

**CONNECTICUT PAID FAMILY AND MEDICAL LEAVE
INSURANCE AUTHORITY
FINANCE & AUDIT COMMITTEE MEETING**

October 22, 2021



MARCUM
ACCOUNTANTS ▲ ADVISORS

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Discussion Points

- ▶ Introductions
- ▶ Components Units vs. Fiduciary Component Units
- ▶ Areas of Audit Emphasis
- ▶ Required Communications
- ▶ Other
- ▶ Contact Information

Component Units

- ▶ Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if:
 - ▶ (1) the State appoints a voting majority of the organization's governing board, and
 - ▶ (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the State.

Fiduciary Component Units

▶ Non-Pension or OPEB Component Units that are Fiduciary in Nature

Component units that are fiduciary in nature could occur in other areas of operations than pension or OPEB arrangements. One (or more) of the following activities of the component unit are required to indicate presence of a component unit that is fiduciary in nature:

- ▶ The assets are administered through a trust or equivalent arrangement, in which the government itself is not a beneficiary. Within the trust or equivalent arrangement, the assets must provide benefits to recipients in accordance with benefit terms and are legally protected from the government, or
- ▶ The assets are for the benefit of individuals and the government does not have administrative involvement or direct financial involvement with the assets. Furthermore, the assets are not derived from the government's provision of goods or services to those individuals or –
- ▶ The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity, nor are the assets derived from providing goods or services to those organizations

Contributions and Contributions Receivable

- ▶ Contributions represent wage deductions from employees within the State who are participating in the Program
- ▶ Contributions receivable from participants represent the actual contributions received subsequent to June 30, 2021 related to payroll periods that ended prior to July 1, 2021

	(\$ in 000's)
Contributions collected through 6/30/21	\$105,772
Contributions receivable at 6/30/21	99,230
Total contributions revenue	\$205,002
Contributions receivable as a percentage of total contributions	48%

- ▶ The Authority did not record an allowance for uncollectible receivables as of June 30, 2021
- ▶ We performed extensive procedures to test the Authority's contributions, including the confirmation of contributions with a sample of employers

Investments

- ▶ Public Act 19-25 indicates that the State Treasurer is responsible for the receipt and investment of the funds held by the Authority's Trust
- ▶ The Authority's investments at June 30, 2021 had a fair value of approximately \$101 million and were invested in the State's Short-Term Investment Fund
- ▶ We confirmed the balance with the State at June 30, 2021

Debt and Funds Held by the State

- ▶ The State transferred \$5.1 million of the resources from the State's General Fund to the Authority for its operating expenses
 - ▶ As of June 30, 2021, \$923,000 of these funds were not expended and were held by the State on behalf of the Authority
 - ▶ The \$5.1 million balance payable was recorded as noncurrent debt as of June 30, 2021 and is required to be repaid not later than October 1, 2022
- ▶ The State Bond Commission allocated \$12.2 million of bonds to the Authority
 - ▶ As of June 30, 2021, \$4.4 million of bond funds were not expended by the Authority and were held by the State on behalf of the Authority
 - ▶ As of June 30, 2021, the debt repayment schedule was not determined by the State and \$12.2 million was recorded as noncurrent debt
- ▶ We confirmed the balances of the debt and the related unexpended proceeds held by the State as of June 30, 2021

Defined Benefit Pension Plan

- ▶ Eligible employees of the Authority participate in the State Employees' Retirement System (SERS) defined benefit pension plan
- ▶ The following table summarizes the recorded components of the pension liabilities and deferred outflows as of June 30, 2021:

	(\$ in 000's)
Pension liabilities	\$ (320)
Deferred outflows	<u>480</u>
Fiduciary net position impact	\$ 160

- ▶ Cavanaugh MacDonald Consulting performed the SERS actuarial valuations
- ▶ The Authority's proportionate share of the net pension liability was allocated based on its proportionate contributions as summarized in the table below:

	6/30/21
Total State SERS net pension liability	\$23.7 billion
Authority's share of State net pension liability	.001347%

Postemployment Benefits Other than Pensions

- ▶ The following table summarizes the recorded components of the OPEB liabilities and deferred outflows and inflows as of June 30, 2021:

	(\$ in 000's)
OPEB liabilities	\$ (373.40)
Deferred OPEB outflows	537.00
Deferred OPEB inflows	(0.16)
Fiduciary net position impact	\$ 163.44

- ▶ The Segal Group prepared the OPEB actuarial valuations
- ▶ The Authority's proportionate share of the net OPEB liability were allocated based on its proportionate contributions as summarized in the table below:

	6/30/21
Total State liability	\$23.5 billion
Authority's share of State liability	.001586%

Pension and OPEB Plans

- ▶ The State Auditors of Public Accounts audited the Schedules of State Component Unit Allocations which included the following allocations:
 - ▶ Net pension liability
 - ▶ Net OPEB liability
 - ▶ Total deferred outflows of resources
 - ▶ Total deferred inflows of resources
 - ▶ Total pension expense
 - ▶ Total OPEB expense
- ▶ These allocations were the basis for the amounts recorded in the Authority's 2021 audited financial statements
- ▶ We worked with management to ensure that the amounts recorded in the Authority's audited financial statements agreed to the above schedules

Pension and OPEB Plans

- ▶ Total contributions to the Plans for the period ended June 30, 2020 were only \$36,000 (measurement period used to determine the aforementioned pension and OPEB allocations)
- ▶ Contributions were approximately \$678,000 during the period from July 1, 2020 through June 30, 2021
- ▶ The increased number of employees and increased contributions for fiscal year 2021 is expected to increase future allocations made to the Authority
- ▶ Future adjustments to the amounts recorded in the June 30, 2021 statement of fiduciary net position will be recognized as changes in estimates that will increase or decrease the Authority's fringe benefits expense in future periods

Required Communications

- ▶ Those charged with governance should be adequately informed of fraud or violations of laws and regulations coming to the auditors' attention during the course of the audit

- ▶ We performed the following procedures:
 - ▶ Tested a targeted sample of journal entries
 - ▶ Inquired of employees regarding fraud
 - ▶ Analyzed the programs and controls that the Authority has implemented to address fraud risks and to prevent, deter, and detect fraud, and understand how these programs and controls are monitored

- ▶ Tested subjective accounting estimates, significant transactions, complex transactions and unusual transactions.

- ▶ We noted no fraud or illegal acts (all as defined under current auditing standards) which have or could have a direct effect on the financial statements

Required Communications

▶ **Other information in the audited financial statements**

- ▶ Read the MD&A and the supplementary pension and OPEB schedules for consistency with the financial statements
- ▶ We do not express an opinion or provide assurance on the information

▶ **Significant accounting policies and disclosures**

- ▶ Management is responsible for the selection and use of appropriate accounting policies
- ▶ The Authority's significant accounting policies are disclosed in Note 1 to the audited financial statements
- ▶ The financial statement disclosures are neutral, consistent, and clear.

▶ **Accounting estimates**

- ▶ The most sensitive estimates included in the financial statements relate to pension and OPEB liabilities

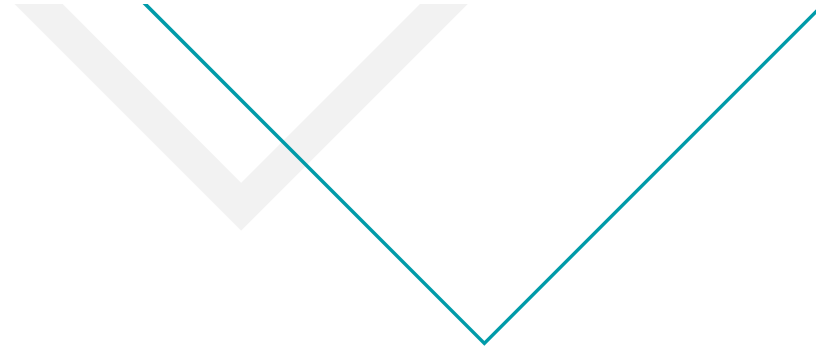
Required Communications

- ▶ **Financial statement closing adjustments and audit adjustments**
 - ▶ There were no material unrecorded audit adjustments as of June 30, 2021
 - ▶ We worked with management to record the pension and OPEB adjustments
 - ▶ We collaboratively worked with management to ensure that all accruals were recorded in the financial statements
 - ▶ Management took full responsibility for all adjustments recommended by Marcum.
- ▶ No **disagreements with management** on accounting procedures or other audit matters
- ▶ No **consultations with other accountants** on significant accounting matters other than with Cohn Reznick and discussions with the State Auditors on certain accounting matters and other events as they arose during the year
- ▶ No **significant difficulties** encountered in performing our audit
- ▶ No matters regarding **related parties** or related party transactions
- ▶ **Independence**
 - ▶ There are no relationships that may reasonably be thought to bear on our independence

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Thank You!

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