



2017 Annual Report

to the Connecticut General Assembly



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

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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JOHN C. GERAGOSIAN

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January 30, 2018

Members of the General Assembly:

We hereby submit the annual report on the operations of the office of the Auditors of Public Accounts (APA) 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 the APA has always enjoyed. We describe these achievements in Section I of this report. General information on the operations of our office also appear in that section. Pursuant to the provisions of Section 2-92 of the General Statutes, this report includes several recommendations in Section II for your consideration during the upcoming legislative session.

Our website, which is located at www.cga.ct.gov/apa, includes additional information on the operations of our office. 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 we distribute copies of our reports 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.

Respectfully submitted,

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

John C. Geragosian
Auditor of Public Accounts

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

Robert J. Kane
Auditor of Public Accounts

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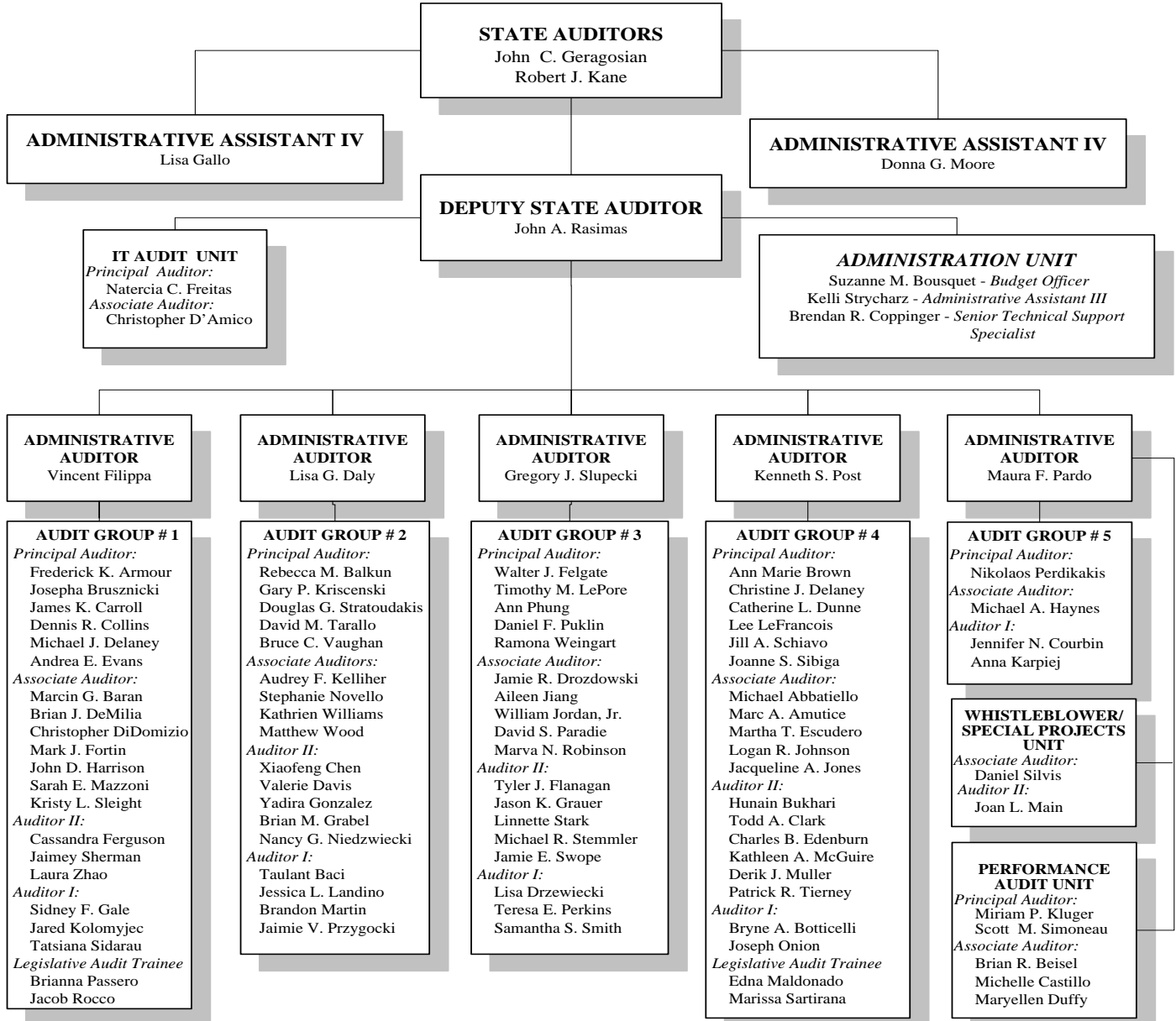
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SECTION I

