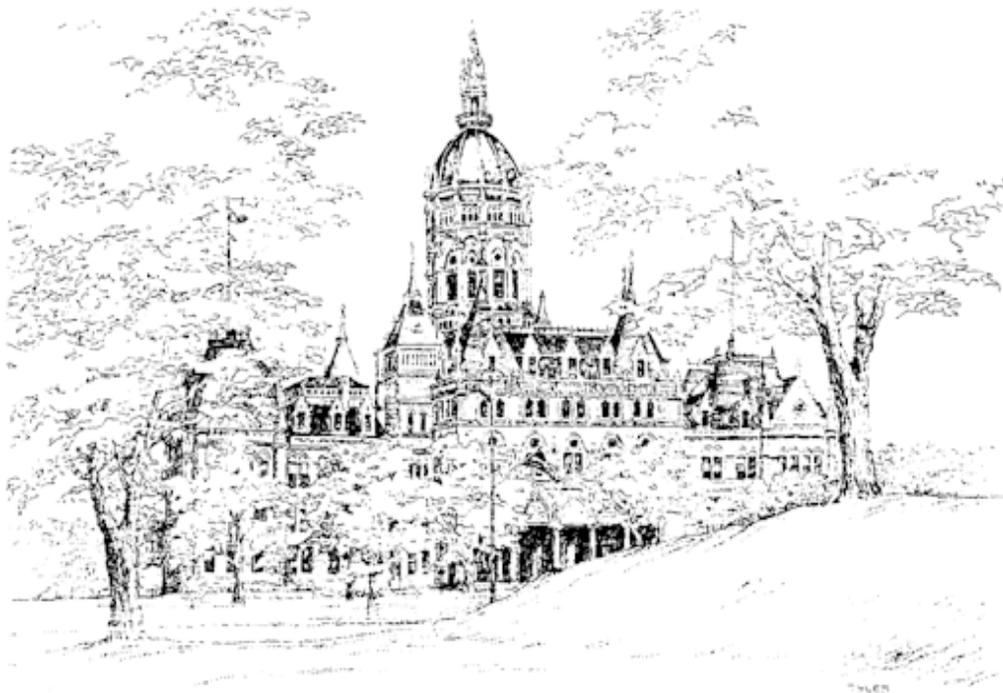


2010 ANNUAL REPORT

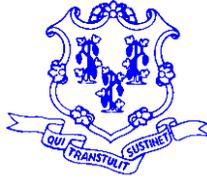
to the
Connecticut General Assembly



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

December 30, 2010

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 2010 calendar year was another busy and challenging year for our Office. In addition to carrying out our Office's various statutory auditing responsibilities, we continued to carry-out the additional Federal audit responsibilities that were placed upon our Office as a result of the passage of the American Recovery and Reinvestment Act of 2009 by the United States Congress. This Act required our Office to audit all "stimulus funds" expended by the State in accordance with Federal audit requirements that are more stringent than those normally required for audits of Federal financial assistance programs. Under this new program, the State is expected to receive some \$3 billion in additional Federal financial assistance over a three-year period. Auditing these "stimulus funds" required significant additional work on the part of our audit staff during the 2010 calendar year, and it is also anticipated that significant additional audit work will be required during the 2011 calendar year, as this is when the State will expend the final portion of the \$3 billion in financial assistance it expects to receive from the Federal government under this Act.

These achievements and 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.cga.ct.gov/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 another 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.cga.ct.gov/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 (860) 240-8651 or (860) 240-8653.

In transmitting this, our final annual report as Connecticut's Auditors of Public Accounts, we wish to say that it has been our pleasure to serve you, the members of the Connecticut General Assembly, these past eighteen years.

Respectfully submitted,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

TABLE OF CONTENTS

Transmittal.....	i
Table of Contents	iii
Organizational Structure.....	iv

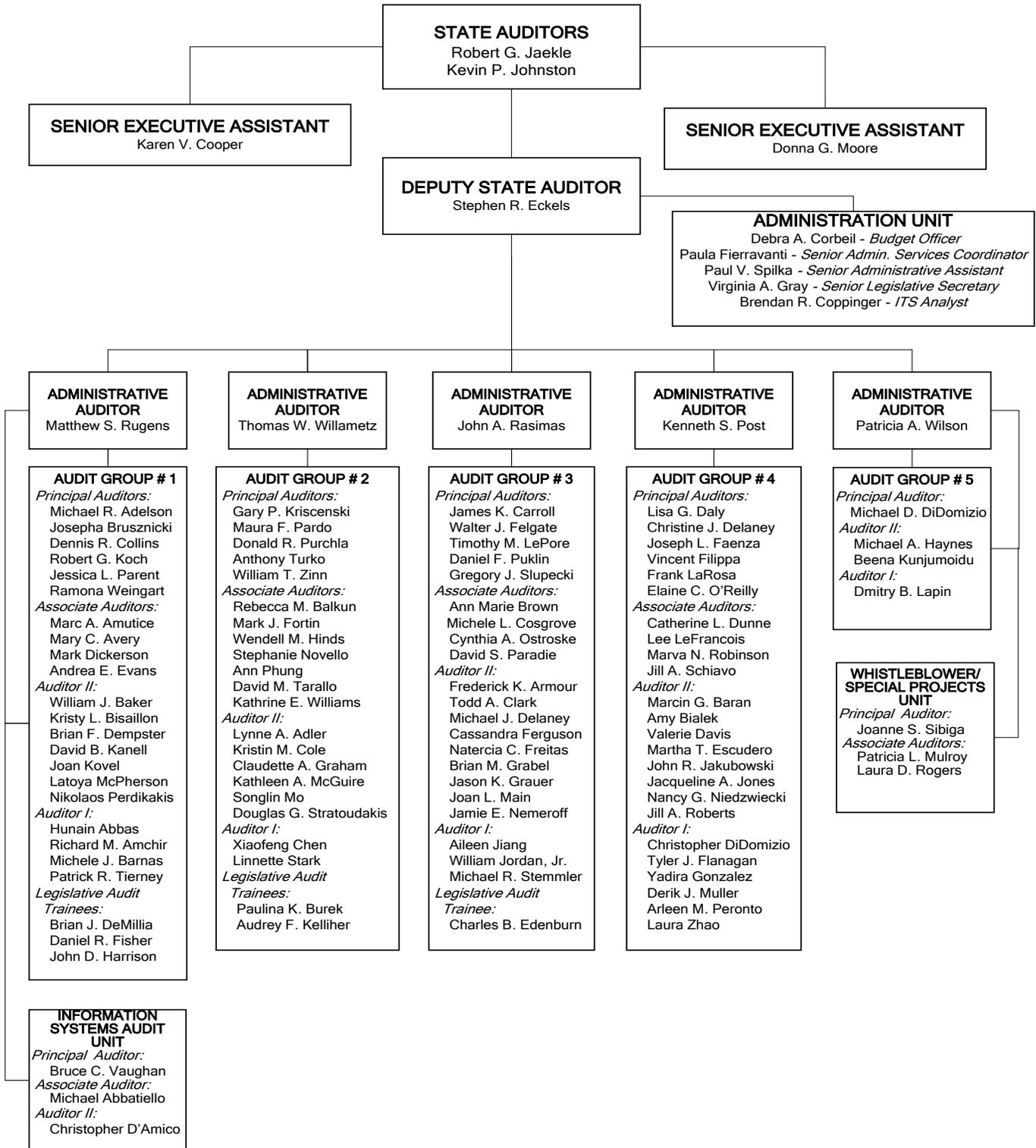
Section I - Report on the Operations of Our Office

Organization and Staff.....	1
Auditing State Agencies.....	2
Whistleblower Matters	7
Generally Accepted Government Auditing Standards (GAGAS).....	13
Continuing Education.....	13
External Quality Control Reviews	14
Recent Developments.....	14

Section II – Recommendations

1. Consider Enacting Legislation to Improve Certain Provisions of Connecticut’s Whistleblower Law	16
2. Place Limitations on the Ability of State-Aided Institutions to Rehire Former Employees who have Retired under the Provisions of the State Employees’ Retirement Act	17
3. Clarify Certain Reporting Requirements of the Connecticut Development Authority.....	18
4. Clarify Certain Provisions of the Statutes to Provide the Auditors of Public Accounts with Access to Confidential Tax Information When Reviewing Whistleblower Complaints.....	19
5. Limit the Conditions That May be Used to Justify a Waiver from Competitive Bidding.....	20
6. Authorize the Appointment of Receivers for Charter Schools that are Experiencing Serious Financial or Operational Difficulties	21
7. Require that the Entire Set of State Regulations be Published Online	22

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 117 employees, including our 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 107 auditors organized into five audit groups with each group under the general direction of an Administrative Auditor, including a Whistleblower/Special Projects Unit under the general direction of one of the Administrative Auditors. There is also an Information Systems Audit Unit presently consisting of three 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 competitive process which includes annual performance evaluations and interviews by the State Auditors. 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. Some 49 members of our staff have relevant professional certifications and a total of 37 members have advanced degrees.

Auditing State Agencies:

During the 2010 calendar year, members of our field audit staff completed 63 audits of State agencies, quasi-public agencies and State Marshal trust accounts. A total of 456 audit recommendations were made in the State and quasi-public agency reports. During the past calendar year these agencies have implemented approximately 57 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 in our audit reports or by formal letter, while numerous less serious matters such as minor losses and acts of vandalism are generally reported collectively by memoranda. State loss reports, filed with this Office and the State Comptroller in accordance with Section 4-33a of the General Statutes, disclosed approximately 1,413 losses, primarily through theft, vandalism and inventory shortages in the 2010 calendar year, involving an aggregate loss of some \$771,000.

In March 2010, this Office issued its annual Statewide Single Audit Report for the State of Connecticut. This 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, 2009, 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 \$8,150,000,000 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 and

the Connecticut Resources Recovery Authority. During the 2010 calendar year, we were required to give seven 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 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 during 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.cga.ct.gov/apa) and are available for review by our staff, members of the General Assembly, State officials and members of the general public.

A listing of the audit reports issued during 2010 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>
DEPARTMENTAL AUDITS:				
Legislative:				
Joint Committee on Legislative Management	09/02/10	0	1	1
Elected Officials:				
Office of the Attorney General	06/09/10	9	5	2
State Comptroller – State Financial Operations	06/25/10	2	3	2
State Treasurer – State Financial Operations	12/08/10	5	6	5
State Comptroller – State Retirement Funds	12/10/10	2	5	4
General Government:				
Department of Administrative Services	02/08/10	14	14	9
Division of Criminal Justice	02/09/10	2	5	3
Office of Policy and Management	05/07/10	8	8	3
State Elections Enforcement Commission	05/20/10	4	1	1

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
General Government (continued):				
State Board of Accountancy	06/21/10	0	N/A	N/A
State Marshal Commission	09/15/10	4	10	9
Division of Special Revenue	09/22/10	16	1	0
Office of Workforce Competitiveness	11/19/10	7	6	0
Department of Public Works	12/29/10	13	18	8
Regulation and Protection of Persons and Property:				
Department of Public Utility Control	01/08/10	13	11	9
Department of Emergency Management and Homeland Security	01/13/10	3	3	1
Department of Public Safety	01/15/10	11	10	4
Office of the Victim Advocate	01/22/10	0	0	0
Office of Protection and Advocacy of Persons With Disabilities	06/16/10	7	4	4
Department of Banking	07/23/10	5	2	2
Workers' Compensation Commission	09/24/10	8	5	3
Department of Motor Vehicles	11/12/10	22	28	19
Health and Hospitals:				
Department of Mental Health and Addiction Services	09/17/10	6	9	7
Transportation:				
Department of Transportation	02/24/10	21	15	10
Higher Education:				
Western Connecticut State University	03/10/10	18	16	4
SCSU – Intercollegiate Athletics Program for 2009	03/24/10	N/A	N/A	N/A
CCSU – Intercollegiate Athletics Program for 2009	10/15/10	N/A	N/A	N/A
Department of Higher Education	12/01/10	7	11	6
University of Connecticut Health Center	12/13/10	13	13	11
Other Education:				
Commission on Deaf and Hearing Impaired	09/10/10	3	2	1
Board of Education and Services for the Blind	10/27/10	6	4	1
Department of Education	12/15/10	14	15	1
Teachers' Retirement Board	12/29/10	27	8	2
Children and Families:				
Department of Children and Families	10/22/10	17	14	4

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
Judicial:				
Judicial Department	04/19/10	6	9	6
Quasi-Public Agencies and Other:				
Connecticut Housing Finance Authority	03/17/10	0	2	2
Connecticut Higher Education Supplemental Loan Authority	05/14/10	3	2	1
Tweed-New Haven Airport Authority	05/21/10	0	1	1
Capital City Economic Development Authority	05/26/10	0	1	1
Connecticut Resources Recovery Authority	07/21/10	0	8	8
Connecticut Resources Recovery Authority	09/03/10	1	0	0
Connecticut Health and Educational Facilities Authority	09/29/10	1	6	5
Connecticut Development Authority	10/20/10	2	2	1
Connecticut Innovations Incorporated and Clean Energy Fund	11/01/10	0	1	1
Connecticut Lottery Corporation	11/17/10	<u>1</u>	<u>0</u>	<u>0</u>
Total Recommendations - Departmental Audits		<u>301</u>	<u>285</u>	<u>162</u>
OTHER AUDITS:				
STATEWIDE AUDITS:				
State of Connecticut – Federal Single Audit Report	03/25/10	67	80	46
STATE MARSHAL AUDITS:				
State Marshal Trust Accounts (Seventeen Audits)	Various	84	N/A	N/A
FINANCIAL STATEMENT AUDITS:				
Governor’s Residence Conservancy, Inc.	07/28/10	<u>4</u>	<u>N/A</u>	<u>N/A</u>
Total Recommendations - Other Audits		<u>155</u>	<u>80</u>	<u>46</u>
Total Recommendations - All Audits		<u>456</u>	<u>365</u>	<u>208</u>
Percentage of Recommendations Implemented or Resolved Within One Audit Cycle (Excluding Other Audits)				<u>57%</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 follows:

	<u>Number of Recommendations</u>
Internal Control Recommendations:	
Bank accounts, cash accounts, and petty cash funds	9
Billings and receivables	6
Cash management and cash handling and depositing	10
Cash Receipts	7
Grantee and contractor monitoring	5
Computer operations	14
Equipment/supplies inventories	25
Financial reporting and accounting	5
General accounting and business office functions	18
Miscellaneous State programs - administrative controls	24
Payroll and personnel controls	47
Policies, procedures, and guidelines	19
Purchasing of goods and/or services	25
Welfare, activity and other State funds	11
Capital projects	7
All others	<u>20</u>
 Total Internal Control Recommendations	 <u>252</u>
Compliance Recommendations:	
Payroll and personnel laws and regulations	4
Public meeting laws and regulations	4
Reporting laws and regulations	9
All other laws and regulations	<u>16</u>
 Total Compliance Recommendations	 <u>33</u>
Miscellaneous Recommendations:	
Amendment or clarification of laws or regulations	11
Obtain Attorney General opinion	1
Improve or automate administrative practices	<u>4</u>
 Total Miscellaneous Recommendations	 <u>16</u>
 Total Departmental Audit Recommendations	 <u>301</u>

In addition to the departmental audit recommendations mentioned above, our Office issued a Statewide Single Audit Report, which contained 67 audit recommendations calling for various improvements in controls over State-administered Federal programs and compliance with related laws and regulations. Our Office also issued one financial statement audit report during the 2010 calendar year, which contained four audit recommendations calling for improvements in the operations of the Governor's Conservancy Incorporated.

Finally, pursuant to the provisions of Section 2-90a of the General Statutes, our Office conducted seventeen audits of State Marshal trust accounts during the 2010 calendar year. It should be noted that the results of these 17 audits disclosed 84 instances where State Statutes or State Marshal Commission policies governing the administration of State Marshal trust accounts were not complied with. These audit findings were transmitted to the State Marshal and the State Marshal Commission for follow-up action.

Whistleblower Matters:

Under the provisions of Section 4-61dd of the General Statutes, known as the Whistleblower 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 all such whistleblower 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, 2010, we received 83 complaints covering such matters as misuse of State funds, harassment, conflicts of interest and improper investigations. It should be noted that during this same period our Office also received 11 separate complaints of alleged retaliation against whistleblower complainants, which is down from the 19 complaints of retaliation that our Office received during the preceding fiscal year.

As required by the aforementioned Section 4-61dd of the General Statutes, an annual report on such matters was prepared as of August 31, 2010, 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 whistleblower matters are considered exempt records and do not require disclosure under the Freedom of Information statutes. This exemption aids investigations of complaints by both our Office and the Office of the Attorney General.

The following is a summary of those complaints received during the 2009-2010 fiscal year and the action taken thereon.

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date</u> <u>Reported</u> <u>To Attorney</u> <u>General</u>
Administrative Services:		
Contract Requirements (A)	08/24/09	*
Attorney General:		
Personnel Business on State Time	06/07/10	10/20/10
Auditors of Public Accounts:		
Personnel Matters	11/06/09	01/04/10
Capital Community College:		
Alleged Misuse of Grant Funds	02/03/10	*
Central Connecticut State University:		
Academic Technology Unit	01/06/10	*
Chief Medical Examiner:		
Misuse of State Vehicle and Attendance Issues	10/16/09	*
Children and Families:		
Vendor Payment	09/04/09	*
Retaliation	09/08/09	11/20/09
Withholding Funds (B)	12/02/09	*
Connecticut State University System:		
Personnel Matters	11/04/09	07/28/10
Bonus	12/09/09	12/14/09
Connecticut Council on Developmental Disabilities:		
State Contracts	03/12/10	*
Consumer Protection:		
Misuse of State Equipment	06/01/09	11/30/09
Failure to Investigate	06/02/10	*

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date Reported To Attorney General</u>
Corrections:		
Consultant	10/22/09	*
Retaliation	12/18/09	03/22/10
Various Issues	03/03/10	*
Retaliation	06/03/10	06/14/10
Retaliation	06/03/10	06/14/10
Criminal Justice:		
Alleged Cover-up	09/03/09	12/04/09
Developmental Services:		
Misuse of Authority	07/27/09	*
Elections Enforcement Commission:		
Promotion	07/01/09	01/11/10
Failure to Address	11/30/09	04/22/10
Emergency Management and Homeland Security:		
Contract Requirements (B)	08/24/09	*
Environmental Protection:		
Improper Handling of Closure	10/03/09	*
Alleged Fee Manipulation	05/27/10	*
Information Technology:		
Contract Issues	01/06/10	09/22/10
Judicial Branch:		
Judicial Review Council	07/27/09	05/17/10
Labor:		
Retaliation	10/14/09	11/10/09
Large State Contractor:		
Various Issues	07/28/09	*
Inspections/Safety Issues (A)	08/04/09	*

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date</u> <u>Reported</u> <u>To Attorney</u> <u>General</u>
Large State Contractor (continued):		
Care Issues	09/09/09	*
Care Issues and Retaliation	09/15/09	*
Patient Care	09/21/09	*
Retaliation	11/18/09	11/30/09
Safety Issues	12/04/09	*
Withholding Funds (C)	12/02/09	*
Care and Investigation Issues (D)	11/30/09	*
Patient Care	12/03/09	*
Billing	10/21/09	*
Client Service	01/22/10	07/07/10
Various Issues	1/28/10	*
Retaliation	02/25/10	03/24/10
Issues Concerning CEO	01/20/10	06/23/10
Retaliation	04/14/10	06/14/10
Alleged Inappropriate and Irregular practices	03/31/10	05/05/10
Possible Improper Reimbursements	04/20/10	05/21/10
Not Providing Services Under Contract	06/09/10	*
Latino and Puerto Rican Affairs Commission:		
Retaliation	06/22/09	08/26/09
Manchester Community College:		
Student Activity Fund	06/30/09	*
Marshal Commission:		
Appointment Process	06/29/09	02/03/10
Mental Health and Addiction Services:		
Whiting Forensic Institute (Medication)	06/29/09	*
Alleged Client Abuse	11/06/09	*
Treatment of Client and State Administered General Assistance Program	04/26/10	*

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date</u> <u>Reported</u> <u>To Attorney</u> <u>General</u>
Military Department:		
Overtime and Other Issues	07/15/09	*
Personnel Issues	10/09/09	*
Motor Vehicles:		
Alleged Misconduct by Employee	09/02/09	*
Farm Vehicles	10/16/09	*
Alleged Faulty Investigation	02/19/10	
Northwestern Community College:		
Missing Supplies/Equipment	09/02/09	*
Office of Victim Advocate:		
Retaliation	07/20/09	07/31/09
Office of Legislative Management:		
Abuse of State Time	12/15/09	04/30/10
Probate Court Administrator:		
Alleged Misuse of Vehicle	08/14/09	*
Public Health:		
Inspections/Safety Issues (A)	08/04/09	*
Possible Doubling Billing to Grant	10/09/09	*
Contract Issues	11/16/09	*
Care and Investigation Issues (D)	11/30/09	*
Violation of Rights	06/08/10	*
Public Officials:		
Use of Taxpayers' Dollars for Partisan Political Purposes	10/08/09	*
Public Safety:		
Misuse of State Vehicle	10/01/09	*
Improper Behavior by Troopers	10/12/09	*
Revenue Services:		
Alleged Improper Review	10/19/09	*

<u>Whistleblower Matters Received</u>	<u>Date</u>	<u>Date Reported To Attorney General</u>
<u>Agency/Subject</u>	<u>Date</u>	<u>General</u>
Secretary of the State:		
Alleged Political Activity	10/30/09	12/04/09
Social Services:		
Complaint Process	09/02/09	09/08/10
Special Revenue:		
Alleged Fraudulent Report	07/31/09	11/10/10
State Library:		
Alleged Falsifying of Timesheets	08/14/09	04/21/10
Transportation:		
Retaliation	02/01/10	02/23/10
UCONN:		
Vehicle Parts	10/14/09	*
Alleged Misuse of State Funds	11/01/09	*
Alleged Improper Use of State Funds	11/19/09	*
UCONN Health Center:		
Public Safety	06/30/09	09/08/10
Overtime for Correctional Managed Health Care		
Employees	09/30/09	*
Alleged Improper Overtime	03/29/10	*
Veterans' Affairs:		
Billing System	10/29/09	07/28/10
Various Issues	11/16/09	11/29/10
Clients' Issues	01/19/10	07/16/10
Hiring Process	03/02/10	09/03/10

* Matters currently under review

- (A) Department of Public Health and Large State Contractor
- (B) Department of Administrative Services and Emergency Management and Homeland Security
- (C) Department of Children and Families and Large State Contractor
- (D) Department of Public Health and Large State Contractor

Generally Accepted Governmental 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 internal and external quality control review assessments 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, together with tuition reimbursement programs for staff taking

appropriate courses. In order to provide more effective training to our audit staff, during 2010 the training program included contracted seminars, webinars, and self-study courses.

External Quality Control Reviews:

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 2010 and covered the 2009 calendar year. The final report on this review found that, except for the manner in which our Office tracks and credits continuing professional education credits, the system of quality control employed by our Office has been suitably designed and complied with to assure that all audit work conducted by our Office conforms to professional auditing standards.

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. Two members of our staff conducted such inspections for the 2006 and 2007 calendar years and reports on the results of these inspections were issued during February 2008 and April 2009, respectively. We will soon designate members of our staff to perform a quality control inspection for the 2010 calendar year.

External quality control reviews are also periodically conducted of our Office's Federal audit work by representatives of various Federal Inspectors General's Offices. The most recent Federal review was conducted during June 2010 and covered our 2009 Single Audit of the State of Connecticut. The final report on this review found that, except for the manner in which our Office tested minor portions of two Federal programs, our 2009 audit of the State of Connecticut met the requirements of the Single Audit Act and the Office of Management and Budget Circular A-133.

Recent Developments:

On February 17, 2009, after being passed by both houses of Congress, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law by the President of the United States. This Act, which includes an authorization of \$787 billion, includes Federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The Federal spending authorized by this law was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn.

Prior to the passage of this Act the State of Connecticut received some \$7.6 billion in financial assistance annually from the Federal government. As a result of the passage of this Act, the State is expected to receive some \$3 billion in additional Federal financial assistance over a two and one-half year period. It should be noted that this Act requires our Office to audit

all stimulus funds expended by the State in accordance with Federal audit requirements that are more stringent than those normally required for audits of Federal programs. As a result, significant additional work on the part of our audit staff was incurred during the 2010 calendar year and it is anticipated that significant additional audit work will also be incurred during the 2011 calendar year, which is the period when the State will expend the largest portion of the \$3 billion in additional Federal financial assistance it expects to receive under this Act. Managing this audit effort going forward will only be further complicated by the budgetary restrictions being placed on all State agencies, including our Office, as a result of the State's current budget problems.

SECTION II

RECOMMENDATIONS

Many recommendations of a financial or recordkeeping nature are presented in the written audit reports prepared by our 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 enacting legislation to improve Connecticut’s Whistleblower Law, in order to better protect whistleblower complainants from retaliation and to provide the Auditors of Public Accounts with some measure of flexibility so that it can better determine the most cost effective manner in which to proceed on a given complaint. Such flexibility should include the ability to refer a complaint to another unit of State government, which has already been assigned responsibility for addressing a given type of complaint, as well as the discretion to address trivial or other complaints that fail to meet certain minimal criteria.**

Comment:

On May 27, 2009, the Legislative Program Review and Investigations Committee voted to undertake a study of Connecticut’s Whistleblower Law. A report on the results of this Committee study was issued on December 15, 2009. It should be noted that this report addressed areas of concern that have proven problematic for our Office as it has struggled to deal with the increasing volume and complexity of the whistleblower complaints it has received in recent years. One area of concern involves the broad statutory definition of a whistleblower complaint which results in virtually any complaint filed with our Office being classified as a whistleblower complaint requiring investigation, even when there are other statutory or administrative mechanisms that have been established within the State government to address a given type of complaint. Another area of concern is that the statutory requirement that our Office review all whistleblower complaints filed with our agency affords our agency no flexibility in deciding which complaints are worthy of spending limited State resources to review and investigate. Also of concern is the fact that the current system, which involves various State agencies, does not seem to serve or adequately protect whistleblower complainants. Although the best alternative towards streamlining the entire whistleblower process may be by establishing a single independent agency to receive and investigate complaints and to protect complainants from retaliation, this may not be feasible given the State’s current fiscal situation. Despite this fact there are a number of improvements that can be made to the existing whistleblower review process that will better serve whistleblower complainants and help ensure that complaints are investigated in an expedited manner and that statutory protections offered whistleblower complainants can actually be enforced.

2. **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.

3. **The General Assembly should review the reporting requirements of the Connecticut Development Authority, as set forth in Section 32-11a, subsection (c), of the General Statutes, in order to give consideration to the fact that certain of the reporting elements listed in this Section are considered by the Authority to be sensitive proprietary information of those companies receiving State financial assistance from the Authority.**

Comment:

Section 32-11a, subsection (c), of the General Statutes requires that the Authority annually report on the financial assistance program it administers. Among other things such report is to include (1) gross revenues during a recipient's most recent fiscal year, (2) a summary of the terms and conditions for the assistance, including the type and amount of State financial assistance, job creation or retention requirements and anticipated wage rates, (3) a comparison between the number of jobs created, the number of jobs retained and the average wage rates for each such category of jobs, as projected in the recipient's application, versus the actual number of jobs created, the actual number of jobs retained and the wage rates for each such category, and (4) the actual number of full-time jobs and the actual number of part-time jobs in each such category and the benefit levels for each such subcategory. Because of concerns over the proprietary nature of the aforementioned reporting elements, the Authority has chosen to either refrain from using the actual names of the recipients of financial assistance, choosing instead to report this information using the nomenclature of "Company A", "Company B", etc; or in the case of anticipated wage rates has not reported on this required information at all.

4. **The General Assembly should consider clarifying the provisions of Section 2-90, 4-61dd, and/or Section 12-15 of the General Statutes to provide for access by the Auditors of Public Accounts to confidential tax information when reviewing matters that arise from whistleblower investigations.**

Comment:

The General Statutes, as currently written, clearly grant the Auditors of Public Accounts access to confidential taxpayer information when performing their auditing duties in accordance with Section 2-90. However, the Auditors are also required to conduct investigations under Section 4-61dd (the Whistleblower Act). The Commissioner of Revenue Services has denied our Office access to this same taxpayer information when conducting investigations under Section 4-61dd, citing the restrictive language contained in subsection (b)(2) of Section 12-15. It should be noted, that while our Office is authorized to access confidential information maintained by State agencies when conducting our audits, we are also required by Section 2-90 to maintain the confidentiality of such information in the same manner and to the same extent as the custodial State agency. Furthermore, if our Office fails to protect this information we are subject to the same penalties as would apply to the custodial State agency.

5. **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, subsection (a), 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.

6. **The General Assembly should consider enacting legislation that would allow for appointing a receiver for a charter school that is experiencing serious financial or operational problems that warrants 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.

While the Department of Education has improved its internal monitoring procedures in order to better detect any signs of serious problems at State charter schools, a statutory revision granting the Department of Education additional emergency powers is still needed because, at some point in the future, serious financial or operational problems may again occur at a State charter school.

7. **The General Assembly should consider providing all State regulations on-line for public access, as is currently done with the State Statutes.**

Comment:

In light of today's current technology, the availability of State regulations via the Internet would allow the general public to obtain critical specific information pertaining to State agencies with relative ease, while reducing the amount of outside inquiry and inconvenience to State agencies, and continuing in the State-advocated spirit of a paperless environment. Currently, some State agencies make applicable parts of the Regulations of State Agencies available on their own websites. There is no on-line access available to the entire set of State regulations.