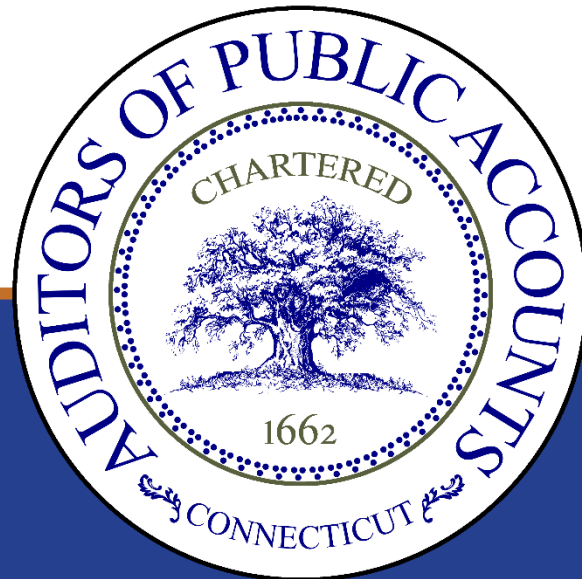


# AUDITORS' REPORT

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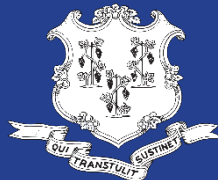
## Office of the Treasurer Departmental Operations

FISCAL YEARS ENDED JUNE 30, 2021 AND 2022



**STATE OF CONNECTICUT**  
Auditors of Public Accounts

**JOHN C. GERAGOSIAN**  
State Auditor



**CRAIG A. MINER**  
State Auditor

# CONTENTS

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INTRODUCTION.....	3
STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....	4
Deficiencies in Asset Management Disposal Recordkeeping.....	4
Ethics and Confidentiality Certifications.....	5
Improper Claim Approvals.....	7
STATUS OF PRIOR AUDIT RECOMMENDATIONS.....	9
OBJECTIVES, SCOPE, AND METHODOLOGY.....	10
ABOUT THE AGENCY.....	11

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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CRAIG A. MINER

February 29, 2024

INTRODUCTION

We are pleased to submit this audit of the Office of the Treasurer for the fiscal years ended June 30, 2021 and 2022 in accordance with the provisions of Section 2-90 of the Connecticut General Statutes. Our audit identified internal control deficiencies and instances of noncompliance with laws, regulations, or policies.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the Treasurer during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Stephanie Jackie  
Ramiz Mehmedovic  
Rosa Melluzzo  
Matthew Wood

A handwritten signature in black ink, appearing to read "M. Wood".

Matthew Wood  
Principal Auditor

Approved:

A handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian  
State Auditor

# STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of the Treasurer's departmental operations disclosed the following three recommendations, of which one was repeated from the previous audit:

## **Finding 1**

### **Deficiencies in Asset Management Disposal Recordkeeping**

#### **Criteria**

Chapter 9 of the State Property Control Manual establishes the Department of Administrative Services (DAS) Surplus Unit as the legally authorized agent for the disposal of surplus state property. Agencies needing to dispose of property must list it on the state's auction website or receive surplus unit preauthorization to dispose of it.

Agencies should regularly update their property control records to reflect new assets placed into service and those no longer held by the agency.

#### **Condition**

We reviewed 20 assets, totaling \$164,373, removed from the office's inventory records during the fiscal years ended June 30, 2021 and 2022 and noted the following:

- In three instances, the office lacked disposal authorization records.
- In four instances, the office did not have complete disposal authorization records.
- In 13 instances, the office did not remove the assets from inventory records until one to three years after disposal.

#### **Context**

The office removed 395 assets, totaling \$1,165,532, from its inventory records during the fiscal years ended June 30, 2021 and 2022. We randomly selected 20 assets for review.

#### **Effect**

If the office does not maintain or regularly update property control records, there is increased risk that property could go missing or be improperly disposed.

#### **Cause**

The office had to surplus many old items when it moved to new office space during the fiscal year ended June 30, 2020.

Management did not promptly update the inventory records or maintain required documentation to reflect which items were part of that move.

**Prior Audit Finding**

This finding has been previously reported in the last audit report covering the fiscal years 2019 through 2020.

**Recommendation**

The Office of the Treasurer should improve internal controls over the asset disposal process and accuracy of its property control records to ensure compliance with the State Property Control Manual.

**Agency Response**

"The Office of the State Treasurer (OTT) agrees that certain inventory records were not updated in a timely manner with required documentation for certain items during a large surplus of property necessitated by OTT's move to a new building during the fiscal year ended June 30, 2020.

However, since that time, internal controls over assets disposal have been improved including staff training, purchase of an iPad for image upload, and a detailed written surplus procedure which is now in effect. This ensures that all supporting documentation is uploaded to State Surplus and Core-CT Asset Management portfolios within (10) days after items are removed from OTT's facility."

## Finding 2

### Ethics and Confidentiality Certifications

**Criteria**

The Office of Policy and Management (OPM) procurement standards require all employees participating in the request for proposal (RFP) process sign an ethics and confidentiality agreement at the start of the process. The participants must also recertify after the agency receives RFP responses from interested vendors.

While the General Statutes do not require the Office of the Treasurer to follow OPM procurement standards, the office implemented those standards in its contracting process.

**Condition**

We requested ethics and confidentiality agreements from all participants in the office's requests for proposals between February 2021 and September 2022 and noted the following:

- The office lacked four certification forms.
- The participants signed 19 of the forms one to four months after the office started the RFP process.

- The office did not ensure the RFP participants recertified seven forms. They also recertified 15 forms up to five months after the RFP process ended.

**Context**

The Office of the Treasurer issued request for proposals for nine services between February 2021 and September 2022. Eight RFPs resulted in the office awarding contracts. We selected all nine of the RFPs for review. Participants were required to submit 33 related ethics and confidentiality agreements.

**Effect**

The office did not comply with the Office of Policy and Management's procurement standards. RFP participants that do not review and attest to the ethics and confidentiality agreement during the procurement process may not be as vigilant about the risks of conflicts of interest.

**Cause**

The office used alternative procedures that it believed satisfied the OPM requirements. The procedures only tracked read receipt of an email reminder rather than positively confirming the receipt of the ethics and confidentiality agreements.

**Prior Audit Finding**

This finding has not been previously reported.

**Recommendation**

The Office of the Treasurer should strengthen internal controls to ensure compliance with its ethics and confidentiality agreement procedures.

**Agency Response**

"The Office of the State Treasurer (OTT) agrees that it should strengthen internal controls to ensure compliance with completion of an Ethics and Confidentiality form. OTT has implemented a version of the OPM procurement standards as part of a comprehensive system of internal controls that includes additional safeguards and has implemented changes to ensure more consistent and timely compliance with the ethics certification standards. As part of the other internal controls, the office circulates a "Blackout List" monthly to all employees responsible for reviewing, negotiating, or supervising contracts with vendors. The Blackout List identifies any vendor that has responded to pending RFPs and reminds employees to not communicate regarding the RFP outside of the designated RFP communication channels.

In addition, all such employees must provide an email certification prior to the execution of any contract that such employee is not aware of any gift, promise of a gift, compensation, fraud, collusion, or inappropriate influence in the awarding of such contract. The email instructs each reader to certify by sending a read receipt that they know of no such activity and to affirmatively report if they do - so the email is more than a reminder, it requires an affirmative

acknowledgement or affirmative reporting, as applicable, specific to each contract that is documented and tracked.

OTT also employs multiple proactive ethics trainings to ensure employees remain alert to the conflicts of interest, confidentiality, and other ethics requirements during the RFP process. These practices include a mandatory in-person refresher ethics training for the employees described above specific to their confidentiality, conflicts of interest and other ethical obligations. The most recent training was provided in March 2023.”

## Finding 3

# Improper Unclaimed Property Claim Approvals

<b>Criteria</b>	The Unclaimed Property Division (UCP) of the Office of the Treasurer has established guidelines for approving claims prior to payment. The guidelines require final approval from the assistant treasurer or UCP controller for claims over \$250,000.
<b>Condition</b>	<p>We reviewed 55 paid unclaimed property claims, totaling \$26,631,064, during the fiscal years ended June 30, 2021 and 2022 and identified five claims over \$250,000 missing final approval from the assistant treasurer or UCP controller. The five claims totaled \$2,326,721.</p> <p>We also noted that in one instance, despite proper approval, the division lacked supporting documentation for a \$254,688 claim.</p>
<b>Context</b>	The division paid 31,305 claims totaling \$104,562,179 during the audited period. We judgmentally selected larger claims for review.
<b>Effect</b>	Improper approval of claims increases the risk of undetected errors in processing unclaimed property returns.
<b>Cause</b>	Management turnover and the implementation of a new unclaimed property management system during the second half of the fiscal year ending June 30, 2022 may have resulted in internal control deficiencies.
<b>Prior Audit Finding</b>	This finding has not been previously reported.
<b>Recommendation</b>	The Unclaimed Property Division of the Office of the State Treasurer should strengthen internal controls to ensure it follows established claim approval guidelines.

## **Agency Response**

"The Office of the State Treasurer (OTT) agrees that it should strengthen internal controls to ensure compliance with their established Unclaimed Property Division claim approval guidelines. It should be noted, however, that the claims cited in this finding were all valid claims paid in the appropriate amounts and processed in accordance with established procedures.

The claims identified in this audit finding were processed during a period of management transition with the retirement of a long time Assistant Treasurer, in the midst of Covid and extensive staff absences, and the period of time before the hiring of a new Assistant Treasurer. In addition, during this time, there were major system changes underway. The addition of paralegal staff support for the claims review and approval process, that was intended to have higher level approval authority, was not updated in the written policies.

Since that time, OTT has initiated a comprehensive process of review and overhaul of the approval guidelines and has undertaken an initiative to tighten the automatic system controls to ensure that appropriate approvals within level controls are maintained. With the addition of new positions and job descriptions within Unclaimed Property, a reassessment of the assignment of appropriate levels of review is also underway.

The Office of the State Treasurer also agrees that care with maintaining supporting documentation for claims within Unclaimed Property is essential, particularly when transitioning between two vendors and software systems. OTT has enhanced its review of required documentation using OnBase and workflow status review as well as insuring that the Claims Supervisor spot checks claims processed by each of the claim examiners.

The new administration is committed to enforcing its guidelines while enhancing its processing to meet new statutory expectations in its endeavor to reunite abandoned property with its rightful owners."



# STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior audit report](#) on the Office of the Treasurer’s Departmental Operations contained five recommendations. Four have been implemented or otherwise resolved and one has been repeated or restated with modifications during the current audit.

Prior Recommendation	Current Status
<p>The Office of the Treasurer should improve internal controls over asset accountability and reporting of property and software inventory to ensure compliance with the requirements of the State Property Control Manual.</p>	<p><b>REPEATED</b> <b>Modified Form</b></p> <p>Recommendation 1</p>
<p>The Office of the Treasurer should strengthen internal controls to ensure compliance with reporting requirements and formally evaluate and document its internal controls on the State Comptroller’s internal controls questionnaire.</p>	<p><b>RESOLVED</b></p>
<p>The Office of the Treasurer should institute procedures to ensure that it prepares and reviews its annual report in a timely manner.</p>	<p><b>RESOLVED</b></p>
<p>The Office of the Treasurer should implement controls to ensure that employees are enrolled in the correct compensatory time plan. Th office should ensure that it properly documents compensatory time approvals.</p>	<p><b>RESOLVED</b></p>
<p>The Office of the Treasurer should obtain written approval from the State Comptroller prior to revising any accounting procedures which affect the official state records.</p>	<p><b>RESOLVED</b></p>

# OBJECTIVES, SCOPE, AND METHODOLOGY

We have audited certain operations of the [Office of the Treasurer](#) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2021 and 2022. The objectives of our audit were to evaluate the:

1. Office's internal controls over significant management and financial functions;
2. Office's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department; and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying financial information is presented for informational purposes. This information was obtained from various available sources, including but not limited to, the office's management and the state's information systems, and was not subjected to the procedures applied in our audit of the office. For the areas audited, we:

1. Identified deficiencies in internal controls;
2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, or procedures; and
3. Did not identify need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Office of the Treasurer.

# ABOUT THE AGENCY

## Overview

The Office of the Treasurer operates primarily under the provisions of Article Four of the State Constitution and Title 3, Chapter 32 of the General Statutes. The Office of the Treasurer performs a number of functions and is organized into several divisions. This report focuses primarily on the departmental operations of the Office of the Treasurer and includes our review of the Business Office, Human Resources, Information Technology, the Unclaimed Property Division, the Second Injury Fund, and the Connecticut Higher Education Trust. Our review of financial operations of the Office of the Treasurer, which includes the financial statements of the Pension Funds Management Division, the Debt Management Division, the Cash Management Division, and the Second Injury Fund, has been issued under separate cover.

## Officers and Officials

The Investment Advisory Council (IAC) assists the State Treasurer with investment decisions. The IAC approves any changes to the Investment Policy Statement. The State Treasurer also presents all proposed contracts with investment consultants, money managers, custodians, brokers, legal counsel, and other service to the IAC prior to the Treasurer awarding such contracts. Membership of the IAC consists of the Secretary of the Office of Policy and Management, the State Treasurer, five members of the public appointed by the Governor and the General Assembly, three representatives of teachers' unions and two representatives of the state employee unions.

Shawn T. Wooden served as State Treasurer throughout the audited period. In January 2023, Erick Russell was sworn in as State Treasurer.

## Significant Legislative Changes

Notable legislative changes are presented below:

- **Public Act 21-111 (Section 104)** established the Connecticut Baby Bond Trust program administered by the State Treasurer and authorized up to \$600 million in bonds from fiscal year 2023 through fiscal year 2034.
- **Public Act 22-118 (Section 416)**, effective January 1, 2023, made several changes to the Unclaimed Property Program. The act requires the State Treasurer to automatically pay abandoned property amounts of less than \$2,500 to the property's sole owner if the Treasurer has satisfactorily established the owner's current address.
- **Public Act 21-2 (Section 64)**, effective June 23, 2021, grants the State Treasurer the discretion to modify or suspend contributions to the designated surplus reserve of the Short-Term Investment Fund when market conditions warrant such action is in the best interest of the fund's investors.

# Financial Information

## Department Revenues

A summary of revenues of the Office of the Treasurer by fund for the fiscal years under review and the preceding year follows:

	Fiscal Year Ended June 30,		
	2020	2021	2022
Federal and Other Restricted Accounts Fund	\$ 215,523,041	\$ 197,948,039	\$ 196,520,751
General Fund - Unclaimed Property	100,724,153	130,180,213	161,361,523
General Fund - All Other Receipts	104,412,280	48,524,246	70,893,735
<b>Total Revenues</b>	<b>\$ 420,659,474</b>	<b>\$ 376,652,498</b>	<b>\$ 428,776,009</b>

Unclaimed property receipts vary from year to year based on the type of escheats received, as well as the value of the escheated securities. Revenues from the Federal and Other Restricted Accounts Fund represent deposits of funds associated with the operating expenses of the Pension Funds Management Division, Short-Term Investment Fund, and the Debt Management Division. The increase in Unclaimed Property receipts in the fiscal year ended June 30, 2022 was due to timing of escheats from companies that regularly report. Federal reserve rate hikes in the second half of the fiscal year increased investment interest in fiscal year 2022.

The Office of the Treasurer also receives revenue for the Second Injury Fund and the Workers' Compensation Administration Fund (WCAF). The Second Injury Fund's revenues consisted primarily of assessments levied against self-insured employers and companies writing workers' compensation or employers' liability insurance, and totaled \$27,636,383 and \$28,768,899, for the fiscal years ended June 30, 2021 and 2022, respectively. WCAF assessment receipts totaled \$22,930,398 and \$21,289,280, for the fiscal years ended June 30, 2021 and 2022, respectively.

## Department Expenditures

A summary of expenditures of the Office of the Treasurer by fund for the fiscal years under review and the preceding year follows:

	Fiscal Year Ended June 30,		
	2020	2021	2022
General Fund	\$ 2,253,143,649	\$ 2,278,822,649	\$ 2,386,986,250
Debt Service Funds	696,241,744	726,193,176	746,549,375
Federal & Other Restricted Accounts Fund	177,350,528	171,982,200	198,746,913
Retirement Plans and Trust Funds	65,534,909	56,924,163	71,310,883
CHET	327,398	384,921	253,835
Capital Equipment Purchase Fund	42,398	2,255	28,945
<b>Total Expenditures</b>	<b>\$ 3,192,640,626</b>	<b>\$ 3,234,309,364</b>	<b>\$ 3,403,876,201</b>

Debt service expenditures can vary significantly from year to year based on the amount of bonds issued. The return of unclaimed property to owners, impacting the General Fund, also varies depending on several factors, including volume of claims and the performance of the stock market. A significant number of claims represent escheated stocks which the Treasury sells upon receipt.

Non-General Fund debt service fund expenses were mostly related to transportation bonds. These amounts totaled \$664,664,870 and \$743,671,504 for the fiscal years ended June 30, 2021 and 2022, respectively. The Retirement Plans and Trust Fund expenses are made up of management fees paid to advisors for the pension investment funds.

A summary of expenditures of the Office of the Treasurer by account for the fiscal years under review and the preceding year follows:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Debt Service	\$ 3,065,382,429	\$ 3,115,799,682	\$ 3,274,196,082
Purchased & Contractual Services	103,775,247	93,468,810	103,484,835
Personal Services & Employee Benefits	21,036,988	22,852,456	24,283,503
Information Technology	577,663	202,760	271,358
Premises & Property Expenses	52,864	-	2,316
Employee Expenses, Allowances & Fees	70,853	2,740	69,480
Purchased Commodities	104,332	71,062	87,521
Motor Vehicle Costs	33,614	24,068	22,551
Capital Outlays - Equipment	179,345	166,122	90,336
Other Expenditures	1,427,291	1,721,664	1,368,189
<b>Total Expenditures</b>	<b>\$ 3,192,640,626</b>	<b>\$ 3,234,309,364</b>	<b>\$ 3,403,876,201</b>

The Federal and Other Restricted Accounts Fund expenditures include operating expenses for the Office of the Treasurer's Pension Funds Management Division and the Unclaimed Property Division. Contractual and personal services are the major expenditures of the Office of the Treasurer, other than debt service costs. The most significant items included in contractual services are the payments of investment advisor fees by the Pension Funds Management Division.

### **Unclaimed Property**

Sections 3-56a to 3-74a of the General Statutes provide for the administration and disposition of property held by banking and other organizations for the benefit of owners who cannot be located. In accordance with these statutes, the treasurer's office is required to deposit all escheat cash receipts in the General Fund, except for periodic transfers to the Citizens' Election Fund and a restricted unclaimed property account within the General Fund. The cost of the Unclaimed Property Division's administrative expense is borne by the Federal and Other Restricted Accounts Fund. These administrative costs totaled \$6,239,599 and \$6,571,651 for the fiscal years ended June 30, 2021 and 2022, respectively.

Unclaimed property includes unclaimed bank accounts, insurance policies, stock, customer overpayments held by businesses, and various court deposits. A comparison of unclaimed property receipts as presented in the State Treasurer's Annual Report for the fiscal years ended June 30, 2020, 2021, and 2022, is as follows:

<b>Fiscal Year Ended June 30,</b>			
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Corporations	\$ 62,898,480	\$ 82,402,456	\$ 78,148,533
Financial Institutions	20,667,842	16,749,569	35,165,503
Insurance Companies	8,459,228	13,104,348	12,247,646
Governmental and Public Agencies	9,267,399	8,925,891	11,741,903
Dividends on Securities Held	675,554	227,440	279,114
Reciprocal Exchange with Other States	1,781,525	2,182,894	3,350,928
Miscellaneous	5,000	2,800	29,882
Securities Tendered	54,495	1,675	42,540
Securities Liquidated	16,723,918	27,054,318	42,073,332
<b>Total Receipts</b>	<b>\$ 120,533,241</b>	<b>\$ 150,651,391</b>	<b>\$ 183,079,381</b>

The Unclaimed Property Division's claim payments made in cash, transfers to the Citizens' Election Fund to support the State Elections Enforcement Commission, and administrative expenses as reported in the State Treasurer's Annual Report are as follows:

<b>Fiscal Year Ended June 30,</b>			
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Claim Payments	\$ 66,419,686	\$ 33,281,007	\$ 70,739,467
Transfers to Citizens Election Fund	12,151,894	12,334,172	12,617,858
Salaries and Fringe Benefits	3,694,934	3,807,262	4,286,128
Data Processing and Hardware	2,152,653	2,696,237	1,811,867
All Other	162,469	68,152	141,604
<b>Total Expenditures</b>	<b>\$ 84,581,636</b>	<b>\$ 52,186,830</b>	<b>\$ 89,596,924</b>

Section 3-69a of the General Statutes provides for the allocation of a portion of escheat revenues to the Citizens' Election Fund. Transfer amounts are determined based on the prior year amount, adjusted by changes in the consumer price index. Since its inception, the office has transferred \$232,093,162 to the Citizens' Election Fund. The State Elections Enforcement Commission administers this fund, which grants public financing to participating candidates for state office. The amounts for the Citizens' Election Fund, as well as administrative expenses for the Unclaimed Property Program, were deducted from the General Fund - Unclaimed Property amounts noted above. Although amounts are distributed to various funds, the full value of escheated property can always be claimed by the rightful owner. The Office of the Treasurer also receives non-cash (unclaimed) property, including shares of stocks and mutual funds. General fund activity does not include non-cash property such as stocks until sold. As of June 30, 2021 and 2022, the Treasury estimated the market value of unclaimed securities to be \$17,024,974 and \$9,469,667, respectively. Market conditions at the time of sale primarily impact revenue from escheated security sales.

## **Second Injury Fund**

The Second Injury Fund (SIF) is a state operated workers' compensation fund. The state created the fund in 1945 to prevent employer discrimination against returning injured World War 2 veterans. The fund's primary current purpose shifted to providing benefits for injured workers of uninsured employers. Various statutes of the Workers' Compensation Act and Chapter 568 of the General Statutes dictate SIF operations. These statutes provide protections for employees suffering occupational injuries or diseases and establish criteria to determine whether the employer or SIF is responsible for paying employee benefits. The Office of the Treasurer is the SIF custodian. Per Section 31-349e of the General Statutes, there is an advisory board to advise the SIF custodian on matters concerning administration, operation, claim handling, and finances of the fund.

Second Injury Fund operating expenses, including settlement agreements, indemnity, and medical payments to injured workers, and administrative expenses, as reported in the State Treasurer’s Annual Report, are as follows:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Settlements	\$ 4,698,278	\$ 5,028,243	\$ 3,290,958
Indemnity Claims Benefits	11,664,470	15,014,560	12,979,376
Medical Claims Benefits	4,222,351	2,935,379	2,443,369
Administrative Expense	7,506,849	7,620,929	7,154,100
<b>Total Expenditures</b>	<b>\$ 28,091,948</b>	<b>\$ 30,599,111</b>	<b>\$ 25,867,803</b>

Fund revenues consisted mainly of assessments levied against self-insured employers and companies writing workers’ compensation or employers’ liability insurance and totaled \$27,636,383 and \$28,768,899 for the fiscal years ended June 30, 2021 and 2022, respectively.