AUDITORS OF PUBLIC ACCOUNTS ORGANIZATIONAL STRUCTURE *as of December 31, 2017*



REPORT ON THE OPERATIONS OF OUR OFFICE

Message from State Auditor Robert J. Kane

On February 3, 2017, I had the honor of becoming State Auditor. Looking back, there was so much to learn when I joined the Auditors of Public Accounts (APA), but with the help of fellow State Auditor John Geragosian and our amazing team, the transition was rather smooth. Learning the “ins and outs” did not take long, as support from throughout the agency was overwhelming. The incredibly talented and dedicated APA staff are professional and committed to the work they do for our state. We are the General Assembly’s “eyes and ears” inside state agencies and thrive on working to make state government more accountable and efficient.

In my nine years in the State Senate, I wish I had interacted with the APA more. Serving in my new role, I now realize what a valuable resource our office is for legislators and legislative employees. We can assist them as they shape fiscal policy for years to come. Our work is crucial to the stability of our state’s finances, securing federal funding, and ensuring state agency compliance. The work we do on whistleblower cases, in conjunction with the Attorney General, provides all citizens the opportunity to expose waste, fraud and corruption without threat of retaliation.

Being the only state to have two state auditors from differing parties creates a bipartisan office that eschews partisan politics and promotes fairness and transparency. As budget constraints and fiscal matters continue to dominate the debate, now more than ever the APA can be a true partner with the legislature in preserving state resources, protecting taxpayer dollars, and acting as the watchdog over fiscal matters.

We continually work to build these relationships and, in a short period of time, we have already surveyed our stakeholders to better serve them. We are redeveloping our website and improving the look of our reports. With these improvements, the APA seeks to build on our already exemplary reputation among government agencies and encourage greater communication with those we serve. I look forward to what 2018 has to offer for the APA and am excited about furthering the work 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 2 state auditors, not of the same political party, makes Connecticut unique among state auditing agencies. Connecticut’s audit function has been performed by more than a single auditor since its colonial origin.

The office of the Auditors of Public Accounts presently consists of 104 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 96 auditors organized into 5 audit groups with each group under the general direction of an administrative auditor. Included within these groups are a Performance Audit Unit consisting of 5 auditors and an Information Systems Audit Unit consisting of 2 auditors. The Administration Unit has 3 employees providing administrative assistance to the office, support services to the field audit teams, and report processing services.

Our office hires professional auditing staff through a competitive selection process. Our office promotes our auditors using 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 audit staff have met relevant professional certification requirements and 47 have advanced degrees.

Auditing State Agencies

During 2017, our auditors completed 29 audits of state and quasi-public agencies and made 398 audit recommendations. During the past calendar year, these agencies have implemented approximately 43% of our prior 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, and the Attorney General. We report these matters in our audit reports or by formal letter. We collectively report less serious matters such as minor losses and acts of vandalism. State loss reports filed in 2017 with this office and the State Comptroller, in accordance with Section 4-33a of the General Statutes, disclosed approximately 308 losses, primarily through theft, vandalism, and inventory shortages involving an aggregate loss of \$1,966,360.

In December 2017, our office issued its audit opinion on the state's financial statements for the fiscal year ended June 30, 2017, as presented by the Office of the State Comptroller in the state's Comprehensive Annual Financial Report. In addition, during March 2017, our office issued its annual Statewide Single Audit Report for the State of Connecticut covering the fiscal year ended June 30, 2016. This report included the audited financial statements presented in the state's Comprehensive Annual Financial Report and the

schedule of federal expenditures of federal awards received by the state. We conduct this audit under requirements of the federal Single Audit Act and is a condition for the state to receive some \$9,380,000,000 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 2017, we were required to give 7 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.

We disclose audit findings to agency officials during the audit, and share draft copies of audit reports with agency officials for their comments. We include agency responses to each audit finding in the report. 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 evidence collected during the course of the audit supports the findings in the report. The deputy state auditor and both state auditors then review the report to ensure compliance with policies and procedures of this office. Our office gives draft copies of the approved audit report to agency officials and, when the agency requests, our auditors hold an exit conference with agency 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, Governor, Lieutenant Governor, Comptroller, Treasurer, Attorney General, Secretary of the Office of Policy and Management, Connecticut State Library, designated federal agencies, news media and, when appropriate, members of boards and commissions and others. We also post copies of all reports on 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 2017 and the number of recommendations included in each report follows:

Recommendations

<u>Imple- Report</u>	<u>Date of Reports mented</u>	<u>Current Issue</u>	<u>Prior Report</u>	
DEPARTMENTAL AUDITS:				
Elected Officials:				
State Comptroller – State Retirement Funds	08/31/17	16	17	7
Attorney General	09/20/17	2	5	3
State Comptroller – Financial Operations	12/29/17	1	1	0
State Treasurer – Financial Operations	12/29/17	1	0	0
General Government:				
Department of Administrative Services	06/01/17	30	59	30
Department of Veterans’ Affairs	11/18/17	9	6	2
Division of Criminal Justice	11/30/17	9	6	1
Regulation and Protection of Persons and Property:				
Office of Protection and Advocacy for Persons with Disabilities	03/29/17	2	5	2
Military Department	06/21/17	11	8	4
Department of Banking	08/10/17	10	1	1
Department of Consumer Protection	09/07/17	6	16	9
Conservation and Development:				
Department of Economic and Community Development	02/16/17	18	15	3
Connecticut Agricultural Experiment Station	03/28/17	2	2	1
Health and Hospitals:				
Office of the Chief Medical Examiner	02/22/17	6	5	4
Department of Public Health	05/24/17	29	20	1
Department of Mental Health & Addiction Services	06/22/17	10	12	2
Department of Developmental Services	07/12/17	14	6	4
Transportation:				
Department of Transportation	04/26/17	32	12	7
Higher Education, Board of Regents:				
Southern Connecticut State University	02/15/17	15	19	7
Western Connecticut State University	09/13/17	12	19	10
Connecticut State University System Office	11/28/17	4	11	8
Connecticut Community College System	12/19/17	25	25	11
Other Education:				
Department of Education	05/04/17	40	14	4

<u>Recommendations</u>	<u>Date of</u> <u>Reports</u> <u>mented</u>	<u>Current</u> <u>Issue</u>	<u>Prior</u> <u>Report</u>	
<u>Imple-</u> <u>Report</u>				
DEPARTMENTAL AUDITS:				
Correction:				
Department of Correction	05/10/17	13	6	1
Quasi-Public Agencies:				
Connecticut Health and Educational Facilities Authority	10/11/17	<u>2</u>	<u>3</u>	<u>3</u>
Total Recommendations – Departmental Audits		<u>319</u>	<u>293</u>	<u>125</u>
OTHER AUDITS:				
STATEWIDE AUDITS:				
State of Connecticut – Federal Single Audit	03/31/17	77	85	38
SPECIAL REVIEWS:				
State Employees Campaign	03/21/17	0	0	0
CCSU – National Collegiate Athletic Association	10/05/17	N/A	N/A	N/A
OTHER FINANCIAL STATEMENT AUDITS:				
Charter Oak State College Foundation	12/07/17	<u>2</u>	<u>2</u>	<u>0</u>
Total Recommendations – Other Audits		<u>79</u>	<u>87</u>	<u>38</u>
Total Recommendations – All Audits		<u>398</u>	<u>380</u>	<u>163</u>
Recommendations Resolved Within Current Audit Cycle			<u>43%</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 we find instances of noncompliance. A summary analysis of the recommendations appearing in our audit reports follows:

**Number of
Recommendations**

Internal Control Recommendations:

Bank accounts, cash accounts, and petty cash funds	5
Billings and receivables	21
Budgeting and cost allocation/capital projects/encumbrances	3
Cash management and cash handling and depositing	8
Cash receipts	4
Computer operations	11
Employee fringe benefits	1
Cash disbursements/expenditure processing	5
Equipment/supplies inventories	32
Financial reporting and accounting	12
General accounting and business office functions	10
Federal/State grant and loan programs	7
Insurance and risk management	2
Internal audit/internal reviews	6
Miscellaneous state programs	2
Payroll and personnel controls	23
Personnel administration	13
Purchasing of goods and/or services	17
Grantee/subgrantee monitoring	6
Welfare, activity and other state funds	5
Establishment or amendment of written policies and procedures	<u>8</u>
Total Internal Control Recommendations	<u>201</u>

Compliance Recommendations:

Accounting/budgeting/records retention laws and regulations	8
Contractual agreements	6
Miscellaneous laws	10
Miscellaneous regulations and/or policies	23
Payroll and personnel laws and regulations	18
Ethics/FOI/Public meeting laws and regulations	7
Purchasing laws and regulations	11
Reporting laws and regulations	8
State retirement laws	3
State travel policies and regulations	<u>7</u>
Total Compliance Recommendations	<u>101</u>

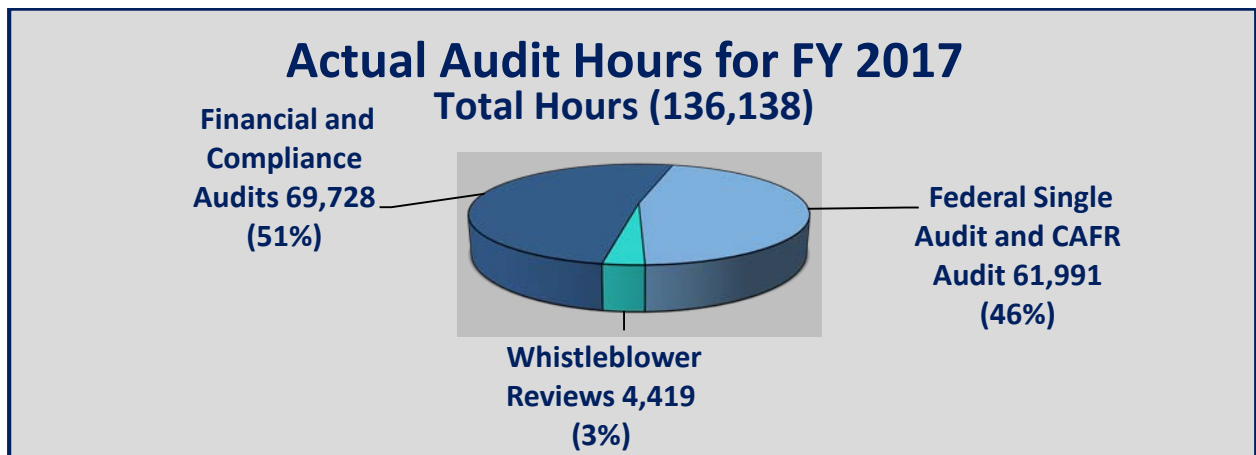
Miscellaneous Recommendations:

Attorney General/FOI opinion and/or legal action	2
Computerization or automation of agency function	8
Inefficient administrative practices	6
Resolve questioned costs	<u>1</u>
Total Miscellaneous Recommendations	<u>17</u>

Total Departmental Audit Recommendations**319**

In addition to the departmental audit recommendations mentioned above, our office issued a Statewide Single Audit Report, which contained 77 audit recommendations calling for various improvements in controls over state-administered federal programs and compliance with related laws and regulations. We also performed financial statement audits at the University of Connecticut and the University of Connecticut Health Center. Our office also issued one other financial statement audit report and two special reviews during 2017.

During the fiscal year ended June 30, 2017, our office expended 136,138 audit hours. The following chart provides a breakdown of these audit hours:



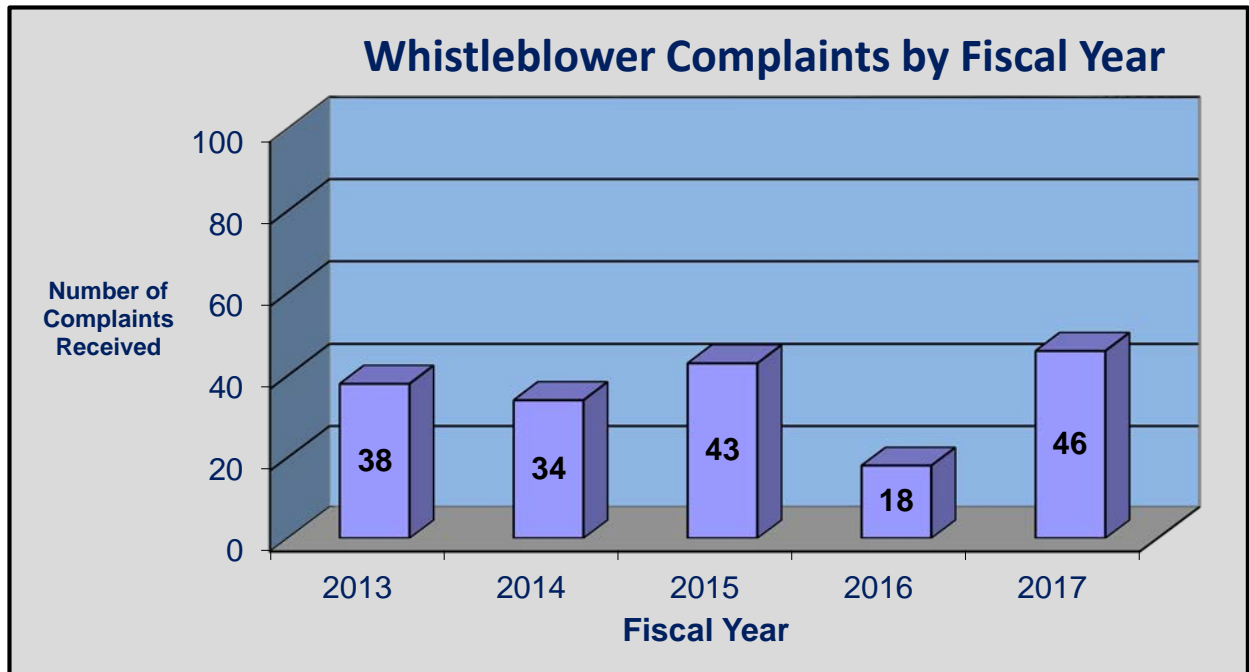
Our federal Single Audit work generated approximately \$2.4 million in federal reimbursement to the state’s General Fund during the 2016-2017 fiscal year. The state realizes these recoverable costs through a state-prepared statewide cost allocation plan approved by the federal government each year. In accordance with this plan, the state charges our office’s Single Audit costs to the federal programs in which the state participates. 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, 2017, we received 46 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 August 30, 2017 with the clerks of the House and Senate. By law, our office cannot disclose the identity of the complainant unless the complainant authorizes us or it 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 2016-2017 fiscal year and the action taken thereon.

<u>Whistleblower Matters Received</u> <u>Agency/Subject</u>	<u>Date</u>	<u>Date Reported To Attorney General</u>
Banking Mistreatment of employees	03/31/17	*
Children and Families Operating and administrative failures	03/24/17	10/12/17
Employees inappropriately benefitting from their position	05/26/17	*

<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>
Correction		
Covering up of investigation	07/08/16	10/10/17
Correctional Industries – Multiple issue	02/21/17	*
Wasted resources and unhealthy conditions	04/24/17	*
Consumer Protection		
Management interference in investigation of pharmacy	04/01/17	*
Developmental Services		
Attendance issues and misuse of overtime hours	04/30/16	12/04/17
Fraudulent claims that services were provided	03/17/17	10/16/17
Economic and Community Development		
Loan administration and reporting issues	04/17/17	*
Energy and Environmental Protection		
Lack of proper investigation and conflict of interest	07/08/16	*
PURA - extended dockets and legal fees	08/03/17	*
Emergency Services and Public Protection		
Not reviewing complaints	08/23/16	08/08/17
Vehicle purchases and allocation	04/30/17	*
Grant fund misappropriated by municipality and conflict of interest	04/06/17	*
Freedom of Information		
Mismanagement and abuse of state resources	05/19/16	*
Higher Education		
Middlesex CC – Title IV violations and lack of audit	04/21/17	07/25/17
CCSU – Improper awarding of faculty release time	02/28/17	*
Housatonic CC – Denial of an education	04/26/17	*
Housing		
Mismanagement of rebuilding funds	07/28/16	12/04/17

<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>
Judicial		
Unfair allocation of work and hostile work environment	05/02/17	*
Large State Contractor		
Improper charges to state grant	07/21/16	*
Legislative Management		
Mailings	07/05/16	10/16/17
Misuse of data	09/02/16	05/01/17
Military		
Misuse of equipment and materials	07/07/16	04/13/17
Mental Health and Addiction Services		
Improper spending and unethical behavior	09/02/16	12/04/17
Falsification of time and collusion	03/17/17	*
Motor Vehicles		
Falsification of time and collusion	02/07/17	10/16/17
Public Safety		
CT Fire Academy – Work schedules and personnel issues	05/10/17	*
Social Services		
Acquired Brain Injury Waiver Program improper review	07/21/16	08/07/17
Abuse of overtime and work practices	07/30/15	05/01/17
Security issues and campaigning in the workplace	04/03/17	*
Child Support Services used invalid document to garnish wages	06/07/17	*
Transportation		
No work jobs	11/08/16	01/11/18
Falsification of time	03/17/17	07/19/17
University of Connecticut		
Inappropriate promotions or appointments	10/09/16	07/19/17

<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>
Research lab – Personnel and promotional issues	11/16/16	*
University of Connecticut Health Center		
Abuse of union leave time	05/31/17	01/16/18
Malfunctioning equipment	04/19/17	*
Total Complaints Received During 2016 - 2017		46
2016 – 2017 Complaints Closed		19
Prior Year Complaints Closed During 2016 – 2017		16

* *Matters currently under review*

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. National organizations set standards 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, in 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 2 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 training that is more effective 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 3 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. NASACT selects the teams from a pool of volunteer auditors that each participating state audit organization is obligated to provide.

The peer review team completed our most recent peer review 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 our office conducted audits during the review period 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 required to monitor its operations between peer reviews to ensure continuing effectiveness of the quality control system. Two of our auditors completed an internal inspection of our office's system of quality control for the period ended June 30, 2017 in November 2017, and an inspection for the period ended June 30, 2018, will be scheduled to be conducted by our auditors in 2018.

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

In addition, representatives of various federal inspector general offices periodically conduct an external quality control review of our office's federal audit work. 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 cite any audit deficiencies, the reviewer informally conveyed 2 matters for further consideration to our management team, highlighting areas in which our office could make improvements in our single audit approach. Because of this federal review, our office implemented these improvements.

Recent Developments and Future Goals

Special Education Audits

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). Connecticut General Statutes 10-91g 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 provided an interim update of our operations in this area to the General Assembly in February of 2017. Our office has completed 7 audits of private special education providers that are in the quality control review process and will be released during the 2018 legislative session.

In the 2017 legislative session, Public Act 17-173 changed the frequency of our private special education provider audits and required boards of education and private providers to provide our office with any information necessary to conduct the audits. Under the act, our office was given the discretion to conduct these audits as often as we deem necessary using a risk-based approach rather than auditing each provider at least once every seven years as required by the original law.

Evaluations and Performance Audits of Economic Development Programs and Tax Incentives

Public Act 17-226, An Act Concerning Evaluation of Business Assistance and Incentive Programs, requires the Department of Economic and Community Development (DECD) to include an economic impact analysis of all state economic development programs in its annual report to the General Assembly. The act requires our office to issue a new report assessing that DECD analysis each time our office audits DECD. The act also requires our office to conduct a performance audit that must examine the extent to which the state's tax incentive programs are achieving their statutory purposes. The performance review can occur as part of a regular audit or as a separate audit. Our office can conduct these audits according to generally accepted government auditing standards or other methods our office deems appropriate.

Improving Information Technology Capabilities and Oversight

In 2017, we upgraded our information technology hardware and expanded our use of data analytics. 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.

Continuing Profession Education and Development

In 2017, our office utilized additional in-house continuing education for our auditors, providing certain educational materials and programs directly rather than contracting with outside providers. This afforded our staff with quality training that is more relevant and affordable by saving taxpayer dollars.

Our office participates 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 supports and encourages our employees to serve in professional audit organizations in various capacities. A member of our management team is on the Governmental Accounting and Auditing Committee of the Connecticut Society of Certified Public Accountants (CTCPA), while one of our audit supervisors serves on the CTCPA Advisory Council. One of our auditors, a certified public accountant, served on an audit team that conducted the NASACT annual financial statement audit this past year. That staff member also served on a team conducting a peer review of the state of Utah.

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 internal control 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 the investigations are complete should dramatically improve timely compliance by the agencies.

- 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, agencies may not report some routine matters. 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 they obtain a waiver from competitive bidding 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 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 state agency does not use a competitive bid process, it cannot be determined whether the state agency received the most favorable price for the contracted service. Competitive bidding also helps to ensure that the state awards contracts to vendors competing for state business in a fair manner.

- 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 often conduct 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 (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 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. Although Section 4-37f (8) of the General Statutes requires a foundation to perform a full audit, there is no mention of when the foundation's auditor must complete 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 performed a statutorily required audit. 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.

Our most recent audit of the Office of the Secretary of the State revealed that the Connecticut Citizen Foundation has not had a full audit of its books and accounts since the 2010-2011 fiscal year.

- 6. The General Assembly should consider an amendment to Section 5-164a (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 (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, 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 not covered by a collective bargaining agreement at the time of their retirement to 75% 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 enter into personal service contracts with the state, and the Office of Policy and Management would not approve a personal service agreement with a retiree. We noted 1 instance, however, in which a retiree collecting benefits formed a limited liability company to enter into a personal service agreement. In addition, state contractors have hired state retirees to work in positions similar to their state position. State agencies cannot monitor retirees rehired by these means for compliance with the 120-day limitation and the salary limitation placed on rehired retirees not covered by a collective bargaining agreement at the time of their retirement. It is also not clear which state agency is responsible for tracking rehired retirees and recovering retirement benefits paid when a rehired retiree exceeds the allowable time 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.

Our office issued its most recent audit of the Office of the State Comptroller Retirement Division, “*State Comptroller – State Retirement Funds and State Employee and Retiree Benefits 2012, 2013, and 2014*” in August of 2017. The audit revealed several instances in which state agencies reemployed retirees for more than 2 years, reemployment periods exceeded 120 days, the rate of pay exceeded the 75% limit, or the employees did not have a true separation of service. The audit recommended that the division work with state agencies to strengthen controls over the tracking process to ensure compliance with the various restrictions put on pay and length of service. We recommended that the division should attempt to identify all instances in which rehired retirees exceeded the allowed 120-day working period and recoup the retirement benefits paid out to those employees during their time of state reemployment. Lastly, we also recommended that the division should consider implementing a policy that forecloses the reemployment of retirees within a specified time (e.g. 180 days).

These requirements and recommendations currently are not reflected within the General Statutes or other regulations. In order to provide state agencies with uniform guidance, the state should amend the General Statutes or state regulations to clarify acceptable rehiring policies and compliance with federal laws and regulations.

- 7. The General Assembly should consider revising Section 2-90 (b) 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:

Sections 1-122 and 2-90 (c) of the General Statutes authorize our office to conduct certain audits on a biennial basis if deemed most economical and efficient. Given the limited scope of the audit provided for in Section 2-90 (b), 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 if the Auditors of Public Accounts could provide this work.**

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 auditors can better provide the desired service 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 generally submitted 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 are not subject to the Auditors of Public Accounts' 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...”

Our office identified delays in obtaining background checks submitted for prospective child day care employees (averaging approximately 150 days) in several state and federal audits. Current law allows prospective employees to begin employment after submitting background check documentation, but before receiving the results of the background check.

Public Act 17-2 of the June Special Session (Section 174) stated “No such prospective employee shall have unsupervised access to children in the child care center or group child care home until such comprehensive background check is completed and the Commissioner of Early Childhood permits such prospective employee to work in such child care center or group child care home.” This is a step in the right direction.

However, there are still flaws in the current system of processing background checks because some day care centers employ childcare workers for several months without a completed background check. The current system creates an unreasonable risk that unqualified individuals are providing childcare 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 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.

- 11. 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 it has paid no claims in 20 years.**

Comment:

Sections 38a-880 through 38a-889 of the General Statutes established the Brokered Transactions Guaranty Fund 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, but there have been no claims made against this fund in the last 20 years.

The Insurance Department informed us that aggrieved parties receive compensation through negotiated settlements between the department and the insurance companies. The department has always viewed the guaranty fund as a source of last resort. However, based on history and absent any changes to the statutory provisions, the state should assess the \$500,000 capitalization level for reasonableness, or transfer the monies to a fund that benefits aggrieved consumers.

- 12. 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, agencies claim that they made these payments (many of which were in excess of \$100,000) to avoid 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 made to departing employees 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.

This past year, our office reviewed several issues surrounding the Connecticut State Lottery's transition agreement with its former president and CEO. This arrangement cost taxpayers hundreds of thousands of unnecessary expenses and is another glaring example of why these arrangements require third-party scrutiny.

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 state that the former employee retains a right to whistleblower status and the right to cooperate in any inquiry related to their agency.

- 13. The General Assembly should consider amending Section 4-33a of the General Statutes to require state agencies to notify the Auditors of Public Accounts when breaches involving personally identifiable information or private health information occur by the agencies or their contractors.**

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 or private health information.

14. 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 conduct a compliance audit of the activities of each quasi-public agency, including the Capital Region Development Authority biennially. 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 areas 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 incurred by the authority.

15. The General Assembly should consider amending Part III of the State Code of Ethics to allow the Office of State Ethics to receive complaints and investigate alleged violations of state or quasi-public agencies retaining lobbyists, as prohibited by 1-101bb of the Connecticut General Statutes.

One of the questions we encountered during our review of procurement at the Connecticut Technical High School System (CTHSS) was whether the system had hired a firm to act as its lobbyist. CGS 1-101bb prohibits state or quasi-public agencies from hiring a lobbyist, as defined in CGS 1-91.

We discovered that no state agency possesses the authority to receive complaints and investigate potential violations of this statute. The Office of State Ethics is the agency best suited to conduct an investigation on whether a state or quasi-public agency retained a lobbying firm, but it lacks the authority to conduct such an investigation.

The General Assembly should consider granting the Office of State Ethics the authority to receive complaints regarding these matters and investigate them for possible violations.

- 16. The General Assembly should consider amending Section 4-37f (8) of the General Statutes to increase the threshold for requiring an annual audit of foundations established for the principal purpose of supporting or improving a state agency from \$ 100,000 to \$ 250,000.**

The \$100,000 threshold went into effect in 1986. Adjusted for inflation, we estimate that the \$100,000 threshold established for 1986 would equal approximately \$224,000 in today's dollars. Increasing the threshold would relieve smaller foundations of the financial burden associated with procuring audit services. Additionally, consideration should be given to changing the language of Section 4-37f from "receipts and earning from investments" to "receipts or revenue from all sources."

Technical Corrections and Other Matters

- a. Section 1-123 (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 complete set of financial statements 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 2-90 (b) 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 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. (2017 PA 17-177 Sec. 1)
- b. The General Assembly should consider clarifying whether the State Fund Commission that administers the Solders', Sailors' and Marines' Fund is a public agency subject to freedom of information laws. (2017 PA 17-189 Sec. 1)
- c. Amend the Statutory Provisions of the State Whistleblower Law to include Probate Courts. (2017 PA 17-136 Sec. 1)
- d. 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 PA 14-227 Sec. 1)
- e. 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 PA 14-227 Sec. 2)
- f. 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 PA 14-227 Sec. 3)