STATE OF CONNECTICUT

AUDITORS' REPORT
STATE TREASURER - DEPARTMENTAL OPERATIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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July 27, 2011

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010

We have made an examination of the financial records of the Office of the State Treasurer (State Treasurer or Treasury) as they pertain to the Treasury's departmental operations for the fiscal years ended June 30, 2009 and 2010. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow. We also issued separate audit reports covering the State Treasurer - State Financial Operations for the fiscal years ended June 30, 2009 and 2010.

This audit has been limited to assessing the State Treasurer's compliance with certain provisions of financial-related laws, regulations and contracts, and evaluating the internal control policies and procedures established to ensure such compliance. Financial statement presentation and auditing are done on a Statewide Single Audit basis to include all state agencies, including the State Treasurer.

COMMENTS

FOREWORD:

The State Treasurer operates primarily under the provisions of Article Fourth of the State Constitution and Title 3, Chapter 32 of the General Statutes. The Treasury is organized into several divisions and performs a number of functions. This report is concerned with the departmental operations of the Treasury and includes our review of the Business Office, Personnel, Informational Services, and the Unclaimed Property Division. Our review of financial operations of the Treasury that have statewide impact has been issued under separate cover to include the Pension Funds Management Division, the Debt Management Division, the Cash Management Division, the Connecticut Higher Education Trust, and the Second Injury Fund. A listing of officers and officials and a description of the major functions of the divisions covered in this report follows.

Officers and Officials:

The officers and officials of the State Treasury as of June 30, 2010, were as follows:

Denise L. Nappier, State Treasurer
Howard G. Rifkin, Deputy Treasurer
Linda Hershman, Assistant Deputy Treasurer and Chief of Staff
Maria M. Greenslade, Asst. Deputy Treasurer, Second Injury Fund and Unclaimed Property
M. Timothy Corbett, Chief Investment Officer
Lawrence Wilson, Assistant Treasurer, Cash Management
Meredith A. Miller, Assistant Treasurer, Policy
Sarah Sanders, Assistant Treasurer, Debt Management

New Legislation:

There was no significant legislation affecting the departmental operations of the State Treasury during the fiscal years ended June 30, 2009 and 2010. Legislation affecting the financial operations is disclosed in our reports on financial operations for the fiscal years ended June 30, 2009 and 2010.

RÉSUMÉ OF OPERATIONS:

Department Revenues:

Departmental revenues were mainly from the Second Injury and Compensation Assurance Fund (SIF), Workers' Compensation Administration Fund (WCAF), Grants and Restricted Accounts Fund and the General Fund. The Second Injury Fund's revenues consisted mainly of assessments levied against self-insured employers and companies writing workers' compensation or employers' liability insurance that totaled $36,986,395 and $30,130,839, for the fiscal years ended June 30, 2009 and 2010, respectively. WCAF assessment receipts totaled $22,084,857 and $30,315,007, for the fiscal years ended June 20, 2009 and 2010, respectively. More detailed information concerning the SIF and the WCAF is included in our auditors' reports on the State Treasurer – State Financial Operations. Revenues consisted of restricted account and special revenue fund transfer receipts to cover charges from the Combined Investment Fund, Second Injury Fund and Unclaimed Property Division. Unclaimed property receipts increased substantially during the fiscal year ended June 30, 2010, as the Treasury sold its inventory of unclaimed stock and mutual funds for cash. All other receipts decreased due to the declining revenues from income on General Fund balances invested in the Short-Term Investment Fund and the Tax Exempt Proceeds Fund. Income within these funds fluctuates based upon cash balances and rates of return. The changes in the Other Restricted Account represents deposit of funds associated with the operating expenses of the Pension Funds Management Division, Second Injury Fund, Unclaimed Property Division, Short-Term Investment Fund and the Debt Management Division. The largest variances appear in the Debt Management Division's accounts, which will fluctuate from year to year based on activity.

	Fiscal Year Ended June 30,		
	2008	**2009**	**2010**
Other Restricted Account	$412,175,621	$168,809,515	$200,682,313
General Fund - All other Receipts	96,244,037	31,778,848	8,241,590
General Fund – Unclaimed Property	41,614,038	45,440,014	198,554,454
Total Revenues	**$550,033,696**	**$246,028,377**	**$407,478,357**

Public Act 07-01, section 96 of the June 2007 Special Session, and effective June 26, 2007, amended Section 3-69a, subsection (a)(2) of the General Statutes, allocated $17,300,000 of escheat revenues for the fiscal year ended June 30, 2008 to the Citizens' Election Fund instead of having the amount determined by the change in the consumer price index. Thereafter, transfer amounts were adjusted using the amount allocated in the prior year adjusted by the changes in the consumer price index. The transfers to the Citizens' Election Fund totaled $17,940,100 and $18,191,261, for the fiscal years ended June 30, 2009 and 2010, respectively. Since inception, transfers to the Citizens' Election Fund total $86,431,361. The State Elections Enforcement Commission administers this fund, which is a publicly-financed campaign fund from which payments are made to participating candidates. Funds were previously deposited into the General Fund. 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. The Treasury also receives non-cash (unclaimed) property, including shares of stocks and mutual funds. The noncash property is not reflected in the General Fund's cash receipts until it is sold. As of June 30, 2009 and 2010, the Treasury estimated the market value of unclaimed securities to be $88,297,207 and $22,097,989, respectively.

Department Expenditures:

The operations of the Treasury for the fiscal years ended June 30, 2008, 2009 and 2010, excluding expenditures classified as debt service paid and workers' compensation awards that are included in the separate audit report on state financial operations, are summarized below:

	Fiscal Year Ended June 30,		
Net Expenditures by Fund:	**2008**	**2009**	**2010**
Special Revenue Fund	$ 86,669,379	$ 99,112,507	$ 91,926,945
General Fund-Non-Functional	30,683,282	32,353,133	33,413,851
General Fund-Budgeted	3,818,529	3,842,536	3,365,574
Capital Projects Fund	-0-	-0-	-0-
Net Expenditures	**$121,171,190**	**$135,308,176**	**$128,706,370**

The Special Revenue Fund was the major funding source for the Treasurer's Pension Funds Management Division, Second Injury Fund, Bond Issue Costs, and a Bank Compensation Account. Operating expenditures of the Unclaimed Property Division and a Special Assessment account are also paid from the Special Revenue Fund. General Fund – Non-Functional expenditures were for reimbursements of unclaimed property. A comparison of departmental expenditures categorized by account code is as follows:

Net Expenditures by Major Object:	Fiscal Year Ended June 30, 2008	2009	2010
Purchased & Contractual Services	$ 72,454,187	$ 84,142,999	$ 76,784,776
Unclaimed Property Returned to Owners	30,683,282	32,353,133	33,413,851
Personal Services & Employee Benefits	17,380,656	18,347,710	18,185,011
Information Technology	132,473	113,337	82,031
Premises & Property Expenses	133,023	99,904	76,936
Employee Expenses, Allowances & Fees	135,469	109,980	68,980
Purchased Commodities	153,650	70,261	53,164
Motor Vehicle Costs	41,618	44,117	41,621
Capital Outlays – Equipment	56,832	26,735	-0-
Net Expenditures	**$121,171,190**	**$135,308,176**	**$128,706,370**

Contractual and personal services are the major expenditures of the Treasury other than debt service cost, which has been excluded from our summary as it is reviewed in our Auditors' Report of Financial Operations. The most significant item included in contractual services is the payments of the investment advisor fees by the Pension Funds Management Division. Payment processing procedures made pursuant to these contracts were reviewed as part of the financial statement audit. Returns of unclaimed property increased during the fiscal years ended June 30, 2009 and 2010. Personal services expenditures were paid from the following sources:

	Fiscal Year Ended June 30, 2008	2009	2010
General Fund:			
Budgeted Accounts	$ 3,513,115	$3,602,754	$3,210,135
Grants and Restricted Accounts Funds			
Second Injury Fund	5,435,084	5,747,276	5,375,204
Pension Funds Management Division	4,781,041	5,059,770	5,589,165
Unclaimed Property	2,836,468	3,027,466	3,113,293
Short-Term Investment Fund	814,948	910,444	897,214
Capital Projects Fund	-0-	-0-	-0-
Totals	**$17,380,656**	**$18,347,710**	**$18,185,011**

Total personal services expenditures increased 5.6 and decreased 0.9 percent in the fiscal years ended June 30, 2009 and 2010, respectively. The increase for the fiscal year ended June 30, 2009, was due primarily to contractual wage and cost of living increases, managerial PARS increases, and an increase for contributions to the State Employee Retirement System. The decrease for the fiscal year ended June 30, 2010, was due to a reduction in part-time wages. Also during that year, there was an offsetting decline in wages and an increase in the SERS contribution. For the fiscal year ended June 30, 2010, the number of employees (not positions) decreased. Employment statistics for the Treasury for full-time permanent positions are as follows:

	June 30,		
General Fund:	**2008**	**2009**	**2010**
Budgeted Accounts	45	44	40
Other Restricted Accounts Funds:			
Second Injury Fund	41	40	40
Unclaimed Property	28	27	26
Pension Funds Management Division	22	21	21
Short-Term Investment Fund	8	6	6
Other Funds	4	4	4
Total Positions	**148**	**142**	**137**

Unclaimed Property Division:

The administration and disposition of property held by banking and other organizations for the benefit of owners who cannot be located is provided for in Sections 3-56a to 3-74a of the General Statutes. The statutes provide for all escheat cash receipts to be deposited into the General Fund with the exception of periodic transfers to the Citizens Election Fund and a restricted unclaimed property account within the General Fund. Transfers to the Citizens Election Fund totaled $17,300,000, $17,940,100 and $18,191,261 for the fiscal years ended June 30, 2008, 2009 and 2010, respectively. The restricted account funds are used to pay the Unclaimed Property Division's administrative costs. These administrative costs totaled $5,936,947 and $6,717,759 for the fiscal years ended June 30, 2009 and 2010, respectively. The receipts presented below show revenues prior to the reallocation to adjust for these transfers.

Unclaimed property includes unclaimed bank accounts and insurance policies as well as uncashed checks, 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 ended June 30, 2008, 2009 and 2010, is as follows:

	Fiscal Year Ended June 30,		
Unclaimed Property Receipts:	**2008**	**2009**	**2010**
Corporations	$26,290,387	$30,693,256	$34,870,582
Financial institutions	19,285,223	14,897,260	17,155,456
Insurance companies	11,999,735	13,499,095	12,643,672
Governmental and public agencies	4,271,153	4,524,383	3,752,850
Dividends on securities held	1,672,493	1,789,613	1,031,952
Reciprocal exchange with other states	368,655	1,142,003	850,758
Miscellaneous	150,011	184,726	171,172
Securities tendered	-0-	1,623,697	464,770
Securities liquidated	-0-	1,142,461	151,166,311
Totals	**$64,037,657**	**$69,496,494**	**$222,107,523**

The fiscal year ended June 30, 2010, included proceeds from the sales of securities in the amount of $151,166,505 that were previously held by the Unclaimed Property Division. The division receives abandoned stocks, bonds and mutual funds and, during the fiscal year ended June

30, 2010, formulated a policy to sell the property received during a given month in the subsequent month and forward the cash to the General Fund. The sales preceded the lower inventory value for June 30, 2010. According to the State Treasurer's Annual Report, the estimated market values of the securities held at the end of each fiscal year were as follows:

	As of June 30,		
	2008	**2009**	**2010**
Securities Inventory	$95,346,284	$88,297,207	$22,097,989

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:

	Fiscal Year Ended June 30,		
	2008	**2009**	**2010**
Claim Payments	$30,626,832	$32,341,525	$33,408,124
Transfers to Citizens Election Fund	17,300,000	17,940,100	18,191,261
Salaries and fringe benefits	3,396,050	3,646,721	3,771,592
Data processing and hardware	3,018,137	2,170,581	2,514,603
All other	449,575	119,645	431,564
Totals	**$54,790,594**	**$56,218,572**	**$58,317,144**

During the fiscal year ended June 30, 2009, the State Treasury published owners' names as required in accordance with Section 3-66a of the General Statutes, which requires the Treasurer to publish the names of unclaimed property owners (that have not previously been published) at least once every two years. This caused more claim inquiries and more property was returned to owners during that fiscal year. Also, for the fiscal year ended June 30, 2010, more claims were repaid in cash to owners who had previously been repaid in shares of stock or mutual funds. Since the Treasury has sold its securities inventory and simplified the claims management process, it is appropriate that the cash expenditures increased.

Second Injury and Compensation Assurance Fund:

The operations of this fund are provided for by various statutes of the Workers' Compensation Act, Chapter 568, of the General Statutes (notably Sections 31-310 and 31-349 through 31-355b). This act provides protection for employees suffering occupational injuries or diseases and establishes criteria determining whether benefits due employees are to be paid by the employers (or their insurance carriers) or out of the Second Injury Fund (SIF). The State Treasurer is the custodian of the SIF. In accordance with the provisions of Section 31-349e of the General Statutes, there is an advisory board to advise the custodian of the SIF on matters concerning administration, operation, claim handling and finances of the fund. Comments regarding the financial operations of this fund are included under separate cover in our reports on the State Treasurer – State Financial Operations for the fiscal years ended June 30, 2009 and June 30, 2010.

PERFORMANCE REVIEW OF THE UNCLAIMED PROPERTY DIVISION:

Overview:

In accordance with Section 2-90 of the General Statutes, audits conducted by the Auditors of Public Accounts may include an examination of performance in order to determine an agency's effectiveness in achieving expressed legislative purposes. We have conducted such a review of the State Treasurer's Unclaimed Property Division (Division). Our objective was to determine whether the Treasury was complying with its statutory responsibilities to safeguard unclaimed property, make property owners' names public, and return the property to its rightful owners. We reviewed the Division's progress since July 1, 2006, to implement recommendations we made in our audit of Departmental Operations for the fiscal years ended June 30, 2003 and 2004. It was disclosed at that time that the Division was struggling to maintain its normal operations of assuming, accounting for, and repaying unclaimed property. Since then, the Division has made great strides to improve its efficiency and effectiveness.

Prior Performance Review:

We reviewed the Division's compliance with the following statutes: Section 3-62g of the General Statutes, which requires the Treasurer to assume custody of unclaimed property and be responsible for all claims to owners; Section 3-66a of the General Statutes, which requires the Treasurer to publish the names of (previously unpublished) unclaimed property owners at least once every two years; Section 3-67a, subsection (c) of the General Statutes, which requires that when securities are received, the Treasurer shall credit to the owners' accounts any dividends, interest or other increments realized or accruing on the property at or before liquidation; and Section 3-70a, subsection (b) of the General Statutes, which specifies that the Treasurer shall consider each claim within ninety days after it is filed.

During our prior performance review, we found that the Division was not meeting its responsibilities to account for, publish and return property to its rightful owners in a timely manner. There were considerable backlogs in posting property and owner records to the database, considerable backlogs in the payment of claims, collection of $151,062,986 of property without making owner names public, calculation errors in 35 percent of the claims paid, and securities held without a systematic plan to liquidate and forward the cash to the General Fund. In March 2006, the Treasurer started to make improvements to the Division by appointing a new management team.

New Management:

The Treasurer appointed a qualified management team, consisting of an Assistant Deputy Treasurer and a Controller, with the skills necessary to manage a comprehensive rework of the Division. Internal controls were made a priority and technology was used to enhance the Division's ability to meet its statutory responsibilities. Due to the actions taken by management as well as the substantial efforts of the employees, the Division now is able to serve the public in a more efficient and effective manner. The management team:

- Understood the need for drastic changes to address the magnitude of difficulties facing the Division, its employees, the property owners and the resulting effect on the General Fund.
- Determined a five-year plan would be necessary to make improvements and reassessed the goals and objectives as information changed.
- Made decisions and implemented changes without significant delays.
- Combined resources and cross-trained employees within the Second Injury Fund.
- Listened to employees and "flattened" organizational responsibilities to recognize and draw on employees' strengths.
- Provided training and assigned responsibilities to employees.
- Worked with its vendor to obtain a database capable of handling the complexities of all types of unclaimed property, including stocks, dividends, and mutual funds.
- Worked with employees to determine how best to reconcile and update the database for both stock and mutual fund transactions.
- Established a Records Retention Schedule to manage the volume of information.
- Created monthly reconciliations and financial statements to report critical information.

Improvements to Holder Reporting:

- Required holders of unclaimed property to report in consistent format, using technology that would allow employees to more efficiently, effectively and securely upload reports into the database of owner names.
- Reconciled and verified holder reports to the property received before claims are paid.
- Contacted holders who had failed to meet their reporting requirement or to pay the proper amounts due to the state in a timely manner.
- Documented aged property receipts that are not easily traced to owner names and followed up on reported owners whose property was not received.
- Changed reporting requirements to have the holders of safe deposit box items auction property and forward the cash proceeds to the state, instead of the state auctioning items.
- Took an inventory of all holder reports that were not yet loaded to the system and determined how best to update the database.
- Took an inventory of all physical items within the Division's safes and held the final auction of safe deposit box items.
- Posted owners' names to the CTbiglist.com website for property related to savings bonds, corporate bonds or other information.
- Stopped posting property worth less than $50 to the website. This reduced the number of lower-value claims that generally cost taxpayers more to process than each claim is worth. Also, while lesser amounts can still be claimed if other inquiry is made, it appears this policy is more consistent with Section 3-66a of the General Statutes, which requires owners' names whose claim would be $50 or greater to be published.
- Update website weekly to remove claimed property, which reduced duplicate requests for property and also posted new property received by the Treasury to publicize more owners' names in an efficient manner.
- Put a hold on the examinations of in-state companies and devoted those resources toward reconciling the database to the stock and mutual fund inventory. The examinations were restarted during the fiscal year ended June 30, 2011.

- Resolved the backlog of holder reports to be loaded to the system by concerted efforts of staff with a shared objective to better serve the public.
- Recognized that improvements for tracking changes within the database are necessary and overdue. More efforts to institute an audit tracking plan of changes within the database began during the fiscal year ended June 30, 2011.

Improvements to Managing Securities:

- Inventoried stocks and mutual funds held.
- Found securities held by brokers that should have been in the state's custody. The Division is working to obtain custody of those shares.
- Reconciled the securities inventory (and the inventory that was previously sold) to the information contained in the database of owner names.
- Updated the database information for securities to a current status, eliminated the need for laborious manual calculation of claims.
- Sold stocks and mutual funds, forwarding the cash to the General Fund.
- Developed a method to sell securities systematically, thus converting the securities to cash, simplifying the claims payment process, and providing more immediate cash to the state.
- Reduced the need to devote resources to monitor the inventory of securities.

Improvements to Claims Processing:

- Stopped paying cash claims for approximately three months (longer for securities) to inventory the backlog of claims and to assess database issues that affected the complexity of delayed claim payments.
- Restructured approval guidelines and reduced the number of errors made in the calculation of claim payments due to the automated processes and conversion of properties to cash.
- Re-checked database postings (twice) that had previously been marked as "paid" in the system to correct certain postings made in error.
- Worked to recover all overpayments.
- Imported initiated claims from CTbiglist.com, a technological advancement for the Division.
- Resolved the backlog of thousands of claims by concerted efforts of dedicated staff, paying 69,558 claims in four fiscal years ended June 30, 2010, according to the Division.

Conclusion:

Efforts made within the Unclaimed Property Division since July 1, 2006, have resulted in significant improvements. The Unclaimed Property Division now operates in a more efficient and effective manner and is realizing the benefits from the efficiencies of automated processes. Resources are better placed, internal controls have improved, technological advances are used, backlogs and significant delays have been eliminated, and cash proceeds are providing a more immediate benefit to the General Fund. The Unclaimed Property Division is able to more efficiently and effectively meet its responsibilities to account for, safeguard, publish, and return property to its rightful owners in accordance with the General Statutes.

CONDITION OF RECORDS

The following recommendations resulted from our current review of the Office of the State Treasurer's departmental operations.

Personnel Appointment and Duplicate Payment:

Criteria: Personnel appointed to positions in accordance with the State Treasurer's authority under Section 3-13a of the General Statutes, should be assisting the Chief Investment Officer (CIO) in the Pension Fund Management Division, and their salaries should be paid from that division in accordance with subsection (c) of that Section. (Otherwise, the Department of Administrative Services establishes candidate lists for classified-service positions under Section 5-216 of the General Statutes.)

Guidelines for the processing of claims within the Unclaimed Property Division indicate that properties should be linked to a claim only if there is evidence that the property belongs to the owner. Proper internal controls should prevent or detect employee errors.

Condition: An employee appointed by the Treasurer using the authority granted in Section 3-13a of the General Statutes does not assist the CIO or work within the Pension Fund Management Division. Actual duties include initiating claims for the Unclaimed Property Division, with the salary paid from the General Fund.

Subsequent to June 30, 2010, the employee initiated a claim and electronically "attached" the wrong property to that claim. The claim was approved and resulted in a duplicate payment for $10,000 being mailed. The Treasury recovered the second check after the claimant notified the Treasury of the error.

Cause: The Treasury used the authority under Section 3-13a of the General Statutes to appoint personnel to an unrelated division. The duplicate payment error was not prevented or detected by internal controls.

Effect: There is a risk that such appointments using General Fund resources will continue and increase. When duplicate payments are issued, there is an increased risk of loss.

Recommendation: The Treasury should not have appointees under Section 3-13a of the General Statutes working in unrelated divisions and employee errors should be prevented or detected by internal controls. (See Recommendation 1.)

Agency Response: "The Treasurer's Office sought and received approval from both DAS and OPM to fill a Securities Analyst position to address the securities issues with escheated property. While we believe that the appointment was made consistent with current statutory authority, the Treasury has requested that the General Assembly enact explicit statutory authorization for such appointments. A bill to that effect was signed by the Governor on July 8, 2011 – Public Act 11-82. With that said, duties beyond the job description were assigned to the Securities Analyst after the securities inventory was reconciled and sold. With respect to the duplicate payment, the Treasury's investigation revealed that the error was attributable to prior holder reporting practices which allowed aggregate reporting. We have since implemented internal procedures which we believe will prevent this type of error from occurring. In addition, since discovery of this duplicate payment, management has reviewed appropriate procedures and internal controls with staff and counseled employees."

Banking Service Agreements:

Criteria: Good businesses practices include a periodic rebidding of contracts. Section 4-216(a) of the General Statutes indicates that each personal agreement in excess of $50,000 shall be based on a competitive negotiation, requiring approval from the Office of Policy and Management (OPM). Sections 4-251(a) and 4-252 of the General Statutes, require a contract having a total cost of more than $500,000 to be subject to certain gift affidavit and certification requirements.

Condition: During our review, we found that four banking service contracts have not been rebid since their inception, between 13 and 18 years ago. Certain requirements, such as OPM approval and gift affidavits were not available as the contract dates preceded those requirements.

Cause: Management of the Cash Management Division did not rebid its contracts.

Effect: The banking needs of the Cash Management Division may not be met in an efficient and effective manner under these service contracts.

Recommendation: The Cash Management Division should rebid its banking service contracts periodically. (See Recommendation 2.)

Agency Response: "We concur with the Auditors' recommendation. While we have put new banking services out to bid, most recently and notably services for the Department of Labor that will save the State approximately $4 million in annual administrative costs and $600,000 in annual banking service costs (depending on unemployment caseload), we will prepare an RFP to address the older contracts and expect to complete the procurement process by the end of 2011."

Outdated Regulations:

Criteria:	The Regulations of State Agencies serve to clarify the General Statutes and should reflect current information.
Condition:	The Regulations of State Agencies related to certain divisions within the State Treasury do not reflect current information.
Cause:	Updating its regulations does not appear to be a priority.
Effect:	The Regulations for the Treasury do not serve to clarify information in the General Statutes.
Recommendation:	The State Treasurer should update its Regulations of State Agencies. (See Recommendation 3.)
Agency Response:	"We concur with the Auditors' recommendation. We have commenced the process of reviewing and revising our agency regulations, and expect to formally submit proposed regulations to the General Assembly's Regulation Review Committee during Fiscal Year 2012."

Late Deposit:

Criteria:	Section 4-32 of the General Statutes, requires each state agency to deposit and account for revenues within 24 hours of receipt. Treasury procedures require that checks awaiting deposit be secured in a locked safe.
Condition:	We were notified by Treasury officials that, subsequent to June 30, 2010, revenues for the Unclaimed Property Division totaling $285,546 were deposited three days late. The checks were not secured in accordance with the Treasury's procedures.
Cause:	An employee failed to perform the duties assigned when the employee usually responsible for the function was absent.
Effect:	Deposit delays compromise physical control over undeposited checks and sacrifice interest amounts.
Conclusion:	The Treasury has reprimanded the employee who did not follow the established procedures. Since the procedures appear adequate, if followed, we will not recommend any further action at this time.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit examination resulted in seven recommendations, of which two are repeated or restated in our current audit report. The following is a summary of those recommendations and the action taken by the Office of the State Treasurer (Treasury).

- The Treasury should not use positions established to assist the Chief Investment Officer in investing pension funds to perform duties unrelated to that purpose. The condition remained during our current audit and another matter concerning a duplicate payment was also brought to our attention and included in Recommendation 1.

- The Treasury should ensure that internal controls are effectively implemented by supervisors to prevent or detect errors made by employees on time and attendance records. We noted no exceptions during our recent testing in this area. This recommendation will not be repeated.

- The Treasurer should consider resuming examinations of Connecticut companies as allowed under Section 3-65a, subsection (g), of the General Statutes, assessing interest in accordance with Section 3-65b, subsection (a), and completing its overall plan to liquidate shares of stock as allowed in accordance with Section 3-68a of the General Statutes. We found the Treasurer was making strides to implement this recommendation and we will not repeat this recommendation.

- The Unclaimed Property Division should comply with Sections 3-62g, 3-66a, and 3-70a, subsection (b), of the General Statutes, and follow internal control procedures designed to prevent improper payments. Our audit testing revealed that improvements were made in this area and we will not repeat this recommendation.

- The Unclaimed Property Division should determine the procedures it needs to best monitor its database and its vendor's compliance with contractual provisions. The Treasury has worked to implement the necessary changes; therefore, we will not repeat this recommendation.

- The Treasury's Pension Funds Management Division should refrain from paying amounts that are not yet due to contractors. We found no instances when the Treasury paid contractors early; therefore, we will not repeat this recommendation.

- The Treasury should update its Regulations of State Agencies. There has been limited action taken on this matter and this recommendation will be repeated as Recommendation 3.

Current Audit Recommendations:

The following recommendations resulted from our current review.

1. **The Treasury should not have appointees under Section 3-13a of the General Statutes working in unrelated divisions, and employee errors should be prevented or detected by internal controls.**

   Comments:

   Positions established for investment-related functions are not being used for that purpose and an error occurred, resulting in a $10,000 duplicate payment. The payment was returned.

2. **The Cash Management Division should rebid its banking service contracts periodically.**

   Comments:

   Banking service contracts are outdated.

3. **The Treasury should update its regulations of state agencies.**

   Comments:

   Certain of the regulations do not serve to clarify the General Statutes.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Office of the State Treasurer for the fiscal years ended June 30, 2009 and 2010. This audit was primarily limited to performing tests of the Treasury's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Treasury's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Treasury are complied with, (2) the financial transactions of the Treasury are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Treasury are safeguarded against loss or unauthorized use. The financial statement information related to the Departmental Operations of the Office of the State Treasurer for the fiscal years ended June 30, 2009 and 2010, is included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Office of the State Treasurer complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

In planning and performing our audit, we considered the Office of the State Treasurer's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Treasury's financial operations, safeguarding of assets and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Treasurer's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function to prevent, or detect and correct on a timely basis, misstatements, unauthorized, illegal or irregular transactions, or the breakdown in the safekeeping of any assets or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that significant misstatements, unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Treasury's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Treasury's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report to be significant deficiencies: Recommendation one, which details that the authority, under Section 3-13a of the General Statutes, was used to appoint to an unrelated division and that a duplicate payment was issued; recommendation two states that banking contracts should be rebid; and recommendation three detailing that regulations of state agencies needs to be updated. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Office of the State Treasurer complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Treasury's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters which we reported to Treasury management in the accompanying Condition of Records and Recommendations sections of this report. The Office of the State Treasurer's responses to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Treasury's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Treasury management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Office of the State Treasurer during the course of our examination.

Maura F. Pardo
Maura F. Pardo
Principal Auditor

Approved:

Robert M. Ward

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts