STATE OF CONNECTICUT

AUDITORS' REPORT
STATE TREASURER
STATE FINANCIAL OPERATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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June 2, 2006

AUDITORS' REPORT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2004

We have made an examination of the financial records of the Treasurer of the State of Connecticut as they pertain to State financial operations for the fiscal year ended June 30, 2004.Throughout this report, we will refer to various financial statements and schedules contained in the Annual Report of the Treasurer, State of Connecticut, including its statutory appendix (Annual Report) for the fiscal year ended June 30, 2004.

This report on the above examination consists of the following Comments, Recommendations and Certification.

Separate reports will be issued covering the activities of the Investment Advisory Council and the internal operations of the State Treasury.

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. Major duties include responsibilities for the receipt and investment of State moneys, disbursements and, when authorized, issuances of State obligations (borrowing).

In addition to the Executive Office of the Treasurer, the Treasury is organized into several divisions. This report includes our review of the Pension Funds Management Division, the Cash Management Division, the Debt Management Division, the Second Injury Fund and administrative requirements for the Connecticut Higher Education Trust. Comments on some of the major functions of these Divisions are presented in various sections of this report.

Officers and Officials:

The officers and officials of the Treasury Department as of June 30, 2004, were as follows:

State Treasurer: *
Denise L. Nappier

Deputy Treasurer:
Howard G. Rifkin

Assistant Deputy Treasurer:
Linda Hershman

Chief Investment Officer, Pension Funds Management:
Susan Sweeney

Assistant Treasurer, Cash Management:
Lawrence A. Wilson

Assistant Treasurer, Debt Management:
Catherine Boone

Assistant Treasurer, Policy:
Meredith A. Miller

Assistant Treasurer, Second Injury Fund:
Alberta Mendenhall

Assistant Treasurer, Unclaimed Property:
Madelyn Colon

* As used in ensuing comments of this report, the term "Treasurer" refers to the State Treasurer.

New Legislation:

Public Act 03-5, of the June 30 Special Session, effective August 20, 2003, authorized a loan by the State to the Connecticut Resource Recovery Authority (CRRA) of up to $22,000,000 for the fiscal years ending June 30, 2003 and 2004, and for subsequent fiscal years, an additional aggregate amount of $93,000,000. As of June 30, 2004, CRRA had borrowed $12,841,645 from the State pursuant to the loan of which $12,089,306 remained outstanding. Loan receivable records for the CRRA loan are maintained by the State Treasurer's Debt Management Division.

RÉSUMÉ OF OPERATIONS:

Cash Management Division:

The Cash Management Division is responsible for the coordination of core banking services for all State agencies, receipt and disbursement tracking and reporting, bank account reconciliation, check administration, cash forecasting, cash control, outreach to State agencies, and the administration and investment of the Short Term Investment Fund.

Cash management is defined as "the proper collection, disbursement and control of cash resources." Through four units, the Cash Management Division works to (a) speed and secure deposits of State revenues, (b) control disbursement of State funds in conjunction with the Comptroller's Office and other agencies, (c) minimize banking costs, (d) maintain accurate and timely records, and (e) productively use and invest available funds.

Deposits made to local depository accounts are regularly transferred electronically to concentration accounts for disbursement and investment purposes. Section 3-27e of the General Statutes allows the Treasury the option of paying for fees directly. During the audited period, fees for bank-provided depository, disbursement and cash management services for all State agencies were managed through a combination of direct payment and compensating balance arrangements whereby banks provide credits to pay bank fees in exchange for balances left on account with the bank by the Treasury. The direct payment option allows the Treasury to invest the cash balances in the State's Short Term Investment Fund (STIF), which returns greater interest than that earned under compensating balance arrangements. The direct payments of bank fees are made using the interest earned on the cash balances invested in STIF. During the 2003-2004 fiscal year, the Treasury incurred approximately $3,410,674 of bank service fees, of which approximately $412,229 was covered by compensating balance arrangements. The Division continues to implement procedures to accelerate the collection of State receipts through the use of lock-boxes, electronic transfers and increased use of concentration account deposit tracking services.

The Cash Management Division also approves and tracks all banking relationships and bank service charges for all State agencies. When necessary, the Treasury will coordinate cash management service enhancements for individual agencies and will assist in the development and review of Requests for Proposals for more complicated cash management banking needs. The Division meets regularly with State agencies and recommends improvements in the agencies' banking relationships.

Schedules on pages S-32 through S-34 and pages O-12 to O-15 of the Annual Report deal with the Civil List Funds, which are the responsibility of the Cash Management Division.

Short Term Investment Fund (STIF):

STIF was established and is operated under Sections 3-27a through 3-27i of the General Statutes. It provides State agencies, funds, political subdivisions and others with a mechanism for investing at a daily-earned rate with interest from day of deposit to day of withdrawal. STIF also provides participants with daily access to their account balances. Investments are mainly in money market instruments. The administrative functions and the actual investing of cash are the responsibility of the Cash Management Division. STIF maintained its AAAm rating by Standard and Poor's throughout the audited period.

The Treasurer's Office holds an annual meeting for STIF shareholders, where information such as fiscal year performance of STIF, investment strategies and administrative enhancements are discussed. The latest meeting was held April 8, 2005 and included a review of the 2003-2004 fiscal year STIF Comprehensive Annual Financial Report.

As of June 30, 2004, STIF had total net assets of $ 3,829,256,007. Participant distributions paid and payable during the 2003-2004 fiscal year were $ 43,374,797 and STIF's expenses were $930,074. According to the Annual Report, STIF reported an annual total return of 1.16 percent, exceeding its main benchmark, the MFR (First Tier Institutions-Only Money Fund Report) index, by .41 percent.

Statements and notes on pages F-30 through F-38 of the Annual Report deal with the Short Term Investment Fund. Also, STIF has an independent review of its Schedules of Rates of Return. This information is included on pages F-39 through F-43 of the Annual Report.

Medium-Term Investment Fund:

The 1997 Regular Session of the General Assembly passed Public Act 97-212, Section 3, codified in Section 3-28a of the General Statutes, creating a medium-term investment fund to be administered by the State Treasurer. As of June 30, 2004, the fund was not open. We were informed that investor agencies had not expressed a need for a medium-term investment fund.

Pension Funds Management Division:

In general, the Pension Funds Management Division (PFMD) operates under the provisions contained primarily in Part I, Chapter 32, of the General Statutes, particularly Sections 3-13a, 3-13b, 3-13d, 3-31a and 3-31b.

The Division's responsibilities include the development, execution and management of investment programs of the pension and trust funds. The Division is also charged with the responsibility of making sure that pension and trust fund investments are made in compliance with State statutes and guidelines. This includes administering State law regarding corporations doing business in Northern Ireland or Iran. The Investment Advisory Council (IAC), which is within the State Treasurer's Office for administrative purposes only, reviews investments authorized by statute, recommends investment policies to the Treasurer, examines investments of the State as of June 30, and reports the value of such to the Governor. A separate report is issued on the Investment Advisory Council.

The Pension Funds Management Division is responsible for managing the assets of six pension funds and eight trust funds having total net assets of more than $20,189,000,000, as of June 30, 2004. The Division invests the assets of these funds in accordance with an investment program through the purchase of ownership interests in the Combined Investment Funds. The Combined Investment Funds contain seven asset classes. During the audited fiscal year, and as of June 30, 2004, the Combined Investment Funds (CIF) consisted of the Mutual Fixed Income

(MFIF), Mutual Equity (MEF), Real Estate (REF), International Stock (ISF), Private Investment (PIF), Commercial Mortgage (CMF), and the Cash Reserve (CRF) Funds. Record keeping and custody of most assets is provided by a master custodian (State Street Bank). As of June 30, 2004, the Division employed 74 external advisors to invest the Combined Investment Funds' assets.

The cost of operating the Treasury's Pension Funds Management Division, including the cost of personnel and professional investment advisors retained, is charged against the investment income of the Combined Investment Funds. Transfers are made from the investment fund to a special General Fund account from which Pension Funds Management Division operating expenses (salaries, advisor and management fees, supplies, etc.) are paid. Expenses of the Combined Investment Funds, excluding external advisor expenses, were approximately $10,000,000 for the 2003-2004 fiscal year. Such expenses increased approximately $4,000,000 over the prior year primarily due to legal fees associated with a legal action taken against a Private Investment advisor, which ultimately resulted in the recovery of $15 million for the Combined Investment Funds.

During the fiscal years ended June 30, 2004 and 2003, outside advisors managed all of the CIF portfolios. The number of outside advisors and advisor expenses by fund, as reported in the Combined Investment Funds financial statements and notes included in the State Treasurer's Annual Report, for services rendered during the 2003-2004 and 2002-2003 fiscal years are summarized below:

CIF	**# of Advisors- June 30, 2004**	**Expenses 2003-2004**	**# of Advisors- June 30, 2003**	**Expenses 2002-2003**
MFIF	8	$ 8,070,224	9	$ 9,007,994
MEF	6	6,459,864	7	13,885,595
ISF	13	17,336,519	6	12,077,535
CRF	1	313,350	1	402,399
CMF	1	327,489	1	417,400
PIF	37	36,927,956	34	40,393,005
REF	8	4,692,019	7	4,872,125
Total	**74**	**$74,127,421**	**65**	**$81,056,053**

The above consists of the Mutual Fixed Income (MFIF), Mutual Equity (MEF), International Stock (ISF), Cash Reserve (CRF), Commercial Mortgage (CMF), Private Investment (PIF), and the Real Estate (REF) Funds.

The performance-based fee structures for investment advisors of the MEF and ISF resulted in the expense fluctuations that occurred over the two-year period in those Funds.

The management fees for the MFIF, MEF and ISF as reported in the Annual Report are based on estimates of the performance bonus, which is paid subsequent to June 30. The actual advisor fee expense differed from the reported amount, due to these performance bonus estimations.

Asset Allocation Policy:

The Investment Advisory Council approved the Investment Policy Statement for the Combined Investment Funds at a meeting of the Council held March 13, 2002. The Treasurer's Asset Allocation Policy as of June 30, 2004, approved as part of the Investment Policy Statement is presented below.

Asset Class	CIF	Target Policy	Holdings as of June 30, 2004
U.S. Equity	***36%: MEF***	36%	36.1%
International Equity	***18%: ISF***	18%	11.1%
Developed Markets	15% ISF		
Emerging Markets	3% ISF		
Fixed Income	***30%: MFIF, CRF, CMF***	30%	40.4%
Cash	1% CRF		
Core Bonds	20% MFIF, CMF		
Inflation-linked Bonds	1% MFIF		
High-yield Bonds	5% MFIF		
Non-U.S. Emerging Markets	3% MFIF		
Real Estate and Alternative	***16%:REF, PIF***	16%	12.4%
Equity Real Estate	5% REF		
Alternative Investments	11% PIF		

The Treasury's Asset Allocation Policy includes lower and upper ranges for the investment allocations. All variations above are within the established ranges except for the Fixed Income. The upper range for Fixed Income is 33 percent and the upper range for Cash is 1 percent.

During the fiscal year ended June 30, 2004, the Combined Investment Funds realized an annual total return of 15.23 percent, according to the Annual Report. The fund return of 15.23 percent is lower than the calculated benchmark of the Connecticut Multiple Market Index of 16.27 percent. The Connecticut Multiple Market Index is a blended index calculated by the Treasury to compare the overall return of the fund against market conditions using the weighted averages of various indexes associated with the asset classes. These indexes represent "benchmarks" used by the Division to evaluate investment return. Another benchmark is the actuarially determined assumed rate of return of 8.5 percent that is internally established. During the previous fiscal year ended June 30, 2003, the Combined Investment Funds realized an annual total return of 2.49 percent.

A summary of the percentage returns of the Combined Investment Funds and the retirement and trust funds that are invested in the Combined Investment Funds, as reported in the State Treasurer's

Annual Report, for the fiscal years ended June 30, 2004 and 2003, are presented below.

		Percentage Return	
Combined Investment Funds:		**2003-2004**	**2002-2003**
Net Total Combined Investment Funds		15.23 %	2.49 %
Mutual Equity	MEF	20.84 %	0.48 %
International Stock	ISF	29.69%	(6.39) %
Real Estate	REF	0.67 %	3.30 %
Mutual Fixed Income	MFIF	2.79 %	12.03 %
Commercial Mortgage	CMF	7.87 %	20.62 %
Private Investment	PIF	20.21%	(11.94)%
Cash Reserve	CRF	1.30 %	1.80 %
Retirement and Trust Funds:			
Net Total Return Retirement and Trust Funds		15.23 %	2.49 %
Teachers' Retirement Fund (TRF)		15.34 %	2.13 %
State Employees' Retirement Fund (SERF)		15.06 %	2.06 %
Municipal Employees' Retirement Fund (MERF)		14.28 %	2.12 %
Probate Court Retirement Fund (Probate)		14.49 %	2.88 %
Judges' Retirement Fund (Judges')		13.42 %	2.41 %
State's Attorneys' Retirement Fund (St. Atty.)		12.71 %	3.85 %
Trust Funds		5.09 %	8.88 %

Investment performance for individual retirement funds varies based on the mixture of asset class types held by each. The investment performance for trust funds is a composite of returns earned by nine trust funds that participate in the Treasurer's Combined Investment Fund. During the fiscal year, Trust Funds included the School and Agricultural College Funds, The Soldiers' Sailors' and Marines' Fund, the Police and Fireman's Survivors' Benefit Fund, Endowment for the Arts, Hopemead Fund, Ida Eaton Cotton Fund, Andrew Clark Fund and the Tobacco and Health Trust Fund which was closed during the year.

A more thorough discussion of the Combined Investment Funds, including performance during the 2003-2004 fiscal year, can be found on pages 18 through 58 of the Annual Report.

Statements and notes on pages F-14 through F-29 of the Annual Report deal with the Combined Investment Funds. Supplemental information on the pension plans and trust funds is included on pages S-1 through S-28 of the Annual Report.

Debt Management Division:

The Treasurer has the responsibilities to manage the debt of the State and to administer the financial needs of the bonding programs enacted by the State legislature and authorized by the Bond Commission. These responsibilities are carried out through the Debt Management Division.

A summary of bonds issued, paid, or refunded in the 2003-2004 fiscal year and the obligations outstanding, as of June 30, 2004, is presented in the schedule entitled "Changes in Debt Outstanding" shown on page S-29 of the Annual Report, while additional information is contained in the Annual Report pages S-30 and O-1 through O-11. A brief summary follows:

Bonds Outstanding June 30, 2003	$13,206,290,593
Add - Issuances	3,923,645,000
Deduct - Payments at maturity	1,032,230,923
- Bonds refunded or defeased	2,312,775,000
Bonds Outstanding June 30, 2004	**$13,784,929,670**
Interest paid	**$635,623,717**

Bonds issued in 2003-2004 by type are shown below:

General Obligation - Tax Supported	$2,411,950,000
Economic Recovery Notes	97,700,000
Debt Service Commitment – UCONN 2000	314,795,000
Special Tax Obligation	538,610,000
Clean Water	355,245,000
Special Obligation Rate Reduction	205,345,000
Total Bonds Issued, 2003-2004	**$3,923,645,000**

True interest cost rates for new bonds issued during the 2003-2004 fiscal year ranged from 2.13 percent to 4.22 percent. Bonds issued during the 2003-2004 fiscal year were comprised of new money issues amounting to $1,718,975,000 and refunding issues amounting to $2,204,670,000.

In addition to the interest paid totaling $635,623,717, during the 2003-2004 fiscal year, the Treasury also made arbitrage rebate payments to the Federal government totaling $2,610,796. Such rebates represent the excess earnings of nontaxable bond proceeds that were invested in STIF prior to project disbursement.

Bonds outstanding at June 30, 2004 include $24,810,000 of Certificates of Participation for the Middletown Courthouse and $18,475,000 of Certificates of Participation for the Connecticut Juvenile Training School Energy Center project. These Certificates are not debt of the State; however, the State is obligated to pay a base rent under leases for these facilities, subject to the annual appropriation of funds or the availability of other funds therefor. The base rent is appropriated as debt service. The Certificates of Participation are included on the Treasurer's Debt Management System for control purposes.

Further, the Connecticut Development Authority issued $9,275,000 of its lease revenue bonds for the New Britain Government Center in the 1994-1995 fiscal year, of which $6,115,000 was outstanding at June 30, 2004. The State is obligated to pay the base rent subject to the annual appropriation of funds. These payments are budgeted in the Treasurer's debt service budget as lease payments and are included in the above summary.

Bonds outstanding at June 30, 2004 also include $54,255,000 of Second Injury Fund bonds outstanding. These bonds will be payable solely from future assessment revenue of the Second Injury Fund, and the State has no contingent obligation either directly or indirectly for the payment of such bonds.

Under Section 3-16 of the General Statutes, the Governor on April 10, 1990 authorized the Treasurer to enter into short-term borrowing of up to $550,000,000. On April 4, 1991, the Governor increased this amount by $200,000,000. Therefore, the authorized limit on short-term borrowing outstanding at any given time as of June 30, 1995 could total $750,000,000. There were no short-term borrowings outstanding at June 30, 1995. On August 30, 1995, the Governor approved short-term borrowing in a principal amount up to, but not exceeding, a total of $400,000,000 at any one time. He further stated that "Upon issuance of any such obligations any such approvals for any previous temporary borrowings not outstanding shall be revoked and shall cease and terminate and be of no further effect." As of June 30, 2004, there was no issuance of short-term debt under this authority.

For the purpose of funding the deficit in the General Fund for the fiscal year ending June 30, 2002, Section 111, of Special Act 02-1, of the May 9 Special Session, effective August 15, 2002, authorized the Treasurer to issue economic recovery notes of the State in an amount not to exceed the amount of such deficit plus the costs of issuance of such notes. During the 2002-2003 fiscal year, economic recovery notes amounting to $219,235,000 were issued of which $175,515,000 remained outstanding as of June 30, 2004.

Section 1 of Public Act 03-1, of the September 8 Special Session, authorized the issuance of economic recovery notes for the purpose of funding the deficit in the General Fund for the fiscal year ended June 30, 2003, plus the amount of funding needed to pay any remaining retrospective reimbursements billed by medical providers for services rendered to recipients of medical assistance in the State Administered General Assistance and General Assistance programs. During the 2003-2004 fiscal year, economic recovery notes amounting to $97,700,000 were issued pursuant to this authority.

Public Act 03-6 of the June 30 Special Session required that assessments collected from electric utility customers in the State, originally intended for the implementation of conservation and load management programs and renewable energy investment programs, be disbursed instead to the State General Fund during the period from July 1, 2003 to July 1, 2005, unless the Department of Public Utility Control authorized a financing order to allow the issuance of rate reduction bonds the proceeds of which would be substituted for the disbursement of the aforementioned assessments. Pursuant to Sections 16-245e to 16-245k of the General Statutes, as amended by Public Act 03-6 of the June 30 Special Session and Public Act 03-1, of the September 8 Special Session, the Department of Public Utility Control approved a financing order dated October 28, 2003, to allow the issuance of $220,000,000 of tax exempt rate reduction bonds as securitization to sustain the funding of conservation and load management programs and renewable energy investment programs. In accordance with this financing order, special obligation bonds of the State amounting to $205,345,000 were issued during the 2003-2004 fiscal year. These bonds were secured by and payable solely from a rate reduction bond charge collected from the customers of electric utilities in the State.

Tax Exempt Proceeds Fund (TEPF):

The Tax Exempt Proceeds Fund, codified as Sections 3-24a through 3-24h of the General Statutes, serves as a vehicle to allow the State Treasurer to comply with "arbitrage" requirements of the Tax Reform Act of 1986 with regard to the proceeds of nontaxable bond issues passed through to municipalities, nonprofit organizations and others as grants and loans. The "arbitrage" provision of the Tax Reform Act requires that any earnings on bond proceeds in excess of the interest rate on the bonds be "rebated" to the Federal government unless those proceeds are invested in other tax-exempt securities. Under the Tax Reform Act, such pass-throughs are not considered expended when the State advances the funds to the recipient. Accordingly, without TEPF the State would have to track the investment of proceeds of some bond issues until they are ultimately disbursed to contractors and vendors. Proceeds deposited into the fund can leave it only for a payment to a contractor, a vendor, or as a reimbursement.

The TEPF was incorporated as a regulated investment company and is managed by a firm retained by the State Treasurer. In addition to State agencies, TEPF may be used by authorities, municipalities and others. The TEPF was audited by a firm of independent public accountants for the 2003-2004 fiscal year.

According to the Annual Report of the TEPF, net assets of the fund totalled $170,361,824 at June 30, 2004, and the return on investment was 0.60 percent for the 2003-2004 fiscal year. Participants in the fund at June 30, 2004, included civil list funds and recipients of State agency grant and loan programs as well as others.

At June 30, 2004, a total of $46,294,482 of State funds was invested in the TEPF as shown below:

Fund Classification	**Amounts**	**Annual Report Page No.**
	$	
Special Revenue	29,376,571	O-12
Capital Projects	279,411	O-14
Enterprise	16,638,500	O-15
Total	**$46,294,482**	O-15

Second Injury Fund (SIF):

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 31-355a). 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 carrier) or out of the Second Injury Fund (SIF). The Treasurer is the custodian of SIF. Per Section 31-349e of the General Statutes, there is an advisory board to advise the custodian of SIF on matters concerning administration, operation, claim handling and finances of the fund.

Fund revenues consisted mainly of assessments levied against self-insured employers and companies writing workers' compensation or employers' liability insurance and totaled $99,102,281 for the 2003-2004 fiscal year.

Authorizations for claim payments are made by the Attorney General's Office. Such payments amounted to $36,496,301 on a modified accrual basis for the 2003-2004 fiscal year.

A comparison of claim expenditures by category follows:

	2003-2004	2002-2003
Stipulations	$10,875,739	$ 10,097,962
Indemnity (lost wages)	20,138,780	22,548,391
Medical	5,481,782	7,755,403
Totals	**$36,496,301**	**$ 40,401,756**

The number of stipulated agreements to settle claims decreased during the current audited period. According to the Treasurer's Annual Reports, the number of settled claims totaled 177 and 170 for the fiscal years ended June 30, 2003 and 2004, respectively. Funding sources for the settlement of stipulated claims mainly came from the issuance of a total of $224,100,000 of Second Injury Fund Special Assessment Revenue Bonds of which $54,255,000 were outstanding at June 30, 2004.

Additional comments concerning the operations of the Second Injury Fund are included in the "Condition of Records" section of this report.

Financial statements and notes for the SIF are presented on pages F-49 through F-56 of the Annual Report.

Workers' Compensation Commission - Administrative Expenses:

As authorized under the Workers' Compensation Act of the General Statutes, the Second Injury and Compensation Assurance Fund and the administrative expenses of the Workers' Compensation Commission (WCC), are financed by assessments against companies writing workers' compensation or employers' liability insurance and by assessments against self-insured employers.

Assessments are based on workers' compensation benefits paid by the applicable companies. Data concerning the companies writing workers' compensation insurance is furnished by the State Insurance Department. Self-insurers report directly to the Treasury Department. A list of such companies is supplied by the Workers' Compensation Commission (WCC). ("Certificates of Solvency" are issued by that Commission.) By far, the greater portion of assessments is levied against insurance companies rather than self-insured employers.

Under Section 31-345 of the General Statutes, the Treasurer must assess and collect from the above insurance carriers and self-insurers amounts to reimburse State expenses incurred by the WCC in the administration of workers' compensation benefits.

In accordance with Section 31-345, the WCC's chairman notified the Treasurer that $22,435,338 was needed to meet the expenses of the WCC for the 2003-2004 fiscal year. Based on the above projection, less the balance in the WCC account, the Treasurer assessed insurance companies and self-insured employers during the audited period at a rate of 2.76 percent of their preceding fiscal year's payments for workers' compensation benefits. Collections of these assessments are deposited into the Workers' Compensation Administration Fund.

A summary of Workers' Compensation Administration (WCA) Fund assessment receipts and total WCA Fund receipts for fiscal years 2003-2004 and 2002-2003 follows:

	2003-2004	2002-2003
Assessment collections	$17,918,436	$ 21,383,555
Other receipts	16,879	27,381
Total Receipts - WCA Fund	**$17,935,315**	**$ 21,410,936**

Connecticut Higher Education Trust (CHET):

The Connecticut Higher Education Trust (CHET) was established pursuant to Public Act 97-224, codified as Sections 3-22e through 3-22o of the General Statutes. CHET is a trust, available for participants to save and invest for higher education expenses, that is privately managed under the supervision of the Treasurer. The Trust is an instrumentality of the State, however; the assets of the Trust do not constitute property of the State and the Trust shall not be construed to be a department, institution or agency of the State. CHET is a qualified State tuition program in accordance with guidelines contained in Section 529 of the Internal Revenue Service code. While money is invested in CHET, there are no taxes (Federal or State) on the earnings. Amounts can be withdrawn to pay for tuition, room and board, or other qualified higher education expenses. There are no State taxes paid on qualified withdrawal earnings. The program began accepting applications in January 1998.

The Connecticut Higher Education Trust was audited by a firm of independent public accountants for the 2003-2004 fiscal year.

As of June 30, 2004, the CHET program had net assets of $472,562,759, and 41,569 participant accounts. Operating results for the 2003-2004 fiscal year taken from the Annual Report were as follows:

Net assets at June 30, 2003	$ 332,013,553
Net Participant Contributions	105,171,402
Investment income	37,268,872
Management fees	(1,891,068)
Net assets at June 30, 2004	**$472,562,759**

Financial statements and notes for CHET are presented on pages F-57 through F-62 of the Annual Report.

Trust Funds:

In addition to investment-type trust funds of the Pension Funds Management Division (described earlier in this report) and those in CHET, the Treasurer is also responsible for the administration of certain other trust funds which fall within her statutory jurisdiction. Some of these funds are described in the ensuing section.

School and Agricultural College Funds:

The administration of these two trust funds is provided for in Sections 3-40 through 3-55 of the General Statutes. Under Article Eighth, Section 4, of the Constitution of Connecticut, the School Fund is a perpetual fund whose interest is to be used in support of State assistance to public schools. Annually, fund earnings are transferred to the General Fund from which public education grants are made. Under Section 10a-115 of the General Statutes, net income of the Agricultural College Fund is transferred to the University of Connecticut.

Investments consisted of participation in the Treasurer's major investment funds discussed earlier. No direct individual investments were held by the two trust funds. Total fund balances (at cost), on June 30, 2004, amounted to $6,554,756 for the School Fund and $422,204 for the Agricultural College Fund. The total fund balances on June 30, 2004, at fair value, amounted to $8,761,069 for the School Fund and $565,192 for the Agricultural College Fund. Statements and notes for these two funds and other non-civil list trust funds are included on pages F-44 through F-48 of the Annual Report. Investment activity is presented on pages S-7 through S-9.

Insurance Companies Trusteed Securities:

Pursuant to Section 38a-83 of the General Statutes, securities are deposited with the Treasurer to be held in trust for policy holders of insurance companies as a prerequisite to such companies transacting business in any state requiring such protection. A listing of insurance companies and their security deposits, as of June 30, 2004, is presented starting on page O-21 of the Annual Report.

Each company depositing these securities is required, per Section 38a-11, subsection (e), to pay $250 annually to defray the cost of custodial services, which is collected by the Insurance Department.

Subsequent Events:

Termination of Association with Investment Advisor:

The Treasurer severed all ties with Triumph Capital Group on July 21, 2004. Triumph Capital Group, its managing partner and general counsel were convicted on Federal charges of bribery, racketeering, conspiracy and obstruction of justice. The Fund, which held a total of four limited partnership investments managed by Triumph Group (three in the Private Investment Fund and one in the Mutual Fixed Income Fund), received cash proceeds totalling $48,957,048 from a sale of these limited partnership interests, resulting in a total liquidation of those investments.

Second Injury Fund Calculation of Interest Penalties:

The Second Injury Fund had requested an Attorney General's Opinion regarding the calculation of interest penalties related to unpaid assessments that were uncovered by compliance reviews. The Attorney General's Opinion was adverse to the Fund and resulted in the need to return approximately $12 million of previously collected penalties.

CONDITION OF RECORDS

Our review of the financial operations of the State Treasury disclosed some areas requiring additional attention. These areas are described on the following pages.

Claimant Fraud and Assignment of Liability in the Second Injury Fund:

Criteria: According to Section 31-355 of the General Statutes, the Workers Compensation Commissioner may order the Second Injury Fund (the Fund) to provide benefits to an injured worker if an employer fails to carry insurance and is unable to pay benefits in accordance with a finding and award. Section 31-355, subsection (b), allows the Treasurer, on or before the twenty-eighth day after receiving the order of payment from the Commissioner, to contest the Fund's liability.

Condition: We were informed by the Office of State Treasurer on April 27, 2004, that a claimant of the Second Injury Fund, who had been paid $171,148 of Workers' Compensation benefits over six years, was charged with a fraudulent claim or receipt of benefits, a class B felony; larceny in the first degree, a class B felony; and perjury, a class D felony. The claimant allegedly perpetrated the fraud when he stated to the Workers' Compensation Commissioner that he worked for an uninsured employer. Based upon information presented by the injured worker, the Commissioner ordered the Fund to pay the claimant in accordance with Section 31-355 of the General Statutes. Although circumstances appear to have warranted further review and investigation, the Fund did not contest the order to pay.

In another case, the Fund negotiated a $60,000 settlement to be paid to a deceased worker's family before the Commissioner formally ordered the Fund to pay. The Commissioner approved the settlement after the Fund had already agreed to the negotiated terms. Under Section 31-355, subsection (c), of the General Statutes, the employer is obligated to reimburse the Fund for all payments made on their behalf from the Fund. Although the Fund should have pursued collection of the $60,000 from the uninsured employer, they instead negotiated a $20,000 "contribution" to the family from the uninsured employer, essentially waiving the State's right to collect the $60,000 from the uninsured employer. We found no statutory provision for the Fund to negotiate or waive any amount due from an uninsured employer; in fact, Section 31-355a allows the Treasurer "any means by law," including tax warrants, to enforce full collection against uninsured employers. It also appears a statutory violation of Section 3-7 of the General Statutes may have occurred in this case. Section 3-7 of the General Statutes, sets forth the official process for cancellation of a State receivable and requires that any amount greater than $1,000 is to be cancelled with the approval of the Office of Policy and Management. In this case, Treasury officials processed the cancellation request of $60,000 owed by the uninsured employer, and certified that "all reasonable efforts have been made to collect the monies involved." Based upon this information, an approval was granted by the Office of Policy and Management. Since the Fund had a prior agreement with the employer to forgive the receivable amount, we believe a statutory violation of Section 3-7 of the General Statutes may have occurred.

Cause: Claimant fraud may be difficult to detect; however prior to accepting such claims, the Fund should investigate the validity of the claim and contest the order, if necessary. The Fund believed it could negotiate amounts due from uninsured employers; however, it does not appear there was any statutory authority to do so.

Effect: The Second Injury Fund paid $171,148 to a claimant who was arrested for making a fraudulent claim. The Treasury agreed not to pursue the collection of $60,000 due from an uninsured employer. Pursuant to Public Act 05-199, effective July 1, 2006, the Treasury is able to enter into settlement agreements regarding amounts due from uninsured employers; therefore, a recommendation for future consideration is not needed.

Recommendation: The Second Injury Fund should consider contesting liability when further information is needed to validate a claim. (See Recommendation 1.)

Agency Response: "The Second Injury Fund under this administration does contest claims within 28 days of receiving a Supplemental Order whenever fact finding warrants. The audit issue involves a Workers' Compensation claim sustained in 1995 where the Workers Compensation Commission assigned liability for the claim to the Fund under a previous administration. At that time uninsured employer claims were handled by the Attorney General's Office on behalf of the Fund. The AG's Office did not attend the hearing or contest the claim.

In 2004, when the Fund received information that indicated fraud, the matter was turned over to the Chief State's Attorney Office for prosecution and restitution. We believe that appropriate action was taken after the matter came to our attention."

Payment Errors by the Second Injury Fund:

Criteria: Internal controls over the processing of payments in the Second Injury Fund (the Fund) should provide reasonable assurance that stipulated settlements made to claimants are correctly calculated and that payments for medical benefits are properly approved and for the claimant's compensable injury only.

Condition: During our audit of stipulated payments made, we discovered the Fund underpaid one claimant $933, and overpaid on another claimant's account by $209. The Fund has reimbursed the underpaid claimant, but was unable to recover the overpayment of $209 as the amount calculated was part of a stipulated (full and final) agreement.

Also, while reviewing medical amounts paid by the Fund, we found the Fund's internal control structure did not prevent the Fund from paying a total of $2,592 for cholesterol medication that was unrelated to the claimant's compensable (head) injury. These payments were made between February 13, 2002 and March 29, 2004.

Cause: The Fund's claims management unit is generally responsible for the administration of established cases, which includes calculating payment amounts and approving medical benefits without a manager-level approval.

Effect: Fund payments were not always calculated accurately, the Fund had a nonrecoverable loss of $209, and must attempt to recover overpaid benefits totaling $2,592.

Recommendation: The Second Injury Fund should improve internal controls over payments to claimants to provide reasonable assurance that such payments are correctly calculated, appropriately approved and related to the claimant's compensable injury. (See Recommendation 2.)

Agency Response: "We agree with the Auditors' recommendation and are taking steps to clarify the role of the nurse consultant to ensure that prescribed medications paid by the Fund are for compensable injuries only. SIF will implement additional supervisory oversight procedures to resolve disputes of this nature between claims specialists and the nurse consultant from occurring in the future.

SIF staff have been reminded of the necessity to review work to ensure that correct calculations and payment amounts are being made."

Holding of Credit Balances by the Second Injury Fund:

Criteria: The Second Injury Fund (the Fund) is required to collect assessment amounts from insurance companies and self-insured employers to fund operations for the Second Injury Fund and Workers' Compensation Commission. When the amount received by the Fund is greater than the amount due, the resulting difference is a "credit balance." The Fund is responsible to pay back, or refund such credit balances on a timely basis so that amounts not belonging to the Fund can be returned without delay.

Condition: During our review of Fund receivables, we noted that as of April 31, 2004, a total of $3,257,420 of credit balances was being held by the Second Injury Fund for 109 reporting companies. Because the Fund had issued, in error, a form containing a higher assessment rate than the one due, insurance companies who failed to notice the error paid more than what was required during the fourth quarter of the fiscal year ended June 30, 2004. This exacerbated the end of year credit balances, which totaled $4,482,516. An additional $268,445 in credit balances were being held for overpaid Workers' Compensation Commission assessments. As of June 30, 2004, the Fund had not returned credit balances of $4,750,961 to over 150 reporting companies.

Cause: Credit balances resulting from the use of the form with the higher assessment rate approximated $1.5 million of the total credit balance. Except for credit balances resulting from the form error detailed above, it is not the Fund's normal process to inform companies that a credit is due to them. If a reporting company claims a refund due to an amended assessment calculation, the Fund attempts to perform a full review of all assessments paid to determine whether the company had ever underpaid assessments during any time in the preceding eight years. If found to be the case, the Fund offsets the credit balances against any amounts due.

Effect: The process of performing full examinations prior to returning credit balances that result from insurance company reporting adjustments has caused a significant increase in the total amount of credit balances.

Recommendation: The Second Injury Fund should review credit balances related to insurance company assessment collections and return overpayments on a timely basis. (See Recommendation 3.)

Agency Response: "We concur that $1.5 million representing overpayments by companies due to an incorrect assessment rate printed on the form by the Fund should have been returned immediately. However, all companies but one applied the overpayment on the next quarterly assessment report. The one company that did not apply the credit to its next quarterly assessment report determined that the year to date assessment report calculations had been deficient and therefore chose to leave the funds with the Fund until it had completed a final assessment calculation.

Other credit balances totaling $3.2 million as on June 30, 2004 have been reduced to $1.6 million as of June 30, 2005, of which $1.2 million is presently being audited. Completed SIF audits of the credits claimed by companies resulted in approximately $8 million in additional assessments due from these companies in the fiscal year ended June 30, 2004, and $6 million in the fiscal year ended June 30, 2005. Past audit experience has shown that the majority of employers and or insurance companies incorrectly claim credits and in fact, most assessments have been underreported to the Fund after audit review by SIF. The Fund has prioritized the audit of quarterly assessment reports filed by employers and/or insurance companies in order to complete reviews in a timely manner.

$0.2 million of the credit balance noted on June 30, 2004, represented duplicate payments made to the State Department of Administrative Services and to the Fund for the same Workers' Compensation Commission assessments following a delinquent assessment payment notice issued by DAS, which has been returned to the payee."

Payment without Supporting Documentation by the Second Injury Fund:

Criteria: Good business practices would include not making payments to any vendor, including providers of medical services, until the vendor submits complete, verifiable documentation to substantiate their claim against the State.

Condition: The Second Injury Fund (the Fund) within the Office of the State Treasurer paid $24,240 to a provider on behalf of a claimant who received surgical services on August 11, 2003. According to the Fund, the provider failed to submit backup documentation to support $21,072 of these charges, and the Fund is now seeking to recover this amount.

The Fund instituted a policy on March 17, 2003, to pay 70 percent of invoices over $4,000 as a partial payment to the providers of medical services while a nurse review was pending. Nurse reviews are performed to determine the validity of the claim and may require the provider to submit additional information to support the claim. Since the vendor did not provide the additional information requested, the Fund asked that the provider repay the $21,072 on August 19, 2004.

Cause: The Fund's policy allowed for payments to be made before complete backup documentation was presented to support the provider's claim.

Effect: The payment of invoices which lack proper documentation creates undue administrative burden when claims are reviewed and found to be incomplete.

Recommendation: The Second Injury Fund should revoke their current policy and take steps to ensure that claims are substantiated with the appropriate level of backup documentation before making any payments to vendors. (See Recommendation 4.)

Agency Response: "The Fund has discontinued this policy and will only reimburse hospital billings based on provided documentation.

In addition, after review of the proper documentation from the hospital in question, it was determined that no overpayment existed, and in fact the Fund is owed $1,165."

Failure to Adequately Monitor Status of Citations Issued against Uninsured Employers:

Criteria: Section 31-288, subsection (c), of the General Statutes allows investigators in the Second Injury Fund (Fund) to issue citations to employers who do not carry Workers' Compensation insurance for their employees. The Fund notifies the Workers' Compensation Commissioner who assesses a civil penalty against the employer. Any penalties are to be paid over to the Fund in accordance with Section 31-289 of the General Statutes. Internal controls over the processing of such citations should track the status of each to ensure timely collection and deposit of penalties in accordance with Section 4-32 of the General Statutes.

Condition: During our review of citations issued by the Second Injury Fund's investigation unit we found that the Fund does not maintain a record of the status of citations issued. We found that two citations issued were resolved through negotiations with an Assistant Attorney General (who represented the Fund) instead of the Workers' Compensation Commissioner. Since the Fund was not notified in the usual manner, the collection unit was not aware of one of the penalties. There were two payments held by the Attorney General's Office that were not forwarded to the Fund for deposit in a timely fashion:

- A penalty for $5,000, was received by the Attorney General's Office on July 29, 2003, but was not forwarded to the Fund until October 17, 2003.

- A penalty for $2,500, was received by the Attorney General's Office on June 5, 2003, but was not forwarded to the Fund until June 26, 2003.

These delays caused these amounts to be deposited 55 and 14 days late respectively, which is in violation of Section 4-32 of the General Statutes.

Cause: The Fund did not maintain a record of the status of each citation issued, and there was poor communication between the Attorney General's Office and the Fund.

Effect: The Fund is not always aware of the status of the citations issued, which may result in late deposit of penalties.

Recommendation: The Second Injury Fund should consider maintaining a record of the status of each citation issued by the investigation unit to be sure payments made for penalties are deposited in a timely manner. (See Recommendation 5.)

Agency Response: *"The two late deposit findings noted by the auditors actually occurred within the Attorney General's Office. The Fund will review the auditors' recommendation in order to determine if implementing this procedure will help to ensure that penalty payments received by the Attorney General's Office are deposited timely.*

Not all citations issued each year by the SIF investigators result in penalties by the WCC. The average number of citations issued each year totals 17. The Fund monitors the status of all penalties that are issued by and received from the WCC with regular follow-up."

Management Override of Internal Controls within the Cash Management Division:

Criteria: The Cash Management Division within the State Treasury is responsible for maintaining proper internal controls and segregation of duties to ensure that payments to vendors are recorded completely, accurately, and are independently verified prior to the processing of an expenditure.

Condition: The Treasury contracts with several banks for cash management (custodial) services. We discovered a duplicate payment that was made to one bank that provided such services. The State was billed $31,016 for services rendered during October 2003 through December 2003. On April 30, 2004, the Cash Management Division paid this bill with a wire transfer through the electronic funds transfer system. Because established internal control procedures were not followed when making the wire transfer payment, it was not recorded in the State's accounting system. This allowed a second payment in the form of a check to be issued by the Treasury business office on June 2, 2004. Until we brought it to the Treasury's attention, the State's accounting system did not reflect that a prior payment, in the form of an unauthorized wire transfer, had already been processed. We note that there was no loss to the State, because a stop payment order was placed on the check before it was cashed.

Cause: It appears that management may have wanted to expedite payment to the vendor, as a previous check payment had been lost.

Effect: Management override of internal controls can compromise accounting records and controls over cash.

Recommendation: The Cash Management Division should follow established internal controls to ensure payments are independently verified and accurately recorded in the State's accounting system prior to the processing of an expenditure. (See Recommendation 6.)

Agency Response: "We certainly agree with the auditors regarding the importance of properly recording payments in the State's accounting system. Cash Management converted a check to a wire transfer because two previous attempts to make the payment through the Core-CT system had not been properly received by the bank and we were facing possible late payment interest charges. As noted by the auditors, no loss to the State occurred.

Cash Management procedures have been updated and reviewed with staff to specify (a) approvals required for converting check or ACH payments to wire transfers and (b) notifications and steps that must be made to ensure that the proper recording of payment type changes are reflected on the accounting records in a timely manner."

Delays in Reconciling Bank Accounts within the Cash Management Division:

Criteria: The Cash Management Division is responsible to maintain proper internal control over cash and complete bank reconciliations in a timely manner.

Condition: Our review of bank account reconciliations conducted during February 2004, disclosed that 17 of 23, or 85 percent of bank account reconciliations were not completed in a timely manner. Treasury procedures call for month-end reconciliations to be completed by the end of the following month. As of

February 4, 2004, the payroll checking account was reconciled through September 2003 and the vendor checking account was reconciled through July 2003. These two accounts are relatively significant accounts that include transactions for most of the State's payroll and vendor payments. We had disclosed this issue in our prior audit report for the period ended June 30, 2003.

Our subsequent review of checking account reconciliations for the month ending June 30, 2004, indicated that bank reconciliations administered by the Cash Management Division had been completed; however, reconciliations for two checking accounts administered by the Department of Motor Vehicles had not been completed as of September 2004.

Cause: Complications from the implementation of the State's new accounting system contributed to the delays in the bank reconciliation process.

Effect: Errors in the recording of cash transactions may not be detected and could increase the risk of loss if reconciliations are not completed in a timely manner.

Recommendation: The Cash Management Division should comply with existing procedures over cash and ensure that reconciliations of State bank accounts are completed in a timely manner. (See Recommendation 7.)

Agency Response: "We fully agree with the importance of timely bank reconciliations. Implementation of the Core-CT system, however, resulted in significant delays during the year in the reconciliation of bank accounts. Some data required for reconciliations was not available for many accounts for several months. Complicating the process were numerous Core-CT coding errors made by agencies that needed to be researched and corrected. As the Auditors note, for all accounts reconciled by the Treasury, the bank statements had been reconciled to their source Core-CT documents by September 2004. The reconciliations of the two DMV accounts were completed by October 2004."

Delays in Reconciling Zero Balance Accounts within the Cash Management Division:

Criteria: The Cash Management Division is responsible for maintaining proper internal control over zero balance checking accounts and for ensuring that agencies complete their reconciliations of these accounts in a timely manner. Daily cash transfers are made to zero balance accounts to cover only the checks presented for payment. Treasury procedures require that the Cash Management Division send confirmation requests on a monthly basis to the agencies responsible for the transactions within each account. The agencies must acknowledge the reconciliation process by certifying the balance, documenting reconciling items, and returning the form to the Treasury.

Condition: During our audit of the Cash Management Division, we found that the monthly confirmation requests were not mailed to the agencies in a timely manner. The confirmations for July 2003 were not mailed until November 18, 2003, or three months late. Other confirmations for the year ended June 30, 2004, were mailed up to three months late:

- August 2003 through October 2003 were mailed December 7, 2003.
- November 2003 through February 2004 were mailed March 24, 2004.
- March 2004 through June 2004 were mailed July 27, 2004.

Subsequent to June 30, 2004, delays in sending confirmations continued. Confirmations for the period of July 2004 through October 2004 were not sent to the respective agencies in a timely manner.

Cause: During previous fiscal years, the Treasury's RDS system produced monthly ledgers for the zero balance accounts automatically. Upon implementation of the Core-CT accounting system, zero balance account ledgers required manual preparation. Manually generated ledgers were not being produced at month-end as required for timely account reconciliation.

Effect: Errors in the recording of accounting transactions may not be detected if reconciliations are not reviewed in a timely manner.

Recommendation: The Cash Management Division should improve internal control over zero balance accounts to ensure that confirmation letters are sent and reconciliations are reviewed in a timely manner. (See Recommendation 8.)

Agency Response: "We fully agree with the importance of timely reconciliations of zero balance accounts. The Core-CT system, however, eliminated the Treasury's automated receipts and disbursements system that had previously generated the necessary ledgers, requiring manual compilations that, given the other demands of adjusting to the Core-CT system, were delayed. During the first six months of this fiscal year, CM developed an automated capability for producing the ledgers, which are now up to date."

Delays in Calculating and Distributing Quarterly Income for the Interest Credit Program:

Criteria: Sections 3-39b and 3-39c of the General Statutes require the State Treasury to invest unexpended General Fund amounts. Any interest earned on such funds shall be credited to the General Fund, unless the Treasurer is required to distribute such earnings to other, specific funds. For those funds that receive such distributions, the Treasury has set up the Interest Credit Program within the Cash Management Division, which should ensure that the appropriate funds are credited with the appropriate amounts of quarterly interest income.

Condition: Our review of the Cash Management Division disclosed that interest income due to State funds participating in the Interest Credit Program was not calculated or distributed, for the months of July 2003 through March 2004, until June 3, 2004. We note that distributions in the prior year ended June 30, 2003, totaled $6,763,528.

Our review of calculations and distributions of interest owed to the participant funds uncovered several errors such as:

- failing to make distributions to all funds participating in the Program,
- failing to use the average daily balance for the interest calculation,
- failing to include all principal amounts that should earn interest, and
- failing to verify the interest amount calculated to the final amount distributed.

As of November 17, 2004, the Treasury was still researching these issues.

Cause: Complications related to the implementation of the State's new accounting system appear to have contributed to the delays and errors in the Interest Credit Program distributions.

Effect: Participant funds within the Interest Credit Program may not be receiving the appropriate amount of interest from the State Treasury.

Recommendation: The Cash Management Division should review and improve procedures over the calculations of, and distributions from the Interest Credit Program to ensure that the participant funds are credited appropriately. (See Recommendation 9.)

Agency Response: "Cash Management believes present procedures are adequate, however, during the audit review period necessary account and fund balance records were not generated by the Core-CT system until May 24, 2004. Once available, interest calculations were performed within seven business days. The errors identified by the auditors related to two of the 84 accounts or funds in the Interest Credit Program. CM continued to have issues with the two accounts or funds until November 19, 2004."

Bank Identification of Outstanding Reconciling Items:

Criteria: The State's Core-CT accounting system has the functional ability to perform automated bank reconciliations which would identify all outstanding items as to date and amount. The Cash Management Division should complete bank reconciliations in the most efficient manner available.

Condition: We noted that unreconciled outstanding items with dates as far back as July

2002 existed for some bank accounts as of December 2004. CMD personnel informed us in October 2003 that these old unresolved differences would be researched and resolved by January 2004.

Although the Core-CT system has the capability to receive information from the bank electronically and list outstanding transactions, the fully automated bank reconciliation process is not employed by CMD. The CMD utilized a procedure in which bank information is downloaded to the Core-CT system on a daily basis and dollar differences between the accounting system and the bank are automatically listed; however, identifiers such as date and check number are not part of the information that is electronically received from the bank. In order to find the specific transactions that are outstanding, CMD personnel must refer to a manually produced list of outstanding checks provided by the bank on a monthly basis. Under this procedure, the Core-CT system is not able to identify checks that have cleared versus checks that are outstanding.

Cause: The necessary electronic downloads are not obtained from the bank. The Cash Management Division did not request the treasury module, which includes the check administrator functionality, from the Department of Information Technology upon implementation of the Core-CT system.

Effect: Errors in the recording of cash transactions may not be detected in a timely manner because bank reconciliations are not done in the most efficient manner available. The check administrator functionality would also improve the ability to calculate available cash balances.

Recommendation: The Cash Management Division should resolve outstanding items that originated in prior fiscal years and employ the most efficient manner of bank reconciliation available. (See Recommendation 10.)

Agency Response: "All prior year outstanding items have been resolved.

We have not requested the treasury module available from Oracle, the Core-CT vendor, from the Department of Information Technology because the State does not own it. The module cannot be purchased or used without first incurring significant additional State costs, estimated by Core-CT to be approximately $1,000,000 over the next three years.

We have been evaluating the module's price, implementation costs, features and benefits as well to determine if the advertised functionality of the treasury module would facilitate our operations in a cost-effective manner.

We constantly strive to perform bank reconciliations in the most efficient process possible, which includes comparing costs as well as the efficiencies of new processes before adopting or pursuing them. For example, we evaluated having bank data sent electronically to Core-CT to produce lists of outstanding transactions. While that would have provided some benefit to us, we determined that the cost of the transmissions, estimated to be over $100,000 annually, at that time, outweighed the possible benefit, particularly given the implementation issues the State has encountered with Core-CT. The bank's price has since dropped significantly and Core-CT is expecting to implement that functionality."

Processing of Cancelled Checks:

Criteria: According to the State Comptroller's written procedures for check cancellations, copies of cancelled checks should be marked as cancelled so they are not negotiable and sent to the Treasurer's Office with a completed check cancellation form.

Condition: The Treasurer's Cash Management Division did not receive copies of cancelled payroll checks with the check cancellation forms after the implementation of the Core-CT accounting system in July 2003. Copies of cancelled vendor checks continued to be sent to the Cash Management Division throughout the audited period as specified in the State Comptroller's procedures.

The Cash Management Division requested and received copies of cancelled payroll checks in July 2004 as a result of our inquiry. Our review of checks listed as cancelled in the Core-CT accounting system compared to checks paid disclosed two instances in which checks thought to be cancelled were actually paid.

Cause: Inadequate coordination between the Treasurer's Cash Management Division and the State Comptroller's Payroll Division regarding the collection of cancelled check copies caused this condition.

Effect: Errors in the tracking of cancelled payroll checks resulted in known overpayments.

Recommendation: The Cash Management Division should research all cancelled payroll checks for the period of July 2003 through July 2004 to verify that no duplicate payments occurred. (See Recommendation 11.)

Agency Response: "As recommended by the auditors, we have conducted the recommended review of all canceled checks (753 items totaling $1 million) and found no additional issues. The two overpayments noted by the auditors, which totaled $2,221.97, have been corrected."

Investment Advisor Fees Incurred Without a Contract:

Criteria: The Pension Fund Management Division within the Office of the State Treasurer contracts with investment managers to manage funds on behalf of the State's Pension Fund. In accordance with Section 4-98 of the General Statutes, the Treasurer may not obligate the State for the payment of such services unless it first executes a commitment document in the form of a contract.

Condition: The Pension Fund Management Division contracted with an investment manager to manage funds included in the Private Investment Fund. The Private Investment Fund generally includes investments in private companies that develop products in emerging markets and technologies and, unless there is a public offering of stock, investments are not usually marketed to the public. One such manager's contract expired on January 15, 2003, yet the manager continues to manage investments valued at $2,435,153 as of June 30, 2004. In June and August of 2003, the investment manager "recommended," and the Treasury agreed, without a written contract, that the manager should be paid $3,500 per month, retroactive to January 15, 2003. In July and October 2003, $31,250 was taken from the cash-on-hand at the partnership (investment) level. Although it is not unusual that managers be compensated in this manner, compliance with Section 4-98 of the General Statutes is still required.

Cause: Although private investments are not easily divested, there does not appear to have been sufficient management oversight to ensure that this investment was sold or the contract amended prior to its expiration date.

Effect: Obligating the State without having a contract in place could result in contractual disagreements and overpayments for services.

Recommendation: The Pension Fund Management Division of the Treasurer's Office should improve contract management procedures and comply with Section 4-98 of the General Statutes and not agree to payments to vendors until a fully executed contract is in place. (See Recommendation 12.)

Agency Response: "We fully agree with the auditors' conclusions about the need to have fully executed agreements in place before vendor payments are made. However, the circumstances in the particular fact situation cited in this audit finding were somewhat unique as described below.

As the partnership agreement with the General Partner ("GP") responsible for the private investment approached its originally stated expiration date of January 15, 2003, Pension Fund Management ("PFM") communicated to the GP that the Connecticut Retirement Plans and Trust Funds ("CRPTF") desired the liquidation of all investments, dissolution of the Fund and a halt to management fees by January 15, 2003. However, in a letter dated November 17, 2002, the GP noted that there was a possibility that it would exercise the two one-year extension options if it proved impractical to liquidate the Fund by the expiration date. This was due to delays relating to two of the Fund's investments; one of which was involved in a protracted litigation, and the other one was in the process of being sold.

The partnership agreement, which was drafted by a prior administration, was vague as to the exact form of the extension notice, the issue of extending the agreement and renegotiating management fees. However, as already stated, we fully agree with the auditors that the agreement should have been formally amended and written before the contract expiration date. This policy has been reinforced with all pension fund professionals and our internal legal staff. Future general partnership contracts will take into account the process necessary to make any changes, exercise any options or extensions or make any other material changes to a partnership agreement.

It has been the consistent policy and practice during the Nappier Administration to document all matters involving the management of the Connecticut Retirement Plans and Trust Funds. This should have been the case with the General Partner responsible for this private investment."

Investment Advisor Fees:

Criteria: Revenues and expenses should be matched by fiscal period when presented in financial statements.

Condition: We found that $522,675 of investment advisor fees paid during the 2004 fiscal year were actually related to services to be rendered during the 2005 fiscal year. The financial statements presented these as expenses of the 2004 fiscal year rather than as pre-paid expenses.

Cause: Once it was discovered, financial statements were not changed due to the insignificant amount of the change.

Effect: Expenses for the 2004 fiscal year were overstated while expenses for the 2005 fiscal year were understated.

Recommendation: Financial statements should reflect the revenues and expenses of the period for which they are reporting. (See Recommendation 13.)

Agency Response: "We concur with the recommendation. Pension Funds Management has added additional controls to the existing accounting procedures that tracks and calculates management fees paid for both expensed fees and capitalized fees in order to ensure proper matching within the accounting period. One new procedure now traces fees to both the wire and or accrual system for all investment advisor fees. In addition, total fees are now reconciled to the appropriate trial balance line items to ensure proper matching of expenses for the period which is being reported."

Private Investment Partnership Valuations:

Criteria: According to Governmental Accounting Standards Board Statement Number 31, losses from an investment should be realized in the same accounting period as when it is determined that the loss is other-than–temporary. In the accounting records, the original or adjusted cost of the security must be written down to realize these losses.

Condition: We noted that individual investments of some limited partnerships had declined to near zero while still being valued at cost for financial statement purposes. In other cases, when investment values were written down the loss on investment was posted to unrealized loss when it should have been posted to realized loss.

Cause: For some assets, it was believed that values would return.

Effect: When losses are posted to the unrealized classification, they are carried forward into succeeding years until such time as the limited partnership dissolves. If losses are not recognized until the time the limited partnership dissolves then there are huge losses which are absorbed in one fiscal year when in actuality the losses may have covered a number of previous years.

Recommendation: Treasury should realize losses on impaired investment assets in the year in which the losses are apparent. (See Recommendation 14.)

Agency Response: "CRPTF is in discussion with the Auditors of Public Account's with regard to this policy. The essential conceptual issue to be resolved is whether CRPTF's investment and the related accounting is in a partnership interest or in a series of underlying securities purchased and managed by that partnership's GP.

Presently, CRPTF reports on a fair value basis at the legal entity (i.e., partnership) level for illiquid Private Investment Fund investments, and does not account for changes in fair value for each underlying sub-investment level holdings of the partnership investment. Cost basis records are maintained to allow for the determination of realized gains and losses when invested capital is distributed.

As recommended by the auditors, beginning with the fiscal year 2006 CRPTF will incorporate the following procedures for all investments within the Private Investment Fund that are not considered Fund of Funds:

CRPTF will review the present accounting procedures in order to annually recognize permanent impairments of capital investments as realized versus unrealized. CRPTF will monitor all wires for an indication of any write offs being taken. When write offs are noted they are recorded as such on the wires.

In addition, at December 31, CRPTF will be reviewing dispositions as reported in the Audited Financial Statements of the General Partner for any write offs. Should the General Partner's Audited Financial Statement not include such information a request for a disposition listing shall be sent out to the General Partner. The disposition listing as provided by the General Partner will be reviewed for any write offs and the appropriate entry will be made on CRPTF's accounting records to properly reflect the write off."

Financial Reporting Delayed:

Criteria: In accordance with Section 3-37 of the General Statutes, the Treasurer is required to submit a final audited report for the year ended June 30, 2004, to the Governor and the Investment Advisory Council on or before October 15, 2004. The report usually includes data concerning the State's cash receipts and disbursements processed by the Cash Management Division within the Treasurer's Office, among other information. The Treasury uses information provided by the Comptroller's Office to reconcile accounting, or "book" balances to the actual cash, or "bank" balances.

Condition: The Treasurer was unable to submit a final audited report for the fiscal year ended June 30, 2004, as required by Section 3-37 of the General Statutes. Apparently, there were delays in receiving accounting information regarding the "book" balances from the Comptroller's Office; and, without this information, the Treasury was unable to complete their reconciliations to the cash, or "bank" balances by October 15, 2004. The Treasurer did provide a draft report that included unaudited financial statements as of June 30, 2004.

Cause: The Treasury's reporting deadline conflicts with deadlines for other annual reports, (including the Comptroller's Office), and the accounting or "book" balances were not available within the necessary time frame.

Effect: The Treasurer was unable to comply with Section 3-37 of the General

Statutes to publish a final audited report by October 15, 2004.

Conclusion: We have no recommendation at this time as the Treasurer's Office must rely on the Comptroller's Office for final data before continuing their work to meet the requirements for publishing a final audited report in accordance with Section 3-37 of the General Statutes. A common financial reporting date for both the Treasurer and the Comptroller could help alleviate this condition.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit examination resulted in two recommendations. The following is a summary of those recommendations and the action taken by the State Treasury.

- The Second Injury Fund should be sure to pay indemnity benefits in accordance with the amount determined by the Worker's Compensation Commission. This recommendation is not repeated.

- Treasury should perform bank reconciliations in a timely manner and increase efforts to adequately explain and resolve outstanding items. This recommendation has been restated and presented as Recommendation 7.

Current Audit Recommendations:

The following recommendations resulted from our current review.

1. The Second Injury Fund should consider contesting liability when further information is needed to validate a claim.

Comments:

Based upon fraudulent information presented by the injured worker, the Second Injury Fund paid $171,148 of workers' compensation benefits over a period of six years. The claimant allegedly perpetrated the fraud when he stated to the Workers' Compensation Commissioner that he worked for an uninsured employer. Although circumstances appear to have warranted further review and investigation, the Fund did not contest the order to pay.

2. **The Second Injury Fund should improve internal controls over payments to claimants to provide reasonable assurance that such payments are correctly calculated, appropriately approved and related to the claimant's compensable injury.**

Comments:

During our audit of stipulated payments made, we discovered the Fund underpaid one claimant $933, and overpaid on another claimant's account by $209. The Fund has reimbursed the underpaid claimant, but was unable to recover the overpayment of $209 as the amount calculated was part of a stipulated (full and final) agreement. Also, while reviewing medical amounts paid by the Fund, we found the Fund's internal control structure did not prevent the Fund from paying a total of $2,592 for cholesterol medication that was unrelated to the claimant's compensable (head) injury.

3. **The Second Injury Fund should review credit balances related to insurance company assessment collections and return overpayments on a timely basis.**

Comments:

The Second Injury Fund sent a form containing a higher assessment rate in error. Insurance companies who failed to notice the error paid more than what was required during the fourth quarter of the fiscal year ended June 30, 2004. As Of June 30, 2004, the Fund had not returned credit balances of $4,750,961 to over 150 reporting companies.

4. **The Second Injury Fund should revoke their current policy and take steps to ensure that claims are substantiated with the appropriate level of backup documentation before making any payments to vendors.**

Comments:

The Second Injury Fund instituted a policy on March 17, 2003, to pay 70 percent of invoices over $4,000 as a partial payment to the providers of medical services while a nurse review was pending. Nurse reviews are performed to determine the validity of the claim and may require the provider to submit additional information to support the claim. The Second Injury Fund paid $24,240 to a provider on behalf of a claimant who received surgical services on August 11, 2003. According to the Fund, the provider failed to submit backup documentation to support $21,072 of these charges, and the Fund must seek to recover this amount.

5. The Second Injury Fund should consider maintaining a record of the status of each citation issued by the investigation unit to be sure payments made for penalties are deposited in a timely manner.

Comments:

During our review of citations issued by the Second Injury Fund's investigation unit we found that the Fund does not maintain a record of the status of citations issued. We found that two citations issued were resolved through negotiations with an Assistant Attorney General (who represented the Fund) instead of the Workers' Compensation Commissioner. Since the Fund was not notified in the usual manner, the collection unit was not aware of one of the penalties. There were two payments held by the Attorney General's Office that were not forwarded to the Fund for deposit in a timely fashion. These delays caused these amounts to be deposited 55 and 14 days late respectively, which is in violation of Section 4-32 of the General Statutes.

6. The Cash Management Division should follow established internal controls to ensure payments are independently verified and accurately recorded in the State's accounting system prior to the processing of an expenditure.

Comments:

The State was billed $31,016 for banking services rendered during October 2003 through December 2003. On April 30, 2004, the Cash Management Division paid this bill with a wire transfer through the electronic funds transfer system. Because established internal control procedures were not followed when making the wire transfer payment, it was not recorded in the State's accounting system. This allowed a second payment in the form of a check to be issued by the Treasury business office on June 2, 2004. Until we brought it to the Treasury's attention, the State's accounting system did not reflect that another payment, in the form of an unauthorized wire transfer, had already been processed. We note that there was no loss to the State, because a stop payment order was placed on the check before it was cashed.

7. The Cash Management Division should comply with existing procedures over cash and ensure that reconciliations of State bank accounts are completed in a timely manner.

Comments:

Treasury procedures call for month-end checking account reconciliations to be completed by the end of the following month. As of February 4, 2004, the payroll checking account was reconciled through September 2003 and the vendor checking account was reconciled through July 2003. Our subsequent review of checking account reconciliations for the month ending June 30, 2004, disclosed that reconciliations for two other checking accounts had not been completed as of September 2004.

8. The Cash Management Division should improve internal control over zero balance accounts to ensure that confirmation letters are sent and reconciliations are reviewed in a timely manner.

Comments:

During our audit of the Cash Management Division, we found that the monthly confirmation requests for zero balance accounts were not mailed to agencies in a timely manner. The confirmations for July 2003 were not mailed until November 18, 2003, or three months late. Other confirmations for the year ended June 30, 2004 were mailed up to four months late. Subsequent to June 30 2004, delays in sending confirmations continued.

9. The Cash Management Division should review and improve procedures over the calculations of, and distributions from the Interest Credit Program to ensure that the participant funds are credited appropriately.

Comments:

During our audit of the Cash Management Division, we found that the State Treasury did not calculate or distribute any interest amounts to funds participating in the Interest Credit Program for the entire fiscal year ended June 30, 2004. We note that distributions in the prior year ended June 30, 2003, totaled $6,763,528. Subsequent to June 30, 2004, the Treasury made attempts to calculate and distribute interest owed to the participant funds; however, our review of these calculations uncovered several errors.

10. The Cash Management Division should resolve outstanding items that originated in prior fiscal years and employ the most efficient manner of bank reconciliation available.

Comments:

We noted that unreconciled outstanding items with dates as far back as July 2002 existed for some bank accounts as of December 2004. Although the Core-CT system has the capability to receive information from the bank electronically and list outstanding transactions, the fully automated bank reconciliation process is not employed by CMD.

11. The Cash Management Division should research all cancelled payroll checks for the period of July 2003 through July 2004 to verify that no duplicate payments occurred.

Comments:

The Treasurer's Cash Management Division did not receive copies of cancelled payroll checks with the check cancellation forms after the implementation of the Core-CT accounting system in July 2003. Our review of checks listed as cancelled in the Core-CT accounting system compared to checks paid disclosed two instances in which checks thought to be cancelled were actually paid.

12. The Pension Fund Management Division of the Treasurer's Office should improve contract management procedures and comply with Section 4-98 of the General Statutes and not agree to payments to vendors until a fully executed contract is in place.

Comments:

One investment manager's contract expired on January 15, 2003, yet the manager continued to manage investments valued at $2,435,153 as of June 30, 2004. The investment manager "recommended," and the Treasury agreed, without a written contract, that the manager should be paid $3,500 per month, retroactive to January 15, 2003. In July and October 2003, $31,250 was taken from the cash-on-hand at the partnership (investment) level. Although it is not unusual that managers be compensated in this manner, compliance with Section 4-98 of the General Statutes is still required.

13. Financial statements should reflect the revenues and expenses of the period for which they are reporting.

Comments:

We found that investment advisor fees paid during the 2004 fiscal year were actually related to services to be rendered during the 2005 fiscal year. The financial statements presented these as expenses of the 2004 fiscal year rather than as pre-paid expenses.

14. The Treasury should realize losses on impaired investment assets in the year in which the losses are apparent.

Comments:

We noted that individual investments of some limited partnerships had declined to near zero while still being valued at cost for financial statement purposes. In other cases, when investment values were written down the loss on investment was posted to unrealized loss when it should have been posted to realized loss.

INDEPENDENT AUDITORS' CERTIFICATION

Financial Statements:

We have audited the statement of net assets of the Combined Investment Funds, as of June 30, 2004, the related statements of operations for the fiscal year then ended and the statement of changes in net assets for the fiscal years ended June 30, 2004, and 2003. We have audited the statement of net assets of the Short Term Investment Fund as of June 30, 2004, and the statement of changes in net assets for the fiscal years ended June 30, 2004, and 2003. Further, we have audited the balance sheet of the Second Injury Fund and the statements of condition of the other Non-Civil List Trust Funds as of June 30, 2004, together with the related statements of revenue and expenditures and statements of changes in fund balance for each and the statement of cash flows for the other Non-Civil List Trust Funds, for the fiscal year ended June 30, 2004. We have also examined the schedules of Civil List Funds investments, the Civil List Funds cash receipts and disbursements and debt outstanding, as of June 30, 2004, and changes in debt outstanding during the fiscal year ended June 30, 2004. These financial statements and schedules, which are presented in the Annual Report of the State Treasurer for the fiscal year ended June 30, 2004, are the responsibility of the management of the State Treasury. Our responsibility is to express an opinion on the financial statements and schedules based on our audit.

We did not audit the financial statements of the Tax Exempt Proceeds Fund or the Connecticut Higher Education Trust. These financial statements were audited by other auditors.

We conducted our audit in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules.

Our procedures included confirmation of securities owned as of June 30, 2004, by correspondence with the custodians. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Combined Investment Funds, Short Term Investment Fund, Second Injury Fund and other Non-Civil List Trust Funds as of June 30, 2004, and the results of their operations, the changes in net assets for the Combined Investment Funds, the Short Term Investment Fund, changes in fund balance for the Second Injury Fund and other Non-Civil List Trust Funds and cash flows for the other Non-Civil List Trust Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the schedules referred to above present fairly, in all material respects the cash and investments of the Civil List Funds as of June 30, 2004, the Civil List Funds cash receipts and disbursements for the fiscal year ended June 30, 2004, the balance of bonds outstanding as of June 30, 2004, and bonds issued, retired and refunded, and bond interest payments made during the year ended on that date, all in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As explained in Note 1B to the financial statements of the Combined Investment Funds, the State Treasurer's policy is to present investments at fair value. The fair value of most of the assets of the Real Estate Fund, the Commercial Mortgage Fund and the Private Investment Fund and the limited partnership investment of the Mutual Fixed Income Fund are estimated by investment advisors in the absence of readily ascertainable market values, and reviewed and adjusted, when appropriate, by the State Treasurer. The fair value of most of the assets of the Real Estate Fund and the Private Investment Fund and the limited partnership investment of the Mutual Fixed Income Fund are presented at the cash adjusted fair values, which utilize the investment advisors' March 31, 2004, quarter ending estimated values adjusted for cash flows of the Funds during the subsequent quarter that affect the value at the Funds' level. Adjustments are made for underlying investments that experienced significant changes in value during the quarter, if deemed appropriate. We have reviewed the investment advisors' values, the relevant cash flows and the procedures used by the State Treasurer in reviewing the estimated values and have read underlying documentation and, in the circumstances, we believe the procedures to be reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the State Treasury is the responsibility of the State Treasury’s management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on whether the financial statements referred to above are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations and contracts. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests did not disclose any instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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

The management of the State Treasurer's Office is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations and contracts applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the State Treasury's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations and contracts, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following finding represents a reportable condition; the need to perform bank reconciliations in a more timely manner.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we do not believe that the reportable condition described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of 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 State Treasurer's Office during the course of our examination.

Thomas W. Willametz
Administrative Auditor

Approved:

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts