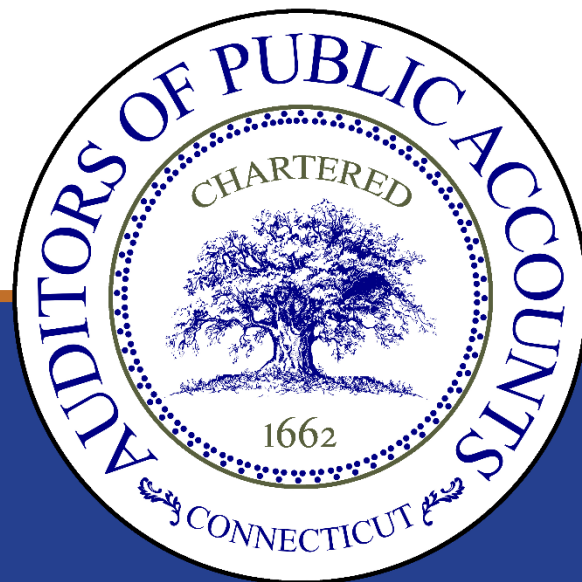


AUDITORS' REPORT

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

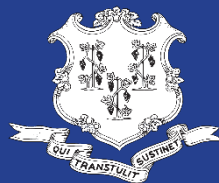
State of Connecticut Annual Comprehensive Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2023



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
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

CRAIG A. MINER

March 27, 2024

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, 2023. 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, 2023, issued December 29, 2023.

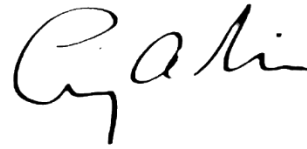
We have also audited the financial statements and certain other information of the Comptroller of the State of Connecticut as they pertain to the State of Connecticut's financial position and results of operations on the basis of generally accepted accounting principles (GAAP). The auditors' report on 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, 2023, issued March 27, 2024.

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 March 27, 2024. Also, within this report is the State Auditors' Findings and Recommendations, which detail the findings and recommendations 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.



John C. Geragosian
State Auditor



Craig A. Miner
State Auditor

March 27, 2024
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, 2023, and the related notes to the financial statements, which collectively comprise the state's basic financial statements, and have issued our report thereon dated March 27, 2024.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying State Auditors' Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiencies described in the accompanying State Auditors' Findings and Recommendations as Finding Number 2023-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying State Auditors' Findings and Recommendations as Finding Number 2023-02 to be a significant deficiency.

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*.

State's Response to Findings

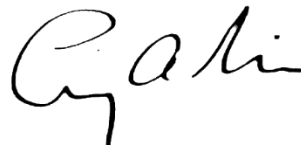
Government Auditing Standards requires the auditor to perform limited procedures on the state's response to the findings identified in our audit and described in the accompanying State Auditors' Findings and Recommendations. The state's response was not subjected to the auditing procedures applied in 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.



John C. Geragosian
State Auditor



Craig A. Miner
State Auditor

March 27, 2024
State Capitol
Hartford, Connecticut

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of statewide financial reporting identified a material weakness and a significant deficiency in internal control as defined by auditing standards generally accepted in the United States of America. Although finding 2023-003 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 2023-001

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 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.

Sound internal controls require that the Office of the State Comptroller has procedures to confirm the accuracy of journal entries and the financial statements.

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 2023 fiscal year again found the following errors and omissions in the amounts reported. The material errors found and corrected were as follows:

- The Department of Administrative Services understated the obligations for the school construction program by \$935,270,881 and understated construction-in-progress by \$39,403,023.
- The Department of Economic and Community Development overstated its contractual obligations by \$31,569,116.
- The Office of Early Childhood understated its contractual obligations by \$81,849,706.
- The Connecticut Technical Education and Career System did not submit its year-end inventory report to the Office of the State Comptroller by the required due date, and

therefore, failed to report its \$1,084,691,507 acquisition of capital assets.

The Office of the State Comptroller did not detect and prevent errors that could have caused material misstatements in the state's Annual Comprehensive Financial Report (ACFR).

- OSC overstated the outstanding General Obligation Bonds balance by \$25,095,564,000 and the outstanding enterprise funds revenue bonds balance by \$1,548,375,000 in the disclosure note for long-term notes and bonded debt.
- OSC overstated fair market values and cash equivalents by \$8,200,074,000 and \$10,456,824,000, respectively, in the listing of the Combined Investment Funds by Moody's ratings in the disclosure note for cash deposits and investments.
- Numerous material journal entries were erroneous due to posting to wrong accounts, transposition errors, outdated amounts, signage errors, or mistakenly set up for automatic reversals. Examples of these journal entries included OSC: a) Set up reversal entries totaling \$450,663,992 in the Employment Security Fund and \$961,089,164 in the Teachers Retirement Fund in error; b) Recorded \$11,116,691,188 to a wrong expenditure account; and c) Recorded journal entries utilizing fiscal year 2021 General Obligation Bonds balances instead of using fiscal year 2023 balances.

Context

The Office of the State Comptroller received GAAP forms from approximately 28 state agencies that included reported contractual obligations totaling \$6,420,937,952.

State agencies' capital assets totaled approximately \$36,000,000,000 as of June 30, 2023.

The state reported outstanding General Obligation Bonds totaling \$17,622,398,000 and outstanding enterprise funds revenue bonds totaling \$1,183,300,000 as of June 30, 2023.

The Combined Investment Funds investment fair value amounted to \$12,117,663,000 with cash equivalents of \$1,660,840,000.

The state ended the fiscal year with \$18,581,028,000 in governmental funds total assets.

Effect

Deficiencies in the state's internal controls over financial reporting could adversely affect its ability to provide accurate financial information.

Cause

For the GAAP forms conditions, the underlying reasons ranged from new fiscal staff being unfamiliar with the reporting requirements to incomplete project information in the Core-CT system.

OSC had an insufficient internal review process to identify and correct material errors. The misstatements were caused by a combination of new accounting staff, insufficient written procedures, data entry errors, and ineffective supervisory review.

Prior Audit Finding

This finding has been previously reported, in part, in the last nine audit reports covering the fiscal years 2013 through 2022.

Recommendation

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 and improve internal controls to ensure accurate and complete financial statements.

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 annual GAAP forms. Although state agencies are ultimately responsible for ensuring that their staff receive sufficient training, our office will ensure that it provides guidance where needed to mitigate future reporting errors. The Budget and Financial Analysis ("BFA") Division will also contact those agencies identified as submitting incorrect information and support those agencies to ensure that those errors do not occur going forward.

In addition, as noted by the auditors, several personnel changes occurred during the fiscal year due to retirements and staff departure. This included key members of the BFA Division, resulting in some of the items identified during the audit. The OSC has addressed these by filling those key roles with qualified staff, providing BFA Division staff with appropriate training, and updating the documented workflow to ensure proper supervisor review and sign-off of workpapers."

Finding 2023-002**Failure to Promptly Complete the Annual Comprehensive Financial Report (ACFR)****Criteria**

Section 2200.104 of the Government Accounting Standards Board - Codification of Governmental Accounting and Financial Reporting Standards states that the Annual Comprehensive Financial Report (ACFR) should be prepared and published promptly after the close of the fiscal year and should contain the independent auditors'

report. Timely and properly presented financial reports are essential to provide necessary governmental financial information to managers, legislative officials, creditors, financial analysts, the public, and other interested parties.

With respect to its debt issuance, the state has a continuing disclosure obligation to provide audited financial statements to comply with certain Securities and Exchange Commission (SEC) regulations. The Office of the State Treasurer must include the audited ACFR in the state's annual information statement by the end of each February.

Condition

The Office of the State Comptroller did not promptly prepare the ACFR. The state filed its annual information statement with the Municipal Securities Rulemaking Board on February 27, 2024, without the audited ACFR. On March 1, 2024, the Office of the State Treasurer published an [event notice](#) informing investors and the public that the ACFR was not included in the annual information statement.

Context

The state's outstanding General Obligation Bonds totaled \$17.6 billion as of June 30, 2023.

Effect

The Office of the State Treasurer will have to disclose this late filing to investors and the public for the next five years.

Cause

OSC experienced employee retirements and turnover in fiscal year 2023. OSC did not maintain a formal task schedule with targeted completion dates to allow supervisors to monitor delays and provide timely assistance. OSC also informed us that the implementation of a financial reporting software did not progress as effectively as expected.

Prior Audit Finding

This finding has not been previously reported.

Recommendation

The Office of the State Comptroller should strengthen internal controls over the financial reporting process to promptly complete the Annual Comprehensive Financial Report.

Agency Response

"In addition to the retirements and turnover experienced in the Budget and Financial ("BFA") Division - some of which involved key roles - various state agencies experienced similar turnover requiring the hiring of new staff or shifting of staff roles. This resulted in the delayed receipt of financial information from various state agencies needed to complete the state's Annual Comprehensive Financial Report ("ACFR"). In addition to the staffing issues, the BFA Division was in the process of implementing new reporting software, further complicating the Division's operations, and resulting in the delayed completion of the state's ACFR.

The OSC addressed its staffing issues through hiring experienced staff to fill those key roles and providing relevant training to all staff within the BFA Division. The BFA Division is reviewing, expanding, and updating guidance and training materials for state agency staff to utilize during the year-end reporting process. This will help ensure that the information required to complete the ACFR is submitted to the BFA Division in a timely manner.

Furthermore, the OSC has completed the implementation of the new reporting software and, as a result, anticipates a time savings during the next reporting cycle.”

Finding 2023-003

Lease Accounting

Criteria

Sound internal controls over financial reporting require an entity to sufficiently plan for changes in accounting principles, including an assessment of their financial impact, the effect on its information system requirements, and the need to train personnel. The Governmental Accounting Standards Board (GASB) recently issued *Statement No. 87, Leases* and *Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA)* to improve the financial reporting of leases and SBITA by governments.

Condition

The prior report found that 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. Our review found an understatement of \$18,775,000 in the cumulative amortization amount of property leases. Leases under \$300,000, although not material, remained inaccurate in Core-CT.

We found an understatement of \$26,057,023 in the right-to-use and the liability related to a subscription-based-information technology arrangement. The SBITA right-to-use asset value reported in the financial statements was \$69,786,1126 less than the amount recorded in the Core-CT asset management module.

Context

The Office of the State Comptroller reported approximately \$34,574,000 cumulative amortization for the right-to-use lease properties.

We judgmentally selected five information technology agreements, two of which met SBITA accounting requirements. We found errors

in one SBITA agreement. OSC reported \$30,825,000 for the SBITA right-to-use net asset as of June 30, 2023.

Effect OSC did not accurately calculate assets and liabilities related to leases.

Cause Core-CT did not have all the lease functions necessary for fiscal year 2023 financial reporting needs. Manual calculations increased the risk of errors.

The Office of the State Comptroller's calculation used the estimated maximum contract value without considering the amount of fixed payments in substance. For the SBITA contract with multiple components, the calculation did not specify the subscription components, and therefore OSC could not reconcile the amount reported to the assets in Core-CT under the same contract identification.

Prior Audit Finding This finding has previously been reported in the prior year audit report covering the fiscal year 2022.

Recommendation The Office of the State Comptroller should update its internal controls over lease accounting to ensure accurate reporting and compliance with the Government Accounting Standards Board statements on leases and subscription-based information technology arrangements.

Agency Response "The OSC has initiated the process of evaluating the forms and methodologies used to identify, record, and amortize leases and subscription-based information-technology agreements ("SBITAs") to ensure compliance with the requirements set forth by the Governmental Accounting Standards Board. The OSC will also continue to develop and disseminate training materials and guidance on these reporting requirements to ensure that relevant staff at the state agencies understand what information is to be provided at year-end for reporting purposes.

Although leases with a total value of \$300,000 or less over the lease term are considered immaterial, as noted in the audit report, the Budget and Financial Analysis Division will work with the appropriate divisions within the OSC, as well as the relevant state agencies to correct any issues noted."

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, 2022 State of Connecticut Annual Comprehensive Financial Report contained three recommendations. One has been implemented or otherwise resolved, and two have been repeated or restated with modifications during the current audit.

Prior Recommendation	Current Status
<p>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 of accurate GAAP adjustments and improve internal controls to ensure that the financial statements are accurate and complete.</p>	<p>REPEATED Modified Form</p>
<p>The Department of Social Services should strengthen internal controls over cashbook reconciliation processes to ensure financial records are accurate, complete, and current.</p>	<p>RESOLVED</p>
<p>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.</p>	<p>REPEATED Modified Form</p>

OTHER INFORMATION

Implementation of GAAP Based Budgeting

The Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report for the fiscal year ended June 30, 2023 reflects the tenth 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. The statutory basis of accounting used for budgetary financial reporting and the modified accrual basis used for the ACFR reporting are different and, as a result, often produce varying financial results, primarily because of differences in the recognition of revenues and expenditures.

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.