



# 2013 Annual Report

## to the Connecticut General Assembly

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**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 31, 2014**

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.

During the past year our office continued to find new ways to make our office more efficient and to enhance the professional reputation our office has always enjoyed. These achievements 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 annual report, 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,



John C. Geragosian  
Auditor of Public Accounts



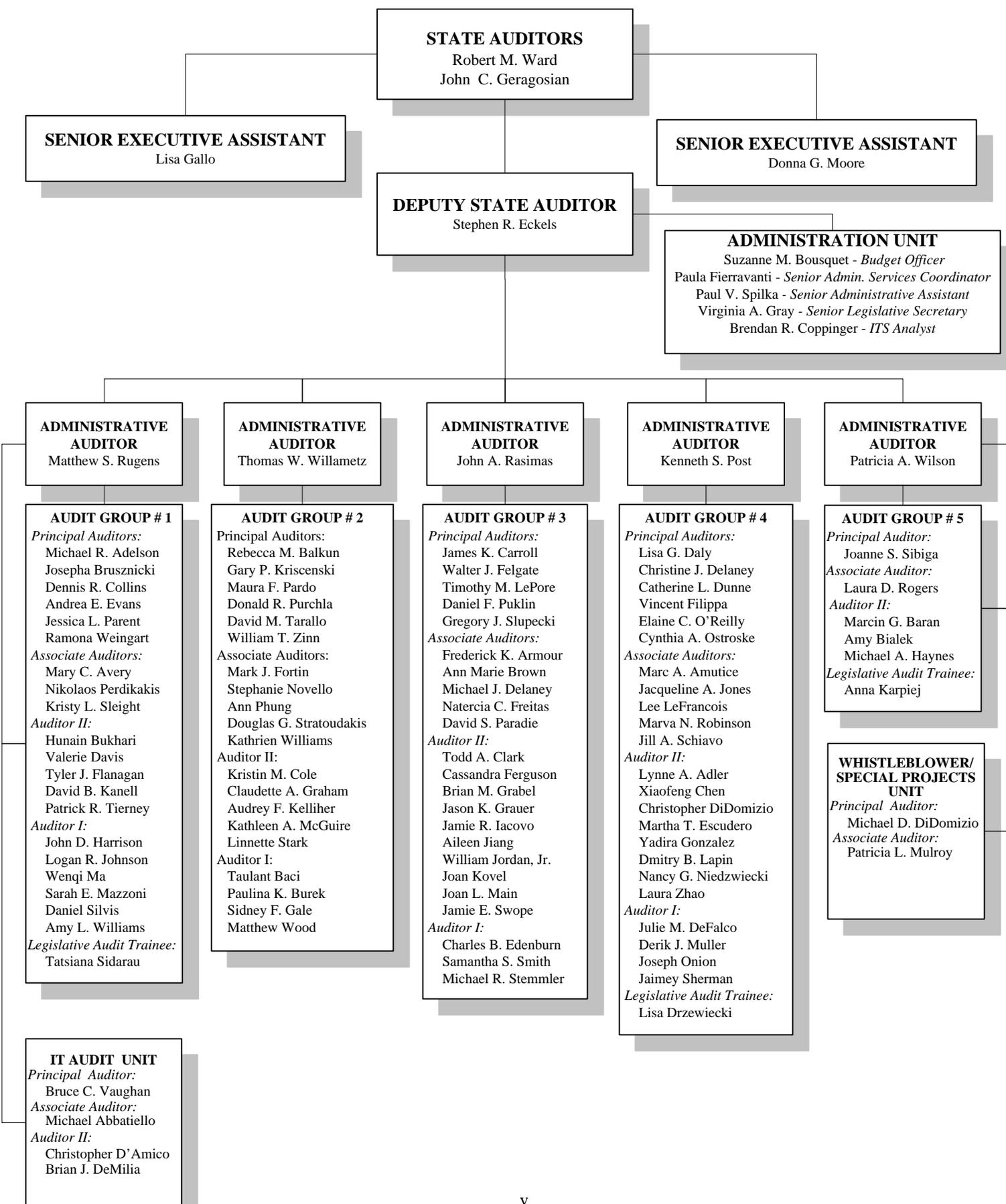
Robert M. Ward  
Auditor of Public Accounts

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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 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 two auditors and an Information Systems Audit Unit consisting of four auditors. The Administration Unit has five employees providing administrative assistance to the office, support services to the field audit teams and report processing services.

The professional auditing staff of 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 such as certified public accountant (CPA) or certified fraud examiner (CFE). Several of our employees are completing requirements of this education. Forty-eight members of our staff have relevant professional certifications and 47 members have advanced degrees.

**Auditing State Agencies:**

During 2013, our auditors completed 43 audits of state agencies and quasi-public agencies. A total of 360 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 2013 with this office and the State Comptroller, in accordance with Section 4-33a of the General Statutes, disclosed approximately 2,269 losses, primarily through theft, vandalism, and inventory shortages involving an aggregate loss of \$863,350.

In March 2013, 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, 2012, 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 \$10,300,000,000 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 provided separate audit opinions in connection with the bonding programs of the Connecticut Health and Educational Facilities Authority. During 2013, 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. The 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 2013 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>Elected Officials:</b>				
State Treasurer – State Financial Operations	03/27/13	0	2	2
State Comptroller – State Financial Operations	06/25/13	3	2	2
Lieutenant Governor	07/15/13	0	0	0
Secretary of the State	12/04/13	6	6	1
State Treasurer – Internal Control and Compliance	12/31/13	1	0	1
<b>General Government:</b>				
Office of State Ethics	04/10/13	4	5	3
Division of Criminal Justice	06/19/13	2	6	5
State Marshal Commission	07/11/13	1	4	3
Office of Workforce Competitiveness	09/16/13	7	7	3
Division of Special Revenue	09/18/13	12	16	10
State Elections Enforcement Commission	11/18/13	10	4	0
<b>Regulation and Protection of Persons and Property:</b>				
Office of the Victim Advocate	01/10/13	3	0	0
Commission on Fire Prevention and Control	02/28/13	13	10	3
Department of Motor Vehicles	04/24/13	6	22	19
Military Department	07/02/13	8	2	0

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		<u>Imple- mented</u>
		<u>Current Report</u>	<u>Prior Report</u>	
<b>Regulation and Protection of Persons and Property:</b>				
Workers' Compensation Commission	08/05/13	4	8	7
Department of Public Utility Control and Office of Consumer Counsel	09/04/13	7	3	1
Connecticut Siting Council	09/09/13	1	0	0
Department of Labor	12/12/13	18	18	5
<b>Conservation and Development:</b>				
Department of Economic and Community Development	01/14/13	8	12	6
<b>Health and Hospitals:</b>				
Office of the Chief medical Examiner	08/01/13	5	4	2
Department of Public Health	10/13/13	33	17	9
<b>Higher Education, Board of Regents:</b>				
CCSU – National Collegiate Athletic Association	03/26/13	0	0	0
SCSU – National Collegiate Athletic Association	05/24/13	0	0	0
CCSU – National Collegiate Athletic Association	08/29/13	0	0	0
Board of Trustees of Community-Technical Colleges	09/11/13	35	26	13
Eastern Connecticut State University	09/30/13	20	13	3
<b>Higher Education, All Other:</b>				
University of Connecticut Health Center	10/16/13	12	10	5
Department of Higher Education	12/09/13	3	7	5
<b>Other Education:</b>				
Bureau of Education and Services for the Blind	07/10/13	4	6	4
<b>Corrections:</b>				
Department of Correction	06/20/13	6	5	3
<b>Children and Families:</b>				
Department of Children and Families	01/07/13	22	17	6
<b>Judicial:</b>				
Judicial Department	11/06/13	5	6	3
<b>Quasi-Public Agencies:</b>				
Connecticut Lottery Corporation	02/20/13	1	1	1

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
<b>Quasi-Public Agencies:</b>				
Connecticut Higher Education Supplemental Loan Authority	03/04/13	3	3	2
Connecticut Housing Finance Authority	07/24/13	1	0	0
Connecticut Development Authority	07/31/13	2	1	0
Connecticut Student Loan Foundation	10/02/13	1	2	1
Tweed New Haven Airport Authority	10/15/13	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Recommendations – Departmental Audits</b>		<b><u>267</u></b>	<b><u>245</u></b>	<b><u>127</u></b>
<b>OTHER AUDITS:</b>				
<b>STATEWIDE AUDITS:</b>				
State of Connecticut – Federal Single Audit Report	03/28/13	91	80	30
<b>SPECIAL REVIEWS:</b>				
Interim Report on the State Education Resource Center (SERC)	02/21/13	1	N/A	N/A
<b>STATE MARSHAL AUDITS:</b>				
Deceased State Marshal Accounts (Two Audits)	Various	N/A	N/A	N/A
<b>FINANCIAL STATEMENT AUDITS:</b>				
Charter Oak State College Foundation	12/02/13	<u>1</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Recommendations – Other Audits</b>		<b><u>93</u></b>	<b><u>80</u></b>	<b><u>30</u></b>
<b>Total Recommendations – All Audits</b>		<b><u>360</u></b>	<b><u>325</u></b>	<b><u>157</u></b>
<b>Recommendations Resolved Within One Audit Cycle</b>				<b><u>48%</u></b>

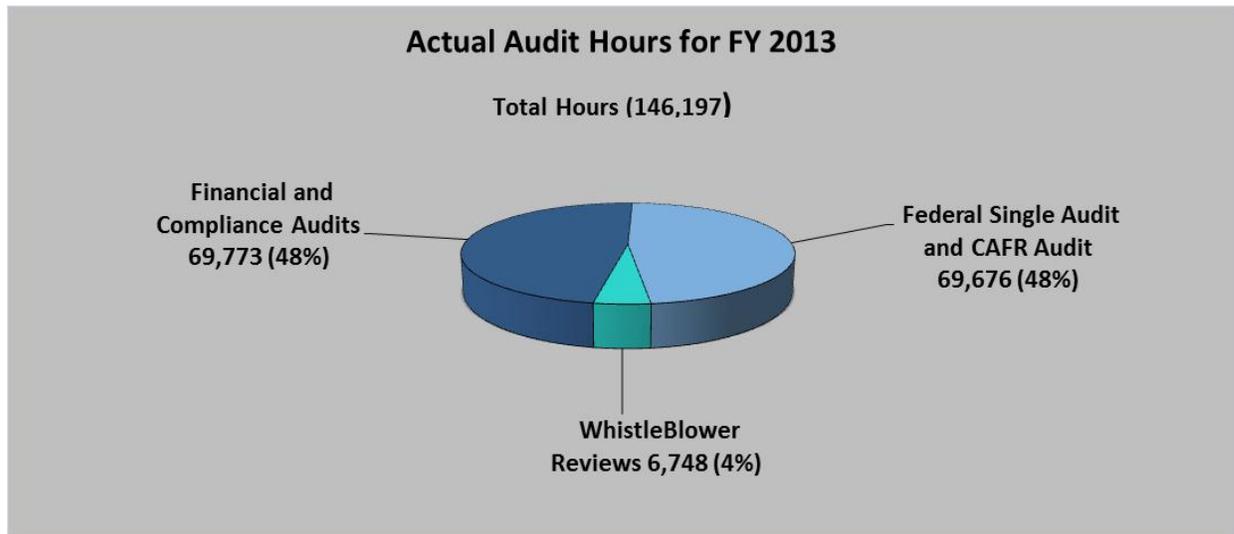
The departmental audit reports issued by our office generally contain recommendations calling for various improvements in an agency's internal control structure as well as recommendations to better ensure compliance with certain laws, regulations, contracts and grants when instances of noncompliance are found. A summary analysis of the recommendations appearing in our audit reports follows:

	<b><u>Number of Recommendations</u></b>
<b>Internal Control Recommendations:</b>	
Bank accounts, cash accounts, and petty cash funds	7
Billings and receivables	12
Cash management and cash handling and depositing	12
Cash receipts	5
Grantee and contractor monitoring	4
Computer operations	11
Equipment/supplies inventories	22
Financial reporting and accounting	7
General accounting and business office functions	17
Miscellaneous state programs – administrative controls	11
Payroll and personnel controls	62
Policies, procedures, and guidelines	8
Purchasing of goods and/or services	20
Welfare, activity and other state funds	4
All others	<u>14</u>
Total Internal Control Recommendations	<u>216</u>
<b>Compliance Recommendations:</b>	
Auditing laws and regulations	4
Public meeting laws and regulations	5
Reporting laws and regulations	5
All other laws and regulations	<u>10</u>
Total Compliance Recommendations	<u>24</u>
<b>Miscellaneous Recommendations:</b>	
Improve program administration	16
Amendment or clarification of laws or regulations	8
Obtain Attorney General opinion	1
Improve or automate administrative practices	<u>2</u>
Total Miscellaneous Recommendations	<u>27</u>
<b>Total Departmental Audit Recommendations</b>	<b><u>267</u></b>

In addition to the departmental audit recommendations mentioned above, our office issued a Statewide Single Audit Report, which contained 91 audit recommendations calling for various improvements in controls over state-administered federal programs and compliance with related laws and regulations. Our office also issued one financial statement audit report and one special report during 2013, which contained two audit recommendations calling for improvements in the operations of a governmental and a quasi-public entity.

Upon the request of the State Marshal Commission, our office also conducted audits of the accounts of two deceased state marshals during the 2013 calendar year, pursuant to the provisions of Section 6-38e of the General Statutes. The results of these audits were transmitted to the State Marshal Commission for follow-up action.

During the fiscal year ended June 30, 2013, our office expended a total of 146,197 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 \$2.7 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.

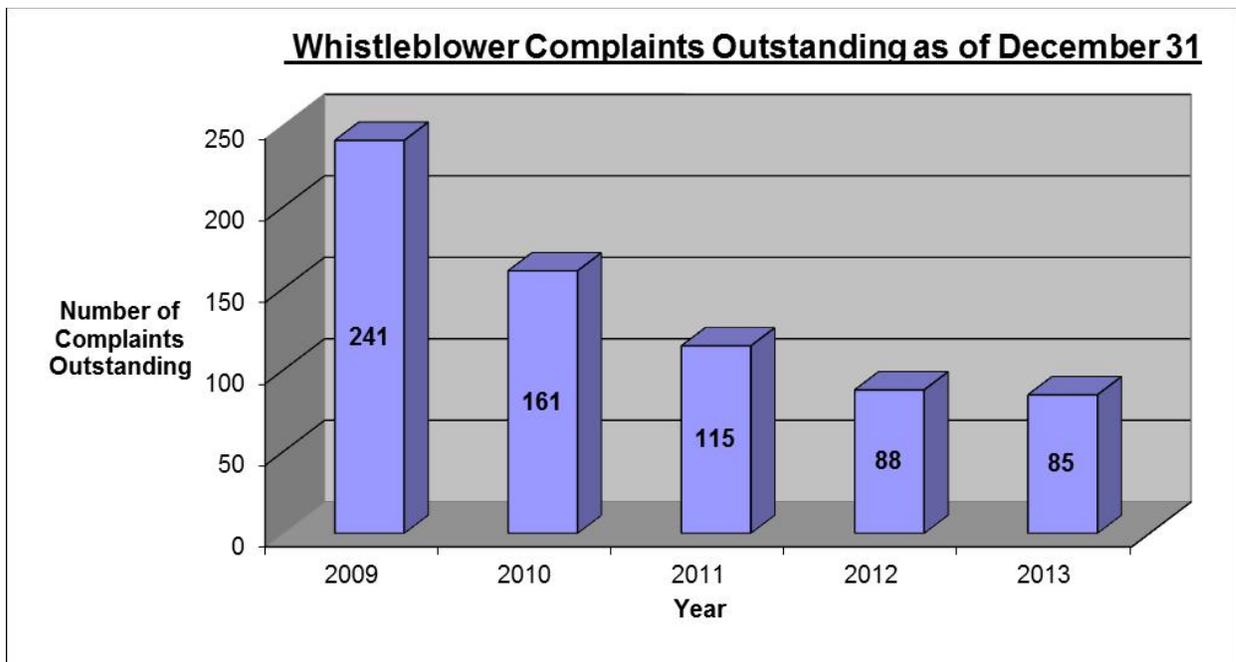
**Whistleblower Matters:**

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, 2013, we received 38 complaints covering such matters as alleged misuse of state funds, employee misconduct, personnel issues and violations of federal or state law.

Section 4-61dd of the General Statutes requires an annual report on all whistleblower complaints, which our office prepared and filed on August 9, 2013 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.

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 2012-2013 fiscal year and the action taken thereon.

<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>Administrative Services:</b>		
Contract (A)	07/18/12	11/06/12
Various Issues	10/04/12	07/31/13
Exam Review	10/25/12	03/18/13
<b>Asnuntuck Community College:</b>		
Possible Misuse of State Computer	01/11/13	*
<b>Children and Families:</b>		
Vendor Payments	07/02/12	05/20/13
Alleged Improper Overtime	06/28/12	12/27/12
Attendance Issues and Lack of Review	07/13/12	07/30/13
Misuse of State Funds	06/25/13	*
<b>Construction Services:</b>		
Alleged Misuse of State Computer	11/21/12	*
<b>Corrections:</b>		
Various Issues	01/14/13	*
<b>Economic and Community Development:</b>		
Loan Agreement	07/09/12	03/15/13
<b>Emergency Services and Public Protection:</b>		
Mandatory Furlough Days	09/24/12	11/15/12
<b>Healthcare Advocate:</b>		
Attendance and Work Policies	02/13/13	05/28/13
<b>Judicial Branch:</b>		
Court Support Services Division Contract	10/17/12	12/27/12
<b>Labor:</b>		
Various Issues	07/18/12	07/24/13
Ignoring Complaint	07/27/12	02/27/13

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date</u> <u>Reported</u> <u>To Attorney</u> <u>General</u>
<b>Large State Contractor:</b>		
Possible Misuse of Grant Funds	08/22/12	01/10/14
Alleged Misuse of Grant Funds	04/09/13	09/13/13
<b>Mental Health and Addiction Services:</b>		
Staff and Safety Issues	10/08/12	*
YAS Program	11/07/12	07/31/13
<b>Motor Vehicles:</b>		
Hiring, Promotion and Complaint Practices	07/12/12	*
Alleged Violation of Statutes	09/13/12	09/28/12
<b>Office of Government Accountability:</b>		
Possible Improper Purchase	11/15/12	07/02/13
Possible Misuse of State Computer	02/06/13	01/03/14
<b>Office of Policy and Management:</b>		
Attendance and Internet Usage Issues	11/02/12	*
Criminal Justice Information System	01/31/13	*
<b>Public Health:</b>		
Alleged Failure to Investigate Complaint	08/23/12	12/13/13
<b>Public Utilities Regulatory Authority:</b>		
Complaint Process	06/12/13	09/10/13
<b>Secretary of the State:</b>		
Non-Collection of Fees	02/27/13	04/26/13
<b>Social Services:</b>		
Fair Hearing Process	12/04/12	08/09/13
Attendance and State Vehicle Issues	12/21/12	10/16/13
Contract Monitoring	06/12/13	*

<u>Whistleblower Matters Received</u>	<u>Date</u>	<u>Date</u>
<u>Agency/Subject</u>	<u>Date</u>	<u>Reported To Attorney General</u>
<b>State Employees:</b>		
D-SNAP	09/17/12	10/11/12
<b>State Library:</b>		
Promotions/Donations	01/18/13	06/21/13
<b>Transportation:</b>		
Contract (A)	07/18/12	11/06/12
Possible Misuse of State Gasoline	11/23/12	01/18/14
Alleged Misconduct Involving Contract	02/01/13	*
<b>Treasurer:</b>		
Second Injury Fund	06/10/13	09/09/13
<b>Victim Advocate:</b>		
Advisory Committee	10/24/12	02/22/13

\* *Matters currently under review*

(A) *Department of Administrative Services 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:**

Generally Accepted Government Auditing Standards (GAGAS) mandate that governmental audit organizations have an external quality control review assessment, known as a peer review, every three years. In order to comply with this requirement our office participates in the peer review program sponsored by the National Association of State Auditors, Comptrollers and Treasurers (NASACT). Under this program NASACT provides a team of qualified government auditors from other states and the federal government to conduct a review of our quality control procedures. The teams are selected by NASACT from a pool of volunteer auditors that each participating state audit organization is obligated to provide. The team selected to conduct are peer review examined 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 most recent peer review was completed during the summer of 2013 and covered the one-year period of July 1, 2012 to June 30, 2013. The report issued as a result of this gave our office a peer review rating of pass with deficiencies, which is one step below the highest rating of a peer review rating of pass. The conclusion reached in this report was that the system of quality control of the Auditors of Public Accounts during the review period had been suitably designed and was complied with during the period to provide our organization with reasonable assurance of performing and reporting in conformance with GAGAS in all material respects, with the exception of one deficiency.

The peer review team disagreed with the reporting format of the audit certification that our office utilizes in our audits of state departments and agencies. The audit certification we used included reports on each department's system of internal control and on its compliance with laws, regulations, contracts or grant agreements, both of which were supposed to be based on an audit of financial statements conducted in accordance with financial auditing standards. These financial auditing standards require our office to opine on the audited agency's financial statements. Because separate financial statements for each department are not included in our departmental audit reports, it had been our practice to include a simple reference to the statewide audit opinion that our office separately issues on the entire State of Connecticut's financial statements.

In response to this finding, our office modified its departmental audit reporting model, underlying internal control and compliance audit objectives, and related audit procedures so that they conform to the sections of GAGAS governing performance audits instead of those applicable to financial audits.

Our audit procedures and opinions for the Comprehensive Annual Financial Report (CAFR) and the State Single Audit are not affected by the deficiency cited in the peer review.

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 conduct an annual internal quality control inspection to ensure that the control system is working as intended. As a result, during the summers of 2014 and 2015, two of our auditors will be assigned to conduct an internal inspection of our office's system of quality control covering the one-year periods ending June 30, 2014 and 2015, respectively.

Our next external peer review, covering the one-year period ending June 30, 2016, should be conducted sometime during the summer of 2016.

Finally, external quality control reviews of our office's federal audit work are periodically conducted by representatives of various federal inspector general offices. Our 2013 peer review team included a representative from the Department of Health and Human Services' Office of the Inspector General, who conducted a review of select work papers supporting our 2012 Single Audit of the State of Connecticut. While this federal review did not result in any audit deficiencies being cited, four matters for further consideration were informally conveyed to our management team disclosing areas where improvements could be made in our single audit approach. We plan to implement those improvements during our 2013 Single Audit of the State of Connecticut.

### **Recent Developments and Future Goals:**

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. During the 2013 calendar year, continued conversion of all audit assignments to an electronic work paper format allowed us to gradually reduce our paper-based work paper archives. It is anticipated that the permanent and current work papers for all of our

audits will be converted to an electronic format by the end of the 2014 calendar year. We are already noticing significant productivity improvements in our audit work, which will only increase as we eliminate the storage and handling of all paper-based work papers.

Also during 2013, our office laid the groundwork for migrating our employee time and attendance reporting function over to the state's Core-CT self service module. This move will eliminate the need for our employees to submit paper-based timesheets at the end of each pay period. Instead each employee will be able to remotely enter their timesheet data directly into the Core-CT system, eliminating the need for our business office staff to perform this labor intensive task. Our office uses timesheets to track the hours worked by each auditor on specific audit assignments in addition to recording the total time worked for payroll purposes. This migration will also eliminate the need for our business office staff to manually enter timesheet data, pertaining to each audit engagement, into our office's in-house audit database. Instead a newly designed audit database will automatically download this timesheet data directly from the Core-CT system. Actual migration to the Core-CT self service module is planned during the first quarter of the 2014 calendar year

In 2014, our goals are to expand our services in two major areas: performance auditing and the better use and evaluation of information technology.

Performance audits are an examination of a program, function, operation or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources. In the past, our office had a dedicated performance audit unit; however, several years ago, due to resource and other demands on our office, members of the unit were reassigned to other audit work. We are planning to reinstitute performance auditing in 2014.

Performance audits can be a valuable tool for the state by measuring the extent to which a program is achieving its goals and objectives; determining whether alternative approaches would yield better program performance; determining ways to save state resources; and determining the extent to which programs duplicate, overlap, or conflict with other programs. As the state endeavors to find ways to operate more efficiently, performance audits could serve as a useful tool to preserve state resources and improve state services.

During last year's budget process, our office was asked to provide a report on performance auditing. We were asked to provide "...recommendations on which state programs could be the focus of performance audits, and what other states are doing in regards to performance audits". We submitted the [report](#) to the GAE Committee on January 22, 2014.

Technology has clearly become a more important part of how the state operates. State agencies use technology more than ever before in all facets of government including accounting, inventory, payroll, purchasing, storage, and the delivery of front line services. In order to react to these changes, our office must improve how it evaluates and uses technology.

We will enhance how we evaluate the state's information technology structure for its effectiveness and determine whether state systems adequately maintain the integrity of data,

protect against breaches of privacy, and ensure there are proper safeguards to protect against fraud. We will increase our ability to analyze the state's information technology systems. In order to achieve this, we will expand our commitment and focus in this area.

As a governmental audit organization, we have increased 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). Our office has committed to hosting the NSAA's 2015 Information Technology Conference in Hartford which will bring IT auditors from across the country to Connecticut. 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. During 2013, a member of our management team served on the Governmental Accounting and Auditing Committee of the Connecticut Society of Certified Public Accountants (CSCPA). In addition, two of our audit supervisors serve on National State Auditors Association committees. One serves on the E-Government Committee and the other serves on the Peer Review Committee and the Pension Audit Issues Working Group. Several of our auditors participated on teams conducting peer reviews of other state audit organizations.

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.

- 7. The General Assembly should consider enacting legislation to amend Section 32-657 of the General Statutes in order to relieve the Auditors of Public Accounts from the responsibility to audit the Rentschler Stadium Enterprise Fund and other accounts holding state moneys associated with the stadium facility.**

Comment:

Section 32-657 subsection (g) of the General Statutes, originally required an independent auditing firm to conduct a comprehensive annual audit of the Rentschler Stadium Enterprise Fund and other accounts holding state moneys associated with the stadium facility. Public Act 08-185, effective June 12, 2008, deleted the provisions requiring an independent auditing firm to conduct the annual audit and required instead that the Auditors of Public Accounts conduct such audit.

Public Act 12-147, effective July 1, 2013, provided the Capital Region Development Authority (CRDA) with the management responsibility for Rentschler Field. Given that CRDA is required by subsection (d) of Section 32-605 of the General Statutes to have an independent financial statement audit conducted in accordance with generally accepted auditing standards, that audit would have to include the operations of the stadium. The requirement that the Auditors of Public Accounts also complete the same type of audit is an unnecessary duplication of effort.

For the fiscal year ended June 30, 2013, an independent auditing firm performed the required audit of the CRDA financial statements and conducted a separate audit of the Rentschler Field financial statement. The Auditors of Public Accounts would continue to conduct a biennial compliance audit of the Capital Region Development Authority pursuant to Section 1-122 of the General Statutes which would maintain our oversight over Rentschler.

- 8. The General Assembly should consider reviewing Section 10a-109n(c)(3) of the General Statutes to clarify whether the intent of the language was to require the awarding of University of Connecticut construction contracts to the “lowest responsible qualified proposer.”**

Comment:

In accordance with the provisions of Section 10a-109n(c)(3), “The university shall not award any construction contract, including, but not limited to, any total cost basis contract, after public letting, except to the responsible qualified contractor, submitting the lowest bid or proposal in compliance with the bid or proposal requirements of the solicitation document.” However, per that same section, “The University may, however, waive any informality in a bid or proposal, and may either reject all bids or proposals and again advertise for bids or proposals or interview at least three responsible qualified contractors and negotiate and enter into with any one of such contractors that construction contract which is both fair and reasonable to the university.”

This apparent contradictory and imprecise language was the basis for a legal action that was brought forward by an aggrieved contractor. The court ultimately ruled that the university was not required to select the lowest responsible qualified proposer. However, within the ruling, the judge noted that the language in Section 10a-109n(c)(3) “appears to me to be confusing and poorly drafted and as a result is ambiguous and so I can engage in the normal process of trying to ascertain the meaning by going outside of just the plain text, ....”

- 9. The General Assembly should consider clarifying Section 12-742 of the General Statutes to explicitly allow any state agency or institution to utilize the State Tax Intercept Program.**

Comment:

Section 12-742 of the General Statutes establishes a process for the withholding of state income tax refunds of those persons or entities owing debts to the state. This process is commonly referred to as the State Tax Intercept Program.

For example, the UConn Health Center ultimately writes off approximately \$4,000,000 in patient accounts receivable per year. We have recommended to the management of the health center in our most recent audit that it participate in the program to enhance collection efforts. Health center management has responded by indicating that there is uncertainty as to whether the health center is permitted to utilize the program.

- 10. The General Assembly should consider an amendment to Section 5-164a subsection (c) of the General Statutes in order to reflect the policy changes implemented by the State Employees Bargaining Agent Coalition (SEBAC) agreements, Office of Labor Relations General Notices, Governor Rell's Executive Order No. 27-A and Governor Malloy's Executive Order No. 3 related to rehired state retirees.**

Comment:

Connecticut General Statute 5-164a subsection (c) allows a retiree to be rehired on a temporary basis for 90 days per calendar year without reimbursing the retirement fund for all retirement income payments received during the period of reemployment. A SEBAC pension arbitration award in 1989 extended the period from 90 days to 120 days per calendar year. In addition, Governor Rell's Executive Order No.27-A, which was issued during October 2009, placed a limit of not more than two 120 day periods being approved under the program for any individual retiree. This executive order also limited the compensation rate for rehired retirees, who were not covered by a collective bargaining agreement at the time of their retirement, to 75 percent of the hourly rate paid to such employee in their last pay period immediately prior to their retirement. Governor Malloy's Executive Order No. 3 allowed an extension for rehired retirees the first year of a new administration provided the reemployment does not exceed sixty days.

Office of Policy and Management - Office of Labor Relations General Notice 2006-18 provided additional guidance to agencies reemploying retirees. It made clear that reemployed retirees should not be placed on personal services contracts and that the Office of Policy and Management would not approve a personal service agreement with a retiree. We noted one instance, however, in which a retiree collecting benefits has been able to enter into a personal services agreement by forming a limited liability company to enter into the agreement. In addition, state retirees have been hired by state contractors to work in positions similar to those from which they retired. Retirees rehired by these means cannot be monitored for compliance with the 120 day limitation and the salary limitation placed on rehired retirees who were not covered by a collective bargaining agreement at the time of their retirement.

The Internal Revenue Code requires a bona fide severance of a retiree's employment to allow the retiree payment of a pension allowance during reemployment if under age 62. This requirement is not currently reflected within the General Statutes or other regulations. In order to provide state agencies with uniform guidance, the General Statutes or other regulations should be amended to clarify what is acceptable rehiring policy.

- 11. The General Assembly should consider revising Section 2-90b of the General Statutes to allow our office to conduct audits of security services reimbursements from the Bradley Enterprise Fund to the Department of Homeland Security and Emergency Management on a biennial basis rather than annual basis.**

Comment:

Pursuant to the provisions of Sections 1-122 and 2-90(c) of the General Statutes, our office is authorized to conduct certain of its audits on a biennial basis if deemed most economical and efficient. Given the limited scope of the audit provided for in Section 2-90b, it would be more efficient and cost effective if our office was allowed to conduct this audit on a biennial rather than annual basis.

**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.

- c. Section 4d-45 of the General Statutes indicates that upon the execution of any contracts or amendments to contracts for information system or telecommunication system facilities, equipment or services, pursuant to a request for proposal issued by the Department of Administrative Services dated February 21, 1997, or any related proposal that may be subsequently issued, the state agency shall promptly file the contract or amendment with the State Auditors. Further, it indicates that the State Auditors shall conduct an independent evaluation of the contract or amendment to determine whether the provisions of the contract or amendment serve the best interests of the state and shall submit a report of their findings and conclusions, and the contract or amendment to the General Assembly.

As the provisions in this statute relate solely to a failed effort by the state back in 1997 to privatize all state information and telecommunications systems, services and equipment under a single state contract, there is no longer a need for this statute. As a result, the General Assembly should consider repealing this statute.

**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)