

STATE OF CONNECTICUT



*AUDITORS' REPORT
DIVISION OF SPECIAL REVENUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2006, 2007 AND 2008*

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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September 22, 2010

**AUDITORS' REPORT
DIVISION OF SPECIAL REVENUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2006, 2007 AND 2008**

We have made an examination of the financial records of the Division of Special Revenue, for the fiscal years ended June 30, 2006, 2007 and 2008. 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 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. Pursuant to Section 12-557c, subsection (a), the Division is within the Department of Revenue Services (DRS) for "administrative purposes only" as defined in Section 4-38f of the General Statutes. In all other respects the Division is independent of DRS.

In accordance with Section 12-557c, subsection (b), of the General Statutes, the Division is under the direction and control of an Executive Director. Paul A. Young was appointed as Executive Director effective November 24, 2004, and continues to serve in that capacity.

Gaming Policy Board:

In accordance with Sections 12-557e, Section 7-169, subsection (c), and Section 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.

As of June 30, 2008, the Board was made up of the following members whom serve for four-year terms:

William F. Farrell, Chairperson	June 30, 2013
Richard Antonetti	June 30, 2011
Edward F. Osswalt	June 30, 2013
Paul F. Pendergast	June 30, 2013
Gayle A. Russell	June 30, 2013

Others that served as members during the audited period include: Nelson C. L. Brown, Gilbert Lebovitz, William LaVelle, and Gregory R. Shettle.

Legislative Changes:

Several Public Acts that directly affected the Agency took effect during the audited period. The most notable were as follows:

- Public Act 07-36 - An act concerning gaming products and raffle prizes. The act authorizes qualified organizations to conduct special tuition raffles, subject to DSR regulation, and offer tuition payments as prizes. The act indirectly requires dealers and manufacturers who sell or rent bingo products, bingo equipment, or sealed ticket machines to register annually with DSR and pay a fee. It also allows three classes of raffle permittees to award cash prizes, with a maximum allowable prize of \$15,000 for class 1 raffles; and allows the sale of sheet tickets in teacup raffles.
- Public Act 07-144 - An act concerning off-track betting branch facilities and bingo prizes. The act increases the number of off-track betting (OTB) facilities that may operate as simulcasting facilities; eliminates the zone of protection, which restricted simulcasting within certain distances of other OTB or pari-mutuel facilities; and increased the value of certain bingo prizes.
- Public Act 08-62 - An act creating an exemption from permit requirements for parent teacher association conducted bingo. The act allows parent teacher associations (PTAs) or organizations (PTOs) conducting bingo for the amusement and recreation of their members and guests to do so without the DSR permit required by other qualified organizations sponsoring or conducting bingo.
- Public Act 08-70 - An act expanding the enforcement authority of the Division of Special Revenue. The act updates and makes changes in laws governing the regulatory authority of DSR and criminal enforcement authority of DSR special police officers and the State legalized gambling investigation unit. It gives DSR explicit authority to administer the

statutes governing the Connecticut Lottery Corporation (CLC). It also gives DSR special police officers and the Department of Public Safety legalized gambling investigative unit the same criminal enforcement authority over charitable gaming and lottery violations that they already have over other gaming DSR regulates.

RÉSUMÉ OF OPERATIONS:

Receipts:

General Fund receipts totaled \$6,963,125, \$6,474,588 and \$6,272,443 during the fiscal years ended June 30, 2006, 2007 and 2008, respectively. A comparative summary of General Fund receipts for the audited years is presented below:

	Fiscal Year		
Gaming Receipts	2006	2007	2008
Taxes on Horse Racing (OTB)	\$ 5,055,057	\$ 4,808,425	\$ 4,603,607
Sealed Tickets Payments	1,000,707	1,010,862	946,859
Bingo Game Fees	308,709	286,894	263,557
Other Gaming	25,757	-	761
Total from Gaming	\$ 6,390,230	\$ 6,106,181	\$ 5,814,784
Other Receipts			
License, Registration, and Permit fees	\$ 89,935	\$ 84,965	\$ 94,850
Miscellaneous	2,549	11,603	11,903
Total Other Receipts	\$ 92,484	\$ 96,568	\$ 106,753
Refunds of Expenditures and Indirect Overhead	\$ 480,411	\$ 271,839	\$ 350,906
Total General Fund Receipts	\$ 6,963,125	\$ 6,474,588	\$ 6,272,443

The major portion of betting taxes revenue is received from OTB operations. OTB revenue was negatively impacted by the growing popularity of casino gaming. Charitable games receipts included payments for sealed tickets sold by charities, fees to hold bingo games, and payments for permits to hold other games of chance. Receipts from the recovery of regulatory costs from the Connecticut Lottery Corporation are authorized by Section 12-806, subsection (b), subdivision (13), of the General Statutes.

The Federal and Other Restricted Accounts Fund (12060 Fund) is used to account for the receipts obtained from the Mashantucket–Pequot Foxwoods Casino and the Mohegan Sun Casino for the recovery of indirect and fringe costs for DSR regulatory services provided.

This activity is summarized below:

	Fiscal Year		
	2006	2007	2008
Non Federal Aid - Mashantucket-Pequot	\$ 2,247,397	\$ 1,914,435	\$ 2,105,880
Non Federal Aid – Mohegan	937,920	1,583,193	1,741,512
Total Federal and Other Restricted Accounts	<u>\$ 3,185,317</u>	<u>\$ 3,497,628</u>	<u>\$ 3,847,392</u>

In accordance with memorandums of agreement signed by the State of Connecticut and the Mashantucket-Pequot and Mohegan Tribes, the State is to generally receive 25 percent (under certain circumstances 30 percent) of the gross revenue from the operation of video facsimile/slot machines.

While this revenue is not received by the Division, the Compacts between the State of Connecticut and the Tribes provide for the Division's access to casino records for purposes of audit and for providing reasonable assurance that the State is receiving the correct percentage of slot revenue. The procedures performed by Division staff include the daily monitoring of the collection and counting of monies removed from the slot machines and a reconciliation of information provided by the casino accounting departments to information obtained from on-site Division staff and the on-line accounting systems. In addition, the Division reviews independent gaming laboratory reports to determine that the slot machines used conform to the technical requirements and standards set forth in the Compacts. The State portion of slot machine revenue is wired monthly from each Tribe to an account within the Office of the State Treasurer and credited to the Office of Policy and Management under the General Fund. Those figures are noted below:

	Fiscal Year		
	2006	2007	2008
Mashantucket Gaming Payments	\$ 203,837,253	\$ 200,821,303	\$ 191,572,760
Mohegan Sun Gaming Payments	222,215,526	228,863,727	223,043,160
Total Casino Gaming Payments	<u>\$ 426,052,779</u>	<u>\$ 429,685,030</u>	<u>\$ 414,615,920</u>

Expenditures:

A comparative summary of the Division's expenditures for the fiscal years ended June 30, 2006, 2007 and 2008 is presented below:

	Fiscal Year		
	2006	2007	2008
General Fund:			
Personal Services & Employee Benefits	\$ 5,898,757	\$ 6,169,052	\$ 6,532,301
Purchased & Contractual Services	1,231,573	1,359,861	1,177,779
Indirect Overhead – Fed & Other Projects	(953,607)	(1,055,126)	(1,102,223)
Total General Fund Expenditures	<u>\$ 6,176,723</u>	<u>\$ 6,473,787</u>	<u>\$ 6,607,857</u>

Federal and Other Restricted Accounts Fund:

Indian Gaming – Mashantucket:

Personal Services & Employee Benefits	\$ 1,390,715	\$ 1,476,874	\$ 1,508,617
Purchased & Contractual Services	13,546	8,114	14,177
Indirect Overhead – Fed & Other Projects	280,666	296,997	304,561
Total Indian Gaming – Mashantucket	<u>1,684,297</u>	<u>1,781,985</u>	<u>1,827,355</u>

Indian Gaming – Mohegan:

Personal Services & Employee Benefits	1,258,654	1,321,475	1,444,863
Purchased & Contractual Services	28,546	10,560	15,713
Indirect Overhead – Fed & Other Projects	235,102	251,158	280,935
Total Indian Gaming – Mohegan	<u>1,522,302</u>	<u>\$1,583,193</u>	<u>1,741,511</u>

Total Federal and Other Restricted
Accounts Fund

<u>\$ 3,207,229</u>	<u>\$ 3,365,178</u>	<u>\$ 3,568,866</u>
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Capital Equipment Purchase Fund

<u>\$ 129,728</u>	<u>\$ 70,576</u>	<u>\$ 101,823</u>
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DSR Total Expenditures

<u>\$ 9,513,680</u>	<u>\$ 9,909,541</u>	<u>\$ 10,278,546</u>
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Gaming Policy Board

<u>\$ 2,194</u>	<u>\$ 1,718</u>	<u>\$ 2,637</u>
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Only minor expenditures were incurred by the General Fund and by the Capital Equipment Purchase Fund for the purchase of capital equipment items.

As can be seen above, personal services expenditures represent the largest category of expenditures from budgeted appropriations. The following summary presents the number of filled full-time and part-time positions at June 30 for each fiscal year within the audited period.

	Fiscal Year		
	2006	2007	2008
Full-time filled positions	132	131	137
Part-time filled positions	3	3	6
Temporary filled positions	1	1	0
Total	<u>136</u>	<u>135</u>	<u>143</u>

Betting Taxes Fund:

This agency fund was used throughout the audited period to account for the deposit of taxes and other moneys paid by pari-mutuel licensees such as Off Track Betting Facilities. Betting Taxes Fund activity during the audited fiscal years is summarized below:

	Fiscal Year		
	2006	2007	2008
Beginning Balance	\$ 299,807	\$ 311,674	\$ 296,830
Receipts:			
Betting Taxes	9,165,344	8,649,600	8,308,192
Total Available Cash	9,465,151	8,961,274	8,605,022
Disbursements:			
Payments to Towns	4,072,663	3,856,020	3,748,677
Transfers to the General Fund	5,080,814	4,808,424	4,603,607
Total Transfers and Expenditures	9,153,477	8,664,444	8,352,284
Ending Balance	\$ 311,674	\$ 296,830	\$ 252,738

Betting Taxes Fund receipts decreased during the audited period, in large part because of the decrease and eventual cessation of activities at the Plainfield Greyhound Track and the Bridgeport and Milford OTB facilities. A corresponding proportional decrease was also reflected in Payments to Towns, and Transfers to the General Fund.

CONDITION OF RECORDS

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

Gaming Policy Board Members and Meetings:

Criteria: Section 12-557d of the General Statutes indicates that all five members of the Gaming Policy Board shall be appointed with the advice and consent of both houses of the General Assembly. The statute has specific requirements as to the composition of the Board in balance and experience. The statute additionally staggers the term expiration of the Board members. Two members' terms are to expire two years after the first three members' term expirations.

