

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT STATE LIBRARY
FISCAL YEARS ENDED JUNE 30, 2003 AND 2004
AND
THE STATE COMMISSION ON THE ARTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003 AND
FOR THE PERIOD JULY 1, 2003 THROUGH AUGUST 19, 2003**

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

Table of Contents

INTRODUCTION	1
COMMENTS	2
Foreword	2
Members of the State Library Board	2
Members of the State Commission on the Arts	3
Résumé of Operations	3
General Fund Cash Receipts and Expenditures	4
Connecticut State Library	4
State Commission on the Arts	5
Special Revenue Funds	7
Connecticut State Library	7
State Commission on the Arts	8
Connecticut Arts Endowment Fund	9
CONDITION OF RECORDS	10
Inventory and Property Control - Connecticut State Library	10
Records Retention - Connecticut State Library	12
Loss Reporting - Connecticut State Library	12
Fund Management - Connecticut State Library and State Commission on the Arts	13
Grantee Monitoring - State Commission on the Arts	14
Grant Contract Disclosure - State Commission on the Arts	16
RECOMMENDATIONS	18
CERTIFICATION	21
CONCLUSION	23

June 7, 2006

**AUDITORS' REPORT
CONNECTICUT STATE LIBRARY
FISCAL YEARS ENDED JUNE 30, 2003 AND 2004
AND
THE STATE COMMISSION ON THE ARTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003 AND
FOR THE PERIOD JULY 1, 2003 THROUGH AUGUST 19, 2003**

We have examined the financial records of the Connecticut State Library for the fiscal years ended June 30, 2003 and 2004 and the State Commission on the Arts for the fiscal year ended June 30, 2003 and the period from July 1, 2003 through August 19, 2003.

This report on that examination consists of the following Comments, Recommendations, and Certification. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the State Library's and the State Commission on the Arts' compliance with certain provisions of financial related laws, regulations, contracts, and grants, and evaluating the State Library's and the State Commission on the Arts' internal control policies and procedures established to ensure such compliance.

Pursuant to Public Act 03-06 of the June Special Session of the 2003 General Assembly, effective August 20, 2003, the State Commission on the Arts was merged with the Office of Tourism, the Connecticut Tourism Council, the Connecticut Historical Commission, the Connecticut Film, Video and Media Commission and the Connecticut Film, Video and Media Office into the Connecticut Commission on Arts, Tourism, Culture, History and Film. Public Act 04-02 of the May Special Session of the General Assembly renamed the successor agency the Connecticut Commission on Culture and Tourism, effective May 12, 2004. This report on the State Commission on the Arts for the period from July 1, 2003 through August 19, 2003, is the last reporting period for

which it will be reported upon as a separate agency. Subsequent reports will be issued on the new successor agency.

COMMENTS

FOREWORD:

The State Library Board, which is within the Department of Education for administrative purposes only, operates under the provisions of Title 11 of the Connecticut General Statutes and oversees the activities of the State Library. The primary functions of the Library include: providing advice, planning, and financial assistance to all libraries in the State, operating the Raymond E. Baldwin Museum of Connecticut History and Heritage, maintaining library services for the blind and other persons with disabilities, and providing library and information services for the State government and the public.

The State Commission on the Arts (Commission) generally operated under the provisions of Title 10, Sections 10-369 through 10-373q of the General Statutes until August 19, 2003. The Commission's primary function was the promotion, development, acceptance and appreciation of artistic and cultural activities. Under the provisions of Section 10-369, subsection (b), of the General Statutes, the State Commission on the Arts was placed within the State Library for administrative purposes and the State Library provided administrative support as required by the Commission, including financial management, personnel and data processing services. We have reviewed the operations of both agencies in this report since the financial and budgetary functions of the Commission have been merged into State Library operations.

Kendall Wiggin served as State Librarian throughout the audited period.

Douglas Evans served as the Executive Director of the State Commission on the Arts throughout the audited period.

Pursuant to Section 11-1, subsection (d), of the General Statutes, the State Library Board established the Connecticut Heritage Foundation, Inc., a nonprofit foundation to raise funds from private sources to enhance the collections and programs of the State Library and Museum. We issue a separate report on Foundation operations.

Members of the State Library Board:

Section 11-1, subsection (a), of the General Statutes provides that the Board shall consist of 12 members. The Board members, as of June 30, 2004, were as follows:

Ann M. Clark, Chairman
Joy W. Hostage
Mollie Keller
Larry Kibner
Joseph P. Flynn
E. Frederick Petersen

Fran Rabinowitz
Francis X. Hennessy
Allen Hoffman
Lucy B. Gangone
Robert D. Harris, Jr.
One Vacancy

Additional members who also served on the State Library Board during the audited period were:

Betty Sternberg
Edwin E. Williams

Edmund B. Sullivan

The State Library Board has two advisory groups. The Advisory Council for Library Planning and Development, pursuant to Section 11-1, subsections (g)(1) and (g)(2), of the General Statutes, consists of 19 members appointed by the State Library Board and deals with library planning and development issues. Section 11-6a, subsection (b), of the General Statutes establishes the Museum Advisory Committee, which consists of eight members, that advises the State Library Board with respect to the policies, collections, programs, activities, and operations of the Raymond E. Baldwin Museum of Connecticut History and Heritage.

Members of the State Commission on the Arts:

Section 10-369, subsection (a), of the General Statutes states that ". . . the commission shall consist of the president of the Connecticut Advocates for the Arts, any member of the National Council on the Arts who resides in Connecticut and twenty-one [appointed] members . . ." As of August 19, 2003, members of the Commission were as follows:

Jennifer Aniskovich	Linda H. Roth
Sid L. Beighley III	Clement J. Roy
Carolyn F. Cicchetti	Ann Y. Smith
Valerie Cruice	Aleta E. Staton
Tony J. Falcone	Vivien White
Adam Grabinski	Michael R. Wilson
Gerald Moshell	Lorraine K. Young
Amelia Mustone	Ted Yudain
Paul E. Pozzi	Five Vacancies
Michael P. Price, Chaiman	

In addition to the members listed above, the following individuals also served on the Commission on the Arts during the audited period.

Frances T. Clark	Juliana Sciolla
Barbara H. Davitt	Arthur White
Harold J. Pantely	

RÉSUMÉ OF OPERATIONS:

As previously noted, the State Commission on the Arts was placed within the State Library for administrative purposes and the State Library provided administrative support as required by the Commission, including financial management, personnel, and data processing services until August 19, 2003. The costs of providing administrative support to the Commission on the Arts are included as part of the State Library's financial operations presented below.

During the 2003-2004 fiscal year, Federal grants and other restricted funds were no longer recorded in the General Fund. As a result of the implementation of a new State accounting system,

these restricted accounts' activity were recorded in a newly established special revenue fund entitled "Grants and Restricted Accounts Fund." Further comments on this Fund are presented after the following sections on General Fund activities.

General Fund Cash Receipts and Expenditures:

Connecticut State Library:

General Fund receipts applicable to State Library operations totaled \$4,737,211 and \$7,011 for the fiscal years ended June 30, 2003 and 2004, respectively, compared with \$7,038,706 for the fiscal year ended June 30, 2002. Federal and nonfederal grant receipts represented over 95 percent of the amount for the fiscal year ended June 30, 2003. The decrease in receipts during the 2002-2003 fiscal year was mainly due to a decrease in Federal grant receipts. However, the decrease of \$4,737,211 from the fiscal year ended June 30, 2003, to \$7,011 in the fiscal year ended June 30, 2004, was due to a change in accounting for restricted account activity resulting from the implementation of a new State accounting system.

A summary of General Fund expenditures applicable to State Library operations for the audited period and the previous fiscal year, is presented below:

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
Budgeted accounts:	\$	\$	\$
Personal services	5,648,834	5,485,345	4,859,184
Contractual services	4,194,260	1,966,445	3,439,076
Commodities	255,209	131,806	56,514
Sundry charges	9,423	304	0
Grants-in-aid	1,941,108	1,623,137	1,173,137
Equipment	<u>1,290,592</u>	<u>635,956</u>	<u>251,000</u>
Total Budgeted accounts	13,339,426	9,842,993	9,778,911
Restricted accounts:			
Private accounts	747,758	1,463,868	0
Federal accounts	<u>2,087,905</u>	<u>2,050,072</u>	<u>0</u>
Totals	<u>\$ 16,175,089</u>	<u>\$ 13,356,933</u>	<u>\$ 9,778,911</u>

Expenditures from budgeted accounts decreased over 26 percent during the audited fiscal years. Decreases in personal services during the audited period were primarily the result of State budgetary constraints that included a hiring freeze, layoffs, and an early retirement incentive for employees, which were offset in part by annual salary increases. Contractual services were made for general operating costs, of which, electronic data processing and online services related costs made up approximately 66 and 81 percent of total contractual services during the respective audited fiscal years. Decreases in equipment purchases were due to decreases in book purchases.

Expenditures from restricted accounts decreased by \$3,513,940 from the fiscal year ended June 30, 2003 to the fiscal year ended June 30, 2004. This decrease was due to a change in accounting for restricted account activities resulting from the implementation of a new State accounting system as explained above.

During the audited period, the State Library administered a number of State-aid-grant programs. A schedule of grant expenditures by program for the audited period and a brief description of each program are presented below:

	<u>State-Aid-Grants</u>		
	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
General Fund Budgeted Accounts:	\$	\$	\$
Cooperating Library Service Units	817,971	600,000	150,000
Grants to Public Libraries	447,109	347,109	347,109
Connecticard Payments	<u>676,028</u>	<u>676,028</u>	<u>676,028</u>
Total General Fund Budgeted Accounts	<u>1,941,108</u>	<u>1,623,137</u>	<u>1,173,137</u>
Restricted Contribution Accounts:			
Historic Documents Preservation	<u>424,710</u>	<u>1,026,527</u>	<u>0</u>
Total State-Aid-Grants	<u>\$ 2,365,818</u>	<u>\$ 2,649,664</u>	<u>\$ 1,173,137</u>

Cooperating Library Service Units – Section 11-9e of the General Statutes provides for libraries to coordinate services through planning, resource sharing, and the development of programs too costly or impractical for a single library to maintain.

Grants to Public Libraries – Section 11-24b, subsections (b), (c), and (d), of the General Statutes authorizes three types of grants to principal public libraries: base grants, formula based equalization grants, and incentive grants.

Connecticard Payments – Section 11-31b of the General Statutes provides for a cooperative program among public libraries that allows residents to borrow materials from any participating State public library. Grant payments to participating libraries are based on the volume of program activity levels.

Historic Documents Preservation – Sections 11-8i through 11-8l of the General Statutes provide for a grant program, funded from a portion of fees collected by local towns, to be used for grants to towns for the preservation and management of historic documents.

State Commission on the Arts:

General Fund receipts applicable to the Commission on the Arts totaled \$1,371,586, \$2,598,079, and zero during the fiscal years ended June 30, 2002 and 2003, and the period ended August 19, 2003, respectively. The 2002-2003 fiscal year's receipts included a \$1,000,000 revenue transfer from the Department of Revenue Services for the Cultural Heritage Development Grant program that is discussed in further detail below. The remaining receipts consisted primarily of restricted Federal contributions, which were significantly higher during the fiscal year ended June 30, 2003.

A summary of General Fund expenditures applicable to State Commission on the Arts' operations for the audited period and the fiscal year ended June 30, 2002, is presented below:

	<u>Fiscal Year</u> <u>Ended</u>		<u>Period</u> <u>Ended</u>
	<u>6/30/02</u>	<u>6/30/03</u>	<u>8/19/03</u>
Budgeted accounts:	\$	\$	\$
Personal services	695,862	626,317	398,327
Contractual services	76,916	75,299	23,224
Commodities	11,638	4,995	3,225
Grants-in-aid	3,313,690	2,576,011	0
Equipment	<u>1,000</u>	<u>0</u>	<u>0</u>
Budgeted accounts	<u>4,099,106</u>	<u>3,282,622</u>	<u>424,776</u>
Restricted accounts:			
Private accounts	1,274,725	947,915	0
Federal accounts	<u>701,165</u>	<u>668,628</u>	<u>0</u>
Totals	<u>\$ 6,074,996</u>	<u>\$ 4,899,165</u>	<u>\$ 424,776</u>

Expenditures from budgeted accounts decreased by approximately twenty percent during the 2002-2003 fiscal year. The factor for this overall decrease was due mainly to State budgetary fiscal constraints resulting in decreases in personal services expenditures and in grant payments.

Expenditures from restricted accounts decreased by \$1,616,543 from the fiscal year ended June 30, 2003, compared to the period from July 1, 2003 through August 19, 2003. This decrease was due to a change in accounting procedures for restricted account activity resulting from the implementation of a new State accounting system and the establishment of a new Agency, as explained above.

A schedule of grant expenditures, by program for the audited period, and the previous fiscal year, together with brief descriptions of each program are presented below:

	<u>State-Aid-Grants</u>		
	<u>Fiscal Year Ended</u>		<u>Period Ended</u>
	<u>6/30/02</u>	<u>6/30/03</u>	<u>8/19/03</u>
General Fund Budgeted Accounts:	\$	\$	\$
Basic Cultural Resources Grant	2,560,645	2,170,556	0
Ct. Educational Telecommunications Corp.	753,045	250,455	0
Connecticut Humanities Grant	<u>0</u>	<u>155,000</u>	<u>0</u>
Total General Fund Budgeted Accounts	<u>3,313,690</u>	<u>2,576,011</u>	<u>0</u>

Private Restricted Contribution Accounts:

Impressionist Art Trail	50,000	50,000	0
Cultural Heritage Development Grants	1,130,931	760,266	0
Miscellaneous Grants	<u>55,601</u>	<u>68,000</u>	<u>0</u>
Total Private Restricted Contribution Accounts	<u>1,236,532</u>	<u>878,266</u>	<u>0</u>
Total State-Aid-Grants	<u>\$ 4,550,222</u>	<u>\$3,454,277</u>	<u>\$ 0</u>

Basic Cultural Resources Grants – Section 10-370, subsection (2), of the General Statutes authorizes the Commission on the Arts to provide grants, loans, or advances to individuals and organizations for the development, promotion, and maintenance of artistic and cultural activities.

Ct. Educational Telecommunications Corp. – During the 2002-2003 fiscal year, this budgeted grant was provided to the Connecticut Public Broadcasting, Inc. to acquire and broadcast educational, arts, cultural, and entertainment programs statewide, as well as providing specialized services and programs to the Connecticut public school system.

Connecticut Humanities Grants – Section 10-373aa of the General Statutes establishes a program, administered by the Connecticut Humanities Council, to provide grants and support services for local institutions in the humanities.

Impressionist Art Trail – This grant is intended to promote and publicize Connecticut Impressionist Art. A \$50,000 appropriation provided funding in the 2002-2003 fiscal year budget. Section 32-305, subsection (g), of the General Statutes annually provides \$50,000 of certain sales tax proceeds to fund the program.

Cultural Heritage Development Grants – Section 10-373bb of the General Statutes establishes a program, administered by the Connecticut Humanities Council, to provide funds to local institutions in the humanities. During the 2002-2003 fiscal year, \$1,000,000 was provided to this program from certain sales tax proceeds as authorized by Section 32-305, subsection (c), of the General Statutes. This program was accounted for within a private restricted contribution account and was used for a Cultural Heritage Tourism Program.

Special Revenue Funds:

Connecticut State Library:

As previously explained, beginning with the 2003-2004 fiscal year, “Federal and Other Grants” activity previously accounted for in the General Fund were recorded by the Comptroller in a newly established special revenue fund entitled “Grants and Restricted Accounts Fund.” Revenues and expenditures from Federal and Other Restricted accounts for the 2003-2004 fiscal year totaled \$4,267,964 and \$3,710,820, respectively. The breakdown of total expenditures consisted of Private and Federal account expenditures of \$1,934,383 and \$1,776,437, respectively. Of the Private account expenditures, \$1,363,657 of expenditures was spent for State-Aid-Grants and charged to the Historic Documents Preservation Account.

Auditors of Public Accounts

A second special revenue fund entitled “Capital Equipment Purchase Fund” was used for library equipment purchases totaling \$439,462 and \$546,347 during the fiscal years ended June 30, 2003 and 2004, respectively.

A third special revenue fund was primarily used for grants for public library construction and related projects. Expenditures from this special revenue fund totaled \$1,343,389 and \$1,241,908 during the fiscal years ended June 30, 2003 and 2004, respectively. Fluctuations were mainly caused by the availability of State and local funds for approved projects.

State Commission on the Arts:

The Commission used four special revenue funds. As previously explained, beginning with the 2003-2004 fiscal year, “Federal and Other Grants” activity previously accounted for in the General Fund were recorded by the Comptroller in a newly established special revenue fund entitled “Grants and Restricted Accounts Fund.” Revenues and expenditures from Federal and Other Restricted accounts from July 1, 2003 through August 19, 2003, totaled zero and \$361,085, respectively. The breakdown of total expenditures consisted of Private and Federal account expenditures of \$266,202 and \$94,883, respectively.

A second special revenue fund entitled “Capital Equipment Purchase Fund” was used to purchase office equipment and electronic data processing equipment. Expenditures totaled \$4,021 and \$5,142, during the fiscal year ended June 30, 2003 and for the period ended August 19, 2003, respectively.

A third special revenue fund provided a transfer of \$1,000,000 during the fiscal year ended June 30, 2003, to increase the principal balance of the Connecticut Arts Endowment Fund. There were no transfers for the period ended August 19, 2003. Additional comments concerning the Arts Endowment Fund are included under a separate caption below.

A fourth special revenue fund was primarily used to account for proceeds of capital project funds that have been allocated for artwork to be included as part of State building construction projects. Under the provisions of Section 4b-53 of the General Statutes, the Commission on the Arts is authorized to select the artists and artwork style to be included as part of larger construction or renovation projects of State buildings. The Commission can set aside up to 25 percent of the funds that have been allocated for construction related artwork for use in purchasing artworks of distinguished Connecticut artists, for the establishment of a bank of major works of art and for the maintenance of such a collection. The remaining fund balances for the period ended August 19, 2003 were transferred to the newly established Agency as explained earlier. An unexpended balance remains from a State Library administered capital project. A summary of financial transactions of the various operating components of this special revenue fund follows:

	<u>Total</u>	<u>Art Work Buildings</u>	<u>Art Collection</u>	<u>Agency Capital Project</u>
Balances June 30, 2002	\$1,931,888	\$1,158,871	\$ 771,788	\$ 1,229
Additions	414,948	337,129	77,819	0
Disbursements	<u>(139,432)</u>	<u>(105,853)</u>	<u>(33,579)</u>	<u>0</u>
Balances June 30, 2003	2,207,404	1,390,147	816,028	1,229
Additions	0	0	0	0
Disbursements	(293,539)	(261,300)	(32,239)	0
Transfers	<u>(1,912,636)</u>	<u>(1,128,847)</u>	<u>(783,789)</u>	<u>0</u>
Balances June 30, 2004	<u>\$ 1,229</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,229</u>

Connecticut Arts Endowment Fund:

The Commission on the Arts' Connecticut Arts Endowment Trust Fund operates under the provisions of Sections 10-373n through 10-373q of the General Statutes. This Fund is financed from the proceeds of State bonds that serve as the principal balance of the Arts Endowment Fund with interest earnings from such funds being available for State matching grants to eligible arts organizations. A summary of financial transactions for the fiscal year ended June 30, 2003 follows:

	<u>2002-2003</u>
Cash and investments, beginning of year	\$14,466,433
Transfer-State bond funds	1,000,000
Investment earnings	748,134
Grants	<u>(793,908)</u>
Cash and investments, end of year	<u>\$15,420,659</u>

The remaining \$15,420,659 balance as of June 30, 2003, was transferred during the period ended August 19, 2003, to the newly established Agency as explained above.

The fair market value of Trust Fund assets at June 30, 2003, was \$16,317,596.

CONDITION OF RECORDS

Our review of the records of the Connecticut State Library and the State Commission on the Arts disclosed several areas requiring improvement, as discussed in this section of the report.

Inventory and Property Control - Connecticut State Library:

Criteria: Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual* require each State agency to establish and maintain accurate property control records. Such records should provide for complete accountability and safeguarding of assets. Additional information is required for works of art and historical treasures that includes detailed descriptions of the items and its appraised value when it is estimated to be \$10,000 or more. A physical inventory should be completed annually.

Conditions: The State Library maintains separate inventory systems and records for different categories of inventory. Our audit found deficiencies regarding the following:

1) Furnishings and Equipment: The State Library reported over \$2,400,000 and \$2,300,000 in furnishings and equipment on its annual reports for the fiscal years ended June 30, 2003 and 2004, respectively. Additions of approximately \$100,000 for each year were not supported by adequate documentation. Deletions for the fiscal year ended June 30, 2004, were also not completely supported. In addition, the inventory system is not designed to fully record information required by State standards that include purchasing and expenditure information; condition of equipment; and disposition date for each item.

2) Works of Art and Historic Treasures: The State Library reported over \$210,000,000 in Works of Art and Historic Treasures on its annual reports during the audited periods ended June 30, 2003 and 2004. The State Library did not take a physical inventory of these items during the audited period. Also, inventory lists of archival documents and museum pieces do not detail each item's cost and are based on staff's estimates of current values. Due to the age of the collections and the lack of complete records, documentation of an item's cost at the time it was received may no longer be available. Most items have not been professionally appraised within the last five years.

A physical test check of 31 items selected from the museum collection, noted one was not tagged, one could not be located, and ten were not in their proper location.

3) Software Inventory: The State Library's software inventory report did not contain certain information such as initial installation date and cost as required by the State's *Property Control Manual*.

Effect: Without an effective property control system, it is difficult to assess whether inventory is missing, stolen, traded in or scrapped.

Cause: We were told that due to a lack of sufficient staff, an inventory of the Works of Art and Historic Treasures and software could not be completed. Also, the State Library did not have the necessary funds to appraise the collections.

Recommendation: The State Library should improve its controls over State property as outlined by the State of Connecticut's *Property Control Manual* in accordance with Section 4-36 of the General Statutes. (See Recommendation 1.)

Agency Comments: "*Condition 1:* The State Library began participation in the new CORE-CT Assets Inventory system in July 2005 for its capitalized equipment. This system will allow the State Library to conform to audit concerns regarding the need to fully record all pertinent information for each item received. This system will also enable the Agency to reconcile to prior year balances.

Condition 2: The State Library will develop procedures, in conjunction with Museum staff, to address the concerns of this audit regarding the need for an annual inventory. This inventory will be conducted by staff not associated with the Museum.

The lack of appropriate detail in collection records will continue to be a problem as many items have been acquired over many years and the missing pertinent information may not be available. The Agency will work to bring the record keeping for future additions to the Museum collection into compliance with acceptable practices. The Museum, without further additional and significant levels of funding, will not be able to change its current practice of self-assessment of the current value of Museum artifacts and works of art.

The State Library recognizes that collection appraisals have not been performed over the past number of years. However, this Agency continues to be unable to respond affirmatively to the need for appraisals due to lack of funding to accomplish this expensive and time intensive process.

Condition 3: The State Library will work to correct the lack of proper documentation related to its software inventory."

Records Retention - Connecticut State Library:

- Criteria:* State records retention requirements promulgated by the State Library, Office of Public Records Administration, in accordance with Section 11-8a, subsection (b), of the General Statutes provides the State Librarian with the authority to require State agencies to comply with record retention schedules that are approved by the Public Records Administrator.
- Conditions:* As noted in the prior audit, the State Library still has not prepared an EDP records retention schedule.
- Effect:* The State Library did not comply with State law by filing an EDP records retention schedule.
- Cause:* There was a lack of oversight to ensure that an EDP records retention schedule was filed with its Public Records Administrator contributed to this condition.
- Recommendation:* The State Library should file an EDP records retention schedule with the Public Records Administrator as provided in Section 11-8a, subsection (b), of the General Statutes. (See Recommendation 2.)
- Agency Comments:* “The State Library will prepare an EDP records retention schedule. The Fiscal Office will work in close cooperation with the State’s Public Records Administrator to ensure that the Agency complies with current procedures and practices.”

Loss Reporting - Connecticut State Library:

- Criteria:* Section 4-33a of the General Statutes requires all State agencies to promptly notify the Auditors of Public Accounts and the State Comptroller of any unauthorized, illegal, irregular, or unsafe handling of State funds or breakdowns in the safekeeping of other State resources.
- Condition:* During the course of our audit, management brought to our attention that two employees had used State cell phones for personal usage. This unauthorized use of State resources was estimated at \$1,262 and was being resolved by having the employees reimburse the State for this cost. However, the State Library did not promptly notify the Auditors of Public Accounts and State Comptroller of the unauthorized use of State resources.
- Effect:* The State Library did not comply with Section 4-33a of the General Statutes.

Cause: Management initially discovered the misuse and resolved this matter internally, and due to oversight, failed to report this matter as required to appropriate officials.

Recommendation: The State Library should comply with Section 4-33a of the General Statutes that requires prompt notification to the Auditors of Public Accounts and the State Comptroller when there is a breakdown in the safekeeping of State resources. (See Recommendation 3.)

Agency Comments: “The State Library, when notified of its reporting omission, completed a CO-853 reporting the loss in question. The Agency took steps to recoup lost funds by requiring the repayment of inappropriate cell phone expenses from the two individuals involved. In the future, the State Library will comply with Section 4-33a of the C.G.S. whenever loss of State property is discovered”

Fund Management - Connecticut State Library and State Commission on the Arts:

Criteria: Section 4b-53, subsection (b), of the General Statutes requires the State Bond Commission to allocate not less than one percent of certain estimated construction costs for artwork. Subsections (c) and (d) of the same section, and Sections 4b-53-1 and 4b-53-2 of the related regulations, earmark the funds so that between ten and 25 percent of the one percent may be used for purchases of art for two collections and the repair of art purchased under the Section. The remaining funds should be used for the costs of construction related art. The regulations require the Commission on the Arts to notify the Commissioner of Public Works if it intends to exceed ten percent for the purchase and repair of artwork. The Commission is also required annually to determine the allocation of funds for purchases between the two art collections.

Conditions: Our review of two projects disclosed the following weakness in complying with Artwork requirements established by the General Statutes and Regulations:

1) Earmarking of Funds - The funds allocated for artwork relating to two construction projects represented 80 percent of the total earmarked by the State Bond Commission, thereby leaving 20 percent available for collection purchases and artwork repair. The Commission on the Arts was unable to document that it had notified the Department of Public Works of its intent to exceed the ten-percent cap placed on those funds by the regulations. Also, the Commission has not documented that it annually established allocations of funds for the two art collections.

2) Fiscal Monitoring - Although the State Library maintained separate appropriation ledgers for each project, financial reporting in the form of

an Excel spreadsheet was not current and not reconciled to appropriation ledgers. We were also informed that the Commission has neither monitored project accounting nor received either appropriation ledgers or financial status reports from the State Library for some time.

Effect: General Statutes and Regulations requirements may not be met if fund allocation records are not properly maintained and if project spending is not adequately monitored.

Cause: Staff did not seem to be aware of all of the regulations' requirements.

Recommendation: The Commission on the Arts should establish policies and procedures to ensure compliance with Section 4b-53 of the General Statutes and the related regulations. (See Recommendation 4.)

Agency Comments: Connecticut State Library: "The State Library's responsibility to provide administrative and support services to the State Commission on the Arts was terminated by statute in August 2003 when the new commission of Tourism and Culture was formed. Therefore, responsibilities were transferred to the new Agency."

State Commission on the Arts: "The Connecticut Commission on the Arts ceased to exist on August 19, 2003. For the audit period, accounting for the Art in Public Spaces program was overseen by the Connecticut State Library. The Commission on Culture and Tourism was established on August 19, 2003, and is developing policies, procedures and an accounting system to ensure proper compliance with Section 4b-53 of the General Statutes and related regulations."

Grantee Monitoring - State Commission on the Arts:

Criteria: Section 4-231 of the General Statutes requires each non-state entity receiving State financial assistance of \$100,000 or more to have a single audit or program-specific audit performed. Section 4-232, subsection (b)(1), of the General Statutes requires reports on such audits to be filed with State grantor agencies within 30 days of completion, but no later than six months after the end of the audit period. This audit requirement is incorporated into the Commission on the Art's grant contracts that also require grantees to submit a final grant report that includes both financial and programmatic reporting within 60 days of the grant ending period.

The National Endowment for the Arts, a Federal Agency, provides for advance funding only when those funds will be disbursed immediately.

The Comptroller's State Accounting Manual prescribes policies and procedures for accounts receivable records management, including

appropriate collection efforts and documentation requirements. Section 3-7, subsection (b), of the General Statutes requires authorization from the Secretary of the Office of Policy and Management for the cancellation of any uncollectible claim that is greater than one thousand dollars.

Conditions:

As noted in the last audit and in our current follow up, the Commission did not adequately follow-up on a former grantee's audit report findings that included nearly \$4,000 in questioned costs or determine the status of over \$137,000 in unexpended grant funds. The organization was granted about \$1,075,000 with \$80,000 being paid from the National Endowment for the Arts – Partnership Agreements grant (CFDA #45.025) and it could not be determined what portion of the questioned costs and unexpended grant funds may relate to Federal funds.

The Commission terminated the grantee's funding during the 2001-2002 fiscal year due to late filing of required reports, the receipt of the June 30, 2002 audit with findings, and the failure to file final grant reports. The Commission has been unable to determine if all funds paid to the grantee have been disbursed for program purposes or even if the grantee is still a going concern.

We were told that in the absence of adequate reporting by grantees, a receivable becomes due to the Commission. We noted that the Commission did not record a receivable either for the questioned costs or estimated unexpended funds. No collection efforts were made nor did the Commission obtain the Secretary of the Office of Policy and Management's (OPM) approval to write-off these amounts.

The Commission also did not adequately follow-up on a situation noted in the prior report where a second grantee failed to file a final report. The Commission has not pursued a \$2,500 account receivable, dating back to October 2000, or sought the Secretary of OPM authorization to cancel this claim.

Effect:

The Commission has not adequately followed-up on grantees to determine if accounts receivables are due to the State.

Cause:

The Commission did not monitor grantee reports in a timely manner nor comply with the Comptroller's account receivable requirements.

Recommendation:

The Commission on the Arts should improve grant monitoring by including the timely review of audit reports and the collection of accounts receivable in compliance with the General Statutes. (See Recommendation 5.)

Agency Comments: “The Connecticut Commission on the Arts ceased to exist on August 19, 2003. For the audit period, collections for the Connecticut Commission on the Arts were overseen by the Connecticut State Library. The Connecticut Commission on Culture and Tourism was established on August 19, 2003, and is taking steps to establish policies and procedures to ensure timely monitoring of grantee reports and to ensure proper adherence to the General Statutes. The Connecticut Commission on Culture and Tourism will continue to pursue final reports for the grantees noted and will determine whether to pursue accounts receivable or seek approval from the Office of Policy and Management to cancel claims.”

Grant Contract Disclosure - State Commission on the Arts:

Criteria: The National Endowment for the Arts (NEA) requires that a State’s grantee receiving NEA funds comply with the same Federal laws, rules, regulations, and OMB Circulars as the State. It also requires that grant contracts include specific requirements regarding reporting, lobbying, foreign travel and records retention.

Conditions: One grant contract that we reviewed included funding from the National Endowment for the Arts – Partnership Agreement grants (CFDA #45.025) of \$59,400 during the fiscal year ended June 30, 2003. The grant contract neither indicated that any portion of the funds was from Federal sources or contain information on Federal guidelines associated with those funds.

Effect: Failure to include Federal grant amounts and requirements in the award agreement could result in failures by grantee to administer State and Federal funds in accordance with applicable laws and regulations.

Cause: The Agency felt a letter issued to the grantee informing them of the amount of NEA grant funding provided was sufficient disclosure.

Recommendation: The Commission on the Arts should include in grant contracts Federal grant amounts and related requirements to ensure that the grantee complies with State and Federal laws and regulations. (See Recommendation 6.)

Agency Comments: “The Connecticut Commission on the Arts ceased to exist on August 19, 2003. The Connecticut Commission on Culture and Tourism was established on August 19, 2003. The Connecticut Commission on Culture and Tourism currently utilizes a grant contract template developed in conjunction with and approved by the State Attorney General’s Office. Section 5 includes specific language regarding the use of Federal funds. The Connecticut Commission on Culture and Tourism

will review the relevant provisions with the NEA to confirm that the grantees receive required information regarding Federal grants.”

RECOMMENDATIONS

Our prior audit report on the State Library and the State Commission on the Arts contained ten recommendations. Of the recommendations, five have been implemented or otherwise resolved and five have been restated and/or repeated into six herein as current audit recommendations.

Status of Prior Audit Recommendations:

- *The State Library should disburse funds in compliance with laws concerning State appropriations.* The questionable disbursement of appropriated funds was completely spent in the prior audited period and our current test of expenditures for the State Library showed that disbursements complied with laws concerning State appropriations; therefore, this recommendation is not being repeated.
- *The State Library should comply with Section 4-32 of the General Statutes.* The State Library appears to be depositing and reporting its receipts in a timely manner; therefore, this recommendation is not being repeated.
- *The State Library and Commission on the Arts should improve their grant monitoring through timely review of audit reports and collection of accounts receivable in compliance with the General Statutes.* The State Library has improved their grant monitoring system through timely collection and review of audit reports; however, the Commission on the Arts is still deficient in this area. As a result, this recommendation is being repeated in a modified form. (See Recommendation 5.)
- *Contracts should be properly authorized and should document the complete nature of agreements between the Commission, grantees and personal services contractors in compliance with State and Federal laws and regulations.* The Commission delegating its authority to approve contracts to the Executive Director is no longer applicable since the former Commission no longer exists and has been merged into a new Agency. However, grant contracts still need to be improved by indicating the portion of funds from Federal sources; therefore, this recommendation is being repeated in a modified form. (See Recommendation 6.)
- *The Commission on the Arts should establish policies and procedures to ensure compliance with Section 4b-53 of the General Statutes and the related regulations.* The State Library transferred its accounting records of bond fund related artwork activities to the new Agency. However, the Commission has not established policies and procedures for its operations; therefore, this recommendation is being repeated in a modified form. (See Recommendation 4.)
- *The State Library should comply with the Comptroller's State Accounting Manual when administering Petty Cash funds.* The State Library improved petty cash operations by documenting cash counts and voiding or reissuing older outstanding checks. As a result, this recommendation is not being repeated.

- *The State Library should improve its controls over State property as outlined by the State Comptroller's Property Control Manual in accordance with Sections 4-33a and 4-36 of the General Statutes. Some improvements were noted, including the timely reporting of missing equipment and the posting of equipment costs to inventory records, however, deficiencies in this area still exist. As a result, this recommendation is being repeated in a modified form. (See Recommendations 1 and 3.)*
- *The State Library should complete the Accountability Directive Number 1 annually as required by State Comptroller's Memorandum No. 96-58. The State Library has properly completed the Accountability Directive; therefore, this recommendation is not being repeated.*
- *The State Library Board and Public Records Administrator should submit reports as required by the General Statutes. The State Library and Public Records Administrator have submitted appropriate reports; therefore, this recommendation is not being repeated.*
- *The State Library and Commission on the Arts should develop procedures to assure compliance with the General Statutes and the records retention requirements of the State Library, Office of Public Records Administration. The State Library and Commission on the Arts developed procedures to assure proper documentation of certain information; however, the State Library has not prepared an EDP records retention schedule. As a result, this recommendation is being repeated in a modified form. (See Recommendation 2.)*

Current Audit Recommendations:

- 1. The State Library should improve its controls over State property as outlined by the State of Connecticut's *Property Control Manual* in accordance with Section 4-36 of the General Statutes.**

Comment:

The State Library only performed physical inventories for a portion of its property. The amounts reported on the Annual Property Reports were not accurate and based, in part, on intuitive estimates of value rather than cost. Inventory records do not fully comply with State standards. The State Library did not obtain appraisals of its more valuable collection pieces as required.

- 2. The State Library should file an EDP records retention schedule with the Public Records Administrator as provided in Section 11-8a, subsection (b), of the General Statutes.**

Comment:

The State Library did not file an EDP records retention schedule as required.

- 3. The State Library should comply with Section 4-33a of the General Statutes that requires prompt notification to the Auditors of Public Accounts and the State Comptroller when there is a breakdown in the safekeeping of State resources.**

Comment:

The State Library did not report the unauthorized use of State property to the appropriate officials in a prompt manner.

- 4. The Commission on the Arts should establish policies and procedures to ensure compliance with Section 4b-53 of the General Statutes and the related regulations.**

Comment:

The Commission on the Arts did not properly manage construction projects funds earmarked for art and project accounting was not maintained on a timely manner.

- 5. The Commission on the Arts should improve their grant monitoring by including the timely review of audit reports and the collection of accounts receivable in compliance with the General Statutes.**

Comment:

The Commission on the Arts did not adequately follow up on two former grantees' audit and programmatic reporting of unexpended grant funds and questioned costs totaling some \$143,500.

- 6. The Commission on the Arts should include in grant contracts Federal grant amounts and related requirements to ensure that the grantee complies with State and Federal laws and regulations.**

Comment:

The Commission on the Arts did not include the full nature and source of funding being provided in their contract with a grantee.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Connecticut State Library and the State Commission on the Arts for the fiscal years ended June 30, 2003 and 2004 and fiscal year ended June 30, 2003 and the period from July 1, 2003 through August 19, 2003, respectively. That audit was primarily limited to performing tests of the Agencies' compliance with certain provisions of laws, regulations, contracts and grants and to understanding, and evaluating the effectiveness of the Agencies' internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agencies are complied with, (2) the financial transactions of the Agencies are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agencies are safeguarded against loss or unauthorized use. The financial statement audits of the Connecticut State Library and the State Commission on the Arts for the fiscal years ended June 30, 2003 and 2004 and fiscal year ended June 30, 2003 and the period from July 1, 2003 through August 19, 2003, respectively, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Connecticut State Library and the State Commission on the Arts complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut State Library and the State Commission on the Arts is the responsibility of the management of the Connecticut State Library and the State Commission on the Arts' management.

As part of obtaining reasonable assurance about whether the Agencies complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Connecticut State Library and the State Commission on the Arts' financial operations for the fiscal years ended June 30, 2003 and 2004, and the fiscal year ended June 30, 2003 and the period from July 1, 2003 through August 19, 2003, respectively, we performed tests of the Agencies' compliance with certain provisions of the laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Connecticut State Library and the State Commission on the Arts are responsible for establishing and maintaining effective internal control over their financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agencies. In planning and performing our audit, we considered the Agencies' internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agencies' financial operations in order to determine our auditing procedures for the purpose of evaluating the Connecticut State Library's and the State Commission on the Arts' financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agencies' financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agencies' financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agencies' ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: (1) inadequate property control and management, (2) inadequate grantee monitoring and the resulting collection deficiencies, and (3) inadequate contract disclosure of Federal funding provided to grantee.

A material or significant weakness is a condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agencies' financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agencies being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agencies' financial operations and over compliance would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the reportable condition concerning inadequate property control and management is a material or significant weakness.

We also noted other matters involving the internal controls over the Agencies' financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly, and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the courtesies extended to our representatives by the personnel of the Connecticut State Library and the State Commission on the Arts during the course of our audit.

William T. Zinn
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts