



2016 Annual Report

to the Connecticut General Assembly



AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

January 27, 2017

Members of the General Assembly:

We hereby submit the annual report on the operations of the office of the Auditors of Public Accounts in accordance with Section 2-92 of the Connecticut General Statutes.

During the past year, our management team continued to find new ways to make our office more efficient and enhance the professional reputation our office has always enjoyed. These achievements are more fully described in Section I of this report. General information on the operations of our office can also be found in that section. Pursuant to the provisions of Section 2-92 of the General Statutes, several recommendations for your consideration during the upcoming legislative session have been included in Section II of this report.

Additional information on the operations of our office can be found on our website, which is located at www.cga.ct.gov/apa. A key feature of our website is the availability of reports (both present and past) that members of the public may access.

According to law, we maintain work papers for all audits we conduct of state agencies, state quasi-public bodies, and state-supported institutions. All of these documents, except those classified by statute as confidential, are available for review by members of the General Assembly and the public. While copies of our reports are electronically distributed to all members of the General Assembly and various state officials when issued, if you require additional information on any of our published audit findings, you can call us directly at (860) 240-8651 or (860) 240-8653 and we will provide you with any supporting information we have on file.

In transmitting this annual report, we wish to say that it is our pleasure to serve you, the members of the Connecticut General Assembly.

As of the date of this letter, Senator Fassano and Representative Klarides have nominated Senator Robert J. Kane to become the new State Auditor and his confirmation by the General Assembly is pending. I have known Senator Kane for many years and look forward to working with him in his new role.

On a special note, our office wishes to acknowledge and express our gratitude to former State Auditor Robert M. Ward for his years of service to the Auditors of Public Accounts and to our state.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John C. Geragosian', with a long horizontal flourish extending to the right.

John C. Geragosian
Auditor of Public Accounts

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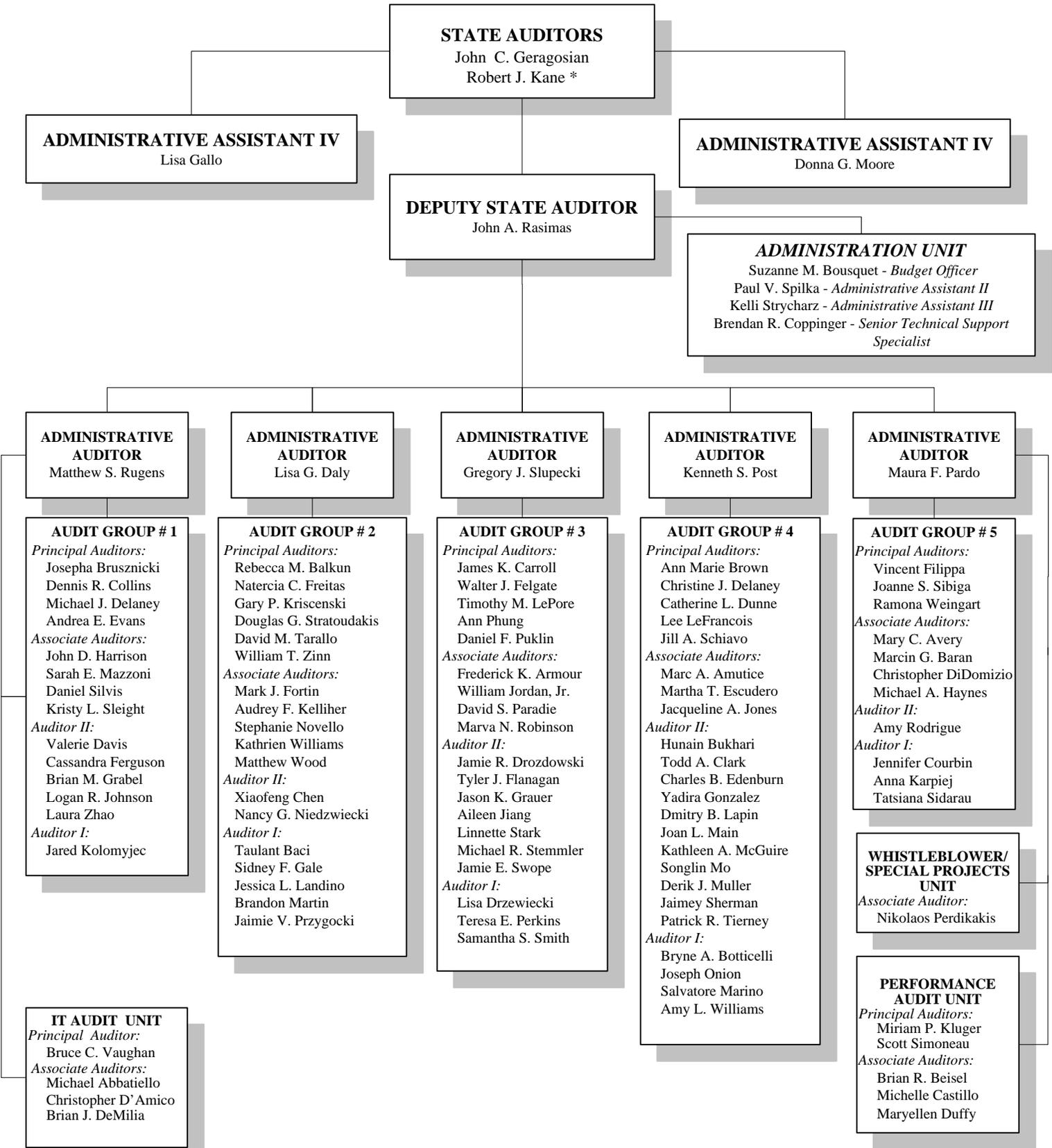
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AUDITORS OF PUBLIC ACCOUNTS ORGANIZATIONAL STRUCTURE



* - nominated January 4, 2017

SECTION I**REPORT ON THE OPERATIONS OF OUR OFFICE****Organization and Staff:**

The office of the Auditors of Public Accounts can trace its origin to a charter granted in 1662 to the Colony of Connecticut by King Charles II of England. The state statutes of 1750 refer to the auditing of “the Colony’s account with the Treasurer of the Colony.” When the office of the Comptroller was created in 1786, the Auditors of Public Accounts was placed under its supervision and remained so until 1937, when legislation established the independent status of the office. Its organization with two state auditors, not of the same political party, makes Connecticut unique among state auditing agencies. From its colonial origin, Connecticut's audit function has been performed by more than a single auditor.

The office of the Auditors of Public Accounts presently consists of 109 employees, including the state auditors. We are assisted in the management of the office by a deputy state auditor. The audit operations staff is composed of 100 auditors organized into five audit groups with each group under the general direction of an administrative auditor. Included within these groups are a Performance Audit Unit consisting of five auditors and an Information Systems Audit Unit consisting of four auditors. The Administration Unit has four employees providing administrative assistance to the office, support services to the field audit teams, and report processing services.

The professional auditing staff of our office has been and will continue to be hired through a competitive selection process. Advancement within the office is made through a comprehensive process that includes annual performance evaluations and interviews by the state auditors. Our employees are encouraged to continue studies for advanced degrees and professional certifications such as certified public accountant (CPA), certified internal auditor (CIA), certified fraud examiner (CFE), or certified information systems auditor (CISA). Fifty-two members of our staff have met relevant professional certification requirements and 48 have advanced degrees.

Auditing State Agencies:

During 2016, our auditors completed 30 audits of state and quasi-public agencies and made a total of 236 audit recommendations. During the past calendar year, these agencies have implemented approximately 46 percent of our recommendations.

Our audit approach entails, among other procedures, an examination and verification of financial statements, accounting records, and supporting documents; a determination of the

agency's compliance with statutory and budgetary requirements; an evaluation of the agency's internal control structure; verification of the collection and proper handling of state revenue; and an examination of expenditures charged to state appropriations. Our audit reports consist of findings and recommendations and, where appropriate, certified financial statements setting forth the condition and operations of the state funds involved.

In accordance with Section 2-90 of the General Statutes, we report any unauthorized, illegal, irregular, or unsafe handling or expenditure of state funds to the Governor, the State Comptroller, the clerk of each house, the Legislative Program Review and Investigations Committee, and the Attorney General. Such matters can be reported in our audit reports or by formal letter, while numerous less serious matters such as minor losses and acts of vandalism are generally reported collectively by memoranda. State loss reports filed in 2016 with this office and the State Comptroller, in accordance with Section 4-33a of the General Statutes, disclosed approximately 389 losses, primarily through theft, vandalism, and inventory shortages involving an aggregate loss of \$715,880.

In January 2016, our office issued its audit opinion on the state's financial statements for the fiscal year ended June 30, 2015, as presented by the Office of the State Comptroller in the state's Comprehensive Annual Financial Report. In addition, during March 2016, our office issued its annual Statewide Single Audit Report for the State of Connecticut covering the fiscal year ended June 30, 2015. This report included the audited financial statements presented in the state's Comprehensive Annual Financial Report and the schedule of federal financial assistance received by the state during that year. This audit is done under requirements of the federal Single Audit Act and is a condition for the state to receive some \$9,160,000,000 of federal financial assistance.

In addition to these statewide audits, we also continue to audit each state agency on a cyclical basis, focusing on each agency's internal control structure and compliance with various laws and regulations. This auditing approach complements the Statewide Single Audit and avoids duplicative audit efforts.

Under existing disclosure requirements for the offering and sale of state bonds or notes, the State Treasurer must prepare an official statement for each offering. Included with these official statements – and those of quasi-public agencies that include state disclosures – are selected state financial statements that require an audit opinion. With each issuance of an official statement, our office is required to examine such statements and prepare an audit opinion for inclusion in the official statement. We also provide separate audit opinions in connection with the bonding programs of the Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, and the UCONN 2000 program. During 2016, we were required to give eight such audit opinions in connection with the sale of bonds or notes of the state or quasi-public agencies and in connection with the separate bonding programs noted above.

Although the findings of an audit are usually made known to agency officials during the conduct of the audit, draft copies of the audit reports are delivered to agency officials for their comments. The comments are incorporated into the report in response to findings presented. When this is completed, the supervising auditor submits the report and its work papers for

review. An administrative auditor conducts that review, verifies that the audit met generally accepted government auditing standards and certifies that the findings of the report are supported by the evidence collected during the course of the audit. The report is also reviewed by the deputy state auditor and both state auditors to ensure compliance with policies and procedures of this office. Draft copies of the approved audit report are delivered to agency officials and, when the agency requests, an exit conference is held with the officials before final release and distribution of the report. Distribution of final reports is then made to agency heads, members of the General Assembly, Appropriations Committee, Legislative Program Review and Investigations Committee, Governor, Lieutenant Governor, Comptroller, Treasurer, Attorney General, Secretary of the Office of Policy and Management, State Library, designated federal agencies, news media and, when appropriate, members of boards and commissions and others. Copies of all reports are also posted to our agency website (www.cga.ct.gov/apa), where they are available for review by members of the public.

A listing of the audit reports issued during 2016 and the number of recommendations included in each report follows:

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
DEPARTMENTAL AUDITS:				
Legislative:				
Joint Committee on Legislative Management	09/14/16	0	0	0
Elected Officials:				
State Comptroller – Internal Control/Compliance	01/29/16	1	1	0
State Comptroller – Departmental Operations	09/20/16	4	9	5
State Treasurer – Financial Operations	12/30/16	0	1	1
General Government:				
Division of Criminal Justice	04/27/16	6	2	1
Department of Construction Services	07/14/16	6	8	4
Department of Revenue Services	09/22/16	19	14	6
Regulation and Protection of Persons and Property:				
Commission on Human Rights and Opportunities	04/06/16	5	7	3
Workers' Compensation Commission	07/07/16	3	4	4
Department of Insurance and Office of the Healthcare Advocate	12/08/16	7	7	2
Conservation and Development:				
Department of Energy and Environmental Protection	09/27/16	17	23	7
Health and Hospitals:				
Department of Public Health	01/07/16	20	33	22

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
Human Services:				
Department on Aging	12/14/16	5	N/A	N/A
Higher Education, Board of Regents:				
Eastern Connecticut State University	02/09/16	15	20	6
Higher Education, All Other:				
University of Connecticut	09/13/16	15	11	6
Other Education:				
Connecticut State Library	07/25/16	3	4	1
Teachers' Retirement Board	11/17/16	2	7	6
Judicial:				
Public Defender Services Commission	07/26/16	6	10	4
Quasi-Public Agencies:				
Tweed New Haven Airport Authority	01/21/16	0	0	0
Connecticut Lottery Corporation	06/02/16	0	2	2
Capital Region Development Authority	09/15/16	0	1	1
Connecticut Resources Recovery Authority	09/19/16	0	0	0
Connecticut Housing Finance Authority	11/01/16	<u>1</u>	<u>0</u>	<u>0</u>
Total Recommendations – Departmental Audits		<u>135</u>	<u>164</u>	<u>81</u>
OTHER AUDITS:				
STATEWIDE AUDITS:				
State of Connecticut – Federal Single Audit Report	03/30/16	85	95	36
SPECIAL REVIEWS:				
SCSU – National Collegiate Athletic Association	07/13/16	N/A	N/A	N/A
DAS Elicense System – IT Security Audit	08/31/16	13	N/A	N/A
CCSU – National Collegiate Athletic Association	09/01/16	N/A	N/A	N/A
Bradley Enterprise Fund	09/23/16	0	1	1
FINANCIAL STATEMENT AUDITS:				
Connecticut Heritage Foundation	10/25/16	1	2	2
Charter Oak State College Foundation	10/26/16	<u>2</u>	<u>3</u>	<u>1</u>
Total Recommendations – Other Audits		<u>101</u>	<u>101</u>	<u>40</u>
Total Recommendations – All Audits		<u>236</u>	<u>265</u>	<u>121</u>
Recommendations Resolved Within Current Audit Cycle			<u>46%</u>	

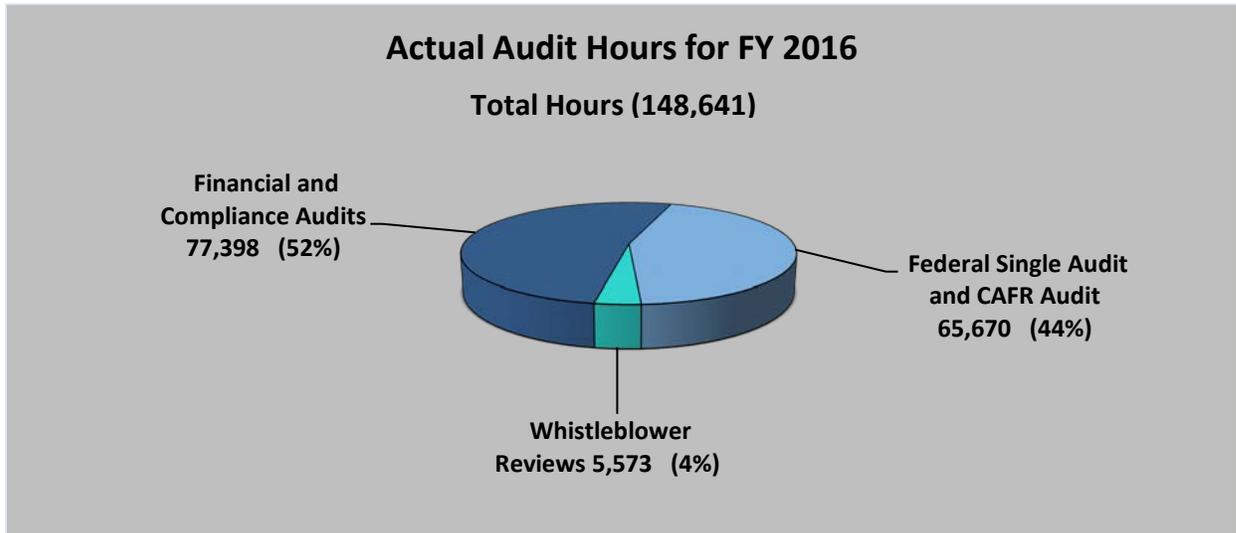
The departmental audit reports issued by our office generally contain recommendations calling for various improvements in an agency’s internal control structure as well as recommendations to better ensure compliance with certain laws, regulations, contracts, and grant agreements when instances of noncompliance are found. A summary analysis of the recommendations appearing in our audit reports follows:

	<u>Number of Recommendations</u>
Internal Control Recommendations:	
Bank accounts, cash accounts, and petty cash funds	2
Billings and receivables	7
Capital projects	3
Cash management and cash handling and depositing	6
Grantee and contractor monitoring	3
Computer operations	8
Equipment/supplies inventories	16
Financial reporting and accounting	4
General accounting and business office functions	3
Payroll and personnel controls	26
Policies, procedures, and guidelines	3
Purchasing of goods and/or services	11
Welfare, activity and other state funds	<u>2</u>
Total Internal Control Recommendations	<u>94</u>
Compliance Recommendations:	
Purchasing laws and regulations	4
Payroll and personnel laws and regulations	2
Public meeting laws and regulations	2
Reporting laws and regulations	9
State travel policies and regulations	4
All other laws and regulations	<u>10</u>
Total Compliance Recommendations	<u>31</u>
Miscellaneous Recommendations:	
Amendment or clarification of laws or regulations	1
Inefficient administrative practices	4
Performance evaluation	<u>5</u>
Total Miscellaneous Recommendations	<u>10</u>
Total Departmental Audit Recommendations	<u>135</u>

In addition to the departmental audit recommendations mentioned above, our office issued a Statewide Single Audit Report, which contained 85 audit recommendations calling for various improvements in controls over state-administered federal programs and compliance with related laws and regulations. Our office also issued two financial statement audit reports and four special reviews during 2016. One of the four special reviews in relation to the eLicense system

administered by the Department of Administrative Services included 13 recommendations regarding information technology internal controls and deficiencies.

During the fiscal year ended June 30, 2016, our office expended a total of 148,641 audit hours. A summary of how these audit hours were divided is included in the following graph:



The state’s General Fund receives approximately \$2.49 million in federal reimbursements annually as a result of our federal Single Audit work. These recoveries are realized through a state-prepared statewide cost allocation plan approved by the federal government each year. In accordance with this plan, the Single Audit costs our office incurs are charged to the state’s federal programs. In turn, the federal government reimburses the state for a portion of these costs using the indirect cost recovery rates included in the statewide cost allocation plan.

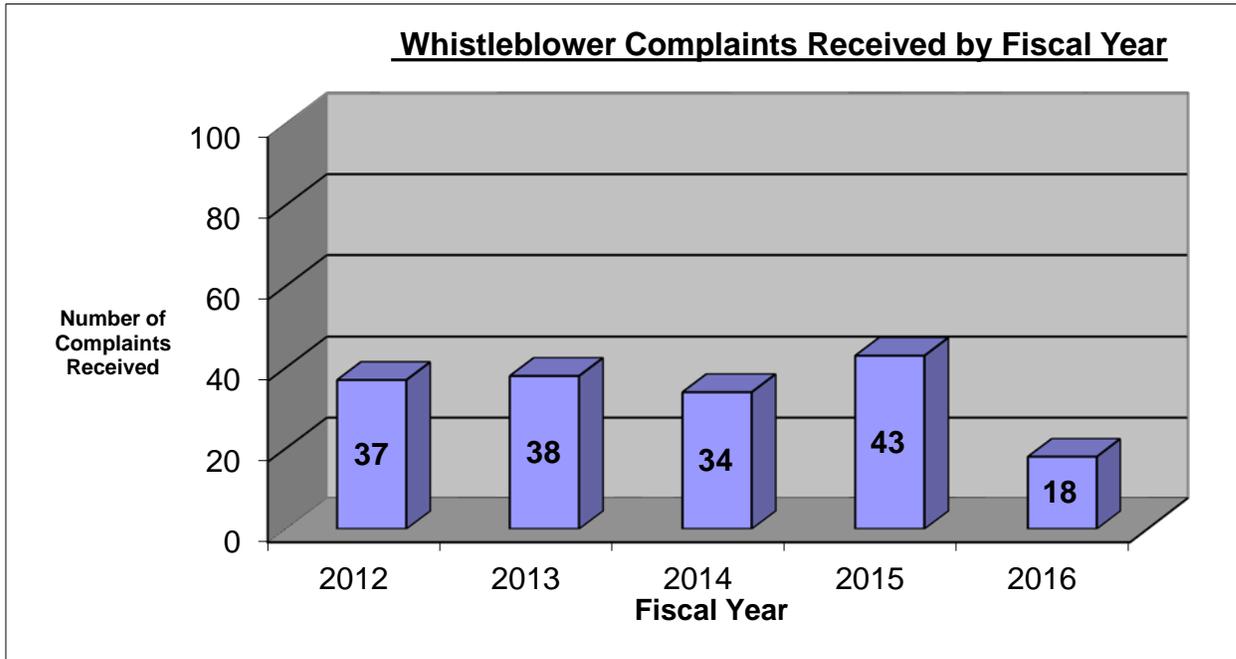
Whistleblower Matters:

The provisions of Section 4-61dd of the General Statutes, known as the Whistleblower Act, allow our office to receive complaints from anyone having knowledge of any matter involving corruption, unethical practices, violations of state laws or regulations, mismanagement, gross waste of funds, abuse of authority, or danger to public safety occurring in any state department or agency or quasi-public agency. Section 4-61dd also applies to state contracts in excess of \$5 million. We review all such whistleblower matters and report our findings and recommendations to the Attorney General. At the request of the Attorney General, or on our own initiative, we can assist in any continuing investigation. During the fiscal year ended June 30, 2016 we received 18 complaints covering such matters as alleged misuse of state funds, employee misconduct, personnel issues, and violations of federal or state law.

Section 4-61dd of the General Statutes requires an annual report on all whistleblower complaints, which our office prepared and filed on November 16, 2016 with the clerks of the House and Senate. By law, the identity of the complainant cannot be disclosed unless

authorized by the complainant or is otherwise unavoidable, but the general nature of each complaint is available from our office.

In addition to the confidentiality of the complainant, the records of any investigation of whistleblower matters are considered exempt records and do not require disclosure under the Freedom of Information statutes.



The following is a summary of those complaints received during the 2015-2016 fiscal year and the action taken thereon.

<u>Whistleblower Matters Received</u>	<u>Date</u>	<u>Date Reported To Attorney General</u>
<u>Agency/Subject</u>	<u>Date</u>	<u>General</u>
Agriculture		
Misuse of Funds	07/10/15	07/19/16
Banking		
State Employee/Union Elections ^	12/09/15	04/08/16
Chief Medical Examiner, Office of the		
Confidential Information	03/28/16	07/21/16

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date Reported To Attorney General</u>
Children and Families Complaint Process	07/31/15	03/08/16
Connecticut State Library Phone Calls	03/19/16	07/11/16
Correction Public Safety	07/10/15	04/11/16
Payroll Issues ^	03/25/16	*
Developmental Services Possible Violation of Federal Regulations	10/15/15	07/19/16
Overlapping Hours/Not Working Hours	04/05/16	07/11/16
Early Childhood, Office of Various Issues	12/14/15	*
Economic and Community Development State Employee/Union Elections ^	12/09/15	04/08/16
Emergency Services and Public Protection Purchasing and Inventory Issues	10/29/15	*
Labor Monitoring Process	11/05/15	07/28/16
State Employee/Union Elections ^	12/09/15	04/08/16
Naugatuck Valley Community College Alleged Improper Spending	04/19/16	08/22/16
Public Health Complaint Process	11/17/15	*
Social Services Misuse of Grant Funds	11/23/15	07/22/16

<u>Whistleblower Matters Received</u>	<u>Date</u>	<u>Date Reported To Attorney General</u>
<u>Agency/Subject</u>	<u>Date</u>	<u>General</u>
Transportation		
Improper Charging to Project	02/08/16	*
University of Connecticut		
Employee Not Working	12/01/15	06/29/16
Lack of Receipt Controls	05/06/16	07/18/16
University of Connecticut Health Center		
Payroll Issues ^	03/25/16	*
Total Complaints Received During 2015 - 2016		18
Total Complaints Subsequently Closed		13

* *Matters currently under review*

^ *Complaint involves more than one agency*

Generally Accepted Governmental Auditing Standards (GAGAS):

An audit consists of a review and examination of records, documents, and financial statements; the collection of information needed to certify the fairness of presentations in financial reports; compliance with statutory requirements and regulations; and evaluation of management's efficiency and effectiveness in carrying out responsibilities. Standards have been set by national organizations for the conduct of audits and for the preparation and issuance of audit reports. Generally Accepted Government Auditing Standards (GAGAS) are standards established by the United States General Accountability Office (GAO) that are codified into a publication entitled [Government Auditing Standards](#), which is more commonly referred to as the Yellow Book.

Although the standards prepared by the GAO are only required in connection with entities supported by or receiving federal assistance, they are so comprehensive that their application to all governmental audits is generally encouraged. Because the Auditors of Public Accounts in the State of Connecticut functions in many respects as the GAO does in the federal government, we have chosen to accept and follow government auditing standards in the performance of virtually all of our audit work.

Following GAGAS has had a significant impact on our operations. Continuing education for our professional staff, periodic internal and external quality control review assessments, and compliance with recent Statements on Auditing Standards (SAS) issued by the American

Institute of Certified Public Accountants (AICPA) require constant attention, updating of policies and procedures, and monitoring.

Continuing Education:

Auditors responsible for planning, directing, conducting or reporting on governmental audits must complete at least 80 hours of appropriate continuing education and training every two years, with at least 24 of those hours in subjects directly related to the governmental environment and governmental auditing. Accordingly, we follow a training policy statement that provides for reasonable assistance in the form of expanded training and seminars, together with tuition reimbursement programs for our employees taking appropriate courses. In order to provide more effective training to our auditors, this year's training program included contracted seminars, webinars, and self-study courses.

External Quality Control Reviews:

Generally Accepted Government Auditing Standards (GAGAS) mandate that governmental audit organizations have an external quality control review assessment, known as a peer review, every three years. To comply with this requirement, our office participates in the peer review program sponsored by the National Association of State Auditors, Comptrollers and Treasurers (NASACT). Under this program, NASACT provides a team of qualified government auditors from other states and the federal government to conduct a review of our quality control procedures. The teams are selected by NASACT from a pool of volunteer auditors that each participating state audit organization is obligated to provide.

Our most recent peer review was completed during August of 2016 and covered the one-year period of July 1, 2015 to June 30, 2016. The peer review team examined our quality control procedures to determine whether such procedures were sufficient to ensure that audits performed by our office during the review period were conducted in accordance with professional auditing standards. The resulting report gave our office a peer review rating of pass, which is the highest rating. The report concluded that the Auditors of Public Accounts suitably designed and complied with the system of quality control during the review period to provide our organization with reasonable assurance of performing and reporting in conformance with GAGAS in all material respects.

Our office is also expected to monitor its operations between peer reviews to ensure continuing effectiveness of the quality control system. An internal inspection of our office's system of quality control for the one-year periods ending June 30, 2017 and June 30, 2018, are scheduled to be conducted by our auditors during the summers of 2017 and 2018.

Our next external peer review, covering the one-year period ending June 30, 2019, is scheduled to be conducted during 2019.

Finally, external quality control reviews of our office's federal audit work are periodically conducted by representatives of various federal inspector general offices. Our 2016 peer review

team included a representative from the Department of Health and Human Services' Office of the Inspector General, who conducted a review of select work papers supporting our 2015 Single Audit of the State of Connecticut. While this federal review did not result in any audit deficiencies being cited, two matters for further consideration were informally conveyed to our management team highlighting areas in which improvements could be made in our single audit approach. As a result of this federal review, our office has implemented improvements in our single audit approach.

Recent Developments and Future Goals:

Our office is required to conduct audits of certain private special education providers in Connecticut, as mandated by Public Act 15-5 (June Special Session). Section 278(b)(2) of this act requires that such examination include a compliance audit to ensure that state and local funds are being expended in accordance with applicable state and federal laws as well as the individualized education program of each child receiving special education services. We will be providing an interim update of our operations in this area to the General Assembly. Our office has completed six such audits that are in the quality control review process and will be released in the near term. Other special education provider audits are in process.

One of our primary goals continues to be the modernization of our operations using current available technology. In line with this goal, our office endeavors to utilize information technology whenever possible.

During 2016, we expanded the usage of information technology in our audit work to be more efficient and effective. Technology has clearly become a more important part of how the state operates. State agencies use technology more than ever before in all facets of government, including accounting, inventory, payroll, purchasing, storage, and the delivery of front-line services.

In 2017, we plan to upgrade our information technology hardware, expand our use of data analytics, and explore other options to automate our business processes. We will continue to expand the level of support our IT Unit provides to our field audit teams to sort and aggregate data and trends in a manner that enhances the audit process. Furthermore, we will continue to evaluate the state's information technology structure for effectiveness and determine whether state systems adequately maintain the integrity of data, protect against breaches of privacy, and ensure proper safeguards are in place to protect against fraud.

In 2016, our office expanded efforts to provide more in-house continuing education to our auditors, providing certain educational materials and programs directly rather than contracting with outside providers. We believe that this provides our staff with quality training that is more relevant and less costly.

We have continued our office's participation in various professional organizations involved in governmental auditing. On the national level, we are actively involved with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and the National State Auditors Association (NSAA). Our state auditors and other members of our office serve on

various NASACT and NSAA committees. Regionally, we continue to be actively involved with the New England Intergovernmental Audit Forum (NEIAF). These affiliations enable our office to receive information affecting our profession, present educational opportunities for our employees, and provide valuable information sharing.

Our office has supported and encouraged our employees who have expressed an interest in serving professional audit organizations in various capacities. During 2016, a member of our management team served on the Governmental Accounting and Auditing Committee of the Connecticut Society of Certified Public Accountants (CTCPA), while one of our audit supervisors was appointed to the CTCPA Advisory Council for a one-year term starting in May 2016. One of our auditors, a certified public accountant, serves on the audit team that conducted NASACT's annual financial statement audit this past year and will continue to do so for the next two years. That staff member also served on a team conducting a peer review of the state of Oregon.

The past year was one of significant change in the office of the Auditors of Public Accounts. We will continue to find new ways to improve efficiency and enhance the professional reputation our office has always enjoyed.

SECTION II

RECOMMENDATIONS

Many recommendations of a financial or record-keeping nature are presented in the written audit reports prepared by our office. Most of these are addressed to agency heads and stress the need for compliance with legislative policies or sound accounting and business principles. Areas encountered in which statutory revisions or additional legislative actions appear desirable are presented to the General Assembly throughout the year and in the following recommendations.

- 1. The General Assembly should consider enacting legislation to amend Section 2-90 and Section 4-33a of the General Statutes to encourage timely reporting by agencies of matters that may be currently under investigation.**

Comment:

Under Section 4-33a of the General Statutes, 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 must promptly report to the Comptroller and the Auditors of Public Accounts any unauthorized, illegal, irregular or unsafe handling of state funds or other resources.

Section 2-90 of the General Statutes requires the Auditors of Public Accounts to immediately report the unauthorized, illegal, irregular or unsafe handling of state funds or the breakdown in the safekeeping of any resources of the state. Such incidents typically become known to the Auditors of Public Accounts in two ways – either through routine audits or by way of reports filed by agencies in accordance with Section 4-33a of the General Statutes.

When events that would otherwise be reported under Section 4-33a take place and the agencies determine that some type of investigation is warranted, agencies will frequently delay reporting these matters until the investigation is completed. The reluctance to report such cases can be attributed, at least in part, to the fact that our office is required to report these matters immediately in accordance with Section 2-90. The public reporting of a matter under investigation can hinder a review. Permitting the Auditors of Public Accounts to delay the public reporting of these cases until such time as the investigations are complete should dramatically improve timely compliance.

- 2. The General Assembly should consider enacting legislation to amend Section 4-33a of the General Statutes to allow the Auditors of Public Accounts flexibility in determining the manner in which agencies report matters with large numbers of reportable events in their normal course of business.**

Comment:

Under Section 4-33a of the General Statutes, 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 must promptly report to the Comptroller and the Auditors of Public Accounts any unauthorized, illegal, irregular or unsafe handling of state funds or other resources.

The type and frequency of events that can fall under the reporting requirements of Section 4-33a are many. Social service agencies that expend large amounts for public assistance may have erroneous benefit payments that can take place on a regular basis, although they are often recouped. Requiring agencies to report these incidents as they occur creates an administrative burden for the agencies and our office. In addition, some routine matters may not be reported. Giving the Auditors of Public Accounts the ability to authorize agencies to aggregate these incident reports would better serve the agencies without diminishing the value of the reporting requirement.

- 3. The General Assembly should consider limiting the conditions that may be used to justify a waiver from competitive bidding when services are procured under a personal service agreement. Limiting such conditions to those that are specifically presented within Section 4-215 of the General Statutes would accomplish that objective.**

Comment:

State agencies proposing to enter into personal service agreements costing more than \$20,000 are required to competitively bid for the services unless a waiver from competitive bidding is obtained from the Office of Policy and Management (OPM). Section 4-215 of the General Statutes specifies that waivers from competitive bidding can be granted by OPM when (1) services for which the cost to the state of a competitive selection procedure would outweigh the benefits of such procedure, as documented by the state agency, (2) proprietary services, (3) services to be provided by a contractor mandated by the general statutes or a public or special act, and (4) emergency services, including services needed for the protection of life or health.

In addition to the waiver conditions specified in Section 4-215, this section also provides OPM with the discretionary authority to adopt additional types of conditions that may qualify for such waivers. To date, OPM has used this authority to add conditions for (1) services that will be used in specific academic areas that include instructional or research activities, and (2) services that require a contractor with special capabilities or experience. This latter condition is an often-used condition for granting waivers from competitive bidding. Because this is an overly-broad exception that could conceivably be argued to exist for any personal service agreement entered into with a contractor somewhat experienced in a given field, its use may limit competition and effectively override attempts by the General Assembly to restrict the use of waivers from competitive bidding. Ultimately, whenever a competitive bid process is not used by a state agency, it cannot be determined whether the state agency received the most favorable price for the contracted service. Competitive bidding also helps to ensure that state contracts are awarded in a fair manner to vendors competing for state business.

- 4. The General Assembly should consider including agency human resources directors as mandated reporters of ethics violations, as required for others by Section 1-101pp of the General Statutes.**

Comment:

Section 1-101pp of the General Statutes currently requires agency commissioners and persons in charge of state agency procurement and contracting, who have reasonable cause to believe that a person has violated the provisions of the Code of Ethics for Public Officials, to report such to the Office of State Ethics.

Ethics violations very often pertain to human resources or personnel-related issues. However, human resources directors are not required to report these matters when they become aware of such violations. Human resources directors are often charged with conducting investigations of possible ethics violations. Therefore, it is logical that they be included in the list of mandated reporters.

5. **The General Assembly should consider an amendment to Section 4-37g subsection (b) of the General Statutes to allow the Auditors of Public Accounts to conduct a full audit of the books and accounts of any foundation established under that section, in accordance with the provisions of Section 2-90, if the foundation failed to have a full audit of its books and accounts as required under Section 4-37f (8) of the General Statutes. Also, the General Assembly should consider an amendment to Section 4-37f (8) of the General Statutes to require that the foundation's audit must be completed and the audit report issued within six months of the end of the foundation's fiscal year.**

Comment:

Currently, under Section 4-37g (b) of the General Statutes, if a foundation's audit report indicates that (1) funds for deposit and retention in state accounts have been deposited and retained in foundation accounts or (2) state funds, personnel, services or facilities may have been used in violation of Sections 4-37e to 4-37i, inclusive, or any other provision of the General Statutes, the Auditors of Public Accounts may conduct a full audit of the books and accounts of the foundation pertaining to such funds, personnel, services, or facilities, in accordance with the provisions of Section 2-90. There currently is nothing to address instances in which a foundation fails to have an audit conducted. Also, although Section 4-37f (8) of the General Statutes requires that a foundation shall have a full audit done, there is no mention of the timeliness for completion of the audit report.

This issue came to our attention during past audits of the Department of Public Health, issued on December 27, 2012 and October 30, 2013, that disclosed that the Connecticut Public Health Foundation, Inc. did not have a full audit completed for any fiscal year since its creation in March 2004. More recently, during an audit of the Department of Mental Health and Addiction Services, we became aware of an organization meeting the definition of a foundation that has been in existence since 1999 but has never been audited, as required by statute. We have also identified certain entities at the Department of Energy and Environmental Protection that support state parks and appear to fit the definition of a foundation that are not having audits performed on their behalf.

- 6. The General Assembly should consider an amendment to Section 5-164a subsection (c) of the General Statutes to reflect the policy changes implemented by the State Employees Bargaining Agent Coalition (SEBAC) agreements, Office of Labor Relations General Notices, Governor Rell's Executive Order No. 27-A, and Governor Malloy's Executive Order No. 3 related to rehired state retirees.**

Comment:

Connecticut General Statute 5-164a subsection (c) allows a retiree to be rehired on a temporary basis for 90 days per calendar year without reimbursing the retirement fund for all retirement income payments received during the period of reemployment. A SEBAC pension arbitration award in 1989 extended the period from 90 days to 120 days per calendar year. In addition, Governor Rell's Executive Order No.27-A, which was issued during October 2009, placed a limit of not more than two 120-day periods under the program for any individual retiree. This executive order also limited the compensation rate for rehired retirees, who were not covered by a collective bargaining agreement at the time of their retirement, to 75 percent of the hourly rate paid to such employees in their last pay period immediately prior to their retirement. Governor Malloy's Executive Order No. 3 allowed an extension for rehired retirees the first year of a new administration, provided the reemployment does not exceed 60 days.

Office of Policy and Management – Office of Labor Relations General Notice 2006-18 provided additional guidance to agencies reemploying retirees. It made clear that reemployed retirees should not be placed on personal service contracts, and the Office of Policy and Management would not approve a personal service agreement with a retiree. We noted one instance, however, in which a retiree collecting benefits formed a limited liability company to enter into a personal service agreement. In addition, state retirees have been hired by state contractors to work in positions similar to those from which they retired. Retirees rehired by these means cannot be monitored for compliance with the 120-day limitation and the salary limitation placed on rehired retirees who were not covered by a collective bargaining agreement at the time of their retirement. Also, it is not clear which state agency is responsible for tracking rehired retirees and recovering retirement benefits that are paid when a rehired retiree works for a time period that exceeds the allowable limit.

The Internal Revenue Code requires a bona fide severance of a retiree's employment to allow the retiree payment of a pension allowance during reemployment if under age 62. Furthermore, U.S. Treasury regulations provide that a termination of employment is based on whether the facts and circumstances indicate that the employer and employee reasonably anticipated that no further services would be performed after a certain date, or that the level of bona fide services the employee would perform after such date would permanently decrease to no more than 20 percent of the average level of services performed over the preceding 36-month period.

These requirements are not currently reflected within the General Statutes or other regulations. In order to provide state agencies with uniform guidance, the General

Statutes or other regulations should be amended to clarify what is acceptable rehiring policy and should be compliant with federal laws and regulations.

- 7. The General Assembly should consider revising Section 2-90b of the General Statutes to allow our office to conduct audits of security services reimbursements from the Bradley Enterprise Fund to the Department of Emergency Services and Public Protection on a biennial basis rather than an annual basis.**

Comment:

Pursuant to the provisions of Sections 1-122 and 2-90(c) of the General Statutes, our office is authorized to conduct certain of its audits on a biennial basis if deemed most economical and efficient. Given the limited scope of the audit provided for in Section 2-90b, it would be more efficient and cost effective if our office was allowed to conduct this audit on a biennial basis.

- 8. The General Assembly should consider modifying the existing procurement laws to include a requirement that the Auditors of Public Accounts review all requests from executive branch agencies anticipating a need for audit services to determine whether such services are necessary and could be provided by the Auditors of Public Accounts.**

Comment:

In accordance with Section 4-216 of the General Statutes, the Office of Policy and Management is required to obtain approval from the Auditors of Public Accounts prior to approving requests from executive branch agencies to engage firms for audit services using personal service agreements. This provision is applicable to purchases in excess of \$50,000.

When reviewing such requests, the Auditors of Public Accounts considers the cost, specific type of service requested, and existing workload to determine whether the desired service can be better provided by the auditors or whether it is duplicative with other services the auditors already perform or plan to perform.

Sections 4-214 and 4-215 of the General Statutes address personal service agreements costing less than \$20,000 and between \$20,000 and \$50,000, respectively. Similar approval requirements for the acquisition of audit services do not exist in those sections. However, the Office of Policy and Management has chosen to generally submit these requests to the Auditors of Public Accounts despite the absence of a statutory provision.

The Department of Administrative Services has authority under Sections 4a-50 and 4a-51 of the General Statutes to procure contractual services on behalf of all executive branch agencies. A recent opinion from the Attorney General has interpreted that authority to include all types of services. Contracts for audit services issued under this authority would not be required to be presented to the Auditors of Public Accounts for review, increasing the risk that the agencies could be requesting services unnecessarily. To reduce this risk, all state agency requests for auditing services should be subject to review by the Auditors of Public Accounts.

9. The General Assembly should consider amending Section 19a-80(c) of the General Statutes to change the background check requirement to a precertification process.

Comment:

Section 19a-80(c) of the General Statutes, as amended by Public Act 14-39, states that “The commissioner (of Early Childhood), within available appropriations, shall require each prospective employee of a child day care center or group day care home in a position requiring the provision of care to a child to submit to state and national criminal history records checks. The criminal history records checks required pursuant to this subsection shall be conducted in accordance with Section 29-17a. The commissioner shall also request a check of the state child abuse registry established pursuant to Section 17a-101k...”

Prior statewide single audit testing identified delays in responding to the background checks submitted for prospective child day care employees averaging approximately 150 days. The statute allows prospective employees to begin employment after submitting background check documentation.

The current system of processing background checks is flawed because some day care workers are employed for several months without a completed background check. The current system creates an unreasonable risk that unqualified individuals are providing child care services. Therefore, the General Assembly should consider adopting a precertification or license processing system for prospective employees similar to other professions monitored by the state.

10. The General Assembly should consider amending Section 4-61dd of the General Statutes, the state whistleblower law, to include probate courts.

Comment:

The whistleblower process is an effective component of internal control to help prevent and detect the risk of fraudulent or improper acts. Currently, Section 4-61dd provides a whistleblower process to state and quasi-public agencies and large state contractors. The Office of the Probate Court Administrator is included in those provisions as an agency within the judicial branch. However, it appears that the probate courts are not included in the process because the probate courts are not considered state agencies.

In our most recent report on the Office of the Probate Court Administrator, we recommended that the office implement a whistleblower process. The probate court, its employees, and the public would be better served if the existing whistleblower provisions were amended to include the probate courts.

- 11. The General Assembly should consider amending Section 38a-660 of the General Statutes to eliminate conflicting provisions pertaining to the lapsing of funds in the surety bail bond agent examination account.**

Comment:

Section 38a-660(k)(3) of the General Statutes, as amended by Public Act 11-45, established an account within the Insurance Fund for the deposit of fees collected from licensed surety bail bond agents to cover the costs of the examination of licensee books and records, as deemed necessary. The statute provides that the account be non-lapsing, yet the next sentence requires that monies remaining in the account at the close of the fiscal year shall revert to the General Fund. These provisions appear to be in conflict. In addition, fees are due on January 31st of each year, limiting the Insurance Department to a six-month window to make expenditures from the fund.

- 12. The General Assembly should revisit the Brokered Transactions Guaranty Fund established by Sections 38a-880 through 38a-889 of the General Statutes and determine whether it is reasonable to maintain \$500,000 in the fund when no claims have been paid from the fund in 19 years.**

Comment:

The Brokered Transactions Guaranty Fund was established by Sections 38a-880 through 38a-889 of the General Statutes to compensate residents aggrieved by licensed and unlicensed insurance producers. An aggrieved resident may seek up to \$10,000 in compensation due to any act of fraud or deceit by producers. The fund has maintained the statutory maximum balance of \$500,000 for an extended period of time, but there have been no claims made against this fund in the last 19 years.

The Insurance Department informed us that aggrieved parties have been compensated through negotiated settlements between the department and the insurance companies. The guaranty fund has always been seen as a source of last resort. Based on history and absent any changes to the statutory provisions, the \$500,000 capitalization level should be assessed for reasonableness.

13. The General Assembly should consider clarifying whether the State Fund Commission that administers the Soldiers', Sailors' and Marines' Fund is a public agency subject to freedom of information laws.

Comment:

Sections 27-138 through 27-140 of the General Statutes provide for the Soldiers', Sailors' and Marines' Fund to delegate the authority to administer that fund to the American Legion. The American Legion has established a subsidiary called the State Fund Commission for the purpose of carrying out the necessary provisions of the Soldiers', Sailors' and Marines' Fund, including the disbursement of funds.

The American Legion is clearly not a public agency for the purpose of the freedom of information laws. Those laws include the requirements to post meeting minutes, schedules of regular meetings for the ensuing year, or meeting agendas to the agency's website and file that information with the Office of the Secretary of the State. However, the State Fund Commission is essentially functioning as a public agency since it exists solely for the public purpose of administering a function that had previously been regarded as belonging to that of a state agency.

- 14. The General Assembly should consider restricting any payments related to non-disparagement agreements or those made by state agencies to departing state employees for the purpose of avoiding litigation unless such payment is made pursuant to (1) a settlement agreement entered into by the Attorney General on behalf of the state agency, or (2) an authorization by the Governor pursuant to section 3-7 of the General Statutes.**

The General Assembly should also consider restricting any language in a non-disparagement or settlement agreement that explicitly prohibits separating employees from the ability to exercise their rights under the state's Whistleblower Act or similar federal law.

Comment:

During the course of our audits, we have found large payments made by state agencies to departing state employees. Upon further investigation and discussion with agency personnel, we determined that the payments (many of which were in excess of \$100,000), were made for the purpose of avoiding costs associated with litigation or as part of non-disparagement agreements.

Based upon our review of the employment files made available to us, we determined that certain payments were made to departing employees that were not in accordance with a settlement agreement entered into by the Attorney General on behalf of the state agency, or an authorization by the Governor pursuant to section 3-7 of the General Statutes. Requiring adherence to these statutory provisions will assist in protecting the state's interests by providing independent scrutiny of these payments and consistency among state agencies.

Departing state employees who are party to a non-disparagement or settlement agreement should not have their rights as a state or federal whistleblower undermined by such an agreement. We recommend that the General Assembly consider requiring that any such agreement expressly states that the former employee retains a right to whistleblower status.

- 15. The General Assembly should consider enacting legislation to include provisions within Title 8, Chapter 127c of the General Statutes to prohibit the disclosure of the names or any information concerning applicants for or recipients of assistance from the Department of Housing, unless directly related to the administration of the assistance program.**

Comment:

Public Act 12-1 of the June 12th Special Session established the Department of Housing (DOH) and made it the lead state agency responsible for all housing matters. Public Act 13-234, effective July 1, 2013, completed the establishment of DOH by transferring to it various housing-related responsibilities from the Department of Economic and Community Development (DECD), the Office of Policy and Management (OPM), and the Department of Social Services (DSS). Under the act, DOH generally assumed responsibility for programs concerning affordable housing development and financing, individual and group housing, rent subsidies, eviction and foreclosure prevention, shelter provision and transitional living, and home ownership.

Prior to the transfer of numerous housing-related programs from DSS, Section 17b-90 of the General Statutes prohibited the improper or unauthorized disclosure of names and information of program applicants and participants. In the process of establishing DOH, the specific provision to prevent the disclosure of program applicant and participant information was not replicated within Title 8, Chapter 127c of the General Statutes related to DOH. Legislation should be considered to provide the same protections to DOH program applicants and participants as was previously provided under Section 17b-90 of the General Statutes when DSS administered the programs.

- 16. The General Assembly should consider amending Sections 4-33a and 36a-701b of the General Statutes to require state agencies to notify the Auditors of Public Accounts and the Attorney General when breaches involving personally identifiable information occur.**

Comment

During the course of our audits, we identified instances in which state agencies have experienced security breaches involving personally identifiable information. Section 4-33a of the General Statutes requires state agencies to promptly report the breakdown of the safekeeping of resources to the Auditors of Public Accounts and the State Comptroller, but does not specifically address personally identifiable information. Similarly, although Section 36a-701b of the General Statutes requires that persons conducting business in the state report certain breaches in security involving computerized personally identifiable information to the Attorney General, it is unclear whether state agencies have a similar reporting obligation.

17. The General Assembly should consider repealing Section 32-605(b) of the General Statutes to eliminate a redundant compliance audit of the Capital Region Development Authority.

Comment

Section 1-122 of the General Statutes requires the Auditors of Public Accounts to biennially conduct a compliance audit of the activities of each quasi-public agency, including the Capital Region Development Authority. These audits are to determine whether each quasi-public agency has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants, and other financial assistance.

Section 32-605(b) of the General Statutes requires the board of directors of the Capital Region Development Authority to annually contract for a compliance audit of the authority's activities. Such audit shall determine whether the authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, and the use of surplus funds.

The audit conducted by the Auditors of Public Accounts in accordance with Section 1-122 of the General Statutes already includes the subject matter areas of the audit required in accordance with Section 32-605(b) of the General Statutes. Therefore, the audit requirement under Section 32-605(b) of the General Statutes should be eliminated to prevent duplication of effort and unnecessary expenses being incurred by the authority.

Technical Corrections and Other Matters

- a. Section 1-123, subdivision (4), of the General Statutes provides that the annual reports of quasi-public agencies include “a balance sheet showing all revenues and expenditures.”

A balance sheet, however, is only intended to reflect assets and liabilities of an entity at the time they are produced. Operating statements typically reflect an entity’s revenues and expenditures over a period of time. Amending this section to refer to a balance sheet and an operating statement would help to resolve this inconsistency.

- b. Effective April 27, 2000, the State Marshal Commission was created to partially replace the Office of the County Sheriffs. Certain statutes pertaining to the sheriffs appear to have remained despite their obsolescence. They are as follow:

- Section 6-33 – Salaries
- Section 6-33a – Reimbursement to state for use of motor vehicle owned or leased by state, when.
- Section 6-36 – Removal from office by General Assembly
- Section 6-38j – Appointment or removal of deputy sheriff or special deputy sheriff on or after December 1, 2000
- Section 6-38l – Acts prohibited with respect to high sheriffs in the solicitation of contribution or expenditure, committees and referenda.
- Section 6-43 – Special deputies

The General Assembly should consider repealing certain obsolete legislation pertaining to the Office of the County Sheriffs under Title 6 of the General Statutes.

- c. Section 38a-1051 of the General Statutes established the Commission on Health Equity and placed it within the Office of the Healthcare Advocate for administrative purposes only. The Office of the Healthcare Advocate is within the Insurance Department for administrative purposes only. Section 4-38f subsection (b) provides that agencies designated an *administrative purposes only* relationship should be assigned to “departments” as specified in Section 4-38c. The Office of the Healthcare Advocate is not included in the list of designated agencies. To clarify the relationship between the three agencies, the Commission on Health Equity should be assigned to the Insurance Department for administrative purposes only.
- d. Section 2-90b of the General Statutes requires our office to, “conduct an audit of reimbursements made from the Bradley Enterprise Fund to the Department of Emergency Services and Public Protection to cover the cost of Troop W operations...”

The Department of Emergency Services and Public Protection merged Troop W into Troop H, effective March 9, 2012. As such, the reference to Troop W within section 2-90b should be changed to Troop H.

Recently Adopted Recommendations

- a. The General Assembly should consider enacting legislation to improve Connecticut's whistleblower law to better protect whistleblower complainants from retaliation and to provide the Auditors of Public Accounts with some measure of flexibility so that it can better determine the cost-effective manner in which to proceed on complaints. Such flexibility should include the ability to refer a complaint to another unit of state government, which has already been assigned responsibility for addressing a given type of complaint, as well as the discretion to address trivial or other complaints that fail to meet certain minimal criteria. (2010)
- b. The General Assembly should consider providing all state regulations online for public access, as is currently done with the state statutes. (2011)
- c. The General Assembly should consider clarifying the provisions of Section 2-90, 4-61dd, and/or Section 12-15 of the General Statutes to provide the Auditors of Public Accounts access to confidential tax information when reviewing matters that arise from whistleblower investigations. (2014)
- d. The General Assembly should consider an amendment to Section 32-605 of the General Statutes to eliminate redundant audit requirements for the Capital Region Development Authority. (2014)
- e. The General Assembly should consider enacting legislation to amend Section 32-657 of the General Statutes to relieve the Auditors of Public Accounts from the responsibility of auditing the Rentschler Stadium Enterprise Fund and other accounts holding state monies associated with the stadium facility. (2014)