

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
OFFICE OF THE STATE COMPTROLLER  
DEPARTMENTAL OPERATIONS  
FISCAL YEARS ENDED JUNE 30, 2016 AND 2017*

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

## Table of Contents

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EXECUTIVE SUMMARY .....	i
INTRODUCTION .....	1
COMMENTS .....	2
FOREWORD .....	2
Recent Legislation .....	2
RÉSUMÉ OF OPERATIONS .....	3
Departmental Operations – General Fund Revenues .....	3
Departmental Operations – General Fund Expenditures .....	4
Special Appropriations Administered by the Comptroller .....	4
Refunds of Payments .....	4
Adjudicated Claims .....	5
Unemployment Compensation .....	5
Group Life Insurance .....	5
Tuition Reimbursements – Training and Travel .....	6
Employer’s Social Security Tax .....	6
State Employees and Retired State Employees Retirement and Health Care Costs .....	6
Capital Project Outlays .....	6
STATE AUDITORS’ FINDINGS AND RECOMMENDATIONS .....	7
Personal Service Agreements .....	7
RECOMMENDATIONS .....	9
Status of Prior Audit Recommendations .....	9
Current Audit Recommendations .....	10
ACKNOWLEDGMENTS .....	11
CONCLUSION .....	12

August 14, 2019

## EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of the State Comptroller. The objectives of this review were to evaluate the department's internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2016 and 2017.

The key finding and recommendation is presented below:

**Page 8**

Our audit of 6 personal service agreements, totaling \$343,641,568 (including one worth \$330,000,000), disclosed that all relevant parties did not approve any of the 6 contracts prior to the start of the contract period. The Office of the State Comptroller should strengthen controls over personal service agreements and ensure that all relevant parties sign these agreements before related services are provided. (Recommendation 1.)

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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August 14, 2019

### **INTRODUCTION AUDITORS' REPORT**

We have audited certain operations of the Office of the State Comptroller (OSC) 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 years ended June 30, 2016 and 2017. 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 effectiveness, 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 office; 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 various available sources including, but not limited to, the office's management and the state's information systems, and was not subjected to the procedures applied in our audit of the office. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with policies and procedures or 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 OSC.

## **COMMENTS**

### **FOREWORD**

The Office of the State Comptroller operates primarily under the provisions of Article Fourth, Section 24 of the State Constitution and Title 3, Chapter 34 of the General Statutes. During the audited period, OSC was organized into 7 divisions: (1) Accounts Payable; (2) Budget and Financial Analysis; (3) Management Services; (4) Information Technology; (5) Payroll Services; (6) Retirement Services; and (7) Healthcare Policy and Benefit Services. The Retirement Services and the Healthcare Policy and Benefit Services divisions are audited separately and therefore, are not included within this report.

Kevin Lembo served as State Comptroller during the audited period.

### **Recent Legislation**

There were no notable legislative changes identified that affected OSC during the audited period.

## RÉSUMÉ OF OPERATIONS

### Departmental Operations – General Fund Revenues

General Fund departmental receipts during the audited period, as compared to the preceding fiscal year, are summarized below:

	Fiscal Year Ended June 30,		
	2015	2016	2017
Departmental Receipts:			
Insurance Reimbursements	\$ 12,595	\$ 6,235	\$ -
Principal on Loans	86,813	81,563	38,813
Recoveries of Expenditures			
Unemployment Compensation	1,582,142	1,305,277	807,852
Indirect Overhead – Federal Projects	10,056,561	18,387,892	14,916,046
Employee Fringe Benefits	5,113,793	5,140,319	3,046,296
Workers' Compensation	7,786,086	7,633,396	5,977,815
General Recoveries	51,592	76	1,513
Refunds			
Refunds of Expenditures	176,558	386,139	194,337
Refunds of Health Insurance	155,678	141,683	73,548
Refunds of Salary/Workers' Comp.	289	-	-
All Other Revenues	47,765	46,622	45,673
Less Refunds of Payments (Statewide)	(24,611)	(35,099)	(28,525)
Total:	<b>\$ 25,045,261</b>	<b>\$ 33,094,103</b>	<b>\$ 25,073,368</b>

The receipts shown above primarily consisted of excess funding of unemployment compensation, workers' compensation, fringe benefits, and indirect costs initially charged to the General Fund, but subsequently reimbursed from federal and other-than-federal General Fund restricted accounts and/or other state funds. OSC primarily recovered these costs via the state payroll system based on reports filed by state agencies, with each agency's payroll using salaries and wages as its approved indirect cost base. The fluctuations in agency receipts from year-to-year were primarily caused by changes in the amount of salaries charged to federal restricted accounts and state funds other than the General Fund and changes in the cost recovery rates.

Fringe benefit recoveries of employer costs for group life insurance, medical insurance (health service cost), and Social Security costs are generally credited to the special appropriation accounts used to finance the employer share of such costs. Additional comments on the recoveries on each of these special appropriation accounts are presented later in this section of the report.

The OSC Budget and Financial Analysis Division annually calculates certain fringe benefit cost recovery rates as part of the statewide cost allocation plan, which is approved by the federal government for application against salaries paid from federal funds. Fringe benefit costs are then recovered by applying these rates to the gross salaries and wages chargeable to federal and other-

than-federal General Fund restricted accounts and/or state funds other than the General Fund. The OSC charges agencies the state share of medical and group life insurance on an actual cost basis, rather than a calculated percentage. The rates for FICA-Social Security and FICA-Medicare are calculated on the basis of existing federal tax rates, which were 6.2% and 1.45% during the audited period, respectively. The Core-CT information system automatically charges fringe benefits to the same funding source as the personal services expenditures.

**Departmental Operations – General Fund Expenditures**

Net General Fund expenditures during the audited period, as compared to the preceding fiscal year, are summarized below:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Personal services	\$ 22,752,005	\$ 23,338,261	\$ 22,448,969
Contractual services and other expenses	4,156,404	5,584,945	4,603,156
Nonfunctional - Change to Accruals	498,742	-	-
Total Departmental Expenditures	<b>\$ 27,407,151</b>	<b>\$ 28,923,206</b>	<b>\$ 27,052,125</b>

Expenditures remained relatively consistent throughout the audited period. The increase in personal services expenditures during the 2015-2016 fiscal year was primarily due to scheduled salary increases in accordance with collective bargaining agreements. The increase in contractual services and other expenses during the 2015-2016 fiscal year was primarily due to scheduled software maintenance and updates. The decrease in personal services expenditures during the 2016-2017 fiscal year was primarily due to a reduction in the number of full-time employees. The decrease in contractual services and other expenses during the 2016-2017 fiscal year was caused by a reduction in expenditures related to software maintenance and updates and postage.

**Special Appropriations Administered by the Comptroller**

In addition to the budgeted and restricted General Fund appropriation accounts used by the Office of the State Comptroller to finance various departmental programs and activities, OSC administers numerous nonfunctional appropriation accounts within the General and Special Transportation Funds. We describe some of the more significant activities funded by these special appropriation accounts in the following paragraphs.

**Refunds of Payments**

Section 4-37, 14-159, 22a-10, and other sections of the General Statutes authorize the State Comptroller to refund overpayments of fees paid by corporations and individuals, and to refund monies to persons equitably entitled to the refund of any money paid to the state. The corresponding state agency processes these refunds and they are paid as a reimbursement of revenues of the State Comptroller. Refunds of payments for the fiscal years ended June 30, 2016 and 2017 totaled \$35,099 and \$28,525, respectively, as shown in the summary of General Fund departmental receipts table of this report. Refunds of payments applicable to the Special

Transportation Fund totaled \$22,978 and \$149 for the 2015-2016 and 2016-2017 fiscal years, respectively.

### **Adjudicated Claims**

Under Section 3-7 of the General Statutes, the Governor may authorize the compromise of any claim against the state upon the recommendation of the Attorney General. Section 4-160 of the General Statutes provides for payments of claims based on court judgments entered against the state. In such cases, permission to file suit against the state must first be obtained from the state claims commissioner.

For the fiscal years ended June 30, 2016 and 2017, the Comptroller paid a total of \$43,911,555 and \$29,182,214 towards the settlement of claims against the state, respectively.

### **Unemployment Compensation**

The cost of unemployment benefits paid to former state employees is reimbursed to the Unemployment Compensation Benefit Fund from appropriations within the Special Transportation Fund for former employees of the Departments of Transportation and Motor Vehicles, and from the General Fund for all other former state employees. During the fiscal years ended June 30, 2016 and 2017, \$287,591 and \$194,746 was reimbursed from the Special Transportation Fund and \$5,068,428 and \$9,324,015 was reimbursed from the General Fund, respectively.

Partial recoveries of such reimbursements are made within the General Fund for former employees whose salaries were paid from other state or federal funds. Under procedures established by the Office of the State Comptroller, the recoveries for those funds' share of fringe benefit costs are processed through an approved fringe benefit cost recovery rate established annually and applied as a percentage of covered payrolls. Recoveries of reimbursements for the fiscal years ended June 30, 2016 and 2017 totaled \$1,305,277 and \$807,852, respectively.

During the audited period, a consulting firm served as addressee of record for all state agencies with respect to unemployment compensation claims for former employees. The consulting firm performed administrative functions, reviewed unemployment claims, attended appeal hearings, and advised various state agencies for such matters. Our office reviews payments from the Unemployment Compensation Benefit Fund as part of our audit of the Department of Labor to verify that payments were properly charged to the employer's account and paid to eligible employees.

### **Group Life Insurance**

As provided for in Section 5-257 of the General Statutes, the state offers a group life insurance program to state employees, retirees, and members of the General Assembly. The state's share of premium payments for this program is charged to appropriations in the General and Special Transportation Funds authorized for this purpose.

The Comptroller pays premiums to the provider monthly based on the coverage in force on the first day of the month of payment adjusted for additional or cancelled coverage during the

preceding month. Subsequently, reimbursements to the General Fund are received from certain federal and state funds or restricted accounts charged with salaries of employees covered under the state's group life insurance program. The state's share of insurance premiums under the group life insurance program during fiscal years 2015-2016 and 2016-2017 was \$7,754,314 and \$7,700,785, respectively, paid from the General Fund and \$268,204 and \$270,550, respectively, paid from the Special Transportation Fund. These activities are reviewed during our office's separate audit of the OSC Retirement Services and Healthcare Policy and Benefit Services divisions.

### **Tuition Reimbursements – Training and Travel**

Most collective bargaining agreements require the state to appropriate specified amounts for the costs of continuing education, professional seminars, conferences, and related travel expenses. This appropriation account was established to consolidate the financing of such costs under the administration of the State Comptroller.

During the fiscal years ended June 30, 2016 and 2017, expenditures for tuition reimbursement totaled \$2,961,860 and \$1,508,278, respectively.

### **Employer's Social Security Tax**

Each fiscal year, the state's share of Social Security costs is charged to General and Special Transportation Fund appropriations authorized for this purpose. Reimbursements to the General Fund are received from certain federal and state funds or restricted accounts charged with salaries of employees covered under Social Security. The gross payments to the federal government for the employer's share of Social Security taxes are based on the rates and wage limits in effect during the audited period. For the fiscal years ended June 30, 2016 and 2017, total payments of the state's share were \$228,290,741 and \$213,479,496, respectively, from the General Fund and \$15,498,733 and \$15,562,386, respectively, from the Special Transportation Fund.

### **State Employees and Retired State Employees Retirement and Health Care Costs**

The Office of the State Comptroller receives revenues and makes payments for various special appropriations and trust funds to pay for current and retired state employee retirement and healthcare costs. These activities are reviewed in a separate audit performed by our office on the OSC Retirement Services and Healthcare Policy and Benefit Services divisions.

For the fiscal years ended June 30, 2016 and 2017, these payments amounted to \$1,308,837,460 and \$1,351,193,466, respectively, from the General Fund and \$46,708,551 and \$48,413,124, respectively, from the Special Transportation Fund.

### **Capital Project Outlays**

Expenditures were made from capital project funds for agency equipment and upgrades of the Core-CT information system. Expenditures for agency equipment totaled \$25,221 and \$5,386 for the fiscal years ended June 30, 2016 and 2017, respectively. Expenditures for Core-CT upgrades totaled \$6,683,233 and \$1,097,108 during those same fiscal years, respectively.

## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of the State Comptroller (OSC) disclosed the following finding and recommendation, which has been repeated from the previous audit:

### **Personal Service Agreements**

*Criteria:* Sections 4-212 through 4-219 of the General Statutes establish standards for executive branch agencies to follow when entering into personal service agreements (PSA).

It is good business practice to ensure that a written personal service agreement is in place and signed by all relevant parties before related services are provided.

*Condition:* Our audit of 6 personal service agreements, totaling \$343,641,568, disclosed that all relevant parties did not approve any of the 6 contracts prior to the start of the contract period, as follows:

- In 3 instances, totaling \$7,741,568, the contractor signed the agreement between 2 and 89 business days late. OSC signed the contracts between 3 and 113 business days after the start of the contract period. The Office of the Attorney General signed the agreement between 9 and 119 business days after the start of the contract period.
- In one instance, the OSC and the Office of the Attorney General signed a \$2,250,000 contract 2 and 3 business days after the start of the contract period, respectively. The contractor signed this contract on time.
- In one instance, the contractor signed a \$330,000,000 agreement 135 business days after the start of the contract period. OSC and the Office of the Attorney General signed this contract, but the signatures were not dated. As such, we could not confirm that they signed the agreement on time.
- In one instance, the Office of the Attorney General signed a \$3,650,000 contract 8 business days after the start of the contract period. The contractor and OSC signed this contract on time.

*Effect:* In some instances, internal controls over personal service agreements were weakened. The instances in which OSC approved personal service agreements after the start of the contract period reduced assurance that the OSC administration approved the terms of the agreement prior to the execution of the contract.

- Cause:* Regarding the late signatures, OSC informed us that, at times, contract terms change late in the process and it is difficult to have the agreement signed by all parties prior to the start of the contract period.
- Prior Audit Finding:* This finding has been previously reported in the last 2 audit reports covering the fiscal years 2011 to 2015.
- Recommendation:* The Office of the State Comptroller should strengthen controls over personal service agreements and ensure that all relevant parties sign these agreements before related services are provided. (See Recommendation 1.)
- Agency Response:* “The Office of the State Comptroller has reviewed its procedures and reminded all relevant parties of the importance of the timely execution of personal service agreements. The Office of the State Comptroller will make every effort to ensure that the personal service contracts are signed by all relevant parties prior to the commencement of corresponding services. During this period, no invoices were paid prior to receiving all of the signatures on the contracts.”

## RECOMMENDATIONS

Our prior audit report on OSC contained 4 recommendations. 3 have been implemented or otherwise resolved and 1 has been repeated during the current audit. The following is a summary of the action taken on the prior recommendations.

### Status of Prior Audit Recommendations

- The Office of the State Comptroller should strengthen controls over personal service agreements and ensure that such contracts are signed by all relevant parties prior to the commencement of corresponding services. **We continued to note exceptions regarding personal service agreements; the recommendation will be repeated. (See Recommendation 1.)**
- The Office of the State Comptroller should continue its efforts to develop an updated disaster recovery plan. In addition, OSC should ensure that, once in place, the disaster recovery plan is reviewed and updated, if needed, on a regular basis. Furthermore, OSC should periodically test the plan to determine its adequacy. The results of those tests should be documented. **The current audit disclosed that the recommendation has been implemented. Therefore, the recommendation is not being repeated.**
- The Office of the State Comptroller should continue its efforts to improve controls over asset management to ensure compliance with the State of Connecticut's Property Control Manual by making sure that property control records are kept up-to-date and complete with respect to location and asset information. **The current audit disclosed that the recommendation has been implemented. Therefore, the recommendation is not being repeated.**
- The Office of the State Comptroller should implement control procedures necessary to ensure compliance with the requirements related to compensatory time set forth in both the Department of Administrative Services' Management Personnel Policy No. 06-02 and the P-4 bargaining unit contract. OSC should also ensure that employees are assigned to the correct compensatory time plan in Core-CT. **The current audit disclosed that the recommendation has been implemented. Therefore, the recommendation is not being repeated.**

**Current Audit Recommendations**

- 1. The Office of the State Comptroller should strengthen controls over personal service agreements and ensure that all relevant parties sign these agreements before related services are provided.**

Comment:

Our audit of 6 personal service agreements, totaling \$343,641,568 (including one worth \$330,000,000), disclosed that all relevant parties did not approve any of the 6 contracts prior to the start of the contract period.

**ACKNOWLEDGMENTS**

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Michael Delaney  
John Harrison  
Sarah Mazzoni  
Brianna Passero  
Roberto Sanchez

**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 State Comptroller during the course of our examination.



John Harrison  
Associate Auditor

Approved:



John C. Geragosian  
State Auditor



Robert J. Kane  
State Auditor