Taxes	<u>77,979,730</u>	<u>106,774,185</u>	<u>8,657,606</u>
Federal Restricted Contributions	8,700,175	13,688,347	10,385,707
Federal Aid – Miscellaneous	-	-	1,081,306
Interest Income	21,416	17,713	10,483
Non-Federal Restricted Contributions	5,043,894	1,540,023	43,540
Grant Transfer Federal Grant – Restricted	-	-	(21,169,535)
Restricted Aid not Grant Transfer			2,820,000
Total Federal & Other Restricted	<u>91,745,215</u>	<u>122,020,268</u>	<u>1,829,107</u>
Total Revenues	<u>\$91,872,770</u>	<u>\$122,141,702</u>	<u>\$1,955,637</u>

Expenditures	2011-2012	2012-2013	2013-2014
Insurance Fund (12004)	\$340,939	\$342,319	\$383,789
Mashantucket & Mohegan (12009)	61,678,907	61,680,907	61,670,907
Grants – Tax Exempt Proceeds (12021)	66,225	-	-
Local Capital Improvements (12050)	37,895,399	19,614,144	25,005,587
Capital Equipment Purchase Fund (12051)	9,309	12,000	324,385
Small Town Economic Assistance			
Program (STEAP) – Grants (12052)	489,288	12,893,606	62,327,179
Htfd Downtown Redevelopment (12059)	226,071	(333)	175,299
Federal & Other Restricted (12060):			
Federal Restricted Contributions	14,082,541	16,356,507	10,916,979
Non-Federal Restricted Contributions	38,459,720	98,188,740	50,816,072
Total Federal & Other Restricted	<u>52,542,261</u>	<u>114,545,247</u>	<u>61,733,051</u>
Community Conservation & Development (13019)	9,928	15,696	-
Capital Improvements & Other Purposes (17000's)	7,032,184	7,507,176	7,728,936
Stadium Facility Fund (21019)	286,994	220,670	465,225
Total Expenditures	<u>\$160,577,505</u>	<u>\$216,831,432</u>	<u>\$219,814,358</u>

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 \$123,745,518 and \$197,139,187 for the 2012-2013 and 2013-2014 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 \$123,628,064 and \$197,018,939, for the 2012-2013 and 2013-2014 fiscal years, respectively.

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.

The fund expenditures totaled \$61,680,907 and \$61,670,907 for the 2012-2013 and 2013-2014 fiscal years, respectively.

Local Capital Improvement Program

The Local Capital Improvement Program (LoCIP) Fund operates under Sections 7-535 through 7-538 of the General Statutes and is financed through state bond proceeds. 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.

Public Act 13-184 expanded the list of eligible projects to include the establishment of bikeways and greenways, land acquisition, acquisition of technology related to implementation of the Department of Education's common core state standards, technology upgrades, and, for the fiscal years ended June 30, 2013 and 2014, acquisition of snow removal equipment, capital expenditures made to improve public safety, and capital expenditures made to facilitate regional cooperation. 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.

Small Town Economic Assistance Program (STEAP)

The Small Town Economic Assistance Program (STEAP) was established under Section 4-66g of the General Statutes to provide grants-in-aid to any municipality or group of municipalities. The statutes provide guidelines on each municipality's eligibility. Expenditures increased dramatically in the 2013-2014 fiscal year due to the authorization of funds in the

amount of \$50,000,000 to assist the Town of Newtown in the construction of the new Sandy Hook elementary school in accordance with Public Act 13-239, Section 13(a)(2).

Federal and Other Restricted Accounts

The large decrease in fund revenues for the 2013-2014 fiscal year was attributed to the repeal of Section 12-494a of the General Statutes, effective July 1, 2013, which allocated a portion of several sales and use taxes and real estate conveyance taxes to the Municipal Revenue Sharing Account (MRSA). This account was created to provide manufacturing transition grants to municipalities. Public Act 13-184, Sections 77 and 78, eliminated deposit of the taxes collected. This public act also eliminated deposits to the Municipal Video Competition Account for the 2013-2014 and 2014-2015 fiscal years, which distributed the taxes collected from certified competitive video service providers as property tax relief to municipalities.

The expenditure increases and decreases during the audited period can primarily be attributed to the MRSA grant payments, which fluctuate with the amount of taxes collected.

