

STATE OF CONNECTICUT

**PERFORMANCE AUDIT
MONITORING OF STATE FINANCIAL ASSISTANCE
STATE SINGLE AUDIT ACT
FOLLOW-UP REVIEW**

June 7, 2004

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes and with *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a follow-up performance audit of various prior examinations we performed related to the State Single Audit Act and the monitoring of State financial assistance.

The State provides funding to a number of entities to provide services and/or fund certain projects. The State generally enters into some form of contractual agreement with the entities, and is responsible for ensuring that State resources are/were ultimately expended properly for the purposes intended. State agencies have developed financial and program monitoring systems and tools that are specific and unique to the operations and programs they administer. In addition, the State Single Audit Act (the Act) was created and became effective July 1, 1991, by Public Act 91-401 (codified as Chapter 55b of the Connecticut General Statutes) **(Exhibit A)** to provide uniform standards for financial audits. Certain amendments to the Act are described in the “Background” section of this report. In general terms, the Secretary of the Office of Policy and Management is responsible for the administration of the Act and is the “cognizant agency” for most funding recipients. Cognizant agencies serve as the principal agency for ensuring that State Single Audit requirements are met by the Independent Public Accountants (IPA) that perform such audits. Individual grantor State agencies receive the reports and/or information presented within these reports, which serve as a significant internal control over the ultimate expenditure and accountability of the grant/loan/program funds they administer.



Our original performance audits, presented by agency and issue date, are presented as follows:

- ❖ Office of Policy and Management; August 2, 2000
- ❖ Department of Economic and Community Development; July 3, 2001
- ❖ Judicial Department – Court Support Services Division; September 25, 2001
- ❖ Department of Mental Health and Addiction Services; February 26, 2002
- ❖ Department of Mental Retardation; August 9, 2002

Recommendations presented within the reports are presented in the “EXHIBIT” section of this report **(Exhibits B through F.)**

The conditions noted during the audit, along with our recommendations, are summarized below. Our findings are discussed in detail in the “Results of Review” section of this report.

**Identifying
Grantees
Required to File
Under the State
Single Audit Act**



Section 4-231, subsection (a)(1), of the Connecticut General Statutes requires that “Each nonstate entity which expends a total amount of state financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year of such nonstate entity beginning on or after July 1, 1998, shall have either a single audit or a program-specific audit made for such fiscal year,”

Section 4-235 of the Connecticut General Statutes provides that cognizant agencies shall be designated by the Secretary of the Office of Policy and Management. The Office itself is the prime cognizant agency for most audits conducted under the State Single Audit Act.

Our review disclosed that there continued to be difficulties in identifying certain grantees that were required to submit audits under the State Single Audit Act. At the time of our review, the State accounting system did not compile data in a manner that provided such information.

As the State implements its new core accounting system, a process to identify grantees subject to the State Single Audit Act should be established. (See Item 1.)

**IPA Working
Paper Reviews**



The Office of Policy and Management is the principal cognizant agency statewide and served as the cognizant agency for most of the funding recipients of the agencies included within this review.

Section 4-236-21 of the State Single Audit Regulations, promulgated under Section 4-236 of the General Statutes, imposes certain responsibilities on cognizant agencies. Subsection (a)(4) of that Section states that cognizant agencies shall “Obtain or conduct quality control reviews of selected audits made by independent auditors of nonstate agencies, at its discretion.” A review of Independent Public Accountant (IPA) working papers to support the reports, findings and conclusions, serves as a valuable tool to determine whether the IPA exercised due care.

Our review disclosed that the Office does not meet its obligation to perform quality control related working paper reviews.

The Office of Policy and Management should perform a quality control review on the working papers of selected audit reports submitted to the Office as cognizant agency under the State Single Audit Act. (See Item 2.)

**Online
Availability of the
“Compliance
Supplement to the
State Single Audit
Act”**

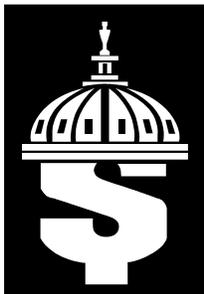


In addition to its responsibilities as cognizant agency, Connecticut Regulation 4-236-20 provides that the Office of Policy and Management is responsible for compiling, editing, and publishing the *Compliance Supplement*. This manual is to be used by audit firms and State award recipients as a source of information relating to audits performed under the State Single Audit Act. The General Assembly has made the General Statutes, public acts, and bills available online. In addition, many other State agencies have made their forms, compliance manuals, and other directives available online for interested users.

The Office of Policy and Management currently sells the compliance supplement on a CD-ROM format for \$70.

The “Compliance Supplement to the State Single Audit Act” should be available online to its users. (See Item 3.)

**Uniform Cost
Standards or
Principles**

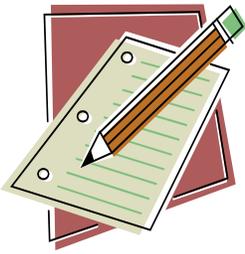


Public Act 00-125 of the February 2000 Session of the General Assembly amended Section 4-236, subsection (b), of the Connecticut General Statutes, to include a requirement that cost principles be established for administering State financial assistance programs. More specifically, the Secretary was directed to adopt regulations “establishing uniform standards which prescribe the cost accounting principles to be used in the administration of state financial assistance by the recipients of such assistance.”

Our review disclosed that while some efforts have been made, the Office of Policy and Management has not established cost principles and has not, therefore, adopted the appropriate regulations.

The Office of Policy and Management should establish cost principles and promulgate them as regulations, as required by Section 4-236 of the Connecticut General Statutes. (See Item 4.)

Tracking of Findings Presented in State Single Audit Reports

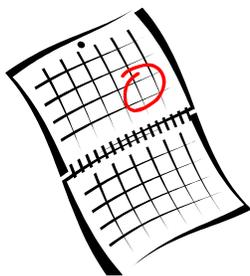


State Single Audit reports, submitted in accordance with Section 4-233 of the Connecticut General Statutes will, at times, contain findings and recommendations concerning an auditee's compliance with applicable laws and regulations, and grant or contract provisions. Management letters are a required part of the State Single Audit report package. Such auditees are required to submit a corrective action plan to appropriate State officials to address and resolve any issues concerning material noncompliance, reportable conditions or material weaknesses.

Our review disclosed that there is not a consistent effort in place to track and resolve all findings at the Department of Economic and Community Development and Department of Mental Retardation. It was also noted that the Department of Mental Retardation does not usually receive management letters from its providers.

The Department of Economic and Community Development and Department of Mental Retardation should improve efforts to ensure that corrective action plans are received, followed up on, and that conditions presented are resolved. The Department of Mental Retardation should also ensure that management letters are received. (See Item 5.)

Untimely Receipt of State Single Audit Reports



As required by Section 4-232, subsection (b)(1), of the Connecticut General Statutes, State Single Audit reports are to be received within six months after the end of an audit period, unless an extension is granted by the cognizant agency.

Our current review disclosed that the receipt of audit reports was often not timely at the Department of Economic and Community Development, Department of Mental Health and Addiction Services, and Department of Mental Retardation. Of specific concern, we noted that the efforts by these agencies to expedite report filing was inconsistent.

The Department of Economic and Community Development, Department of Mental Health and Addiction Services and Department of Mental Retardation should improve efforts to ensure that State Single Audit reports are received from grantees within six months of the applicable audit periods. (See Item 6.)

**Department of
Economic and
Community
Development -
Changes to
Assistance
Agreements**



The Department of Economic and Community Development provides financial assistance to enterprises with the condition that jobs within those companies will be added and/or retained, and that a collateral position will be retained to protect the State's investment. The funding to the assistance agreements is ultimately approved by the Bond Commission.

At times, the agreements are modified due to financial pressures experienced by the companies that have received assistance. The changes may be in the form of a reduction to the number of jobs that are to be created/retained, or there may be a subordination of a collateral position if another financing resource is considering lending to the company. The Department may make changes to the agreements without approval from any outside authority including the Bond Commission. Under Section 32-701, subsection (c), of the Connecticut General Statutes, the Department's only responsibility is to notify the Bond Commission of a modification.

The General Assembly should consider amending Section 32-701 of the General Statutes, to require some form of third party approval prior to the time that a modification to an assistance agreement is granted. (See Item 7.)

**Department of
Economic and
Community
Development -
Project Closeouts**



Financial assistance agreements include provisions concerning the use of financial assistance as well as expected project goals. Timeframes concerning these benchmarks are included within the agreements.

Our original review disclosed that financial closeout procedures were not being performed in a timely manner and that there was not a sufficient process in place to verify that program requirements had been complied with.

Our current review disclosed that as we inquired of progress made, a significant number of projects were brought forth for closeout.

The Department of Economic and Community Development should continue with its efforts to perform financial and program related closeout compliance reviews in a more timely manner. (See Item 8.)

**Department of
Mental Health
and Addiction
Services –
Financial
Monitoring**



We noted in our original review that on-site financial monitoring reviews by the Department of Mental Health and Addiction Services were quite beneficial in identifying significant conditions concerning Department funding. We had recommended that such monitoring visits be increased.

Our current review disclosed that no site visits were conducted during the 2002-2003 fiscal year.

It was also noted that while some providers report to the Central Office which has a uniform tracking system, some report directly to one of the five State-operated Local Mental Health Authorities. The tracking systems at these five Authorities are not uniform and the Central Office was not aware of the systems until we inquired.

The Department of Mental Health and Addiction Services should re-assess its on-site financial monitoring needs in light of current resources, and develop a reasonable plan. The Department should also ensure that the State-operated Local Mental Health Authorities establish a uniform method to track grantee financial reports. (See Item 9.)

**Judicial
Department –
Program
Monitoring**



We noted in our original review that the Court Support Services Division's quarterly contractor monitoring process was in need of improvement to ensure compliance with contractual terms, the delivery of quality services each quarter, and to ensure community safety.

Our current review disclosed that the Division was in the process of addressing the issues raised. However, we were informed by Department staff that personnel changes and a reorganization hampered such efforts.

The Judicial Department should re-establish its plans to implement a process to monitor contractor program performance. (See Item 10.)

Audit Objectives, Scope, and Methodology

The Auditors of Public Accounts, in accordance with Section 2-90 of the Connecticut General Statutes, are responsible for examining the performance of State entities to determine their effectiveness in achieving expressed legislative purposes.

We conducted this performance audit related to the State Single Audit Act and the monitoring of State financial assistance in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. This audit encompassed economy, efficiency and effectiveness issues, all of which are types of performance audits. As noted in the “Executive Summary” section of this report, our objective was to determine if State funds loaned and/or granted were monitored properly and prudently. More specifically, we evaluated the follow-up efforts made by State agencies on recommendations made in previous performance audit reports of individual State agencies. We present the following criteria as originally developed:

- ❖ Is the Office of Policy and Management fulfilling its duties as the cognizant agency for the State Single Audit, concerning review letters, forwarding of corrective action plans to grantor agencies, and timely reviews?
- ❖ Does the Office of Policy and Management have assurance that audit reports it receives comply with Section 4-233 of the General Statutes?
- ❖ Has the Office of Policy and Management placed the Compliance Supplement to the State Single Audit Act online?
- ❖ Have uniform cost standards or principles been established for State financial assistance awards?
- ❖ Is there a process in place to ensure that all entities required by law to submit an audit in accordance with the State Single Audit Act are identified?
- ❖ Is there a process in place for State agencies to track State Single Audit Reports received and reviewed, and to follow-up and track the resolution of exceptions presented?
- ❖ Do individual State agencies perform desk reviews of completed State Single Audits and disseminate information within their respective agencies in a timely manner?
- ❖ Is there a process in place to review a sample of working papers from the independent public accountants that are performing the audits under the State Single Audit Act?
- ❖ Do individual State agencies have appropriate written monitoring procedures, including interim period reviews, in addition to the monitoring accomplished by the State Single Audit received, most notably for program related issues?
- ❖ Do individual State agencies maintain adequate control over financial assistance passed through to sub-recipients?

Other, more agency specific criteria were also reviewed, as follows:

- ❖ Does the Department of Economic and Community Development have procedures in place to monitor employment goals, and are the goals properly formalized?
- ❖ Has the Department of Economic and Community Development established written guidelines as to what constitutes “matching funds?”
- ❖ Has the Department of Economic and Community Development mitigated risk by employing a higher degree of due diligence when it subordinates the State’s lien position with borrowers in favor of other funding sources?

- ❖ Has the Department of Economic and Community Development improved monitoring for for-profit clients to compensate for the fact that there are no statutorily required annual audits for for-profit companies?
- ❖ Has the Department of Economic and Community Development clarified Urban Act contract language?
- ❖ Has the Judicial Department developed and enforced a policy for non-profit providers to submit expenditure reconciliations, for differences between program expenditure reports and the State Single Audit Schedule of State Financial Assistance?
- ❖ Has the Department of Mental Retardation established a process to ensure that providers comply with related party disclosures as presented in the Department's Protocol Compliance Manual?

The original recommendations presented in our prior performance audit reports are presented in the "EXHIBITS" section of this report (**Exhibits B through F.**)

Our audit consisted of a review of the actions taken on the recommendations presented in our prior performance audit reports related to the State Single Audit Act and the monitoring of State financial assistance. We performed site examinations at the Office of Policy and Management, Department of Economic and Community Development, Judicial Department, Department of Mental Health and Addiction Services, and Department of Mental Retardation.

We did not rely on computer generated data to any material degree and did not, therefore, assess the reliability of such. We obtained certain information from certain databases and considered the reasonableness of such data where possible.

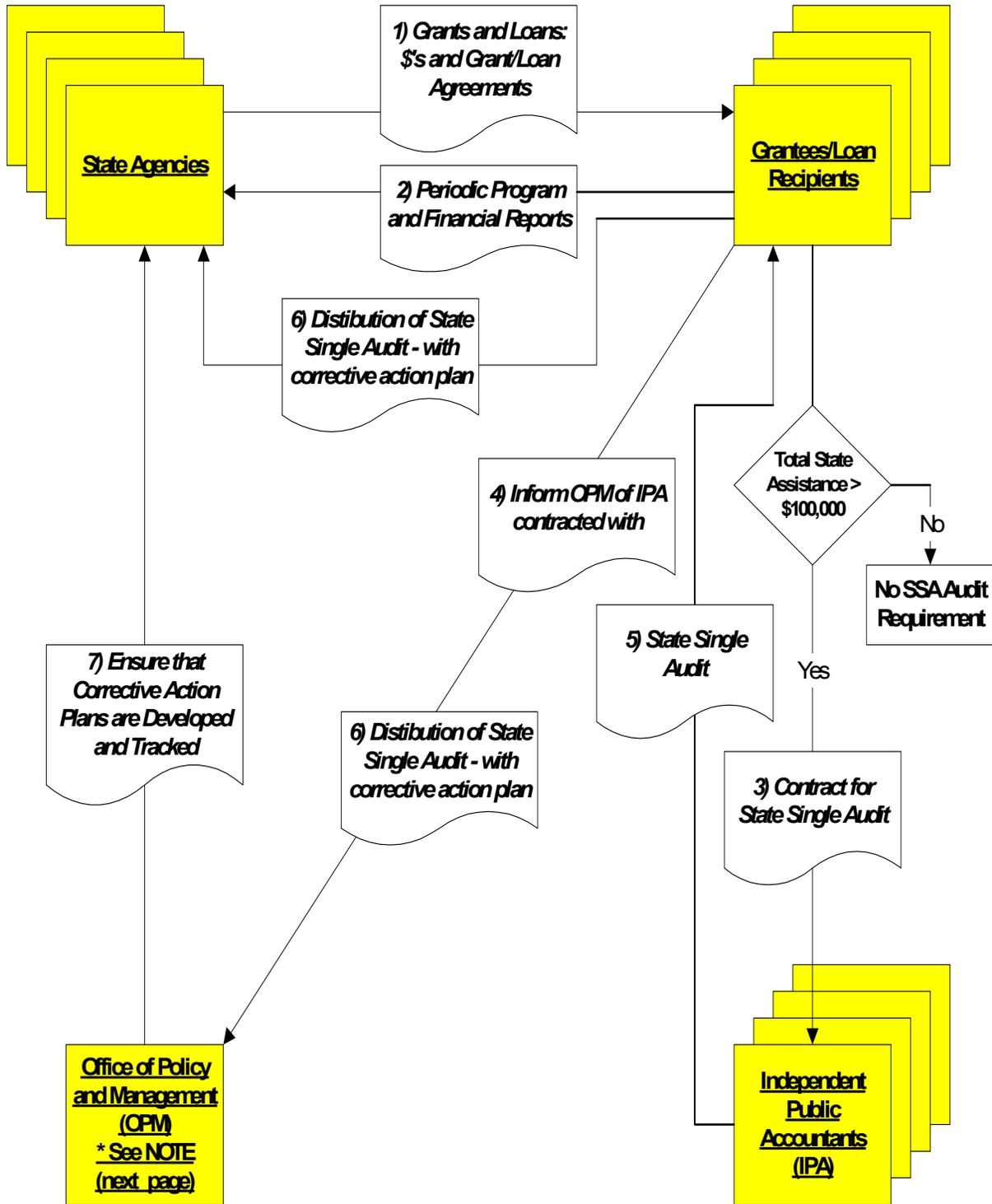
BACKGROUND

The State provides funding to a number of entities to provide services and/or to fund certain projects. Per Section 4-97 of the Connecticut General Statutes, “No appropriation or part thereof shall be used for any other purpose than for which it was made....” State officials and employees have a fiduciary responsibility to ensure that the ultimate expenditure of grants, loans and/or contracts adhere to the intended purpose of the appropriation funding such. The State generally enters into some form of contractual agreement with the entities, which allows a degree of program and fiscal oversight. State agencies have developed financial and program monitoring systems and tools that are specific and unique to the operations and programs they administer. In addition, the State Single Audit Act (the Act) was created and became effective July 1, 1991, by Public Act 91-401 (codified as Chapter 55b, Sections 4-230 through 4-236, of the Connecticut General Statutes) to provide uniform standards for financial audits (**Exhibit A.**) The original legislation along with certain amendments to the Act are presented, as follows:

- ❖ Public Act 91-401 of the January 1991 Session of the General Assembly established the State Single Audit Act. In general terms, the Act, in part, placed an audit requirement on municipalities and other entities that receive a total of combined Federal and State financial assistance of \$100,000 or more. The Act mirrors the Federal Single Audit Act in many respects, in that the verification of compliance with “program requirements” (i.e. compliance for specific program criteria such as 1) activities allowed or unallowed, 2) eligibility, 3) matching, level of effort or earmarking, 4) reporting, 5) subrecipient monitoring, and 6) special tests and provisions) are principal objectives of the audits.
- ❖ Public Act 92-121 of the February 1992 Session of the General Assembly delayed the implementation date of the State Single Audit for certain nonprofit agencies and the submission of the Secretary’s report on the State Single Audit requirements of those agencies.
- ❖ Public Act 97-238, Section 5, added tourism districts as being audited agencies as defined within Section 4-230, Subsection (10), of the General Statutes.
- ❖ Public Act 98-143 of the February 1998 Session of the General Assembly, presented numerous technical changes and added a requirement that auditees file copies of audit reports with State grantor agencies, the cognizant agency (usually the Office of Policy and Management) and if applicable, pass-through entities. Significant changes were also made to the content of the audit reports, as well as new requirements regarding corrective action plans, as prescribed within Section 4-233. The Act also changed the audit threshold requirements from combined Federal and State assistance of \$100,000 or more, to purely State financial assistance of \$100,000, or more.
- ❖ Public Act 00-126 of the February 2000 Session of the General Assembly, amended Section 4-236 by requiring the Secretary to establish uniform standards which prescribe the cost accounting principles to be used in the administration of State financial assistance by the recipients of such assistance.

In general terms, the Secretary of the Office of Policy and Management is responsible for the administration of the Act. Individual State grantor agencies receive copies of the reports, which serve as a significant internal control over the ultimate expenditure and accountability of the grant and/or loan funds they administer.

The granting of loans/funds, reporting, and monitoring of such funding under the State Single Audit Act is illustrated below:



As illustrated above, the process of granting/loaning/monitoring State funds, in general terms, follows the steps outlined below:

1. State agencies require that grantees/loan recipients complete a standardized grant or loan agreement prior to the disbursement of funds. After receiving and approving the agreement, funds may be disbursed.
2. State agencies generally require some form of periodic (often quarterly) financial and/or program reports.
3. As required by Section 4-231 of the General Statutes, a nonstate entity which expends a total amount of State financial assistance of \$100,000 or more in a fiscal year must have a State Single Audit performed on its behalf.
4. Not later than 30 days before the end of the fiscal period in which an audit is required, each nonstate entity shall notify its cognizant agency of the independent auditor contracted with, as described within subsection (a) of Section 4-232 of the General Statutes.
5. The independent auditor performs the audit, in accordance with Section 4-233 of the Connecticut General Statutes and regulations adopted under Section 4-236 of the Connecticut General Statutes, and delivers such audit to the nonstate entities.
6. Copies of audits are distributed to the applicable State grantor agencies, the cognizant agency, and if applicable, pass-through entities, as described within subsection (b)(1) of Section 4-234 of the Connecticut General Statutes.
7. As required by subsection (d) of Section 4-233 of the Connecticut General Statutes, funding recipients must develop a corrective action plan and submit it to the appropriate State Officials. This is a plan to eliminate any material noncompliance, reportable condition or material weakness presented in the audit reports, if applicable.

*** NOTE – the Office of Policy and Management serves as cognizant agency for a significant percentage of State agencies. However, 1) the Department of Economic and Community Development serves as the cognizant agency for housing authorities, 2) the State Department of Education serves as cognizant agency for regional school districts, regional educational service centers and charter schools, and 3) the Department of Transportation serves as cognizant agency for regional planning agencies, councils of governments, and regional councils of elected officials and transit districts.**

Based on our initial inquiries, we were informed of the following “general” policies and procedures regarding State financial assistance monitoring, by State agency staff:

Office of Policy and Management (OPM)

OPM has the overall responsibility for administering the State Single Audit Act. As part of these responsibilities, OPM has published a Compliance Supplement, which discloses statutory and regulatory requirements applicable to State financial assistance programs. In addition, OPM is the cognizant agency for most of the entities required to submit a State Single Audit report. We discuss certain policies and procedures which relate to issues raised in our prior review, as described by the Office, as follows:

❖ Identification of Grant / Loan Recipients:

Of major concern to personnel responsible for the Act, the State's accounting system does not have a means of identifying recipients of State funding, and therefore, might be required to file a State Single Audit report. To compensate for this deficiency, OPM has continually added to its database those entities that have been required to file. It provides some degree of coverage for identifying entities that should file the report. In addition, the regulations were revised in May 2002 and now plainly state that the grantor State agency is required to "Work with the cognizant agency to ensure that audits are completed and reports are received in a timely manner;" and "Promptly notify the cognizant agency if audit reports are not submitted by the due date." This provides additional assurance that all entities that are required to file a State Single Audit report do so. Furthermore, when the State's new accounting system is implemented, interested parties are assured that there will be a provision for identifying those entities that received State funding, and therefore, might be required to file a State Single Audit report.

❖ Tracking System for State Single Audit reports:

OPM has a monitoring system for tracking funding recipients' compliance with the State Single Audit Act. In addition, the Agency has implemented a standardized means of communicating the results of its reviews of the State Single Audit reports.

❖ Compliance Supplement:

The Compliance Supplement is now available on CD-ROM.

Department of Economic and Community Development (DECD)

DECD administers programs and policies to promote business, housing, and community development, and is the State agency responsible for promoting economic growth. The Agency provides funding to various types of entities, including not-for-profit organizations, housing authorities, and for-profit companies. Grants and loans are administered through the following Divisions within the Department:

- ❖ Business and Economic Development
- ❖ Community and Housing Development
- ❖ Infrastructure and Real Estate
- ❖ Industry Clusters
- ❖ Office of Tourism

These Divisions are supported by Customer and Program Support, Public Affairs and Strategic Planning, Finance and Administration, Audit and Asset Management, Human Resources, and Legal and Legislative Services.

We discuss certain policies and procedures which relate to issues raised in our prior review, as described by the Department, as follows:

❖ Desk Reviews:

The Agency has made improvements that have brought the desk reviews to a current status. In addition to the desk reviews, DECD is conducting working paper reviews to ensure that the quality of work addresses its audit needs.

- ❖ **Monitoring State Assistance:**
Each division has developed its own monitoring plan for its projects. Most of these monitoring guidelines have been included in an agency manual, which includes guidelines on matching funds, as well.
- ❖ **Master File Maintenance:**
The Department has formalized its file maintenance processes and procedures, including the hiring of a file librarian.

The Judicial Department

The Judicial Department, through its Court Support Services Division, is authorized to contract with providers that offer alternative incarceration programs, halfway houses, and similar services. This division accounts for approximately 90 percent of the Department's funding of services provided by external entities. The Office of Victim Services accounts for most of the remaining provider funding, aimed at providing services to victims of violent crime. We discuss certain policies and procedures which relate to issues raised in our prior review, as described by the Department, as follows:

- ❖ **Identification of Grant / Loan Recipients:**
The Department has a process for identifying entities that may be required to file a State Single Audit report.
- ❖ **Tracking System for State Single Audit reports:**
The Judicial Department has a comprehensive monitoring instrument to track significant details related to the entities' compliance with the State Single Audit Act.
- ❖ **Desk Reviews:**
With assistance from the Office of Policy and Management, the Judicial Department utilizes a Desk Review Checklist to be used in reviewing the State Single Audit reports submitted by its funding recipients.
- ❖ **Intra-Agency Communication regarding State Single Audit reports:**
To aid in communicating the results of the desk review to the appropriate parties within the Department, the internal audit unit compiles a report each month, which is distributed to the directors of the Department's divisions by the 15th of the following month.

Department of Mental Health and Addiction Services (DMHAS)

DMHAS offers a variety of services via private providers that receive funding from the Department. Grants are administered through the Purchased Services Unit. We discuss certain policies and procedures which relate to issues raised in our prior review, as described by the Department, as follows:

- ❖ **State Single Audit correspondence:**
The Agency systematically provides written notification to its providers concerning the State Single Audit filing requirements. In addition, in an effort to identify funding recipients that may be required to have a State Single Audit submitted on their behalf, the Department requires its funding recipients to provide a statement to confirm they are not required to file because they are below the State Single Audit thresholds.
- ❖ **Program Reports:**
The Department requires program reports from its contractors to ensure compliance with program measures, which are submitted electronically each month. This makes the

program information more accessible for timely monitoring, and if necessary, corrective action.

Department of Mental Retardation (DMR)

Many of DMR's services are offered through a network of private providers that receive funding from the Department, through its Division of Family and Community Services. We discuss certain policies and procedures which relate to issues raised in our prior review, as described by the Department, as follows:

- ❖ Tracking System for State Single Audit and other reports:
The Department has a monitoring instrument to track significant details related to the entities' compliance with the State Single Audit Act. In addition, this system includes information on the entities' Consolidated Operational Reports, which are required by the Department. The information is maintained at the regional offices, in a standardized format.
- ❖ Distribution of Financial Profile reports:
The data is entered on DMR's local area network, rather than being distributed as a paper document. Accordingly, the information is available to the regions as soon as the data is processed. This results in timely information for more effective decision-making.

NOTEWORTHY ACCOMPLISHMENTS

Status of Prior Audit Recommendations:

Our current review disclosed that corrective action has been taken on a number of recommendations that had been presented in our original audit reports. We present the following, by agency:

Office of Policy and Management:

- ❖ The Office now has a process in place to perform desk reviews to provide assurance that audit reports received are in compliance with Section 4-233 of the General Statutes.
- ❖ We noted considerable improvement in the timeliness of audit report reviews the Office performs as cognizant agency, and the communication with the funding agencies.

Department of Economic and Community Development:

- ❖ The Department amended assistance agreements to provide specific details and project/program conditions within the contracts.
- ❖ The Department now prepares and files reports required under Section 32-1h and 32-1i of the General Statutes.
- ❖ The Department instituted a timely process to perform audits of “job requirements” that accompany loan and grant agreements.
- ❖ The Department established specific guidelines addressing matching funds and shared costs.
- ❖ The Department incorporated new language into the Urban Act contracts to address our concerns related to audit requirements.
- ❖ The Department established a new automated recordkeeping system and hired a file librarian to maintain it.
- ❖ The Department has established audit working paper review standards and have performed such reviews. We suggest that results of these reviews be shared with the Office of Policy and Management.

Judicial Department – Court Support Services Division:

- ❖ The Department has established a tracking system that identifies grantees that fail to submit State Single Audit reports within a timely period.
- ❖ The Department has established a grantor agency desk review checklist to ensure that State Single Audit reports are reviewed in a timely and consistent manner.
- ❖ The Department has established procedures to ensure that program expenditures per the Department and program expenditures presented in State Single Audit reports are reconciled.

Department of Mental Health and Addiction Services:

- ❖ The Department established a tracking system to assist in identifying grantees required to file audit reports under the State Single Audit Act.
- ❖ The Department established procedures to ensure that quarterly programmatic reports are received from grantees, and reviewed in a timely manner.
- ❖ The Department established procedures to perform interim reviews of each provider's mental health programs to ensure compliance with program measures.

Department of Mental Retardation:

- ❖ The Department has made significant progress to improve its tracking of audit reports submitted under the State Single Audit Act and the Consolidated Operations Reports required from grantees.
- ❖ The Central Office has established an improved level of communication with the Regional Offices, as concerns audit issues presented in the State Single Audit reports.
- ❖ Financial profile reports related to grantees have been modified and are reviewed in a timely manner.
- ❖ The Department has taken steps to ensure that grantees, comply with "related party" transaction disclosure requirements. Independent public accountants that perform audits for such grantees have also been apprised of disclosure requirements, as procedures have been established in the Department's Protocol Compliance Manual.

RESULTS OF REVIEW

Our follow-up review of State financial assistance monitoring and the State Single Audit Act disclosed matters of concern requiring disclosure and attention. We presented individual recommendations to the Office of Policy and Management, Department of Economic and Community Development, Judicial Department, Department of Mental Health and Addiction Services, and/or Department of Mental Retardation, depending on the relevance of each recommendation to the individual agencies, and requested a response. Those responses are incorporated within this Section of the report.

Item No. 1 - Identifying Grantees Required to File Under the State Single Audit Act:

Background: Organizations that receive State financial assistance often receive funds from more than one State agency for different programs. Therefore, there are many instances whereby a single State agency provides assistance of less than \$100,000 to a grantee that receives more than \$100,000 in State financial assistance in total.

Criteria: Per Section 4-231, subsection (a)(1), of the Connecticut General Statutes, "Each nonstate entity which expends a total amount of state financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year of such nonstate entity beginning on or after July 1, 1998, shall have either a single audit or a program-specific audit made for such fiscal year"

Condition: Our review disclosed that there continued to be difficulties in identifying certain grantees that were required to submit audits under the State Single Audit Act. The State accounting system (at the time of our review) did not compile data in a manner that provided the total amount of State financial assistance that an entity received from all State sources. It was, therefore, difficult to identify certain grantees that received grants from multiple agencies in amounts under \$100,000, but which exceeded the \$100,000 statewide threshold in total. The ability of the new (CORE-CT) accounting system to address the issue is uncertain.

Effect: Certain grantees that receive more than \$100,000 in total State financial assistance may not be so identified. Therefore, audits required under the State Single Audit Act may not be prepared and submitted.

Cause: At the time of our review, the accounting system did not have the capabilities of collecting data in a manner that would identify those grantees that exceed the filing threshold within Section 4-231, subsection (a)(1), of the Connecticut General Statutes. As noted

above, it is unclear whether the State's new accounting system will compile the required information.

Recommendation: As the State implements its new core accounting system, a process to identify grantees subject to the State Single Audit Act should be established. (See Recommendation 1.)

Agency Responses: **Office of the State Comptroller:**
“The CORE-CT accounting system is essentially a large relational database. By using common coding (e.g. common SIDs) for grantee payments from a single Federal funding source, individual grantee payments can be tracked to determine when reporting is required. However, this approach would require a coordinated effort by all agencies making such payments. That is, agreement on the common coding to be utilized for tracking purposes would be required. To implement an edit to achieve this type of automatic reporting in CORE-CT would require costly modifications and, therefore, would be cost prohibitive.”

Office of Policy and Management:
“Developing a tracking system to identify those grantees required to file under the State Single Audit Act should become possible once Phase II of the CoreCT phase-in and implementation is complete sometime in calendar year 2004.”

Item No. 2 - IPA Working Paper Reviews:

Background: Independent Public Accounting firms prepare audit working papers to support the audit reports they prepare and attest to, and the conclusions they reach.

Criteria: Section 4-233 of the Connecticut General Statutes prescribes the conduct and scope for audits prepared under the State Single Audit Act. Section 4-236-30 of the State Single Audit Regulations requires auditors to retain working papers for a minimum of three years, and provides that the cognizant agency or awarding agencies may review such documents upon notification.

Section 4-236-21 of the State Single Audit Regulations imposes certain responsibilities on cognizant agencies. Subsection (a)(4) of that Section states that cognizant agencies shall “Obtain or conduct quality control reviews of selected audits made by independent auditors of nonstate agencies, at its discretion.”

The review of working papers is a good internal control that provides a degree of assurance that quality control standards are being met, regarding the conduct and scope of audits performed.

Condition: Our review disclosed that the Office of Policy and Management, which serves as the principal cognizant agency, does not have a system in place to routinely review working papers on a sample basis.

With the exception of the Department of Economic and Community Development, the grantor agencies included within our review do not perform working paper reviews.

Effect: In the absence of working paper reviews, the State has no assurance that audits meet certain minimum quality control standards.

Cause: A cause for this condition was not determined other than a lack of resources to perform such reviews.

Recommendation: The Office of Policy and Management should perform a quality control review on the working papers of selected audit reports submitted to the Office as cognizant agency under the State Single Audit Act. (See Recommendation 2.)

Agency Responses: **Office of Policy and Management:**
“OPM will meet with its contracted consultants to seek advise on how to devise a methodology to conduct working paper audits of selected audit firms.”

Item No. 3 - Online Availability of the “Compliance Supplement to the State Single Audit Act”:

Background: As discussed in the “Background” section of this report, the Office of Policy and Management has prepared a compliance supplement which presents statutory, regulatory and other requirements applicable to State financial assistance programs. It is an essential tool in performing an audit in compliance with the State Single Audit Act.

Criteria: The online availability of agency documents and information is an appropriate public service which provides for a wide dissemination of information to interested parties.

Condition: The Office of Policy and Management has not provided the “Compliance Supplement to the State Single Audit Act” on its webpage. It currently offers the document on CD-ROM, at a cost of \$70.

Effect: Although Independent Public Accountants or any other interested party may be interested in only a small portion of the compliance supplement, they must purchase the entire document. It would appear that any updates to the supplement would require subsequent distribution and purchase as well.

Cause: In response to our recommendation presented in the original review, the Office of Policy and Management was of the opinion that it was appropriate to recover the costs of producing the compliance supplement.

Recommendation: The “Compliance Supplement to the State Single Audit Act” should be available online to its users. (See Recommendation 3.)

Agency Responses: **Office of Policy and Management:**
“We believe that the next edition of the “Compliance Supplement to the State Single Audit Act” can be made available online by June 2004.”

Item No. 4 – Uniform Cost Standards or Principles:

Background: Cost principles, as regards financial assistance programs, present certain parameters and guidance concerning what types of costs should be appropriately incurred by financial assistance programs in “general terms.”

Criteria: Per Section 4-236, subsection (b), of the Connecticut General Statutes, the Secretary of the Office of Policy and Management is required to establish cost principles for administering State financial assistance programs. This requirement became effective May 26, 2000, with the passage of Public Act 00-125 of the February 2000 Session of the General Assembly.

Condition: Our review disclosed that while some efforts have been made, the Office of Policy and Management has not established cost principles and has not, therefore, adopted the appropriate regulations.

Effect: Uniform cost principles have not been established, as mandated by Section 4-236, subsection (b), of the General Statutes. Therefore, State programs may be incurring inappropriate costs.

Cause: Office staff have cited a lack of resources as the primary reason the required cost principles have not been established.

Recommendation: The Office of Policy and Management should establish cost principles and promulgate them as regulations, as required by Section 4-236 of the Connecticut General Statutes. (See Recommendation 4.)

Agency Responses: **Office of Policy and Management:**
“We believe that Uniform Cost Standards and Principles can be fully developed by the end of calendar year 2004 at which time we can begin the regulatory promulgation process.”

Item No. 5 - Tracking of Findings Presented in State Single Audit Reports:

Background: As explained in previous sections of this report, grantees are required to submit an audit report in accordance with the State Single Audit Act, if its expenditure of State financial assistance exceeds \$100,000 in a fiscal year. At times these reports will present findings and recommendations related to the grantees’ administration of State financial assistance.

Criteria: Per Section 4-233, subsection (d), of the Connecticut General Statutes, auditees are required to submit a corrective action plan to appropriate State officials to address and resolve any issues concerning material noncompliance, reportable conditions or material weaknesses, related to the administration of any State financial assistance program.

A system to track audit findings and the results of the related corrective action plans is an essential internal control over the proper expenditure of State financial assistance.

Condition: Our review disclosed that there is not a consistent effort in place to track and resolve all findings at the Department of Economic and Community Development and Department of Mental Retardation. It was also noted that the Department of Mental Retardation does not always obtain management letters as part of the State Single Audit report package.

Effect: Lacking an effective tracking system, a risk exists that certain findings and recommendations will not be followed-up on and corrective action will not be taken.

Cause: At the Department of Economic and Community Development, we noted that the Audit Unit does apprise the operating units of deficiencies noted in audit reports and will maintain a log of findings requiring follow-up and resolution. The operating units are supposed to notify the Audit Unit when corrective action has been taken and the Audit Unit has a policy to review “some” of the actions taken. We noted, however, that some operating units were tardy in responding to the findings. We also believe there should be some form of positive confirmation that corrective action has been taken in all instances. The number of findings requiring corrective action is not voluminous.

At the Department of Mental Retardation we noted that, while findings are identified as desk reviews are performed, there is no system to provide assurance that the findings are followed-up on and resolved.

Recommendation: The Department of Economic and Community Development and Department of Mental Retardation should improve efforts to ensure that corrective action plans are received, followed-up on, and that conditions presented are resolved. The Department of Mental Retardation should also ensure that management letters are received. (See Recommendation 5.)

Agency Response: **Department of Economic and Community Development:**
“We disagree that there is not a consistent effort in place to track and resolve all findings at DECD. The DECD issued an administrative directive (02-05) on January 31, 2002, that addressed Audit Reviews and Corrective Action Plans. The policy requires that the AAMD’s Audit and Compliance Section identify findings and IPA recommendations in the reporting packages submitted to the applicable line Division Executive Director. It further requires the applicable line division be responsible for corrective action and resolving audit findings and issue a management decision as to what is an acceptable corrective action plan and communicate the requirement to the applicant and ensure that the recipient of funds has implemented the corrective action plan. Finally, it requires the AAMD’s Audit and Compliance Section to conduct sample testing to assure that corrective action plans are implemented in order to provide for a check and balance.

Two audit reviews by the AAMD's Audit and Compliance Section have been conducted since the policy was adopted to ensure that grantee findings have been corrected and follow-up was done by the line division. Based on the administrative directive the AAMD's Audit and Compliance Section conducted sample testing of two divisions that provided the most funding. Additional reviews are planned. The AAMD's Audit and Compliance Section created a log to track those reports that contained findings to enable it to periodically conduct the sample testing that was required of the policy. Reminder letters were sent to the line divisions that received the reports notifying them that copies of their decisions had not been transmitted to AAMD's Audit and Compliance Section. AAMD's reminder letters requested a 45-day turn around time from the date of the audit review transmittal memo.

It should be noted that when audits were transmitted to the line divisions for their action, a turn around time frame was not initially requested. This was not done since each requires interaction with the recipient of State financial assistance and an arbitrary deadline would not be productive. Also, some reports that were inadvertently transmitted to the wrong divisions, had to be rerouted to the appropriate line division for action and follow-up causing some delay in response time.

The DECD's Audit and Compliance Section and DECD's line divisions will continue their efforts to track and resolve all findings and strive to improve its response time."

Department of Mental Retardation:

"The Department agrees that management letters issued by independent certified public accountants have not been routinely obtained from contractors. The Department will be enhancing its procedures to collect these management reports when the audited financial statements are submitted to the Department.

The Department disagrees with the Auditor's reporting that DMR does not track and resolve all audit findings. The Department's Audit Unit reviews all OPM desk reports that are received and to the extent the OPM desk review reports audit findings applicable to DMR awards, the findings are evaluated and referred to Regional Contract administrators for their follow-up with individual contractors.

As part of the Department's Audit Unit's routine review of cost reports and State Single Audit Reports submitted by contractors,

the State Single Audit reports are reviewed to identify any findings that have been reported. Findings that are reported are disclosed in the DMR Audit Unit's Financial Profile that is created for each contractor. The profiles are provided to DMR Regional Contract Managers for their review and oversight of individual contractors. As part of DMR Audit Unit's overall review of State Single Audits, to the extent audit findings are reported by the CPAs, the findings are evaluated and reported directly to the Regional Contract Managers, independent of the Financial Profiles reporting process. Depending on the nature of the findings, the Internal Audit Unit will advise Regional Contract managers of the appropriate follow-up, or the Audit Unit may conduct the follow-up to assure resolution of the finding. Overall, there are only a few findings reported by CPAs, and typically these findings do not report disallowed costs. The Department believes the procedures followed result in effective follow-up and resolution of all findings reported by State Single Audit reports."

Auditors' Concluding Comments:

Department of Economic and Community Development:

We reiterate that responses to the Audit Unit from the line units were often tardy and that due to the relatively minor number of findings, positive confirmation on the resolution of all such findings should be obtained, rather than a sample.

Department of Mental Retardation:

We consider the audit report tracking system to be the appropriate document to record whether corrective action plans are received, followed up on, and that conditions presented are resolved. While the Financial Profile Reports and related records would be an acceptable alternative if used consistently, our review disclosed that they were not.

Regional personnel make use of these reports in varying degrees, and some do not utilize them at all. This is attributable, at least in part, to the Department's efforts to reorganize. There had been a number of personnel changes as a result of this effort, and some staff members, formerly responsible to follow-up on the information in the Financial Profile Reports, were no longer available to respond to our inquiries. We also noted one instance where the Office of Policy and Management identified findings for a provider, but the Department did not indicate on the Financial Profile Report whether or not a Corrective Action Plan was required. Therefore, we maintain that the Department does not consistently track and resolve all findings to a satisfactory degree.

Item No. 6 - Untimely Receipt of State Single Audit Reports:

Background: Providers that expend over \$100,000 in State financial assistance are required to submit audit reports in accordance with the State Single Audit Act within the timeframe presented below, unless an extension is requested and granted by the applicable cognizant agency.

Criteria: Per Section 14-232, subsection (b)(1), of the Connecticut General Statutes, "Upon the completion of the audit, pursuant to sections 4-230 to 4-236, inclusive, the nonstate entity shall file copies of the audit report with state grantor agencies, the cognizant agency and if applicable, pass-through entities. Once filed, such report shall be made available by the nonstate entity for public inspection. Copies of the report shall be filed not later than thirty days after completion of such report, if possible, but not later than six months after the end of the audit period. The cognizant agency may grant an extension of not more than thirty days, if the auditor making the audit and the chief executive officer of the nonstate entity jointly submit a request in writing to the cognizant agency stating the reasons for such extension at least thirty days prior to the end of such six-month period. If the reason for the extension relates to deficiencies in the accounting system of the nonstate entity, the request shall be accompanied by a corrective action plan. The cognizant agency may, after a hearing with the auditor and officials of the nonstate entity, grant an additional extension if conditions warrant."

Condition: Our current review disclosed that the receipt of audit reports was often not timely at the Department of Economic and Community Development, Department of Mental Health and Addiction Services, and Department of Mental Retardation. Of specific concern, we noted that the efforts by these agencies to expedite report filing was inconsistent.

Effect: Audit report timeliness requirements, presented within Section 4-232, subsection (b)(1) of the General Statutes, are not always adhered to. For those reports that contain findings related to the administration of State financial assistance programs, such conditions could exist for a longer period, as the cognizant and grantor agencies would not be informed of the conditions within the required timeframes.

Cause: A cause for this condition was not determined. It should be noted that the degree of tardiness has steadily decreased.

Recommendation: The Department of Economic and Community Development, Department of Mental Health and Addiction Services and Department of Mental Retardation should improve efforts to ensure that State Single Audit reports are received from grantees within six months of the applicable audit periods. (See Recommendation 6.)

Agency Response: **Department of Economic and Community Development :**
“We agree that the receipt of audit reports was not always timely at the DECD. Section 4-232 (b) (1) of the Connecticut General Statutes states that the nonstate entity shall file copies of the audit report with state grantor agencies, the cognizant agency and if applicable, pass-through entities. This means simultaneous filing, yet the DECD has found that all grantees and their auditors do not consistently follow this practice.

The DECD estimates that 92 percent of State Single Audits required to be filed with the DECD for nonstate entities with 2002 fiscal year ends were filed with the DECD either by the statutory deadline and/or they were filed within 30 days of the due date. This was a significant increase over the 74 percent of State Single Audits that were filed with the DECD for 2001 fiscal year end audits. Audits later than 30 days dropped from 26 percent to eight percent.

To ensure that audits are submitted timely, the DECD has taken the following steps: (1) written notifications are sent to the grantees that may be subject to a State Single Audit detailing the State Single Audit filing requirements; (2) reminder letters are sent requesting submission of the audit or an exemption notification form; (3) follow-up telephone communications are made; (4) audit firms are contacted; and line division staff assist in obtaining copies of audits from the grantees. In cases where audits are not submitted after DECD’s attempts are exhausted, the DECD has notified the Cognizant Agency of audits that remain substantially delinquent for potential sanctions.

To further address this issue the DECD will step up its efforts to obtain delinquent audits. To comply with May 2002 revisions to the regulations for State Single Audits, Grantees not submitting their audits within the statutory deadline will be promptly reported to their Cognizant Agency for not meeting their filing requirements with the DECD. We recommend that any future revisions to the State Single Audit Act include the requirement that the auditor directly file one copy of the audit report with each State Grantor’s

Agency Single Audit Contact as designated in the most recent edition of the OPM State Single Audit Compliance Supplement. This submission should be made within 30 days of completion, but no later than the statutory deadline.”

Department of Mental Health and Addiction Services:

“DMHAS does, in fact, aggressively monitor for the timely submission of all private non-profit audit reports. As necessary, the department issues reminder letters to providers informing them of their responsibility to file their reports in accordance with language stipulated in their human service contracts. If reports are not received, follow-up correspondence is issued informing them, once again, of their responsibility to file their reports. In addition, this correspondence indicates they may be subject to financial penalties imposed by DMHAS and possibly the Office of Policy and Management (OPM). (In some cases, the providers request and are granted permission by OPM for extensions of time, from their original due date, to file their audit reports) If reports are still not received, follow-up phone calls are made either to the providers or their independent public accounting firms requesting submission of their audit reports.”

Department of Mental Retardation:

“The Department agrees with this finding and believes the tracking system that has been put into place will enhance the Department’s ability to monitor timeliness, and follow-up on late filings by contractors.”

Auditors’ Concluding Comments:

Department of Mental Health and Addiction Services:

Our review of 20 funding recipients disclosed that three State Single Audit reports had not been received in a timely manner. In one instance, a report was received 37 days late. In two other instances, reports due on March 31, 2003, had not been received at the time of our review (June 6, 2003.) The three grantees had not been contacted by the Department to inform them of their tardiness.

Item No. 7 - Department of Economic and Community Development - Changes to Assistance Agreements:

Background: The Department of Economic and Community Development provides financial assistance to enterprises with the condition that jobs within those companies will be added and/or retained, and that a collateral position will be retained to protect the investment made. The funding related to the assistance agreements is ultimately approved by the Bond Commission.

Criteria: The Department may make changes to assistance agreements without approval from any outside authority including the Bond Commission. Under Section 32-701, subsection (c), of the General Statutes, the Department's only responsibility is to notify the Bond Commission of a modification.

Condition: Our review disclosed that, at times, assistance agreements are modified due to financial pressures being experienced by the companies that have received assistance. The changes may be in the form of a reduction to the number of jobs that are to be created/retained, or there may be a subordination of a collateral position if another financing resource is considering lending to the company. The Department may make changes to the agreements without approval from any outside authority including the Bond Commission.

Effect: The lack of an independent "third party" review of modifications made to assistance agreements increases the risk that such modifications are not appropriate or prudent.

Cause: The Department of Economic and Community Development is acting within its statutory authority to modify agreements.

Recommendation: The General Assembly should consider amending Section 32-701 of the General Statutes, to require some form of third party approval prior to the time that a modification to an assistance agreement is granted. (See Recommendation 7.)

Although this Recommendation is addressed to the General Assembly, we present a response from the Department of Economic and Community Development.

Agency Response: **Department of Economic and Community Development:**
"The DECD does not agree with the recommendation that the General Assembly amend Section 32-701 of the General Statutes to require third party approval prior to granting a modification to an assistance agreement."

The General Assembly has acted upon the issue of modifications to State financial assistance. Section 32-701 of the General Statutes provides a control that the General Assembly deemed appropriate for modifications to State financial assistance, which is notification to the Bond Commission. A stronger control, such as a third party review, could have been instituted if so desired by the General Assembly.

If it is desired to have approval beyond that of the Commissioner, then it should be the Bond Commission. The Bond Commission has all the relevant information and would be best able to determine whether or not the department's recommended changes to the financing of a project should be approved.

Also, it should be noted that before the DECD modifies any assistance agreement a due diligence is performed to determine whether or not to subordinate collateral or change existing job creation/retention requirements. The decision to modify an assistance agreement, if made, will ensure the success of the project and protect the State's investment."

Item No. 8 – Department of Economic and Community Development –Project Closeouts:

- Background:* Projects and assistance agreements funded by the Department of Economic and Community Development most often span a number of fiscal years. At some point all payments and conditions of the projects are fulfilled.
- Criteria:* Financial assistance agreements include provisions concerning the use of financial assistance as well as expected project goals. Timeframes concerning when such benchmarks are to be met are included within the agreements. As these timeframes and benchmarks are completed, a final financial and program review should be performed to ensure that funds were used appropriately. At that time, any unused funds or funds not used for appropriate purposes should be returned to the Department
- Condition:* Our original review disclosed that financial closeout procedures were not being performed in a timely manner and that there was not a sufficient process in place to verify that program goals had been met.

Our current review disclosed that as we inquired of progress made, a significant number of projects were brought forth for closeout. This appeared to be in reaction to the timing of our review.

Effect: If financial and program closeouts are not performed in a timely manner, any noncompliance related to the proper use and goals of the assistance would not be identified in a timely manner as well.

Cause: A cause for this condition was not determined. It should be noted that operating units within the Department have recently begun to review projects that have been completed and have requested that appropriate financial and program closeouts be completed.

Recommendation: The Department of Economic and Community Development should continue with its efforts to perform financial and program related closeout compliance reviews in a more timely manner. (See Recommendation 8.)

Agency Responses: **Department of Economic and Community Development:**
“We disagree strongly. The DECD believes it has taken corrective action that has resulted in the financial and program related closeouts being conducted in a timelier manner and this should not be a finding. The DECD issued two administrative directives, one reissuing the financial closeout process (02-04, dated January 31, 2002) and one establishing the definition of project completion (02-08, dated March 26, 2002) to address the finding in the original review of July 3, 2001, that the DECD should improve its financial closeout process by clarifying when the closeout process should occur.

DECD noted that for the fiscal year ended June 30, 2003, there was a 129 percent increase of project financial closeout requests over the previous fiscal year of June 30, 2002, which is attributable to the implementation of the two administrative directives mentioned above that were issued to address the previous finding.

As a response to the previous audit the DECD has instituted procedures to perform programmatic closeouts of projects. DECD issued administrative directive 02-07 monitoring procedures, dated January 31, 2002, establishing monitoring procedures to ensure that State funds are being utilized to achieve approved objectives. As part of the procedures the Department has completed monitoring visits to 236 for-profit funding recipients. Part of the monitoring process includes a programmatic closeout procedure that ensures the State funding recipient has fulfilled all of its contractual obligations.

We take great exception to the comment that a significant number of projects appeared to be closed out “in reaction to the timing of our review.” From a practical standpoint, that kind of reactive response would be impossible given the extensive work and time that is required to perform financial and programmatic closeouts on such a large number of projects. In addition, from an overall policy perspective, the Department has spent a great deal of effort to address the timeliness of closeouts when it was raised in the previous audit -- a fact that was ignored in these most recent findings. It is unfortunate that this was overlooked because the Department takes audit recommendations very seriously and is proud of the progress made to date in this very important issue.”

Auditors’ Concluding Comments:

Department of Economic and Community Development:

We do acknowledge the Department’s efforts and have phrased our recommendation in such a way as to encourage continued compliance. However, we can not ignore the timing of the actions that took place. If this is coincidental and the Department continues to experience the same turnaround time for project closeouts, we are satisfied that corrective action has been taken.

Item No. 9 – Department of Mental Health and Addiction Services – Financial Monitoring:

Background: The Department of Mental Health and Addiction Services provides funding to a number of grantees to administer its programs. Some grantees report directly to the Department’s Central Office while others report to one of five State-operated Local Mental Health Authorities.

Criteria: Financial monitoring of grantees is a good business practice which provides a degree of assurance that State financial assistance is expended appropriately.

We noted in our original review that on-site financial monitoring reviews by the Department of Mental Health and Addiction Services were quite beneficial in identifying significant conditions concerning Department funding. We had recommended that such monitoring visits be increased.

Condition: Our current review disclosed that no site visits were conducted during the 2002-2003 fiscal year.

It was also noted that addiction services providers and some private mental health providers report to the Central Office which has a uniform tracking system. Conversely, some mental health

service providers report directly to one of the five State-operated Local Mental Health Authorities. The tracking systems at these five Authorities are not uniform and Central Office personnel were not aware of the systems until we inquired.

Effect: Internal control over the appropriate expenditure of State financial assistance is not as effective when an effective financial monitoring and tracking system is not in place.

Cause: The Department has cited a lack of personnel/resources as the reason for the conditions noted.

Recommendation: The Department of Mental Health and Addiction Services should re-assess its on-site financial monitoring needs in light of current resources, and develop a reasonable plan. The Department should also ensure that the State-operated Local Mental Health Authorities establish a uniform method to track grantee financial reports. (See Recommendation 9.)

Agency Response: **Department of Mental Health and Addiction Services:**
“On-Site Financial Monitoring
DMHAS agrees with the value of on-site monitoring. However, given the current limitation of staff resources (due to employee transfers, layoffs and early retirements), on site monitoring visits are currently limited to those providers that have significant fiscal and/or programmatic related issues.
Uniform Tracking Of Grantee Financial Reports
DMHAS Central Office will coordinate efforts with the State-operated Local Mental Health Authorities to develop a uniform tracking system (containing certain core elements) for the effective monitoring and tracking of grantee financial reports.”

Item No. 10 – Judicial Department - Program Monitoring:

Background: Effective March 29, 2002, the Judicial Branch, Court Support Services Division, developed procedures for annual contract monitoring. Those procedures called for site visits for certain contracts, with a report to be issued detailing the results of the monitoring. The procedures also called for monthly site visits, without completion of the annual monitoring instrument.

Criteria: Program monitoring of grantees is a good business practice which provides a degree of assurance that program objectives are being met.

Condition: For the 2001-2002 fiscal year, we noted that some monitoring visits were not performed. The annual monitoring site visits have not been completed for the 2002-2003 fiscal year. As such, an adequate monitoring effort is not in operation.

Effect: The Judicial Department is not utilizing a useful tool for monitoring its contracts, enhancing the possibility of non-compliance with the contract, and not achieving program goals.

Cause: The Department has cited a lack of personnel/resources as the reason for the conditions noted.

Recommendation: The Judicial Department should re-establish its plans to implement a process to monitor contractor program performance. (See Recommendation 10.)

Agency Response: **Judicial Department:**
“The 2001-2002 fiscal year was a period of transition from a quarterly monitoring routine to the more extensive monitoring process developed in response to the previous performance audit dated September 25, 2001. All contracted programs were monitored during the transition period in accordance with procedures identified in policy memoranda dated November 21, 2001.

In the 2002-2003 fiscal year, the above-referenced policy was followed until January 2003 when five of the nine monitors were laid off as part of 232 Judicial Branch layoffs and terminations resulting from the State budget crisis. Monitoring practices were subsequently revised to reflect the reduction in staff, resulting in a transitional protocol dated April 10, 2003. All annual site visits were completed in accordance with that protocol. The Branch is making every effort to offer re-employment to all Branch laid-off employees, and it is expected that the laid-off monitors will be recalled to work by September 1, 2003. The monitoring protocol will be reviewed again at that time.

A standard audit tool was completed in October 2002, but specific program requirements necessitated unique tools for each of several program types. Work has continued, despite layoffs, and all monitoring tools will be operational for the 2003-2004 fiscal year.

We believe that the addition of the return of monitoring staff, coupled with a comprehensive monitoring system that has its basis in monthly site/program reports and annual standardized audit tools, will adequately protect the State’s interests.”

RECOMMENDATIONS

1. **As the State implements its new core accounting system, a process to identify grantees subject to the State Single Audit Act should be established.**

Comment:

Our review disclosed that there continued to be difficulties in identifying certain grantees that were required to submit audits under the State Single Audit Act. At the time of our review, the State accounting system did not compile data in a manner that provided such information.

2. **The Office of Policy and Management should perform a quality control review on the working papers of selected audit reports submitted to the Office as cognizant agency under the State Single Audit Act.**

Comment:

The Office of Policy and Management is the principal cognizant agency statewide and served as the cognizant agency for most of the funding recipients of the State agencies included within this review.

Our review disclosed that the Office does not meet its obligation to perform quality control related working paper reviews.

3. **The “Compliance Supplement to the State Single Audit Act” should be available online to its users.**

Comment:

As provided by Connecticut Regulation 4-236-20, the Office of Policy and Management has the responsibility of compiling, editing, and publishing the *Compliance Supplement*. This manual is to be used by audit firms and State award recipients as a source of information relating to the requirements of the audits performed under the State Single Audit act.

The Office of Policy and Management currently sells the compliance supplement on a CD-ROM format for \$70.

4. **The Office of Policy and Management should establish cost principles and promulgate them as regulations, as required by Section 4-236 of the Connecticut General Statutes.**

Comment:

Our review disclosed that while some efforts have been made, the Office of Policy and Management has not established cost principles and has not, therefore, adopted the appropriate regulations.

5. **The Department of Economic and Community Development and Department of Mental Retardation should improve efforts to ensure that corrective action plans are received, followed up on, and that conditions presented are resolved. The Department of Mental Retardation should also ensure that management letters are received.**

Comment:

Our review disclosed that there is not a consistent effort in place to track and resolve all findings at the Department of Economic and Community Development and Department of Mental Retardation. It was also noted that the Department of Mental Retardation does not apprise providers of management letter requirements when audit reminder letters are sent.

6. **The Department of Economic and Community Development, Department of Mental Health and Addiction Services and Department of Mental Retardation should improve efforts to ensure that State Single Audit reports are received from grantees within six months of the applicable audit periods.**

Comment:

Our current review disclosed that the receipt of audit reports was often not timely at the Department of Economic and Community Development, Department of Mental Health and Addiction Services, and Department of Mental Retardation. Of specific concern, we noted that the efforts by these agencies to expedite report filing was inconsistent.

7. **The General Assembly should consider amending Section 32-701 of the General Statutes, to require some form of third party approval prior to the time that a modification to an assistance agreement is granted.**

Comment:

At times, assistance agreements are modified due to financial pressures experienced by the companies that have received assistance. The changes may be in the form of a reduction to the number of jobs that are to be created/retained, or there may be a subordination of a collateral position if another financing resource is considering lending to the company. The Department may make changes to the agreements without approval from any outside authority including the Bond Commission. Under Section 32-701, subsection (c), of the General Statutes, the Department's only responsibility is to notify the Bond Commission of a modification.

8. **The Department of Economic and Community Development should continue with its efforts to perform financial and program related closeout compliance reviews in a more timely manner.**

Comment:

Our original review disclosed that financial closeout procedures were not being performed timely and that there was not a sufficient process in place to verify that program goals had been met. Our current review disclosed that as we inquired of progress made, a significant number of projects were brought forth for closeout.

9. **The Department of Mental Health and Addiction Services should re-assess its on-site financial monitoring needs in light of current resources, and develop a reasonable plan. The Department should also ensure that the State-operated Local Mental Health Authorities establish a uniform method to track grantee financial reports.**

Comment:

We noted in our original review that on-site financial monitoring reviews by the Department of Mental Health and Addiction Services were quite beneficial in identifying significant conditions concerning Department funding. We had recommended that such monitoring visits be increased. However, our current review disclosed that these site visits were discontinued.

It was also noted that certain providers report directly to one of five State-operated Local Mental Health Authorities. The tracking systems at these five Authorities are not uniform and the Central Office was not aware of the systems until we inquired.

- 10. The Judicial Department should re-establish its plans to implement a process to monitor contractor program performance.**

Comment:

Our review disclosed that the Division was in the process of establishing a plan to monitor contractors on a quarterly basis to ensure compliance with contractual terms, the delivery of quality services each quarter, and to ensure community safety. However, we were informed by Department staff that personnel changes and a reorganization hampered such efforts.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Office of Policy and Management, Department of Economic and Community Development, Judicial Department – Court Support Services Division, Department of Mental Health and Addiction Services and Department of Mental Retardation.

John A. Rasimas
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

EXHIBIT A

CHAPTER 55B

SINGLE AUDITS AND PROGRAM-SPECIFIC AUDITS FOR RECIPIENTS OF STATE FINANCIAL ASSISTANCE

Sec. 4-230. Definitions. As used in sections 4-230 to 4-236, inclusive:

- (1) "Cognizant agency" means a state agency which is assigned by the secretary the responsibility for implementing the requirements of sections 4-230 to 4-236, inclusive;
- (2) "Secretary" means the Secretary of the Office of Policy and Management;
- (3) "State financial assistance" means assistance that a nonstate entity receives or administers which is provided by a state agency or pass-through entity in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance or direct appropriations, but does not include direct state cash assistance to individuals or payments to a vendor;
- (4) "State agency" means any department, board, commission, institution or other agency of the state;
- (5) "Generally accepted accounting principles" has the meaning specified in the generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA);
- (6) "Generally accepted government auditing standards" (GAGAS) means the generally accepted government auditing standards issued by the Comptroller General of the United States that are applicable to financial audits;
- (7) "Independent auditor" means a public accountant who is licensed to practice in the state and meets the independence standards included in generally accepted government auditing standards;
- (8) "Internal controls" means a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in: (A) Reliability of financial reporting, (B) effectiveness and efficiency of operations and (C) compliance with applicable laws and regulations;
- (9) "Municipality" means a town, consolidated town and city, consolidated town and borough, city or borough, including a local board of education as described in subsection (c) of section 7-392;
- (10) "Audited agency" means a fire district, fire and sewer district, sewer district or other municipal utility, the Metropolitan District of Hartford County, a regional board of education, a regional planning agency, any other political subdivision of similar character which is created or any other agency created or designated by a municipality to act for such municipality whose average annual

receipts from all sources exceed two hundred thousand dollars or any tourism district established under section 32-302;

(11) "Nonprofit agency" means any organization that is not a for-profit business and provides services contracted for by (A) the state or (B) a nonstate entity. It also means private institutions of higher learning which receive state financial assistance;

(12) "Major state program" means any program, excluding an exempt program, for which total expenditures of state financial assistance by a nonstate entity during the applicable year exceed the larger of (A) one hundred thousand dollars or (B) one per cent of the total amount of state financial assistance expended, excluding expenditures of an exempt program by the nonstate entity during the audited year;

(13) "Public accountant" means an individual who meets the standards included in generally accepted government auditing standards for personnel performing government audits and the licensing requirements of the State Board of Accountancy;

(14) "Subrecipient" means a nonstate entity that receives state financial assistance from a pass-through entity, but does not include an individual who receives such assistance;

(15) "Tourism district" means a district established under section 32-302;

(16) "Nonstate entity" means a municipality, tourism district, audited agency or nonprofit agency;

(17) "Pass-through entity" means a nonstate entity that provides state financial assistance to a subrecipient;

(18) "Program-specific audit" means an audit of a single state program conducted in accordance with the regulations adopted under section 4-236;

(19) "Expended" and "expenditures" have the meanings attributed to those terms in generally accepted accounting principles, except that (A) state financial assistance received which does not specify a required use shall be assumed to be fully expended in the fiscal year of receipt, and (B) exempt programs shall be assumed to be expended in the fiscal year that the state financial assistance is received;

(20) "Exempt program" means any of the following programs: Education cost sharing, pursuant to sections 10-262f to 10-262j, inclusive; public and nonpublic school pupil transportation, pursuant to sections 10-54, 10-97, 10-266m, 10-273a, 10-277 and 10-281; special education, excess costs equity and excess costs student-based, pursuant to subsection (e) of section 10-76d, subsections (a), (b) and (c) of section 10-76g and section 10-253; school building grants-principal and interest subsidy, pursuant to chapter 173 and section 10-264h; and school construction grants pursuant to public act 97-265 and public act 97-11 of the June 18 Special Session*; and

(21) "Vendor" means a dealer, distributor, merchant or other seller providing goods or services that are required for the conduct of a state program. Such goods or services may be for an organization's own use or for the use of beneficiaries of the state program.

Sec. 4-231. When single audits required or program-specific audits. (a)(1) Each nonstate entity which expends a total amount of state financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year of such nonstate entity beginning on or after July 1, 1998, shall have either a single audit or a program-specific audit made for such fiscal year, in accordance with the provisions of subdivision (2) or (3) of this subsection and the requirements of regulations adopted pursuant to section 4-236. If a provision of the general statutes or an administrative rule, regulation, guideline, standard or policy, which is effective on July 1, 1992, requires a nonstate entity to conduct a biennial audit, the audit required under this section shall be conducted on the same biennial basis and shall cover both years of the biennial period.

(2) If the total amount of state financial assistance expended in any such fiscal year is for a single program, such nonstate entity may elect to have a program-specific audit made in lieu of a single audit.

(3) If the total amount of state financial assistance expended in any such fiscal year is for more than one program, such entity shall have a single audit made for such fiscal year.

(b) Notwithstanding any provision of the general statutes or any regulation adopted under any provision of the general statutes, each nonstate entity that expends total state financial assistance of less than one hundred thousand dollars in any fiscal year of such nonstate entity beginning on or after July 1, 1998, shall be exempt with respect to such year from complying with any statutory or regulatory requirements concerning financial or financial and compliance audits that would otherwise be applicable.

(c) No provision of this section shall be deemed to exempt a nonstate entity from complying with any statutory or regulatory provision requiring the entity to (1) maintain records concerning state financial assistance or (2) provide access to such records to a state agency.

Sec. 4-232. Designation of independent auditor to conduct audit. Audit report filing. (a) Each nonstate entity which is required to be audited pursuant to sections 4-230 to 4-236, inclusive, shall designate an independent auditor to conduct such audit. Not later than thirty days before the end of the fiscal period for which the audit is required, the nonstate entity shall file the name of such auditor with the cognizant agency. If a nonstate entity fails to make such filing, the cognizant agency may designate an independent auditor to conduct the audit.

(b)(1) Upon the completion of the audit, pursuant to sections 4-230 to 4-236, inclusive, the nonstate entity shall file copies of the audit report with state grantor agencies, the cognizant agency and if applicable, pass-through entities. Once filed, such report shall be made available by the nonstate entity for public inspection. Copies of the report shall be filed not later than thirty days after completion of such report, if possible, but not later than six months after the end of the audit period. The cognizant agency may grant an extension of not more than thirty days, if the auditor making the audit and the chief executive officer of the nonstate entity jointly submit a request in writing to the

cognizant agency stating the reasons for such extension at least thirty days prior to the end of such six-month period. If the reason for the extension relates to deficiencies in the accounting system of the nonstate entity, the request shall be accompanied by a corrective action plan. The cognizant agency may, after a hearing with the auditor and officials of the nonstate entity, grant an additional extension if conditions warrant.

(2) Any nonstate entity, or auditor of such nonstate entity, which fails to have the audit report filed on its behalf within six months after the end of the fiscal year or within the time granted by the cognizant agency may be assessed, by the Secretary of the Office of Policy and Management, a civil penalty of not less than one thousand dollars but not more than ten thousand dollars. In addition to, or in lieu of such penalty, the cognizant agency may assign an auditor to perform the audit of such nonstate entity. In such case, the nonstate entity shall be responsible for the costs related to the audit. The secretary may, upon receipt of a written request from an official of the nonstate entity or its auditor, waive all such penalties if the secretary determines that there appears to be reasonable cause for the entity not having completed or provided the required audit report.

Sec. 4-233. Conduct and scope of audits. When corrective action required. (a) Each audit required by sections 4-230 to 4-236, inclusive, shall:

(1) Be conducted in accordance with generally accepted government auditing standards, except that, for the purposes of said sections such standards shall not be construed to require economy and efficiency audits, program results audits, or program evaluations; and

(2) Except in the case of program-specific audits, cover the entire operations, including financial operations, of the nonstate entity, except that such audit may exclude public hospitals.

(b) Each such audit shall determine and report whether: (1) The financial statements of the nonstate entity are presented fairly in all material respects in conformity with generally accepted accounting principles; (2) the schedule of expenditures of state financial assistance of the nonstate entity is presented fairly in all material respects in relation to the financial statements taken as a whole; (3) in addition to the requirements of generally accepted government auditing standards, the auditor has performed procedures to obtain an understanding of internal control over state programs sufficient to (A) plan the audit to support a low assessed level of control risk for major state programs, (B) plan the testing of internal control over major state programs to support a low assessed level of control risk for the assertions relevant to the compliance requirement for each major state program, and (C) perform testing of internal controls; and (4) the nonstate entity has complied with laws, regulations and grant or contract provisions that may have a material effect upon individual compliance requirements for each major state program. In complying with the requirements of subdivision (4) of this subsection, the independent auditor shall select and test a representative number of transactions from each major state program. Each audit report shall identify which programs were tested for compliance.

(c)(1) When the total expenditures of a nonstate entity's major state programs are less than fifty per cent of such nonstate entity's total expenditures of state financial assistance, excluding exempt program expenditures, the independent auditor shall select and test additional programs as major state programs as may be necessary to achieve audit coverage of at least fifty per cent of the nonstate

entity's total expenditures of state financial assistance, excluding exempt program expenditures. The provisions of this subsection shall be carried out in accordance with the regulations adopted pursuant to section 4-236 and shall be subject to the provisions of subdivision (2) of this subsection.

(2) In achieving the audit coverage in accordance with subdivision (1) of this subsection, no more than two programs which each have total state financial assistance expenditures of twenty-five thousand dollars or more but not more than one hundred thousand dollars shall be tested, if such programs are required to be tested to achieve the audit coverage of subdivision (1) of this subsection.

(d) If an audit conducted pursuant to this section finds any material noncompliance by a nonstate entity with applicable laws, regulations and grant or contract provisions, or finds any reportable condition or material weakness with respect to the internal controls of the nonstate entity concerning the matters described in subsection (b) of this section, the nonstate entity shall submit to appropriate state officials a plan for corrective action to eliminate such material noncompliance, reportable condition or material weakness.

Sec. 4-234. Audits in lieu of financial or financial and compliance audits. Additional audits. (a) An audit conducted in accordance with sections 4-230 to 4-236, inclusive, shall be in lieu of any financial or financial and compliance audit of state financial assistance programs which a nonstate entity is required to conduct under any other state law or regulation. To the extent that such audit provides a state agency with the information it requires to carry out its responsibilities under state law or regulations, a state agency shall rely upon and use such information and plan and conduct its own audits accordingly in order to avoid a duplication of effort.

(b) Notwithstanding the provisions of subsection (a) of this section, a state agency shall conduct any additional audits which it deems necessary to carry out its responsibilities, upon a written determination by the executive authority of the agency, based on evidence of fiscal irregularities or noncompliance with applicable laws and regulations, and after consulting with the cognizant agency. The provisions of sections 4-230 to 4-236, inclusive, do not authorize a cognizant agency or any nonstate entity, or any subrecipient thereof, to constrain, in any manner, such state agency from carrying out such additional audits. As used in this subsection and subsection (d) of this section, "executive authority" shall be construed as defined in section 4-37e.

(c) The provisions of sections 4-230 to 4-236, inclusive, do not (1) limit the authority of state agencies to conduct, or enter into contracts for the conduct of, audits and evaluations of state financial assistance programs or (2) limit the authority of any state agency auditor or other state audit official.

(d) A state agency that performs or contracts for audits in addition to the audits conducted for recipients of state financial assistance pursuant to sections 4-230 to 4-236, inclusive, shall, consistent with other applicable law, pay for the cost of such additional audits. Such additional audits may include, but shall not be limited to, economy and efficiency audits, program results audits and program evaluations. The state agency shall use the results of the single audit as a basis for any additional requirements, and shall not duplicate the single audit unless the executive authority of such agency determines in writing that such duplication is necessary.

Sec. 4-235. Designation of cognizant agencies. Pass-through entities and subrecipients. (a) The secretary shall designate cognizant agencies for audits conducted pursuant to sections 4-230 to 4-236, inclusive.

(b) A cognizant agency shall: (1) Ensure through coordination with state agencies, that audits are made in a timely manner and in accordance with the requirements of sections 4-230 to 4-236, inclusive; (2) ensure that corrective action plans made pursuant to section 4-233 are transmitted to the appropriate state officials; and (3) (A) coordinate, to the extent practicable, audits done by or under contract with state agencies that are in addition to the audits conducted pursuant to sections 4-230 to 4-236, inclusive; and (B) ensure that such additional audits build upon the audits conducted pursuant to said sections.

(c)(1) Each pass-through entity which is subject to the audit requirements of sections 4-230 to 4-236, inclusive, shall:

(A) Advise subrecipients of requirements imposed on them by state laws, regulations, and the provisions of contracts or grant agreements, and any supplemental requirements imposed by the pass-through entity;

(B) If the subrecipient is subject to an audit in accordance with the requirements of said sections 4-230 to 4-236, inclusive, review such audit and ensure that prompt and appropriate corrective action is taken with respect to material findings of noncompliance with individual compliance requirements or reportable conditions or material weaknesses in internal controls pertaining to state financial assistance provided to the subrecipient by the pass-through entity; or

(C) If the subrecipient is not subject to an audit in accordance with the requirements of said sections 4-230 to 4-236, inclusive, monitor the activities of subrecipients as necessary to ensure that state financial assistance is used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

(2) Each pass-through entity, as a condition of receiving state financial assistance, shall require each of its subrecipients to permit the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with sections 4-230 to 4-236, inclusive.

Sec. 4-236. Regulations. (a) The secretary shall, in consultation with the Auditors of Public Accounts, appropriate state officials and representatives of nonstate entities, adopt regulations pursuant to the provisions of chapter 54 to implement the provisions of sections 4-230 to 4-235, inclusive.

(b) The secretary shall also adopt regulations, in accordance with the provisions of chapter 54, (1) concerning the recovery of grant funds based on audit findings, as the secretary deems appropriate for any grantee which is found as a result of an audit to not be in compliance with the standards established pursuant to section 4-233, and (2) establishing uniform standards which prescribe the cost accounting principles to be used in the administration of state financial assistance by the recipients of such assistance.

EXHIBIT B

Recommendations - Office of Policy and Management Report; August 2, 2000

- 1. The Office of Policy and Management should have a record of all the entities that are required to submit audit reports under the State Single Audit Act.**

Comments:

Any non-State entity that expends a total amount of State financial assistance equal to or in excess of \$100,000 in any fiscal year beginning on or after July 1 1998 (equal to or greater than \$100,000 of combined State and Federal receipts from July 1, 1991, for municipalities and audited agencies and July 1, 1992 for non-profit agencies, through July 1, 1998) is required by law to file an audit report done in compliance with the State Single Audit Act. This report has to be filed with its cognizant agency and with the grantor agency. The Office of Policy and Management is the cognizant agency for the municipalities, hospitals, private colleges and universities, and all other governmental and non-profit entities. There is a listing of the awards given to the municipalities, but the Office of Policy and Management's staff does not know, which other entities are supposed to file reports each year. We identified several instances where recipients who should have filed audit reports did not do so.

- 2. The Office of Policy and Management should aim to review all State Single Audit reports for which it is the cognizant agency to ensure that the report is received in a timely manner and is in compliance with the law.**

Comments:

The Office of Policy and Management, as one of the cognizant agencies for the State Single Audit, receives audit reports prepared by independent auditors. It is responsible for assuring that these reports are timely and issued in accordance with Sections 4-230 to 4-236 of the General Statutes. Although the agency with the help of an independent consulting firm performs two types of reviews, it does not perform enough reviews to ensure that the audit reports are complete. Only ten percent of the reports received were reviewed during the 1998 period. Of these, 40 percent required corrections.

- 3. The Office of Policy and Management should perform a quality control review on the working papers of selected audit reports submitted to them as cognizant agency under the State Single Audit Act.**

Comments:

Essential to the responsibility of the cognizant agency is the review of audit work performed. The reviews include reviews of audit reports and quality control reviews of the audit work performed by non-governmental auditors. While the desk review is effective for determining whether the audit report meets the requirements of the State Single Audit Act, a desk review does not provide an assessment of the quality of the audit work performed.

4. **The Office of Policy and Management should fulfill all of its duties as a cognizant agency. These duties include: (1) notifying the grantor agencies when audits have been accepted, (2) reviewing the reports as quickly as possible, (3) improving the tracking of the audit reports submitted by non-profit entities, (4) making sure that the non-municipal audit reports are filed within the time allowed, and (5) transmitting corrective action plans to the grantor agency (ies).**

Comments:

The duties of the cognizant agency are described in Section 4-232 of the General Statutes and Section 4-236-6 of the State's Regulations. These duties include ensuring that audit reports are received in a timely manner, ensuring that corrective action plans are transmitted to the appropriate State agencies, and coordinating the resolution of audit findings that affect the programs of more than one agency. In our sample we found that the grantor agency did not receive a letter for four out of ten reports that we reviewed. Long delays were noted between the time that the report was received and the Office of Policy and Management sent the final letter of acceptance to the grantor agency. Thirty-six percent of the audit reports filed by non-profit entities were not received within the six months allowed. Many of the entities that filed late reports had not requested extensions, as required by law. Because the Office of Policy and Management does not know for sure whether non-municipal reports are due, it is not aggressive in following up on delinquent or missing reports.

5. **The *Compliance Supplement to the State Single Audit Act* should be available online to its users.**

Comments:

In addition to its responsibilities as cognizant agency, Section 4-236 of the General Statutes gives the Office of Policy and Management the responsibility of compiling, editing, and publishing the *Compliance Supplement*. This manual is to be used by audit firms and State award recipients as a source of information relating to the requirements of the audits performed under the State Single Audit act. The legislature has made the General Statutes, public acts, and bills available online. In addition, many of the agencies have made their forms, compliance manuals, and other directives available online for interested users.

EXHIBIT C

Recommendations - Department of Economic and Community Development; July 3, 2001

- 1. The Department of Economic and Community Development should develop standards for the monitoring of the State funded economic development grant and loan program. These practices and procedures should be put into writing.**

Comment:

The Department should determine which aspects of their projects need to be tracked to ensure that the project meets its objectives. Assurances should be defined so that the terms of the agreement, provisions in the law, and accounting and record keeping pronouncements are followed. These requirements should be committed to written standards for project managers and other personnel to follow.

- 2. The legally binding contracts between the recipients of State financial assistance and the Department should be specific to each project.**

Comment:

The assistance agreements, the contract signed by the recipient and the Department, are largely “boiler-plate” agreements.

- 3. The Department should review its project data requirements and develop procedures for more uniform management of project information.**

Comment:

The Agency uses a database application to track project compliance. Not all relevant data had been recorded in the system when we began reviewing project data. The lack of relevant information in the Department’s computer tracking system limits its usefulness in monitoring the projects.

- 4. The reporting standards found in the Connecticut General Statutes Sections 32-1h and 32-1i should be followed.**

Comment:

Certain reporting standards for the economic development programs managed by the Department are found in the Connecticut General Statutes. Section 32-1h addresses reporting on new and outstanding financial assistance granted by the agency, with special focus on job creation and/or retention. Section 32-1i addresses reporting on improved objectives, measures of program success, and standards for granting assistance. These reports are not issued as outlined in the Statutes.

- 5. The Department should improve its accountability over its grant and loan program by identifying all recipients that are required to file audit reports under the State Single Audit Act.**

Comment:

There is no system in place to ensure that the Department has received all the required State Single Audit reports.

- 6. The Department of Economic and Community Development should take steps to expedite the review and processing of audit reports.**

Comment:

The length of time between the date the report was received and the date the report was reviewed was from nine days to twenty months for those projects in our sample. Department personnel report that they have taken steps to eliminate this problem.

- 7. The Audit Section should track the receipt of a Corrective Action Plan, the acceptance of the Plan, and the resolution of the audit findings as part of the audit process.**

Comment:

Timely resolution of findings is an important conclusion to an audit. The Department does not consider it to be the Audit Section's responsibility to keep track of these findings and their resolution; neither has the responsibility been assigned to program personnel.

- 8. The Agency should establish procedures linking audit report review to a thorough knowledge of the assistance agreements, and take steps to ensure that all parts of the State Single Audit reporting package are submitted and reviewed.**

Comment:

Although the required audit reports, footnotes, and management letters contain a wealth of information, these documents are not always obtained. In addition, the Agency does not have a policy linking the audit report review to a thorough knowledge of the related program(s) or assistance agreement(s).

- 9. The Department should continue in its efforts toward more complete and timely job audits.**

Comment:

Although many of the loans and grants funded through the Manufacturing Assistance Act have job requirements, job audits to determine if the requirements were met, were not required for 32 percent of the entities that received funding. In addition, the Department did not begin formal job audits for those entities requiring audits until July 1999.

10. The Department of Economic and Community Development should not change the job requirements established in the assistance agreement.

Comment:

If recipients of financial assistance are unable to attain their employment goal, the Department's policy is to allow them to change their job requirements. This policy distorts the information presented to the Legislature and general public, in addition to weakening the Department's controls and self-evaluation.

11. Terms presented to the Bond Commission and included in the project proposal, as part of the reason for the project, should be included in the assistance agreement.

Comment:

Although the number of jobs to be created or retained is often the major reason given for promoting a project, employment goals are not always formalized, and therefore, cannot be monitored.

12. The Agency should define what constitutes matching funds, especially non-cash contributions.

Comment:

There are no written guidelines as to what constitutes matching funds or other matters relating to matching funds. Agency staff relates that the goal is to keep the definition flexible, as a matter for negotiation, but this policy sometimes creates confusion.

13. The Department should keep in mind its policy of subordinating its collateral position when selecting a project, and should subsequently subject its projects to consistent ongoing monitoring prior to subordination.

Comment:

Customary business practice requires that the borrower provide the lender with some type of collateral. Unlike other lending institutions, the State frequently subordinates its lien position to another entity or entities so that additional money can be obtained. Given the environment in which the Agency functions, this is most likely unavoidable. This practice increases the risk that the State will lose some or all of its funding if the project fails. However, the risk may be minimized through careful screening of projects initially, and ongoing monitoring of projects before subordination is requested.

- 14. The Agency should develop procedures to help ensure that State funding passed on to sub-recipients is used to achieve approved objectives, including written guidelines to aid primary recipients in monitoring sub-recipients and for the project managers' review and assessment of a primary recipient's monitoring capabilities.**

Comment:

Controls over financial assistance passed through to sub-recipients are weak. The Department provides State financial assistance to entities that subsequently pass this funding on to other organizations, but the Department does not have any standardized procedures to ensure adequate monitoring of sub-recipients.

- 15. The Agency should clarify the need for annual reporting and compliance measures, if applicable, for for-profit companies that receive State funding for their programs and projects. These requirements should be clearly stated in the assistance agreements, and procedures should be developed for reviewing information submitted by for-profit entities.**

Comment:

The monitoring controls over funding to for-profit clients are weaker than controls over monitoring funding to government and non-profit clients. Financial reports provided by for-profit clients are not subject to a standardized review process.

- 16. The Department should ensure that Urban Act contracts, entered into with the recipients of State's financial assistance, are clear.**

Comment:

Each type of financial assistance recipient, municipality, non-profit, or for-profit, has a different financial reporting requirement. The legally binding contract is not specific as to the type of audit report that is required. In addition, it is not clear who may perform the audit.

- 17. The Department should improve its financial closeout process by clarifying when the closeout process should occur.**

Comment:

Although the Department's procedures require that the project manager request a closeout audit upon completion of the project, the Department has not defined the term "completion of the project." None of the projects in our sample had been reviewed for a financial closeout although of the sixteen undertakings, the project period had ended for all but one, by a period of eight months to nearly six years.

- 18. The Department of Economic and Community Development should develop a procedure for performance review of each project, to determine if an entity has complied with all performance requirements and to determine if the original intent of the project has been realized.**

Comment:

The Agency does not have a vehicle for addressing the closeout of client compliance matters. The financial closeout process addresses only financial issues. It does not answer the question of whether a project has fulfilled its performance obligations.

- 19. The Agency should continue its efforts to improve file maintenance, by establishing standards for maintaining the integrity of the filing system, and assigning a single person or workgroup the responsibility and necessary authority.**

Comment:

We found that files were not maintained on a consistent basis; sometimes information was missing and/or scattered among related files.

- 20. The Department of Economic and Community Development, as the cognizant agency for the local housing authorities, should develop criteria and procedures for conducting quality control reviews and should then conduct selected reviews.**

Comment:

The Department does not review a sample of working papers from the auditing firms submitting audits under the State Single Audit Act, the Municipal Auditing Act, or the assistance agreements. Although the concept of the State Single Audit was patterned after the Federal Single Audit, the Department does not use some of the assurances required by the Federal cognizant agencies. The Department does not review a sample of working papers from the auditing firms to determine whether the supporting working papers for those reports are adequate to meet the Agency's information needs, or if the financial statements and other information are in compliance with the law.

EXHIBIT D

Recommendations – Judicial Department– Court Support Services Division; September 25, 2001

- 1. The Judicial Department should establish a procedure, which alerts staff that a non-profit has failed to submit a State Single Audit report within six months after the end of the non-profit's fiscal year, unless a filing extension is granted by the cognizant agency.**

Comments:

Our performance audit examination revealed the lack of a system to ensure that audit reports were being received from non-profits subject to the State Single Audit Act not later than six months after the end of a non-profit's fiscal year.

We were unable to determine if seven of the 11 non-profits' audit reports selected for review had been filed within six months after the end of the non-profits' fiscal year. No record existed to indicate when these seven audit reports had been received by the Judicial Department. Of the remaining four audit reports, two were received by the Court Support Services Division 14 months after the end of the non-profits' fiscal year. The third non-profit's audit report was received 20 months after the end of its fiscal year. The fourth non-profit's audit report was received 22 months after the end of the non-profit's fiscal year.

- 2. The Judicial Department should improve its participation in the State Single Audit process by utilizing written procedures and/or a desk review checklist for reviewing audit reports. There needs to be better coordination, communication and dissemination of State Single Audit information within the Judicial Department to ensure that all participants are fully aware of the process and receive information in a timely manner.**

Comments:

Management has not provided its accountants, who are responsible for reviewing State Single audit reports, with written procedures and/or a desk review checklist for use in reviewing State Single Audit reports. Consequently, no definitive record existed to document exactly what an audit report had been checked for and if any problems were noted that needed to be addressed by the non-profit or by the Judicial Department's management.

Our audit examination revealed that State Single audit reports and correspondence are often allowed to sit around in one unit of the Judicial Department for a month or two before they are distributed to the appropriate units within the Judicial Department. Further, we learned that accountants, who are responsible for reviewing State Single audit reports, had never met with the Agency's designated State Single Audit contact person or attended any State Single Audit meetings held by the Office of Policy and Management.

- 3. The Judicial Department should require a non-profit organization to submit a formal reconciliation, if there are differences between the non-profit's final quarterly expenditure amount for a specific grant program and the corresponding amount reported in the State Single Audit Schedule of State Financial Assistance. The reconciliation should be filed at the same time as the audit report. The reconciliation should be certified by the non-profit's auditors or subject to verification by the non-profit's auditors to ensure the accuracy and completeness of the reconciliation.**

Comments:

As noted in Recommendation Number One, we selected for review the audit reports for 11 non-profits. For these 11 non-profits, we compared program expenditure amounts stated in a non-profit's audit report to its final quarterly expenditure reports for two grant programs. This comparison revealed a number of discrepancies between final quarterly expenditure reports and expenditure amounts reflected in audit reports for seven of the 11 non-profits.

- 4. The Court Support Services Division's quarterly contractor monitoring process needs to be improved to ensure compliance with contractual terms, the delivery of quality services each quarter, and to ensure community safety.**

Comments:

Our review of the Court Support Services Division's monitoring process for the Alternative Incarceration Center Services program and the Alternative to Juvenile Detention Program revealed a number of problems.

Due to a Judicial Department reorganization in February 1999, the management responsibility for determining what types of reviews were required for contractual providers has fallen to the Criminal Sanctions Monitors. Consequently, there was no official listing of which Court Support Services Division programs and providers each Criminal Sanctions Monitor was responsible for overseeing.

Our review of quarterly monitoring reports for 10 Alternative Incarceration Center Services and four Alternative to Juvenile Detention Program providers (all non-profits) revealed the following situations or problems. Many monitoring reports were not completed in a timely manner. Some monitoring reports were missing pages and others contained blank pages. Many monitoring reports lacked the signature of a Regional Deputy Director. Court Support Services Division's staff failed to indicate acceptance or rejection of corrective action plans or written responses submitted by service providers.

EXHIBIT E

Recommendations – Department of Mental Health and Addiction Services; February 26, 2002

- 1. DMHAS should continue to contact each provider as a reminder that the State Single Audit report is required and due. In addition, return correspondence should be required to ensure that the provider understands the State Single Audit requirement. DMHAS should seek to penalize an entity for not submitting a State Single Audit report and consider a policy in which future funding could be withheld until the State Single Audit requirement has been met.**

Comments:

Compliance with statutory requirements to submit the reports within six months from the close of the fiscal year was not achieved. For maximum usefulness, audit reports need to be received as quickly as possible to allow the State agency to take expedient action, if needed, as regards the current fiscal year assistance agreements. Timely review also assures that corrective action plans have been put into place and that steps to recover any monies that might be due back to the State can be taken. Without the timely receipt and review of audit reports, management is unable to evaluate the financial condition of recipients in a timely manner.

- 2. DMHAS should establish and implement procedures to monitor entities that receive in excess of the \$100,000 threshold for State Single Audit requirements, to ensure that all required audit reports are received and reviewed. Efforts to review and identify the individual non-profit agencies that expend less than \$100,000 of DMHAS funds, but more than \$100,000 in total State financial assistance, will be necessary until a system is implemented by the Office of Policy and Management to identify that information.**

Comments:

Procedures should be developed to ensure that all providers whose programs are included in the State Single Audit Compliance Manual have submitted a State Single Audit report if the entity meets the \$100,000 threshold for State expenditures. The Department of Mental Health and Addiction Services staff should review the "Other Governmental Funds" section of the funding application to determine if this additional funding from other State agencies would cause the entity to reach or exceed the \$100,000 State Single Audit threshold.

- 3. DMHAS should increase the number of on-site financial monitoring visits it conducts. It is clear from reports of completed “site visits” that the visits are an effective method for monitoring provider’s financial operations and for lending assistance to the provider to improve those operations.**

Comments:

Without performing on-site fiscal monitoring of entities that meet the above-mentioned criteria or that are chosen randomly, DMHAS has less assurance that corrective action to findings has been undertaken and that the entities are aware that DMHAS is watchful that its funding is properly used and accounted for.

- 4. Procedures should be implemented to require that quarterly programmatic reports are received in a timely manner and reviewed on a periodic basis to ensure contractor compliance with program measures. DMHAS should maintain a detailed list of reports received and review them on a periodic basis.**

Comments:

DMHAS’ lack of review of the quarterly programmatic reports or data by the program monitors may result in continued funding to an underutilized program. Monies spent to fund programs that continue to not meet outcome measures outlined in the providers’ contracts could be used to expand other programs. Steps should be taken to ensure timely receipt of the programmatic reports to utilize the data in the most efficient manner possible.

- 5. The Purchased Services Unit (PSU) should implement procedures to ensure that the State-operated Local Mental Health Authorities receive all quarterly fiscal reports. Quarterly contact with each State-operated Local Mental Health Authority to inquire into whether the quarterly fiscal reports were received may prevent continued funding to an entity in non-compliance with program requirements.**

Comments:

Due to the fact that the Purchased Services Unit relies on the State-operated Local Mental Health Authorities to review the quarterly fiscal reports, the Unit should require the State-operated Local Mental Health Authorities to submit logs of quarterly fiscal reports received.

- 6. DMHAS staff should perform interim reviews of providers’ mental health programs to ensure compliance with program measures. In addition, DMHAS should implement procedures to review the Regional Mental Health Board’s work papers used to document its review of the mental health providers to ensure the completeness and effectiveness of the Board’s review of an entity.**

Comments:

Mental Health programs are not reviewed on an annual basis. The Regional Mental Health Boards review the mental health providers on a two to three year cycle; no interim reviews are performed unless a problem is indicated during the review of reports, and discussions with the State-operated Local Mental Health Authority and the provider. In addition, the Department does not perform a review of Regional Mental Health Boards to ensure completeness of its monitoring visit of the mental health providers.

EXHIBIT F

Recommendations – Department of Mental Retardation; August 9, 2002

- 1. The Department of Mental Retardation should establish its own tracking system for the receipt of the State Single Audit reports to ensure that these required reports are received within the time allowed by Section 4-232 of the General Statutes.**

Comment:

The Department should establish a tracking system for the receipt of the State Single Audit reports to be in compliance with the new State Single Audit Regulation and to ensure timely receipt of the reports, as well as the Consolidated Operational Reports, so that the information contained in the reports is available for further analysis, processing, and decision-making.

- 2. Minimally, the Department should develop criteria and standardized procedures for the collection and review of the State Single Audit reports at the regional offices. In addition, the Department should consider centralizing the State Single Audit report collection and review process.**

Comment:

The Central Office has not provided the regional offices with specific procedures regarding the collection or review of the State Single Audit reports; consequently, each of the regional offices has taken a different approach to the collection and review of the reports for which they are responsible.

- 3. Procedures for processing the State Single Audit report findings and concerns should be standardized. The resolution of these findings should be documented.**

Comment:

Findings and concerns identified in the State Single Audit reports and accompanying management letters vary from possibly having a serious impact on the Department's programs or use of funds to being insignificant and having no effect at all. Although the resolutions of the issues are different, the process should be similar. All findings and concerns should be identified. In addition, confirmation that issues have been addressed and/or resolved should be in writing and should be kept with the audit report in which the finding was reported

- 4. Compliance with the terms of the contracts and the provisions of the State Regulations relating to the submission of management letters, should be addressed. A review and summary of the letters should be incorporated in the Internal Audit's Financial Profile Reports. In addition, when the Department sends out audit requirement reminders to the providers, it should include a reminder about the management letter.**

Comment:

Management letters, issued by the independent auditors, were, generally not used by the Department to spot problems.

- 5. Management should respond to the need for a stronger internal audit function and increased oversight due to the shift from government-managed facilities to privately managed facilities and services.**

Comment:

An active internal audit function is one of the key elements of an internal control system for large, decentralized organizations. Historically, the Internal Audit Unit at the Department of Mental Retardation has been understaffed. As of August 2001, the internal audit staff remains at the 1990-level when the payment to private providers was \$106,046,000; the Department's expenditure for private providers was approximately \$308,500,000 in the 2000-2001 fiscal year.

- 6. The Internal Audit Unit should issue the Financial Profile Reports for all providers and every effort should be made to issue these same reports prior to the contract negotiations. If the Department is going to use the Financial Profile Reports to fulfill its State Single Audit requirements as grantor agency, the Report should be expanded.**

Comment:

Financial Profile Reports, prepared from the June 30, 2000, reports issued by the providers were not timely or complete.

- 7. The Department should ensure that the providers comply with its new related party procedures found in the Department's Ethics Compliance Protocol.**

Comment:

Related party transactions by the private providers are considered by the Department to be the area of their program that poses the highest risk. The Department has put controls into place, but they are not being followed by the providers nor enforced by the Department.

The following recommendations cannot be carried out by the Department of Mental Retardation alone. The subsequent changes need to be addressed before the grantor agencies will look to the State Single Audit as an effective monitoring tool and provide them with assurance that their funds are used to complete their mission in the most efficient and economic manner.

- 8. Quality control reviews, an examination of the working papers of the independent auditors issuing State Single Audit reports, should be performed by the State. The logical agency to perform or to coordinate the review is the cognizant agency. In this case, the cognizant agency would be the Office of Policy and Management.**

Comment:

The grantor agencies, like the Department of Mental Retardation, are reluctant to look to the State Single Audit reports as a reliable monitoring tool. This ambivalence impacts the Department's collection, review, and follow-up policies or lack thereof.

- 9. The Department of Mental Retardation, in conjunction with the Office of Policy and Management and the other State grantor agencies, should participate in the development of cost principles for the State of Connecticut.**

Comment:

Allowable and unallowable costs and cost allocation plans are not defined in the State's Statutes or Regulations. The lack of uniform cost standards has resulted in the Department relying on its own standards. Because there are no authoritative standards, the Department has a weakened position when differences have to be settled.