

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE ATTORNEY GENERAL
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019*

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

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November 4, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of the Attorney General for the fiscal years ended June 30, 2018 and 2019. Our audit identified an internal control deficiency that warrants the attention of management. The significant finding and recommendation is presented below:

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We reviewed 15 closed cases and found 14 instances in which a receivable should have been established, but the divisions never notified the business office to record the amounts in the master accounts receivable log. There is no procedure in place to reconcile judgements and settlements to amounts received and receivables recorded. The Office of Attorney General should improve internal controls over the accounting of its receivables to ensure that all divisions notify the business office of all receivables from judgements and settlements. (Recommendation 1.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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November 4, 2020

AUDITORS' REPORT

We have audited certain operations of the Office of the Attorney General in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2018 and 2019. The objectives of our audit were to:

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

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the office, as well as certain external parties; and testing selected transactions. Our testing is not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the office's

management and the state's information systems, and was not subjected to the procedures applied in our audit of the office. For the areas audited, we reached the following conclusions:

1. Identified deficiencies in internal controls;
2. Did not identify apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Did not identify need for improvements in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents the finding arising from our audit of the Office of the Attorney General.

COMMENTS

FOREWORD

The Attorney General is an elected constitutional officer whose duties are set forth in Title 3, Chapter 35 of the Connecticut General Statutes. The Attorney General is the chief civil legal officer of the state, serves as legal counsel to all state agencies, and is authorized to represent the people of the state to protect the public interest. George Jepsen served as the Attorney General during most of the audited period until his term ended in January 2019. William Tong was sworn in as Attorney General in January 2019 and continues to serve in that capacity.

The mission of the office is to represent and advocate for the interests of the state and its citizens, ensure that state government acts within the law, protect public resources for present and future generations, preserve and enhance the quality of life for all state citizens, and ensure that the rights of the most vulnerable citizens are safeguarded. The office is divided into 16 departments that serve as legal counsel to state agencies:

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

Significant Legislation

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

RÉSUMÉ OF OPERATIONS

Revenues

Revenues for the Office of the Attorney General for the fiscal years ended June 30, 2017, 2018 and 2019, are summarized below by fund:

	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
General Fund	\$ 63,102,008	\$ 9,140,747	\$ 15,373,391
Federal and Other Restricted Accounts Fund	1,283,360	523,241	2,335,022
Total Revenues Listed by Fund	\$ 64,385,368	\$ 9,663,988	\$ 17,708,413

The Office of the Attorney General collects revenue from the litigation of civil cases, which is transferred directly to the General Fund. The office also makes collections on behalf of other state agencies, which are subsequently transferred to those agencies. Office operations are primarily funded through a General Fund appropriation. General Fund receipts fluctuate due to the size of settlements, which can vary substantially from year to year. In the 2016-2017 fiscal year, receipts were higher because of a \$31.5 million settlement with Moody's regarding charges of its misleading investors as a result of its rating of structured financial securities. The office also collected \$14.8 million from Volkswagen through a multistate settlement resolving claims that the company violated environmental laws when it equipped vehicles with devices designed to circumvent emissions standards. In the 2018-2019 fiscal year, there was a \$4.3 million judgement resulting from a multistate investigation into Fiat Chrysler's circumvention of emission standards.

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

	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
Negotiated Settlements	\$ 62,956,136	\$ 8,529,253	\$ 10,880,840
Civil Penalties for Court Judgments	-	30,769	4,368,669
Recoveries for Attorney Fees	134,970	574,191	19,738
Other Revenues	1,294,262	529,775	2,439,166
Total Revenues Listed by Account	\$ 64,385,368	\$ 9,663,988	\$ 17,708,413

Expenditures

Expenditures by fund for the Office of the Attorney General for the fiscal years ended June 30, 2017, 2018, and 2019, are summarized below:

	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
General Fund	\$ 30,095,649	\$ 28,879,465	\$ 29,005,031
Federal and Other Restricted Accounts Fund	689,855	700,466	885,595
Capital Improvements/Equipment Funds	25,849	66,285	243,984
Total Expenditures Listed by Fund	\$ 30,811,353	\$ 29,646,216	\$ 30,134,610

Personal services costs represent the majority of General Fund expenditures. The Federal and Other Restricted Accounts Fund includes several smaller accounts used to record expenses

incurred for specific types of cases, such as consumer protection, client agency costs, tobacco regulations, and the Second Injury Fund. Also within this fund category, the office pays law firms providing specialized services using funds transferred by the state agency that required the specialized service. These amounts are netted within the Federal and Other Restricted Accounts Fund and presented as an expenditure on the related state agency's accounting records. The increase in the capital improvements fund in the 2018-2019 fiscal year was primarily associated with the purchase of new computer servers and other information technology hardware.

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

	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
Personal Services & Employee Benefits	\$ 29,553,832	\$ 28,395,260	\$ 28,554,415
Employee Expenses, Allowance & Fees	167,139	198,083	208,687
Purchases & Contracted Services	502,387	458,865	528,858
Motor Vehicle Cost	15,249	14,890	17,555
Premises & Property Expenses	97,451	133,387	157,863
Information Technology	327,084	319,000	313,729
Purchase Commodities	138,236	136,212	148,562
Capital Outlay Equipment	9,975	(9,481)	204,941
Total Expenditures Listed by Account	\$ 30,811,353	\$ 29,646,216	\$ 30,134,610

Second Injury Fund Costs

All expenses incurred by the office on behalf of the Second Injury Fund managed by the State Treasurer were paid from the Second Injury and Compensation Assurance Fund in accordance with Section 31-355 (d) of the General Statutes. Personal services for employees charged directly to the Second Injury Fund totaled \$1,968,449 and \$1,932,321 for the fiscal years ended June 30, 2018 and 2019, respectively.

Funds Awaiting Distribution and Escrow Account for Settlements

The Funds Awaiting Distribution Fund and an escrow account were used to delineate the collection and distribution of settlements due to the office, other state agencies, or consumers. The Funds Awaiting Distribution Fund is a temporary suspense account for receipts awaiting final distribution to consumers. The escrow account is a bank account used to deposit receipts for contingencies in cases in which the outcome is dependent on factors yet to occur. Distributions are made in accordance with corresponding court orders. The Funds Awaiting Distribution Fund's balances for the fiscal years ended June 30, 2018 and 2019 were \$57,978 and \$724,863 respectively. The escrow account was rarely used during the audit period and carried a minimal balance.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of Office of the Attorney General disclosed the following recommendation, which has been repeated from the previous audit:

Management of Accounts Receivable

Background: The business office maintains a master log of accounts receivables which includes the balance and account activity on all of the office's receivables. This log is used as a documentation tool for the annual report of receivable balances provided to the State Comptroller. Each division within the Office of the Attorney General must notify the business office to record amounts in the log when judgments are awarded and settlements are agreed upon.

Criteria: The State Accounting Manual, Management of Receivables section 2.0, requires that accounts receivable records be maintained in an accurate and complete manner. The management of the Office of the Attorney General is responsible for establishing and maintaining effective internal controls in order to provide for accurate and complete reporting of accounts receivable balances.

Condition: We reviewed 15 closed cases and found 14 instances in which a receivable should have been established, but the divisions never notified the business office to record the amounts in the master accounts receivable log. There is no procedure in place to reconcile judgements and settlements to amounts received and receivables recorded.

Context: The Office of the Attorney General received \$8,560,022 and \$15,249,509 in settlements and judgments during fiscal year 2018 and 2019 respectively.

Effect: Poor controls over the management of receivables increases the risk that amounts due are not fully collected. Also, the office may not be able to properly write-off amounts deemed uncollectible, and may not accurately report outstanding receivable amounts to the State Comptroller.

Cause: Management has not established office-wide procedures for managing and reporting accounts receivable balances to the business office.

Prior Audit Finding: This finding has been previously reported in the last 6 audit reports covering the fiscal years ended 2004 through 2017.

Recommendation: The Office of Attorney General should improve internal controls over the accounting of its receivables to ensure that all divisions notify the

business office of all receivables from judgements and settlements. (See Recommendation 1.)

Auditee Response:

“We agree with the finding. Our IT department has developed departmental reports and Smartfolders in our main database, known as Law Base. These folders will allow each department to track dispositions and receivables. When a disposition is awarded, such as through a court judgment or settlement of a case, our Department Heads and Administrative Assistants have been advised to accurately report an awarded monetary disposition to the Business Office in cases where the Attorney General’s Office is receiving and depositing the funds. Once the disposition is reported, the business office will record these awards as receivables until the funds are collected and deposited. There are reports in Law Base which allow us to show incomplete dispositions. Our IT department will be training the Administrative Assistants and other staff on how to accurately and timely log the information into the data base.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Office of the Attorney General contained two recommendations. One has been implemented or otherwise resolved and one has been repeated with modifications during the current audit.

- The Office of the Attorney General should improve internal controls over asset management and purchasing in order to comply with the requirements of the State Property Control Manual. **This recommendation has been resolved.**
- The Office of the Attorney General should improve controls over the accounting and reporting of its accounts receivable balances. **This recommendation is being repeated. (See Recommendation 1.)**

Current Audit Recommendations:

- 1. The Office of Attorney General should improve internal controls over the accounting of its receivables to ensure that all divisions notify the business office of all receivables from judgements and settlements.**

Comment:

We reviewed 15 closed cases and found 14 instances in which a receivable should have been established, but the divisions never notified the business office to record the amounts in the master accounts receivable log. There is no procedure in place to reconcile judgements and settlements to amounts received and receivables recorded.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the office of the Attorney General during the course of our examination.

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

Thomas Caruso
David Tarallo



David Tarallo
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor