



# 2012 Annual Report

to the Connecticut General Assembly

---



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

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

State Capitol  
210 Capitol Avenue  
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

**January 25, 2013**

Members of the General Assembly:

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

The past year was one of significant change in the office of the Auditors of Public Accounts. We continue to find new ways to make our office more efficient and to enhance the professional reputation our office has always enjoyed. To this end, a major agency-wide conversion to the use of electronic work paper software by our entire professional audit staff was completed during the past year. This has resulted in a number of audit and administrative efficiencies for our office, as all audit work papers are now produced in an electronic format. In addition to our electronic work paper initiative, we have also instituted several other efficiency initiatives which leverage the use of technology to eliminate or minimize the use of paper in our office. Finally, we completed a computer upgrade during the past year that provided new hardware and software to each of our employees. We expect operational efficiencies will result from this upgrade effort as well. 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](http://www.cga.ct.gov/apa). A key feature of our website is that our reports (both present and past) are posted there and are available to members of the public.

According to law, we maintain work 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 second 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.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John C. Geragosian". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

John C. Geragosian  
Auditor of Public Accounts

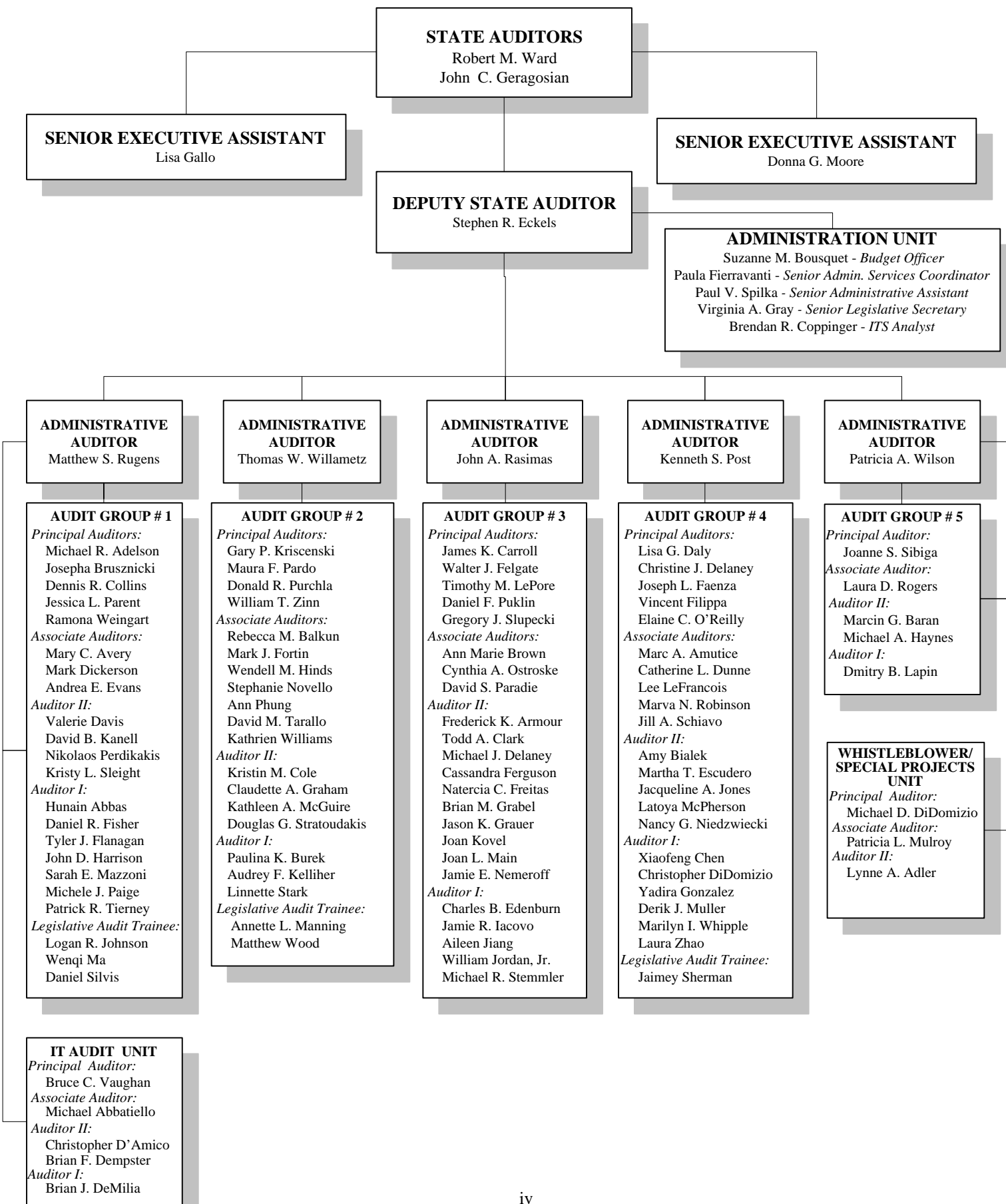
A handwritten signature in black ink, appearing to read "Robert M. Ward". The signature is written in a cursive style with clear, legible letters.

Robert M. Ward  
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) .....	12
Continuing Education .....	13
External Quality Control Reviews .....	13
Recent Developments .....	14
Section II – Recommendations	
1. Provide Additional Flexibility in the Handling of Certain Reportable Matters that are Required to be Reported under Various Provisions of the State Statutes .....	16
2. Limit the Conditions That May be Used to Justify a Waiver from Competitive Bidding .....	18
3. Require State Agency Human Resource Directors to Report Known Violations of the Code of Ethics for Public Officials to the Office of State Ethics .....	19
4. Clarify Certain Provisions of the Statutes to Provide the Auditors of Public Accounts with Access to Confidential Tax Information When Reviewing Whistleblower Complaints .....	20
5. Authorize the Auditors of Public Accounts to Audit the Books and Accounts of any Foundation that Failed to have a Full Audit if its Books and Accounts as Required by State Statute .....	21
6. Eliminate Redundant Audit Requirements for the Capital Region Development Authority .....	22
Technical Corrections and Other Matters .....	23
Recently Adopted Recommendations .....	24

# 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 115 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 105 auditors organized into five audit groups with each group under the general direction of an administrative auditor. Included within these groups are a Whistleblower/Special Projects Unit consisting of three auditors and an Information Systems Audit Unit consisting of five 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 that 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-eight members of our staff have relevant professional certifications and 46 members have advanced degrees.

**Auditing State Agencies:**

During 2012, our auditors completed 38 audits of state agencies, quasi-public agencies and state marshal trust accounts. A total of 320 audit recommendations were made in the state and quasi-public agency reports. During the past calendar year, these agencies have implemented approximately 48 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 2012 with this office and the State Comptroller, in accordance with Section 4-33a of the General Statutes, disclosed approximately 2,146 losses, primarily through theft, vandalism, inventory shortages and flood damage from storm Sandy involving an aggregate loss of \$1,391,370.

In March 2012, 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, 2011, 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 \$10,284,000,000 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 that 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 Higher Education Supplemental Loan Authority. During 2012, 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](http://www.cga.ct.gov/apa)), where they are available for review by members of the public.

A listing of the audit reports issued during 2012 and the number of recommendations included in each report follows:

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>DEPARTMENTAL AUDITS:</b>				
<b>Legislative:</b>				
Joint Committee on Legislative Management	06/20/12	5	0	0
<b>Elected Officials:</b>				
State Treasurer – State Financial Operation	05/16/12	2	7	7
State Comptroller – State Financial Operations	08/27/12	2	4	3
Office of the Attorney General	12/10/12	3	4	2
<b>General Government:</b>				
Department of Veterans' Affairs	01/12/12	7	4	0
State Properties Review Board	11/26/12	0	1	1
Freedom of Information Commission	12/03/12	3	1	1
Department of Administrative Services	12/05/12	31	14	7
<b>Regulation and Protection of Persons and Property:</b>				
Insurance Department/Office of the Healthcare Advocate/Commission on Health Equity	06/27/12	5	10	7
Department of Banking	11/27/12	1	5	4
Department of Emergency Management and Homeland Security	12/12/12	4	3	0



<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>Conservation and Development:</b>				
Department of Agriculture	10/03/12	16	18	5
<b>Health and Hospitals:</b>				
Department of Developmental Services	04/23/12	18	22	14
Office of Health Care Access	05/02/12	1	3	3
Department of Mental Health and Addiction Services	09/20/12	8	6	3
Department of Public Health	12/27/12	17	13	3
<b>Higher Education, Board of Regents:</b>				
Western Connecticut State University	05/30/12	18	18	5
Connecticut State University System Office	12/18/12	6	5	3
Central Connecticut State University	12/20/12	14	11	2
<b>Other Education:</b>				
Commission on Deaf and Hearing Impaired	04/18/12	2	3	2
Teachers' Retirement Board	09/12/12	10	27	17
Board for State Academic Awards	12/17/12	6	4	4
<b>Judicial:</b>				
Public Defender Services Commission and Commission on Child Protection	10/01/12	5	6	2
<b>Public Works:</b>				
Department of Public Works	12/19/12	17	13	1
<b>Quasi-Public Agencies and Other:</b>				
Connecticut Innovations Incorporated and Clean Energy Fund	10/15/12	1	2	2
Capital City Economic Development Authority	10/17/12	6	0	0
Connecticut Student Loan Foundation	11/16/12	2	4	4
Connecticut Health and Educational Facilities Authority	11/19/12	<u>1</u>	<u>1</u>	<u>0</u>
<b>Total Recommendations – Departmental Audits</b>		<b><u>211</u></b>	<b><u>209</u></b>	<b><u>102</u></b>

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>OTHER AUDITS:</b>				
<b>STATEWIDE AUDITS:</b>				
State of Connecticut – Federal Single Audit Report	03/30/12	80	85	39
<b>SPECIAL REVIEWS:</b>				
Legislative Office of Fiscal Analysis – Transparency Database	02/17/12	3	N/A	N/A
Department of Social Services – Disaster Supplemental Nutrition Assistance Program	10/11/12	5	N/A	N/A
Bradley Enterprise Fund	12/06/12	1	N/A	N/A
<b>STATE MARSHAL AUDITS:</b>				
State Marshal Trust Accounts (Three Audits)	Various	15	N/A	N/A
<b>FINANCIAL STATEMENT AUDITS:</b>				
Governor's Residency Conservancy, Inc.	04/11/12	2	N/A	N/A
Stadium at Rentschler Field	08/28/12	2	N/A	N/A
Charter Oak State College Foundation	11/29/12	<u>1</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Recommendations – Other Audits</b>		<b><u>109</u></b>	<b><u>85</u></b>	<b><u>39</u></b>
<b>Total Recommendations – All Audits</b>		<b><u>320</u></b>	<b><u>294</u></b>	<b><u>141</u></b>
<b>Recommendations Resolved Within One Audit Cycle</b>				<b><u>48%</u></b>

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 noncompliance are found. A summary analysis of the recommendations appearing in our audit reports follows:

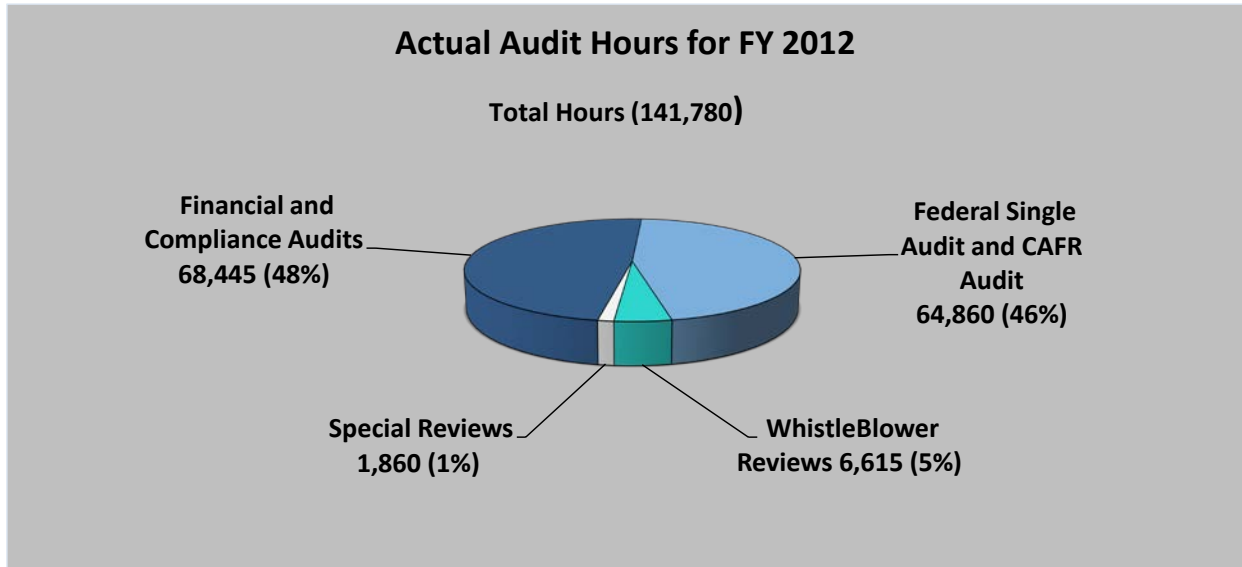
	<u>Number of Recommendations</u>
<b>Internal Control Recommendations:</b>	
Bank accounts, cash accounts, and petty cash funds	3
Billings and receivables	6
Cash management and cash handling and depositing	8
Cash receipts	6
Grantee and contractor monitoring	2
Computer operations	16
Equipment/supplies inventories	17

Financial reporting and accounting	11
General accounting and business office functions	11
Miscellaneous state programs – administrative controls	15
Payroll and personnel controls	36
Policies, procedures, and guidelines	9
Purchasing of goods and/or services	13
Welfare, activity and other state funds	8
Capital projects	2
All others	<u>8</u>
Total Internal Control Recommendations	<u>171</u>
<b>Compliance Recommendations:</b>	
Purchasing laws and regulations	2
Public meeting laws and regulations	5
Reporting laws and regulations	9
All other laws and regulations	<u>12</u>
Total Compliance Recommendations	<u>28</u>
<b>Miscellaneous Recommendations:</b>	
Amendment or clarification of laws or regulations	7
Obtain Attorney General opinion	3
Improve or automate administrative practices	<u>2</u>
Total Miscellaneous Recommendations	<u>12</u>
<b>Total Departmental Audit Recommendations</b>	<b><u>211</u></b>

In addition to the departmental audit recommendations mentioned above, our office issued a Statewide Single Audit Report, which contained 80 audit recommendations calling for various improvements in controls over state-administered federal programs and compliance with related laws and regulations. Our office also issued three financial statement audit reports and three special reports during 2012, which contained 14 audit recommendations calling for improvements in the operations of various governmental and quasi-public entities.

Our office conducted three audits of state marshal trust accounts during the 2012 calendar year, pursuant to the provisions of Section 2-90a of the General Statutes . It should be noted that the results of these three audits disclosed 15 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, 2012, our office expended a total of 141,780 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 \$2.6 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:**

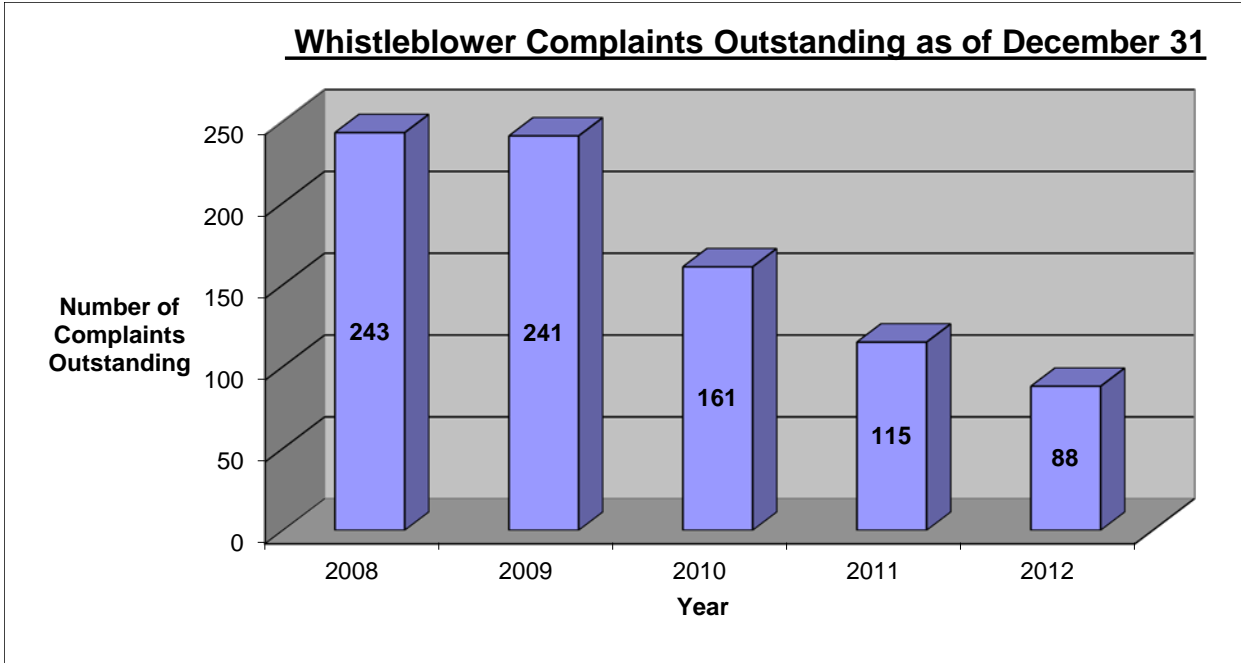
Under the provisions of Section 4-61dd of the General Statutes, known as the Whistleblower Act, we receive complaints from anyone having knowledge of any matter involving corruption, unethical practices, violations of state laws or regulations, mismanagement, gross waste of funds, abuse of authority 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, 2012, we received 37 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 three complaints of alleged retaliation against whistleblower complainants, which is a decrease from the nine 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 17, 2012 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 three 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. Having the new law take effect on October 1, 2011, has also given us an additional tool in reducing the backlog of complaints.



The following is a summary of those complaints received during the 2011-2012 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>
<b>Attorney General:</b>		
Various Issues (A)	08/12/11	03/26/12
Alleged Misuse of Position	05/31/11	07/27/12
<b>Bureau of Rehabilitative Services:</b>		
Business Enterprise Program	05/11/12	*
<b>Capital Community College:</b>		
Teaching on State Time	01/24/12	02/10/12
<b>Children and Families:</b>		
Various Issues (A)	08/12/11	03/26/12
<b>Connecticut Innovations:</b>		
Operating Procedures	01/09/12	01/18/12

<b><u>Whistleblower Matters Received</u></b> <b><u>Agency/Subject</u></b>	<b><u>Date</u></b>	<b><u>Date</u></b> <b><u>Reported</u></b> <b><u>To Attorney</u></b> <b><u>General</u></b>
<b>Consumer Protection:</b>		
Lemon Law Complaint	07/05/11	*
Home Improvement Guaranty Fund	05/16/12	05/30/12
<b>Corrections:</b>		
Improper Conduct	08/01/11	03/26/12
Promotions	01/04/12	03/15/12
Transportation Unit	03/06/12	07/10/12
Alleged Misuse of State Funds	05/15/12	09/07/12
<b>Criminal Justice:</b>		
Collections in State's Attorney Office	05/09/12	10/22/12
<b>Economic and Community Development:</b>		
HOT Schools	12/18/11	02/21/12
Alleged Misuse of State Funds	03/29/12	07/16/12
<b>Education:</b>		
Report of Fraud Not Investigated	02/09/12	04/24/12
No-Bid Contract	04/27/12	*
<b>Emergency Services and Public Protection:</b>		
Processing of Background Investigations	01/25/12	03/22/12
<b>Insurance:</b>		
Investigation of Complaint	01/31/12	06/07/12
<b>Judicial Branch:</b>		
Rule Changes	07/23/11	03/29/12
No Work Duties	08/30/11	01/05/12
Alleged Improper Hire	04/05/12	*
<b>Large State Contractor:</b>		
Retaliation	09/06/11	09/23/11
Misuse of Grant Monies	02/23/12	*

<b><u>Whistleblower Matters Received</u></b> <b><u>Agency/Subject</u></b>	<b><u>Date</u></b>	<b><u>Date</u></b> <b><u>Reported</u></b> <b><u>To Attorney</u></b> <b><u>General</u></b>
<b>Mental Health and Addiction Services:</b>		
Retaliation	09/10/11	10/07/11
Misuse of State Resources	10/03/11	07/02/12
Alleged Misuse of State Funds - Region II South Central Mental Health Board	01/31/12	05/30/12
<b>Norwalk Community College:</b>		
Attendance Issues	08/16/11	*
<b>Office of Policy and Management:</b>		
Mismanagement of Grant Funds (B)	01/30/12	*
<b>Social Services:</b>		
Possible Irregular Billing	07/21/10	08/02/10
Fair Hearing Procedures	09/21/10	07/11/11
<b>Southern Connecticut State University:</b>		
Conflict of Interest	11/07/11	12/12/11
<b>Transportation:</b>		
Retaliation	09/29/11	10/17/11
Misuse of State Vehicle	10/13/11	*
Mismanagement of Grant Funds (B)	01/30/12	*
<b>Tunxis Community College:</b>		
Dental Hygienist Program and Retaliation	03/25/11	*
<b>UCONN:</b>		
Misuse of State Resources	04/11/12	05/24/12
<b>UCONN Health Center:</b>		
Correctional Managed Health Care	08/11/11	11/27/12



<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>
<b>Veterans' Affairs:</b>		
Personal Business on State Time	08/17/11	10/17/11
Unauthorized Installed Items	03/29/12	08/23/12

\* *Matters currently under review*

(A) *Attorney General and Department of Children and Families*

(B) *Office of Policy and Management and Department of Transportation*

### **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 contracted with a certified public accounting firm to review our 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.

Our next external quality control review, covering the 2012 calendar year, is scheduled to be conducted during the summer of 2013. It should be noted that, rather than contract with a certified public accounting firm to conduct this review, our office opted to participate in the peer review program that the National Association of State Auditors, Comptrollers and Treasurers (NASACT) sponsors for its member state audit organizations. Under this program, our office can request NASACT to provide a team of qualified government auditors from other states and the federal government to conduct a peer review of our quality control procedures. These peer review teams are selected by NASACT from a pool of volunteer auditors that each participating state audit organization is obligated to provide. Other than providing a certain number of volunteers from their audit staff, the only other obligation under this program is that a participating audit organization must agree to pay the travel and lodging costs of the peer review team that performs the organization's own peer review. To date, our office has provided five auditors to serve on teams conducting peer reviews in other states. Not only have we found this to be a cost-effective approach for meeting our peer review requirement, it has also given our office the opportunity to become familiar with the best practices employed by other state audit organizations.

Our office 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 ensure that the control system is working as intended. During the past year, two members of our staff completed the inspection for the 2010 calendar year. In addition, an inspection covering the 2011 calendar year is currently in progress.

External quality control reviews of our office's federal audit work are periodically conducted by representatives of various federal inspector general 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:**

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 potential whistleblower complaint it receives. This recommendation was effectively implemented with the passage of Public Act 11-48. Section 17 of this act 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 have enabled 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 were able to reduce the backlog of whistleblower cases by 29% during the 2011 calendar year and by an additional 24% during the 2012 calendar year. In 2012, there were 15 complaints rejected or referred utilizing the new whistleblower law. We hope to achieve further reductions to this backlog during the 2013 calendar year.

One of our primary goals continues to be the modernization of our operations using current available technology. In line with this goal, our office endeavors to utilize information technology whenever possible.

In early 2011, we decided to institute the use of auditing software in our office in order to replace the paper-based audit process. 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. During the first six months of 2012 the audit software and related training was rolled out to each of our audit teams on a phased-in basis. By July of 2012, each of our audit teams was actively using this new electronic audit software, effectively completing a project that had begun more than a year earlier. We are already noticing significant productivity improvements in our audit work, which will only increase as

we eliminate the storage and handling of paper-based work papers.

As a governmental audit organization, a concerted effort has been made during the past two years 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.

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 2012, 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.

## 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 our office. In addition, some routine matters may not be reported. Giving the Auditors of Public Accounts the ability to aggregate these incident reports would better serve these agencies without diminishing 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 our office is 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 of Public Accounts 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 whether the state agency received the most favorable prices for the contracted service. 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 to the Office of State Ethics. Ethics violations very often pertain to human resources or personnel-related issues. However, human resources 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 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.

5. **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 established under that section, 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 the foundation's 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 December 27, 2012, 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.

- 6. The General Assembly should consider an amendment to Section 32-605 of the General Statutes to eliminate redundant audit requirements for the Capital Region Development Authority.**

Comment:

The audit requirements set forth by Section 32-605 of the General Statutes are redundant in that they call for separate and potentially duplicative audits by the Auditors of Public Accounts and by outside audit firms. Section 32-605 of the General Statutes, as amended by Public Act 12-147, states that the board of directors of the Capital Region Development Authority shall annually contract for a financial audit of the authority. This statute goes on to say that, in lieu of the audit required under section 1-122 of the general statutes, the directors of the Capital Region Development Authority shall annually contract with a person, firm or corporation for a compliance audit. Section 32-605 (c) of the General Statutes states that the books and accounts of the Capital Region Development Authority shall be subject to annual audits by the Auditors of Public Accounts. Section 1-122 of the General Statutes calls for the Auditors of Public Accounts to conduct a biennial compliance audit of each quasi-public agency's activities during the preceding fiscal year.

In practice, the authority has been contracting with an outside audit firm to perform an annual financial audit and the Auditors of Public Accounts have been performing a compliance audit of the authority. However, the audit requirements as put forth in the statute could result in unnecessary duplication of effort unless they are changed.

**Technical Corrections and Other Matters**

- a. Section 1-123, subdivision (4), of the General Statutes provides that the annual reports of quasi-public agencies include “a balance sheet showing all revenues and expenditures.”

A balance sheet, however, is only intended to reflect assets and liabilities of an entity at the time they are produced. Operating statements typically reflect an entity’s revenues and expenditures over a period of time. Amending this section to refer to a balance sheet and an operating statement would help to resolve this inconsistency.

- b. Effective April 27, 2000, the State Marshal Commission was created to partially replace the Office of the County Sheriffs. Certain statutes pertaining to the sheriffs appear to have remained despite their obsolescence. They are as follow:

Section 6-33 - Salaries

Section 6-33a - Reimbursement to state for use of motor vehicle owned or leased by state, when.

Section 6-36 - Removal from office by General Assembly

Section 6-38j - Appointment or removal of deputy sheriff or special deputy sheriff on or after December 1, 2000.

Section 6-38l - Acts prohibited with respect to high sheriffs in the solicitation of contribution or expenditure, committees and referenda.

Section 6-43 - Special deputies

The General Assembly should consider repealing certain obsolete legislation pertaining to the Office of the County Sheriffs under Title 6 of the General Statutes.

**Recently Adopted Recommendations**

- a. 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 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. (2010)
  
- b. The General Assembly should consider providing all state regulations on-line for public access, as is currently done with the state statutes. (2011)