

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
DEPARTMENT OF REVENUE SERVICES  
DIVISION OF SPECIAL REVENUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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August 16, 2002

**AUDITORS' REPORT  
DEPARTMENT OF REVENUE SERVICES  
DIVISION OF SPECIAL REVENUE  
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

We have made an examination of the financial records of the Department of Revenue Services, Division of Special Revenue, for the fiscal years ended June 30, 1999 and 2000. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification, which follow. Financial statements pertaining to the operations and activities of the Department of Revenue Services, Division of Special Revenue, are presented on a Statewide Single Audit basis to include all State Agencies. This examination has been limited to assessing the Division's compliance with certain provisions of laws and regulations, contracts and grants and evaluating the Division's internal control structure, policies, and procedures established to ensure such compliance.

**COMMENTS**

**FOREWORD:**

The Division of Special Revenue is responsible for the administration and regulation of legal gaming activities in the State under the provisions of Title 12, Chapters 226 and 226b, and Title 7, Chapter 98, Sections 7-169 through 7-186q, of the General Statutes. Throughout this report, we also refer to such activities as "gambling." The Division had administered the State lottery through the 1995-1996 fiscal year. Effective July 1, 1996, the Connecticut Lottery Corporation has administered the lottery as a quasi-public agency, as provided by Section 229a of the General Statutes.

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In accordance with Section 12-557c, subsection (b), of the General Statutes, the Division is under the direction and control of an Executive Director. George Wandrak served as Acting Executive Director until January 15, 1999, when he assumed the position of Chief Executive Officer and President of the Connecticut Lottery Corporation. Thomas Rotunda, Jr. was appointed Executive Director of the Division of Special Revenue on January 1, 1999 and served in that capacity until June 1, 2001.

### **Gaming Policy Board:**

In accordance with Sections 12-557e, 7-169, subsection (c), and 7-185 of the General Statutes, the Gaming Policy Board assists the Division of Special Revenue in overseeing legalized gambling within the State of Connecticut. Among its duties and powers, the Gaming Policy Board is responsible for advising the Governor on Statewide plans and goals for legal gambling and for assisting in the development and approval of regulations for gaming activities.

The Gaming Policy Board was comprised of the following members as of June 30, 2000:

Nelson C. L. Brown, Chairperson  
Gilbert Lebovitz  
William F. Farrell  
Richard P. Antonetti,  
William J. LaVelle

Daniel Marchitello also served on the Gaming Policy Board during the audited period.

### **Legislative Changes:**

A notable legislative change that took effect during the audited period, is presented below:

- Public Act 00-229 amended Section 12-575 subsection (m)(3), of the General Statutes, to increase the amount paid to municipalities that contain a dog race track from eight-tenths of one percent to one percent of the total money wagered on dog racing events at such dog track, effective July 1, 2000.

### **RÉSUMÉ OF OPERATIONS:**

**General Fund:**

General Fund receipts totaled \$9,631,888 and \$13,628,521 during the fiscal years ended June 30, 1999 and 2000, respectively. A comparative summary of receipts for the audited years and the preceding year are presented below:

	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Taxes on off track betting	\$ 5,441,570	\$ 5,472,648	\$ 5,616,495
Taxes on jai alai	401,319	341,629	324,365
Taxes on dog racing	319,970	292,184	245,907
Charitable games receipts	1,510,283	1,340,003	1,283,767
Recovery of regulatory costs	1,070,012	0	4,006,493
Registrations and licenses	79,020	78,560	69,940
Refunds of current year expenditures	972,405	1,386,984	1,526,365
All other receipts	311,518	719,880	555,189
<b>Total</b>	<u><b>\$ 10,106,097</b></u>	<u><b>\$ 9,631,888</b></u>	<u><b>\$ 13,628,521</b></u>

Charitable games receipts included payments for sealed tickets, fees to hold bingo games and payments for permits to hold other games of chance. Regulatory costs recovered resulted from assessments on the Mashantucket Pequot and Mohegan Tribes in accordance with provisions of Section 12-586f of the General Statutes. The decline in such recoveries during the 1998-1999 fiscal year was mainly due to a dispute between the Mashantucket Pequot Tribe and the Division. More specifically, a disagreement over whether indirect costs of the Division should be recovered was at issue. Both tribes failed to reimburse the Division for any costs during the 1998-1999 fiscal year. The dispute was settled by mutual agreement on March 24, 2000. The Tribes then reimbursed 1999-2000 fiscal year regulatory costs totalling \$4,006,493 in the fiscal year ended June 30, 2000. Recovered prior year costs were deposited to refunds of prior year expenditures and are included in the all other receipts total.

Section 17a-713, subsection (b), of the General Statutes provides that the Division collect fees assessed on jai alai and dog racing to provide funding for the Chronic Gamblers Treatment and Rehabilitation program administered by the Department of Mental Health and Addiction Services (DMHAS.) The Division collected and deposited to a DMHAS General Fund restricted account, fees totaling \$230,987 and \$226,895, during the 1998-1999 and 1999-2000 fiscal years, respectively.

Expenditures from budgeted appropriations of the Division and the Gaming Policy Board totaled \$8,907,623 and \$8,171,591, during the fiscal years ended June 30, 1999 and 2000, respectively. Comparative summaries of these General Fund expenditures for the fiscal years under review and the preceding fiscal year are presented below.

	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Personal services	6,286,931	7,154,775	6,624,750

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Contractual services	1,557,367	1,562,808	1,355,833
Commodities	116,444	120,726	132,444
Sundry charges	3,734	0	0
Equipment	41,519	67,841	55,717
Gaming Policy Board	1,659	1,473	2,847
Total Budgeted Appropriations	<u>8,007,654</u>	<u>8,907,623</u>	<u>8,171,591</u>
Indian Gaming Regulation			
Mashantucket – Pequot	263,547	0	2,673,268
Mohegans	1,014,657	235,290	1,044,410
Total Restricted Accounts	<u>1,278,204</u>	<u>235,290</u>	<u>3,717,678</u>
<b>Total Expenditures</b>	<b><u>\$ 9,285,858</u></b>	<b><u>9,142,913</u></b>	<b><u>\$11,889,269</u></b>

As presented by the analysis above, total expenditures increased during the 1999-2000 fiscal year. This increase was mostly due to costs associated with Indian gaming regulation. The 1998-1999 fiscal year increase in personal service expenditures was primarily due to pay increases due to contract settlements. The following summary presents the average number of filled positions during the audited period.

	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Full-time positions	172	173	174
Part-time positions	6	5	8
Temporary positions	2	4	3
Durational positions	4	3	2
<b>Total</b>	<b><u>184</u></b>	<b><u>185</u></b>	<b><u>187</u></b>

Payments charged to the Gaming Policy Board appropriation were payments of travel expenses and per diem amounts to members, in accordance with the provisions of Section 12-557d, subsection (a), of the General Statutes.

The decrease in restricted account expenditures in the 1998-1999 fiscal year is related to a dispute over recovery of regulatory costs as explained in other sections of this report. A resolution to this dispute was reached on March 24, 2000. The result was that the regulatory costs for the fiscal years ended June 30, 1999 and 2000 were charged in the 1999-2000 fiscal year. That is, the Division did not receive reimbursement from the Tribes during the 1998-1999 fiscal year and did not charge the restricted accounts while the charges were disputed.

Expenditures for equipment in the amount of \$98,122 and \$111,080 were charged to the Capital Equipment Purchase Fund during the 1998-1999 and 1999-2000 fiscal years, respectively.

**Pending Receipts Fund (7013):**

During the audited period, the Division conducted certain financial activity in an account of the State's Pending Receipts Fund.

Deposits to the account totaled \$96,170 and \$82,557, during the fiscal years ended June 30, 1999 and 2000, respectively. Such receipts were comprised of charitable games license and permit fees pending application decisions and bingo fees to be distributed to towns in accordance with Section 7-169, subsection (j), of the General Statutes.

Disbursements of pending receipts totaled \$95,402 and \$83,831, during the fiscal years ended June 30, 1999 and 2000, respectively. Such disbursements included payments to towns as noted above and transfers of charitable games revenues to the General Fund, or the return of such to applicants.

**Betting Taxes Fund (7016):**

This agency fund was used throughout the audited period to account for the deposit of taxes and other moneys paid by pari-mutuel licensees. Certain distributions were made prior to the transfers of remaining balances to the General Fund.

Betting Taxes Fund activity during the audited fiscal years and the preceding fiscal year, is summarized below.

	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Receipts:			
Taxes on wagering	<u>\$ 11,077,342</u>	<u>\$ 11,021,272</u>	<u>\$ 11,137,922</u>
Total	<u><u>\$ 11,077,342</u></u>	<u><u>\$ 11,021,272</u></u>	<u><u>\$ 11,137,922</u></u>
Disbursements:			
Transfers to General Fund	\$ 6,162,859	\$ 6,106,461	6,186,767
Payments to towns	4,731,131	4,889,941	4,922,024
Other	<u>50,890</u>	<u>46,340</u>	<u>38,920</u>
Total	<u><u>\$ 10,944,880</u></u>	<u><u>\$ 11,042,742</u></u>	<u><u>\$ 11,147,711</u></u>

Betting Taxes Fund receipts remained fairly constant throughout the audited period and included taxes levied upon moneys wagered in pari-mutuel pools at the licensed jai alai, dog track and off-track betting facilities operating in the State. A tax equal to half the breakage to the dime resulting from such wagering at these facilities, in accordance with Section 12-575 of

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the General Statutes is also deposited to this Fund. Breakage to the dime is the odd cents left over from each payoff after it is rounded down to the next lowest dime.

Disbursements from the Betting Taxes Fund also remained fairly constant throughout the audited period and included payments to towns for amounts wagered pursuant to the requirements of Section 12-575, subsection (m) of the General Statutes. Disbursements presented as “Other” in the above summary represented payments to the Northeast Connecticut Economic Alliance, Inc., from amounts wagered on dog racing events in accordance with this same subsection. Section 12-573 of the General Statutes requires the Executive Director of the Division to transfer excess funds in the Betting Taxes Fund, these transfers are represented by transfers to the General Fund.

## CONDITION OF RECORDS

Our review of the financial records of the Division of Special Revenue disclosed matters of concern requiring disclosure and Agency attention.

### **Petty Cash Travel Advances:**

- Criteria:* Petty cash requirements as set forth in the State Accounting Manual call for the reporting and settlement of employee travel advances by means of the submission of form CO-17XP with the required supporting documentation. The employee is required to file the form within five working days of the return from the trip.
- Condition:* Our examination of nine employee travel advances revealed that for seven of the nine advances, CO-17XP employee vouchers were not submitted within the required five working days. The employee vouchers were filed between two and 12 working days late.
- Effect:* Delays such as those presented above, prevent replenishment of the petty cash fund in a timely manner, jeopardize the availability of a travel advance balance adequate for Division needs, and prevent the timely return of unspent funds.
- Cause:* The Division apparently does not have adequate procedures in place to monitor petty cash travel advances.
- Recommendation:* The Division should implement procedures to monitor and ensure compliance with the State Comptroller's petty cash employee travel advance requirements. (See Recommendation 1.)
- Agency Response:* "We agree with the finding and will notify employees of their responsibility to file CO-17XP's within the required time period. Additionally, we will actively pursue employee compliance by reminding travel advance recipients and their unit chiefs of this requirement prior to expiration of the five day grace period."

### **Time and Attendance Records:**

- Criteria:* Sound business practice requires that time and attendance information be recorded accurately to enable adequate tracking for payment calculation and reporting purposes.
- Condition:* Our review of time and attendance records revealed that in the sample of thirty-five time sheets examined we found eight time sheets that lacked supervisor's signature.

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- Effect:* The lack of supervisor signatures eliminates the assurances that the supervisor has seen the time sheet and verified the accuracy of the time reported.
- Cause:* We were unable to determine why the supervisors failed to review and sign employee time sheets.
- Recommendation:* The Division should improve controls over the time and attendance system. (See Recommendation 2.)
- Agency Response:* “We agree with this finding and have advised payroll personnel to return any unsigned time sheets to the particular employee’s supervisor in order to obtain a signature, verifying the accuracy of the time reported.”

### **Employee Compensation:**

- Background:* The Division has regulatory staff at the pari-mutuel facilities. Due to the hours of operation of such facilities and the flexibility afforded to such staff, work schedules change often to accommodate scheduling needs and employee requests.
- Criteria:* It is good business practice to approve work schedules that will minimize the payment of overtime when possible. The Division has a policy in place concerning employee scheduling. The number of hours scheduled to be worked in an employees’ two week request is to be split evenly between the two one week periods, to avoid the unnecessary payment of overtime under the Fair Labor Standards Act (FLSA).
- Condition:* Our review of payroll records indicated that, at times, Division staff at the pari-mutuel facilities worked schedules that did not conform to the above policy. The schedules worked resulted in the employees working more hours in one week of the pay period and thus resulted in the payment of overtime.
- Effect:* The Division incurred unnecessary overtime costs.
- Cause:* The Division has developed a written policy which requires that all full-time Gambling Regulation Unit employees be scheduled 40 hours per week. However, it appears that at times the policy was not followed.
- Recommendation:* The Division should better monitor and enforce the formal policy concerning the scheduling of staff to control overtime costs. (See Recommendation 3.)

*Agency Response:* “We agree with this finding. The Division’s policy is a formal, not an informal policy prohibiting the practice of averaging pay weeks. The Division will continue to remind its field staff that this practice is prohibited. The Division will increase its vigilance in this area.”

**Annual Reporting:**

*Criteria:* Pending receipts annual reporting requirements as set forth in the State Accounting Manual call for an annual submission stating that the Agency Fund 7013 (pending receipts), Funds Awaiting Distribution, has been reconciled and that any required corrections have been requested by memorandum. This report must be submitted to the Office of the State Comptroller, no later than July 31, of that calendar year.

*Condition:* Our review of the reports prepared by the Division disclosed that memos were required but not filed for the fiscal years ended June 30, 1999 and 2000. Subsequent to our review, the Division did file the June 30, 2001, pending receipts report that had been due July 31, 2001. However, the report was not timely, it was filed September 10, 2001.

*Effect:* Non-compliance with reporting requirements.

*Cause:* The Division was unaware of the requirement.

*Recommendation:* The Division should take the steps necessary to ensure compliance with the State Comptroller’s pending receipts annual reporting requirements. (See Recommendation 4.)

*Agency Response:* “We agree with this finding and have implemented procedures to ensure compliance with the reporting requirement in a timely manner.”

## RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 1997 and 1998, contained a total of three recommendations. Of those recommendations, two have been implemented or otherwise resolved. One recommendation is being repeated in part. The status of recommendations contained in this prior report is presented below.

*Prior Audit Recommendations:*

- **The Division should develop a formal disaster recovery plan for its data processing operations.** Our current review disclosed that satisfactory progress has been made to address this recommendation. Therefore, we are not repeating this recommendation.
- **The Division should amend its annual reports to include all data and information required by Section 12-564 of the General Statutes.** Our review of the reports prepared by the Division to address reporting requirements disclosed that a statement of the receipts and disbursements of the Division, and a statement of the costs of administering the Division were presented. We are, therefore, not repeating this recommendation.
- **The Division should develop a formal policy concerning the scheduling of staff to control overtime costs. Instances in which overtime can not be avoided should be so documented.** The Division has developed a formal policy concerning the scheduling of staff to control overtime costs. However, we determined that staff at the pari-mutuel facilities worked schedules that did not conform to the above policy. This recommendation has been modified and repeated in part. (See Recommendation 3.)

*Current Audit Recommendations:*

1. **The Division should implement procedures to monitor and ensure compliance with the State Comptroller's petty cash employee travel advance requirements.**

Comment:

We found late submissions of employee travel documentation.

2. **The Division should improve controls over the time and attendance system.**

Comment:

We did not find supervisor signatures on eight of thirty-five time sheets examined.

- 3. The Division should better monitor and enforce the formal policy concerning the scheduling of staff to control overtime costs.**

Comment:

We found that overtime was paid to employees contrary to Agency policy.

- 4. The Division should take the steps necessary to ensure compliance with the State Comptroller's pending receipts annual reporting requirements.**

Comment:

We determined that required annual pending receipt reports were not filed.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Revenue Services, Division of Special Revenue, for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding, and evaluating the effectiveness of the Agency's internal control structure policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Revenue Services, Division of Special Revenue for the fiscal years ended June 30, 1999 and 2000, 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 generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Division of Special Revenue complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance:**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Division of Special Revenue is the responsibility of the Division of Special Revenue's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of the laws, regulations, contracts and grants. However, providing an opinion on compliance with these 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Division of Special Revenue is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Division of Special Revenue's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or failure to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for 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**

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Division of Special Revenue during the examination.

Josepha M. Brusznicki  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
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