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 \$7,507,176 and \$7,728,936 for the 2012-2013 and 2013-2014 fiscal years, respectively. Expenditures were primarily for the development of a criminal justice information system and parking improvements at Rentschler Field in East Hartford. OPM also initiated a new project called the State Analytical Reporting System (STARS), which will provide the state with advanced analytical and reporting capabilities, enhance decision making, and allow the state to integrate results based accountability and key performance indicators into the biennial budget process.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

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

Medical Leave

Criteria: Family and Medical Leave Act (FMLA) guidelines require that specific forms be on file to substantiate an employee's FMLA leave. The guidelines also provide timelines for the completion of such forms.

Section 5-247-11 of the Regulations of Connecticut State Agencies requires that an acceptable medical certificate shall be submitted to substantiate any duration of absence from duty if it recurs frequently or habitually.

Condition: Adequate documentation was not on file to support nine of the 12 medical leaves of absence reviewed.

- Eight absences charged to FMLA were not supported by the required forms; eight were missing Form HR2a (Agency Responsible Notice of Eligibility), seven were missing Form HR2b (Agency Response – Designation Notice), and seven were missing Form HR3 (Intent to Return to Work).
- One employee charged a total of 212 hours of sick leave on 65 separate occasions over a six-month period and was not required to submit documentation to justify the frequent absences.

Effect: Employee absences and leave approved under the Family Medical Leave Act were not adequately supported.

Cause: The employee responsible for monitoring sick leave during the audited period resigned; therefore, we were unable to determine why required FMLA forms were not completed. The agency did not require medical documentation from the employee using routine sick leave because it was not more than five consecutive days and the employee's supervisor was aware of the situation causing the absence.

Recommendation: The Office of Policy and Management should maintain adequate documentation to ensure that absences are supported in accordance

with FMLA guidelines and state personnel regulations. (See Recommendation 1.)

Agency Response: “OPM agrees in part with this finding. For the first finding, eight of the absences were charged to FMLA. Form HR2c – Core-CT Coding was on file for these eight absences. Although forms HR2a (which informs an employee of their eligibility for FMLA) and HR2b (which informs an employee if their leave qualifies) may not have been on file for these eight absences, Form HR2c – Core-CT Coding was approved and on file, in essence stating that the employee was eligible for FMLA and that the leave qualified for FMLA. We agree with the finding that form HR3 was not on file for the absences referenced above. As noted above in the Cause section, the employee who processed the FMLA approvals during the audited period is no longer employed at OPM and it is the practice of the new Human Resources representative to complete all the required forms.

The second finding regarding the employee with 212 hours of sick leave is not a violation of OPM or state policy. The supervisor was aware of the situation surrounding the employee’s absences, did not feel that the use was being abused or was excessive, and because the absence was not more than five consecutive days, the employee was not required to submit a medical certificate.”

Criminal Justice Grants

Criteria: 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. Final reports are a necessary part of the grant closeout process, as they are needed to reconcile payments made to the grantee.

Condition: We reviewed 31 quarterly financial and progress reports from the audited period and found issues with 17 (55 percent). We were unable to determine the timeliness of 14 reports, as they were lacking date stamps. In addition, two final reports were not signed by the grantee and two were not on file.

Effect: 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.

Cause: It appears that the above mentioned conditions were mainly due to managerial oversight and limited staffing and resources.

Recommendation: The Office of Policy and Management should improve its oversight over criminal justice grant processing. (See Recommendation 2.)

Agency Response: “OPM agrees in part with this finding. Quarterly report submissions should have a name and date associated with the submission. Virtually all quarterly reporting materials are submitted via e-mail, which include the name of the person submitting the quarterly reports on behalf of the organization, the organization submitting the form, the date and time of the e-mail transmission. These transmission e-mails may or may not become part of the sub-grantee grant file.

To improve its oversight of criminal justice grants, during fiscal year 2015, OPM implemented an on-line, life cycle grants management system (known as GRANTIUM) which is being configured to address these fundamental submission requirements. Moving forward, all quarterly report submissions processed through GRANTIUM will **automatically** assign the name of the (secure, password protected) registered sub-grantee user submitting the information and the date of submission and the name of the OPM staff person approving the quarterly report and the date of acceptance/approval.”

Intergovernmental Grants and Programs

Background: 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.

In addition, 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.

Criteria:

1. Renters’ Rebate Documentation – In accordance with Section 12-170f of the General Statutes, applicants for the Renters’ Rebate Program are required to provide evidence to substantiate rebate claims. OPM requires applications and all supporting documentation to be held by the municipality for three years plus the application year.

2. Agency Examination & Approval – The agency’s internal controls require program staff to conduct an examination of each municipal claim to ensure accuracy, completeness, and compliance with program requirements. Upon completion of the examination, the examiner signs and dates the claim and records the amount approved for payment. Adjustments to claims should be substantiated and adequately documented.

3. Altered Applications – Applications for tax relief programs must be filed by individual taxpayers within the timeframe specified by the General Statutes. Municipalities must then submit the applications along with their claims to OPM for processing.

Condition:

1. Renters’ Rebate Documentation – Documentation was missing for six of ten renters’ rebates; one municipality could not locate two applications; and no evidence was on file to support the rent and utilities paid for four applications. The six renters’ rebates totaled \$3,918.

2. Agency Examination & Approval – For one tax relief payment totaling \$13,934, we could not verify that the amount paid was accurate, supported, or approved due to an inadequate examination by OPM program staff. We noted the following issues during our review.

- It was noted by the examiner that there were 39 missing applications and that four applicants did not qualify for the program. There was no evidence to support that these issues were ever resolved prior to payment.
- It is unclear whether the claim was timely because the applications were received on July 23rd and the claim was received on August 8th. The timeliness of the claim was never noted by the examiner, even though claims are due by August 1st.
- OPM program staff did not sign and approve the claim for payment.

3. Altered Applications – For the aforementioned tax relief payment totaling \$13,934, we could not verify that the applications were valid or submitted in a timely manner. It appears that the municipality covered the application dates, made copies of the applications, and then submitted the copied applications to OPM. When we requested a sample of five original applications, the municipality informed us that it was unable to locate the

applications or any of the supporting documentation. We note that there was no evidence that OPM program staff ever questioned the validity of the applications.

Effect: The lack of valid documentation and the inadequate examination of claims may result in overstated renters' rebates and tax relief payments.

Cause: Renters' Rebate Program – Municipalities did not maintain renters' rebate applications in accordance with instructions from OPM.

Tax Relief Programs – There appears to be a lack of oversight by OPM program staff when examining and approving tax relief claims for reimbursement.

Recommendation: The Office of Policy and Management should clearly communicate the records retention requirements for the Renters' Rebate Program to municipalities and internal controls over the examination of tax relief claims should be strengthened to ensure claims are accurate, complete, and in compliance with program requirements. (See Recommendation 3.)

Agency Response: "1. Renters Rebate Documentation:

OPM agrees in part with this finding. Although OPM requests that municipalities keep renters rebate documentation for three years, the Municipal Records Retention Schedule only requires records be retained for "2 years from date of application." OPM's Intergovernmental Policy Division (IGP) staff has been working with staff from State Library's Office of the Public Records Administrator to revise the Municipal Schedule to reflect the IGP retention schedule for grant programs which states "3 years from end of state fiscal year or until audited, whichever is later."

2. Agency Examination & Approval:

OPM agrees with this finding. OPM staff continues to request information from municipalities who have submitted incomplete applications and to ensure that incomplete applications are not approved. Staff has been instructed to keep all correspondence with individual municipal claims and to complete the OPM portion of the claim when each audit has been completed.

3. Altered Applications:

OPM agrees with this finding. Although staff did e-mail the assessor notifying him that the claim was not filed timely and that applications needed to be resubmitted, it appears that there was no follow up. OPM supervisors have been working with staff to ensure they understand the program requirements and to request completed applications from each municipality prior to claim approval.”

Reconciliation of Grantee Expenditures and Single Audits

Background:

Single Audits – The Single Audit Act of 1984 requires all non-federal entities that expend \$500,000 or more in a year in federal awards to have a single or program audit 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.

OPM as a Granting Agency – During the two-year audit period, OPM awarded over \$400 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 the grantee are accurate, adequately supported, and in compliance with program requirements. In order to accomplish this, OPM reconciles periodic grantee financial reports to the federal and state single audits certified by independent auditors. It is crucial for expenditures to be verified because OPM and the federal government rely on them for monitoring compliance and awarding future grants.

Criteria:

Grant expenditure reconciliations between grantee financial records and certified state and federal single audits represent a key mechanism in ensuring appropriate agency oversight and control.

Condition:

We reviewed 30 reconciliations for criminal justice grants, tax relief programs, and grants to municipalities and local governments, and noted that six were not adequately reconciled. Evidence documenting that the agency verified and agreed with the grantee’s explanation of variances was lacking. We also found reconciliations were not performed timely and were reconciled to Core-CT grant payments rather than grantee expenditure reports.

- Effect:* When reconciliations are not properly completed, there is an increased risk that errors will go unnoticed. This reduces the agency's ability to recover unspent funds or those used inappropriately.
- Cause:* Due to staffing issues, the agency was behind in completing the necessary grant reconciliations. The agency also used payment amounts in Core-CT to reconcile to the grantee's single audit rather than what was actually expended according to the grantee reports. Lastly, the agency did not document whether it reviewed and was in agreement with grantee explanations of identified variances.
- Recommendation:* The Office of Policy and Management should perform grant reconciliations timely and should reconcile amounts reported by the grantee as expended to the single audit reports. The reconciliation process should be well documented and should include evidence that the agency reviewed and is in agreement with variance explanations provided by the grantee. (See Recommendation 4.)
- Agency Response:* "OPM agrees with this finding and has implemented a schedule to complete the outstanding reconciliations and to be current with future reconciliations. In addition, the reconciliation process will be updated to include a procedure to properly document the reconciliations."

Personal Service Agreements

- Background:* Section 4-217 subsection (a) of the General Statutes requires OPM to establish standards for state agencies to follow when entering into personal service agreements. OPM's finance division oversees the state's personal service agreements and publishes state procurement standards, as required by state statute. We note that when OPM enters into a personal service agreement, the state procurement standards for personal service agreements must be adhered to in the same manner as any other state agency.
- Criteria:*
1. Agency Procedures – According to Section 4-217 subsection (b) of the General Statutes, each agency must establish written procedures implementing the state's procurement standards for personal service agreements. Proper internal control dictates that formal written procedures should be established, maintained, and disseminated to provide guidance to employees in the performance of their duties.

2. Contractor Selection – According to Section 4-217 subsection (c) of the General Statutes, each state agency competitively procuring a personal service agreement must establish a screening committee to evaluate the proposals. The screening committee must then submit the top three proposers to the executive head of the agency, who shall select the personal service contractor from among such names.

3. Timely Approvals – According to state procurement standards for personal service agreements, when a contract has an anticipated cost of more than \$50,000 or an anticipated term of more than one year, an agency must obtain prior approval from OPM before a request for proposal can be released. When a state agency intends to make a sole source procurement and the anticipated cost or term of the contract exceeds \$20,000, or exceeds one year, the agency must obtain prior approval for a waiver from competitive solicitation. The waiver request should be submitted to OPM at least one month before the anticipated start date of the contract and must be approved before discussions can be held with any potential contractor.

4. Contractor Evaluations – According to state procurement standards for personal service agreements, a contractor evaluation form must be completed no later than 60 days after a contractor has completed work on the contract.

Condition:

1. Agency Procedures – We noted that the agency’s personal service agreement procedures were last updated in 2008 and contained numerous outdated components. It appears that the administration division is meeting individually with agency staff to inform them of the agency’s current procurement procedures.

2. Contractor Selection – For three of the six competitive personal service agreements tested, we noted there was no evidence that the top three proposals were selected by the screening committee and submitted to the OPM Secretary for final selection. The value of the three personal service agreements totaled \$982,458.

3. Timely Approvals – We noted that for two of the ten personal service agreements tested, the agency did not obtain the required approvals in a timely manner. For one agreement, valued at \$765,000, the required approval was obtained six months after the request for proposal was released and two weeks after the contract was executed. For another agreement, valued at \$448,709, the approval for a waiver from competitive solicitation was obtained three weeks after the contract was executed.

4. Contractor Evaluations – Contractor evaluation forms for two personal service agreements were not properly completed. One evaluation was completed approximately one month late and there was no evidence that the other evaluation was ever completed.

Effect:

1. Agency Procedures – Outdated personal service agreement procedures increase the risk of noncompliance with state procurement standards and may diminish the efficiency of functions performed by the agency’s staff.

2. Contractor Selection – By not properly evaluating proposals and submitting the top three proposals to the OPM Secretary for final selection, the agency was not in compliance with Section 4-217 subsection (c) of the General Statutes.

3. Timely Approvals – The lack of timely approvals increases the risk of unauthorized state obligations to contractors.

4. Contractor Evaluations – It is difficult to determine whether a contractor is suitable for selection of future services if prior performance is not evaluated in a timely manner.

Cause:

Updating the agency’s personal service agreement procedures does not appear to be a high priority. Managerial oversight was the cause for the lack of documentation, approvals not being timely obtained, and contractor evaluations being overdue or not completed.

Recommendation:

The Office of Policy and Management should update its personal service agreement procedures to accurately reflect the current procurement process. In addition, the agency should strengthen its internal controls to ensure the required approvals are obtained, contractors are properly selected, and contractor evaluations are completed in accordance with state personal service agreement standards. (See Recommendation 5.)

Agency Response:

“OPM agrees with this finding:

1. Agency Procedures

OPM agrees its internal personal service agreement procedure needs to be updated. While the procedure needs to be updated to reflect changes in personnel, the phases of the contract development and execution process, and mandatory requirements are accurately reflected.

2. Contractor Selection

Although OPM staff does evaluate proposals and submit the top three proposers to the Secretary for final selection, it is evident that proper documentation has not been maintained in some cases to demonstrate compliance with Section 4-217 subsection (c) of the General Statutes. To strengthen its internal controls, during fiscal year 2015, OPM's procedures were updated to include completion of a project file checklist prior to execution of a personal service agreement. The checklist is completed by the contracting division and requires the division to certify all required documents are part of the project file.

3. Timely Approval

The lack of timely approval of two out of the ten tested personal service agreements was an oversight.

4. Contractor Evaluations

The contractor evaluation form is a requirement of the Office of Finance. To ensure OPM's evaluations are filed with the Office of Finance in a timely manner, OPM's Business Office implemented a procedure during fiscal year 2014 to follow-up with OPM employees responsible for contractor evaluations. Furthermore, OPM's Office of Finance is currently working to improve its statewide review process of contractor evaluations as a result of a recent program review."

Property Control

Criteria:

The State Property Control Manual requires that equipment and controllable items shall be tagged and inventory shall be kept on a current basis with accurate, detailed recordkeeping. OPM procedures require that the movement of items must be reported to the inventory control person so that changes can be recorded.

Condition:

We found issues with 20 out of 40 (50 percent), of the assets tested belonging to Rentschler Field.

- Two assets could not be located.
- Two assets were not tagged.
- Eight assets were tagged, but were not recorded in Core-CT.
- Four assets were missing identifying information in Core-CT.
- Four assets were found in locations other than what was recorded in Core-CT.

- 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 6.)
- Agency Response:* "OPM agrees with this finding. OPM recognizes the need to further educate Rentschler Field staff on their responsibilities for reporting asset changes and will provide Rentschler Field staff with a form to use for this purpose."

Reporting

- Criteria:* OPM is required to issue over 100 reports each year in accordance with various sections of the General Statutes.
- Condition:*
1. Three statutory reports were not prepared.
 - The annual report on the implementation status of transportation projects required by Section 13b-79z subsection (a) of the General Statutes was not prepared for the fiscal years ended June 30, 2013 and 2014.
 - The annual report concerning state budget goals, objectives, and measures required by Section 4-67m subsection (a) of the General Statutes was not prepared for the fiscal years ended June 30, 2013 and 2014.
 - The annual report on the operating and capital budget for the stadium facility required by Section 32-657 subsection (a) of the General Statutes was not prepared for the fiscal year ended June 30, 2014.
 2. Three statutory reports were prepared after the statutory due date.
 - The annual report of agency activities required by Section 4-60 of the General Statutes was submitted four and 25 days late for the fiscal years ended June 30, 2013 and 2014, respectively.

- The annual report on personal service agreements required by Section 4-218 subsection (a) of the General Statutes was submitted 43 and 36 days late for the fiscal years ended June 30, 2013 and 2014, respectively.
 - The annual report on the operating and capital budget for the stadium facility required by Section 32-657 subsection (a) of the General Statutes was submitted four months late for the fiscal year ended June 30, 2013.
3. The biannual report concerning the status of the design and implementation of the Criminal Justice Information System required by Section 54-142s subsection (h) of the General Statutes was only submitted once in the fiscal year ended June 30, 2014 and was submitted 106 days late.

Effect: Reports not being prepared in accordance with the General Statutes may prevent the distribution of information needed for informed decision-making by management and the legislature.

Cause: It appears that the issues noted were due to a lack of managerial oversight to ensure required reports were submitted timely.

Recommendation: The Office of Policy and Management should file reports in accordance with the General Statutes. (See Recommendation 7.)

Agency Response: “OPM agrees with this finding and will implement a procedure to ensure division staff is aware of their statutory reporting requirements and that such reports are filed in a timely manner.

In addition, OPM will undertake a review to assess the relevance of its statutory reports and will propose legislative changes to those reporting requirements determined to be irrelevant and/or obsolete.”

Codification of the Pension Agreement Changes

Criteria: In accordance with Sections 4-65a, 5-271 and 5-278 subsection (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, failed to complete its work and has since resigned. Subsequently, the retirement commission has issued a request for proposal 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 8.)

Agency Response: “OPM agrees with this finding and will continue its efforts to work with SEBAC and the Office of the State Comptroller to ensure timely codification of the SEBAC Agreements.”

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2011 and 2012 contained a total of six recommendations; all are being modified and repeated for the current audit to reflect the issues noted. The report also includes one additional recommendation for the current audited period, for a total of seven recommendations. The recommendations contained in the prior report are presented below.

Status of Prior Audit Recommendations:

- The Office of Policy and Management needs to improve its oversight over criminal justice grant processing and payments. Although some issues noted during the prior audit have improved, we continued to note issues regarding the lack of date stamps and missing signatures and reports. Therefore, this recommendation will be modified and repeated to reflect the current findings. (See Recommendation 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. This recommendation will be modified and repeated. (See Recommendation 3.)
- The Office of Policy and Management needs to improve its processes for reconciling grant expenditures to grantee financial and audit reports. We continued to find issues with the grant reconciliation process; therefore, this recommendation will be modified and repeated. (See Recommendation 4.)
- 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 documentation. The prior audit finding will be modified and repeated to reflect the current issues noted. (See Recommendation 5.)
- The Office of Policy and Management should improve the efficiency of its property control records for Rentschler Field. The recommendation will be repeated. (See Recommendation 6.)
- The Office of Policy and Management should continue its efforts to ensure the timely codification of the SEBAC agreements. This recommendation will be repeated. (See Recommendation 8.)

Current Audit Recommendations:

- 1. The Office of Policy and Management should maintain adequate documentation to ensure that absences are supported in accordance with FMLA guidelines and state personnel regulations.**

Comment:

Adequate documentation was not on file to support medical leave for ten out of twelve absences reviewed. We noted a lack of documentation to support FMLA leave and an employee's extended use of medical leave.

- 2. The Office of Policy and Management should improve its oversight over criminal justice grant processing.**

Comment:

We reviewed 31 quarterly financial and progress reports from the audited period and found various issues, including lack of date stamps, missing final reports and final reports that were not signed by the grantee.

- 3. The Office of Policy and Management should clearly communicate the records retention requirements for the Renters' Rebate Program to municipalities, and internal controls over the examination of tax relief claims should be strengthened to ensure claims are accurate, complete, and in compliance with program requirements.**

Comment:

Our review of renters' rebate payments and tax relief grant payments noted numerous deficiencies, including missing applications, lack of documentation supporting claims, altered applications, and inadequate oversight and review of claims.

- 4. The Office of Policy and Management should perform grant reconciliations timely and should reconcile amounts reported by the grantee as expended to the single audit reports. The reconciliation process should be well documented and should include evidence that the agency reviewed and is in agreement with variance explanations provided by the grantee.**

Comment:

We reviewed 30 reconciliations consisting of ten criminal justice grants, ten tax relief programs, and ten grants to municipalities and local governments. Our review noted issues in six instances, including untimely reconciliation, reconciling to Core-CT rather than to financial reports submitted by the grantee, and a lack of evidence to certify that the agency concurred with grantee explanations of identified variances.

- 5. The Office of Policy and Management should update its personal service agreement procedures to accurately reflect the current procurement process. In addition, the agency should strengthen its internal controls to ensure the required approvals are obtained, contractors are properly selected, and contractor evaluations are completed in accordance with state personal service agreement standards.**

Comment:

During our review of ten personal service agreements, we noted that the agency's personal service agreement procedures were outdated, there was a lack of evidence to support that the top three proposals were selected and submitted to the OPM Secretary for final selection, there were untimely approvals, and contractor evaluations were not properly completed.

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

Comment:

Our review of 20 inventory items for Rentschler Field found that assets were not tagged, were found in locations other than that noted in Core-CT, had incomplete property control records, and that two items could not be located.

- 7. The Office of Policy and Management should file reports in accordance with the General Statutes.**

Comment:

We reviewed 15 statutorily required reports and found that three were not completed for one or both of the fiscal years, three were completed after the due date, and one that was due every six months was prepared only once for the audited period and was completed late.

- 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 System more difficult because the provisions are fragmented throughout the various documents.

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.



Rebecca M. Balkun
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts