STATE OF CONNECTICUT

AUDITORS' REPORT
CONNECTICUT STATE EMPLOYEES' CAMPAIGN FOR CHARITABLE GIVING
CAMPAIGN YEARS ENDED
DECEMBER 31, 2015, 2016 AND 2017

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

April 27, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Connecticut State Employees' Campaign for Charitable Giving. The key findings are presented below:

Page 6	We noted numerous instances in which the state employees' campaign did not comply with its statutory authority defining responsibilities, regulations, contractual terms, scope of operations and reporting. The Office of the State Comptroller and Campaign Committee should work together to require the campaign to comply with its statutory authority and responsibilities. (Recommendation 1.)
Page 10	The campaign committee's contracts, for the audited years, did not include critical service commencement and contract execution dates, or operating budgets aligned with the services to be rendered for the specified campaign year. The State Employees' Campaign Committee should execute contracts and associated budgets that align with the each annual campaign's service requirements. The contracts should include specific service start and end dates and all parties' signature dates to establish the execution date. (Recommendation 2.)
Page 12	We identified numerous internal control weakness, indicating the need for the campaign committee to formalize its internal control policies and processes to assure proper execution of its responsibilities. The State Employees' Campaign Committee should formalize its internal control structure to improve compliance with statutory and regulatory authority, effectively monitor the Preferred Combined Fundraising Organization, and achieve its organizational responsibilities. (Recommendation 3.)
Page 14	The Principal Combined Fundraising Organization's annual reports do not constitute an accurate or complete presentation of the financial performance and condition of the campaign for the periods audited. The State Employees' Campaign Committee and the Office of the State Comptroller should clarify the requirements for financial reporting to meet statutory requirements, and exercise greater oversight over the fundraising organization's preparation of the statutorily required annual report presented to agencies and stakeholders. (Recommendation 4.)
Page 16	A review of fundraising organization account bank statements for campaign years 2015 through 2017 identified 13 months in which the balance was greater than twice an average month's deposit. The State Employees' Campaign Committee should obtain statutory authority for its operational policy regarding timely distribution of funds collected by the fundraising organization, and should institute monitoring controls to assure that the fundraising organization promptly distributes funds to participating federations. (Recommendation 5.)

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

ROBERT J. KANE

April 27, 2020

AUDITORS' REPORT

We have audited certain operations of the State Employees' Campaign for Charitable Giving (campaign) 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 campaign years ended December 31, 2015 through 2017, and associated periods of campaign activity. The objectives of our audit were to:

1. Evaluate the campaign's internal controls over significant management and financial functions;

2. Evaluate the campaign's compliance with policies and procedures internal to the campaign 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 campaign, as well as certain external parties; and testing selected transactions. 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 our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the campaign's management and the state's information systems, and was not subjected to the procedures applied in our audit of the campaign. For the areas audited, we identified:

1. Deficiencies in internal controls;

2. Apparent noncompliance with policies and procedures or legal provisions; and

3. Need for improvement in management practices and procedures that we deemed to be reportable.

Previous audits of the State Employees Campaign for Charitable Giving have been conducted under agreed-upon procedures that had a limited scope. In view of significant changes to the campaign during the years subject to review, we have determined that an expanded audit scope was advisable to review the adequacy of statutory compliance and supporting internal controls.

The State Auditors' Findings and Recommendations in the accompanying report, present any findings arising from our audit of the State Employees' Campaign for Charitable Giving.

COMMENTS

FOREWORD

The State Employees' Campaign for Charitable Giving is organized under Chapter 67, Section 5-262 of the Connecticut General Statutes to provide a mechanism for state employees to contribute to charitable organizations for public health, welfare, environmental, conservation or service purposes. The statute authorizes a State Employees Campaign Committee to organize qualifying federations of charitable organizations to participate in the annual solicitation of donations. The federations, most of which are regional United Way organizations throughout Connecticut, receive funds from the campaign for distribution to their member charitable agencies.

The campaign committee sets administrative policy for the campaign. Its main functions are to:

- Evaluate and select federations to participate in the annual campaign;
- Evaluate and select a federation to serve as the Principal Combined Fundraising Organization (fundraising organization); and
- Oversee the operations of the fundraising organization.

Organization

The campaign committee is comprised of 13 voting members appointed by the Governor and the leaders of the General Assembly. The committee selects a member to serve as its chairperson. In addition, a representative from each of the participating federations and the fundraising organization serve as non-voting members of the campaign committee. The 2017 campaign leadership roster was as follows:

Statewide Campaign Chair:

Commissioner Amy Porter	Department of Rehabilitative Services

Connecticut State Employees Campaign Committee Leadership:

Chair: Captain Timothy Newton	Department of Correction
Vice Chair: Peggy Gray	State Retiree

Connecticut State Employees Campaign Committee Members:

Julie Bernosky	Department of Administrative Services
Cindy Cannata	Freedom of Information Commission
Valerie Clark	Office of Policy and Management
Kathleen Gensheimer	Judicial Branch
Lilia Kieltyka	Department of Economic and Community Development
Charles Kistler	State Retiree
Josh Scollins	Department of Administrative Services
Ina Wilson	Department of Education

Other persons serving during the audit period include:

Campaign Chairs: Comptroller Kevin Lembo, 2015;
Commissioner Miriam Delphin-Rittman, 2016

Committee Members: Jason Crisco, Joseph Duberek, Jacqueline Henry-Rafig, Sheila Hummel, Patrick Kilby, Kristen Miller

Operational Structure

The campaign committee relies significantly upon the Principal Combined Fundraising Organization for accounting and administrative support, as well as coordination of field activities for pledge solicitation among over 40 state agencies comprised of approximately 120 distinct facilities. It also oversees 22 charitable federations representing as many as 639 charities. The campaign committee does not have its own administrative resources, and its members serve on a part-time basis in addition to their regular agency duties.

Since the campaign committee does not have the statutory authority of an independent agency, the Office of the State Comptroller (Comptroller) supports the campaign committee for certain administrative purposes such as preparation of contracts and regulations. Public Act 16-62 in May 2016 modified Section 5-262 of the General Statutes and increased the Comptroller's campaign committee oversight responsibilities.

Section 5-262(g) of the General Statutes defines the reporting year of the annual campaign as a calendar year. However, the "annual" campaign actually occurs over 30 months. Although focus is on a calendar year in which over 85% of the pledged donations are collected through payroll deductions, it is preceded by approximately a year of planning, consisting of selection of participating federations and the Principal Combined Fundraising Organization, and the review of promotional plans and materials. It is followed by a 4-month solicitation period (September to December), before payroll deductions commence in January of the campaign year. Following the campaign year, it takes another 4 to 6 months for final accounting, distribution of funds, statutory reporting to governing authorities, and a recognition event for volunteers to close out the campaign cycle. At any point in time, at least 2 campaigns, and sometimes 3, are in some phase of operation.

In addition to the solicitation for contributions through payroll deductions, various special events are conducted among various state agencies to create awareness of the campaign and to raise additional funds.

The organization of the campaign has undergone significant change during the 3 years covered in this audit. This is due to changes in structure within the designated fundraising organization for campaign years 2015 and 2016, as well as a change in the fundraising organization from Combined Health Charities to the United Way of Greater Hartford and Northeastern Connecticut in campaign year 2017.

Significant Legislation

Public Act 16-62, effective May 27, 2016, modified Section 5-262 of the General Statutes, by making a number of technical changes and expanding on various provisions of the statute. Most significantly, the act clarified and expanded the oversight responsibilities of the Office of the State Comptroller with respect to the campaign committee and the fundraising organization.

RÉSUMÉ OF OPERATIONS

The campaign is intended to be self-funding. It's operating and administrative expenses are funded from contributions subject to a budget proposed by the Principal Combined Fundraising Organization and approved by the campaign committee. The expenses are allocated among the participating federations to calculate net distributions to the federations, which are then distributed to the charities designated by donor pledges.

The following analysis is compiled primarily from campaign annual reports prepared by the fundraising organization:

	Campaign Years		
	2015	**2016**	**2017**
Number of Donors	4,206	3,512	2,445
Contributions Raised			
Payroll Deductions	$1,132,722	$995,478	$733,178
One Time Gifts and Special Events	$ 162,420	$157,698	$ 61,079
Total Contributions [1]	$1,295,142	$1,163,176	$794,257
Assignment of Donations to Federations (before expense allocation) [1]	$1,306,184	$1,153,176	$838,662
Campaign Operating and Administrative Expenses [1] [2]	$(229,248)	$(205,098)	$(198,960)
Net Distributions to Federations [1]	$1,102,240	$1,203,599	$908,414

[1] Data as reported in various source documents are not intended to be additive to the Total of Net Distributions to Federations as a result of conditions noted in the finding on Financial Reporting.

[2] Does not include in-kind contribution of materials and staff time provided to the campaign by state agencies.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Connecticut State Employees' Campaign for Charitable Giving disclosed the following 5 findings and recommendations, of which none has been repeated from the previous audit:

Statutory Non-compliance

Background: Section 5-262 of the Connecticut General Statutes provides the general authorization for the Connecticut State Employees' Campaign for Charitable Giving (campaign) and its component organizational elements: State Employees Campaign Committee, Office of the State Comptroller, and the Principal Combined Fundraising Organization; and defines various specific processes of these organizations relative to the administration of the campaign.

Criteria:

1. The campaign committee is deemed a public agency pursuant to the Freedom of Information Act. Accordingly, Section 1-225(a) of the General Statutes requires the committee to post all meeting minutes on its website within 7 days. Section 1-225(b) requires the committee to file a schedule of its regular meetings for the year with the Office of the Secretary of the State by January 31 of each year.

2. Section 5-262(h) of the General Statutes (as modified by Public Act 16-62, effective May 27, 2016) requires the Comptroller to: (1) adopt regulations in accordance with the provisions of Chapter 54 of the General Statutes to carry out the purposes of this section, (2) exercise general supervision over all campaign operations and take any steps necessary to ensure achievement of campaign objectives, and (3) have the authority, for purposes of compliance with this section and any regulations adopted pursuant to this section, to audit, investigate and report on the administration of the campaign, the Principal Combined Fundraising Organization that administers the campaign, and any federation or federation member organization that participates in the campaign.

3. Sound internal control requires that an organization designate an individual with executive authority to be responsible for the overall direction and accountability of the organization and its subordinates. Section 5-262(b)(1) of the General Statutes requires the campaign committee to appoint one of its voting members to serve as chairperson. Section 5-262(c)(1)(A) of the General Statutes states that the campaign committee is responsible for the overall coordination of the campaign. Section 5-262-7(d) of the Regulations of Connecticut State Agencies makes the campaign committee chairperson

responsible for scheduling, notifying members about, and presiding over committee meetings.

4. Section 5-262(e) of the General Statutes specifies that campaign contributions shall be collected by the Comptroller by means of payroll deductions, and transmitted to the fundraising organization for distribution to the other federations each month.

5. Section 5-262(g) of the General Statutes requires, not later than March 1st annually, the fundraising organization to submit a financial report of its activities relating to campaign payroll deductions during the previous calendar year to the Auditors of Public Accounts and the Comptroller.

6. Section 5-262(i) of the General Statutes requires, by July 1, 2016 and by April 1 annually thereafter, the campaign committee to conduct a comprehensive review of the campaign. It also requires the committee to submit a report on the results of the most recently completed campaign with recommendations for improvements in the next campaign to the Governor, the Comptroller and the General Assembly, in accordance with Section 11-4a.

Conditions: We noted numerous instances in which the campaign did not comply with its statutory authority in terms of definition of responsibilities, regulations, contractual terms, scope of operations and reporting requirements, as follows:

1. The campaign committee failed to post minutes for the meetings of November 14, 2017, February 13, 2018, May 8, 2018, and July 10, 2018 through October 5, 2018.

2. The fundraising organization did not file annual reports by the March 1st deadline for each of the 3 years subject to audit. The fundraising organization submitted campaign year 2015 report after April 8, 2016, and the 2016 report after March 21, 2017. The fundraising organization presented the 2017 report to the campaign committee on May 8, 2018.

3. The campaign committee has never prepared the report to the General Assembly, Governor and Comptroller, as required by Section 5-262(i) of the General Statutes. The committee informed us that it was unaware of the reporting requirement.

4. Prior to the passage of Public Act 16-62, the Comptroller had limited and vague responsibility and authority over the state employee

campaign. Section 5-262(h) of the General Statutes authorizes the Comptroller to adopt regulations for the campaign. The Comptroller operated as an Administrative Purposes Only (APO) agency in support of the campaign committee, but without the explicit authority in Section 5-262 of the General Statutes and a memorandum of agreement with the campaign committee to formalize both parties' responsibilities. Public Act 16-62 expanded the Comptroller's responsibilities and authority for oversight of the campaign, but it appears the Comptroller has not assumed those additional oversight responsibilities.

5. The Office of State Comptroller has not updated Section 5-262 of the Regulations of Connecticut State Agencies since June 22, 1994. However, Section 5-262 of the General Statutes, which is the basis for the regulations, has been amended by three public acts since then (most recently in May of 2016).

6. Neither Section 5-262 of the General Statutes nor Section 5-262-7(d) of the Regulations of Connecticut State Agencies specifically grant the campaign committee chairman the executive authority and primary accountability for the operations of the committee and the general oversight of the campaign.

Context: The identified conditions reflect a general systemic weakness in instituting, managing, and monitoring for compliance with the statutory requirements related to the campaign.

Effect: Lack of clarity in organizational responsibility and accountability resulted in noncompliance with statutory requirements.

Cause: Campaign committee management did not conform its operational practices to its statutory authority.

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

Recommendation: The Office of the State Comptroller and the State Employees' Campaign Committee should work together to require the State Employees' Campaign for Charitable Giving to comply with its statutory authority and responsibilities. (See Recommendation 1.)

Agency Response: "The Office of the State Comptroller and the State Employees' Campaign Committee has reviewed the conditions associated with this finding and provide the following comments:

Between April 30, 2016 and August of 2017 the SECC did not have a PCFO to administer the Campaign despite its best efforts to acquire one pursuant to statutes and regulations that require that the PCFO be a Federation that participated in the last Campaign.

As a result of the transition to a new PCFO administering the Campaign after over a decade of the same entity administering the Campaign for the SECC, the new PCFO's administrative responsibilities to the SECC were not clearly communicated by the previous PCFO and as a result the SECC was not compliant with the Freedom of Information Act and failed to post minutes for the meetings of November 14, 2017, February 13, 2018, May 8, 2018, and July 10, 2018 until October 5, 2018. The Annual reports were not filed by PCFO by the March 1 deadline for each of the 3 years subject to audit. The SECC and the PCFO has since remedied these deficiencies and moving forward the SECC and the PCFO for the Campaign will participate in annual training on the requirements of the Freedom of Information Act and the duties and administrative responsibilities of the PCFO as it pertains to compliance of these requirements will be clearly stated in any Agreement with the PCFO. Similarly the SECC will ensure that a report is prepared to the General Assembly, Governor and Comptroller pursuant to Section 5-262(i) of the General Statutes and this will be memorialized in the PCFO Agreement and enforced by the SECC.

Prior to the passage of Public Act 16-62 the role of the Comptroller, as it relates to the operation of the State Employee Campaign, was limited to being a member of the committee pursuant to Section 5-262(b), processing payroll deductions pursuant to Section 5-262(e) and adopting regulations to carry out the purposes of the Campaign pursuant to Section 5-262(e). Prior to the passage of Public Act 16-62 the Comptroller acted within his capacity as a member of the Committee and well within his authority as a Constitutional Officer of the State. As a member of the Committee, the Comptroller voiced several concerns regarding the administration of the Campaign. One such concern was that the relationship between the PCFO and the SECC had never been memorialized in a contract. As the statute did not give the SECC the authority to enter into contracts, the Comptroller initiated the negotiation and execution of the first contract between the PCFO and the SECC on behalf of the SECC in August of 2012. In a letter dated March 25, 2015, the Comptroller and the SECC terminated its Agreement with Community Health Charities of New England, Inc. Also in 2015, acting in his capacity as a member of the SECC, the Comptroller voiced concerns that he had with the administration of the Campaign by the PCFO and encouraged the Committee to hire an outside consultant to perform an external audit of the Campaign and its administration by the PCFO. In light of the issues that were raised by that Audit the Comptroller supported and welcomed greater oversight as provided by Public Act 16-62. Upon conducting a review of the operations of the Campaign the Comptroller also supported legislation in 2017 and 2019 to address some of the issues raised in the external audit and raised here by the Auditors of Public Accounts. Unfortunately HB 7186 did not pass in 2017 and SB 1040 did not pass in 2019. To say that the Office of the State Comptroller has not assumed its additional oversight responsibilities does not take into account the efforts made by this agency, as detailed above, to fulfill its oversight responsibilities.

Since June 22, 1994 Section 5-262 has been amended by three public acts. However, with the exception of Public Act 16-62 which provided for increased oversight responsibilities of the Comptroller, those amendments have been technical in nature and would not have required any accompanying regulations. P.A. 95-144 amended subsection (c) by deleting "annually" regarding the selection of federations and amended subsection (d) by designating existing provisions as subdivision (1), amending subdivision (1) by specifying that federations which did not participate shall apply by January fifteenth and changing the notification date from April to May and adding subdivision (2) regarding federations which participated in most recent campaign; P.A. 97-76 amended subsection (b) to add two retired state employees to the committee, one appointed by the Governor and one by the Comptroller, and to delete obsolete provisions regarding initial appointments.

Finally, the Office of the State Comptroller and the SECC agree that neither Section 5-262 of the General Statutes nor Section 5-262-7(d) of the Regulations of Connecticut State Agencies confer to the chairman of SECC the executive authority and primary accountability for the operations of SECC and the general oversight of the campaign."

Contract Execution Weakness

Background: The Office of the State Comptroller annually executes a contract with a Principal Combined Fundraising Organization on behalf of the State Employee Campaign Committee. The fundraising organization manages the Connecticut State Employees' Campaign. The contract defines the scope and nature of services the fundraising organization will provide to the campaign committee, and their respective obligations. The fundraising organization presents an annual budget for approval by the campaign committee, as required by Section 5-262(f) of the General Statutes.

Criteria: The campaign cycle of activities detailed in a contract should cover a 30-month period, from planning activities to final reporting and administrative procedures.

A contract should define terms that clearly state the objectives, tasks, deadlines, and all associated parties' responsibilities.

The contract should be signed and dated by all parties responsible for its execution.

Condition: The campaign committee and the fundraising organization contracts are inconsistent with the delivery of services, and do not specify the actual contractual deadlines. In addition, they were signed by all parties but not dated to clearly identify the date of execution.

The campaign committee and fundraising organization representatives confirm that for any given reporting calendar year, the actual campaign activities begin prior to January of the prior year and end in April of the subsequent year, comprising an elapsed 30-month period. This period is not specifically recognized in the contractual terms defining dates of service or the supporting budget.

Exhibit A to the fundraising organization's contracts refer to a budget period beginning April 1st of the campaign reporting year and concluding March 31st of the following year. The proposed budget period does not align with the 12-month campaign reporting period, or the 30 months of the fundraising organization's services for any given campaign year.

During the 3 years subject to review, the primary contracts between the Comptroller and the fundraising organization (Combined Health Charities [CHC] for campaign years 2015 and 2016, United Way of Central and Northeastern Connecticut [UW] for campaign year 2017) did not contain a beginning date for the contract period, but only the end date. The contracts did not include the date of all parties' signatures to clearly identify the contract's execution date.

Effect: The failure to align the terms of a contract with the actual practice it governs creates a risk of the contract becoming unenforceable.

Failure to develop a budget, consistent with the period of service, results in misallocation of campaign costs to appropriate reporting periods.

The absence of all parties' signature dates makes the contract's final execution date uncertain.

Cause: The campaign committee did not formally define the process of an 'annual campaign cycle' in a manner that aligns the contract and its budget with the statutory requirements and the committee's support duties.

The Comptroller, as the authority responsible for preparing contracts, did not specify beginning and signature dates as standard elements of a complete and enforceable contract.

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

Recommendation: The State Employees' Campaign Committee should execute contracts and associated budgets that align with each annual campaign's service requirements. The contracts should include specific service start and end dates and all parties' signature dates to establish the execution date. (See Recommendation 2.)

Agency Response: "The Office of the State Comptroller and the State Employee Campaign Committee have reviewed this finding and, since the audit period, has examined contracting deficiencies and put in place internal controls to ensure that they are aligned with the requirements of service and compliant with statutes and regulations. Moving forward contracts will be reviewed to ensure that they comply with contracting best practices."

General Administrative Control Weaknesses

Criteria: An organization should implement a system of internal controls evidenced by appropriate procedural and transactional documentation, organization, systems, policies and procedures to achieve its responsibilities.

Condition: The State Employees' Campaign Committee's system of internal control appears to be deficient in a number of respects. The following examples illustrate the conditions we encountered.

- The campaign committee does not have bylaws defining its internal operations.
- The committee does not retain documentation that provides evidence that it discharged its responsibilities, or a means to provide oversight of the principle combined fundraising organization.
- The committee did not have controls in place that would enable it to monitor the fundraising organization's effectiveness in promptly compiling payroll deduction donation pledges.

- The committee has no documented standard governing the approval and oversight of non-payroll deduction solicitation methods, including special events, to ensure appropriate vetting of events and vendors, evaluation and management of liability risks, and control of the receipt, remittance, and reporting of funds.
- The committee does not have a formal memorandum of agreement with the federations selected to participate in the campaign that specifies the terms of their participation, the requirements for distributing funds to their member charities, and acknowledgment of their obligations.
- The committee does not have a control to verify that funds that employees pledged to specific charities reached those charities in the correct amount.
- The committee did not implement appropriate administrative controls to oversee the transfer of records and responsibilities between fundraising organizations during the predecessor organization's abrupt termination of operations in April 2017.

Effect: Among the effects of the above-cited conditions were:

- The campaign committee was unable to respond to audit requests for certain documentation;
- The committee failed to collect approximately $41,000 of donation pledges due to the untimely compilation of pledges for payroll deductions in the 2018 campaign year;
- The committee was unable to monitor the fundraising organization and correct statutory compliance deficiencies;
- The committee may have exposed the campaign and the state to reputational risk, operational liability, and financial loss due to the lack of approval and monitoring standards for special events and non-payroll solicitation methods.

Cause: Our review of minutes and discussions with management determined that the campaign committee is comprised of a dedicated group who are committed to, and actively participate in the management of the campaign. However, the committee delegated substantial responsibility to the fundraising organization for most accounting and administrative matters, and failed to retain sufficient administrative tools and records for adequate monitoring and oversight. This is due in part to the committee's lack of administrative resources.

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

Recommendation: The State Employees' Campaign Committee should formalize its internal control structure to improve compliance with statutory and regulatory authority, effectively monitor the Preferred Combined Fundraising Organization, and achieve its organizational responsibilities. (See Recommendation 3.)

Agency Response: "The State Employee Campaign Committee have reviewed this finding and, since the audit period, has put in place internal controls to better assure compliance with statutory and regulatory authority and will make this a contractual requirement with the PCFO and such requirements will be monitored and enforced by the SECC."

Campaign Financial Reporting Deficiencies

Criteria: Section 5-262(g) of the General Statutes requires the Principal Combined Fundraising Organization to submit an annual financial report of its Connecticut State Employees' Campaign activities to the Auditors of Public Accounts and Office of the State Comptroller by March 1st.

Regulations of Connecticut State Agencies Section 5-262-10(b)(8) and the contract between the campaign committee and the fundraising organization require the organization to provide an annual end-of-campaign report, which must include a separate pledge status report in a format provided by the committee, by March 1st.

A financial report should provide a comprehensive summary of the financial transactions and conditions of an entity in a manner that communicates information relevant to stakeholders. It should be supported by accounting records and analyses that provide accurate and verifiable detail. An adequate financial report should include, at a minimum, a statement of operations for the specified reporting period, and a statement of financial position (balance sheet) as of the end of the reporting period that fully disclose the financial transactions of the period of accountability.

Condition: The fundraising organization's report on the campaign website is not an adequate financial report of operations. It is primarily based on a pledge database which reflects campaign pledge activity, but is not reconciled with the organization's financial records to report actual contributions, and does not reflect the complete financial status of the reporting period. Noted weaknesses in the annual report and supporting accounting information include:

1. The report does not provide a comprehensive summary of the campaign's financial activity to adequately inform stakeholders.

2. The fundraising organization does not consistently report data from year to year.

3. The fundraising organization does not adequately reconcile or support data in its annual report with accounting records.

   - The comparison of the Designation Information by Federation exhibit to supporting accounting schedules of funds distributed to federations details significant differences in each of the 3 years. All federations show differences between amounts in the annual report and supporting schedules in each year's list.

	2015	2016	2017
Reported in Report	$1,305,897	$1,153,176	$838,662
Reported in Supporting Schedule	$1,331,488	$1,228,720	$908,414
Difference	$25,591	$81,276	$69,752
Largest Federation Difference	$47,101	$29,456	$39,057
Smallest Federation Difference	$146	$46	$139
Average Federation Difference	$7,013	$7,796	$13,886

   - Supporting accounting schedules are generally not self-explanatory regarding key elements of functionality, such as the basis for reallocation of expenditures among United Way agencies. Dates and other descriptors are often ambiguous in identifying relevant time periods, and sometimes inconsistent with underlying data.

4. In-kind contributions of state employee time and materials are not accounted for as a part of the operational performance.

Context: This group of findings indicates inconsistency between the reporting format and statutory requirements, inadequacy of controls over preparation, and uncertainty regarding the reliability of supporting data. Therefore, they are unreliable and do not sufficiently inform end-users.

Effect: The pervasive differences in the reporting of distributions in each of the 3 years, and among all participating federations in each year, raises the concern that distributions to federations and their associated charities were inaccurate and inconsistent with donor pledges.

Cause: There are no specific financial reporting requirements in state statute, regulation, contractual provision, or committee policies and procedures.

We do not know the cause of inconsistent reporting and the lack of proper supporting documentation due to turnover of all of the organization's personnel associated with the audit period.

The campaign committee substantially delegated responsibility for accounting and reporting functions to the fundraising organization without adequate oversight.

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

Recommendation: The State Employees' Campaign Committee and the Office of the State Comptroller should clarify the requirements for financial reporting to meet statutory requirements, and exercise greater oversight over the Principal Combined Fundraising Organization's preparation of the statutorily required annual report presented to agencies and stakeholders. (See Recommendation 4.)

Agency Response: "The Office of the State Comptroller and the State Employee Campaign Committee has reviewed this finding and agree with the Auditors that neither statute, regulation, contractual provision, nor SECC operational policy and procedures specify requirements for a financial report. Despite there being no requirement as to the type of financial reporting required the SECC has required the PCFO to submit annual financial reports in a manner that communicates information relevant to stakeholders and consider these reports to be adequate. However, the Office of the State Comptroller and the SECC will review the reporting with the PCFO and determine best practices for financial reporting for state employee campaigns and implement those practices as deemed necessary and include such reporting requirements as the apart of the PCFO agreement."

Untimely Distribution of Donations by PCFO

Background: The Office of the State Comptroller transfers payroll deductions for charitable contributions into a checking account maintained by the Principal Combined Fundraising Organization. The fundraising organization deposits other donations collected by campaign participants as cash donations, credit card payments and proceeds from special events into the same account. The organization then periodically distributes these donations, based on donor pledges, among campaign federations and their component charities. The State Employees' Campaign Committee, which oversees the Principal Combined Fundraising Organization, does not have any direct responsibility for the account, or a means of overseeing the account's activity.

Criteria: Section 5-262(e) of the General Statutes requires the fundraising organization to distribute funds received from the Comptroller to federations affiliated with the campaign each month.

Condition: A review of fundraising organization account bank statements for campaign years 2015 through 2017 identified 13 months in which the balance was greater than twice an average month's deposit. While monthly payroll deductions ranged from $75,000 to $90,000, 10 of the 38 months (campaign cycles subject to audit) had balances exceeding $300,000, with the largest average monthly balance of $489,295.

Context: This is a systemic issue resulting from operational policies of the campaign committee and fundraising organization that do not comply with the statute and the campaign committee's lack of monitoring controls over the fundraising organization's distribution of funds.

Effect: Distributions to campaign affiliated federations appeared to be unnecessarily delayed in many instances.

Cause: The campaign committee was aware the fundraising organization elected to withhold the cash donations of the solicitation period and the first 2 to 3 months of payroll transfers for a combined first distribution in the reporting year. However, the delay, while operationally necessary at the beginning of the campaign year, is contrary to the statutory requirement. The accumulation of funds beyond the first campaign period transfer appears to lack operational justification.

The campaign committee lacked an effective means to monitor management of campaign fund distributions by the fundraising organization for consistency with Section 5-262 of the General Statutes.

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

Recommendation: The State Employees' Campaign Committee should obtain statutory authority for its operational policy regarding timely distribution of funds collected by the Principal Combined Fundraising Organization, and should institute monitoring controls to assure that the fundraising organization promptly distributes funds to participating federations. (See Recommendation 5.)

Agency Response: "The State Employee Campaign Committee has reviewed this finding and will institute monitoring controls to assure that the PCFO distributes funds on a timely basis to participating federations consistent with statutory authority."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior report on the Connecticut State Employees' Campaign for Charitable Giving contained no recommendations.

Current Audit Recommendations:

1. **The Office of the State Comptroller and the State Employees' Campaign Committee should work together to require the State Employees' Campaign for Charitable Giving to comply with its statutory authority and responsibilities.**

   Comment:

   We noted numerous instances in which the campaign did not comply with its statutory authority in terms of definition of responsibilities, regulations, contractual terms, scope of operations and reporting requirements.

2. **The State Employees' Campaign Committee should execute contracts and associated budgets that align with each annual campaign's service requirements. The contracts should include specific service start and end dates and all parties' signature dates to establish the execution date.**

   Comment:

   The campaign committee's contracts, executed for the 3 audited years, did not include critical service commencement and contract execution dates, or operating budgets aligned with the services to be rendered for the specified campaign year.

3. **The State Employees' Campaign Committee should formalize its internal control structure to improve compliance with statutory and regulatory authority, effectively monitor the Preferred Combined Fundraising Organization, and achieve its organizational responsibilities.**

   Comment:

   We identified numerous internal control weakness, indicating the need for the campaign committee to formalize its internal control policies and processes to assure proper execution of its responsibilities.

4. **The State Employees' Campaign Committee and the Office of the State Comptroller should clarify the requirements for financial reporting to meet statutory requirements, and exercise greater oversight over the Principal Combined Fundraising Organization's preparation of the statutorily required annual report presented to agencies and stakeholders.**

   Comment:

   The annual reports subject to audit do not constitute an accurate or complete presentation of the financial performance and condition of the campaign for the periods audited.

5. **The State Employees' Campaign Committee should obtain statutory authority for its operational policy regarding timely distribution of funds collected by the Principal Combined Fundraising Organization, and should institute monitoring controls to assure that the fundraising organization promptly distributes funds to participating federations.**

   Comment:

   A review of fundraising organization account bank statements for campaign years 2015 through 2017 identified 13 months in which the balance was greater than twice an average month's deposit.

ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditor who contributed to this report:

Sidney F. Gale

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the representative of the State Employees' Campaign for Charitable Giving and personnel of the Office of the State Comptroller during the course of our examination.

Sidney F. Gale
Auditor 2

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor