

# Auditors of Public Accounts



**JOHN C. GERAGOSIAN and ROBERT J. Kane, *State Auditors***

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***Established – 1662***

***Statutory Authority – Title 2, Chapter 23, Connecticut General Statutes***

***Central Office – State Capitol, 210 Capitol Avenue, Hartford, CT 06106***

***Average Number of Full-Time Employees – 103***

***Recurring Operating Expenses – \$10,226,276***

***Organizational Structure – Audit Operations (Compliance, Performance, Information Technology and Whistleblower) and Administration Unit***

## Mission

***The mission of the Auditors of Public Accounts is to:***

- ***Determine whether state agencies and quasi-public agencies comply with applicable state and federal legal requirements***
- ***Determine whether state resources are properly and prudently safeguarded and used***
- ***Attest to the fairness of the state's financial statements and provide a certification thereto***
- ***Perform the annual statewide single audit required by the federal government***
- ***Evaluate the state agencies' economy, efficiency, and effectiveness in using available resources***
- ***Evaluate program results considering costs and benefits through performance audits***
- ***Ensure that all audit results are properly disclosed to management and the public***
- ***Investigate whistleblower matters***

## Statutory Responsibility

The Auditors of Public Accounts (Auditors) operates under provisions contained in Conn. Gen. Statutes Sec. 2-89 through 2-92. As provided for in Conn. Gen. Statutes Sec. 2-90, the office of

the Auditors of Public Accounts is charged with the responsibility of auditing the books and accounts of each officer, department, commission, board, and court of state government as well as all state-aided institutions. In addition, under Conn. Gen. Statutes Sec. 4-61dd, our office is responsible for reviewing all whistleblower complaints and reporting the results of these reviews to the Attorney General. Conn. Gen. Statutes Sec. 1-122 requires our office to conduct compliance audits of certain quasi-public agencies and Conn. Gen. Statutes Sec. 2-90a authorizes our office to audit the trust accounts maintained by state marshals. Finally, Conn. Gen. Statutes Sec. 2-90 (i) and 10-91g through 10-91i require the Auditors to conduct audits of private providers of special education that receive any state or local funds as a result of providing special education services to students with an individualized education program or for whom an individual service plan has been completed by the local or regional board of education responsible for educating the student.

During the 2017 legislative session, Public Act 17-226 (An Act Concerning Evaluation of Business Incentive Programs) required our office to evaluate the state's business assistance and incentive programs administered by the Department of Economic and Community Development (DECD). Each time our office audits DECD, we must evaluate the accuracy of the DECD annual reports related to business incentive programs completed since the last audit of the agency. The evaluation helps to determine whether there is evidence to support the accuracy of the report's data, evaluate whether the tax incentive programs are being managed and operated so as to facilitate taxpayer compliance with the requirements, recommend how the agencies can improve their programs' administrative efficiency and effectiveness, and evaluate whether the reports provide all the information the statute requires. Our office must submit a report on each performance audit and annual report evaluation to the governor, OPM secretary, and review committees. The act requires the Appropriations, Finance, Revenue and Bonding and Commerce committees to hold at least one separate or joint hearing on these reports. On April 24, 2018, our office released our first such evaluation of the 2017 DECD annual report.

Also in the 2017 session, Public Act 17-136, An Act Concerning Probate Court Operations, added probate court employees to the state's whistleblower law. Currently, employees of the Probate Court Administration are covered under the state's whistleblower protections. This law extends those protections to all probate court employees.

During the 2018 legislative session, the General Assembly passed three bills that our office supported. Public Act 18-183, An Act Implementing the Recommendations of the Auditors of Public Accounts Concerning Private Providers of Special Education, requires a local or regional board of education to have a written contract, rather than an agreement as under prior law, with a private special education provider in order to receive state reimbursement grants for special education costs (known as the excess cost grant). Under the excess cost grant program, the state reimburses a board when the cost of a student's special education services exceeds four and a half times the average per pupil educational cost of that school district. Under existing law, districts must follow certain requirements when they choose to enter into an agreement for private special education services. The act requires such agreements to include an explanation of how the provider calculates its tuition or costs for services. The act establishes the same requirement for any (1) agreement entered into or amended on or after July 1, 2018, but before

June 30, 2019, and (2) contract entered into or amended on or after July 1, 2019. The act also requires the State Department of Education (SDE) to develop standards and a process for documenting special education services provided by private providers that include the use of standard forms or other electronic reporting systems. It also requires any private provider providing special education services for a local or regional board of education to annually submit its operating budget to SDE. We continue to perform reviews on special education providers.

Public Act 18-137, An Act Implementing the Recommendations of the Auditors of Public Accounts, addressed numerous recommendations that we have made in our Annual Reports to the General Assembly. The act:

- prohibits quasi-public agencies from making a payment in excess of \$50,000 to an employee resigning or retiring from employment with such quasi-public agency for the purpose of avoiding costs associated with potential litigation or pursuant to a non-disparagement agreement;
- requires executive branch agencies to receive approval from the Attorney General or Governor before making certain payments in excess of \$50,000 to departing state employees;
- increases the statutory limit on the number of days each year that retired state employees may be reemployed by the state without reimbursing the state for pension benefits, thus adhering to existing labor agreements, Office of Labor Relations notices, and executive orders;
- allows the Auditors of Public Accounts to delay a full report of certain misuse of state and quasi-public agency funds, if the matter is still under investigation by a state or quasi-public agency;
- requires state and quasi-public agencies to report any breaches in security to the auditors and permits agencies to report information in the aggregate;
- adds agency human resources directors as mandated reporters of certain suspected ethics violations to the Office of State Ethics (OSE);
- allows the Auditors of Public Accounts to conduct a full audit of a state agency foundation that did not have its own audit completed;
- changes, from annually to biennially, the audit requirement of reimbursements made from the Bradley Enterprise Fund to the Department of Emergency Services and Public Protection to cover the cost of Troop W operations;
- eliminates redundant language that required the Capital Region Development Authority's (CRDA) board of directors to (1) contract with a person, firm, or corporation for a compliance audit of the authority's activities in the preceding fiscal year and (2) submit the audit report to the Governor, Auditors of Public Accounts, and Finance, Revenue and Bonding Committee. Existing law requires the Auditors of Public Accounts to conduct biennial compliance audits of CRDA;
- requires the Office of Policy and Management (OPM) secretary to notify the auditors when OPM receives a state agency's request for a sole source procurement of audit services;
- allows the Office of State Ethics to receive complaints and investigate alleged violations of state or quasi-public agencies retaining lobbyists;

- reduces resources to be maintained in the Brokered Transactions Guaranty Fund from \$500,000 to \$100,000;
- requires the Commissioner of Early Childhood to recommend a precertification process for prospective employees of day care centers or group day homes.

Public Act 18-122, An Act Concerning Minor and Technical Changes to Commerce-Related Statutes, made minor technical changes regarding our reviews of the Department of Economic and Community Development annual reports.

## **Public Service**

The Auditors of Public Accounts functions as an independent watchdog of all state and quasi-public agencies for the General Assembly, the public, and the news media. As the only legislative branch agency embedded in many executive branch agencies, our office provides independent, unbiased and objective opinions and recommendations on the operation of state government and the state's effectiveness in safeguarding resources. Our office strives to assist state agencies in achieving effective fiscal management. Furthermore, we report on the integrity of the state's financial statements and whether state and federal funds are used in compliance with applicable laws, rules, and regulations.

Our office determines whether these agencies are following laws, regulations, internal policies, and prudent business practices. Through our work on the Statewide Single Audit, our office determines whether state agencies are following federal requirements on major federal programs. We determine whether state programs and systems are operating efficiently and effectively by way of our performance audits and program reviews. Finally, our office receives and reviews whistleblower complaints from state employees and the public in order to detect waste, fraud, and abuse and to prevent future occurrences of such.

In addition, our website (<http://www.cga.ct.gov/apa>) contains all relevant information about our office. It also provides all of our reports for members of the public and other interested parties to view or download. We recently updated our website to better serve our stakeholders (decision-makers, the public, and media).

## **Improvements/Achievements during 2017-2018**

In 2016, the General Assembly eliminated the Office of Program Review and Investigations (PRI), resulting in the transfer of the five most senior PRI employees to our office in January of 2017. This transfer reconstituted the performance audit function in our office. The new performance auditors underwent comprehensive training to ensure that any performance audit our office issues is completed in accordance with Generally Accepted Government Auditing Standards (GAGAS). We hope that budgetary resources will allow us to expand our operations in this area.

Performance audits are an examination of a program, function, operation, or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is

achieving economy, efficiency, and effectiveness in the employment of available resources. Performance audits can be a valuable tool for the state by measuring the extent to which a program is achieving its goals and objectives; determining whether alternative approaches would yield better program performance; determining ways to save state resources; and determining the extent to which programs duplicate, overlap, or conflict with other programs. As the state endeavors to find ways to operate more efficiently, performance audits could serve as a useful tool to preserve state resources and improve state services.

In the past, our office had a dedicated performance audit unit; however, due to limited resources and other demands several years ago, members of the unit were reassigned to other audit priorities. The reformation of the performance audit unit in our office is going quite well.

In February 2018, our office released the first two performance audits from the new unit: The State Department of Education's Approval Process of Private Special Education Programs and Oversight of Non-approved Programs and The State Department of Education's Approval and Monitoring of Contracts or Other Arrangements between Local and Regional Boards of Education and Private Providers of Special Education.

In the near future, our office will release additional performance audits including: The Department of Public Health's Monitoring of Public Water Systems and Enforcement of Drinking Water Laws, and An Assessment of Oversight of Pre-Need Funeral Service Contracts.

Conn. Gen. Statutes Sec. 3-37 (a) requires the State Treasurer to submit a final audited report to the Governor and the Investment Advisory Council on or before December 31<sup>st</sup> annually. Our office continues to provide an audit certification for the Treasurer's Annual Report on this timetable. In addition, in connection with the audits of the Offices of the State Comptroller and State Treasurer, our office continues to provide special audit services in connection with the Comprehensive Annual Financial Report, the Combined Investment Funds, and the Short-Term Investment Fund. Other requests for audit services continue to be met in a professional and timely manner without the need for outside professional assistance.

Our office's higher education audit group continues to provide audit certification to the financial statements of the University of Connecticut and the University of Connecticut Health Center. Our office conducts this work rather than the university contracting with outside accounting firms. In addition, our office has continued to offer services for special audits required under NCAA rules and foundation audits, upon request, as permitted by Conn. Gen. Statutes Sec. 4-37f (8). During the past year, such reviews included an audit of the Charter Oak State College Foundation and a National Collegiate Athletic Association (NCAA) agreed-upon procedures engagement at Central Connecticut State University.

Generally accepted government auditing standards require that audit agencies undergo an external quality control review assessment at least once every three years. To comply with this requirement, our office participates in a peer review program sponsored by the National State Auditors Association. Under this program, a team of auditors from other state government audit organizations comes to our office and conducts a review of our quality control procedures to determine whether such procedures are sufficient to ensure that all audits performed by our

office during the review period are conducted in accordance with professional auditing standards.

Our peer review under this program, covering the 2015-2016 fiscal year, was successfully completed during August of 2016. Audit organizations may receive a rating of Pass, Pass with Deficiencies, or Fail. Our office received the highest rating of Pass. Our participation in this program has not only resulted in realized cost savings to our agency, but also has given us an opportunity to learn about the best practices employed by other state audit organizations in carrying out their audit missions. In the years between external peer reviews, we perform annual internal reviews of our operations. Our next external peer review will be conducted in August 2019.

As a governmental audit organization, we participate in various professional organizations involved in governmental auditing. On the national level, we are active with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and the National State Auditors Association (NSAA). We serve on various NASACT and NSAA committees. We are also active with the New England Intergovernmental Audit Forum (NEIAF). These affiliations enable our office to stay informed about developments in the auditing profession in addition to providing educational and valuable information-sharing opportunities for our employees.

Our office also has offered support and encouragement to employees who have expressed an interest in serving professional audit organizations in various capacities. During 2017-2018, a member of our management team served on the Governmental Accounting and Auditing Committee of the Connecticut Society of Certified Public Accountants (CTCPA) as well as the Institute of Internal Auditors advisory board to the American Center for Government Auditing. In addition, a number of our staff served on National State Auditors Association committees during the year, while one of our audit supervisors participated on a team conducting a peer review of the state auditor's office in North Carolina.

### **Future Goals**

Our future goals include expanding the services we provide to the General Assembly in three major areas: more effective use and evaluation of information technology in our audit work, additional performance auditing engagements, and enhancing external communications.

Technology is an integral part of state operations. State agencies use technology in all facets of government, including accounting, inventory, payroll, purchasing, storage, and the delivery of front line services. In response to this, our office will continue to improve how we evaluate and use technology.

We must enhance how we evaluate the state's information technology structure for its effectiveness and determine whether state systems adequately maintain the integrity of data, protect against breaches of privacy, and ensure there are proper safeguards to protect against fraud. We must increase our ability to analyze the state's information technology systems, particularly in the areas of procurement, operability, and security. To achieve this goal, we intend to expand our commitment and focus in this area.

The other area of technology we are developing is the use of data analytics in our auditing. Using data analytics will greatly improve our efforts to detect waste, fraud, and abuse. Traditional auditing utilizes sampling to determine auditing issues. As an example, auditors might look at a sample of certain transactions. The use of data analytics enables auditors to look at the entire universe of those transactions, which allows them to improve focus on riskier areas and detect anomalies that will further assist in identifying waste, fraud, or abuse.

The second goal for our office is to conduct additional performance audits. An invaluable tool, performance audits help determine whether a program is achieving its goals and objectives; whether alternative approaches would yield better program performance; ways to save state resources; and the extent to which programs duplicate, overlap, or conflict with other programs. As the state endeavors to find ways to operate more efficiently, performance audits serve as a useful tool to preserve state resources and improve state services. In addition to the performance audits mentioned above, our office is planning on the following performance audits: The Department of Motor Vehicles Background Check Process for Individuals Transporting Students, Examination of Contract Oversight by the Department of Mental Health and Addiction Services, and an Examination of the Effectiveness of Certain Economic Development Programs of the Department of Economic and Community Development.

The third goal for our office is to modernize our external communications. Our auditors do fantastic work, but our means of informing our stakeholders requires updating.

In accordance with Section 216 of Public Act 17-2 (Special Session), our office has begun participating in legislative public hearings related to our reports. These hearings have enabled our front-line auditors to provide a detailed explanation of our audit findings. Additionally, this process will increase interest in our audit findings and recommendations while holding agencies accountable for their resolution.

We have updated the look of our reports and have begun streamlining their style, format, and content. We will be adding source documentation and considerably more graphics. To better convey our findings, we are developing executive summaries and one-page fact sheets. We also intend to develop summary audit reports of repeat or cross-agency findings to better inform policymakers as they manage state agencies.

Finally, we are modifying the way in which we distribute our reports through social media and other platforms to inform the public and other stakeholders of our important work.

### **Information Reported as Required by State Statute**

Conn. Gen. Statutes Sec. 2-90, 2-92, and 4-61dd contain the various reporting requirements applicable to the Auditors of Public Accounts. A description of the reports issued by our office pursuant to these provisions is described below:

All audit reports released by our office are issued pursuant to our audit authority as set forth in Conn. Gen. Statutes Sec. 2-90. During the 2017-2018 fiscal year, our office issued 30 audit

reports and special reports. These included 28 financial-compliance audits of various state and quasi-public agencies, our annual report to the General Assembly, and the statewide single audit report for the State of Connecticut for the fiscal year ended June 30, 2017. It should be noted that this latter audit was required as a condition of the state receiving approximately \$9,509,000,000 in federal financial assistance.

A total of 236 recommendations were included in the 28 audit reports issued during the year. These reports also included a review of the implementation of recommendations made during the prior audit. Implementation follow-up procedures, in addition to agency responses to the Auditors' audit findings and recommendations, include reviews by the Comptroller's Office and the Office of Policy and Management. For reports issued during the 2017-2018 fiscal year, agencies implemented or otherwise resolved 47 percent of all prior audit recommendations.

Pursuant to the provisions of Conn. Gen. Statutes Sec. 2-92, our office annually presents a report on its operations to the General Assembly by February 1<sup>st</sup> of each year. Included in this report are recommendations concerning areas in which it appears that statutory revisions or additional legislative actions are desirable. In our latest annual report, 16 such recommendations were presented to the General Assembly for consideration.

During the 2017-2018 fiscal year, our office received 39 whistleblower complaints. Pursuant to the provisions of Conn. Gen. Statutes Sec. 4-61dd (d), a report on the status of these complaints will be forwarded to the clerk of each house of the General Assembly by the September 1<sup>st</sup> reporting deadline.