

# 2006 ANNUAL REPORT

to the  
Connecticut General Assembly



**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL  
210 CAPITOL AVENUE  
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

**January 31, 2007**

Members of the General Assembly:

In accordance with Section 2-92 of the Connecticut General Statutes, we are hereby submitting our annual report on the operations of the Office of Auditors of Public Accounts.

The 2006 calendar year was another busy and challenging year for our Office. In addition to managing the challenges posed by the State's on-going implementation of a new set of centralized financial and human resource management computer applications, collectively referred to as "Core-CT", our Office continued to receive a greater than usual number of whistleblower complaints during this period. A significant amount of staff resources were devoted to both of these areas, requiring our Office to constantly reschedule audit work and reallocate staff resources.

These challenges are more fully described in Section I of this report under the caption "Recent Developments". General information on the operations of our Office can also be found in Section I. Pursuant to the provisions of Section 2-92 of the General Statutes, several recommendations for your consideration during the upcoming legislative session have been included in Section II of this report.

It should be noted that additional information on the operations of our Office can be found on our Office's website, which is located at [www.state.ct.us/apa](http://www.state.ct.us/apa). A key feature of this website is that it provides for the electronic distribution of our reports. Accordingly, members of the public and other interested parties may download, for viewing and/or printing, copies of reports issued by our Office. It should be noted that a new feature on our website allows interested parties to sign-up for and receive an e-mail notification whenever a new report is issued by our Office. The procedure to subscribe to this mailing list can be found at [www.state.ct.us/apa/list.htm](http://www.state.ct.us/apa/list.htm).

According to law, we maintain copies of reports and working papers for all audits we conduct of State agencies, State quasi-public bodies and State supported institutions. All of these documents, except those classified by statute as confidential, are available for review by members of the General Assembly and the public. Copies of our reports can be picked up in our offices at rooms 114 or 116 in the State Capitol, may be available on our website, or you can call us directly for information at 240-8651 or 240-8653.

In transmitting this annual report, we stand ready to be of service to you, the members of the Connecticut General Assembly.

Respectfully submitted,

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts

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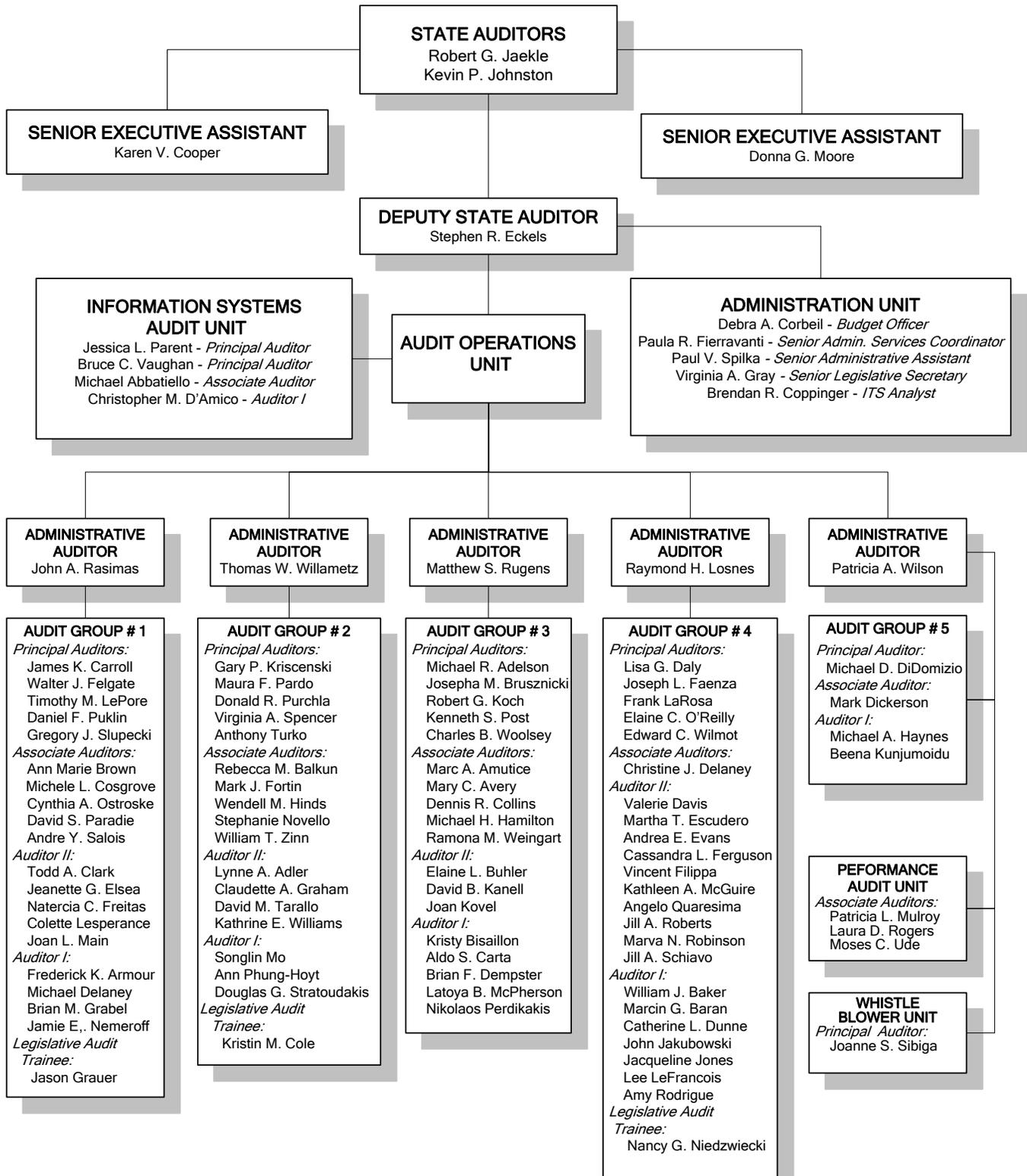
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# AUDITORS OF PUBLIC ACCOUNTS ORGANIZATIONAL STRUCTURE



SECTION I

**REPORT ON THE OPERATIONS OF OUR OFFICE**

**Organization and Staff:**

The Office of the Auditors of Public Accounts can trace its origin to a charter granted in 1662 to the Colony of Connecticut, by King Charles the Second of England. The State Statutes of 1750 refer to the auditing of “the Colony’s account with the Treasurer of the Colony.” In 1786 when the Office of the Comptroller was created, the Auditors of Public Accounts was placed under its supervision and remained so until 1937 when legislation established the independent status of the Office. Its organization with two Auditors of Public Accounts, not of the same political party, makes Connecticut unique among State auditing agencies. From its colonial origin, Connecticut's audit function has been performed by more than a single auditor.

The Office of the Auditors of Public Accounts presently consists of 107 employees, including the two positions of State Auditor. We are assisted in the management of the Office by a Deputy State Auditor. The audit operations staff is composed of 97 auditors organized into five audit groups with each group under the general direction of an Administrative Auditor, and a Performance Audit Unit and a Whistle Blower Unit under the general direction of one of the Administrative Auditors. There is also an Information Systems Audit Unit presently consisting of four auditors. The Administration Unit has five employees providing administrative assistance to the Office, support services to the field audit teams and report processing services.

The professional auditing staff of the Office has been and will continue to be hired through a competitive selection process. Advancement within the Office is made through a process which includes examinations conducted for us by the Department of Administrative Services. The staff is encouraged to continue studies for advanced degrees and/or professional certification and several of our staff members are completing requirements for such. About 49 members of our staff have relevant professional certifications and a total of 25 members have advanced degrees.

**Auditing State Agencies:**

During the 2006 calendar year, members of our field audit staff completed 48 audits of State agencies. A total of 359 audit recommendations were made in those reports. Agencies are asked to file with us corrective action plans related to those recommendations. Based on past experience agencies have implemented approximately 49 percent of our recommendations.

Our audit approach entails, among other procedures, an examination and verification of financial statements, accounting records and supporting documents, a determination of the agency's compliance with statutory and budgetary requirements, an evaluation of the agency's internal control structure, verification of the collection and proper handling of State revenue, and an examination of expenditures charged to State appropriations. Reports on these audits consist of findings and recommendations and, where appropriate, certified financial statements setting forth the condition and operations of the State funds involved.

In accordance with Section 2-90 of the General Statutes, we report any unauthorized, illegal, irregular or unsafe handling or expenditure of State funds to the Governor, the State Comptroller, the Clerk of each House, the Legislative Program Review and Investigations Committee and the Attorney General. Such matters can be reported by formal letter, while numerous less serious matters such as minor losses and acts of vandalism are generally reported collectively by memoranda. State agency reports, filed with this Office and the State Comptroller in accordance with Section 4-33a of the General Statutes, disclosed approximately 2,460 losses, primarily through theft, vandalism and inventory shortages in the 2006 calendar year, involving an aggregate loss of some \$3,070,000.

In September 2006, this Office issued its annual Statewide Single Audit Report for the State of Connecticut. That report covered the audit of the financial statements as presented in the State's comprehensive annual financial report for the fiscal year ended June 30, 2005, and the schedule of Federal financial assistance received by the State during that year. This audit is done under the requirements of the Federal Single Audit Act and is a condition of the State's receiving nearly \$5,300,000,000 of Federal financial assistance.

In addition to this Statewide audit approach, we are also continuing to audit each State department on a cyclical basis and under a limited scope audit which focuses on the department's compliance with financial-related laws and regulations and its internal control structure. This auditing approach complements that being done annually under the Statewide Single Audit and avoids duplicating audit effort.

Under existing disclosure requirements for the offering and sale of State bonds or notes, the Treasurer must prepare an Official Statement for each offering. Included with such Official Statements, and those of Quasi-Public Agencies which include State disclosures, are selected State financial statements which require an audit opinion. With each issuance of an Official Statement, we are required to examine such statements and prepare an audit opinion for inclusion in the Official Statement. We also provide separate audit opinions in connection with the bonding programs of the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Development Authority and the UConn 2000 Program. During the 2006 calendar

year, we were required to give eight such audit opinions in connection with the sale of bonds or notes of the State or Quasi-Public Agencies and in connection with the separate bonding programs noted above.

Although financial-compliance auditing is the principal responsibility of this Office, Section 2-90 of the General Statutes authorizes examinations of performance in order to determine the effectiveness of the audited agency in achieving expressed legislative purposes. To that end, 7 of the 43 departmental reports issued during the year included a section outlining our review of some aspect of the agencies' performance. In addition, two comprehensive performance audit reports were issued during the year. One report was devoted to evaluating the Per Se program administered by the Department of Motor Vehicles, while the other report dealt with the tax collection process administered by the Department of Revenue Services.

Although the findings of an audit are usually made known to agency officials during the conduct of the audit, draft copies of the audit reports are delivered to agency officials for their comments. Such comments are then incorporated into the report in response to findings presented. When this is completed, the supervising auditor submits the report and its working papers for review. An Administrative Auditor conducting that review verifies that the audit met generally accepted auditing standards and that the findings of the report were supported by the evidence collected in the course of the audit. The report is also reviewed by the Deputy State Auditor and both State Auditors to assure compliance with policies and procedures of this Office. Draft copies of the approved audit report are delivered to agency officials and, when requested by them, an exit conference is held with such officials before final release and distribution of the report. Distribution of final reports is then made to agency heads, the leaders of the General Assembly, the Appropriations Committee, the Legislative Program Review and Investigations Committee, the Governor, the Lieutenant Governor, the Comptroller, the Treasurer, the Attorney General, the Secretary of the Office of Policy and Management, the State Library, designated Federal agencies, news media and, when appropriate, to members of boards and commissions and others. Copies are also retained in our files and on our website ([www.state.ct.us/apa](http://www.state.ct.us/apa)) for use by our staff, members of the General Assembly, State officials and members of the general public.

A listing of the audit reports issued during 2006 and the number of recommendations included in each report follows:

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>DEPARTMENTAL AUDITS:</b>				
<b>Legislative:</b>				
Joint Committee on Legislative Management	11/03/06	3	3	2

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>Elected Officials:</b>				
State Treasurer – Departmental Operations	03/24/06	13	6	1
State Comptroller – State Financial Operations	04/26/06	9	0	N/A
State Treasurer – State Financial Operations	06/02/06	14	2	1
Office of the Secretary of the State	09/25/06	8	4	1
<b>General Government:</b>				
Department of Administrative Services	01/25/06	17	28	16
State Marshal Commission	02/09/06	10	0	N/A
Department of Veterans' Affairs	03/29/06	8	9	4
Investment Advisory Council	05/24/06	0	0	N/A
<b>Regulation and Protection of Persons and Property:</b>				
Department of Public Safety	04/21/06	12	6	6
Police Officer Standards and Training Council	05/03/06	0	2	2
Department of Motor Vehicles	05/19/06	19	21	9
Workers' Compensation Commission	09/20/06	3	4	2
Commission on Human Rights and Opportunities	10/13/06	12	3	2
Insurance Department and Office of the Managed Care Ombudsman	10/25/06	1	2	1
<b>Conservation and Development:</b>				
Connecticut Historical Commission	01/17/06	2	1	0
Connecticut Agricultural Experiment Station	02/16/06	3	2	0
Department of Economic and Community Development	09/11/06	5	9	7
<b>Health and Hospitals:</b>				
Department of Mental Health and Addiction Services	03/02/06	11	8	3
<b>Transportation:</b>				
Department of Transportation	02/01/06	13	18	7
<b>Higher Education:</b>				
Southern Connecticut State University	01/20/06	11	10	4
University of Connecticut Health Center	07/05/06	9	9	4
Charter Oak State College Foundation	09/01/06	0	0	N/A
Western Connecticut State University	09/13/06	9	7	3
CCSU – Intercollegiate Athletics Program for 2004	09/15/06	0	0	N/A
CCSU – Intercollegiate Athletics Program for 2005	10/16/06	0	0	N/A
Department of Higher Education	12/06/06	6	8	3

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>Other Education:</b>				
Department of Education	05/17/06	13	9	4
Connecticut State Library and Commission on the Arts	06/07/06	6	10	5
Board of Education and Services for the Blind	09/18/06	7	8	4
Connecticut Heritage Foundation	10/27/06	0	0	N/A
<b>Judicial:</b>				
Office of the Probate Court Administrator	02/27/06	3	2	2
<b>Quasi-Public Agencies and Other:</b>				
Connecticut Health and Educational Facilities Authority	01/18/06	0	0	N/A
Connecticut Resources Recovery Authority	01/19/06	10	8	3
Connecticut Development Authority	02/02/06	3	4	3
Connecticut Lottery Corporation	02/17/06	1	1	1
Connecticut Housing Finance Authority	03/03/06	0	3	3
Connecticut Innovations, Inc.	03/14/06	7	5	2
Connecticut Higher Education Supplemental Loan Authority	10/18/06	0	2	2
Connecticut Development Authority	10/20/06	4	3	1
Connecticut Innovations, Inc.	11/15/06	6	7	2
Connecticut Lottery Corporation	11/22/06	0	0	N/A
Connecticut Resources Recovery Authority	12/29/06	<u>5</u>	<u>10</u>	<u>6</u>
Total Recommendations - Departmental Audits		<u>263</u>	<u>234</u>	<u>116</u>
<b>STATEWIDE AUDITS:</b>				
State of Connecticut – Federal Single Audit Report	9/27/06	<u>76</u>	<u>72</u>	<u>33</u>
<b>OTHER AUDITS:</b>				
<b>PERFORMANCE AUDITS:</b>				
Department of Revenue Services	04/05/06	5	N/A	N/A
Department of Motor Vehicles – Per Se Program	09/27/06	8	N/A	N/A
<b>SPECIAL AUDITS:</b>				
Department of Environmental Protection – Special Review of Newhall Neighborhood Project	08/14/06	7	N/A	N/A
Special Review of Proposed Community Living Arrangement at 9 Country Club Woods Circle In Waterbury	08/31/06	<u>0</u>	<u>N/A</u>	<u>N/A</u>
Total Recommendations - Other Audits		<u>20</u>	<u>N/A</u>	<u>N/A</u>
Total Recommendations - All Audits		<u>359</u>	<u>306</u>	<u>149</u>
Percentage of Recommendations Implemented or Resolved Within One Audit Cycle				<u>49%</u>

The departmental audit reports issued by our Office generally contain recommendations calling for various improvements in an agency’s internal control structure, as well as recommendations calling for compliance with certain laws, regulations, contracts and grants when instances of non-compliance are found. A summary analysis of the recommendations appearing in our audit reports is presented as follows:

	<b><u>Number of Recommendations</u></b>
<b>Internal Control Recommendations:</b>	
Bank accounts, cash accounts, and petty cash funds	10
Cash management and cash handling and depositing	14
Computer operations	9
Equipment/supplies inventories	24
Financial reporting and accounting	16
General accounting and business office functions	10
Grant and loan programs	8
Miscellaneous State programs - administrative controls	18
Payroll and personnel controls	31
Purchasing of goods and/or services	22
Welfare, activity and other State funds	8
All others	<u>31</u>
Total Internal Control Recommendations	<u>201</u>
<b>Compliance Recommendations:</b>	
Payroll and personnel laws and regulations	7
Purchasing laws, regulations and contractual agreements	6
Reporting laws and regulations	14
All other laws and regulations	<u>18</u>
Total Compliance Recommendations	<u>45</u>
<b>Miscellaneous Recommendations:</b>	
Amendment or clarification of laws or regulations	7
Improve or automate administrative practices	9
Request Attorney General opinion	<u>1</u>
Total Miscellaneous Recommendations	<u>17</u>
Total Departmental Audit Recommendations	<u>263</u>

In addition to the departmental audit recommendations mentioned above, our Office issued a Statewide Single Audit Report, which contained 76 audit recommendations calling for various improvements in controls over State-administered Federal programs and compliance with

related laws and regulations. In addition, our Office issued several special audit reports during the 2006 calendar year. These reports contained 20 audit recommendations calling for improvements in the operations of State programs.

**Whistle Blower Matters:**

Under the provisions of Section 4-61dd of the General Statutes, known as the Whistle Blower Act, we receive complaints from anyone having knowledge of any matter involving corruption, unethical practices, violations of State laws or regulations, mismanagement, gross waste of funds, abuse of authority or danger to the public safety occurring in any State department or agency or quasi public agency. Section 4-61dd also applies to large State contracts. We investigate such matters and report our findings and recommendations to the Attorney General. At the request of the Attorney General or on our own initiative, we assist in any continuing investigation. During the fiscal year ended June 30, 2006, we received 109 complaints covering such matters as misuse of State funds, harassment, conflicts of interest and improper investigations.

As required by the aforementioned Section 4-61dd of the General Statutes, an annual report on such matters was prepared as of September 1, 2006, and filed with the clerks of the House and Senate. By law, the identity of the complainant cannot be disclosed, but the general nature of each complaint is available in our Office.

In addition to the confidentiality of the complainant, the records of any investigation of whistle blower matters are considered exempt records and do not require disclosure under the Freedom of Information statutes. This exemption aids our investigation of complaints.

The following is a summary of those complaints received during the 2005-2006 fiscal year and the action taken thereon.

<u>Whistle Blower Matters Received</u>	<u>Date</u>	<u>Reported To Attorney General</u>
<u>Agency/Subject</u>	<u>Date</u>	<u>General</u>
<b>Agriculture:</b>		
Interference with Enforcement Action	11/04/05	*
Issue with Promotion and Contract	11/10/05	*
<b>Capitol Police:</b>		
Improper Investigation	10/22/05	*
<b>Central Connecticut State University:</b>		
Grounds Maintenance Contract	10/21/05	*

<b><u>Whistle Blower Matters Received</u></b>	<b><u>Date</u></b>	<b><u>Reported</u></b>
<b><u>Agency/Subject</u></b>	<b><u>Date</u></b>	<b><u>To Attorney</u></b>
<b><u>Chief State Attorney's Office:</u></b>	<b><u>Date</u></b>	<b><u>General</u></b>
Attendance Issues	07/27/05	*
<b>Children and Families:</b>		
Hogar Crea of Connecticut (A)	07/19/05	*
Various Issues	09/27/05	09/29/06
Various Issues	09/28/05	10/06/06
Riverview Hospital - Outside Employment Issues	10/31/05	*
Windham Technical High School (B)	11/23/05	*
Alleged Cover-up and Abuse of Authority	11/18/05	*
Conduct of Investigation	01/20/06	*
Possible Conflict of Interest	01/25/06	*
Safety and Retaliation Issues (C)	03/06/06	*
Employee Retaliation	03/23/06	*
Failure to Provide Information at a Hearing	05/01/06	*
<b>Connecticut Innovations, Inc.:</b>		
Investments in Company	04/12/06	06/21/06
<b>Corrections:</b>		
Personal Business on State Time	07/06/05	*
Training and Harassment Issues	12/12/05	08/23/06
Lack of Investigation of Complaint	12/21/05	06/21/06
Overtime and Other Issues	01/11/06	03/15/06
Safety Issues at Cheshire Correctional Institution	01/19/06	*
Security Division	03/15/06	*
Inadequate Training and Hostile Workplace Issues	02/21/06	12/01/06
Investigation of Complaints and Retaliation	04/19/06	12/29/06
Hostile Work Environment	06/01/06	*
<b>Consumer Protection:</b>		
Liquor Control Permits	03/06/06	10/25/06
<b>Education:</b>		
Highville Mustard Seed Charter School	10/07/05	11/21/05
Windham Technical High School (B)	11/23/05	*
Vinal Technical High School - Grade Change	12/28/05	12/08/06

<b><u>Whistle Blower Matters Received</u></b>	<b><u>Date</u></b>	<b><u>Reported To Attorney General</u></b>
<b><u>Agency/Subject</u></b>	<b><u>Date</u></b>	<b><u>General</u></b>
<b>Education (continued):</b>		
New Haven School Construction	02/01/06	*
School Readiness Program	02/15/06	*
<b>Education and Services for the Blind:</b>		
Various Allegations	08/29/05	02/10/06
<b>Environmental Protection:</b>		
Questionable Landfill Billings	08/29/05	04/03/06
Alleged Employee Misconduct	12/27/05	02/27/06
<b>Gateway Community College:</b>		
Alleged Wrongdoing by Employee	08/25/05	*
<b>Insurance:</b>		
Delay of Investigation	05/04/06	*
<b>Judicial:</b>		
Lack of an Investigation	11/03/05	08/11/06
Retaliation for Reporting Abuse of Time	02/14/06	*
Conflict of Interest	04/26/06	07/19/06
Connecticut Partners in Action	06/30/06	*
<b>Labor:</b>		
Alleged Harassment	08/04/05	11/21/05
<b>Large State Contractor:</b>		
Retaliation	08/04/05	11/14/05
Alleged Wrongdoings and Retaliation	08/24/05	*
Accounting Irregularities	09/14/05	*
Safety and Welfare of Convalescent Home Patients	10/04/05	*
Alleged Fraud, Misuse of Funds, Poor Care	12/21/05	*
Grant Services	02/16/06	*
Safety and Retaliation Issues (C)	03/06/06	*
<b>Legislative Management:</b>		
Possible Abuse of Funds	01/13/06	06/21/06

<b><u>Whistle Blower Matters Received</u></b>	<b><u>Date</u></b>	<b><u>Date Reported To Attorney General</u></b>
<b><u>Agency/Subject</u></b>	<b><u>Date</u></b>	<b><u>General</u></b>
<b>Manchester Community College:</b>		
Retaliation	08/02/05	06/21/06
<b>Mental Health and Addiction Services:</b>		
Hogar Crea of Connecticut (A)	07/19/05	*
Alleged Wrongdoings by Employees	02/01/06	*
Question of Work Rule Violation	03/01/06	06/09/06
Alleged Profiting from State Work	04/20/06	*
<b>Mental Retardation:</b>		
Staff Recognition Picnic	08/02/05	10/17/05
Failure to Investigate a Personnel Matter	11/04/05	*
Possible Misuse of Client's Funds	02/24/06	*
Leisure and Recreation Services	04/13/06	*
Improper Warning of Investigation	06/09/06	12/13/06
Leaving Work Early	06/30/06	*
<b>Middlesex Community College:</b>		
Favoritism in Hiring	07/29/05	09/11/06
<b>Military Department:</b>		
Alleged Discarding of Donations	04/20/06	05/03/06
<b>Motor Vehicles:</b>		
Various	09/21/05	12/21/05
Improper Investigation	04/24/06	12/06/06
<b>Naugatuck Valley Community College:</b>		
Alleged Violations of Policies and Abuse of Power	04/20/06	*
<b>Norwalk Community College:</b>		
Hiring Practices	09/13/05	*
Hiring and Other Issues	02/09/06	*
<b>Office of Health Care Access:</b>		
Contract and License Issues	02/23/06	*

<b><u>Whistle Blower Matters Received</u></b>	<b><u>Date</u></b>	<b><u>Date</u></b>
<b><u>Agency/Subject</u></b>	<b><u>Date</u></b>	<b><u>Reported To Attorney General</u></b>
<b>Office of Policy and Management:</b>		
Alleged Retaliation	07/21/05	*
<b>Office of Secretary of State:</b>		
Abuse of Time	02/17/06	06/07/06
<b>Office of Victim Services:</b>		
Hiring Practices	03/28/06	*
<b>Public Health:</b>		
Review of Complaint	07/11/05	*
Personnel Issues	11/28/05	10/25/06
Gambro Dialysis Center (D)	06/14/06	11/15/06
<b>Public Safety:</b>		
Mismanagement and Abuse of Power	10/24/05	*
State Building Inspector's Office	12/16/05	*
Contract Issues	03/02/06	*
Grant Fund Payment for Overtime	02/24/06	*
<b>Public Utility Control:</b>		
Involvement in Memorandum of Understanding	07/06/05	*
<b>Public Works:</b>		
Alleged Contract Irregularities	12/28/05	*
Possible Leasing of Building	05/31/06	12/13/06
<b>Social Services:</b>		
Overbilling by Home Health Care Providers	07/27/05	08/12/05
Excessive Dispensing Fees	08/08/05	11/28/05
Bureau of Rehabilitation Services	09/10/05	*
Talmadge Park (Large State Contractor)	11/09/05	05/17/06
Changing of Agency Records	01/25/06	07/21/06
Nursing Home Advance Payments	06/13/06	*
Gambro Dialysis Center (D)	06/14/06	11/15/06
Prepaid Burial Contracts	06/23/06	*
Pierce Baptist Home	06/13/06	*

<b><u>Whistle Blower Matters Received</u></b>	<b><u>Date</u></b>	<b><u>Date Reported To Attorney General</u></b>
<b><u>Agency/Subject</u></b>	<b><u>Date</u></b>	<b><u>General</u></b>
<b>Southern Connecticut State University:</b>		
Search Firm and Harassment	09/19/05	09/27/06
Possible Misuse of Department Funds	06/07/06	*
Various Issues	06/16/06	*
<b>Transportation:</b>		
Personal Use of State Equipment and State Time	07/28/05	04/03/06
Conflict of Interest	09/14/05	*
Contract Favoritism	10/31/05	02/27/06
Licenses/Permits	11/25/05	05/01/06
Gateway Terminal	02/23/06	04/19/06
Bidding Process	03/10/06	07/12/06
Running a Personal Business on State Time	03/29/06	10/23/06
<b>UCONN:</b>		
Settlement with Athletic Director	07/25/05	06/09/06
Non Bid Contract	08/01/05	11/16/05
Ice Hockey Rink	08/11/05	*
State Vehicle Accident	08/11/05	01/18/06
Overcharging for Work	09/07/05	07/12/06
Foundation Related Donations	10/11/05	*
Allegations of Fraud	12/05/05	06/14/06
<b>UCONN Health Center:</b>		
Various Issues	02/15/06	07/07/06
<b>Various Agencies:</b>		
Americans with Disabilities Act	09/01/05	*
<b>Veterans' Affairs:</b>		
Computer Use	09/16/05	*
<b>Vocational High School System:</b>		
Release of Confidential Information	03/28/06	05/24/06

- \* Matters currently under review
  
- (A) Department of Children and Families and Department of Mental Health and Addiction Services
  
- (B) Department of Education and Department of Children and Families
  
- (C) Large State Contractor and Department of Children and Families
  
- (D) Department of Social Services and Department of Public Health

**Generally Accepted Government Auditing Standards (GAGAS):**

An audit consists of a review and examination of records, documents and financial statements and the collection of information needed to certify to the fairness of presentations in financial reports and compliance with statutory requirements and regulations and to evaluate management's efficiency and effectiveness in carrying out responsibilities. Standards have been set by national organizations for the conduct of audits and for the preparation and issuance of audit reports. Generally Accepted Government Auditing Standards (GAGAS) are auditing standards established by the United States General Accountability Office (GAO) that are codified into a publication entitled "Government Auditing Standards," which is more commonly referred to as "the Yellow Book."

Although the standards prepared by the GAO are only required in connection with entities supported by or receiving Federal assistance, they are so comprehensive that their application to all governmental audits is generally encouraged. Because the Auditors of Public Accounts in the State of Connecticut function in many respects as the GAO does in the Federal Government, we have chosen to accept and follow "Government Auditing Standards" in the performance of virtually all of our audit work.

Following GAGAS has had a significant impact on our operations. Continuing education for our professional staff, periodic external quality control review assessments (peer reviews) and compliance with recent Statements on Auditing Standards (SAS) issued by the American Institute of Certified Public Accountants (AICPA) require constant attention, updating of policies and procedures, and monitoring.

**Continuing Education:**

With respect to continuing education, auditors responsible for planning, directing, conducting, or reporting on government audits must complete, every two years, at least 80 hours of appropriate continuing education and training, with at least 24 of the 80 hours in subjects

directly related to the government environment and government auditing. Accordingly, we have adopted and follow a training policy statement which provides for reasonable assistance in the form of expanded training and seminars on State time and at State expense, together with tuition reimbursement programs for staff taking appropriate courses on their own time. In order to provide more effective training to our audit staff, during 2006 the training program included in-house presentations and contracted seminars.

**Peer Review:**

GAGAS mandates that audit agencies have an external quality control review assessment at least once every three years. In order to comply with this requirement our Office hired a CPA firm to review our Office's quality control procedures in order to determine whether such procedures were sufficient to ensure that all audits performed by our Office during the review period were conducted in accordance with professional auditing standards. Our last review, commonly referred to as a "peer review," was completed during the Spring of 2006 and covered the 2005 calendar year. The final report on this review resulted in a very favorable unqualified opinion for our Office. An organization such as ours is also expected to monitor its operations between peer reviews to ensure continuing effectiveness of the quality control system. To that end, we require an annual inspection be conducted to assure us that the control system is working as intended. We will soon designate members of our staff to perform such an inspection for the 2006 calendar year.

**Recent Developments:**

During February 2000, the Governor and the State Comptroller jointly announced the undertaking of a major project to replace the State's aging core financial and administrative computer systems with a more modern software package. This new system, which is based on a customized version of PeopleSoft's enterprise resource planning software, is known as the Core-CT System. During the 2003 calendar year, after more than three years of evaluation and systems development work, the Core-CT System was finally placed into production by the State in two separate phases. The financial applications of the Core-CT System were placed into production on July 8, 2003, while the human resources applications were placed into production on October 27, 2003. A third phase saw the implementation of the Core-CT billing application during January 2005 and the Core-CT asset and inventory management applications during July 2005. In addition, major version upgrades to the human resources and financial application software were implemented during April and November 2006, respectively. One more planned development phase calls for the State to implement the Core-CT projects/contracts application during July 2007. It should be noted that through the end of the 2006 fiscal year, some \$129,600,000 has been spent by the State to develop, implement and upgrade the Core-CT System.

Due to the complexity and state-of-the-art technology employed by the Core-CT applications, learning how to process State financial, human resources, and other transactions under the Core-CT System has been a challenging process for all State agencies involved in the development and implementation of this new computer system.

Unlike most State agencies, in addition to getting our business office staff trained on how to use this new computer system, we also had to provide training for our professional audit staff. In order for our audit staff to be able to conduct audits under the new Core-CT System, they had to learn how transactions were processed under this new system, as well as how to retrieve transaction data for audit purposes. In addition to arranging for the initial training of our professional audit staff, a significant amount of work has been conducted and continues to be conducted to revise our standard audit procedures in order to accommodate transaction processing under the new Core-CT System.

It should be noted that our professional audit staff recently completed its second annual audit of the State's financial statements involving transactions which had been processed under the Core-CT System. In conjunction with our audit of the State's financial statements our staff has also recently completed work on its second "Single Audit" of Federal grant expenditures processed under the Core-CT System. As noted earlier in this report, this latter audit is a requirement of the Federal Single Audit Act.

While revisions to our standard audit procedures have allowed our staff to audit individual transactions processed under the Core-CT System, difficulties encountered by the State Comptroller's Office in trying to finalize and close the general ledger within the Core-CT System contributed to significant delays in the preparation of the State's financial statements for the fiscal year ended June 30, 2005.

In order to enable the State to meet all of its statutory and regulatory reporting requirements, our Office would normally have completed its audit of the State's 2004-2005 financial statements by December 31, 2005. Because the State Comptroller's Office was unable to provide our Office a final set of these financial statements until August 1, 2006, we were not able to complete our audit of these financial statements until September 27, 2006. This delay in finalizing the State's financial statements also delayed the completion of our "Single Audit" of the State's Federal grant expenditures for the fiscal year ended June 30, 2005, and thereby delaying the issuance of our Single Audit Report until September 27, 2006. Normally, our Office would have completed this audit and issued our report by the Federally mandated deadline of March 31, 2006. It should be noted that the State, anticipating this reporting delay, requested and received from the Federal government approved extensions to the normal Single Audit Report filing deadline.

During the 2006 calendar year our Office responded to a number of special requests for assistance as follows:

- On February 17, 2006, the Office of Policy and Management requested that our Office conduct a special review of the selection process employed by the Children's Trust Fund Council to purchase a property which was to serve as a shelter for abused girls. This shelter was to be known as "Makayla's House". This request arose from concerns that proper State procedures were not followed in the selection of this property.

- On March 24, 2006, our Office received a request to conduct a special review of a contract that the Department of Administrative Services had entered into with a national car rental company to provide fleet rental car services to State agencies. This request arose out of concerns that this privatization of fleet rental car services was more expensive than the prior arrangement whereby the Department of Administrative Services maintained its own fleet of rental cars for State agencies to rent on a daily basis.
- On March 24, 2006, our Office received a Legislative request to conduct a special review and evaluate various charges raised in a report commissioned by a group of property owners from the Prospect Hill neighborhood in Hamden, concerning questionable pollution testing and monitoring efforts undertaken by the Department of Environmental Protection in their neighborhood. This request arose out of concerns that public funds were being misused.
- On June 16, 2006, our Office received a Legislative request to conduct a special review of the process used by the Department of Mental Retardation to select and purchase a home located at 9 Country Club Woods Circle in Waterbury for use as a group home for clients of the Department. This request arose due to concerns about possible irregularities involved with this transaction.
- On September 18, 2006, the Governor's Office asked our Office to conduct a special review of the Office of the Chief Medical Examiner. This request arose due to concerns that irregularities were occurring in the administration of that agency's personnel function.

It should be noted that the increase in the number of requests for special audit reviews received by our Office seems to be the result of an increased sensitivity by State officials towards detecting unethical behavior within the State government. This increased sensitivity towards the detection of unethical behavior within State government can also be found within the public-at-large, as the number of whistleblower complaints received by our Office during the 2006 calendar year totaled 104 complaints. While this is less than the record number of 137 whistleblower complaints received by our Office during the 2004 calendar year and the near record of 134 whistleblower complaints received during the 2005 calendar year, it is still significantly higher than what our Office has historically received over the twelve years preceding the 2004 calendar year. Due to the high number of complaints we have been receiving over the last few years, our Office has been forced to reallocate staff resources to address not only the increase in the number of whistleblower complaints received by our Office, but the increase in the inherent complexity of these complaints, as well. This has increased pressure on our Office to meet its other statutory auditing responsibilities.

As provided for in Section 31 of Public Act 06-186, effective July 1, 2006, our Office was granted the authority to audit trust accounts maintained by State Marshals. In accordance with this provision, our Office developed a plan for auditing these accounts and recently completed its first audit of a State Marshal's trust account. A significant number of additional trust account audits are planned for the coming year. Based on information provided to our Office by the State

Marshal Commission, there were 216 State Marshals during the 2006 calendar year of which 169 maintained trust accounts. It should be noted that according to Section 6-38 of the General Statutes, the State Marshal Commission is authorized to appoint up to 318 State Marshals.

On a more routine note, a new Intranet site for the exclusive use of our staff was placed into production during the 2006 calendar year. Among other things, our Office uses this site to electronically distribute a variety of information to our staff that previously was provided to them in paper form. Just through the electronic distribution of our Office's various policy manuals and applicable revisions, our Office has already realized significant processing efficiencies.

SECTION II

**RECOMMENDATIONS**

Many recommendations of a financial or recordkeeping nature are presented in the written audit reports prepared by this Office. Most of these are addressed to department heads and stress the need for compliance with legislative policies or sound accounting and business principles. Areas encountered in which statutory revisions or additional legislative actions appear desirable are presented to the General Assembly throughout the year and in the following recommendations.

- 1. The General Assembly should consider limiting the conditions that may be used to justify a waiver from competitive bidding when services are contracted for under a personal service agreement. Limiting such conditions to those that are specifically presented within Section 4-215, subsection (a), of the General Statutes would accomplish that objective.**

Comment:

State agencies that are proposing to enter into personal service agreements with a cost of more than \$20,000 are required to competitively bid for the services desired unless a waiver from competitive bidding is obtained from the Office of Policy and Management (OPM). Section 4-215, subsection (a), of the General Statutes specifies that waivers from competitive bidding can be granted by OPM when (1) services are being sought for which the cost to the State of a competitive selection procedure would outweigh the benefits of such procedure, (2) proprietary services (i.e. sole source) are being sought by a State agency, (3) services being sought are to be provided by a contractor that is specified through an act of the General Assembly, and (4) emergency services are being sought, especially those involving public safety concerns. In addition to the waiver conditions specified in Section 4-215, this Section also provides OPM with the discretionary authority to adopt additional types of conditions that may qualify for such waivers. To date OPM has used this authority to add conditions for (1) services that will be used in specific academic areas that include instructional or research activities, and (2) services that require a contractor that has special capabilities or experience. One of our past performance audits indicated that this latter condition is an often-used condition for granting waivers from competitive bidding. Because this is an overly broad condition that could conceivably be argued to exist for any personal services agreement that is entered into with a contractor somewhat experienced in a given field, its use may limit competition and effectively override attempts by the General Assembly to restrict the use of waivers from competitive bidding. Ultimately, whenever a competitive bid process is not used by a State agency when entering into a personal services agreement, it cannot be determined if the State agency received the most favorable prices for the services being contracted for. Competitive bidding also helps to make sure that State contracts are awarded in a fair manner to vendors competing for State business.

2. **The General Assembly should enact legislation that would allow for appointing a receiver for charter schools that are experiencing serious financial or operational problems that warrant intervention to protect the students and/or financial resources of the charter school.**

Comment:

Section 10-66bb of the General Statutes authorized the State Board of Education, on or after July 1, 1997, to grant within available appropriations, charters for local and State charter schools. State charter schools are funded through the Department of Education. Any person, association, corporation, organization or other entity may establish a charter school. Charter schools are governed by Boards of Directors which are responsible for the oversight of the schools' operations.

During the later part of 2005, the State Department of Education received allegations of wrongdoing at a State charter school and at the same time the Office of the Attorney General and our Office received the same allegations under the provisions of Section 4-61dd, the Whistleblower Act. Allegations were made concerning such areas as the misuse of school funds, the mismanagement of school resources, and nepotism involving both staff members and Board members. A joint investigation was conducted by the three agencies.

It was noted during the investigation that although the Department of Education has the authority to place a charter school on probation or revoke its charter, it does not have the authority to step in and directly oversee a charter school when serious problems arise. Allowing the Department of Education to appoint a receiver would ensure that there would be operational and/or financial oversight from an outside party when problems arise and it would ensure that both the students and the financial resources of the school are protected.

3. **The General Assembly should consider adopting legislation which would specifically prohibit any employee of Connecticut Innovations, Inc. (CI) from benefiting from employment with any CI startup company.**

Comment:

Connecticut Innovations, Inc. is classified as a quasi-public agency and was established to stimulate and encourage the research and development of new technologies and new products, the development and operation of science parks and incubator facilities and, to promote science, engineering, mathematics and other disciplines essential to the development of technology. It provides financial assistance to Connecticut businesses for the development and marketing of high-technology products, services, and processes.

State Ethics statutes contain certain hiring restrictions regarding the employment of persons who are hired by a company receiving State assistance within one year of such persons leaving a job with a State or quasi-public agency. One of our audits disclosed a situation in which a former CI employee, who played a significant role in the creation of a CI startup company, was hired by CI as a consultant immediately after the employee resigned from CI. The main reason for hiring this former employee as a consultant was so that this individual could serve as the Acting Chief Executive Officer (CEO) for the aforementioned startup company. It should be noted that prior to hiring this former employee as a consultant, CI entered into an agreement with the startup company that required it to reimburse CI for the hours that the consultant worked as the CEO. This arrangement continued until the reimbursement agreement expired, one year and one week after execution, at which point in time the former CI employee was hired as the CEO on a permanent basis. It should be noted that this employment arrangement resulted in the increase of this individual's base annual salary from \$105,000 to \$200,000.

4. **The General Assembly should consider an amendment to Section 5-164a, subsection (c), of the General Statutes to discontinue the practice of allowing employees of State-aided institutions to retire and return to full-time positions at State-aided institutions while continuing to receive full retirement benefits from the State Employees' Retirement System.**

Comment:

The American School for the Deaf, the Connecticut Children's Medical Center and the Connecticut Institute for the Blind are all State-aided institutions as defined in Section 5-175, subsection (a), of the General Statutes. Prior to Public Act 92-226, which was codified as Section 5-192nn of the General Statutes, employees of State-aided institutions, who were hired before January 1, 1993, were allowed to participate in the State Employees' Retirement System (SERS). Pursuant to Section 5-164a, subsection (c), of the General Statutes, the reemployment of retired State employees is restricted in order to limit the payment of full retirement benefits and full salary to the same individual to no more than 120 days in any given calendar year. No such restriction exists, however, for certain employees of State-aided institutions.

As a result, retired employees of State-aided institutions who are members of SERS may be rehired by the institution enabling such individuals to collect their full pension benefits from SERS and their full salaries from the State-aided institution, without having to adhere to the 120 day limitation that is placed on other rehired SERS retirees.

It should be noted that legislation to amend Section 5-164a, subsection (c), of the General Statutes to restrict reemployment of SERS member employees of State-aided institutions was included in Section 222 of Public Act 03-185 (i.e. "An Act Concerning Expenditures and Revenue for the Biennium Ending June 30, 2005). This legislation was vetoed on June 13, 2003.

5. **The General Assembly should enact legislation to redress the practice of reemploying retirees at a higher wage, for the same or similar position the retired employee originally held, at a higher hourly rate. It should also address the practice of reemploying retirees for critical management positions including agency heads on a part time basis for considerable lengths of time.**

Comment:

One of our past performance audit reports dealt with former State employees that have been granted reemployment contracts. We noted that the collective bargaining agreement that governs the pension benefits of State employees allows retired State employees to be reemployed for a maximum of 120 working days in any one calendar year without loss of retirement benefits, if that reemployment is not on a permanent basis. We found it is a common practice for State agencies to rehire retirees as consultants or for special projects, or for retired employees to refill their original assignment until replacement staff is recruited. However, there have been contracts granted with hourly rates greatly in excess of what a full time State employee in a comparable position would receive.

In addition, we have noted cases in which senior managerial level employees were reemployed in their previous positions on a part time basis after retirement for an extended period. While we recognize that it may be advantageous to hire a former employee on an interim basis, managers in critical positions, particularly those assigned to agencies involved with the safety of the public and the safety of clients under the State's care, should be held directly responsible for administering those agencies on a full time basis.

6. **The General Assembly should revise Section 32-4a of the General Statutes, entitled “Assistance to Connecticut Economic Resource Center, Incorporated,” to preclude State funds from being spent without adequate safeguards and accountability.**

Comment:

Section 32-4a specifies that “The State, acting through the Department of Economic and Community Development or any other State agency, governmental entity or the private sector, may, within available appropriations, provide financial assistance, lend staff or provide other in-kind contributions to the Connecticut Economic Resource Center, Incorporated (CERC).” Other than this statutory provision for providing assistance to CERC, we can find no other reference in the statutes to CERC or to what the State can expect to receive in return for the assistance it provides to CERC.

We have concluded that Section 32-4a may serve to encourage the uneconomical expenditure of State resources in that it permits State agencies to provide State funds to the Connecticut Economic Resource Center, Incorporated, without requiring the adherence to normal safeguards such as the execution of personal service agreements and/or grant agreements, whichever is applicable. While we recognize that CERC may be able to provide many valuable public services, given the provisions of Section 32-4a, there is currently no statutory safeguards in place to ensure that the State receives value for the support it provides to CERC.

Accordingly, it is recommend that the General Assembly require that State agencies execute either a personal services agreement or grant agreement with CERC as a condition for providing financial assistance or support to CERC, pursuant to the provisions of Section 32-4a, of the General Statutes.

7. **The General Assembly should enact legislation within Title 11, Chapter 188, of the General Statutes to provide enforcement powers to the Public Records Administrator with regard to the records management program. The legislation should include penalties to those employees who destroy records without prior approval of the Public Records Administrator. Legislation should also be enacted for the Public Records Administrator to provide an annual report to the General Assembly indicating those departments that are not in compliance with and/or have violated Record Retention laws.**

Comment:

The State Librarian has been given the responsibility for a records management program and has appointed an assistant to be the Public Records Administrator in accordance with Section 11-8 of the General Statutes. However, the General Statutes do not provide for penalties to State agencies or employees who do not comply with records retention rules or who destroy records without prior approval of the Public Records Administrator.

Section 1-240 of the General Statutes, under the Freedom of Information Act, provides penalties for persons who destroy records. Section 53-153 of the General Statutes, within Chapter 942 of the General Statutes, Offenses Against Public Justice, also provides penalties for the unlawful removal or alteration of records. However, neither of these statutes is referenced as penalties that the Public Records Administrator can enforce when the Administrator determines that an employee has destroyed State records.

An audit of the Department of Environmental Protection conducted during a prior Commissioner's term revealed that a former Director had instructed his employees to dispose of land records without the approval of the Public Records Administrator. Each State agency is required to have a designated Record Management Liaison Officer. The Department's designated Liaison Officer became aware of the disposing of records situation after some records were already sent to the recycling center. Upon inspection of the Department of Environmental Protection premises at a later date, the Liaison Officer found more bins of records that were about to be disposed of and saved these records. The Liaison Officer had the Public Records Administrator and State Archivist determine if these saved records should have been disposed of without prior authorization. The Public Records Administrator and State Archivist stated in a letter to this former Director at the Department of Environmental Protection, dated January 30, 2002, that "original State Land Acquisition records were disposed of without prior authorization from the State Library." It should also be noted that for some time the State Records Administrator had been informing this former Director that his land records were permanent and vital to the operations of the State and that he was required to submit a records retention schedule for these land records. As of December 30, 2005, a formal records retention schedule still has not been filed by the Department for approval by the State Records Administrator. It should be noted that there were no penalties to the former employee or the Department for the destruction of records and the failure to comply with developing a records retention schedule for the land records.

8. **The General Assembly should grant the Connecticut Siting Council the authority to impose late fees and/or interest penalties, where appropriate, on administrative assessments which have been billed by the Council to applicable energy, telecommunications and hazardous waste industries, pursuant to the provisions of Section 16-50v of the General Statutes.**

Comment:

During an audit of the Connecticut Siting Council, we found that over sixty percent of the administrative assessments imposed by the Council under Section 16-50v of the General Statutes, totaling approximately \$978,000, were paid from one month to 18 months late. Currently the Council does not have the authority to impose late fees and/or interest penalties on the late payment of administrative assessments.

**Technical Corrections and Other Matters:**

- a. Newington Children's Hospital changed its name to Connecticut Children's Medical Center and entered into a relationship agreement with Hartford Hospital. Since the former Hospital and its operation are referred to in a number of sections of the General Statutes, revisions are needed to reflect the name change and, possibly, to recognize the expanded mission of the former Hospital and its relationship with Hartford Hospital.
- b. Section 10a-25g of the General Statutes provides that the Department of Economic and Community Development is to administer two of three programs collectively known as the Yankee Ingenuity Initiative Program. However, over the years the Legislature passed various special acts, which appear to have transferred the administration of the Program to Connecticut Innovations, Inc., which in fact administers it. Section 10a-25g should be amended to recognize this situation.
- c. Section 4-9a of the General Statutes provides that the Governor appoint Executive Directors of all boards and commissions with few exceptions. However, Section 7-294d, subsection (a), (14), authorizes the Police Officer Standards and Training Council to employ an Executive Director. This apparent conflict in statutes should be resolved.
- d. Public Act 98-68 resulted in the creation of Section 4-37j of the General Statutes. This Section adds whistle blower protection to foundation employees and requires the development of policies for the investigation of corruption and various abuses. Section 4-37f, (8) delineates audit requirements for the foundations and specifies reporting on conformance with Sections 4-37e to 4-37i. Reference to Section 4-37j is not included in the reporting requirement. Section 4-37g, subsection (b), grants access by our Office to books of the foundations and workpapers of auditors that report violations of Section 4-37e through 4-37i inclusive "and any other provision of the general statutes." Given the nature of Section 4-37j, it would appear reasonable to expect auditors to report on the failure of foundations to comply with that Section as well as any other statute. While Section 4-37g could certainly be construed to include Section 4-37j, specifying that Section in the law would appear more appropriate.
- e. Section 4-37j of the General Statutes provides protection from retaliation to employees of higher education foundations that file whistleblower complaints. However, similar statutory protection from retaliation is not provided to volunteers of such foundations that file whistleblower complaints. As the vast majority of the higher education foundations in the Connecticut Community College System are staffed by volunteers, Section 4-37j of the General Statutes should be amended to give recognition to this situation.
- f. Section 10-304 of the General Statutes requires the establishment of a sales and services account for the Board of Education and Services for the Blind for the purpose of aiding the blind by providing sales and service opportunities. With the closing of the Board's Industries Program and workshops in January 2003, this statute is no longer being

enforced. The Agency does not believe the Industries Program will be reopened. If the General Assembly agrees that this program is not necessary, it should repeal Section 10-304 of the General Statutes.

- g. Section 1-123, subdivision (4), of the General Statutes provides that the annual reports of quasi-public agencies include “a balance sheet showing all revenues and expenditures”. A balance sheet, however, is only intended to reflect assets and liabilities of an entity at the time they are produced. Operating statements normally reflect an entity’s revenues and expenditures over a period of time. Amending this Section to refer to a balance sheet and an operating statement would help to resolve this inconsistency.
- h. With regard to the Capital City Economic Development Authority, we noted that duplicative annual compliance audit provisions currently exist in the General Statutes. In accordance with Section 1-122 of the General Statutes our Office is required to annually conduct a compliance audit of the Capital City Economic Development Authority. In addition, the Capital City Economic Development Authority is authorized, under Section 32-605, subsection (b), of the General Statutes, to annually contract for a compliance audit of its activities. The General Statutes should be amended to eliminate this inconsistency.
- i. The State Tax Review Commission was established in 1991 under Section 12-34d of the General Statutes to study and evaluate the State’s entire tax system and make annual reports with findings and recommendations to the Governor and the General Assembly. In a report issued by the Office of Legislative Research, dated July 31, 2006, it was noted that the Commission only issued one interim report in January 1994, and its appointed members’ terms expired later that year without new appointments or reappointments made by the Governor or legislative leaders. Without membership, the Commission ceased to operate. It should be noted that in 1997, the General Assembly passed an Act that, among other things, repealed the Commission’s authorizing legislation. The Governor vetoed the Act and there has not been any other proposal since to repeal the Commission’s legislation