

SEAN SCANLON
STATE COMPTROLLER



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MEMORANDUM NO. 2023-12

March 31, 2023

TO THE HEADS OF ALL STATE AGENCIES

Attention: Agency Heads, Chief Administrative and Fiscal Officers, and Business Managers

Subject: Internal Controls and Accounting Standards for Financial Transactions

I. PURPOSE

This memorandum provides guidance to agencies on internal controls, how they should maintain proper supporting documentation for procurement and accounts payable related financial transactions, and provide requested items in response to Comptroller audits. The State Comptroller requires that proper internal controls and accounting best practices be followed by state agencies to avoid illegal, irregular, or unsafe handling of state assets in the execution of procurement and payment functions. State agencies shall utilize sound accounting principles and guidance from pertinent statutes, the State Accounting Manual, and the Internal Control Guide to establish appropriate procedures for staff to follow while conducting agency operations.

II. AUTHORITY

Connecticut General Statutes:

- a. §3-112; “**Powers and duties.** The Comptroller shall: [...] (4) prescribe the mode of keeping and rendering all public accounts of departments or agencies of the state and of institutions supported by the state or receiving state aid by appropriation from the General Assembly; (5) prepare and issue effective accounting and payroll manuals for use by the various agencies of the state; and [...] The Comptroller may require reports from any department, agency or institution as aforesaid upon any matter of property or finance at any time and [...] All records, books and papers in any public office shall at all reasonable times be open to inspection by the Comptroller.”
- b. §4-33a; “**Illegal, irregular or unsafe handling of state or quasi-public agency funds. Breakdown in safekeeping of agency resources. Breach of security. Notification.** All boards of trustees of state institutions, state department heads, boards, commissions, other state agencies responsible for state property and funds and quasi-public agencies, as defined in section 1-120, shall promptly notify the Auditors of Public Accounts and the Comptroller of any (1) unauthorized, illegal, irregular or unsafe handling or expenditure of state or quasi-public agency funds, (2) breakdowns in the safekeeping of any other resources of the state or quasi-public agencies, (3) breach of security, as defined in section 36a-701b, or (4) contemplated action to commit one of the acts listed in subdivisions (1) to (3), inclusive, of this section within their knowledge. In the case of such notification to the Auditors of Public Accounts, the auditors may permit aggregate reporting in a manner and at a schedule determined by the auditors.”

State Comptroller’s Internal Control Guide (ICG) –

<https://www.osc.ct.gov/manuals/InternalCntl/contents.htm>

State Comptroller’s State Accounting Manual (SAM) –

<https://www.osc.ct.gov/StateAcct/index.html>

III. DEFINITIONS

For the purposes of this memorandum the following terms shall be defined:

- a. **Blanket Contract** – A contract, generally for services, which only specifies the quality or general information about the services to be provided. Ex. A contract for window repair services which dictates how a window should be repaired and what quality glass and frame must be used but does not set guidelines on location or amount of services that an agency is granted the authority to request.
- b. **Blanket Purchase Order** – A purchase order, generally for services, which only specifies the quality or general information about the services to be provided. Ex. A purchase order for a maximum dollar amount which does not set guidelines on location or quantity of services that a vendor is authorized to invoice for.
- c. **Identifying Mark** – A signature, initials, or other distinct marking on documents which can be used by a reviewing authority, routinely and without ambiguity, to attribute a connection back to a single authorized employee or contractor.
- d. **Scope of Work** – A document or addendum which specifically states the location, quantity, and type of services to be provided. It also should include contacts responsible for inspection and approval of services rendered prior to completion of a project/work request. These should accompany blanket contract/P● transactions to set guidelines on vendor expectations.

IV. GENERAL INFORMATION

The ICG states under Management Responsibilities that “a well-designed internal control structure will reduce improper activity.” It is the responsibility of state agency leadership to ensure that agency processes have proper internal controls, and that staff are following those procedures. Routinely referring to an agency’s Internal Controls Questionnaire when assessing processes can help reduce impact from major risk factors for agencies such as new personnel, new technology, and new services or activities. Management should properly train employees on agency processes and internal control fundamentals to help prevent fraud, waste, and abuse. Process and training documents should be readily available to staff. Agency employees should be aware of their role in initiating transactions and controlling the movement of State assets with emphasis on the identification of "control points" (i.e., the safeguard functions that staff perform to minimize risk of theft or loss). Employees of entities covered by CGS §4-33a shall report suspected wrongdoing, theft, or loss in accordance with the statute.

Strong internal controls include but are not limited to:

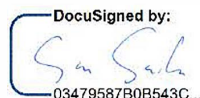
- a. **Segregation of Duties.** The Comptroller requires segregation of duties as it is an essential item in accounting internal controls. Segregation of duties between at least two individuals serves as a check and balance against undesired actions. This is enforced in Core-CT through workflow approval programming and security roles. It is the responsibility of approvers in Core-CT to verify that transactions are complete and accurate. However, agencies should be enforcing this type of cross evaluation throughout all their processes, paper and electronic.
- b. **Defacing of Invoices/Packing Slips.** To help enforce segregation of duties in processes that exist outside of Core-CT, the SAM directive that invoices be defaced with a receipt date is being modified. In addition to receipt date, agencies should deface any invoice or packing slip with the Identifying Mark of the person verifying the accuracy of invoiced/received items or services to those actually received or completed, and the Identifying Mark of the person who agrees with or approves that the items or services received are in accordance with those invoiced. Agency business office staff should ensure that a double receipt defacing has occurred prior to entering items for payment. Invoices must also be defaced as paid by the voucher approver to prevent duplicate payments.
- c. **Routine and Random Audit of Documentation and Procedures.** A key internal control and widely accepted accounting principle is the reviewing of documentation and transactions.

Agencies should attach as much supporting documentation as possible to transactions in Core-CT. The Comptroller's Central Accounts Payable (CAP) division is responsible for four major reviews of agency transactions and documentation. Each audit will require agencies to attach, or provide upon request, documentation that is sufficiently descriptive to follow the intent of a transaction and the actions of any participants. Supporting documentation should, whenever possible, be attached to the transaction in Core-CT.

- i. Pre-Audit of purchase orders valued over \$1 million. Any purchase order which is entered for, or altered to, a value greater than one million dollars must be approved by CAP. A review of supporting documentation is conducted to ensure that the purchase order is being properly issued. If a purchase order of this value derives its authority from a blanket contract, the agency will need to provide supporting documentation regarding the expected quantity and location similar to a project plan or Scope of Work. Supporting documentation should be sufficient to understand the state's expectation of the vendor and enable staff to validate invoiced items. An agency's failure to provide sufficient backup documentation will result in the purchase order not being approved for dispatch.
- ii. Post-Audit of agency vouchers and supporting documentation. A random sampling of completed agency payment vouchers is audited by CAP each month. When agencies are notified that their vouchers are being audited, they should provide Comptroller auditors with any requested supporting documentation. Agencies should respond to all requests for documentation per CGS §3-112. If requested documentation does not exist, the agency should advise CAP accordingly to discuss alternatives. Failure to respond will result in escalation of the audit to business office management, then agency leadership, then the office of the Auditors of Public Accounts.
- iii. Procurement Card Audits. P-Card transactions from specific categories are systematically reviewed and a random sampling of agency P-Card transactions are audited by CAP each month. When agencies are notified that their transactions are being audited, they should provide Comptroller auditors with any requested supporting documentation. Agencies should respond to all requests for documentation per CGS §3-112. If requested documentation does not exist, the agency should advise CAP accordingly to discuss alternatives. Failure to respond will result in escalation of the audit to business office management, then agency leadership, then the office of the Auditors of Public Accounts.
- iv. Ad Hoc Audits. The Comptroller's Office performs audits of items brought to its attention for the purposes of strengthening weaknesses in accounting or reporting. These can be statewide, affecting multiple agencies regarding a specific subject, or focused on a specific agency process or processes with the intent of reducing risk to state assets.

V. QUESTIONS

Questions regarding this Memorandum should be directed to osc.apd@ct.gov. Agencies with questions on past, pending, or future CAP audits should direct them to osc.apdpa@ct.gov.

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