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**Written Testimony of Comptroller Sean Scanlon
February 13, 2025**

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

Good afternoon Senator Osten, Representative Walker, Senator Somers, Representative Nuccio, and members of the Appropriations Committee.

Thank you for the opportunity to testify on Governor Lamont's proposed FY 2026 and FY 2027 budget adjustments for the Office of the State Comptroller (OSC) and the Miscellaneous Accounts administered by this office.

I would first like to highlight a few of OSC's major achievements since I've last addressed this committee:

- After brokering major reforms to our municipal retirement system in 2023 to save municipalities over \$800 million over the coming decades, my office worked with municipal, labor, and legislative leaders to establish a new commission dedicated solely to administering the system. This gives our towns and municipal workers control over the fate of retirement benefits and costs moving forward. This year, we hope to make continued reforms that broaden participation and make costs predictable to ensure municipal workers including our first responders have access to a secure future.
- OSC administers several programs that meet the critical needs of the state. These include an assistance program to victims of flooding in Hartford, a retirement savings program for employees of small businesses, a prescription drug savings card for residents struggling with rising costs, and a subsidy program to assist paraeducators in affording healthcare.
- We remained committed to fiscal responsibility by examining the financial activity and operations of two state entities at the request of the Governor. I am working with the legislature this session to pass reforms stemming from these reports to ensure our government is transparent and accountable to taxpayers.
- OSC continues a historic modernization project for Core-CT, the state's Enterprise Resource Planning system, which provides human resource, payroll, benefits administration and financial services for thousands of state employees,

retirees, and outside vendors. Following the successful migration of Core-CT onto the cloud in November 2023, our team completed the software modernization phase of the project in November 2024. This phase focused on modernizing the functionality and efficiency of the Core-CT system.

- The team also completed the first phase of the Teacher Retirement project, which successfully transitioned the case management and call center services into Core-CT. We continue work on transitioning the TRS payroll and Pension Administration services into Core-CT, with a planned implementation date of August 2025. OSC is now responsible for the Kronos/UKG Workforce Central upgrade to UKG Pro Workforce Management. This is a 12-month project upgrading the DOC, DVA, DESPP and DCF scheduling and time & attendance software, which requires completion by December 31, 2025. OSC is working on deployment of multi-factor authentication for Core-CT, which we will begin rolling out to agencies in May 2025. OSC is also analyzing new higher education auditing directives from the legislature.

Perhaps most importantly, alongside the Governor, the Treasurer and other partners, we continue to make incredible progress in managing the state’s long-term liabilities. After the close of the current fiscal year, our additional deposits into our pension systems will total roughly \$10 billion over the last six years, saving taxpayers billions of dollars and freeing up space in our budget to meet current needs and make critical investments.

We also continue to administer the fringe benefits of state and municipal employees, including a health plan that covers approximately 250,000 lives, maintain the state’s payroll and reporting functions, and provide critical input on the state’s finances and economy. Further detail on our programs and efforts are provided below.

Impact of the Governor’s Proposed Biennial Budget on OSC

The Governor’s proposed budget adjustments largely meet the needs of our agency. We thank him for including the transition of eight Department of Administrative Services employees to our agency as we take on greater responsibility around state employee time and labor. I am also grateful that the Governor included partial funding to maintain healthcare assistance for our state’s paraeducators and continued funding to support the families of our dedicated police officers killed in the line of duty.

However, we continue to seek funding for the following critical needs:

1. \$983,972 in Personal Services and 12 positions for the following (detail below):

Positions	Employee Total	Salary Costs	Purpose
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Critical Core IT Staffing	5	582,894	CORE-CT Modernization project and critical functions including payroll, benefits, and IT.
Audit Staff for State Financial Activity	4	217,552	Conduct post-audits on Core CT to identify misuse, fraud, and compliance issues. Assist with special examinations and other expansions of duties.
Retirement Benefits Officer Trainees	2	108,776	Manage the distribution of pension benefits to survivors of deceased pension plan participants.
Paralegal	1	74,750	Preparing and managing legal contracts for state healthcare programs and RFPs.
Total	12	983,972	

Core-CT IT Specialists

Virtually every state transaction – financial, payroll, and human resources – flows through and relies on the Core-CT system. The criticality of ensuring Core-CT’s continued stability and success cannot be underestimated. There has been a 25% staff reduction over the last 7 years, mostly due to retirements. At the same time, there has been significant increased demand on the Core-CT system and team. The Core-CT modernization project and the incorporation of the Teachers Retirement System into Core-CT – introducing tens of thousands of new lives and transactions – threatens to compromise its ability to meet the state's needs and project timelines. There are currently 18 (25%) vacant unfunded technical positions in the Core-CT organization. Consultants and temporary staff are currently being used to fill some of these key positions, which is not a long-term solution to maintain a system that supports the most mission-critical transactions at every agency in state government.

Audit Staff (4 FTE Requested)

There is a need to increase audit staffing to meet new and expanded demands on staff of special audits, as well as implement new fraud detection and prevention activities. We are requesting 4 FTEs to cover new areas of responsibility related to Procurement Card (P-Card) Pre-Reconciliation Review, duties transferred from the Department of Administrative Services (DAS) P-Card Administration unit, increased Special Audit Reviews requested by the Governor or other audit and regulatory agencies, and an ongoing review of the Connecticut State Colleges and Universities (CSCU) P-Card and disbursement transactions. The benefits of expanding audit programs include preventing transactions that fail to comply with procurement or agency policy, identifying patterns of misuse, identifying potential fraud, and identifying weaknesses in internal controls and policy at the agency and statewide level.

All of these expanded duties are required to facilitate and improve the Office of the State Comptroller’s (OSC) oversight and monitoring of statewide internal controls, mitigation of risk

to public funds, and remediation of situations which may result in the exposure or loss of state assets.

Increased Audit Staff Benefits

Since the retirement surge, our post audits have shown an increase in non-compliance with established procedure and policy, likely due to insufficient transfer of knowledge and staffing issues at agencies statewide. As a result, we have discovered issues where state agencies have made business decisions which are not in alignment with good governmental accounting practices and have led to increased fraud, waste, and abuse of public funds, as well as a breakdown in the public trust. Expanded audit staff would be able to provide agency management with alternative choices when they find risky or unacceptable policies and procedures. Additionally, they would provide standardized training statewide for staff on basic accounting, risk management, and fraud prevention.

The current P-Card post audit process looks at selected transactions to identify agency errors such as not adhering to statute requiring pre-encumbrance of state funds, failure to follow statewide and agency procedures regarding documentation of state expenditures, adherence to governmental accounting practices, internal controls, and risk reduction. Additional resources will allow the expansion of current audit scope to include the monthly log and documentation specific to the selected transactions which will allow better determination of whether the errors are incidental or part of a larger trend by the employee or agency. Most successful P-Card fraud occurs as small amounts over large periods of time; this ability to analyze trends may result in the capture of more internal fraud than current process.

The most common findings in the current P-Card post audit are:

1. Encumbrance errors, failure to pre-encumber funds in accordance with CGS 4-98.
2. Lack of supporting documentation which includes missing receipts, missing verification of receipt of goods, missing authorizing documentation, and other.
3. Lack of following statewide purchasing requirements, exceeding spending limits, purchase order errors, authority errors and other.

The CSCU Special Examination helped to highlight suspicions we had related to agency activities but did not have enough audit evidence to show the extent of. Additional auditors, with the time and resources to examine monthly logs and backup documentation, would be able to expose similar situations where we may suspect something is occurring at agencies but don't currently have the resources to properly investigate and provide the agency with tools to help resolve the issues. The Special Examination exposed the following additional concerns:

1. Lack of training, inconsistent application of guidelines, and failure to follow up on employee related findings with penalties or progressive discipline.
2. Failure to perform proper reconciliations and follow up on discrepancies and findings.
3. Failure to impart on participating employees the importance of resource stewardship and maintaining the public trust.

Identifying issues like those above and providing tools and education to agencies will save the state money by preventing them from pursuing wasteful practices and closing loopholes which subject the state to fraud, waste, and abuse.

Retirement Benefits Officers

OSC is requesting two additional positions at the level of Connecticut Careers Trainee with a target class of Retirement and Benefits Officer. The primary purpose of these positions is to serve the family members of the deceased retirees who are contacting our office to report the deaths and to receive guidance. These cases, ranging now typically from 165-200 per month, require significant care across three divisions to ensure that surviving families receive the guidance they need to process transactions across healthcare, group life, payroll, and pension matters. These processes have been compromised with significant staffing decreases over the last decade.

Both the retiree volume and the number of retiree deaths has drastically increased since 2013. The number of individuals receiving pension payments has increased from 49,580 in 2013 to 73,771 in 2024, and the average number of deaths per month has increased from 118 in 2013 to 175 in 2024. In January 2025, there were 214 deaths amongst those individuals receiving pension payments.

Current OSC Headcount:

Total headcount: 284

Funded headcount: 274

Actual headcount: 259

Open/vacancies headcount: 15

2. \$1,224,758 in FY26 and \$1,381,329 in FY27 in Other Expenses for the following projects:

<u>Request</u>	<u>FY 26 Funding</u>	<u>FY 27 Funding</u>
Support costs related to major Core-CT projects and upgrades	1,044,758	1,196,329
Medical Examination Board PILOT	100,000	100,000
MyCTSavings Consulting and Auditing Services	30,000	30,000

Core Modernization Project Needs

The Core-CT modernization project is underway and will continue through 2025. The modernization project has a focus on improving infrastructure, security, and business functionality. Key milestones achieved to date include the transition of Core-CT to the cloud in November 2023 and the PeopleSoft software modernization phase of the project which was completed in November 2024. In 2025 we will complete additional software enhancements to the

Core-CT applications including multi-factor authentication, document integration with UKG, self-service enhancement and the transition of State P-Card activity to US Bank.

The Core-CT team also completed the first phase of the Teacher Retirement project which successfully transitioned the case management and call center services into Core-CT. We continue work on transitioning the TRS payroll and Pension Administration services into Core-CT, with a planned implementation date of August 2025.

Our initial cost projections to transition to the cloud were \$1.5 million prior to implementation. Actual costs related to our cloud footprint, including virtual servers, database, security features and networking continue at \$1.9 million annually.

Separate from the ongoing Core-CT modernization project, our agency has additional software maintenance and licensing fees associated with the system. Funding in past budget cycles has not included adjustments to cover annual industry standard increases. While we have been able to absorb these costs historically, they present structural risk to our budget and the IT systems that manage benefits & payroll services for a population soon to be over 150,000 people. Funding for these increases is included in the FY26 and FY27 OE requests.

Medical Examination Board Pilot Program

This proposed pilot program will help determine if Connecticut would benefit from an approach that a growing number of public pension systems are using to reduce the costs and improve the accuracy of eligibility determinations for disability retirement. The pilot program would engage a third-party to assist the Medical Examining Board (MEB) that currently makes those determinations.

The amount that SERS pays the physicians on the MEB has increased from an average of approximately \$190,000 per year to the current annual rate of about \$500,000. Applicants for a disability retirement must currently wait from three to six months for an initial decision. The decisions are made by panels of three physicians whose members are assigned to meetings based on their availability; the panels often do not contain a specialist in the field that is most relevant to an applicant's medical condition.

By contracting with a medical board review services provider that specializes in public sector systems, and which maintains an extensive network of physician reviewers in all major specialties and subspecialties, we hope to expedite decisions about disability retirement at a reduced cost. Our goals would be to reduce applicants' wait time to between 30 and 60 days, and to reduce costs by fifty percent. These improvements would be realized, in part, because initial medical determinations would be reviewed by a single specialist in the field that relates to each applicant's condition. This aspect of the program would also improve the accuracy of those initial determinations.

MyCT Savings Auditing and Consulting Services

CRSP is requesting two increases to its operational budget to increase oversight of the program. The first is an additional \$10k operating to reflect two contractually agreed to \$5k increases annually for its investment consultant, who oversees investment performance for the program's investment portfolios. The increase will ensure those contracts can be paid for over the next two years of the budget.

The MyCTSAVINGS program also needs an audit of its assets, finances, and program operations, prepared by an independent third party to ensure that CRSP investment and trust company vendors have been operating in accordance with their contractual obligations. We are requesting an additional \$30k for annual external audit requests estimated to cost \$25k each to pay for this audit in both fiscal years.

3. \$5 million in Other Expenses to maintain existing healthcare assistance for paraeducators

Paraeducators are often lower paid than their peers and struggle to afford the health insurance their districts offer them. In 2023, the legislature established a program tasking us with distributing \$5 million in stipends for out-of-pocket healthcare costs for paraeducators enrolled in high-deductible health plans. We provided roughly 4,200 paras with an average stipend of \$800.

This school year, thanks to an expansion of the program by the legislature, we proudly assisted over 7,000 paraeducators across the state by providing \$10 million in funding and lowered healthcare premiums for a new population of paraeducators enrolled in traditional co-pay plans.

The Governor's proposal currently recommends cutting this program in half. We request that the legislature continue funding it at current levels to ensure they can continue to afford their healthcare needs.

Fringe Benefits Update

Retired State Employees Health Service Cost:

The retired state employee's health service cost is projecting a large increase for FY 26 and FY 27. The primary drivers of the increase are changes to federal reimbursements to Medicare Advantage plans by CMS and adjustments to out of pocket maximum calculations in the Inflation Reduction Act, which combined is increasing the annual plan costs for the state's Medicare Advantage plan for retirees while reducing federal subsidies. In addition, both the Medicare Advantage plan and the commercial retiree health plan for retirees who are not Medicare eligible are seeing double digit trend increases driven by increases in utilization, primarily because of increases in in-patient hospital stays and prescription drug costs.

The state is currently out to bid for its Medicare Advantage plan and will have updated rate projection at the beginning of April and again in May based upon the bids received through this competitive procurement process.

The retiree healthcare Funds Awaiting Distribution account – the account used to pay claims and other expenses related for retiree healthcare has a healthy balance of \$228.1M, which exceeds our projected needs for reserves in that account by \$170M. The high balance is the result of the savings achieved through the low rates experienced in Medicare Advantage over the last two years and lower than anticipated medical and prescription spend during the early part of the COVID-19 pandemic.

The Governor’s budget assumes the fund balance is drawn down to offset retiree health service costs that would otherwise be funded through the General fund. The drawdown is concentrated in FY 2026. Overall, the Governor’s budget underfunds the Retired State Employees’ Health Service Account by \$101M in FY 2026 and \$58.9M in FY 2027; these projections do not account for potential savings related to redistributing hospital payments from the state employee health plan to Medicaid as that plan remains uncertain.

To achieve the projected costs in the Governor’s budget, the Comptroller will need to achieve lower than projected Medicare Advantage premiums through our procurement process and would need to see significant moderation in healthcare trends in the coming months. We will have a better sense of how these areas are trending as we progress through the legislative session, but this is an area to watch as it may require adjustments in the final budget.

State Employees Health Service Cost:

The projected increases in the State Employees Health Service Cost line item are driven primarily by higher than anticipated utilization for in-patient hospital services and prescription drugs. Prescription drug costs are rising significantly. The Comptroller is seeking programmatic and pricing adjustments to improve projected costs in FY 2026 and 2027, focusing on the areas of medical pharmacy costs and retail prescription drugs. Currently, the Comptroller’s Office is projecting an overall premium rate increase of 9% for FY 2026, combined with an increase in population resulting in a 14% overall increase to the State Employee Health Service Cost appropriation in each of FY 2026 and 2027.

Currently, the Governor’s budget underfunds the active state employee health service cost line item by \$50.7M in FY 26 and \$81.4M in FY 27. These projections do not account for potential savings related to redistributing hospital payments from the state employee health plan to Medicaid as that plan remains uncertain. The Comptroller’s office will finalize premium rates for active state employees at the beginning of March, and we will have an updated General Fund cost projection available at that time.

Hospital negotiations:

The Governor’s Budget includes a reduction in General Fund appropriations of \$69.5M associated with anticipated successful negotiations with the hospitals to reduce the state employee and retiree healthcare reimbursement to hospitals by as much as \$100M in exchange for increased Medicaid payments to hospitals. Exchanging hospital payments from the state employee health plan to Medicaid generates a net savings to the state because of federal matching funds that are available under Medicaid. For example, a reduction in state employee hospital payments for \$100M (\$25M from the active health plan and \$75M from the retiree health plan) would result in a net General Fund savings of approximately \$55M.

The Governor's budget directs the Comptroller to negotiate an agreement with the hospitals to leverage these potential savings. It is anticipated that any agreement would require a net benefit to both the state and the hospitals; therefore, the Governor's budget includes an increase in Medicaid reimbursement of \$110M to hospitals associated with this arrangement. The Governor's budget also includes funds to investigate the potential for the state to further maximize federal funding through a Medicaid 1115 state innovation waiver. Additional funds through an 1115 waiver could be used for community health investments, increasing Medicaid rates across providers and generating additional budget flexibility for the state. A successful waiver would depend on further leveraging available state funds through the hospital provider tax and may require additional General Fund investment. Further, a successful 1115 waiver or likely successful 1115 waiver would make the potential for a successful negotiation with the hospitals much more likely, as it would generate more resources that could be leveraged for mutual benefit across parties (the state, the hospitals, community providers and other Medicaid providers). If the Comptroller and the hospitals are not successful in negotiating adjustments to hospital reimbursements under this provision, the assumed \$69.5M in savings for the State Employee and Retired State Employee Health Service Accounts will have to be reconciled in the final biennial budget.

Conclusion

The Office of the State Comptroller stands committed to increasing government transparency, reducing costs for the 300,000 Connecticut residents covered by our health plans, and continuing the fiscal progress of the past few years.

We've continued our transparency efforts by again releasing our Annual Loss Report, which quantifies the amount of state assets lost or stolen over the last year. We've saved taxpayers money by controlling healthcare costs and paying down our liabilities. And we've successfully managed an array of programs helping residents across the state with issues ranging from flooding to healthcare and drug costs.

This budget, along with our requests, will ensure that the Office of the State Comptroller can continue to administer both statewide projects and routine services at a high level of efficiency and responsiveness.

I look forward to our continued cooperation in service of the residents of this state.



Sean Scanlon
State Comptroller

