

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE STATE COMPTROLLER
DEPARTMENTAL OPERATIONS
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
CLARK J. CHAPIN ❖ JOHN C. GERAGOSIAN

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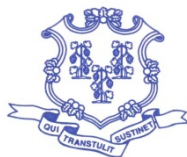
May 27, 2021

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 State Comptroller for the fiscal years ended June 30, 2018 and 2019. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies; and a need for improvements in management practices that warrant the attention of management. The significant findings and recommendations are presented below:

Page 7	The Office of the State Comptroller is required to submit biennial Core-CT system reports. The office submitted its 2017 report 67 days late and its 2019 report 304 days late. The office did not prepare the 2019 report until our office requested it. In addition, the reports did not include the projected costs for the next three years, total cost to date, and the date and cost of future upgrades. The Office of the State Comptroller should submit required Core-CT system reports in accordance with Section 3-115e of the Connecticut General Statutes. (Recommendation 1.)
Page 8	The four managers we reviewed completed their Managerial Sick Leave Bank enrollment forms between 111 and 5,268 days after becoming eligible. The office did not notify two of the managers of their eligibility until our office requested their documentation. One manager did not sign the enrollment form. The Office of the State Comptroller should comply with the state’s Manager’s Sick Leave Bank requirements. (Recommendation 2.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

CLARK J. CHAPIN

May 27, 2021

AUDITORS' REPORT OFFICE OF THE STATE COMPTROLLER FISCAL YEARS ENDED JUNE 30, 2018 AND 2019

We have audited certain operations of the Office of the State Comptroller 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 office 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; 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:

1. Identified deficiencies in internal controls;
2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Identified 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 findings arising from our audit of the Office of the State Comptroller.

COMMENTS

FOREWORD

The Office of the State Comptroller operates primarily under the provisions of Article Fourth, Section 24 of the State Constitution and Title 3, Chapter 34 of the General Statutes. During the audited period, the office consisted of seven divisions: Accounts Payable, Budget and Financial Analysis, Management Services, Information Technology, Payroll Services, Retirement Services, and Healthcare Policy and Benefit Services. Our office audits the Retirement Services and the Healthcare Policy and Benefit Services divisions separately. Therefore, they are not included within this report.

Kevin Lembo served as State Comptroller during the audited period.

Significant Legislation

There were no notable legislative changes identified that affected OSC during the audited period.

RÉSUMÉ OF OPERATIONS

Departmental Operations – General Fund Revenues

General Fund receipts during the audited period, as compared to the preceding fiscal year, are summarized below:

	Fiscal Year Ended June 30,		
	2017	2018	2019
Departmental Receipts:			
Principal on Loans	\$ 38,813	\$ -	\$ -
Recoveries of Expenditures			
Unemployment Compensation	807,852	3,109,161	2,828,974
Indirect Overhead – Federal Projects	14,916,046	15,208,133	15,264,541
Employee Fringe Benefits	3,046,296	7,751,939	50,875,465
Workers' Compensation	5,977,815	5,916,607	6,581,947
General Recoveries	1,513	36,228	-
Refunds			
Refunds of Expenditures	194,337	685,502	68,096
Refunds of Health Insurance	73,548	77,253	55,421
Refunds of Salary/Workers' Comp.	-	48	-
All Other Revenues	45,673	49,821	49,372
Refunds of Payments (Statewide)	28,525	14,351	-
Total:	\$ 25,073,368	\$ 32,820,341	\$ 75,723,816

Receipts consisted primarily of excess funding of unemployment compensation, workers' compensation, fringe benefits, and indirect costs. These costs were initially charged to the General Fund, but subsequently reimbursed from federal and other-than-federal General Fund restricted accounts and/or other state funds. The Office of the State Comptroller primarily recovered these costs via the state payroll system based on reports filed by state agencies, with each agency's payroll using salaries and wages as its approved indirect cost base. The significant increase in receipts for fiscal year 2019 was due to higher fringe benefit recovery rates. During years in which recoveries exceed the state's annual required contribution (ARC) to the State Employees Retirement System (SERS), the excess is transferred to the General Fund and recorded as revenue. The fluctuations from year-to-year in the other categories were primarily caused by changes in the amount of salaries charged to federal restricted accounts and state funds other than the General Fund and changes in the cost recovery rates.

Fringe benefit recoveries of employer costs for group life insurance, medical insurance (health service cost), and Social Security costs are generally credited to the special appropriation accounts used to finance the employer share of such costs. We will present additional comments on the recoveries on each of these special appropriation accounts later in this section.

The Office of the State Comptroller's Budget and Financial Analysis Division annually calculates certain fringe benefit cost recovery rates as part of the statewide cost allocation plan, which is approved by the federal government for application against salaries paid from federal funds. Fringe benefit costs are then recovered by applying these rates to the gross salaries and wages chargeable to federal and other-than-federal General Fund restricted accounts and/or state funds other than the General Fund. The office charges agencies the state share of medical and group life insurance on an actual cost basis, rather than a calculated percentage. The rates for FICA-Social Security and FICA-Medicare are calculated based on existing federal tax rates, which

were 6.2% and 1.45% during the audited period, respectively. The Core-CT information system automatically charges fringe benefits to the same funding source as the personal services expenditures.

Departmental Operations – General Fund Expenditures

Net General Fund expenditures during the audited period, as compared to the preceding fiscal year, are summarized below:

	Fiscal Year Ended June 30,		
	2017	2018	2019
Personal services	\$ 22,448,969	\$ 21,147,104	\$ 21,104,522
Contractual services and other expenses	4,603,156	4,502,424	4,510,702
Nonfunctional - Change to Accruals	-	-	-
Total Departmental Expenditures	\$ 27,052,125	\$ 25,649,528	\$ 25,615,224

Expenditures remained relatively consistent throughout the audited period. The decrease in personal services expenditures during fiscal year 2018 was primarily due to a reduction in full-time employees.

Special Appropriations Administered by the State Comptroller

In addition to the budgeted and restricted General Fund appropriation accounts used by the Office of the State Comptroller to finance various departmental programs and activities, the office administers numerous nonfunctional appropriation accounts within the General and Special Transportation Funds.

Refunds of Payments

Sections 4-37, 14-159, 22a-10, and other sections of the General Statutes authorize the State Comptroller to refund overpayments of fees paid by corporations and individuals, and to refund monies to persons equitably entitled to the refund of any money paid to the state. The corresponding state agency processes these refunds and they are paid as a reimbursement of revenues of the State Comptroller. Refunds of payments for the fiscal years ended June 30, 2018 and 2019 totaled \$14,351 and \$0, respectively, as presented in the summary of General Fund departmental receipts table of this report. Refunds of Special Transportation Fund payments totaled \$139 and \$137 for fiscal years 2018 and 2019, respectively.

Adjudicated Claims

Under Section 3-7 of the General Statutes, the Governor may authorize the compromise of any claim against the state upon the recommendation of the Attorney General. Section 4-160 of the General Statutes provides for payments of claims based on court judgments entered against the state. In these cases, the state’s claims commissioner must grant permission to file suit against the state.

For the fiscal years ended June 30, 2018 and 2019, the Comptroller paid \$35,518,032 and \$65,533,883 towards the settlement of claims against the state, respectively.

Unemployment Compensation

The cost of former state employee unemployment benefits is reimbursed to the Unemployment Compensation Benefit Fund from the General Fund for most former state employees and the Special Transportation Fund for former Departments of Transportation and Motor Vehicles employees. During the fiscal years ended June 30, 2018 and 2019, \$328,972 and \$297,873 was reimbursed from the Special Transportation Fund and \$4,515,501 and \$3,583,999 was reimbursed from the General Fund, respectively.

Partial recoveries of such reimbursements are made within the General Fund for former employees whose salaries were paid from other state or federal funds. Under procedures established by the Office of the State Comptroller, the recoveries for those funds' share of fringe benefit costs are processed through an approved fringe benefit cost recovery rate established annually and applied as a percentage of covered payrolls. Recoveries of reimbursements for the fiscal years ended June 30, 2018 and 2019 totaled \$3,109,161 and \$2,828,974, respectively.

During the audited period, a consulting firm served as addressee of record for all state agencies' unemployment compensation claims for former employees. The consulting firm performed administrative functions, reviewed unemployment claims, attended appeal hearings, and advised various state agencies on such matters. Our office reviews payments from the Unemployment Compensation Benefit Fund as part of our audit of the Department of Labor to verify that payments were properly charged to the employer's account and paid to eligible employees.

Group Life Insurance

As provided for in Section 5-257 of the General Statutes, the state offers a group life insurance program to state employees, retirees, and members of the General Assembly. The state's share of premiums for this program is charged to appropriations in the General and Special Transportation Funds authorized for this purpose.

The Office of the State Comptroller pays premiums to the provider monthly, based on the coverage in force on the first day of the month of payment adjusted for additional or cancelled coverage during the preceding month. Subsequently, reimbursements to the General Fund are received from certain federal and state funds or restricted accounts charged with salaries of employees covered under the state's group life insurance program. The state's share of insurance premiums under the group life insurance program during fiscal years 2018 and 2019 was \$7,948,932 and \$7,732,548 from the General Fund, respectively and \$262,035 and \$252,100 from the Special Transportation Fund, respectively. Our office reviews these activities during our separate audit of the Office of the State Comptroller's Retirement Services and Healthcare Policy and Benefit Services divisions.

Tuition Reimbursements – Training and Travel

Most collective bargaining agreements require the state to budget for the costs of continuing education, professional seminars, conferences, and related travel expenses. This appropriation account was established to consolidate the financing of these costs under the State Comptroller.

During the fiscal years ended June 30, 2018 and 2019, expenditures for tuition reimbursement totaled \$2,876,227 and \$4,833,001, respectively.

Employer’s Social Security Tax

Each fiscal year, the state’s share of Social Security costs is charged to General and Special Transportation Fund appropriations authorized for this purpose. Reimbursements to the General Fund are received from certain federal and state funds or restricted accounts charged with salaries of employees covered under Social Security. The gross payments to the federal government for the employer’s share of Social Security taxes are based on the rates and wage limits in effect during the audited period. For the fiscal years ended June 30, 2018 and 2019, total payments of the state’s share were \$202,306,354 and \$209,089,275 from the General Fund, respectively and \$15,081,541 and \$15,378,288 from the Special Transportation Fund, respectively.

State Employees and Retired State Employees Retirement and Health Care Costs

The Office of the State Comptroller receives revenues and makes payments for various special appropriations and trust funds to pay for current and former state employee retirement and healthcare costs. Our office reviews these activities in a separate audit of the Office of the State Comptroller’s Retirement Services and Healthcare Policy and Benefit Services divisions.

For the fiscal years ended June 30, 2018 and 2019, these payments amounted to \$2,452,499,401 and \$2,577,719,284 from the General Fund, respectively and \$169,059,750 and \$179,917,700 from the Special Transportation Fund, respectively.

Capital Project Outlays

Capital project fund expenditures were primarily for upgrades to the Core-CT information system as part of the Information Technology Capital Investment Program, which was established to update technology and create systems across agencies that make state government more efficient. Expenditures for the Capital Investment Program totaled \$10,967,022 and \$2,661,639 for the fiscal years ended June 30, 2018 and 2019, respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of the State Comptroller disclosed the following two recommendations, of which none have been repeated from the previous audit:

Untimely and Incomplete Core-CT Biennial Report

Criteria: Section 3-115e of the Connecticut General Statutes requires the Office of the State Comptroller to submit biennial Core-CT system reports to the Governor and General Assembly. During the audited period, the reports were due by October 1, 2017 and 2019. The reports should include the status of the system, the total cost to date and projected costs for the next three fiscal years, other required software, the date and costs of future upgrades, the level of cooperation from vendors and state agencies, and any other issues surrounding the Core-CT system.

Condition: The office submitted its 2017 Core-CT system report 67 days late and its 2019 report 304 days late. The office did not prepare the 2019 report until our office requested it. In addition, the reports did not include the following required information:

- Projected costs for the next three years
- Total cost to date
- Date and cost of future upgrades

Effect: The intended recipients of the report were not able to evaluate the required information.

Cause: The Core-CT unit was short staffed, and had to divert resources to other tasks.

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

Recommendation: The Office of the State Comptroller should submit required Core-CT system reports in accordance with Section 3-115e of the Connecticut General Statutes. (See Recommendation 1.)

Agency Response: “The Office of the State Comptroller (OSC) agrees with this audit recommendation. Due to resource limitations, the Core-CT team was short-staffed and working on other mission critical tasks. To the best of our knowledge, this is the first time the report was completed late. Going forward, OSC will submit the report in a timely manner and incorporate all required elements, including the total costs to date, the date and cost of future projects and the projected costs for the next three years.”

Inadequate Monitoring of Manager's Sick Leave Bank Eligibility

<i>Criteria:</i>	State Management Personnel Policy 97-1 provides that State of Connecticut managers are eligible to participate in the Managerial Sick Leave Bank (MSLB) after completing two years of state service. Managers may accept or decline participation within 90 days of becoming eligible. The signed enrollment form, documenting the managers' decision, is maintained in their personnel file.
<i>Condition:</i>	<p>A review of records for four Office of the State Comptroller managers eligible to participate in MSLB during the audited period disclosed the following:</p> <ul style="list-style-type: none">• Four managers completed the MSLB enrollment form between 111 and 5,268 days after becoming eligible.• The office did not notify two of the managers of their eligibility until our office requested their documentation.• One manager did not sign the enrollment form.
<i>Context:</i>	Six managers became eligible to participate in the sick leave bank during the audited period.
<i>Effect:</i>	Eligible managers may not receive a benefit of which they are entitled.
<i>Cause:</i>	The Office of the State Comptroller failed to adequately monitor manager eligibility for the sick leave bank.
<i>Prior Audit Finding:</i>	This finding has not been previously reported.
<i>Recommendation:</i>	The Office of the State Comptroller should comply with the state's Manager's Sick Leave Bank requirements. (See Recommendation 2.)
<i>Agency Response:</i>	"The Office of the State Comptroller (OSC) agrees with this audit recommendation. To ensure manager's sick leave bank application forms are completed in a timely manner, the OSC human resources unit has strengthened its internal process in several ways. A line item has been added to OSC's new hire and transfer orientation checklist to determine when an employee should be offered Managerial Sick Leave Benefits. It includes language to set up a calendar reminder for when the benefits should be offered depending on the individual's specific timeline of eligibility. For current employees promoted to a managerial position, the HR division will make greater effort to ensure that the employees are offered the benefits in the required time frame."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Office of the State Comptroller contained one recommendation, which has been resolved.

- The Office of the State Comptroller should strengthen controls over personal service agreements and ensure that all relevant parties sign these agreements before related services are provided. **This recommendation has been resolved.**

Current Audit Recommendations:

- 1. The Office of the State Comptroller should submit required Core-CT system reports in accordance with Section 3-115e of the Connecticut General Statutes.**

Comment:

The office submitted its 2017 Core-CT system report 67 days late and submitted its 2019 report 304 days late. The office did not prepare the 2019 report until our office requested it. In addition, the reports did not include the projected costs for the next three years, total cost to date, and the date and cost of future upgrades

- 2. The Office of the State Comptroller should comply with the state's Manager's Sick Leave Bank requirements.**

Comment:

The four managers reviewed completed their Managerial Sick Leave Bank enrollment forms between 111 and 5,268 days after becoming eligible. The office did not notify two of the managers of their eligibility until our office requested their documentation. One manager did not sign the enrollment form.

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 State Comptroller during the course of our examination.

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

Sarah Monaghan

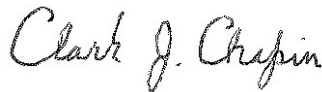


Sarah Monaghan
Associate Auditor

Approved:



John C. Geragosian
State Auditor



Clark J. Chapin
State Auditor