

STATE OF CONNECTICUT



*AUDITORS' REPORT
STATE BOARD OF ACCOUNTANCY
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010*

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

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AUDITORS OF PUBLIC ACCOUNTS

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November 3, 2011

AUDITORS' REPORT STATE BOARD OF ACCOUNTANCY FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010

We have examined the financial records of the State Board of Accountancy (Board) for the fiscal years ended June 30, 2009 and 2010. This report on that examination consists of the Comments, Recommendations, and Certification which follow.

Financial statements pertaining to the operations and activities of the State Board of Accountancy are presented on a statewide basis and are audited through the Statewide Single Audit that includes all state agencies. This audit examination has been limited to assessing the Board's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Board's internal control policies and procedures established to ensure such compliance.

COMMENTS

Foreword:

The State Board of Accountancy operates under Connecticut General Statutes Chapter 389. The Board is chaired by Thomas F. Reynolds, CPA. Day-to-day operations are conducted by Executive Director David L. Guay and his staff. From July 1, 2005 until June 30, 2008 the Board functioned as an autonomous agency under the Office of Policy and Management for administrative purposes only. The Office of Policy and Management provided human resource, payroll, and fiscal services to the Board. The role of the Office of Policy and Management was removed by Public Act 08-185, which amended Connecticut General Statutes Section 20-280(e). During the audited period, human resource, payroll, and fiscal services were provided to the Board by the Department of Administrative Services under a memorandum of understanding.

The function of the Board is to protect the users of services rendered by Connecticut licensed accountants by regulating the authorized practice of public accountancy within the State of Connecticut. The Board establishes the requirements for individuals and firms seeking licensing to

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practice public accountancy within the State of Connecticut and issues licenses to those individuals and firms that meet the criteria established. The Board imposes sanctions for violations of the regulations by licensees, unlicensed individuals, or firms practicing unlawfully through fines, suspensions and debarments.

Board Members:

Under the provisions of Section 20-280, subsection (a), of the General Statutes, the Board's nine members are appointed by and serve terms coterminous with that of the Governor, or until their successors are appointed. No board member may serve more than two successive full terms. Members of the Board are not compensated for their services but are reimbursed for reasonable expenses incurred in performing their duties. The Board on June 30, 2010, was comprised of five Connecticut residents who hold current, valid licenses to practice public accountancy within the state and four Connecticut residents who do not:

Thomas F. Reynolds, CPA, Chairman

Lee Schlesinger

James S. Ciarcia

Philip J. DeCaprio, Jr., CPA

Richard H. Gesseck, CPA

Leonard M. Romaniello, Jr., CPA

Richard L. Sturdevant

Martha S. Triplett, Esq.

Michael Weinshel, CPA

Lee Schlesinger was appointed by the Governor on April 29, 2010 to succeed Richard P. Bond. The remaining members served on the Board for the entire audited period.

RÉSUMÉ OF OPERATIONS:**General Fund Revenues:**

General Fund Revenues totaled \$ 2,312,034 and \$ 2,723,157 during the fiscal years ended June 30, 2009 and 2010, respectively. A comparison of total revenues during the audited period and the fiscal year ended June 30, 2008, is presented below:

	Fiscal Year Ended June 30,		
	2008	2009	2010
Licensing and Renewal	\$ 2,321,844	\$ 2,194,944	\$ 2,726,312
Examination Fees	130,149	23,000	2,210
Fines	14,210	126,200	36,423
Other Receipts	-	(32,110)	(41,788)
Total General Fund Revenues:	\$ 2,466,203	\$ 2,312,034	\$ 2,723,157

The decrease in revenues from examination fees from fiscal year 2008 to fiscal year 2009 was due to the elimination of a duplicative examination fee and also to regulation changes instituted during the fiscal year 2009. The increase in fines in the fiscal year 2009 was due to a major settlement.

General Fund Expenditures:

General Fund expenditures totaled \$386,340 and \$337,854 during the fiscal years ended June 30, 2008 and 2009, respectively. A comparison of total expenditures during the audited period and the fiscal year ended June 30, 2008, is presented below:

	Fiscal Year Ended June 30,		
	2008	2009	2010
Personal Services	\$ 315,643	\$ 314,971	\$ 307,216
Other Non-Capital Expenses	97,331	71,369	30,638
Total General Fund Expenditures:	\$ 412,974	\$ 386,340	\$ 337,854

The other expenses consisted primarily of office supplies, reimbursements to Board members, and data services.

CONDITION OF RECORDS

Our examination noted the following area that was in need of improvement:

Accountability of Licensing and Permit Fees:

- Criteria:* In accordance with the State of Connecticut's State Accounting Manual, accountability reports should be periodically prepared, where feasible. An accountability report should be generated that matches the number of each type of license issued/renewed with the corresponding fee that should be accounted for.
- Condition:* There are different fees associated with the different types of licenses, permits, and registrations. In order to produce an accurate accountability report for each revenue type, the transactions processed by the Board should be compared to the number and type of licenses issued in the database. A process to perform these types of reconciliations is not in place; however, the Board is in the process of converting to a new licensing and registration system with the understanding that it will allow them to perform this.
- Effect:* The failure to produce accountability reports increases the risk that erroneous transactions will go undetected. Such a process would also serve to detect unauthorized licenses issued that may be added to the database without the processing of a cash transaction.
- Cause:* The current software system used by the Board was developed strictly as a licensing tool and prevents the ready accumulation of the necessary data pertaining to revenue receipts. Also, the different types of fees and fines are not distinguished by different chartfields when posted to Core-CT, thereby making it difficult to run the necessary reports.
- Recommendation:* Accountability reports should be prepared to reconcile the number of licenses, permits, and registrations issued to fees processed and actual deposits. (See Recommendation 1.)
- Agency Response:* "The Board concurs with the finding. The State Board of Accountancy is already transitioning to the State's enterprise wide licensing system which will provide the ability to generate revenue accountability reports. To facilitate the production of the reports, the State Board of Accountancy has requested individual chart fields be created for each license type by the Office of the Secretary of the State, which the Board has been merged into as of July 1, 2011."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

There were no recommendations as a result of the prior audit.

Current Audit Recommendations:

- 1. Accountability reports should be prepared to reconcile the number of licenses, permits, and registrations issued to fees processed and actual deposits.**

Comment:

No accountability reports were prepared to reconcile expected revenues to what was received.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the State Board of Accountancy for the fiscal years ended June 30, 2009 and 2010. This audit was primarily limited to performing tests of the Board's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Board's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Board are complied with, (2) the financial transactions of the Board are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Board are safeguarded against loss or unauthorized use. The financial statement audits of the State Board of Accountancy for the fiscal years ended June 30, 2009 and 2010 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that

would be material in relation to the Board's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Board's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be a significant deficiency: Recommendation 1- Accountability reports should be prepared to reconcile the number of licenses, permits and registrations issued to fees processed and actual deposits. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the State Board of Accountancy 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 Board'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.

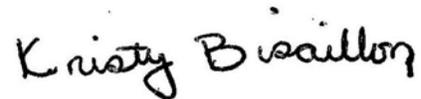
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the State Board of Accountancy during the course of our examination.



Kristy Bisailon
Auditor II

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts