

STATE OF CONNECTICUT



*AUDITORS' REPORT
REPORT TO THE GOVERNMENT ADMINISTRATION AND
ELECTIONS COMMITTEE
REGARDING PERFORMANCE AUDITING
JANUARY 22, 2014*

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

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

**Auditors of Public Accounts
Report to the Government Administration and Elections Committee
Regarding Performance Auditing
January 22, 2014**

This report was requested by the Appropriations Committee in its 2014/2015 state budget. Our office was asked to provide recommendations on which state programs could be the focus of performance audits and what other states are doing regarding performance audits.

A performance audit is defined as an audit that provides findings or conclusions based on an evaluation of sufficient appropriate evidence against objective criteria. It is an examination of a program, function, operation or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources. The examination is objective and systematic, generally using a structured and professionally adopted methodology. In the United States, the standard for governmental performance audits is the Generally Accepted Government Auditing Standards (GAGAS), often referred to as the "yellow book," maintained by the federal Government Accountability Office (GAO).

Performance audits provide objective information and analysis to help management, and those charged with governance and oversight, to better understand the workings of a program or system to improve performance, operation, reduce costs, and assist in decision-making.

In the past, our office had a dedicated performance audit unit; however, several years ago, due to reduced resources and other demands on our office, members of the unit were reassigned to other audit work. Some of the topics reviewed by our performance audit unit were: a study of statewide pharmaceuticals, including the review of purchasing, inventory delivery and use of the pharmaceuticals by state agencies; an economy and efficiency audit of the state's alternative incarceration program; a review of the Department of Administrative Services' billing and collection services; the effectiveness of the Department of Motor Vehicles' Administrative Per Se Program; and a review of overweight/oversized commercial vehicles. Our performance audits have resulted in significant findings and recommendations for improving the areas reviewed. You may view these reports, along with others performed by our office on our website, www.cga.ct.gov/apa/audit-performance.asp.

Although our office currently does not have a dedicated performance audit unit, we have continued to conduct performance audits on a smaller scale and much more limited basis. Most recently, we conducted three performance audits as part of our overall audit of the Department of Public Health. These performance audits covered the accountability of pharmaceuticals, emergency medical services data collection system, and contract management. The accountability of pharmaceuticals audit resulted in four findings, including the lack of controls and records over pharmaceuticals that are turned over to the returns vendor; lack of policies and procedures to ensure that purchases are based on the actual demand of health service providers; unaccounted inventory of different pharmaceuticals; and the lack of contract monitoring. These performance audits resulted in a total of 15 recommendations for improvement. This Department of Public Health audit report may be viewed on our website at http://www.cga.ct.gov/apa/reports/Public%20Health,%20Department%20of_20131030_FY2010_2011.pdf.

Over time, we have developed a list of potential performance audits, which is continually updated. The topics come from different sources. Our employees often make suggestions based on areas they reviewed during the course of a state agency audit. We also review other states' performance audits to determine whether those audits would be useful in Connecticut. Some of the potential performance audit subjects we have identified are:

- Studying the internal audit functions in state agencies
- Evaluating the processing of background checks at state agencies
- Determining whether beneficiaries of state benefits also receive benefits from other states (e.g. receiving snap benefits in Connecticut and Massachusetts)
- Evaluating efforts to maximize federal funding
- Securing the removal of data and software from surplus state computers to protect private information
- Evaluating energy costs and maintenance of state buildings
- Analyzing ways to reduce the backlog of claims in the state retirement system
- Reviewing the state's bidding process
- Reviewing the state's IT security to determine adequacy
- Reviewing and reducing overpayments of unemployment benefits

It is our goal to resume conducting major performance audits. We want our performance audit unit to be structured in a way that maximizes the benefit to the General Assembly as you formulate public policy. It is important to us that our performance audits are comprehensive and valuable to our stakeholders. We have been discussing the best way to structure our performance audit unit with our colleagues from across the country. Our auditors' primary professional training is in accounting. Many of our auditors have master's degrees in accounting or business administration. In addition, many are certified public accountants (CPA), certified fraud examiners (CFE), or certified information system auditors (CISA). In addition to accountants, other state audit organizations employ individuals with training and skills in other fields such as

policy analysis, statistics, data analytics, and public administration in their performance audit units. We are weighing the best staffing approach as we re-establish a performance audit unit.

Most states conduct performance audits as part of their audit function. Each year, the National State Auditors Association (NSAA) gives the NSAA Excellence in Accountability Award in two performance audit categories in recognition of outstanding performance audits. The two categories are based on the number of hours spent on each audit. The large performance audit category is for audits taking 2,500 or more audit hours to complete and the small category is for audits that take less than 2,500. Over the past several years, topics for these award-winning performance audits included the evaluation of a juvenile correctional complex; review of one state's administration of its firearms owner's identification card act; prevention, detection, and recovery of improper Medicaid payments in home and community based programs; disposition of excess and surplus computers; cyber security; and inmate Medicaid eligibility. All of these audits produced significant findings such as safety and security issues at the juvenile correctional complex; significant deficiencies in the reporting of individuals with potentially disqualifying mental health conditions for obtaining a firearm; lack of monitoring of providers in the Medicaid program; the state was not ensuring that data on surplus computers were being properly removed; the state was at a high risk of a system compromise and/or data breach; and that the state could save \$11.5 million a year by requiring hospitals and other medical services providers to bill Medicaid for eligible inmate inpatient hospital and professional services. If you are interested in reading these reports, please visit the NASACT website at www.nasact.org/nsaa/awards_recognition/winners.cfm. The reports can be found under the NSAA Excellence in Accountability Awards section.

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

The Auditors of Public Accounts is looking forward to resuming larger scale performance audits. We stand ready to work with the General Assembly to ensure that these audits are useful as you make policy and funding decisions. In order to be most effective, we believe we should add five positions to our office, allowing us to add the expertise needed to complement our highly trained audit staff. These additional resources would be dedicated to performance auditing. As always, please contact us if you have questions about performance audits or any other work that we do.



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts