

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE ATTORNEY GENERAL
FISCAL YEARS ENDED JUNE 30, 2014 AND 2015*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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September 20, 2017

INTRODUCTION

AUDITORS' REPORT OFFICE OF THE ATTORNEY GENERAL FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015

We have audited certain operations of the Office of the Attorney General in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2014 and 2015. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the office or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. No apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Office of the Attorney General.

COMMENTS

FOREWORD:

The Attorney General is an elected state officer whose duties are set forth in Title 3, Chapter 35 of the Connecticut General Statutes. The Attorney General is the chief civil legal officer of the state, serves as legal counsel to all state agencies, and is authorized to represent the people of the state to protect the public interest. George Jepsen served as the Attorney General during the audited period and continues to serve in that capacity.

The mission of the office is to represent and advocate for the interests of the state and its citizens, ensure that state government acts within the law, protect public resources for present and future generations, preserve and enhance the quality of life for all state citizens, and ensure that the rights of the most vulnerable citizens are safeguarded. The office is divided into 15 departments that serve as legal counsel to state agencies. The departments are:

Antitrust	Child Protection
Civil Rights/Torts	Collections & Child Support
Consumer Protection	Employment Rights
Environment	Energy
Finance	Health and Education
Health Care Fraud/Whistleblower/Advocacy	Privacy and Data Security
Public Safety & Special Revenue	Special Litigation
Transportation, Housing & Public Works	Workers' Compensation & Labor Relations

The Privacy and Data Security Department was implemented during the audited period, in March 2015. The department is responsible for handling matters related to the protection of Connecticut residents' personal information and data such as social security numbers, and the

enforcement of the Health Insurance Portability and Accountability Act, the Children’s Online Privacy Protection Act, and the Fair Credit Report Act.

Significant New Legislation

There were no legislative changes with any significant effect on the operations of the Office of the Attorney General during the audited period.

RÉSUMÉ OF OPERATIONS

Revenues

Revenues for the Office of the Attorney General for the fiscal years ended June 30, 2013, 2014 and 2015, are summarized below by fund:

	2012-2013	2013-2014	2014-2015
General Fund	\$ 12,865,081	\$ 1,771,650	\$ 38,559,845
Federal and Other Restricted Accounts Fund	4,007,772	253,219	2,273,308
Total Revenues Listed by Fund	\$ 16,872,853	\$ 2,024,869	\$ 40,833,152

The office collects revenue from litigation, which is transferred directly to the General Fund and collections on behalf of other state agencies, which are subsequently transferred to those agencies. Office operations are primarily funded through a General Fund appropriation. General Fund receipts fluctuate due to the size of settlements, which can vary substantially from year to year. The majority of the revenue increase during the 2014-2015 fiscal year was due to a settlement with Standard and Poor’s for \$36 million. The case involved charges that Standard and Poor’s misled investors during the 2008 financial collapse. In fiscal year 2012-2013, the office collected \$3,235,000 from a multi-state/federal mortgage foreclosure settlement, causing increases in the Federal and Other Restricted Accounts Fund. In fiscal year 2014-2015, the office collected \$1,420,000 from a drug company settlement that was miscoded to the Federal and Other Restricted Accounts Fund.

Revenues for the Office of the Attorney General by revenue account are shown below:

	2012-2013	2013-2014	2014-2015
Negotiated Settlements	\$ 5,785,150	\$ 1,012,235	\$ 37,426,035
Civil Penalties for Court Judgments	3,366,315	650,313	127,111
Recoveries for Attorney Fees	3,650,450	14,524	949,826
Other Revenues	4,070,939	347,798	2,330,181
Total Revenues Listed by Account	\$ 16,872,854	\$ 2,024,869	\$ 40,833,152

Expenditures

Expenditures by fund for the Office of the Attorney General for the fiscal years ended June 30, 2013, 2014, and 2015, are summarized below:

	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>
General Fund	\$ 29,289,010	\$ 30,400,947	\$ 31,840,605
Federal and Other Restricted Accounts Fund	3,034,444	375,005	484,935
Capital Improvements Fund	-	1,545,807	81,913
Capital Equipment Fund	13,764	442,684	-
Total Expenditures Listed by Fund	\$ 32,337,218	\$ 32,764,443	\$ 32,407,453

Personal services costs represent the majority of General Fund expenditures. Total expenditures from the General Fund increased 3.8% and 4.7% during the audited period, primarily due to salary increases. The Federal and Other Restricted Accounts Fund includes several smaller accounts that are used to record expenses incurred for specific types of cases, such as consumer protection, client agency costs, tobacco regulations, and the Second Injury Fund. Also within this fund category, law firms providing specialized services are paid using funds transferred by the state agency that required the specialized service. These amounts are netted within the Federal and Other Restricted Accounts Fund and presented as an expenditure on the related state agency's accounting records. The expenditures for the law firms that provided specialized services to the state totaled \$4.6 million and \$2.3 million for the fiscal years ended June 30, 2014 and 2015, respectively.

Expenditures by account for the Office of the Attorney General are presented below:

	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>
Personal Services & Employee Benefits	\$ 28,064,110	\$ 29,295,867	\$ 30,757,883
Employee Expenses, Allowance & Fees	198,111	183,567	191,667
Purchases & Contracted Services	686,321	459,758	527,626
Information Technology	312,594	1,412,950	302,000
Premises & Property Expenses	98,090	123,729	105,813
Purchase Commodities	111,571	170,946	169,902
Capital Outlay Equipment	64,769	858,498	214,473
Motor Vehicle Cost	16,654	14,795	14,636
GAAP Expenditure	-	244,333	123,440
Grant Refunds	2,785,000	-	13
Total Expenditures Listed by Account	\$ 32,337,218	\$ 32,764,443	\$ 32,407,453

Total expenditures increased 1.3% between the fiscal years ended June 30, 2013 and 2014 and decreased 1% between the fiscal years ended June 30, 2014 and 2015. Personal services and employee benefits increased 4.4% and 5% for the fiscal years ended June 30, 2014 and 2015, respectively. In the 2013-2014 fiscal year, the office implemented new case tracking software, which caused an increase in information technology expense. For the 2012-2013 fiscal year,

grant refunds totaling \$2,785,000 were received from a mortgage foreclosure settlement, which the Office of the Attorney General disbursed to several agencies.

Second Injury Fund Costs

All expenses incurred by the office on behalf of the Second Injury Fund managed by the State Treasurer were paid from the Second Injury and Compensation Assurance Fund in accordance with Section 31-355 subsection (d) of the General Statutes. Personal services for employees charged directly to the Second Injury Fund totaled \$1,955,578 and \$2,008,755 for the fiscal years ended June 30, 2014 and 2015, respectively.

Funds Awaiting Distribution and Escrow Account for Settlements

The Funds Awaiting Distribution Fund and an escrow account were used to delineate the collection and distribution of settlements due to the office, other state agencies, or consumers. The Funds Awaiting Distribution Fund is a temporary suspense account for receipts awaiting final distribution to consumers. The escrow account is a bank account used to deposit receipts for contingencies in cases in which the outcome is dependent on factors yet to occur. Distributions are made in accordance with the corresponding court orders. The Funds Awaiting Distribution Fund's balances for the fiscal years ended June 30, 2014 and 2015 were \$40,836 and \$189,118, respectively. The escrow account's balances for the fiscal years ended June 30, 2014 and 2015 were \$2,024 and \$2,228, respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of the Office of the Attorney General records disclosed the following areas requiring improvement.

Accounts Receivable

Criteria: The Office of the Attorney General records accounts receivable amounts for judgments awarded as a result of litigation. The Office of the State Comptroller requires all state agencies to report accurate accounts receivable balances after the end of each fiscal year on the prescribed Generally Accepted Accounting Principles (GAAP) receivables report. Management of the Office of the Attorney General is responsible for establishing and maintaining effective internal controls to provide for accurate and complete reporting of accounts receivable and timely write-off of uncollectible accounts.

Condition: We noted the following accounts receivables exceptions reported on the GAAP receivables report for the fiscal year ended June 30, 2015:

- Receivables totaling approximately \$820,000 were noted as collectible on the GAAP receivables report at the end of the 2014-2015 fiscal year. However, collection efforts have not been pursued since the 2013-2014 fiscal year, and the prospect of collection is considered low by the office.
- The office has not written off any receivables over \$5,000 since it started tracking them over 30 years ago. The office reported \$1.38 million in receivables that it expects are uncollectible.
- We were unable to verify the completeness of the receivables balance, as there was no reconciliation performed between judgment amounts received and amounts that should have been received.

Cause: Management has not established effective internal controls for reporting accurate accounts receivables.

Effect: There is an increased risk that receivables are not accounted for or are improperly reported.

Recommendation: The Office of the Attorney General should improve internal controls over the accounting and reporting of its accounts receivable balances. (See Recommendation 1.)

Agency Response: “We have made significant progress in handling our accounts receivable in fiscal year 2017. We documented the collection attempts and the write off of receivables under \$1,000 per agency and Office of the State Comptroller (OSC) guidelines. Approximately another \$80,000 was written off as a result of attempts to collect balances between \$1,000 and \$5,000 following Office of Policy and Management and OSC guidelines. We also collected payments on several of the receivables considered unlikely to be collected and consider those cases to be settled. We continue to evaluate and pursue collection efforts consistent with our internal policy on our remaining receivables.

We are confident that all receivables were accounted for and reported on our GAAP report submitted to the Office of the State Comptroller. Each legal department is canvassed prior to preparation of the GAAP report to identify all open receivables. Our case tracking and document management systems provide each department with case disposition and fund collection data.”

Asset Management

Criteria: Section 4-36 of the General Statutes requires each agency to establish and maintain an inventory account as prescribed by the Office of the State Comptroller. The State Property Control Manual requires that all assets purchased prior to July 1, 2015 with a cost of \$1,000 or more be included in the agency’s inventory listing in Core-CT. Any assets that are no longer in service should be removed from the records in a timely manner. The agency is required to transmit a property control report (CO-59) annually to the Office of the State Comptroller. The CO-59 should agree with the Core-CT inventory listing.

Condition: The inventory records of the Office of the Attorney General in Core-CT were inaccurate for the fiscal year ended June 30, 2015. We found that equipment purchases totaling \$13,998 were missing from the inventory records, and discarded software totaling \$6,452 was not deleted from the records. The CO-59 did not agree with the property control records.

Cause: It appears that there was a lack of oversight over both the recording of newly purchased items into the inventory records and the preparation of the CO-59, which resulted in asset purchases not being entered into Core-CT and disposed items remaining in the inventory records.

Effect: There is an increased risk of loss of state property when complete inventory records are not maintained.

Recommendation: The Office of the Attorney General should improve internal controls over

asset management and purchasing to comply with the requirements of the State Property Control Manual. (See Recommendation 2.)

Agency Response: “We agree that there were several assets not included in our inventory listing. These assets were tagged but due to a clerical error were not integrated into Core-CT. Additionally there were installment fees not included in the price of the assets. These errors were corrected in fiscal year 2017. The discarded software was removed from our inventory records in fiscal year 2017. Going forward a reconciliation of assets to new capital expenditures will be performed on a quarterly basis. This will detect any omissions before the preparation of the property control report (CO-59).”

RECOMMENDATIONS

The prior audit report on the Office of the Attorney General contained 5 recommendations for improving operations, 2 of which were repeated or restated with modifications during the current audit. The current audit report presents 2 total recommendations.

Status of Prior Audit Recommendations:

- **The Office of the Attorney General should improve administrative controls over the processing of employee leave accruals and termination payments.** We did not note any exceptions in this area. This recommendation is not being repeated.
- **The Office of the Attorney General should develop a formal schedule reduction program and document employee unpaid leave time in Core-CT.** The agency has implemented a schedule reduction program. This recommendation is not being repeated.
- **The Office of the Attorney General should adhere to the established segregation of duties between payroll and personnel functions within Core-CT. In addition, terminated employees should become inactive in Core-CT the day they leave state service.** The agency has approval from Core-CT and justification for the conflicting roles. We did not find issues with employee access rights in Core-CT. This recommendation is not being repeated.
- **The Office of the Attorney General should improve internal controls over reconciling, billing, collection efforts, and write-off of uncollectible accounts.** This recommendation is being repeated. (See Recommendation 1.)
- **The Office of the Attorney General should improve internal controls over inventory and comply with the requirement of the State Property Control Manual.** This recommendation is being repeated. (See Recommendation 2.)

Current Audit Recommendations:

- 1. The Office of the Attorney General should improve internal controls over the accounting and reporting of its accounts receivable balances.**

Comment:

Our review disclosed errors with the reporting of accounts receivable balances and a lack of effective procedures for writing off old balances and recording new balances.

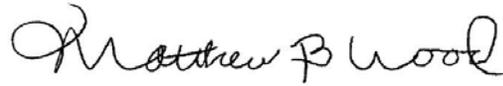
- 2. The Office of the Attorney General should improve internal controls over asset management and purchasing to comply with the requirements of the State Property Control Manual.**

Comment:

Our review disclosed errors in the tracking of equipment items in Core-CT and the preparation of the CO-59 Fixed Assets/Property Inventory Report.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the Attorney General during the course of our examination.



Matthew B. Wood
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert J. Kane
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