



STATE OF CONNECTICUT  
OFFICE OF GOVERNMENTAL ACCOUNTABILITY  
STATE CONTRACTING STANDARDS BOARD

Final & Approved Minutes  
Friday, December 8, 2017 Meeting of the State Contracting Standards Board  
Audit Work Group  
Fifth Floor Conference Room  
18-20 Trinity Street, Hartford, Connecticut

Members Present:

Thomas Ahneman, Chair  
Alfred Bertoline  
Stuart Mahler  
Jean Morningstar  
Robert Rinker  
David L. Guay, Executive Director - ex-officio Board member

1. [Call to order](#)

Meeting called to order by Chair Thomas Ahneman at 8:35 A.M.

2. [Approve minutes of October 13, 2017](#)

Motion made by Robert Rinker and seconded by Alfred Bertoline to approve the minutes of the October 13, 2017 Audit Work Group meeting. All voted in favor.

Members discussed the draft meeting dates for 2018 and approved by consensus the draft dates to be recommended to the full Board.

3. [2017 Audit Reports Update](#)

Chair Ahneman noted that Executive Director Guay had provided completed audit report forms to the members. Chair Ahneman also asked Executive Director Guay to provide the individuals and the assigned agencies. Beginning with Alfred Bertoline the work group discussed the efficacy of the current audit instrument and next steps.

Discussion was held on cooperation with the Auditors of Public Accounts.

Alfred Bertoline suggested compiling the data we have collected so far. Chair Ahneman noted that Executive Director Guay had volunteered to draft a compiled report.

Chair Ahneman suggested Executive Director Guay communicate with the Auditor of Public Accounts to compare notes.

Stuart Mahler suggested that the common threat he is seeing is the need for training.

Mr. Mahler asked where are we now and where are we going. Executive Director Guay responded that his list includes checking with the Auditors of Public Accounts for those they audited in 2017 and look at the 2016 audits, and current audit responses will be compiled.

Mr. Rinker suggested bringing in agencies for a discussion. Especially those that had difficulty with the self-assessment tool.

Chairman Ahneman summarized the 2017 Audit Reports Update agenda item. Executive Director Guay will coordinate with the Auditors of Public Accounts to see who they have audited also for Fiscal year 2016. Executive Director Guay will invite John Rasmus to our meetings. The current data will be compiled into one report and the work group will investigate further interviews.

#### 4. [CT Technical High School System Contracts – Pita Group & Kozak & Salina](#)

Chair Ahneman welcomed Kathleen Demsey, Chief Financial Officer of the State Department of Education and Attorney Peter Haberlandt, Director of Legal Affairs for the State Department of Education.

Chair Ahneman began by thanking Attorney Haberlandt for his letter of December 1, 2017 answering a list of questions posed by the Audit Work Group. Chair Ahneman asked Ms. Demsey and Attorney Haberlandt to respond to those questions orally and in their own words.

Ms. Demsey outlined the Connecticut Technical High School System (CTHS) and the so called side agreements between then Superintendent Torres and the Pita Group.

Ms. Demsey noted that she uncovered the side agreements at the end of the fiscal year upon discovering a payment to the Pita Group for \$750,000. The SDE internal audit unit then provided a review of the Pita invoice documents.

Mr. Bertoline asked how these payments are processed and why didn't red flags go up about the Pita payments. Ms. Demsey replied that the invoices filed by then Superintendent Torres referenced the Department of Administrative Services (DAS) master contract to make it look like they were in compliance with the master contract.

Mr. Rinker noted that the DAS master contract which includes the Pita Group is a time and effort contract and noted that the invoices had no time and effort to them. Mr. Rinker further asked if there was any matching up of the invoices to the contract. Ms. Demsey responded not by the accounts payable staff but by the manager, in this case Superintendent Torres. Ms. Demsey described that the accounting person is responsible for making sure the payment is made from the appropriate funding source, that an appropriate active contract is referenced and that the appropriate manager signature is on the invoice confirming the receipt of services.

Attorney Haberlandt added the volume of transactions going through the fiscal office is quite significant. Ms. Demsey noted that they process approximately 60,000 transactions a year.

Chair Ahneman summarized that it was really up to the Superintendent to sign off and Ms. Torres was citing the master contract on the purchase orders, with the fiscal office not knowing if it was legitimate or not, but the documentation was consistent with requirements. Ms. Demsey and Attorney Haberlandt agreed.

Chair Ahneman asked if Ms. Torres had the ability and authorization to enter into side agreements. Ms. Demsey replied that the only people in the agency (SDE) authorized to enter into contracts were herself and the Commissioner. Attorney Haberlandt added that it there position that no one has the authorization to enter into a side agreement that is not a legal state contract.

Jean Morningstar summarized that the Pita agreement was not really even a formal side agreement but a misuse of a legitimate master contract.

Attorney Haberlandt noted that there are letters of agreement between Ms. Torres and the Pita Group but no formal contract. Attorney Haberlandt further noted that in all of the documentation on the Pita Group and Technical High Schools through the Superintendent, there is no awareness or reference to the master contract which Pita was part of. The place the master contract is cited is in the purchase orders from Superintendent Torres.

Mr. Bertoline asked if there was a way or a system to catch this type of activity, is the only control rest with the top person. Attorney Haberlandt does not believe that is the only control or chance to catch things. Attorney Haberlandt further stated that in this instance it would have been better to have caught it earlier. Attorney Haberlandt also noted the internal and external audits of SDE.

Mr. Bertoline noted the difficulty in catching someone who commits such an act, until the large end of fiscal year invoice Ms. Demsey refers to as the trigger for greater scrutiny. Ms. Demsey stated that up to that point invoices for this transaction had averaged about \$20,000.

Ms. Demsey discussed the fiscal training her unit provides to all managers in the Department of Education. Ms. Demsey discussed their open door policy and explained that her chief of fiscal services on any given day spends three quarters of it providing technical assistance to the managers in the Department. Ms. Demsey further explained the posting and availability of the Department's rules and procedures on the internet.

Ms. Demsey offered in the matter of Superintendent Torres and the Pita Group, the individuals actively avoided seeking assistance from the fiscal staff.

Executive Director Guay asked Ms. Demsey if any document came to her in the Pita matter for her signature or approval. Ms. Demsey responded no. Mr. Guay followed up with a question on what is the Department doing in training to avoid an instance like the Pita Group and Superintendent Torres. Ms. Demsey stated that they have sought assistance from Carol Wilson, (title) of the Department of Administrative Services to provide training to all the senior management in the Department. Ms. Demsey stated that training was followed up with further in house training provided by her Chief of Fiscal Services.

Ms. Demsey offered that she is not sure that there was anything she could have done to have caught the Pita matter earlier. Ms. Demsey followed that this was a situation in which people actively worked to deceive.

Executive Director Guay asked Ms. Demsey if they now have a mechanism in place to catch a problem like the Pita matter. Ms. Demsey stated they are working on it. Ms. Demsey referred to the work being done by the Departments internal audit unit and that the Department has engaged Whittlesey and Hadley, PC, CPA's to perform a forensic audit.

Mr. Rinker speaking about the use of master contracts, recounts that someone has to create a scope of work, and asked who in the Department creates that scope of work and who reviews that scope of work. Mr. Rinker followed up by noting in the SDE letter that from a master contract you randomly select three vendors and how are three randomly selected.

Ms. Demsey responded that having DAS master contracts affords agencies the ability to purchase in a timely manner, but she noted, it is also incumbent upon the agency to follow the rules and procedures. According to Ms. Demsey, managers in SDE are tasks with creating the scope of work. Ms. Demsey further discussed the unique relationship the Connecticut Technical High Schools had with SDE. Noting the CTHS has its own Board, in which Dr. Torres brought the scope of work for approval.

Ms. Demsey noted that SDE had previously engaged the Pita Group off the master contract for work, thus they knew the Department's procedures.

Jean Morningstar asked Ms. Demsey how the Pita and CTHS transaction should have worked.

Ms. Dempsey illustrated that Dr. Torres would have created a scope of work and engaged the Ms. Dempsey's office to ensure it met the terms and the scope of the contract. If Dr. Torres had engaged her office, Ms. Dempsey stated they would have advised either to move to an RFP or interview at least three vendors from the master contract.

Chair Ahneman noted that the letters of agreement terms between the Pita Group and Dr. Torres were different than in the master contract.

Chair Ahneman asked Ms. Demsey that with the training now and place, what would happen if a manager tried to sign a secondary agreement. Ms. Demsey responded that the CTHS until such time as they are fully independent of the SDE are now following the SDE purchasing rules. Ms. Demsey also stated that prior to any payment her office is doing an extra review.

Attorney Haberlandt noted that it is possible theoretically for someone to enter side agreements and nobody be aware of it, if appropriate laws and processes are not followed.

Mr. Bertoline suggested to Ms. Demsey that she create some sort of mechanism for reporting suspected fraud. Attorney Haberlandt related that an individual did approach the SDE office of internal audit at the same time as Ms. Demsey's discovery via the large end of year invoice.

Mr. Rinker offered that he is still troubled by a master contract with 42 vendors on it. Mr. Rinker further offered that the side agreements were the smoking gun, that if someone simply wanted to dummy up some invoices from a vendor on the master contract, no one would know they were improper invoices.

Chair Ahneman asked who has signing authority for contracts at SDE. Ms. Demsey responded that she and the Commissioner do. Chair Ahneman asked if Dr. Torres had the authority. Both Ms. Demsey and Attorney Haberlandt responded no.

Executive Director Guay spoke of his experience as an Executive Director for Board's and asked what type of improvement the State Technical High School has made.

Ms. Demsey stated the Board has formed an audit subcommittee to watch the business functions more closely and are utilizing technical assistance through the SDE office of internal audit.

Mr. Rinker asked in the review of the matter has the Pita Group been interviewed. Ms. Demsey responded that the Department of Administrative Services performed the investigation into the Pita matter, but the State Department of Education has not.

Chair Ahneman noted that there was clearly a break down, was it a break-down of procurement or was it a break-down of audit and what can the State Contracting Standards Board do to assist SDE so this does not happen again.

Ms. Demsey responded that to the extent that individuals who are high enough in the organization can choose to not follow the processes and procedures, then there is only so much that can be done. Ms. Demsey added that the internal processes have been strengthened and will continue to be based upon results of the review by Whittlesey and Hadley, PC.

Attorney Haberlandt added, there are consequences to choices made. The Superintendent is no longer employed by the State and the contractor was terminated from the contract. Attorney Haberlandt further added that he hoped the deterrent factor will have some effect.

Mr. Bertoline asked if Ms. Demsey and Attorney Haberlandt to return and tell the Board the changes and improvements they have made and also provide the Board with the changes and improvements made so far.

#### 5. Other Business

No other business.

#### 6. Adjournment

Motion made by Alfred Bertoline and seconded by Stuart Mahler to adjourn. All voted in favor, the meeting was adjourned at 10:00 A.M.

Respectfully submitted: David Guay