



2018 Annual Report

to the Connecticut General Assembly



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

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT J. KANE

January 16, 2019

Members of the General Assembly:

We hereby submit our 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 (<https://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 additional information on any of our published audit findings is required, we can be reached directly at (860) 240-8651 or (860) 240-8653 to 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,



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor

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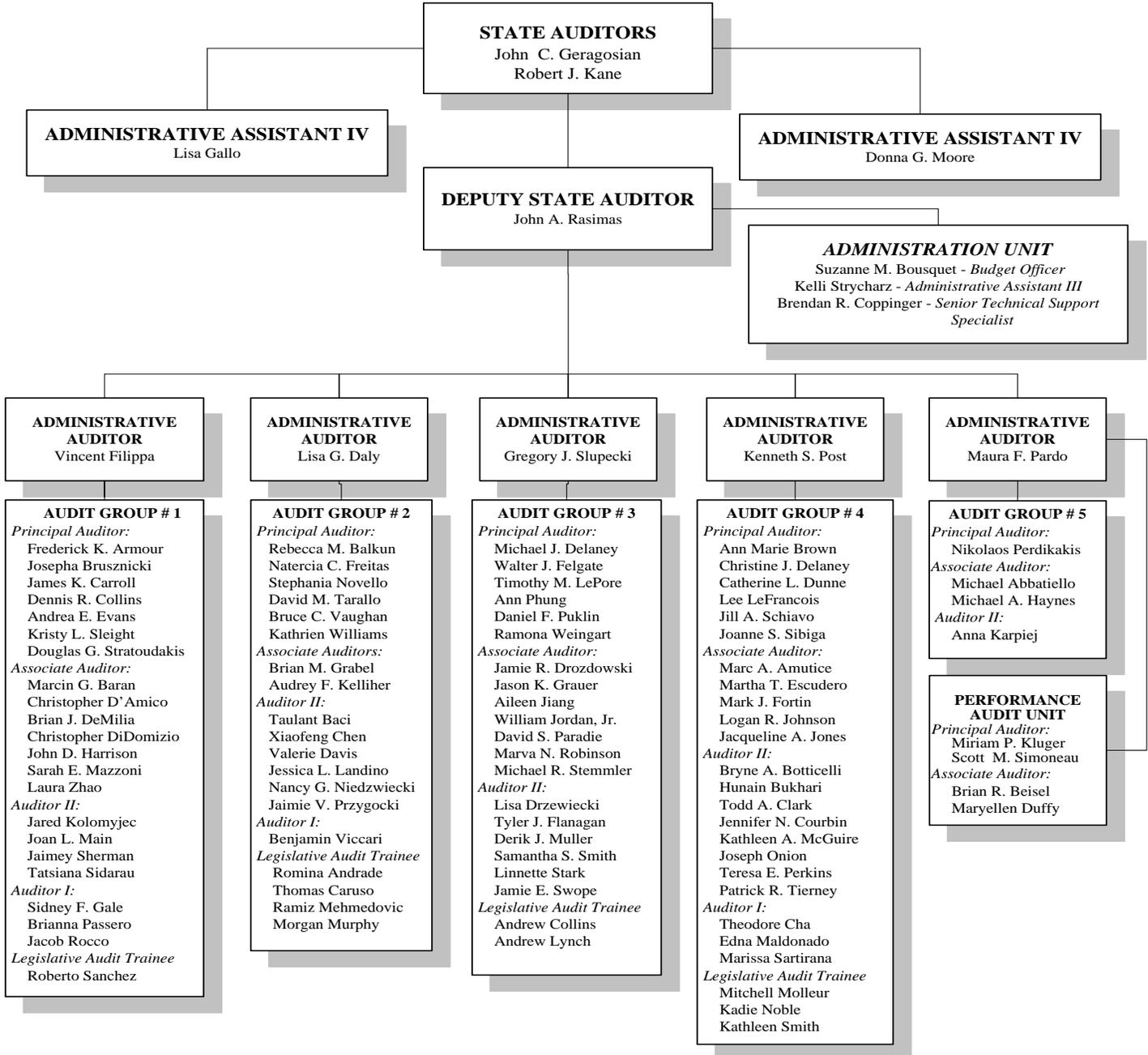
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SECTION I

AUDITORS OF PUBLIC ACCOUNTS ORGANIZATIONAL STRUCTURE *as of January 16, 2019*



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 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 108 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 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 4 auditors and an Information Systems Audit Unit consisting of 5 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 and promotes 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-one members of our audit staff have met relevant professional certification requirements and 53 have advanced degrees.

Auditing State Agencies

During 2018, our auditors completed 34 audits of state and quasi-public agencies and made 322 audit recommendations. During the past calendar year, these agencies have implemented approximately 46% 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 2018 with this office and the State Comptroller, in accordance with Section 4-33a of the General Statutes, disclosed approximately 301 losses, primarily through theft, vandalism, and inventory shortages involving an aggregate loss of \$15,390,566. Over \$14,000,000 of that amount represents a Department of Revenue Services report of “irregular handling” of miscoded tax receipts that did not represent a loss of funds. During the course of the year, we reviewed the reporting agencies’ systems and evaluated whether they resolved the issues related to their reported losses.

On January 15, 2019, our office issued its audit opinion on the state’s financial statements for the fiscal year ended June 30, 2018, as presented by the Office of the State Comptroller in the state’s Comprehensive Annual Financial Report. In addition, during March 2018, our office issued its annual Statewide Single Audit Report for the State of Connecticut covering the fiscal year ended June 30, 2017. 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 \$9,509,000,000 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 Housing and Finance Authority, Connecticut Higher Education Supplemental Loan Authority, Capital Region Development Authority, and the University of Connecticut. During 2018, we were required to give 8 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 2018 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:				
Elected Officials:				
Secretary of the State	01/09/18	9	6	1
State Treasurer – Departmental Operations	10/10/18	2	4	3
State Treasurer – Financial Operations	12/31/18	0	1	1
Regulation and Protection of Persons and Property:				
Commission on Human Rights and Opportunities	08/01/18	6	5	3
Department of Motor Vehicles	12/05/18	18	20	9
Conservation and Development:				
Department of Housing	06/07/18	11	9	0
Department of Emergency Services and Public Protection	08/16/18	20	41	17
Health and Hospitals:				
Department of Developmental Services	11/15/18	20	14	9
Human Services:				
Department of Social Services	05/03/18	22	17	5
Department of Rehabilitation Services	07/10/18	2	6	6
Higher Education, Board of Regents:				
Central Connecticut State University	11/20/18	9	11	3
Higher Education, All Other:				
University of Connecticut Health Center	05/24/18	15	12	6

<u>Reports</u>	<u>Date of Issue</u>	<u>Recommendations</u>		
		<u>Current Report</u>	<u>Prior Report</u>	<u>Implemented</u>
Other Education:				
Department of Education	11/01/18	28	40	20
Teachers' Retirement Board	12/19/18	4	2	1
Correction:				
Department of Correction	09/04/18	14	13	6
Judicial:				
Judicial Department	02/27/18	6	5	4
Office of the Probate Court Administrator	04/27/18	3	13	13
Quasi-Public Agencies:				
Connecticut Green Bank	02/15/18	3	3	2
Capital Region Development Authority	07/09/18	1	0	0
State Education Resource Center	07/18/18	4	N/A	N/A
Connecticut Innovations Incorporated	07/26/18	<u>2</u>	<u>2</u>	<u>1</u>
Total Recommendations – Departmental Audits		<u>199</u>	<u>224</u>	<u>110</u>
OTHER AUDITS:				
STATEWIDE AUDITS:				
State of Connecticut – Federal Single Audit	03/29/18	79	77	31
STATE MARSHALL AUDITS:				
State Marshall Trust Accounts	04/02/18	N/A	N/A	N/A
State Marshall Trust Accounts	07/18/18	N/A	N/A	N/A
PERFORMANCE AND SPECIAL REVIEWS:				
Department of Administrative Services – Avatar System Information Technology Security Audit	01/17/18	8	N/A	N/A
Statewide Purchasing Card Program – Enhancing Rebate Opportunities	02/08/18	6	N/A	N/A
State Department of Education – Approval Process Of Private Special Education Programs and Oversight of Non-Approved Programs	02/22/18	5	N/A	N/A
State Department of Education – Private Providers Of Special Education	02/22/18	4	N/A	N/A
State Department of Education – Monitoring of Contracts or Other Arrangements -Special Education Services	02/22/18	7	N/A	N/A

Department of Economic and Community Development – Annual Report – Interim	04/24/18	5	N/A	N/A
Department of Economic and Community Development – Annual Report – Revised	09/21/18	4	5	1

OTHER FINANCIAL STATEMENT AUDITS:

Connecticut Mental Health Center Foundation	08/30/18	5	N/A	N/A
University of Connecticut	12/28/18	0	0	N/A
University of Connecticut Health Center	12/28/18	<u>0</u>	<u>0</u>	<u>N/A</u>

Total Recommendations – Other Audits		<u>123</u>	<u>82</u>	<u>32</u>
Total Recommendations – All Audits		<u>322</u>	<u>306</u>	<u>142</u>

Recommendations Resolved Within Current Audit Cycle 46%

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:

	<u>Number of Recommendations</u>
Internal Control Recommendations:	
Bank accounts, cash accounts, and petty cash funds	2
Billings and receivables	5
Budgeting and cost allocation/capital projects/encumbrances	1
Capital projects	4
Cash management and cash handling and depositing	5
Cash receipts	3
Computer operations	10
Cash disbursements/expenditure processing	4
Equipment/supplies inventories	18
Financial reporting and accounting	9
General accounting and business office functions	7
Federal/State grant and loan programs	3
Internal audit/internal reviews	2
Miscellaneous state programs	3
Payroll and personnel controls	14
Personnel administration	13
Purchasing of goods and/or services	18
Grantee/subgrantee monitoring	2
Welfare, activity and other state funds	9
Establishment or amendment of written policies and procedures	<u>6</u>
Total Internal Control Recommendations	<u>138</u>

Compliance Recommendations:

Accounting/budgeting/records retention laws and regulations	8
Contractual agreements	1
Miscellaneous laws	6
Miscellaneous regulations and/or policies	3
Payroll and personnel laws and regulations	21
Purchasing laws and regulations	6
Reporting laws and regulations	<u>11</u>
Total Compliance Recommendations	<u>56</u>

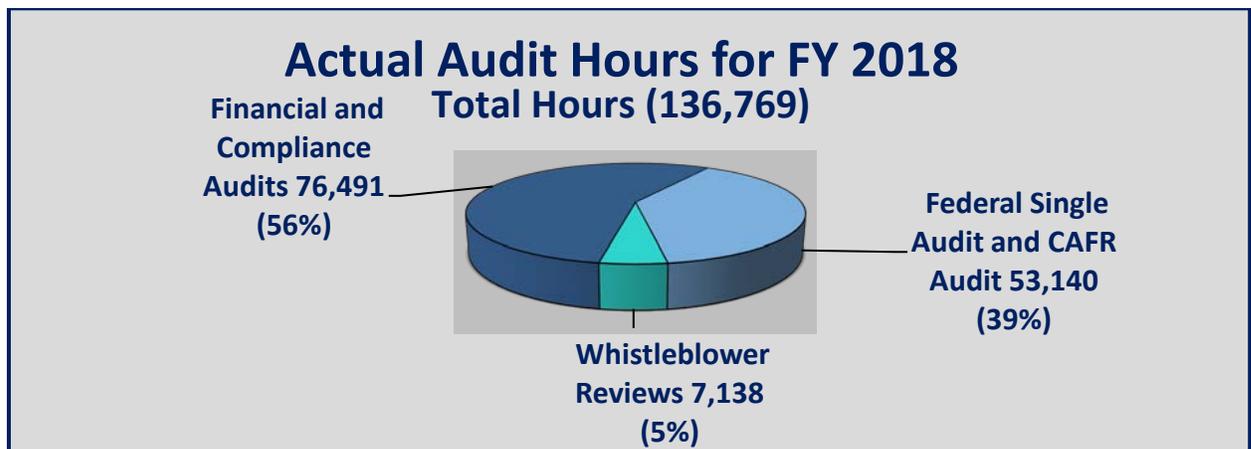
Miscellaneous Recommendations:

Laws, by-laws, regulations and internal procedures	1
Computerization or automation of agency function	1
Inefficient administrative practices	<u>3</u>
Total Miscellaneous Recommendations	<u>5</u>

Total Departmental Audit Recommendations 199

In addition to the departmental audit recommendations mentioned above, our office issued a Statewide Single Audit Report, which contained 79 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. Additionally, our office issued one other financial statement audit report and 9 performance, special, or other reviews during 2018.

During the fiscal year ended June 30, 2018, our office expended 136,769 audit hours. The following chart provides a breakdown of these audit hours:



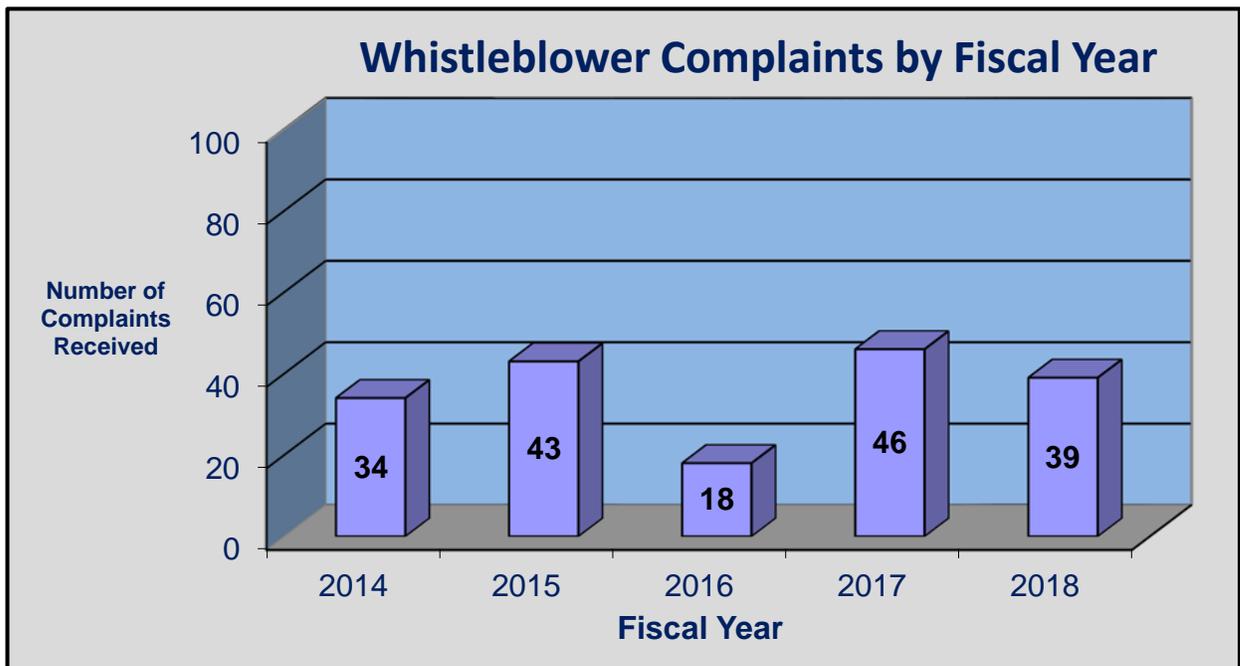
Our federal Single Audit work generated approximately \$2.4 million in costs eligible for federal reimbursement to the state’s General Fund during the 2017-2018 fiscal year. The state realizes these recoverable costs through a state-prepared statewide cost allocation plan approved by the federal government 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, 2018, we received 39 whistleblower complaints covering matters such as alleged misuse of state funds, employee misconduct, personnel issues, and violations of federal or state law. We received an additional 95 complaints that we did not deem whistleblower complaints. Most often, we referred them to our field auditors for consideration in their agency audits.

Section 4-61dd of the General Statutes requires an annual report on all whistleblower complaints, which our office prepared and filed on August 31, 2018 with the clerks of the House and Senate. By law, our office cannot disclose the identity of the complainant unless the complainant authorizes it 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 2017-2018 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>
Administrative Services		
Contracting dispute	09/06/17	*
Quit-claim of property	05/30/18	*
Children and Families		
Alleged improper removal	10/29/17	*
Alleged scapegoating of employees	05/29/18	*
Connecticut Airport Authority		
Misuse of assets and other matters	08/01/17	*
Correction		
Legal assistance program inefficiencies	11/14/17	05/15/18
Inmate transport inefficiencies	04/20/18	*
CT Lottery Corporation		
Mismanagement and abuse of authority	04/20/18	*
Developmental Services		
Lack of staff and failure to obtain grant funds	08/18/17	01/17/18
Economic and Community Development		
Manufacturing nonprofit concerns	04/17/18	*
Investor concerns	03/08/18	*
Education		
Improper payroll practices – Central Office	07/11/17	*
Private school academic and safety concerns	08/08/17	06/05/18
Program closure – Grasso Technical H.S.	01/24/18	*
Unfair changes to admission policy – Bristol Tech H.S.	02/20/18	*
Energy and Environmental Protection		
Lack of proper investigation into remediation concerns	08/28/17	05/22/18

<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>
Higher Education – Community College System		
Housatonic CC – Alleged abuse of time	08/18/17	*
Human Rights and Opportunities		
Improper dismissal	09/15/17	06/05/18
Conflict of interest and privacy concerns	10/25/17	*
Judicial		
Misuse of state computer system	09/15/17	*
Alleged misappropriation of foreclosure fund	11/24/17	*
Labor Department		
Improper investigation	08/07/17	*
Hostile work environment and other matters	11/03/17	05/16/18
Large State Contractor		
Improper charges to state grant	08/01/17	*
Unauthorized change orders	09/12/17	*
Mental Health and Addiction Services		
Hostile work environment and other matters	11/02/17	*
SNAP benefits paid to facility residents	12/01/17	*
Office of Policy and Management		
Monitoring municipal expenditures	07/16/17	09/28/17
Office of the State Comptroller		
Improper billing for pension recovery	09/06/17	*
Vendor contract and personnel matters	09/29/17	*
Social Services		
Child support services alleged improper recovery	10/12/17	*
Child support services alleged administrative failures	10/13/17	*

<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>
Transportation		
Misuse of state vehicle and alleged conflict	08/14/17	05/07/18
Financial viability of livery service providers	04/20/18	*
University of Connecticut		
Nepotism and excessive compensation	07/13/17	*
Abuse of time and other matters	10/02/17	*
Alleged failure to properly investigate	03/22/18	05/14/18
University of Connecticut Health Center		
Alleged fraud – School of Dentistry	08/08/17	05/16/18
Excessive consulting by highly-paid employees	12/16/17	*
Total Complaints Received During 2017 - 2018		39
2017 – 2018 Complaints Closed		10
Prior Year Complaints Closed During 2017 – 2018		36

* *Matters currently under review*

It should be noted that we also received information on 95 other matters that were rejected under the provisions of Section 4-61dd (b)(1) of the General Statutes. Of these, 50 were better suited for review as part of an ongoing or scheduled state agency audit.

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 another team is completing an internal inspection for the period ended June 30, 2018.

Our next external peer review, covering the one-year period ending June 30, 2019, is scheduled for August 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 Accomplishments

Special Education Audits

Our office is required to conduct audits of certain private special education providers in Connecticut. 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.

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.

In February 2018, our office released its first special education audit of 7 private special education providers. We also issued 2 performance audits, which evaluated how the Department of Education approves and monitors providers and issued our reports ("The State Department of Education's Approval and Monitoring of Contracts or Other Arrangements between Local and Regional Boards of Education and Private Providers of Special Education" and "The State Department of Education's Approval Process of Private Special Education Programs and Oversight of Non-approved Programs").

We completed an additional audit of 6 private special education providers this year and expect to issue our report in early 2019.

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 reports assessing that DECD analysis. The act also requires our office to conduct a performance audit that examines 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.

We issued an interim report in April 2018, and commented on the following deficiencies:

- Statutorily required items were not included in the report;
- Certain reported amounts did not agree with supporting documentation;
- Certain non-DECD programs were not included in the annual report; and
- Certain amounts included in economic impact calculations were inaccurate.

We also recommended that the General Assembly consider amending the reporting requirements in Section 32-1m of the General Statutes to include information on uncollectible loans, and potential and actual loan forgiveness.

The Department of Economic and Community Development made revisions as a result of our review. We reviewed those changes and issued an updated report in September 2018. We reported that:

- Statutorily required items continued to be excluded from the report;
- Corrections had been made to reported amounts to the extent that no material differences were noted;
- Certain non-DECD programs continued to be excluded from the annual report; and
- While DECD addressed many of the errors identified in the initial economic impact calculations, we identified additional errors in the revised report.

We also conducted a performance audit of DECD that is currently in management review. Public Act 17-226 charged that our office evaluate DECD management practices and operations regarding the ease or difficulty for taxpayers to comply with the requirements of the incentive programs. It also mandated that our office suggest recommendations for improving the administrative efficiency or effectiveness of the incentive programs.

To accomplish this goal, we surveyed business users to evaluate management practices and operations regarding the ease or difficulty for taxpayers to comply with incentive program requirements. Based on those surveys, and our in-depth analyses of the Urban and Industrial Sites Reinvestment Tax Credit (URA) and the Small Business Express Program (EXP), we will make recommendations for improving the administrative efficiency or effectiveness of the incentive programs. We also will recommend certain statutory changes for the General Assembly to consider and expect to issue this report in early 2019.

Improving Information Technology Capabilities and Oversight

In 2018, we expanded our use of data analytics and will continue to increase 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 2018, our office once again utilized significant in-house continuing education for our auditors, providing certain educational materials and programs directly rather than contracting with outside providers. This provided our staff with quality training that is more relevant and affordable, thereby 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. One of our state auditors is a member of the NSAA Executive Committee. 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. Two of our audit supervisors participated on peer review teams in Idaho and North Carolina.

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.

Participation in Legislative Public Hearings

Public Act 17-2 (Section 216) of the June Special Session required joint legislative hearings on our audit reports at the discretion of the committee chairs. During the 2018 legislative session, the State Auditors and several audit staff testified before various legislative committees on the findings and recommendations in our audits. These hearings are a valuable tool for legislators to familiarize themselves with our work, and provide them an opportunity to interact with our front-line auditors to gain a more in-depth understanding of the issues raised in our audit reports.

While these public hearings offer a platform for a formal discussion of our reports, we are available to any legislator at any time to discuss our reports and the work that we do.

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 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 necessary 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.

- 2. The General Assembly should consider strengthening Section 2-90 (g) of the General Statutes to explicitly require agencies to provide records or accounts to our office upon demand.**

Comment:

While Section 2-90 (g) of the General Statutes provides that state agencies “shall make all records and accounts available to them or their agents, upon demand,” we occasionally encounter resistance. Agencies often cite a concern over the confidentiality of the information. It should be noted that Section 2-90 (h) addresses this concern, in that statutory requirements of confidentiality, “shall apply to the auditors and to their authorized representatives in the same manner and to the same extent as such requirements of confidentiality and penalties apply to such state agency.”

Numerous Attorney General Formal Opinions have supported our access to records and documents, and agencies ultimately provide our office with the requested information. However, it often takes significant time and effort to obtain the requested information. These delays often inhibit us from completing our work in an efficient and timely manner.

- 3. The General Assembly should consider amending state statutes and contract language to grant our office and contracting state agencies access to agency data held by third-party contractors. The contractors should provide that information to the state at no cost and in a timely manner.**

Comment:

In early 2017, our office began an audit of a public assistance program (SNAP) to look at payment accuracy and program eligibility. The requested data is housed with a third-party vendor through a contract with the Department of Social Services. We asked the vendor and the Department of Social Services for 3 years of payment data to determine natural patterns in the program. We also wanted to look at the data for unusual transactions.

We were unsuccessful in our attempts to obtain claims data related to the program's payments. The vendor informed us that it would not provide the requested data without a contract change order and payment for the production of the data. We do not believe there is any basis for the state or its agents to pay for its own data.

All state contracts currently include a provision that allows our office and the contracting state agency to monitor and audit the contract. Many vendors often impede agency access to information, citing confidentiality and proprietary concerns. It is troubling that vendors are withholding the state's information from the contracting state agency and our office. We are also concerned that if an agency were to terminate a contract with a vendor, there may be impediments to accessing the state's data, which could affect the operation of the program. Lastly, the contract in question included several performance goals. Without complete and accurate payment data, the agency has no way to determine whether the vendor actually met its performance goals.

The General Statutes and state contracting language should be strengthened to grant state agencies and our office unfettered access to the state's data and contract-related information.

Technical Corrections and Other Matters

- a. 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 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. (2018 PA 18-137 Sec. 1)
- b. 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. (2018 PA 18-137 Sec. 2)
- c. 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. (2018 PA 18-137 Sec. 3)
- d. 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. (2018 PA 18-137 Sec. 4 and 5)
- e. 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. (2018 PA 18-137 Sec. 23)
- f. 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. (2018 PA 18-137 Sec. 6)
- g. 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. (2018 PA 18-137 Sec. 9)
- h. The General Assembly should consider amending Section 19a-80 (c) of the General Statutes to change the background check requirement to a precertification process. (2018 PA 18-137 Sec. 25)

- i. 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. (2018 PA 18-137 Sec. 10)
- j. 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. (2018 PA 18-137 Sec. 24)
- k. 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. (2018 PA 18-137 Sec. 8 and 26)
- l. 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. (2018 PA 18-137 Sec. 2)
- m. 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. (2018 PA 18-137 Sec. 11)
- n. 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. (2018 PA 18-137 Sections 17 through 22)
- o. 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. (2018 PA 18-137 Sec. 4)
- p. The General Assembly should consider amending Section 1-123(4) of the General Statutes to refer to a complete set of financial statements. (2018 PA 18-137 Sec. 7)
- q. The General Assembly should consider repealing certain obsolete legislation pertaining to the Office of the County Sheriffs under Title 6 of the General Statutes. (2018 PA 18-137 Sec. 27)
- r. 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)

- s. 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)
- t. Amend the Statutory Provisions of the State Whistleblower Law to include Probate Courts. (2017 PA 17-136 Sec. 1)