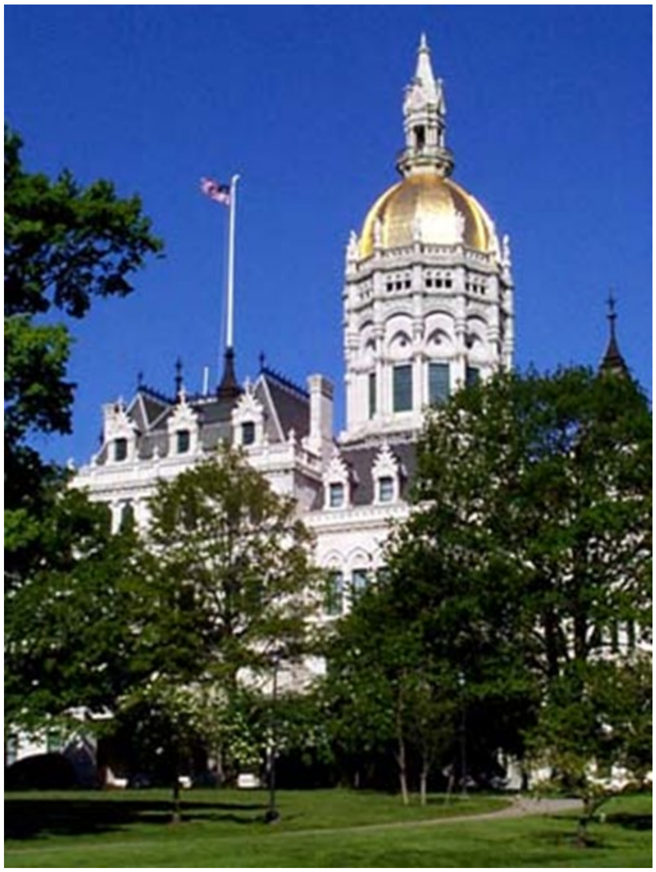
STATE OF CONNECTICUT



AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

STATE OF CONNECTICUT
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2022

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

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CLARK J. CHAPIN

February 24, 2023

Governor Ned Lamont
Members of the General Assembly
State Comptroller Sean Scanlon:

LETTER OF TRANSMITTAL

We have audited the financial statements and certain other information of the Comptroller of the State of Connecticut as they pertain to the central accounting of state financial operations, on a budgetary basis of accounting, for the fiscal year ended June 30, 2022. The auditors' report on the State Comptroller's civil list financial statements, the audited civil list financial statements themselves, and the related auditors' report on compliance and internal control over civil list financial reporting are included in a separate report entitled *Budgetary/Statutory (GAAP Based Budgeting) Annual Report* for the fiscal year ended June 30, 2022, issued December 15, 2022.

We have also audited the financial statements and certain other information of the Comptroller of the State of Connecticut as they pertain to the State of Connecticut's financial position and results of operations on the basis of generally accepted accounting principles (GAAP). The auditors' report on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, the respective budgetary comparison for the General Fund and the Transportation Fund, the respective changes in financial position and cash flows, where applicable, and the related notes to the financial statements of the State of Connecticut, which collectively comprise the state's basic financial statements are included in a separate report entitled *Annual Comprehensive Financial Report* (known as the state's ACFR) for the fiscal year ended June 30, 2022, issued February 24, 2023.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We considered internal control over financial reporting as well as compliance with laws, regulations and other requirements that could have a direct and material effect on the financial statement amounts, in accordance with these standards. We are issuing our Independent Auditors' Report on Internal

Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements dated February 24, 2023.

During our audit, we became aware of matters that are considered significant internal control deficiencies and another matter that presents an opportunity for improving internal controls. The accompanying State Auditors' Findings and Recommendations detail the significant deficiencies and additional matter for corrective action.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the State Comptroller and state agencies during the course of our examination.

Clark J. Chapin

John C. Geragosian
State Auditor

Clark J. Chapin
State Auditor

February 24, 2023
State Capitol
Hartford, Connecticut

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governor Ned Lamont
Members of the General Assembly
State Comptroller Sean Scanlon:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Connecticut as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the state's basic financial statements, and have issued our report thereon dated February 24, 2023.

Our report includes a reference to other auditors who audited the financial statements of certain funds and discretely presented component units of the state, as described in our report on the State of Connecticut's financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of Connecticut, the University of Connecticut Health Center, the Connecticut State University System, the Connecticut Community Colleges, and the University of Connecticut Foundation were not audited in accordance with *Government Auditing Standards*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Connecticut's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Connecticut's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying State Auditors' Findings and Recommendations as Finding Numbers 2022-001 and 2022-002 that we consider to be significant deficiencies.

Report Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Connecticut's financial statements as presented in the *Annual Comprehensive Financial Report* are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

State's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State's response to the findings identified in our audit and described in the accompanying State Auditors' Findings and Recommendations. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Connecticut's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Connecticut's internal control and compliance. This report is intended solely for the information and use of the Governor, the State Comptroller, and the Appropriations Committee of the General Assembly and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Thu A. Phung
Administrative Auditor

Approved:

John C. Geragosian
State Auditor

Clark J. Chapin
State Auditor

February 24, 2023
State Capitol
Hartford, Connecticut

OTHER INFORMATION

Implementation of GAAP Based Budgeting

The *Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report* for the fiscal year ended June 30, 2022 reflects the ninth year of GAAP based budgeting. The move to GAAP based budgeting resulted from the passage of Public Act 11-48, the biennial budget plan in Public Act 13-184 (as adjusted by Public Acts 13-247 and 14-47), and the biennial budget plan in Public Act 15-244. GAAP based budgeting was intended to narrow the difference between the accounting for the state budget and the Annual Comprehensive Financial Report (ACFR), which would allow for the ACFR to be the state's single accounting report.

Passed as part of the *Plan for Conversion to GAAP-Based Budgeting Developed in Accordance With Governor Dannel P. Malloy's Executive Order No. 1,* the details of Public Act 11-48 and the history of efforts leading to its passage were described in our *Auditors' Report Office of the State Comptroller* for the fiscal years ended June 30, 2011 and June 30, 2012. The results of the first year of GAAP based budgeting and issues with its implementation were described in our *Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters* for the fiscal year ended June 30, 2014.

As described in previous reports, the statutory basis of accounting adopted by the Office of the State Comptroller is not GAAP reporting as recognized by the Government Accounting Standards Board. It is not on a GAAP basis in that it does not carry forward accruals from each fiscal period to the next on the Core-CT accounting system. Instead, it continues to utilize the modified cash basis of accounting as a compromise to avoid significant operational changes in Core-CT processes. As a result, budgets are not being controlled on a GAAP basis, and monthly reporting on the Core-CT system is not on a GAAP basis. Prior reports also noted that the University of Connecticut, University of Connecticut Health Center, Connecticut State Universities, Connecticut Community Colleges, Office of Legislative Management, and Judicial Department are allowed to operate as limited scope Core-CT agencies. These agencies may process their transactions through their own accounting systems and then periodically enter the information into the Core-CT system. As a result, significant receivables and payables can accrue at month or year-end that are not promptly reported on the Core-CT system.

Because the state's budget deficit is projected by monthly financial reports, it is unclear which number should be utilized to apply the statutory requirements related to the Governor's submission of a deficit mitigation plan. To provide GAAP reporting for the ACFR that is compliant with the modified accrual basis of accounting required by the Government Accounting Standards Board (GASB), the manual entry of miscellaneous accounting information not available on the Core-CT system is still required. To properly monitor budgetary compliance on a modified accrual basis, the Core-CT system would need to provide periodic information on accrued revenues and expenditures without a "close" of the system.

Reconciliation of Fund Balance - General Fund

As described in previous reports, the difference in accounting basis results in a deficit in the Unreserved Fund Balance of the General Fund when adjustments are made to reflect the modified accrual basis used under GAAP, as required for the ACFR. A reconciliation of the net change in fund balances for the General Fund, as reported under the budgetary and GAAP basis of accounting, is presented as Required Supplementary Information (RSI) in the ACFR. A schedule illustrating the differences in adjustments for the past three fiscal years is presented below:

(In millions)		2019-2020	2020-2021	2021-2022
Unreserved Fund Balance (Deficit)-Modified Cash Basis		$ 191.8	$ 191.8	$ 191.8
GAAP Based Adjustments				
Additional Assets				
Taxes Receivable				
Income Tax		(563.0)	(579.2)	(605.9)
Eliminate Corporation Tax Accrual		(97.9)	(37.0)	(23.6)
Additional Taxes Receivable		2.7	5.0	12.5
Net Increase (Decrease) Taxes		(658.2)	(611.2)	(617.0)
Net Accounts Receivable		724.4	744.4	595.7
Federal and Other Grants Receivable		33.3	296.2	189.5
Due From Other Funds		44.6	56.2	63.8
Total Additional Assets		144.1	485.6	232.0
Additional Liabilities				
Salaries and Fringe Payable		123.5	141.1	218.7
Accounts Payable - Trade and Other		(930.8)	(718.5)	(782.1)
Payable to Federal Government		(505.2)	(679.9)	(495.0)
Due to Other Funds		(95.6)	(80.8)	(117.6)
Total Additional Liabilities		(1,408.1)	(1,338.1)	(1,176.0)
Unreserved Fund Balance (Deficit)				
GAAP Basis		$ (1,072.2)	$ (660.7)	$ (752.2)

As shown above, the most significant adjustments each year are reducing the income tax accrual, recording other receivables, and recording payables incurred prior to fiscal year end. The $191,801,694 Unreserved Fund Balance under the budgetary basis for the 2021-2022 fiscal year, reported as "Fund Balance Related to Statutory GAAP Budgeting" on the *Annual Report of the State Comptroller*, represents $123,280,845 in GAAP deficit amortization described below net against the $598,500,000 in GAAP Conversion Bonds and $(529,979,151) fund balance due to a change in accounting method from the initial year of GAAP based budgeting.

In this ninth year of GAAP based budgeting, we again observe that actual GAAP budgeting would have properly recognized the July tax accruals and salaries, fringe benefits and accounts payable at the end of the fiscal year. If a more comprehensive method of GAAP based budgeting was instituted, the year-end fund balances under the statutory basis (GAAP based budgeting) would more closely resemble the GAAP basis fund balances.

Revision to Amortized GAAP Deficit and to Sections 2-35 and 4-72 of the General Statutes

In order to implement GAAP based budgeting, the General Assembly passed Public Act 11-48 that revised Sections 2-35(b) and 4-72 of the General Statutes to require that the Governor propose, and General Assembly enact, a state budget that excludes as revenues the estimated unappropriated prior year surplus, and includes as expenditures, the amount necessary to extinguish any unreserved negative balance in any budgeted fund as reported by the prior year ACFR. Public Act 11-48 also revised Section 3-115 of the General Statutes and required the annual report of the State Comptroller to be prepared in accordance with GAAP.

The 2013-2014 fiscal year budget was the initial year of GAAP based budgeting, and under Section 235 of Public Act 13-247, the GAAP deficit (also known as the 2013 General Fund GAAP Deficit) that accumulated over many years was to be addressed. Starting with the June 30, 2013 GAAP deficit of $1,217,051,000 as reported in the ACFR and then applying the $598,500,000 in GAAP Conversion Bonds proceeds, an adjusted GAAP deficit of $618,551,000 resulted for June 30, 2013, which by Public Act 13-247 was to be amortized in equal amounts of $47,580,846 during the 2016 through 2028 fiscal years. However, after adoption of the 2013-2014 fiscal year budget, and at the close of that fiscal year, it was noted that the June 30, 2014 GAAP deficit totaled $727,209,000 as reported in the ACFR. This $108,658,000 unforeseen increase in the GAAP deficit was due partly to the income tax accrual period for that fiscal year containing more payroll days, which increased the variance between the GAAP basis of accounting and the statutory (budgetary) basis. This added $64,000,000 to the GAAP deficit because more General Fund revenue was attributed to the statutory accrual period, which ends no later than five business days after the last day of July. The remaining $44,700,000 variance was attributed to various closing adjustments made to accounts payable and receivable as part of preparing the ACFR, including for errors caused by the transfer of the federal portion of the Medicaid program from the General Fund to the Restricted Grants and Accounts Fund.

To address this condition, the General Assembly revised the 2015-2016 and 2016-2017 biennial budget with the passage of Public Act 15-1 of the December 2015 Special Session, which amended Section 3-115b(c) of the General Statutes to require the additional GAAP deficit to be amortized in equal increments in each fiscal year of each biennial budget, during the 2017 through 2028 fiscal years. Subsequently, Public Act 16-3 of the May 2016 Special Session, changed the amortization of the additional GAAP deficit to equal increments of $9,878,000 in each fiscal year of each biennial budget, during the 2018 through 2028 fiscal years. The amortization requirements were again changed with the passage of Public Act 17-51, which required the Secretary of the Office of Policy and Management to annually publish an amortization schedule to fully reduce the negative unassigned balance by June 30, 2028. This requirement commenced in the 2017-2018 fiscal year and continues through the succeeding 10 years.

Public Act 15-1 also revised Sections 2-35(b) and 4-72 of the General Statutes to again require estimated revenues to cover the negative unassigned fund balance as reported by the Annual Report rather than the ACFR. Although required by Public Act 11-48, we note that the annual report is not prepared in accordance with GAAP, but instead reflects the state's budget act and reporting on a statutory basis of accounting.

As of June 30, 2022, the remaining accumulated 2013 General Fund GAAP deficit to be amortized by June 30, 2028 was $603,828,154. Public Act 21-2 of the June 2021 Special Session deferred the annual amortization of $85,100,000 for the fiscal years 2022 and 2023 to future years.

Accumulated GAAP Deficit

As reported in the *Annual Comprehensive Financial Report,* on a government-wide basis, which takes into account all non-fiduciary state assets and liabilities (for the primary government including all funds in addition to the General Fund), the total net position of the state as of June 30, 2022 was a deficit of $45,319,903,000, a decrease of $4,000,777,000 in the deficit as compared to the deficit as of June 30, 2021.

The following schedule presents the fiscal year end (FYE) deficit on a government-wide basis, from the ACFR Statement of Net Position, since such information has been presented in the ACFR:

FYE June 30,	Amount $		FYE June 30,	Amount $		FYE June 30,	Amount $
2002	(816,926,000)		2009	(5,065,237,000)		2016	(37,858,651,000)
2003	(1,471,912,000)		2010	(9,388,402,000)		2017	(38,660,660,000)
2004	(1,780,341,000)		2011	(9,856,474,000)		2018	(47,564,350,000)
2005	(1,392,024,000)		2012	(10,555,813,000)		2019	(46,215,935,000)
2006	(784,864,000)		2013	(10,457,941,000)		2020	(47,653,759,000)
2007	(242,540,000)		2014	(12,589,951,000)		2021	(49,320,680,000)
2008	(2,203,449,000)		2015	(35,326,111,000)		2022	(45,319,903,000)

The significant increases in the deficit starting with the fiscal year ended June 30, 2008 and in succeeding fiscal years resulted from increases in total bonded debt and poor economic conditions that lead to budget deficits, the exhaustion of the Budget Reserve Fund, declines in the valuation of state pension investments, and changes in reporting requirements for pensions and other postemployment benefits (retiree health care costs).

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of statewide financial reporting identified two significant deficiencies in internal control as defined by auditing standards generally accepted in the United States of America. Although finding 2022-003 is not deemed a significant deficiency or material weakness per those standards, it is an area that requires corrective action. These areas are detailed in the following pages:

2022-001 Inadequate Financial Reporting Process – GAAP Forms and Other Adjustments

Criteria:

The Office of the State Comptroller (OSC) has a long-established procedure requiring state agencies to prepare and submit adjustment forms to report various account balances, accruals, liabilities, contingencies, and other information required to report the state's financial position on a GAAP basis to the State Comptroller. The Office of the State Comptroller requires these forms to be submitted with accurate information by specific deadlines.

Sound internal controls require that the Office of the State Comptroller has procedures to confirm the accuracy of computations.

Condition:

In our prior audits, we reported that various state agencies did not submit accurate GAAP adjustment forms. Our review of agency prepared forms for the 2021-2022 fiscal year again revealed significant errors and omissions in the amounts reported. The material errors found and corrected were as follows:

- The Department of Social Services overstated its contractual obligations by $62,000,001.
- The Department of Administrative Services understated its construction in progress ending balance by $18,143,483 and its contractual obligations for non-construction projects by $25,908,166.
- The Department of Public Health understated its federal grant receipts and expenditures by $12,030,354.
- The Department of Housing underestimated its loans receivables estimated to be uncollectible by $10,865,462 and understated its contractual obligations by $41,394,918.
- The Department of Energy and Environmental Protection underestimated its accounts receivables estimated to be

uncollectible by $19,095,311.

- The Department of Economic and Community Development overstated its contractual obligations by $116,489,009 and its loans receivables estimated to be uncollectible by $26,322,624.

- The Department of Labor underreported its receivables by $106,478,246 and also understated grant receivables expected to be collected in fiscal year 2023 by $20,899,494.

- The Department of Transportation overstated its infrastructure assets by $28,394,066.

- The Office of the State Treasurer overstated its contractual obligations by $716,231,244.

In addition, our review of the statement of changes in fiduciary net position found a $326,275,000 misstatement.

Context: The Office of the State Comptroller received GAAP forms from approximately 25 state agencies that included reported receivables totaling $1,495,196,406 and contractual obligations totaling $6,117,983,119.

The Office of the State Comptroller reported a total of $685,555,000 in ending net position for all custodial funds as of June 30, 2022.

Effect: The audit and correction of these errors results in the delay of the preparation and issuance of the state's Annual Comprehensive Financial Report (ACFR) and increases the risk for error.

Cause: For the GAAP forms conditions noted above, our previous audit revealed the same types of errors. The Office of the State Comptroller needs to follow up with agencies that make repeated errors.

It appears that the Office of the State Comptroller used incorrect formulas in its preparation of the statement of changes in fiduciary net position. This condition may have resulted from a combination of new accounting staff and data entry errors.

Prior Audit Finding: Errors related to state agency GAAP Forms have been previously reported in the last nine audit reports covering the fiscal years ended June 30, 2013 through 2021.

Recommendation: The Budget and Financial Analysis Division of the Office of the State Comptroller should continue its efforts to provide training in the preparation of accurate GAAP adjustments and improve internal controls to ensure that the financial statements are accurate and complete. (See Recommendation 1.)

Agency Response: "The Office of the State Comptroller believes it is the responsibility of the state agencies to ensure that their staff have the finance background and training needed to complete the GAAP adjustment forms. We have detailed instructions with case examples for completing the GAAP forms on our website, and we ask the agencies to contact us if they are missing any GAAP forms or have any questions. All GAAP forms require an agency preparer and reviewer.

However, we will contact the state agencies identified above for specific training before Fiscal Year 2023 reporting. In addition, we are reviewing and updating our GAAP forms and training to make them easier to prepare and review, including looking for automation opportunities."

2022-002 Lack of Cash Book Reconciliations – Department of Social Services

Background: The Department of Social Services (DSS) maintains a benefit assistance checking account commonly known as the cashbook. DSS uses the cashbook to process most federal and state program payments to clients and providers. The cashbook exhibits the cash balance available for each appropriation and the corresponding program expenditures.

The Office of Early Childhood (OEC) administers the Care 4 Kids program. DSS maintains responsibility over the Care 4 Kids cashbook for administrative purposes only. The Care 4 Kids cashbook exhibits appropriations and program expenditures for state and federal funds.

Criteria: Proper internal controls over financial reporting require performing prompt monthly bank reconciliations to identify and resolve differences between bank balances and general ledger accounts. In addition, a supervisor should review monthly bank reconciliations and authorize necessary adjustments.

Condition: DSS did not complete any monthly reconciliations of its and the OEC cashbooks to bank statements for the fiscal year 2021-2022.

Context: DSS disbursed approximately $9,539,134,017 through its cashbook and $176,878,633 through the OEC cashbook during the fiscal year ended June 30,2022.

Effect: The lack of reconciliations increases the likelihood of undetected errors and irregularities in financial records. OEC has reduced assurance of the accuracy of financial information for the Care 4 Kids program.

Cause: DSS experienced insufficient staffing levels due to employee retirements, transfers, and turnover.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Social Services should strengthen internal controls over cashbook reconciliation processes to ensure financial records are accurate, complete, and current. (See Recommendation 2.)

Agency Response: "The Department of Social Services agrees with this finding. The delay in reconciliations was the result of staffing levels within the Division of Financial Services. The Department has begun work on the reconciliation process and plans on recruiting new staff. Once the reconciliations are up to date, the Department will implement controls to ensure reconciliations are performed timely."

2022-003 Lease Accounting

Criteria: Sound internal controls over financial reporting require an entity to sufficiently plan for changes in accounting principles, including an assessment of its financial impact, the effect on its information system requirements, and the need to train personnel.

Condition: The state's accounting personnel were not properly prepared for the implementation of the lease accounting standard included in *GASB Statement No. 87, Leases*. Our test of 14 lease agreements with present values totaling $28,423,904 found accounting errors in all 14 leases. These misstatements totaled $22,916,243.

The Core-CT accounting system was unable to discount lease agreements to their present values or properly amortize the lease values annually. As a result, the Office of the State Comptroller manually performed calculations for the present values, interest expenses, and annual amortization of leases greater than $300,000. Leases under $300,000, although not material, remained inaccurate in Core-CT.

Context: The Office of the State Comptroller reported a beginning balance of approximately $74 million for the right-to-use lease assets and related liabilities. We judgmentally selected eight leases with discounted values greater than $300,000 and six agreements with total periodic payments of less than $300,000 at three state agencies. The test results identified calculation errors in all 14 tested agreements and showed that they all exceeded the $300,000 lease reporting threshold.

Effect: Assets and liabilities related to leases were not accurately calculated.

Cause: The lease accounting instructions distributed to state agencies in fiscal year 2021-2022 did not address all important accounting factors. Retirement of experienced accounting personnel and deficiencies in state agency communications also contributed to the errors.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Office of the State Comptroller should update its lease reporting instructions and improve internal controls over accounting at state agencies to ensure compliance with the Government Accounting Standards Board statement on leases. (See Recommendation 3.)

Agency Response: "The Office of the State Comptroller published a number of documents beginning June 3, 2021 to educate the agencies on GASB 87 requirements. This included flowcharts to assist in determining if a lease is subject to GASB 87, an example for determining cost, and a checklist for implementation. On June 13, 2022 a webinar was held, attended by 20 agency employees, representing fifteen business units, and the webinar was also recorded and distributed to the entire population. The attendees were provided with a survey to share feedback and give them an opportunity to request additional training and information.

Despite these numerous communications and trainings, many agencies provided their GASB 87 information late or not at all, requiring follow-up. The difficulty in getting a complete and accurate population of leases delayed the Office of the State Comptroller's ability to determine a final approach for financial reporting.

We use a $300,000 threshold for a number of GAAP adjustments, and we further confirmed the appropriateness of using this threshold with our external audit consultants, Marcum LLP. The impact of not discounting lease agreements with cumulative payments from $5,000 to $300,000 was deemed to be immaterial.

Our review and update of our GAAP forms and training will include the lease accounting instructions. We will also review the current agency requirements for entering leases into Core-CT Asset Management to see if there are opportunities to simplify."

RECOMMENDATIONS

Status of Prior Audit Recommendation:

Our prior *Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters for the Fiscal Year Ended June 30, 2021 State of Connecticut Annual Comprehensive Financial Report* contained one recommendation. This recommendation is being repeated for the fiscal year ended June 30, 2022.

- The Budget and Financial Analysis Division of the Office of the State Comptroller should continue its efforts to provide training and monitoring in the preparation and submission of accurate GAAP adjustments. **Continued errors were noted, for certain agencies. Therefore, the recommendation is being repeated with modifications to reflect current conditions.**

Current Audit Recommendations:

1. **The Budget and Financial Analysis Division of the Office of the State Comptroller should continue its efforts to provide training in the preparation of accurate GAAP adjustments and improve internal controls to ensure that the financial statements are accurate and complete.**

   Comment:

   The Office of the State Comptroller continued to have problems accumulating accurate GAAP adjustment data from certain state agencies. We also identified a $326,275,000 misstatement in the statement of changes in fiduciary net position.

2. **The Department of Social Services should strengthen internal controls over cashbook reconciliation processes to ensure financial records are accurate, complete, and current.**

   Comment:

   The Department of Social Services did not reconcile its or the Office of Early Childhood's cashbooks to bank statements for the fiscal year 2021-2022.

3. **The Office of the State Comptroller should update its lease reporting instructions and improve internal controls over accounting at state agencies to ensure compliance with the Government Accounting Standards Board statement on leases.**

   Comment:

   Our examination of leases identified deficiencies in Core-CT and accounting errors in all 14 lease calculations reviewed.