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**Written Testimony of  
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**State Comptroller and Miscellaneous Accounts Budget Presentation  
to the Appropriations Committee**

Good morning Senator Bye, Representative Walker, Senator Kane, Representative Ziobron, and Members of the Appropriations Committee:

For the record, I am State Comptroller Kevin Lembo, and I am here this morning to testify on the Governor's Recommended Midterm Budget Adjustments for the Office of the State Comptroller (OSC) and the Miscellaneous Accounts administered by the Comptroller's Office.

I want to begin by saying my presentation today is solely on the current state of my agency's budget and operations and in no way should be construed as a desire to compete for funds with any of the critical human services state government provides.

With regard to our agency budget, we are operating at absolute minimum staffing levels, and have already narrowed our work scope to our agency's core services. As I have testified in the past, the Core-CT system is the state's financial 'beating heart.' It is responsible for all aspects of settling the state's debts, including vendor payments, employee payroll, retiree payroll, healthcare benefits, grants, and most other fiscal transactions our state agencies perform. It also importantly serves as the comprehensive financial tool upon which the General Assembly, the Administration and the Office of Fiscal Analysis (OFA) rely to formulate budget and program policy.

The capabilities of Core-CT have been dramatically leveraged in recent years to meet the evolving needs of our state agencies. As Core-CT's business functionality has improved it has allowed the State to adopt more streamlined business processes that improve productivity. A few of the improved functions include time reporting, benefits administration, inventory and procurement. The system also allows the State to comply with new regulations like those associated with the Affordable Care Act (ACA).

Three current Core-CT projects, pension administration, UConn implementation and the Financials system upgrade will also provide new beneficial functionality.

All State employees can have access to Core-CT. The system averages over 15,000 user logins per workday and that number spikes to 30,000 on days with time reporting and time approval functions. Transactional users initiate over 2,000 financial and human resource processes per hour.

Core-CT's Human Resource system calculates over 800,000 time records per pay cycle and produces 1,800,000 employee paychecks and 600,000 pension payments per year. The Financial system generates 60,000 purchase orders per year valued at over \$5B, creates 690,000 vouchers totaling \$27B and tracks over 700,000 physical assets with a value of over \$19B. Core-CT is one of the largest and most stable enterprise systems in the country.

Beyond keeping the Core-CT system functioning optimally, there are two critical priorities on which we are concentrating. The ongoing implementation of our pension system in Core-CT is our first priority. As you know, the paper processing of retirement applications has caused a significant and growing backlog in final audits for our retirees and we are in the process of taking our pension system online. We are on schedule to go live with the pension system implementation in late May, and will be addressing the 14,000+ finalization backlog over the course of the following six months. The backlog consists of those retirees receiving estimated payments that have not been finalized by the retirement audit unit to date. The backlog has largely been caused by three Early Retirement Incentive Plans (ERIP) and should be mostly eliminated by the end of this calendar year. Clearing the backlog in itself is a significant milestone; last year alone we paid \$879,763.37 in retroactive interest to those retirees whose finalizations had been processed in that fiscal year. Staffing support for post-implementation is critical to maintain the new pension functionality in the Core-CT system.

Our second priority is the UConn Human Resource Management System implementation project, which is dangerously close to not being completed on time due to staffing levels. If we are unable to achieve the UConn implementation go live set for mid July, significant additional costs reaching into the millions of dollars will be incurred. Moreover, UConn's unsupported legacy payroll system is at high risk for failure and any delay in the conversion to Core-CT increases that risk.

Unfortunately, the level of staffing provided in this budget puts our agency at significant risk of not being able to sustain the Core-CT system's daily production functions or meet the implementation targets of either the pension conversion or UConn implementation. We currently have 16 vacancies that we are unable to fill due to lack of funding and this budget proposes eliminating 4 positions altogether. As a result, we will need to rely more heavily on consultant services, increasing the amount of bond funds our agency will need in order to support the Core-CT system. Due to staffing constraints caused by the lack of funding, we have been forced to suspend our assistance on the Office of Policy and Management (OPM)'s Business Intelligence (StarS) project. In addition, OPM, the Office of the State Treasurer and the Department of Administrative Services (DAS) all have interest in new functionality that would make their business processes more efficient. But, we cannot facilitate those changes without adequate staffing.

To put it bluntly, the Core-CT system impacts nearly all facets of state government, and any system failure due to inadequate staffing would result in chaos. Employees and retirees won't receive their pay, agency purchasing units will be unable to pay their vendor bills, cities and towns will not receive their grants, OPM will not have the data it needs to properly monitor the state budget, and OFA will not have the data it needs to answer your fiscal questions.

As always, OSC is dedicated to finding operating efficiencies, creating savings, and providing greater transparency in government. Some of our more recent successes include reducing our pharmacy spend by more than \$20 million annually while continuing to ensure the safety of our members by requiring a prior authorization on compound drugs; launching OpenCheckbook as part of OpenConnecticut to expand public access to the state's financial data; increasing municipal and vendor participation in ACH direct deposit to reduce printing and postage; and renewing our medical contracts with commitments by the vendors to reduce costs and improve quality of care through their agreements with providers.

We continue to work hard to deliver the best quality service to state employees, retirees, vendors, municipalities, state agencies, and the public. We have an extraordinary staff with a track record of finding ways to successfully accomplish our services, while at the same time implementing large projects. However, each year we are asked to do even more with even less. Our Operating Expenses budget this year is 7.23% lower than it was in fiscal year 2008, and we are continuing to take on more projects.

I have further concerns about an inaccuracy in our employee positions count. On June 8, 2015, a Memorandum of Understanding (MOU) was entered into by the Office of Labor Relations and the Administrative and Residual Employees Union that transferred 5 employees from DAS to OSC. The MOU specifically states that both the employees and their respective positions as listed would be transferred to OSC. While the funding for those transferred employees was moved to our PS line, moving of the actual positions did not occur. Our position count in the budget before you should be increased by five to reflect the MOU, and the DAS's position count should be reduced by the same number.

Regarding the Miscellaneous Accounts administered by our office, I have some concerns. The Governor's budget proposal makes significant changes in how higher education fringe benefits are treated. As part of this new approach, the Comptroller's appropriation for the Alternative Retirement Program (ARP) was eliminated and funding was shifted to higher education block grants. However, my office will continue to need an ARP appropriation to process transactions. For example, payment of the 8 percent employer contribution will still need to be made to Prudential from the General Fund ARP appropriation. In addition, I am requesting \$2.5 million in funding to be restored to the ARP appropriation to help with payment scheduling. The first payment to Prudential will be due in early July before any fringe benefit recoveries are available to help cover the 8 percent employer contributions. My staff has alerted OPM about this issue.

Finally, I would like to raise significant concerns about the proposal to move the grant funds for certain designated programs into my agency. I believe the overarching goals – improved protections, monitoring and transparency mechanisms – are vital, but the question is where in state government is the oversight and administration of these programs most efficiently performed. Agencies like DECD, OPM, and perhaps Legislative Management, currently perform many of the functions being discussed, including evaluating competitive grant proposals and overseeing grantee performance. Placing the administration of this new program in an agency that already performs these functions would improve efficiency by avoiding the need for my agency to create duplicative administrative capacity. During this time of limited resources we should be looking to leverage existing capabilities and avoid duplicating functions. In addition to the inherent inefficiency of placing the program’s administration in the Comptroller’s Office, the public should have a clear understanding of how funding decisions for these programs are being made and by whom. Ultimately these decisions are made between the legislature and the Governor’s administration. If it’s your collective decision to fund a program, it should be the responsibility of the legislature and the Governor to monitor and supervise the programs.

I fully appreciate the pressure you are under in evaluating this budget, but I did feel obligated to make you aware of the critical point my office has reached.

Thank you very much for your time. I am pleased to answer any questions that you may have.