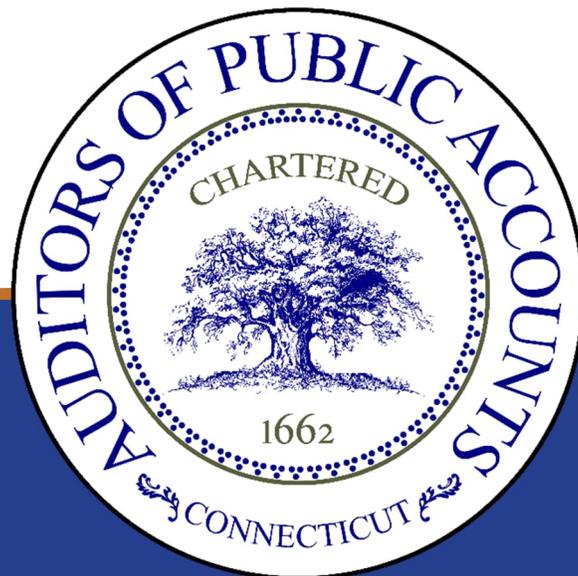


AUDITORS' REPORT

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

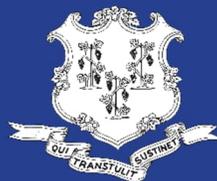
State of Connecticut Annual Comprehensive Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2025



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



CRAIG A. MINER
State Auditor

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

STATE CAPITOL
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HARTFORD, CONNECTICUT 06106-1559

CRAIG A. MINER

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, 2025. 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 Basis \(GAAP Based Budgeting\) Annual Report](#) for the fiscal year ended June 30, 2025, issued November 28, 2025.

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, 2025, issued February 27, 2026.

We have 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 27, 2026. Also, within this report is the Schedule of Findings and Questioned Costs, which details the findings and recommendations for corrective action.

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



Tyler Flanagan
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Craig A. Miner
State Auditor

February 27, 2026
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 the 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 fiscal year ended June 30, 2025, 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 27, 2026.

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 Universities, Connecticut State Community College, 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 Schedule of Findings and Questioned Costs as Finding Numbers 2025-001 and 2025-002 that we consider to be significant deficiencies.

Report on 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*.

We noted certain other matters that we have reported to management in the accompanying State Auditors' Findings and Recommendations as Finding Number 2025-003.

State's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the state's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. 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.



John C. Geragosian
State Auditor



Craig A. Miner
State Auditor

February 27, 2026
State Capitol
Hartford, Connecticut

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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 2025-003 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:

Finding 2025-001

Inadequate Implementation of Changes in Accounting Principles

Criteria

Sound internal controls over financial reporting require an entity to sufficiently plan for changes in accounting principles and update policies, procedures, and system reports to ensure accurate and complete information. Government Accounting Standards Board (GASB) Statement No. 101 requires entities to measure and report compensated absences, including vacation, sick, and personal leave, and compensatory time, using updated accounting methods so that the financial statements accurately reflect related liabilities.

Condition

Our review of the initial OSC compensated absences report identified the following errors that were either material or were not sufficiently checked for reasonableness:

- The OSC supporting report included hours that were not reflected in the compensated absences report: 686,493 hours of sick leave, 13,619 hours of personal leave, 1,865 hours of compensatory time, and 1,169 hours of holiday compensatory time.
- We found 1,285 employees who appeared on more than one line of the report. In some cases, OSC counted their leave balances more than once. We cannot clearly identify the net effect of this error on the reported liability.
- OSC calculated the liability for 41 employees with leave balances using a rate of \$0/hour.
- OSC calculated the liability for one employee using a rate of \$2,346/hour instead of the actual rate of \$58.67/hour,

resulting in an overstatement of the employee's liability by approximately \$958,000.

Context	The Office of the State Comptroller reported approximately \$1.2 billion in liabilities for compensated absences related to governmental activities.
Effect	Inaccurate, incorrect, or incomplete leave balances and hourly rates result in misstated compensated absence liabilities. In addition, the need to reconcile and investigate these errors consumes significant staff time and may lead to delays in issuing the Annual Comprehensive Financial Report.
Cause	OSC did not sufficiently plan for changes in accounting principles. OSC did not perform adequate reconciliations and reasonableness checks on its compensated absences report to ensure the completeness and accuracy of all data.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Office of the State Comptroller should strengthen internal controls for implementing new accounting standards to ensure accurate reporting and compliance with GASB requirements.
Agency Response	"The Office of the State Comptroller ("OSC") encountered several challenges during the implementation process of this particular GASB requirement. The programming of the reports to obtain the information necessary for implementation was much more difficult than initially expected and the amount of data was so large it resulted in multiple reports that needed to be compiled after completion. The Budget and Financial Analysis Division ("BFA") has taken steps to address the issues identified by creating a template and reconciliation process to ensure that the information collected for this disclosure is accurate, complete, and free of errors. BFA will also continue to provide relevant trainings to staff to stay up-to-date on future GASB pronouncements and work to ensure adequate planning is performed for a smoother, more accurate implementation process."

Finding 2025-002

Inadequate Financial Reporting Process – GAAP Forms

Criteria	<p>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 needed 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. OSC provides instructions on the adjustment forms requiring agencies to compare the current year's amounts to the prior year and explain fluctuations greater than 5% and \$5 million.</p>
Condition	<p>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 2025 fiscal year again found the following errors and omissions in the amounts reported. The material errors found and corrected were as follows:</p> <ul style="list-style-type: none">• The Department of Transportation overstated its contractual obligations by \$185 million. The Department of Developmental Services understated its contractual obligations by \$20.7 million. The Department of Housing overstated its contractual obligations by \$2.5 million.• The Department of Housing overstated its grant receivables by \$6.3 million. The Department of Public Health overstated its grant receivables by \$6.7 million.• The Department of Energy and Environmental Protection understated receivables estimated to be uncollectible by \$21.3 million.• The Secretary of State did not report \$9.6 million of unearned revenue.
Context	<p>OSC received GAAP forms from approximately 28 state agencies that included \$9.9 billion in reported contractual obligations.</p> <p>State agencies reported \$511.9 million of grant receivables for the Federal & Other Restricted Accounts Fund.</p> <p>State agencies reported \$469.2 million of receivables estimated to be uncollectible for the General Fund.</p>

State agencies reported \$23.6 million of deferred revenue.

Effect	Deficiencies in the state’s internal controls over financial reporting could adversely affect its ability to provide accurate financial information.
Cause	The underlying reasons for the errors include new fiscal staff who were unfamiliar with the reporting requirements, ineffective supervisory review, and failure to follow OSC instructions for explaining annual fluctuations in reported amounts.
Prior Audit Finding	Errors related to state agency GAAP Forms have been previously reported in the last eleven audit reports covering the fiscal years 2013 through 2024.
Recommendation	The Office of the State Comptroller should improve its efforts to train agency personnel in the preparation of accurate GAAP adjustments.
Agency Response	“The Office of the State Comptroller (“OSC”) will continue to update, expand, and develop instructions and training materials related to the completion of the annual GAAP forms. Although state agencies are ultimately responsible for ensuring their staff receive sufficient training, OSC will ensure that it continues to provide guidance where needed to mitigate future reporting errors. The Budget and Financial Analysis Division (“BFA”) will also continue to work with those agencies identified as submitting incorrect information and provide additional support to ensure that those errors do not occur going forward.”

Finding 2025-003

Lack of Timely Audit Report - State Education Resource Center

Criteria	<p>Section 1-123(a) of the General Statutes requires the State Education Resource Center (SERC), a quasi-public agency and a component unit of the State of Connecticut, to submit an annual report that includes a complete set of financial statements to the Governor and the Auditors of Public Accounts.</p> <p>Section 10-357d of the General Statutes requires SERC to annually submit a financial audit to the State Board of Education and the General Assembly.</p>
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Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200.501 requires a non-federal entity that expends \$750,000 or more in federal awards during its fiscal year to have a single or program-specific audit conducted for that year. Title 2 CFR Part 200.512 requires the non-federal entity to submit its audit report and the data collection form within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.

Sound internal controls over information systems require the ability to promptly obtain accurate data for financial reporting.

Condition	SERC did not issue its fiscal year 2024 audited financial statements until January 30, 2026. As of February 1, 2026, SERC had not executed an agreement for its fiscal year 2025 financial statement or federal single audits. In addition, SERC failed to promptly submit the federal single audit report and data collection forms for fiscal year 2024.
Context	The State Department of Education provided SERC with approximately \$18.6 million and \$8.5 million in pass-through and service fees in fiscal years 2024 and 2025, respectively. Of those amounts, federal grant funds accounted for approximately \$18.0 million and \$7.0 million in fiscal years 2024 and 2025, respectively.
Effect	Without timely audited financial statements, it is not possible to fully assess SERC's financial performance, and SERC's financial activity cannot be included in the ACFR if it becomes material. Without proper administrative and fiscal controls, there is an increased risk of fraud.
Cause	Turnover among fiscal staff over the last few years caused SERC's continued financial reporting delays.
Prior Audit Finding	This finding has been previously reported in the prior year audit report covering the fiscal year 2024.
Recommendation	The State Education Resource Center should strengthen internal controls to ensure that it promptly prepares complete and accurate financial statements. The center should also submit its federal single audit report and data collection form in accordance with federal requirements.
SERC Response	"We agree with this finding. Ongoing turnover within the fiscal department has delayed the completion of required audits. While a chief financial officer was hired to provide leadership within the department and address prior audit findings, the individual departed the position on June 26, 2025, with less than 24 hours' notice, leaving the organization without adequate fiscal leadership for the remainder of the fiscal year. We speculate that our ongoing

turnover of chief financial officers may be attributed to SERC's low starting salary range for this position and the uncertainty about funding for all personnel. SERC became a quasi-public in 2014 without an established funding line other than the discretionary funds we receive from the State Department of Education. Despite several years of advocacy at the legislative level, this remains a challenge. Over the years, this uncertainty has led to workforce reductions and reduced staff hours. To mitigate further delays in completing our 2025 audit, SERC has discussed amending the agreement with its current auditing firm to conduct the 2025 audit. SERC has also contracted with an external consultant to facilitate the fiscal department's operations while we find a permanent fiscal department head."

OSC Response

"Although the State Education Resource Center ("SERC")'s financials are currently considered immaterial and not included in the State's ACFR, it continues to grow and will likely be material enough to include in the coming years. Completed financial statements from SERC will be a necessity for OSC to meet its reporting deadlines when this occurs."

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior](#) Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters for the Fiscal Year Ended June 30, 2024 State of Connecticut Annual Comprehensive Financial Report contained five recommendations. Three have been implemented or otherwise resolved, and two have been repeated during the current audit.

Prior Recommendation	Current Status
<p>The Office of the State Comptroller should improve internal controls to ensure that journal entries are accurate and complete. The Office of the State Comptroller should not change the audited year-end account balances in subsequent years unless the corrections are for material errors or changes in accounting principles that require restatement.</p>	
<p>The Budget and Financial Analysis Division of the Office of the State Comptroller should improve its efforts to train agency personnel in the preparation of accurate GAAP adjustments.</p>	 Recommendation 2025-002
<p>The Office of the State Comptroller should strengthen internal controls over the financial reporting process to promptly complete the Annual Comprehensive Financial Report.</p> <p>The Connecticut State Community College and Universities should ensure that its financial statements are promptly completed and provided to the Office of the State Comptroller.</p>	
<p>The Connecticut State Colleges and Universities should ensure the controller position remains filled and identify additional individuals to support the controller, to prevent reliance on a single position for key internal control functions.</p>	
<p>The State Education Resource Center should strengthen internal controls to ensure that it promptly prepares complete and accurate financial statements. The center should also submit its federal single audit report and data collection form in accordance with federal requirements.</p>	 Recommendation 2025-003