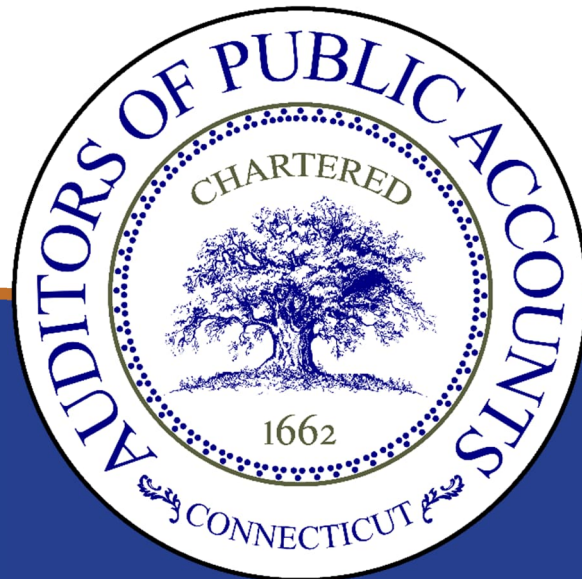


AUDITORS' REPORT

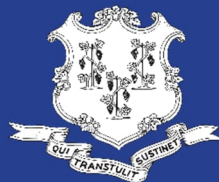
Office of the Treasurer Departmental Operations

FISCAL YEARS ENDED JUNE 30, 2023 AND 2024



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



CRAIG A. MINER
State Auditor

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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April 21, 2026

INTRODUCTION

We are pleased to submit this audit of the Office of the Treasurer (OTT) for the fiscal years ended June 30, 2023 and 2024 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 our examination.

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

Stephanie Jackie
Jessica Longobardi
Ramiz Mehmedovic
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

A handwritten signature in black ink, appearing to read "Craig A. Miner".

Craig A Miner
State Auditor

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of the Treasurer disclosed the following two recommendations, which were not repeated from the previous audit.

Finding 1

Inaccurate Retroactive Payment Calculations

Background

In June 2022, the Office of the State Comptroller sent memos to the heads of all state agencies detailing cost-of-living adjustments (COLA) covering July 1, 2021 through May 19, 2022, and annual increment (AI) adjustments covering January 1, 2022 through May 19, 2022. The memos directed agencies to calculate and pay employees these adjustments retroactively, covering 23 pay periods, plus one day (July 1, 2021), using a mix of current and previous pay rates.

Criteria

Sound business practice suggests agencies have an internal control process to ensure the accurate calculation and payment of manual retroactive adjustment payments to employees.

Condition

In July 2022, the Office of the Treasurer overpaid 29 employees \$12,685 in retroactive payments, ranging from \$148 to \$757. The office also underpaid one employee \$385.

The office also underpaid three employees \$1,106 from separate retroactive payments during the audited period.

Context

In July 2022, the office made \$287,545 in retroactive payments to 112 employees from AIs and COLAs. We reviewed the entire population of payments.

The office made an additional 56 retroactive payments totaling 115,570 throughout the audited period related to promotions, AIs and COLAs, and miscellaneous payroll adjustments. We judgmentally selected 17 of these payments to review with focus on larger payments totaling \$92,159.

Effect

Poor internal controls over the calculation of retroactive payments could result in undetected payment errors.

Cause	The inaccurate retroactive payments appeared to be a result of lack of management oversight.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Office of the Treasurer should strengthen internal controls over payroll processing to ensure it accurately pays its employees.
Agency Response	<p>“The Office of the Treasurer agrees that 29 employees received overpayments ranging from \$147 to \$757 associated with authorized retroactive pay adjustments in July 2022. In addition, the Office of the Treasurer agrees that three employees were underpaid by a total of \$1,106.</p> <p>Due to the complexity of the overlapping retroactive calculations, the Business Office inadvertently included some prior period adjustments. This was a unique situation that is unlikely to reoccur, with two overlapping pay adjustments being implemented at two different times.</p> <p>The Business Office will continue to enforce double verification of all retroactive payroll adjustments and seek input from the Office of the Comptroller if there are questions about overlapping payments or split pay periods. The Office of the Treasurer will notify all affected employees and seek to recoup the funds.”</p>

Finding 2

Internally Generated Software

Background	The Office of the Treasurer secured bond funding in 2022 to develop a new debt management system. The office contracted with a vendor to assist with system implementation and paid the first invoice in January 2023.
Criteria	Section 4-36 of the General Statutes requires each state agency to establish and keep an inventory account in the form prescribed by the State Comptroller. The State Property Control Manual requires agencies to report in-house developed software systems in the software category on the annual GAAP Reporting Form (CO-59) submitted to the Office of the State Comptroller during the project’s application development stage.
Condition	Our review of the CO-59 form for fiscal year 2024 revealed the Office of the Treasurer omitted development costs related to its new debt management software. The office paid an external vendor \$430,800

during fiscal years 2023 and 2024 to develop the software in conjunction with its staff.

Context	The Office of the Treasurer reported \$287,890 in total capitalized software on its 2024 CO-59 report.
Effect	The Office of the Treasurer understated the annual asset reporting to the State Comptroller for the fiscal years ended June 30, 2024. The Office of the Treasurer was not in compliance with the State's Property Control Manual.
Cause	The omission of the internally developed software appears to be the result of inadequate management oversight.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Office of the Treasurer should maintain and report all assets on its CO-59 property control report in accordance with the State Comptroller's Property Control Manual.
Agency Response	<p>"The Office of the Treasurer agrees that the 2024 CO-59 report should have reflected some payments to an outside vendor for the development of the new Debt Management System software. While the payments were accounted for in the CORE accounting system, the omission from the 2024 CO-59 report has now been corrected. Payments to this vendor will be reflected properly on the 2025 CO-59.</p> <p>Treasury staff has been made aware that the State Property Control Manual requires capitalization of payments for new computer software systems even when the software is still in the "application development stage."</p>

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior audit report](#) on the Office of the Treasurer contained three recommendations. All three have been implemented or otherwise resolved.

Prior Recommendation	Current Status
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.	RESOLVED
The Office of the Treasurer should strengthen internal controls to ensure compliance with its ethics and confidentiality agreement procedures.	RESOLVED
The Unclaimed Property Division of the Office of the Treasurer should strengthen internal controls to ensure it follows established claim approval guidelines.	RESOLVED

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, 2023 and 2024. 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 office 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.

In planning and conducting our audit, we focused on areas of operations based on assessments of risk and significance. We considered the significant internal controls, compliance requirements, or management practices that in our professional judgment would be important to report users. The areas addressed by the audit included payroll and personnel, revenue and cash receipts, purchasing and expenditures, asset management, reporting systems, information technology, cash management, unclaimed property, and the Second Injury Fund. We also determined the status of the findings and recommendations in our prior audit report. Our audit did not include review of the Treasurer's Annual Report, as we completed a separate [audit](#) of the financial statements included within the Treasurer's annual report.

Our methodology included reviewing written policies and procedures, financial records, meeting minutes, and other pertinent documents. We interviewed various personnel of the office and certain external parties. We also tested selected transactions. This 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. We obtained this information from various available sources including the office's management and state information systems. It was not subject to our audit procedures. For the areas audited, we:

1. Identified deficiencies in internal controls;

2. Identified apparent noncompliance with laws, regulations, contracts and grant agreements, policies, or procedures; and
3. Did not identify a 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 mission of the Office of the Treasurer is to perform in the highest professional and ethical manner to safeguard the state's public resources. The Office of the Treasurer's policy, investment, and borrowing decisions encourage greater financial literacy, education, job and economic growth, and equal opportunity for all who call Connecticut home, a place to do business, and invest.

Organizational Structure

During the audited period, the office consisted of six divisions: Cash Management, Debt Management, Strategic Planning and Management Services, Pension Funds, Second Injury Fund, and Unclaimed Property.

There are three advisory organizations made up of members outside the Treasurer's office that assist the Treasurer in making prudent decisions.

- Investment Advisory Council (IAC): Pursuant to Section 3-13b of the General Statutes, the IAC is made up of ten appointed members and two ex-officio members who advise the Treasurer on matters related to pension fund investing.
- Second Injury Fund Advisory (SIF) Board: Pursuant to Section 31-349e of the General Statutes, the SIF Advisory Board is made up of eight members who are responsible for advising the Treasurer on matters concerning the operation of the fund.
- Connecticut Higher Education Trust (CHET) Advisory Committee: Pursuant to Section 3-22e of the General Statutes, the CHET advisory committee is made up of three ex-officio members and 14 appointed members. The committee meets annually with the Treasurer to discuss the fund performance as well as any important changes in legislation that may impact the trust fund.

Shawn Wooden served as State Treasurer during the audited period until January 4, 2023. Erick Russell was elected State Treasurer in November of 2022 and was sworn in on January 4, 2023.

Significant Legislative Changes

Notable legislative changes that took effect during the audited period are presented below:

- **Public Act 24-91 (Section 1)** effective June 4, 2024, established the Treasurer as the trustee of the Early Childhood Care and Education Fund. The act requires the Treasurer to invest the fund's deposits with prudent care and discretion. On July 1, 2025, \$300 million in General Fund unappropriated surplus was transferred to the newly created fund.
- **Public Act 23-126 (Section 28)** effective July 1, 2023, increased, from \$100 million to \$300 million, the maximum amount of funds the Treasurer may use for the Community Banking Program, increased the asset limit for financial institutions to be eligible for the program, and limited the

banks and credit unions eligible to participate in the program to only those organized under Connecticut laws.

Financial Information

Office 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,		
	2022	2023	2024
Federal and Other Restricted Accounts Fund	\$ 196,520,751	\$ 137,295,123	\$ 155,205,402
General Fund - Unclaimed Property	161,361,523	164,304,240	218,083,608
General Fund - All other Receipts	70,893,735	411,280,742	530,110,297
Total	\$ 428,776,009	\$ 712,880,105	\$ 903,399,307

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. Unclaimed property receipts vary from year to year based on the type of escheats received, as well as the value of the escheated securities. The growth in General Fund receipts was due to the increase in investment interest from substantially higher interest rates during the audited period.

The Office of the Treasurer also takes in 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 \$28,231,088 and \$27,864,837, for the fiscal years 2023 and 2024, respectively. WCAF assessment receipts totaled \$24,126,012 and \$26,246,856, for the fiscal years 2023 and 2024, respectively.

Office 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,		
	2022	2023	2024
General Fund	\$ 2,386,986,250	\$ 2,564,050,099	\$ 2,763,399,179
Other Debt Service Funds	746,549,375	813,598,343	865,451,765
Federal & Other Restricted Accounts Fund	198,746,913	195,198,281	142,668,162
Retirement Plans and Trust Funds	71,310,883	62,545,726	62,592,039
CHET	253,835	338,956	290,368
Capital Equipment Purchase Fund	28,945	406,036	265,371
Total	\$ 3,403,876,201	\$ 3,636,137,441	\$ 3,834,666,884

The largest General Fund expense is debt service on general obligation bonds. This expense varies from year to year based on the total bonds outstanding. Non-General Fund debt service fund expenses were mostly related to transportation bonds. These amounts totaled \$810,726,881 and \$862,969,139 for the fiscal years 2023 and 2024, respectively. 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.

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

	Fiscal Year Ended June 30,		
	2022	2023	2024
Debt Service	\$ 3,274,196,082	\$ 3,515,153,189	\$ 3,711,273,781
Purchased & Contractual Services	103,484,835	93,647,095	94,265,477
Personal Services & Employee Benefits	24,283,503	24,695,414	26,105,547
State Aid Grants	1,368,189	1,415,741	1,506,060
Information Technology	271,358	724,611	697,422
Other Expenditures	272,234	501,390	818,597
Total	\$ 3,403,876,201	\$ 3,636,137,441	\$ 3,834,666,884

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 Office of the Treasurer 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 \$6,285,243 and \$7,346,930 for the fiscal years 2023 and 2024, respectively. Data processing costs increased in fiscal year 2024 due to implementation of a new claims tracking system.

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 Treasurer’s Annual Report for the fiscal years 2022, 2023, and 2024, is as follows:

	Fiscal Year Ended June 30,		
	2022	2023	2024
Corporations	\$ 78,148,533	\$ 99,373,207	\$ 93,856,880
Financial Institutions	35,165,503	15,325,214	45,551,601
Insurance Companies	12,247,646	14,240,969	22,743,202
Governmental and Public Agencies	11,741,903	17,320,422	16,192,516
Dividends on Securities Held	279,114	329,088	295,577
Reciprocal Exchange with Other States	3,350,928	2,554,527	4,483,644
Miscellaneous	29,882	60,899	75,948
Securities Tendered or Liquidated	42,115,872	38,554,458	59,361,244
Total	\$ 183,079,381	\$ 187,758,784	\$ 242,560,612

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 Treasurer’s Annual Report are as follows:

	Fiscal Year Ended June 30,		
	2022	2023	2024
Claim Payments	\$ 70,739,467	\$ 71,600,868	\$ 81,936,530
Transfers to Citizens Election Fund	12,617,858	13,526,344	14,378,504
Salaries and Fringe Benefits	4,286,128	4,040,139	4,259,812
Data Processing and Hardware	1,811,867	2,092,362	2,834,040
All Other	141,604	152,742	253,078
Total	\$ 89,596,924	\$ 91,412,455	\$ 103,661,964

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 \$259,998,010 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, 2023 and 2024, the Treasury estimated the market value of unclaimed securities to be \$9,442,314 and \$2,190,891, 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.

	Fiscal Year Ended June 30,		
	2022	2023	2024
Settlements	\$ 3,290,958	\$ 5,240,142	\$ 4,280,810
Indemnity Claims Benefits	12,979,376	11,023,779	10,614,173
Federal & Other Restricted Accounts Fund	2,443,369	3,336,729	2,208,180
Retirement Plans and Trust Funds	7,154,100	7,808,064	8,285,139
Total	\$ 25,867,803	\$ 27,408,714	\$ 25,388,302

Fund revenues consisted mainly of assessments levied against self-insured employers and companies writing workers' compensation or employers' liability insurance and totaled \$28,787,082 and \$28,540,318 for the fiscal years 2023 and 2024, respectively.