



2011 Annual Report

to the Connecticut General Assembly



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

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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JOHN C. GERAGOSIAN

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January 31, 2012

Members of the General Assembly:

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

2011 was a busy and challenging year for our office. In addition to carrying out our statutory auditing responsibilities, we continued to perform the additional federal audit responsibilities that were placed upon our office due to provisions passed by Congress in the American Recovery and Reinvestment Act of 2009. This 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 federal program, the state received \$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 2011. We expect this additional audit work to gradually decrease during 2012 as the state expends the last of the stimulus funds received under this program.

The past year was one of significant change in the office of the Auditors of Public Accounts. We will continue to find new ways to make our office more efficient and to enhance the professional reputation our office has always enjoyed. We have instituted a new electronic work paper initiative, together with several other efficiency initiatives which will leverage the use of technology to eliminate or minimize the use of paper in our office. These achievements and challenges are more fully described in Section I of this report. General information on the operations of our office can also be found in that section. 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 website, which is located at www.cga.ct.gov/apa. A key feature of our website is that all reports (both present and past) issued by our office are posted there and are available to members of the public to download.

According to law, we maintain 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. While copies of our reports are electronically distributed to all members of the General Assembly and various state officials when issued, if you require additional information on any of our published audit findings, you can call us directly at (860) 240-8651 or (860) 240-8653 and we will provide you with any supporting information we have on file.

In transmitting this, our first annual report since our appointments 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 twelve months.

On a special note, we wish to acknowledge and express our gratitude to Robert G. Jaekle and Kevin P. Johnston, the former State Auditors, for their years of service to our state and their assistance with our transition.

Respectfully submitted,



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts

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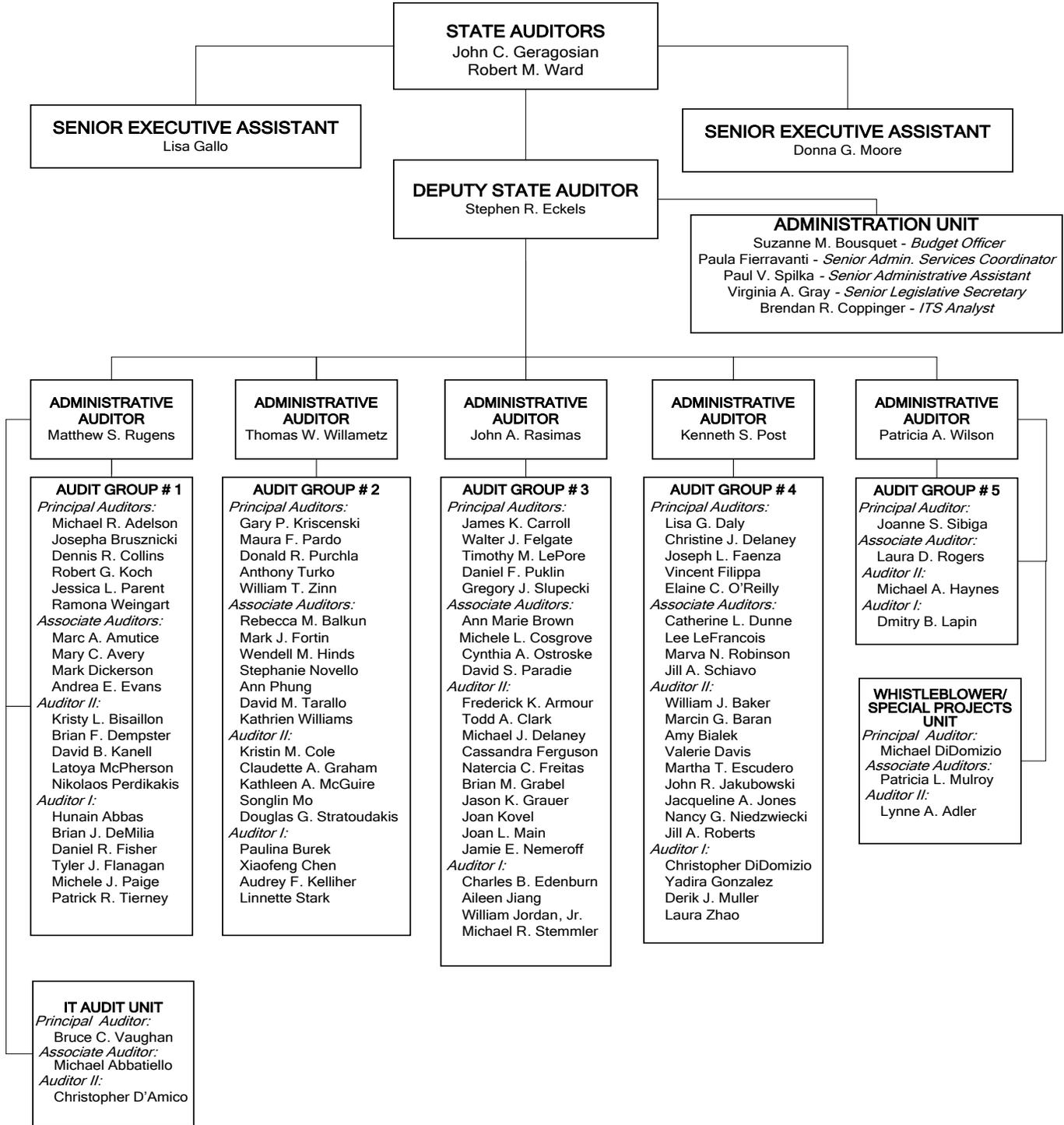
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AUDITORS OF PUBLIC ACCOUNTS ORGANIZATIONAL STRUCTURE



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 II of England. The state statutes of 1750 refer to the auditing of “the Colony’s account with the Treasurer of the Colony.” When the office of the Comptroller was created in 1786, 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 state auditors, 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 112 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 102 auditors organized into five audit groups with each group under the general direction of an administrative auditor, including a whistleblower/special projects unit. 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 our 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. Our employees are encouraged to continue studies for advanced degrees and professional certifications. Several of our employees are completing requirements of this education. Forty-seven members of our staff have relevant professional certifications and 40 members have advanced degrees.

Auditing State Agencies:

During 2011, our auditors completed 85 audits of state agencies, quasi-public agencies and state marshal trust accounts. A total of 569 audit recommendations were made in the state and quasi-public agency reports. During the past calendar year, these agencies have implemented approximately 55 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. Our 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 in 2011 with this office and the State Comptroller, in accordance with Section 4-33a of the General Statutes, disclosed approximately 1,555 losses, primarily through theft, vandalism and inventory shortages involving an aggregate loss of \$877,000.

In March 2011, 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, 2010, and the schedule of federal financial assistance received by the state during that year. This audit is done under requirements of the federal Single Audit Act and is a condition for the state to receive nearly \$10,261,000,000 of federal financial assistance.

In addition to this statewide audit, we also continue to audit each state agency on a cyclical basis and under a limited scope audit that focuses on each agency's compliance with financial-related laws and regulations and its internal control structure. This auditing approach complements the Statewide Single Audit and avoids duplicative audit efforts.

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 these official statements – and those of quasi-public agencies that 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 Health and Educational Facilities Authority and the Connecticut Housing Finance Authority. During 2011, 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 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 the officials before final release and distribution of the report. Distribution of final reports is then made to agency heads, the members 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 of all reports are also posted to our agency website (www.cga.ct.gov/apa), where they are available for review by members of the public.

A listing of the audit reports issued during 2011 and the number of recommendations included in each report follows:

<u>Reports</u>	<u>Recommendations</u>			
	<u>Date of Issue</u>	<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
DEPARTMENTAL AUDITS:				
Elected Officials:				
Secretary of the State	02/25/11	6	15	10
Office of the Attorney General	04/27/11	4	9	6
State Comptroller – State Financial Operations	07/25/11	4	2	0
State Treasurer – Departmental Operations	07/27/11	3	7	5
State Treasurer – State Financial Operation	09/01/11	7	5	1
Office of the Governor	09/09/11	2	1	1
Office of the Lieutenant Governor	09/28/11	0	2	2
General Government:				
Judicial Selection Commission	07/22/11	0	0	0
State Properties Review Board	08/31/07	0	5	5
Office of Policy and Management	09/21/11	8	8	5
Office of State Ethics	10/25/11	5	3	0
Department of Revenue Services	10/31/11	8	18	13
State Board of Accountancy	11/03/11	1	0	0

<u>Reports</u>	<u>Recommendations</u>			
	<u>Date of Issue</u>	<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
General Government (continued):				
Division of Criminal Justice	11/14/11	6	2	1
Office of Policy and Management	11/22/11	8	8	6
Regulation and Protection of Persons and Property:				
Police Officer Standards and Training Council	01/19/11	2	3	1
Department of Consumer Protection	01/24/11	6	4	2
Military Department	02/22/11	2	5	5
Insurance Department/Office of the Healthcare Advocate	05/17/11	10	2	1
Board of Firearms Permit Examiners	08/10/11	2	4	2
Department of Public Utility Control (DEEP/PURA)	08/22/11	3	13	10
Connecticut Siting Council	09/08/11	0	3	3
Commission on Human Rights and Opportunities	09/15/11	7	15	11
Department of Labor	09/27/11	14	4	1
Office of Protection and Advocacy for Persons With Disabilities	10/12/11	3	7	4
Office of the Child Advocate	10/18/11	0	0	0
Commission on Fire Prevention and Control	11/21/11	10	8	2
Police Officer Standards and Training Council	12/12/11	3	2	2
Conservation and Development:				
Connecticut Commission on Culture and Tourism	06/14/11	12	14	6
Department of Agriculture	10/04/11	18	11	5
Department of Environmental Protection (DEEP)	11/18/11	11	12	5
Connecticut Agricultural Experiment Station	12/16/11	2	3	2
Health and Hospitals:				
Office of the Chief Medical Examiner	08/02/11	4	8	7
Office of Health Care Access	08/09/11	3	4	2
Department of Public Health	09/14/11	13	16	5
Transportation:				
Department of Transportation	09/22/11	12	21	18
Human Services:				
Soldiers' Sailors' and Marines' Fund	06/24/11	1	3	3
Department of Social Services	09/29/11	21	16	4

<u>Reports</u>	<u>Recommendations</u>			
	<u>Date of Issue</u>	<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
Higher Education:				
Eastern Connecticut State University	02/16/11	13	12	5
Connecticut State University System Office	04/19/11	5	11	7
Connecticut Community College System	05/18/11	26	44	19
Southern Connecticut State University	08/29/11	22	17	7
University of Connecticut Health Center	10/07/11	11	13	10
CCSU – Intercollegiate Athletics Program for 2010	10/17/11	N/A	N/A	N/A
Other Education:				
State Library	04/15/11	2	2	1
Corrections:				
Department of Correction	03/25/11	5	5	1
Children and Families:				
Children’s Trust Fund Council	06/10/11	2	7	5
Judicial:				
Public Defender Services Commission and Commission on Child Protection	04/28/11	6	3	1
Office of the Probate Court Administrator	10/20/11	5	1	0
Quasi-Public Agencies and Other:				
Connecticut Health and Educational Facilities Authority	01/28/11	1	1	1
Community Economic Development Fund	02/14/11	1	0	1
Connecticut Housing Finance Authority	03/02/11	0	0	0
Connecticut Development Authority	06/22/11	1	2	1
Connecticut Innovations Incorporated and Clean Energy Fund	09/30/11	2	0	0
Total Recommendations – Departmental Audits		323	376	210
OTHER AUDITS:				
STATEWIDE AUDITS:				
State of Connecticut – Federal Single Audit Report	03/29/11	85	67	29
STATE MARSHAL AUDITS:				
State Marshal Trust Accounts (23 Audits)	Various	152	N/A	N/A

<u>Reports</u>	<u>Recommendations</u>			
	<u>Date of Issue</u>	<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
FINANCIAL STATEMENT AUDITS:				
State Employee Campaign	01/31/11	N/A	N/A	N/A
Charter Oak State College Foundation	02/02/11	2	2	2
Connecticut Heritage Foundation	03/04/11	2	0	0
Stadium at Rentschler Field	03/18/11	3	0	0
Interstate Environmental Commission	03/30/11	N/A	N/A	N/A
Stadium at Rentschler Field	05/20/11	0	3	3
Stadium at Rentschler Field	06/16/11	0	0	0
Charter Oak State College Foundation	08/01/11	<u>1</u>	<u>2</u>	<u>2</u>
Total Recommendations – Other Audits		<u>245</u>	<u>74</u>	<u>36</u>
Total Recommendations – All Audits		<u>569</u>	<u>450</u>	<u>249</u>

Recommendations Resolved Within One Audit Cycle 55%

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 to better ensure 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:

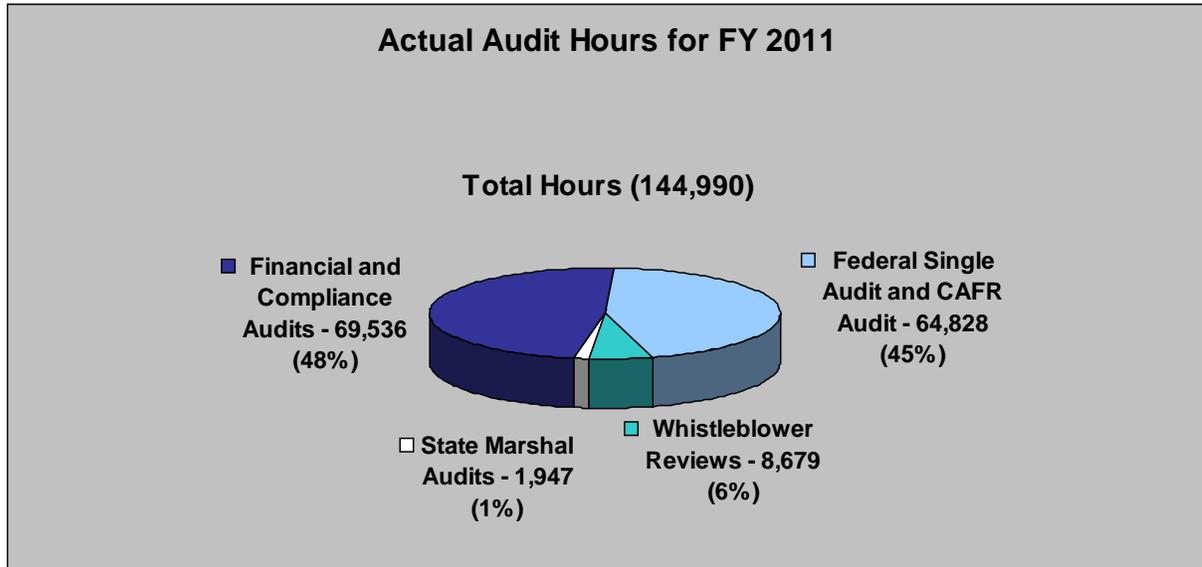
	<u>Number of Recommendations</u>
Internal Control Recommendations:	
Bank accounts, cash accounts, and petty cash funds	11
Billings and receivables	11
Cash management and cash handling and depositing	21
Cash Receipts	5
Grantee and contractor monitoring	12
Computer operations	12
Equipment/supplies inventories	28
Financial reporting and accounting	8
General accounting and business office functions	25
Miscellaneous State programs – administrative controls	15
Payroll and personnel controls	37
Policies, procedures, and guidelines	16
Purchasing of goods and/or services	27
Welfare, activity and other state funds	7
Encumbrances	7
All others	<u>17</u>
Total Internal Control Recommendations	<u>259</u>

	<u>Number of Recommendations</u>
Compliance Recommendations:	
Payroll and personnel laws and regulations	7
Accounting and budgeting laws and regulations	9
Reporting laws and regulations	9
All other laws and regulations	<u>21</u>
Total Compliance Recommendations	<u>46</u>
Miscellaneous Recommendations:	
Amendment or clarification of laws or regulations	10
Obtain Attorney General Opinion	1
Improve or automate administrative practices	<u>7</u>
Total Miscellaneous Recommendations	<u>18</u>
Total Departmental Audit Recommendations	<u>323</u>

In addition to the departmental audit recommendations mentioned above, our office issued a Statewide Single Audit Report, which contained 85 audit recommendations calling for various improvements in controls over state-administered federal programs and compliance with related laws and regulations. Our office also issued eight financial statement audit reports during 2011, which contained eight audit recommendations calling for improvements in the operations of various governmental and quasi-public entities.

Pursuant to the provisions of Section 2-90a of the General Statutes, our office conducted 23 audits of state marshal trust accounts during the 2011 calendar year. It should be noted that the results of these 23 audits disclosed 152 instances of non-compliance with state statutes or State Marshal Commission polices governing the administration of state marshal trust accounts. These audit findings were transmitted to the applicable state marshal and the State Marshal Commission for follow-up action.

During the fiscal year ended June 30, 2011, our office expended a total of 144,990 audit hours. A summary of how these audit hours were divided is included in the following graph:



It should be noted that the state’s General Fund receives approximately \$2.4 million in federal reimbursements annually as a result of our federal Single Audit work. These recoveries are realized through a state-prepared statewide cost allocation plan approved by the federal government each year. In accordance with this plan, the Single Audit costs our office incurs are charged to the state’s federal programs. In turn, the federal government reimburses the state for a portion of these costs using the indirect cost recovery rates included in the statewide cost allocation plan.

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 public safety occurring in any state department or agency or quasi public agency. Section 4-61dd also applies to state contracts in excess of \$5 million. We review 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 can assist in any continuing investigation. During the fiscal year ended June 30, 2011, we received 75 complaints covering such matters as alleged misuse of state funds, employee misconduct, personnel issues and violations of federal or state law. It should be noted that included in this total were nine complaints of alleged retaliation against whistleblower complainants, which is a decrease from the 11 complaints of retaliation that our office received during the preceding fiscal year.

Section 4-61dd of the General Statutes requires an annual report on all whistleblower complaints, which our office prepared and filed on August 31, 2011 with the clerks of the House and Senate. By law, the identity of the complainant cannot be disclosed unless authorized by the complainant or otherwise unavoidable, 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 exists to avoid undermining the investigation of complaints by our office and the Office of the Attorney General.

During 2009, our office approached the Legislative Program Review and Investigations Committee about performing a study of Connecticut's Whistleblower Law. The committee agreed and a report on the results of the study was issued on December 15, 2009. The report addressed two areas of concern that proved problematic for our office as it struggled to deal with the increasing volume and complexity of whistleblower complaints during the past several years. One concern was the broad statutory definition of a whistleblower complaint, which required our office to investigate every complaint even when other mechanisms are available within state government to address such complaints. The second area of concern was the lack of flexibility given to our office in deciding which complaints are worthy of spending limited state resources to review and investigate. During the 2010 legislative session, a bill was introduced to address these areas of concern; however, this bill was not acted upon during that session. A slightly different version of that legislation was introduced during the 2011 legislative session, which ultimately passed as part of Public Act 11-48. This law allows our office to reject complaints based on six criteria. Written guidelines for each criterion have been developed and are now being used when deciding which complaints should be reviewed.

The following chart shows that our office has made significant strides in resolving the number of outstanding whistleblower complaints over the past two years. During this time, a decrease in the number of incoming complaints has allowed our office to concentrate additional resources on reviews of outstanding cases. We have also devoted more resources to the review of complaints in a concerted effort to reduce the backlog. Since the new law went into effect on October 1, 2011, the full effect of the change in the Whistleblower Act has not been realized; however, going forward, it will give us an additional tool in reducing the backlog of complaints.



The following is a summary of those complaints received during the 2010-2011 fiscal year and the action taken thereon.

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date Reported To Attorney General</u>
Administrative Services:		
Personnel Matter	05/13/11	09/30/11
Agriculture:		
Promotion	07/21/10	02/14/11
Attorney General:		
Violation of Federal and State Laws (A)	09/09/10	09/15/10
Contracts and Fee Payments	04/25/11	08/10/11
Central Connecticut State University:		
Office of Field Experiences	11/15/10	*

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date Reported</u> <u>To Attorney</u> <u>General</u>
Children and Families:		
Retaliation	08/20/10	09/27/10
Employee Misconduct	03/01/10	*
Connecticut Council on Developmental Disabilities:		
Grant Funds and Retaliation	05/03/11	06/09/11
Connecticut Innovations:		
Connecticut Clean Energy Fund	04/21/11	07/11/11
Connecticut State University System:		
Waste of Funds and Other Issues	06/20/10	*
Consumer Protection:		
Complaint Process	08/05/10	*
Corrections:		
Violation of Federal and State Laws (A)	09/09/10	09/15/10
Various Issues	01/31/11	*
Developmental Services:		
Work Hours Issue	02/03/11	*
Retaliation	04/19/11	04/20/11
Eastern Connecticut State University:		
Police Department	10/06/11	*
Economic and Community Development:		
Attendance, Travel, Personnel and Other Issues	09/15/10	*
Elections Enforcement Commission:		
Alleged Mismanagement and Abuse of Power	08/15/10	*
Alleged Violation of Laws	09/01/10	*
Environmental Protection:		
Flora Werner Trust	10/08/10	10/25/10

<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>
Fire Prevention and Control:		
Various Allegations	04/12/11	*
Governor's Office:		
Release of Confidential Information	02/08/11	03/04/11
Judicial Branch:		
Violation of Federal and State Laws (A)	09/09/10	09/15/10
Misconduct of State Employee	09/01/10	10/21/11
Bridgeport Juvenile Detention Center	09/20/10	*
Alleged Improper Timesheet	12/07/10	*
Labor:		
Retaliation	04/19/11	04/20/11
Large State Contractor:		
Client Care at The Connection Inc.	10/05/10	*
Retaliation	02/09/11	03/08/11
Mischarging of Grant Funds	04/11/11	09/30/11
Client Care at Community Residences, Inc.	05/23/11	06/08/11
Lottery Corporation:		
Contract/Program	04/11/11	*
Mental Health and Addiction Services:		
Southeastern Mental Health Authority	01/07/11	*
Alleged Falsifying of Overtime	03/02/11	08/25/11
Mandated Reports	04/11/11	*
Misuse of State Funds	05/24/11	*
Safety Issues	06/13/11	07/11/11
Military Department:		
Hiring Practices	08/30/10	06/20/11
State Active Duty	06/16/11	*

<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>
Motor Vehicles:		
Driving School	01/12/11	*
Flagging System	04/07/11	08/03/11
Office of Legislative Management:		
Political Activity on State Time	10/05/10	10/12/10
Office of Policy and Management:		
Contract Issue	10/20/10	*
Alleged Contract Issue	10/13/10	04/13/11
Office of Protection and Advocacy for Persons with Disabilities:		
Not Providing Services	09/14/10	*
Office of State Ethics:		
Intimidation and Flawed Review	05/11/10	08/30/10
Public Health:		
Alleged Misrepresentation for Travel	11/22/10	02/09/11
Drinking Water Division (ARRA Funds)	11/05/10	*
Failure to Investigate	12/23/10	09/29/11
Possible Conflict of Interest	03/21/11	10/05/11
Attendance Issues	09/23/10	*
Revenue Services:		
Retaliation	02/07/11	02/09/11
Social Services:		
Possible Irregular Billing	07/21/10	08/02/10
Fair Hearing Procedures	09/21/10	07/11/11
Southern Connecticut State University:		
Union Business on State Time	11/01/10	11/10/10
Retaliation	12/08/10	02/09/11
Office of Human Resources	04/26/11	*

<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>
Special Revenue:		
State Sponsored Study	07/13/10	*
State Employee:		
Political Activity on State Time	06/20/11	08/25/11
Possible Misuse of State Resources	06/24/11	07/08/11
Teachers' Retirement Board:		
Offset of Payments	11/12/10	12/13/10
Purchase of Service Credit	03/28/11	*
Transportation:		
Inaction of Management	02/25/11	03/16/11
Employee Resignation Status	03/25/11	06/14/11
IT Department	03/28/11	05/17/11
Tunxis Community College:		
Dental Hygienist Program and Retaliation	03/25/11	*
UCONN:		
Not Collecting Fees	08/20/10	*
Improper Hiring	09/02/10	12/01/10
Bonus for Athletic Director	09/18/10	12/22/10
Alleged False Timesheet	03/28/11	*
UCONN Health Center:		
Patient Access Unit	07/14/10	*
Violation of Federal and State Laws (A)	09/09/10	09/15/10
Retaliation	04/15/11	04/26/11
Abuse of Sick Time	04/08/11	*
Retaliation and Stipulated Agreement	05/17/11	06/21/11

<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>
Veterans' Affairs:		
Improper Reimbursement	08/06/10	09/28/11
Harassment	11/19/10	08/10/11
Workplace Violence Investigation	12/10/10	11/16/11

**Matters currently under review*

(A) Attorney General, Department of Correction, Judicial Department and UConn Health Center

Generally Accepted Governmental Auditing Standards (GAGAS):

An audit consists of a review and examination of records, documents and financial statements; the collection of information needed to certify the fairness of presentations in financial reports; compliance with statutory requirements and regulations; and evaluation of 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 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 functions 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:

Auditors responsible for planning, directing, conducting or reporting on governmental audits must complete at least 80 hours of appropriate continuing education and training every two years, with at least 24 of those hours in subjects directly related to the government environment and government auditing. Accordingly, we follow a training policy statement that provides for reasonable assistance in the form of expanded training and seminars, together with tuition reimbursement programs for our employees taking appropriate courses. In order to provide more effective training to our auditors, this year's 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 certified public accounting firm to review our office's quality control procedures 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 followed to ensure 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 are currently in the process of conducting such an inspection for the 2010 calendar year. A quality control inspection covering the 2011 calendar year is scheduled to commence during the summer of 2012.

External quality control reviews of our office's federal audit work are periodically conducted 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 Office of Management and Budget Circular A-133.

Recent Developments:

The American Recovery and Reinvestment Act of 2009 (ARRA), which included an authorization of \$787 billion, contains 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 \$7.6 billion in financial assistance annually from the federal government. As a result of the passage of this act, the state received \$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 ARRA funds expended by the state in accordance with federal audit requirements that are more stringent than those normally required for audits of federal programs. These additional requirements caused a significant increase in auditing work for our office in 2011. It is anticipated that this additional audit work will gradually decrease during the 2012 calendar year, as the state expends the last of the monies received under this federal program.

In our 2010 Annual Report to the General Assembly, our office recommended that the General Assembly enact legislation to improve Connecticut's whistleblower law to better protect whistleblower complainants from retaliation and to provide the Auditors of Public Accounts with some measure of flexibility to determine the most cost-effective and efficient manner in which to proceed for each whistleblower complaint it receives. This recommendation was effectively implemented with the passage of Public Act 11-48. Section 17 of this act, effective October 1, 2011, revised Section 4-61dd of the General Statutes to give our office flexibility in addressing complaints made under the whistleblower law. We had requested these changes in response to a 2009 Program Review and Investigations report that suggested various changes to the whistleblower law and process. The new law enables our office to reject a whistleblower complaint if it is trivial or not made in good faith, is not timely, can be handled during the course of a regular audit, can be duly investigated by another agency, or there are other available remedies the complainant can pursue. These changes will enable our office to focus our limited resources on critical complaints and reduce the significant backlog of whistleblower cases. Because of this new law and a focus on addressing the backlog, we reduced the backlog of whistleblower cases by 29% in the last year and hope to further alleviate the backlog in the next few years.

One of the primary goals of the new State Auditors was to modernize our operations using current available technology. Our office made a decision to utilize information technology whenever possible to automate our work.

In early 2011, we decided to institute the use of electronic-based audit work papers in our office in order to replace the paper-based audit process we currently use. To this end, with assistance from the Office of Legislative Management, our office issued a request for proposal in June for an audit software package and related product training. After an extensive evaluation and testing process, an audit software vendor was selected and the contract was finalized on December 28, 2011.

During January of 2012, the necessary computer hardware and software was purchased, and the first round of scheduled training commenced. It is anticipated that the audit software and related training will be rolled out to each of our audit teams on a phased-in basis during the coming year with office-wide implementation achieved by the end of the 2012 calendar year. We anticipate the use of the new software will significantly improve productivity and reduce the need for costly storage of paper documents.

Other efficiency initiatives completed during 2011 included the following:

- We instituted the electronic distribution of all issued audit reports to various state officials and members of the media to reduce the number of hard copy reports produced for distribution. This change has reduced the number of printed audit reports by approximately 80%.
- We began the electronic distribution of appointment letters for all state boards, commissions and task forces to eliminate the handling of paper within our office and facilitate communication.
- We instituted an electronic job application submission process to eliminate the handling of paper within our office and facilitate the hiring process.
- We initiated a comprehensive review of our office's personnel policy manual, and a major update was made to our office's audit travel policy. We expect to complete our review and enact appropriate revisions to our personnel policy manual by the end of 2012.

As a governmental audit organization, a concerted effort has been made during the past year to increase our office's participation in various professional organizations that are involved in governmental auditing. On the national level, we have reconnected with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and the National State Auditors Association (NSAA). Regionally, we have renewed our ties with the New England Intergovernmental Audit Forum (NEIAF). These affiliations enable our office to receive information affecting our profession, provide educational opportunities for our employees, and provide valuable information-sharing.

In September 2011, we decided to re-examine how our peer reviews are conducted. Traditionally, when it came time for our office to be reviewed, we would contract with a CPA firm to conduct such a review. After researching all of the factors, we decided that we would transition to participating in the NSAA's Peer Review Program. Under this program, our office commits to providing volunteers from our staff to assist NSAA for a week or two each year with peer reviews in other states. In return, NSAA will arrange for a team of volunteers from other state audit organizations to conduct a peer review of our office's system of quality control. Our participation in this program would not only result in realized cost savings to our agency, but also give us an opportunity to learn of the best practices employed by other state audit organizations in carrying out their audit missions.

Our office has also offered its support and encouragement to employees who have expressed an interest in serving professional audit organizations in various capacities. For example, during 2011, a member of our management team served on the Governmental Accounting and Auditing Committee of the Connecticut Society of Certified Public Accountants (CSCPA). Among other things, the CSCPA serves as a primary provider of continuing professional education to all professional accountants and auditors working in this state, including the staff of our office.

The past year was one of significant change in the office of the Auditors of Public Accounts. We will continue to find new ways to improve efficiency and enhance the professional reputation our office has always enjoyed.

On a special note, we wish to acknowledge and express our gratitude to Robert G. Jaekle and Kevin P. Johnston, the former State Auditors, for their years of service to our state and their assistance with our transition.

SECTION II

RECOMMENDATIONS

Many recommendations of a financial or record-keeping nature are presented in the written audit reports prepared by our office. Most of these are addressed to agency 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 amend Section 2-90 and section 4-33a of the General Statutes in order to encourage timely reporting by agencies of matters that may currently be under investigation, as well as allowing the Auditors of Public Accounts flexibility in determining the manner in which agencies report matters with large numbers of reportable events in their normal course of business.**

Comment:

Under Section 4-33a of the General Statutes, all boards of trustees of state institutions, state department heads, boards, commissions, other state agencies responsible for state property and funds and quasi-public agencies must promptly report to the comptroller and the Auditors of Public Accounts any unauthorized, illegal, irregular or unsafe handling of state funds or other resources.

Section 2-90 of the General Statutes requires the Auditors of Public Accounts to immediately report the unauthorized, illegal, irregular or unsafe handling of state funds or the breakdown in the safekeeping of any resources of the state. Such incidents normally become known to the Auditors of Public Accounts in two ways – either through routine audits or by way of reports filed by agencies in accordance with Section 4-33a of the General Statutes.

The type and frequency of events that can fall under the reporting requirements of Section 4-33a are many. Social service agencies that expend large amounts for public assistance may have erroneous benefit payments that can take place on a regular basis, although they are often recouped. Requiring agencies to report these incidents as they occur creates an administrative burden for both the agencies and the Auditors. In addition, some routine matters may not be reported. Giving the Auditors the ability to aggregate these incident reports would better serve these agencies but not diminish the value of the reporting requirement.

When events that would otherwise be reported under Section 4-33a take place and the agencies determine that some type of investigation is warranted, agencies will frequently delay reporting these matters until the investigation is completed. The reluctance to report such cases can be attributed, at least in part, to the fact that the Auditors are required to report these matters immediately in accordance with Section 2-90. The public reporting of a matter under investigation can hinder a review. By permitting the Auditors to delay the public reporting of these cases until such time as the investigations are complete, timely compliance should dramatically improve.

2. **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 proposing to enter into personal service agreements costing more than \$20,000 are required to competitively bid for the services 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 with 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 service agreement, it cannot be determined if the state agency received the most favorable prices for the service 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.

- 3. The General Assembly should consider including agency human resources directors as mandated reporters of ethics violations, as required for others by Section 1-101pp of the General Statutes.**

Comment:

Section 1-101pp of the General Statutes currently requires agency commissioners and persons in charge of state agency procurement and contracting, who have reasonable cause to believe that a person has violated the provisions of the Code of Ethics for Public Officials, to report such belief to the Office of State Ethics. Ethics violations very often pertain to human resources or personnel-related issues. However, human resource directors are not required to report these matters when they become aware of such violations. We have identified such circumstances at an audited agency.

- 4. The General Assembly should consider providing all state regulations online for public access, as is currently done with the state statutes.**

Comment:

In light of today's technology, the availability of state regulations via the Internet would allow the general public to obtain specific information pertaining to state agencies with relative ease, while reducing the amount of outside inquiry and inconvenience to state agencies. Currently, some state agencies make parts of the Regulations of State Agencies available on their own websites. There is no online access available to the entire set of state regulations.

- 5. 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 the Auditors of Public Accounts access 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 reviews of whistleblower complaints under Section 4-61dd. 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.

- 6. The General Assembly should consider an amendment to Section 4-37g, subsection (b), of the General Statutes to allow the Auditors of Public Accounts to conduct a full audit of the books and accounts of any foundation, in accordance with the provisions of Section 2-90, if the foundation failed to have a full audit of its books and accounts as required under Section 4-37f (8) of the General Statutes. Also, the General Assembly should consider an amendment to Section 4-37f (8) of the General Statutes to require that any foundation audit must be completed and the audit report issued within six months of the end of the foundation's fiscal year.**

Comment:

Currently, under Section 4-37g (b) of the General Statutes, if a foundation's audit report indicates that (1) funds for deposit and retention in state accounts have been deposited and retained in foundation accounts or (2) state funds, personnel, services or facilities may have been used in violation of Sections 4-37e to 4-37i, inclusive, or any other provision of the General Statutes, the Auditors of Public Accounts may conduct a full audit of the books and accounts of the foundation pertaining to such funds, personnel, services or facilities, in accordance with the provisions of Section 2-90. There currently is nothing to address instances in which a foundation fails to have an audit conducted. Also, although Section 4-37f (8) of the General Statutes requires that a foundation shall have a full audit done, there is no mention of the timeliness for completion of the audit report. Our most recent audit of the Department of Public Health, issued on September 14, 2011, disclosed that the Connecticut Public Health Foundation, Inc. has not had a full audit completed for any fiscal year since its creation in March 2004.

- 7. 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 (SERS).**

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. 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.