Section 1-225 of the General Statutes indicates that each public agency of the State shall file not later than January 31st of each year with the Office of the Secretary of the State, the schedule of the regular meetings of such public agency for the ensuing year and shall post such schedule on such public agency's Internet web site.

Condition: It was noted that four members of the Gaming Policy Board have the same term of expiration.

We were informed by the Division that meeting schedules for the Board were not submitted to the Secretary of the State in accordance with the statute for calendar years 2006, 2007, and 2008. However, a Board meeting schedule for the 2009 calendar year was submitted in January 2009.

Effect: The balance and experience of members in the Board could be disrupted if the four members in question decide to leave the Board at the next term expiration.

During the audited period, it appears that the public was not formally aware of when the Gaming Policy Board meetings took place in order to attend.

Cause: The Governor's Office apparently overlooked the expiration terms of the Gaming Board members prior to providing its' approval of individual terms.

It appears that administrative oversight was responsible for the lack of submitting the Board meeting schedules during the audited period. It also appears that this oversight has been realized and corrected during fiscal year 2009.

Recommendation: The Division should consult with the Gaming Policy Board and the Governor's Office in order to exact compliance with Section 12-557d of the General Statutes by correcting the imbalance that currently exists with Board members' terms and continue to ensure that submission of the Board's meeting schedules to the Secretary of the State is met in accordance with Section 1-225 of the General Statutes. (See Recommendation 1.)

Agency Response: "The Division understands the matter and has spoken with the Governor's Office on the matter of terms. We find ourselves in a "catch 22" situation. As we read the statute, the term is four years and the person must be appointed for four years. As it happens with vacancies, they all occurred at the same time and four people were identified at the same time and, consequently, appointed at the same time. Without statute change, we cannot fix the matter until such time as a Board member chooses to leave the Board and then we could wait a year to appoint a new member who would then be appointed for a different four year term. We will monitor the situation and advise the Governor's Office of any changes in Board Members."

"The Division is now in compliance with Section 1-225 and meeting dates are submitted to the Office of the Secretary of the State by January 31st of each year."

Reporting Requirements:

Criteria: Subsection (l) of Section 12-575 of the General Statutes indicates that the Executive Director shall, on or before the tenth day of each month, prepare and file with the Treasurer a full and complete statement of the Division's receipts from all sources and shall turn over to the Treasurer all moneys in the Division's possession.

Section 12-563 of the General Statutes indicates that the Executive Director, at least annually, on or before December 31st of each year, publish in convenient pamphlet form all regulations then in force and shall furnish copies of such pamphlets to every establishment authorized to engage in the activities authorized under Section 12-567 and to such other persons as desire such pamphlets.

Condition: We were informed by Division staff that a monthly report of receipts is not submitted to the Office of the State Treasurer.

The Division no longer publishes pamphlets of its regulations. The Division's regulations are available on-line for all to view. The location of the regulations is addressed on the back of the license application with a signature block and acknowledgement statement for each licensee to sign.

- Effect:* It appears that the above conditions result in a lack of statutory compliance. However, the applicable statutes may require legislative change.
- Cause:* The Division was not aware of the reporting requirement under Section 12-575. In order to comply with the Governor’s directive regarding reducing paper use, the printing of pamphlets was no longer implemented by the Division.
- Recommendation:* The Division should comply with subsection (l) of Section 12-575 of the General Statutes and confer with the Office of the Treasurer to determine if there is a continued need for a monthly statement of the Division’s receipts or whether a legislative change to the statute is needed. The Division should also consider requesting for a legislative change to Section 12-563 of the General Statutes to reflect the current process regarding dissemination of its Regulations. (See Recommendation 2.)
- Agency Response:* “The Division will work with the Office of the Treasurer to determine if there is a continued need for a monthly statement of receipts or whether legislative change is needed. The Division will also consult with the Governor’s Office to consider possible changes to Section 12-563 of the General Statutes concerning dissemination of our Regulations.”

Lack of Established Regulations:

- Criteria:* Section 7-169 of the General Statutes provides for recreational bingo for parent teacher associations or organizations within certain terms. Subsection (d) of Section 7-169e of the General Statutes indicates that the executive director of the Division of Special Revenue, in consultation with the Gaming Policy Board, shall adopt regulations, in accordance with Chapter 54, to implement the provisions of this section in order to prevent fraud and protect the public.
- Subsection (b) of Section 7-185b of the General Statutes indicates that any organization qualified to conduct a bazaar or raffle under Section 7-172 may conduct a special tuition raffle once each calendar year. The executive director shall adopt regulations to carry out provisions of the section.
- Condition:* We noted that State Regulations were not established in accordance with the statutes cited above.
- Effect:* In light of the condition, there is an apparent lack of compliance with State law. Additionally, the lack of appropriate guidance to operators of said bingo and raffle operations may result in the inconsistent and ineffective operating of such games.

- Cause:* The regulations were required effective October 1, 2007 for the tuition raffles and May 24, 2008 for bingo at parent teacher associations and organizations. It appears that a lack of timely administrative oversight is responsible for the non-compliance.
- Recommendation:* The Division should comply with subsection (d) of Section 7-169e and subsection (b) of Section 7-185b of the General Statutes by establishing the required regulations for recreational bingo for parent teacher organizations and associations and tuition raffles. (See Recommendation 3.)
- Agency Response:* “The Division has submitted regulations, and is awaiting approval from the Office of Policy and Management and the Governor’s Office.”

Lack of Formal and Current Written Procedures:

- Criteria:* Formal and current written procedures are an important aspect of a sound internal control system. The process of producing and updating a procedures manual supports the communication and coordination between management and staff in defining and achieving the mission of the Division. In addition, a procedures manual helps to maintain operational efficiency and application of procedures in the event of staff changes or prolonged absences.
- Condition:* We noted that formal written procedures were absent for the function of the Division’s Licensing Section within the Security Unit. We were additionally informed that the written procedures manuals in place for the Audit Section of the Integrity Assurance Unit and the Charitable Games Section were somewhat outdated. Certain procedures noted in the Division’s procedures manuals were either no longer performed or changed through automation.
- Effect:* The lack of formal and current written procedures may contribute to inefficiency and ineffectiveness of Division staff responsible for performing its Unit’s functions.
- Cause:* It appears that administrative oversight was lacking in this area.
- Recommendation:* The Division should consider establishing and modifying formal written procedures to reflect its current operational processes. (See Recommendation 4.)
- Agency Response:* “The Division agrees and will consider establishing and/or modifying written procedures to reflect the current operational processes.”

Personnel Actions History Report:

- Criteria:* The Core-CT Personnel Actions History Report is a report that reflects manual changes to an employee's Job Data in Core-CT. Appropriate agency personnel should review such report to ensure that any changes made to an employee's file have been authorized.
- Condition:* We were informed by the head of the Division's Human Resources Section that the Personnel Actions History Report is not utilized by the agency.
- Effect:* In the absence of such a review, inappropriate and unauthorized manual changes to an employee's Job Data on Core-CT may go undetected and result in an improper payment.
- Cause:* The head of the Human Resources Section was unaware of the existence of such a report.
- Recommendation:* The Division should review the Core-CT Personnel Actions History Report in order to verify the propriety and authorization of any changes made to employees' files. (See Recommendation 5.)
- Agency Response:* "The Division will run this Core-CT report and have it reviewed by the Head of the Division's Human Resources Section."

Access to Core-CT:

- Criteria:* The Core-CT Change Management Team's Combined Human Resources Management System (HRMS) Role Assessment Handbook emphasizes that agencies should not be requesting the Agency HR Specialist role be assigned to an employee who has either the Agency Payroll Specialist or Agency Time and Labor Specialist roles. Access to any combination of those roles could allow an individual to hire and pay someone inappropriately and without oversight.
- The Agency HRMS Security Liaison Role is responsible for monitoring all authorized access to the Core-CT HRMS application assigned to their agency personnel, and acting as point of contact for the Core-CT Application Security Team for all agency Core-CT security matters.
- Condition:* In review of Core-CT user roles for the four staff working in the Division's Human Resources and Payroll Section, we noted that all four possessed the Agency Payroll Specialist (PY), Agency HR Specialist (HR), and Agency Time/Labor Specialist roles.

We noted that the Division currently has a Principal HR Specialist, an HR Specialist, and one Payroll Officer assigned with the Agency HRMS Security Liaison Role.

Effect: Overlapping roles can have a detrimental effect on internal controls. The risk of impropriety is increased if such roles are not segregated.

Cause: The head of the Human Resources Section explained that because the Division represents a small agency, it was felt that multiple roles were needed in order to function in the event of staff absences.

Recommendation: The Division should consult with the Core-CT HRMS Team to adjust user roles to ensure that proper segregation of duties is maintained as it pertains to the human resources and payroll functions. (See Recommendation 6.)

Agency Response: “The Division will consult with the Core-CT HRMS Team to ensure proper segregation of duties.”

Improperly Authorized Accrued Leave Adjustments:

Criteria: Proper internal control dictates that supervisors should approve any actions taken on the Core-CT Human Resources Management System (HRMS). The time and attendance code, Vacation Sick (VS), should be used by an employee to charge their existing vacation accrual balance when their accrued sick time is completely exhausted.

Condition: We noted that the Division’s Payroll Officer made 13 adjustments to his own accrued leave time which dated back to his time worked at another agency. For six of the instances noted, approval was apparently provided by an Administrative Assistant in his unit rather than his supervisor. The other seven adjustments made do not appear to have any evidence of approval. All of the adjustments that were made credit his sick leave balance from his time at another agency by charging his vacation time via the use of a vacation sick (VS) code.

Effect: It appears that controls have somehow been circumvented in that the Division’s Payroll Officer was allowed to adjust his sick and vacation accrued leave balances for 41.75 hours without proper approval on Core-CT HRMS.

Cause: The Division’s Payroll Officer indicated that he made the adjustments to his accrued leave balances based on a practice followed by his former agency. If an employee was at vacation max for his accrued leave, rather than lose his accrual for that month, it

was acceptable to offset sick time taken previously with a charge to vacation, thus increasing his sick leave balance for the vacation accrual that would otherwise be lost.

Recommendation: The Division should consult with the Core-CT HRMS Team as to how to correct the circumvention of controls on Core-CT for the accrued leave adjustments made and consider reversing the effects of such adjustments as they do not appear to be proper. (See Recommendation 7.)

Agency Response: “This matter was discussed with CORE and timesheet changes cannot be adjusted more than three months prior. A reversal will be done to correct the matter.”

Lack of Telecommuting Authorization:

Criteria: Section 5-248i of the General Statutes indicates that any employee of a State agency may be authorized to participate in a telecommuting or work-at-home assignment with the approval of the employee’s appointing authority and with the approval of the Commissioner of Administrative Services. Approval of such assignment may be granted only where it is deemed to be cost effective. Any assignment shall be on a temporary basis only, for a period not to exceed six months and may be extended as necessary.

The Department of Administrative Services’ (DAS) Telecommuting Program Manual indicates the minimum criteria for approval of such an arrangement.

Condition: We were informed by Division staff that six employees within the Charitable Games Section are working in a permanent capacity from their homes when not in the field inspecting and overseeing charitable gaming activities. Their homes have been setup by the Division’s IT unit for connectivity with the Division’s network in order to produce reports. We noted that the apparent telecommuting/work-at-home arrangement is not approved by the Commissioner of Administrative Services.

Effect: In the absence of DAS approval, there is a higher risk for a lack of accountability of such employees working under such conditions and no determination as to the cost effectiveness of these arrangements.

Cause: The Division’s administration evidently did not regard the practice as telecommuting, as it has allegedly been in place since the 1980’s.

Conclusion: We were informed by the Division’s executive director that the field operation of the Charitable Games Unit has been eliminated

effective July 1, 2010. Accordingly, we will not cite a recommendation in this area.

Ethics Compliance Issues:

Criteria: In accordance with Executive Order No. 1 and through a memo issued by the Special Counsel for Ethics Compliance, Governor Rell directed that before accepting employment with the State, individuals must be made aware of the State Code of Ethics. During the interview process, the hiring agency must provide each person with a summary guide of the State Code of Ethics as well as the agency's ethics statement. The receipt of the Guide must be acknowledged by the employee's signature. Exit interviews are to be conducted with the ethics liaison officer for the agency and post-State employment rules should be provided to the exiting employee.

Condition: We were informed by the Division that the Summary Guide to the Code of State Ethics for Public Officials and State Employees is not provided to employees hired, only a cover letter referencing the Guide is provided. Employees only sign for receipt of the Division's ethics policy.

We noted that separating employees are extended an invitation to meet with Division representatives to discuss suggestions or concerns regarding employment in an exit interview. The Ethics Liaison Officer for the Division is not mentioned as one of the representatives to be met with. Furthermore, the Ethics Liaison Officer for the Division indicated that she does not participate in exit interviews and stated that it is to be handled by the Human Resources section of the Division.

A written summary of the post-State employment rules is not provided to exiting employees.

Effect: In the absence of providing the critical information pertaining to ethics to Division employees, there is an increased risk that non compliance may occur.

Cause: It did not appear that Division staff were aware of the requirements put forth in Executive Order No. 1 by Governor Rell and the memo issued by the Special Counsel for Ethics Compliance.

Recommendation: The Division should comply with the requirements as set forth in Governor Rell's Executive Order No. 1 and the memo issued by the Special Counsel for Ethics Compliance by providing the Summary Guide to the Code of State Ethics to employees hired and gaining an acknowledgement of receipt via employee signature; alter its memorandum to separating Division employees to a

request for an exit interview as opposed to extending an invitation to meet with Division representatives; include the Division's Ethics Liaison Officer in the exit interview process in order to disseminate information regarding post-State employment rules to the exiting employee and answer any pertinent ethics questions. (See Recommendation 8.)

Agency Response: "The Division understands the issue and has instructed our Human Resources Section to provide the Summary Guide to the Code of State Ethics to new and terminated employees, and alter our memorandum to request employees leaving to meet for an exit interview, with both the Human Resources Administrator and the Ethics Liaison Officer."

Reporting of Illegal, Irregular or Unsafe Handling of Funds:

Criteria: Section 4-33a of the General Statutes requires agencies to promptly notify the Auditors of Public Accounts and the State Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of State funds or breakdowns in the safekeeping of State resources.

Condition: We were informed by the Division about two instances in which employees were abusing State time and improperly using State vehicles for personal business.

Effect: The failure to promptly report these issues prevented the opportunity for a timely independent review by the Comptroller or the Auditors in order to examine internal controls, determine if the scope of the condition went beyond what was identified by the agency, and avoid similar occurrences.

Cause: The Division was not aware that the authorizing statute would also include the need to report the loss or theft of State time and the inappropriate use of State property.

Recommendation: The Division should comply with Section 4-33a of the General Statutes to report all illegal, irregular or unsafe handling of State funds promptly. (See Recommendation 9.)

Agency Response: "The Division understands the issue and we will comply with Section 4-33a of the General Statutes."

Improper Use of State Systems:

Criteria: The Acceptable Use of State Systems Policy identifies that State systems are provided at State expense and are to be used solely to conduct State business. Some leniency is allowed in the policy for State employees to use the State telephone to receive/make calls

relating to doctor's appointments, union matters and to check on the status of their children. However, such instances should be kept to a minimum.

Condition: Upon our review of long distance call reports for the period of September 2007 to June 2008, we noted numerous instances of personal long distance calls made by Division staff. We found that two employees seemed to have a significant number of such calls to out of State locations. One individual had 73 personal calls to out of State locations totaling 185 minutes of State time. The other individual has 23 personal calls to out of State locations totaling 336 minutes. It was also noted that the number of in-State long distance personal calls made by this individual totaled 319 minutes. In other employee instances, we noted calls to the Virgin Islands and Hawaii.

Based upon our initial review, we tested May and June in fiscal year 2009 to determine if such instances continued. We noted that they had and additionally found personal use of State fax machines to out-of-State numbers. Reimbursement for all such calls was received from Division employees.

Effect: Frequent and lengthy personal phone calls may constitute an abuse with regard to the State's policy as well as the use of State time. Also, personal use of State telephones would appear to violate the State's contract with telecommunication vendors. Since the State receives a more favorable rate, the vendors are missing potential earnings based on residential rates for those personal calls made.

Cause: It appears that Division management has regarded personal use of State telephones leniently as long as it does not become excessive and reimbursement for the personal calls made is provided.

Recommendation: The Division should strengthen its internal policy regarding personal use of State telephones to reflect the Acceptable Use of State Systems Policy and reiterate the policy to all Division staff. (See Recommendation 10.)

Agency Response: "The Division's senior managers will meet and discuss our current internal policy regarding personal use of State telephones and personal long distance calls. We will publish a new internal policy regarding personal use of State telephones which will better reflect what is acceptable and what would be considered an abuse. Frequent and lengthy personal phone calls will be considered an abuse and not allowed. The new policy will be communicated to all employees once developed and incorporated into our yearly reminder to all employees of Division policies."

Lack of Compliance with State Regulation:

- Background:* Subsection (g) of Section 12-575 of the General Statutes indicates that the licensee authorized to operate the system of off-track betting under the pari-mutuel system shall pay to the State a tax at the rate of 3.5 percent on the total money wagered in the pari-mutuel pool on each and every day the licensee broadcasts racing events and a tax equal to one-half of the breakage to the dime resulting from such wagering.
- Subsection (a) of Section 12-574 of the General Statutes defines an association licensee as a person or business organization licensed by the Gaming Policy Board to operate the off-track betting system.
- Criteria:* Section 12-574-F65 of the State Regulations indicates that the association licensee shall certify the accuracy of the distribution of the money wagered as represented in summary forms provided by the Division.
- Condition:* We were informed by Division staff that a signed statement from the association licensee on Division forms is not obtained for purposes of certifying to the accuracy of the distribution of the money wagered.
- Effect:* The lack of such certification places into question the accuracy of the reported figures pertaining to the distribution of money wagered.
- Cause:* The Division feels that they meet the spirit of the Regulation. We were informed that the advice of the electronic fund transfer is signed by the association licensee and the Daily Calculation Sheet: Track Fees/State Wire is initialed by the association licensee. Additionally, the Division claims to confirm the money wagered totals over the phone with the association licensee once a month.
- Recommendation:* The Division should comply with Section 12-574-F65 of the State Regulations by obtaining a signature from the association licensee under penalties of false statement on Division forms certifying to the accuracy of the distribution of money wagered. (See Recommendation 11.)
- Agency Response:* “The Division will create a new form and ask our licensee to sign to insure compliance with Section 12-574-F65 of State Regulations.”

Licensee Audits:

Criteria: Section 12-577 of the General Statutes indicates that the executive director shall annually cause to be made by some competent person or persons in the Division a thorough audit of the books and records of each association licensee.

Subsection (a) of Section 12-574 of the General Statutes defines an association licensee as a person or business organization licensed by the Gaming Policy Board to operate the off-track betting system.

An audit performed in accordance with Generally Accepted Auditing Standards (GAAS) means it was done conforming to ten broad standards under the categories of General, Fieldwork and Reporting.

Condition: The Division appears to be performing and issuing audit reports covering three-year periods instead of on an annual basis as the statute identifies. At the time of our review (March 2010), the last audit report covering the three-year period ending December 31, 2006 was still in draft form. The report prior to that covered a three-year period ending December 31, 2003.

We noted that the Division is issuing audit reports indicating that the audits were performed under Generally Accepted Auditing Standards (GAAS), yet the Division has not formally adopted any auditing standards. We additionally noted that there did not appear to be any evidence of supervisory approval for the audit work performed.

Effect: The lack of a timely audit may increase the risk of a significant deficiency going unaddressed for an extended period of time. This is significant, in that, the reported figures from the association licensee for determining the accuracy of the State share from off-track betting money wagered in accordance with subsection (g) of Section 12-575 of the General Statutes are considered reliable based upon on a timely association licensee audit conducted by the Division.

The lack of adopted auditing standards may increase audit risk.

Cause: It appears that administrative oversight was lacking in this area.

Recommendation: The Division should comply with Section 12-577 of the General Statutes by performing annual audits of the association licensee and adopting auditing standards by which they shall be performed. (See Recommendation 12.)

Agency Response: “The Division will comply with Section 12-577 of the General Statutes by performing annual audits of the Association licensee and will adopt audit standards by which such audits will be performed.”

Password Access to the Division’s Local Area Network (LAN):

Criteria: The State Department of Information Technology (DOIT), quoting from the Multi-State Information Sharing and Analysis Center (MS-ISAC) publication “Cyber Security Awareness” gives details of “best practices” relating to the use of User IDs and Passwords in Information Technology. These “best practices” include the following guidance – “Your password should be changed periodically.”

Condition: Passwords are required to access the Division’s Local Area Network (LAN). However, the Division does not require users to regularly change their passwords. The Division does not have a policy to that effect, nor does it have a mechanism in place within the LAN to allow a user to change a password. We were informed that passwords can be changed, but require the assistance of the Division’s IT unit to do so.

Effect: Unless passwords are regularly changed there is a heightened risk that unauthorized parties might learn the passwords and be able to access the Division’s LAN system, obtain access to confidential data, and alter, erase or corrupt records and files.

Cause: We were informed by the Division’s IT Supervisor that difficulties with the server have prevented them from implementing a prompt for the employee to change passwords. Upon migrating to a web-based server, it is anticipated that the issue will be resolved.

Recommendation: The Division should continue in its efforts to setting a prompt for users to be able to change their network passwords. A Division policy should also be established as to the frequency in which users should be changing their passwords. (See Recommendation 13.)

Agency Response: “The Division is aware of the issue and once money is made available we will migrate to a web-based server and correct the issue.”

IT Software Inventory:

Criteria: The State Property Control Manual indicates that each agency is to conduct a physical inventory of the software library at the end of each fiscal year and compare it to the annual software inventory report. This comparison is to be retained by the agency for audit purposes.

The Manual also indicates that a software library, which includes copies of media and at least one copy of each applicable manual, must be located in a secure area or maintained in a secure manner. When it has been determined that software is no longer needed by the agency, the licensed copies should be removed from the corresponding hardware and the disposal of the software should conform to the software publisher's or manufacturer's license agreements or copyright agreements. The software media and associated documentation should then be removed from the agency's software inventory.

Condition: We were informed by the Division that a physical inventory is not performed for software. We were additionally informed that there is a great deal of outdated and unused software that the Division has retained. Upon inspecting the storage of software media, we found that it was stored in an unlocked cabinet in an unlocked room.

Effect: The lack of proper accountability increases the risk that software media may be lost, stolen or improperly used. The State may also be at a higher risk to litigation by software companies for violation of its licensing and copyright agreements.

Cause: The Division did not seem to be aware of the requirements.

Recommendation: The Division should comply with the State Property Control Manual and conduct an annual physical inventory of its software; maintain its software library in a secure area or manner; and consider disposing of the software that has been identified as outdated or no longer used in accordance with the corresponding software publisher's or manufacturer's license or copyright agreements. (See Recommendation 14.)

Agency Response: "The Division will comply with the State Property Control Manual and conduct annual physical inventory of our software and will properly dispose of any old outdated software. In addition, the Division will secure all active software in a safe locked cabinet in compliance with the State Property Control Manual."

Off-Site Records Storage Facility:

Criteria: General Letter 2008-3, dated October 20, 2008, from the State Library's Public Records Administrator to all Administrative Heads of State Agencies and Records Management Liaison Officers indicated that State agencies may store public records at off-site storage facilities provided that the facility has been approved by the Office of the Public Records Administrator.

<i>Condition:</i>	We were informed by the Public Records Administrator of the State Library that there is no record of review and approval for the use of the warehouse utilized by the Division.
<i>Effect:</i>	In the absence of an independent review for certain site standards and subsequent approval to utilize a records storage site, it appears that the risk for record loss may be increased.
<i>Cause:</i>	It appears that the condition exists due to administrative oversight.
<i>Recommendation:</i>	The Division should comply with General Letter 2008-3 by seeking approval from the Office of the Public Records Administrator for utilizing the warehouse as a records storage site. (See Recommendation 15.)
<i>Agency Response:</i>	“The Division understands the issue and will comply with General Letter 2008-3.”

Gambling Regulation Unit Inspections and Staff Accountability:

<i>Criteria:</i>	Proper internal control dictates that supervisory approval should be documented where review of work performed or accountability of staff time is warranted.
<i>Condition:</i>	In our review of the Division’s Gambling Regulation Unit’s inspections of lottery sales agents, we noted that there did not appear to be any documentation supporting the review conducted by the supervisor. In addition, we were informed that a periodic field staff accountability review is performed by comparing the regulation officers’ car logs, physical Lottery Retailer Site Inspection Reports, Top Prizes Claimed Reports, regulatory officer’s Biweekly Activity Reports, and data entered inspection reports to ensure that each officer’s work time is accounted for. However, this review also does not appear documented.
<i>Effect:</i>	In the absence of documentation of the supervisory review of staff work and accountability, it becomes questionable as to whether such review took place.
<i>Cause:</i>	It does not appear that documentation of supervisory review in this area was deemed necessary by the Division.
<i>Recommendation:</i>	The Division should document the supervisory review of the Gambling Regulation Unit’s inspections conducted on lottery sales agents, as well as, the field staff accountability review performed. (See Recommendation 16.)
<i>Agency Response:</i>	“The Division will create a new form in order to document the fact that the supervisor of the Unit has reviewed the staff work.”

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2003, 2004 and 2005, contained one recommendation. The status of the recommendation within the prior report is presented below. Fifteen additional recommendations have been presented as a result of our current review.

Prior Audit Recommendations:

- The Division should give a higher priority to the need for enabling LAN users to periodically change their passwords. This recommendation is being repeated. (See Recommendation 13.)

Current Audit Recommendations:

- 1. The Division should consult with the Gaming Policy Board and the Governor's Office in order to exact compliance with Section 12-557d of the General Statutes by correcting the imbalance that currently exists with Board members' terms and continue to ensure that submission of the Board's meeting schedules to the Secretary of the State is met in accordance with Section 1-225 of the General Statutes.**

Comment:

It was noted that four members of the Gaming Policy Board have the same term of expiration. Meeting schedules for the Board were not submitted for calendar years 2006, 2007 and 2008.

- 2. The Division should comply with subsection (l) of Section 12-575 of the General Statutes and confer with the Office of the Treasurer to determine if there is a continued need for a monthly statement of the Division's receipts or whether a legislative change to the statute is needed. The Division should also consider requesting for a legislative change to Section 12-563 of the General Statutes to reflect the current process regarding dissemination of its Regulations.**

Comment:

Monthly statements of the Division's receipts are not submitted to the Office of the State Treasurer. The Division's Regulations are no longer published in pamphlets and distributed.

- 3. The Division should comply with subsection (d) of Section 7-169e and subsection (b) of Section 7-185b of the General Statutes by establishing the required regulations for recreational bingo for parent teacher organizations and associations and tuition raffles.**

Comment:

Regulations required for recreational bingo for parent teacher organizations and associations, as well as, tuition raffles have not yet been established. The applicable

public acts enacting such requirements went into effect in May 2008 and October 2007, respectively.

- 4. The Division should consider establishing and modifying formal written procedures to reflect its current operational processes.**

Comment:

Formal written procedures were not in place for the Licensing Section of the Security Unit. It was also noted that the existing procedures manuals covering the Audit Section within the Integrity Assurance Unit and the Charitable Games Unit were somewhat outdated in that certain procedures were either no longer performed or had been automated.

- 5. The Division should review the Core-CT Personnel Actions History Report in order to verify the propriety and authorization of any changes made to employees' files.**

Comment:

The Department's Human Resources manager was unaware of the existence of the Core-CT Personnel Actions History Report.

- 6. The Division should consult with the Core-CT HRMS Team to adjust user roles to ensure that proper segregation of duties is maintained as it pertains to the human resources and payroll functions.**

Comment:

Four employees in the Human Resources and Payroll Section possessed certain Core-CT HRMS roles which should be segregated.

- 7. The Division should consult with the Core-CT HRMS Team as to how to correct the circumvention of controls on Core-CT for the accrued leave adjustments made and consider reversing the effects of such adjustments as they do not appear to be proper.**

Comment:

Unauthorized and inappropriate accrued leave adjustments appeared to be made by the Payroll Officer to his own accrued leave balances. The adjustments involved time charged while working at a previous agency.

- 8. The Division should comply with the requirements as set forth in Governor Rell's Executive Order No. 1 and the memo issued by the Special Counsel for Ethics Compliance by providing the Summary Guide to the Code of State Ethics to employees hired and gaining an acknowledgement of receipt via employee signature; alter its memorandum to separating Division employees to a request for an exit interview as opposed to extending an invitation to meet with Division**

representatives; include the Division's Ethics Liaison Officer in the exit interview process in order to disseminate information regarding post-State employment rules to the exiting employee and answer any pertinent ethics questions.

Comment:

It appears that the Division was not fully cognizant of its responsibilities with regard to compliance with Governor Rell's Executive Order No. 1 and the memo issued by the Special Counsel for Ethics Compliance.

- 9. The Division should comply with Section 4-33a of the General Statutes to report all illegal, irregular or unsafe handling of State funds promptly.**

Comment:

Two separate instances involving Division employees abusing State time and improperly using State vehicles were not promptly reported to the State Comptroller and the Auditors of Public Accounts in accordance with the statute.

- 10. The Division should strengthen its internal policy regarding personal use of State telephones to reflect the Acceptable Use of State Systems Policy and reiterate the policy to all Division staff.**

Comment:

We noted numerous instances of personal long distance calls made by Division staff. We found that two employees seemed to have a significant number of such calls to out-of-State locations.

- 11. The Division should comply with Section 12-574-F65 of the State Regulations by obtaining a signature from the association licensee under penalties of false statement on Division forms certifying to the accuracy of the distribution of money wagered.**

Comment:

Certification on Division forms as to the accuracy of the distribution of money wagered is not obtained from the association licensee.

- 12. The Division should comply with Section 12-577 of the General Statutes by performing annual audits of the association licensee and adopting auditing standards by which they shall be performed.**

Comment:

The Division currently conducts audits of the association licensee on a three-year cycle. The past two audit reports issued indicate that the audits were performed in

accordance with generally accepted auditing standards. However, we were informed that the Division has not adopted any auditing standards.

- 13. The Division should continue in its efforts to setting a prompt for users to be able to change their network passwords. A Division policy should also be established as to the frequency in which users should be changing their passwords.**

Comment:

The Division has been unable to setup a password change prompt with the current server environment. It has been indicated that upon migrating to a web based server, a password change prompt and policy will be implemented.

- 14. The Division should comply with the State Property Control Manual and conduct an annual physical inventory of its software; maintain its software library in a secure area or manner; and consider disposing of the software that has been identified as outdated or no longer used in accordance with the corresponding software publisher's or manufacturer's license or copyright agreements.**

Comment:

The Division had not conducted a physical inventory of its software, nor maintained it in secure area or manner. A significant amount of software has been identified as outdated and no longer used by the Division.

- 15. The Division should comply with General Letter 2008-3 by seeking approval from the Office of the Public Records Administrator for utilizing the warehouse as a records storage site.**

Comment:

The warehouse located in Newington has been used for housing IT backup equipment as well as, the sealed ticket inventory and various archived Division files. The Division has not requested approval from the Office of the Public Records Administrator for utilizing this site for records storage.

- 16. The Division should document the supervisory review of the Gambling Regulation Unit's inspections conducted on lottery sales agents, as well as, the field staff accountability review performed.**

Comment:

Supervisory review of the inspections conducted by the Division's regulation officers on lottery sales agents did not appear to be documented. Additionally, documentation of the field staff accountability review performed was not evident.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Division of Special Revenue for the fiscal years ended June 30, 2006, 2007 and 2008. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Division of Special Revenue for the fiscal years ended June 30, 2006, 2007, and 2008, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Division of Special Revenue complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Division of Special Revenue's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws,

regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 6 – Core-CT user roles for payroll and human resources staff do not provide for proper segregation of duties, Recommendation 12 – the Division has not adopted auditing standards despite issuing an audit report indicating that the audit was performed in accordance with generally accepted auditing standards.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Division of Special Revenue complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Division of Special Revenue's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Division of Special Revenue's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

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.

Dennis R. Collins Jr.
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts