

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE TREASURER – DEPARTMENTAL OPERATIONS
FISCAL YEARS ENDED JUNE 30, 2019 AND 2020*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ CLARK C. CHAPIN

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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of the Treasurer for the fiscal years ended June 30, 2019 and 2020. Our audit identified internal control deficiencies, and instances of noncompliance with laws, regulations, and policies, and a need for improvement in practices and procedures that warrant the attention of management. The significant findings and recommendations are presented below:

Page 8	The Office of the Treasurer made numerous errors when recording new assets, which affected the accuracy of reporting and did not comply with several requirements of the State Property Control Manual. The Office of the Treasurer should improve internal controls over asset accountability, and reporting of property and software inventory to ensure compliance with the requirements of the State Property Control Manual. (Recommendation 1.)
Page 10	The Office of the Treasurer did not meet numerous reporting requirements during the audited period. The Office of the Treasurer should strengthen internal controls to ensure compliance with reporting requirements and formally evaluate and document its internal controls annually on the State Comptroller’s internal control questionnaire. (Recommendation 2.)
Page 13	The Office of the Treasurer did not adhere to its internal schedule for the preparation of its annual report and made numerous clerical errors. The Office of the Treasurer should institute procedures to ensure that it prepares and reviews its annual report in a timely manner. (Recommendation 3.)
Page 15	The Office of the Treasurer changed its method of paying management fees without obtaining written approval from the Office of the Comptroller, which affected the official state accounting records. The Office of the Treasurer should obtain written approval from the State Comptroller prior to revising any accounting procedures which affect the official state records. (Recommendation 5.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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CLARK J. CHAPIN

September 30, 2021

AUDITORS' REPORT OFFICE OF THE TREASURER FISCAL YEARS ENDED JUNE 30, 2019 AND 2020

We have audited certain operations of the Office of the Treasurer in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2019 and 2020. The objectives of our audit were to:

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

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

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

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

1. Identified deficiencies in internal controls;
2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Identified a need for improvement in management practices and procedures that we deemed to be reportable.

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

COMMENTS

FOREWORD

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

Officers and Officials

The officers and officials of the Treasury as of June 30, 2020, were as follows:

Shawn T. Wooden, State Treasurer
Darrell V. Hill, Deputy Treasurer
Maria M. Greenslade, Asst. Deputy Treasurer, Second Injury and Unclaimed Property
Laurie Martin, Chief Investment Officer
Steven Meier, Assistant Treasurer, Cash Management
Christine Shaw, Assistant Treasurer, Corporate Governance and Sustainable Investment
Sarah Sanders, Assistant Treasurer, Debt Management
Alex Marcellino, Assistant Treasurer, Management Services

The Investment Advisory Council (IAC) assists the State Treasurer regarding investment policies. The IAC approves any changes to the Investment Policy Statement. It also reviews all

proposed contracts with investment consultants, money managers, custodians, brokers, legal counsel, and other service providers. Membership of the IAC consists of the Secretary of the Office of Policy and Management, the State Treasurer, five members of the public appointed by the Governor and the General Assembly, three representatives of teachers’ unions and two representatives of the state employees’ unions.

Significant Legislation

There was no significant legislation related to Office of the Treasurer’s departmental operations.

RÉSUMÉ OF OPERATIONS

Department Revenues

Departmental revenues include amounts from the Federal and Other Restricted Accounts Fund and the General Fund, which includes unclaimed property receipts. The changes in the Other Restricted Account represent deposits of funds associated with the operating expenses of the Pension Funds Management Division, Short-Term Investment Fund, and the Debt Management Division. For the fiscal year ended June 30, 2018, the Debt Management Division had a significant decrease in bond issuance premiums, which fluctuate from year to year based on activity. A significant portion of General Fund receipts is made up of investment interest. These amounts change based on fluctuations in interest rates and changes in security holdings. Unclaimed property receipts vary from year to year based on the type of escheats received, as well as the value of the escheated stock.

	Fiscal Year Ended June 30,		
	2018	2019	2020
Federal and Other Restricted Account	\$ 177,329,235	\$ 265,158,507	\$ 215,523,041
General Fund – Unclaimed Property	127,088,405	113,275,761	100,724,153
General Fund – All other Receipts	66,034,899	112,601,656	104,412,280
Total Revenues	\$ 370,452,539	\$ 491,035,924	\$ 420,659,474

Section 3-69a of the General Statutes provides for the allocation of a portion of escheat revenues to the Citizens’ Election Fund. Transfer amounts are determined based on the prior year amount, adjusted by changes in the consumer price index. The transfers to the Citizens’ Election Fund totaled \$11,901,953 and \$12,151,894 for the fiscal years ended June 30, 2019 and 2020, respectively. Since its inception, \$207,141,132 has been transferred to the Citizens’ Election Fund. The State Elections Enforcement Commission administers this fund, which grants public financing to participating candidates for state office. Prior to the Citizens’ Election Fund, all unclaimed property funds were deposited into the General Fund. The amounts for the Citizens’ Election Fund, as well as administrative expenses for the Unclaimed Property Program, were deducted from the General Fund – Unclaimed Property amounts noted above. Although amounts are distributed to various funds, the full value of escheated property can always be claimed by the rightful owner. The Office of the Treasurer also receives non-cash (unclaimed) property, including shares of

stocks and mutual funds. The non-cash property is not reflected in the General Fund cash receipts until it is sold. As of June 30, 2019 and 2020, the Treasury estimated the market value of unclaimed securities to be \$1,193,918 and \$9,749,828, respectively. Amounts held as of June 30 vary greatly, depending on market conditions and when securities are received and sold.

The Office of the Treasurer also receives revenue for the Second Injury Fund and the Workers' Compensation Administration Fund (WCAF). The Second Injury Fund's revenues consisted primarily of assessments levied against self-insured employers and companies writing workers' compensation or employers' liability insurance, and totaled \$32,194,194 and \$25,908,729, for the fiscal years ended June 30, 2019 and 2020, respectively. WCAF assessment receipts totaled \$21,038,264 and \$26,037,670, for the fiscal years ended June 30, 2019 and 2020, respectively.

Department Expenditures

General Fund expenditures of the Office of the Treasurer for the fiscal years ended June 30, 2018, 2019, and 2020, are summarized below:

	Fiscal Year Ended June 30,		
	2018	2019	2020
Debt Service	\$2,300,756,828	\$2,578,411,327	\$2,250,073,294
Unclaimed Property Returned to Owners	58,212,157	56,045,918	66,432,531
Purchased & Contractual Services	846,160	585,900	213,470
Personal Services & Employee Benefits	2,671,652	2,770,107	2,755,933
Information Technology	15,453	15,837	22,297
Premises & Property Expenses	20,763	24,292	15,331
Employee Expenses, Allowances & Fees	(109)	11,409	25,983
Purchased Commodities	5,903	16,385	23,763
Motor Vehicle Costs	11,055	11,523	13,580
Capital Outlays - Equipment	5,058	2,101	-
Total Expenditures	\$2,362,544,920	\$2,637,894,799	\$2,319,576,182

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

Federal and Other Restricted Accounts Fund expenditures of the Office of the Treasurer for the fiscal years ended June 30, 2018, 2019, and 2020, are summarized below:

	Fiscal Year Ended June 30,		
	2018	2019	2020
Debt Service	\$ 91,293,903	\$ 95,722,242	\$ 125,750,709
Purchased & Contractual Services	99,874,146	102,581,913	97,484,155
Personal Services & Employee Benefits	16,365,810	17,589,650	17,732,807
Information Technology	218,914	282,297	176,894
Premises & Property Expenses	47,999	54,025	37,534
Employee Expenses, Allowances & Fees	29,020	39,914	38,815
Purchased Commodities	61,584	29,173	77,646
Motor Vehicle Costs	28,185	24,785	20,034
Capital Outlays - Equipment	55,535	14,143	139,551
Other Expenditures	1,673,356	1,855,124	1,427,291
Total Expenditures	\$ 209,648,452	\$ 218,193,266	\$ 242,885,436

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

In addition to the General Fund and Federal and Other Restricted Accounts Fund, there were expenditures from the Transportation Fund, the Capital Equipment Purchases Fund, and the operational expenses of the Connecticut Higher Education Trust and the Clean Water Fund. Total expenditures from these funds for the fiscal years ended June 30, 2019 and 2020, were \$645,442,774 and \$658,142,093, respectively. The majority of these amounts, \$642,034,452 and \$651,088,980, related to debt service payments for transportation bonds.

Unclaimed Property

The administration and disposition of property held by banking and other organizations for the benefit of owners who cannot be located is provided for in Sections 3-56a to 3-74a of the General Statutes. The statutes provide for all escheat cash receipts to be deposited into the General Fund, except for periodic transfers to the Citizens’ Election Fund and a restricted unclaimed property account within the General Fund. The restricted account funds are used to pay the Unclaimed Property Division’s administrative costs. These administrative costs totaled \$6,637,738 and \$6,010,056 for the fiscal years ended June 30, 2019 and 2020, respectively.

Unclaimed property includes unclaimed bank accounts, insurance policies, stock, customer overpayments held by businesses, and various court deposits. A comparison of unclaimed property receipts as presented in the State Treasurer’s Annual Report for the fiscal years ended June 30, 2018, 2019, and 2020, is as follows:

	Fiscal Year Ended June 30,		
	2018	2019	2020
Corporations	\$ 50,862,536	\$ 54,379,164	\$ 62,898,480
Financial Institutions	24,144,558	24,292,973	20,667,842
Insurance Companies	14,340,442	12,118,679	8,459,228
Governmental and Public Agencies	4,053,394	5,437,312	9,267,399
Dividends on Securities Held	175,227	233,288	675,554
Reciprocal Exchange with Other States	1,092,781	1,710,885	1,781,525
Miscellaneous	3,172	29,173	77,646
Securities Tendered	18,392	24,785	20,034
Securities Liquidated	44,034,620	39,588,509	16,723,918
Total Receipts	\$ 138,725,122	\$ 137,783,574	\$ 120,533,241

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

	Fiscal Year Ended June 30,		
	2018	2019	2020
Claim Payments	\$ 58,182,884	\$ 56,005,570	\$ 66,419,686
Transfers to Citizens Election Fund	11,634,363	11,901,953	12,151,894
Salaries and Fringe Benefits	3,584,769	3,921,196	3,694,934
Data Processing and Hardware	1,770,305	2,614,602	2,152,653
All Other	136,104	101,940	162,469
Total Expenditures	\$ 75,308,425	\$ 74,545,261	\$ 84,581,636

Second Injury Fund

The operations of the Second Injury Fund (SIF) are provided by various statutes of the Workers’ Compensation Act, Chapter 568, of the General Statutes (notably Sections 31-310 and 31-349 through 31-355b). These statutes provide protections for employees suffering occupational injuries or diseases and establish criteria determining whether benefits due employees are to be paid by the employers (or their insurance carrier) or from 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 \$31,459,194 and \$25,249,441 for the fiscal years ended June 30, 2019 and 2020, respectively.

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

	Fiscal Year Ended June 30,		
	2018	2019	2020
Settlements	\$ 4,149,334	\$ 5,107,120	\$ 4,698,278
Indemnity Claims Benefits	17,366,090	13,577,433	11,664,740
Medical Claims Benefits	4,648,253	4,194,764	4,222,351
Administrative Expense	7,141,172	7,643,956	7,506,849
Total Expenditures	\$ 33,304,849	\$ 30,523,273	\$ 28,092,218

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of Office of the Treasurer's departmental operations disclosed the following five recommendations, of which two have been repeated from the previous audit:

Deficiencies in Asset Management Controls and Reporting of Software Inventory

Criteria:

Section 4-36 of the General Statutes requires that each state agency establish and maintain inventory records in the form prescribed by the State Comptroller. In addition, the State Property Control Manual provides guidance to state agencies on the requirements and internal controls to be implemented, including capitalization thresholds for personal property and licensed software, use of the Core-CT Asset Management Module, and completing physical inventories. Equipment owned by the state must contain minimum data, such as the asset's description, specific location, method of acquisition, cost, manufacturer's name, purchase order number, and complete expenditure coding.

In addition, the State Property Control Manual requires that each agency maintain a written listing of controllable property that has been approved by the agency head or designee. Such assets must be identified and controlled because of their sensitive, portable, and theft-prone nature. The State Accounting Manual has designated account codes to differentiate purchases of capitalized, controllable, and non-controllable equipment. Agencies must code all expenditures in accordance with the account coding listed in the State Accounting Manual.

The Asset Management/Inventory Report/GAAP Reporting form (CO-59) reports all property and equipment owned by state agencies. The State Property Control Manual provides guidance on completing the CO-59. Amounts reported on the CO-59 report should be accurate and supported by subsidiary records.

Condition:

An examination of the Office of the Treasurer's property control system disclosed the following:

The Office of the Treasurer did not establish a listing of items it considered controllable.

Our review of 20 asset purchases, totaling \$133,171, disclosed the following errors:

- The Office of the Treasurer entered seven purchases, totaling \$109,029, into the inventory records at the wrong cost. Further review found that the office incorrectly reported equipment

additions and deletions of \$794,902 and \$107,589, respectively, on its CO-59 for fiscal year 2019-2020 due to cost disparities. This resulted in a \$563,238 overstatement.

- The Office of the Treasurer miscoded ten purchases, totaling \$10,604, in the Core-CT accounting records. Further analysis of capital asset expenditures during the audited period disclosed that the office incorrectly capitalized \$118,265 in purchases.
- One \$1,036 purchase was entered with the wrong description. Further analysis revealed 29 assets, with costs totaling \$29,165, that were entered with incorrect descriptions.
- We found five controllable items did not have a location recorded in Core-CT.
- The property control records did not contain the minimum data required by the State Property Control Manual for new acquisitions, including the purchase order number, manufacturer name, serial number, an acceptable description, and proper expenditure coding.
- Software inventory was not up to date and did not comply with the requirements prescribed by the State Comptroller. The office did not perform a physical inventory of software records for the fiscal year ended June 30, 2020.

Context:

Total personal property reported for fiscal year 2019 and 2020 was \$1,116,679 and \$1,803,993, respectively. Total assets purchased in fiscal year 2020 was \$125,162.

As of March 2019, software inventory had 74 items with costs totaling \$79,359.

Effect:

Deficiencies in the control over equipment inventory decreases the ability to properly safeguard state assets and accurately report inventory.

Total property reported to the State Comptroller was overstated by \$563,238. This report is used to record the total property owned by the state.

Weak internal control over software tracking and maintenance increases the risk of loss or theft occurring undetected.

Cause:

Internal controls over assets are inadequate. Newly purchased assets were recorded at the incorrect costs, which affected the CO-59.

Additionally, an overall lack of administrative oversight contributed to these conditions.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Office of the Treasurer should improve internal controls over asset accountability and reporting of property and software inventory to ensure compliance with the requirements of the State Property Control Manual. (See Recommendation 1.)

Agency Response: “The Office of the Treasurer (the “OTT”) agrees with the Auditors’ recommendation and has implemented corrective action to enhance internal controls to remain in compliance with recent changes implemented by the State Comptroller’s Office. It is noteworthy that all of the OTT assets were accounted for utilizing our previous inventory control framework. This audit finding is related to the categorization and value recorded for a limited number of assets that were added or deleted from the OTT’s inventory records during FY2020. The OTT provided support for the specific assets purchased and disposed of that led to identifying the incorrect recording of certain assets to each cost center instead of the cost center utilizing the asset. The OTT has reviewed and modified its asset management control process to prevent these isolated errors in categorization and recording of the value for inventory agencywide. The OTT has submitted a revised CO-59 for FY2020 to correct the overstatement of asset values. The revised CO-59 accurately reflects FY2020 equipment additions valued at \$131,830.03 and deletions of \$1,076.40, which results in an ending balance of \$1,238,298.15, and when combined with \$9,124.75 of software the CO-59 year-end total of \$1,247,422.90. The OTT will maintain inventory records in the form prescribed by the State Comptroller. In addition, the OTT has reviewed the State Property Control Manual guidance to enhance our internal controls regarding categorization and capitalization thresholds.”

Missing and Late Reports

Criteria: The Office of the Treasurer is required to comply with numerous reporting requirements set forth by the General Statutes and the Office of the State Comptroller. These reports are due at different times throughout the year. An adequate system of internal controls should include a method for management to track and monitor mandated reports submissions.

The Office of the State Comptroller requires state agencies to annually prepare and submit Generally Accepted Accounting Principles (GAAP) closing packages. Agency submissions contain financial information not available on the state’s Core-CT accounting system. The Office of

the State Comptroller uses this information to prepare the state's financial statements. The State Accounting Manual and the State Comptroller's GAAP closing and reporting instructions stipulate the procedures for completing GAAP reporting forms.

The Office of the State Comptroller requires all agencies to complete an annual internal control questionnaire by June 30th and to keep that assessment on file for audit purposes. The questionnaire contains six sections that are applicable to all state agencies.

Condition:

Our review disclosed that the Office of the Treasurer did not submit the following reports:

- The annual report on the firefighters' cancer relief account as required by Section 7-313k of the General Statutes for calendar years 2019 and 2020.
- The annual report of budgeted agencies as required by Section 4-60 of the General Statutes for the fiscal year ended June 30, 2020.
- GAAP Form 5 – Contractual Obligations for the fiscal years ended June 30, 2019 and 2020.
- The Certificate of Records Disposition for Information Systems Records (Form RC-109) as required by the Office of the Public Records Administrator for calendar years 2020 and 2021.

The office submitted the following reports late:

- The annual evaluation of the Connecticut Higher Education Trust, as required by Section 3-22e(b) of the General Statutes. The office submitted the report 18 months late for the period ending December 31, 2018, and 6 months late for the period ending December 31, 2019.
- The Petty Cash Fund Report, due May 31, 2020, was submitted 52 days late.

Additionally, the Office of the Treasurer did not complete one section of the State Comptroller's Internal Control Questionnaire for the fiscal year ended June 30, 2020, for the Management Services Division. The office did not complete the confirmation of completion sheet and did not sign or date any of the other sections to indicate when they were completed and reviewed.

<i>Context:</i>	The Office of the Treasurer is required to submit 19 different reports. These reports must be submitted annually, semi-annually, monthly, or triennially. As a result, we reviewed 57 reports.
<i>Effect:</i>	Reports that are not submitted as required may deprive the recipients of important information and impede their roles. The state's GAAP basis financial statements may contain misstatements. Internal controls may not have been properly evaluated.
<i>Cause:</i>	The Office of the Treasurer does not have adequate procedures in place for the proper preparation, submission, and tracking of its reports. Lack of administrative oversight also contributed to the conditions.
<i>Prior Audit Finding:</i>	The finding relating to the missing report for the firefighters' cancer relief account, as required by Section 7-313k of the General Statutes, was previously reported in the last audit report covering the fiscal years ended 2017 through 2018.
<i>Recommendation:</i>	The Office of the Treasurer should strengthen internal controls to ensure compliance with reporting requirements and formally evaluate and document its internal controls annually on the State Comptroller's internal controls questionnaire. (See Recommendation 2.)
<i>Agency Response:</i>	"The Office of the Treasurer (the "OTT") agrees with the Auditors' recommendation and has expanded its internal controls to require affirmative timely submission evidence for all reporting and filing requirements to the Agency's compliance officer. The OTT has updated its internal listing of required reports to include those that have not been submitted since 2017 and 2018. The OTT is statutorily required to submit 22 reports annually and a wide variety of reports, forms, certificates, and financial statements to beneficiaries, depositors, information repositories, and state and federal agencies. The OTT will continue to meet its reporting requirements including dedicating the necessary resources to ensure the two reports identified as not submitted and the two identified as submitted late are submitted timely in compliance with general statutes and the State Comptroller's deadlines. In addition, the OTT will continue to meet its report, forms, and certification filing requirements including dedicating the necessary resources to ensure the two identified as not submitted are submitted in compliance with State Comptroller and other agency deadlines."

Annual Report of the State Treasurer

- Background:* The Office of the Treasurer produces an annual report as required by Section 3-37(a) of the Connecticut General Statutes. This comprehensive report provides financial information for the Connecticut Retirement Plans and Trust Funds, Short-Term Investment Fund, Second Injury Fund, Connecticut Higher Education Trust, Civil and Non-Civil List Trust Funds, outstanding debt, as well as many other areas of Treasury operations. It also includes performance and statistical data. Certain sections of the report must be audited, and the Treasury must submit the report to the Governor by December 31st each year. To meet this date, management sets completion deadlines for each section of the report, as well as for the compiled, formatted, comprehensive draft. This occurs in conjunction with the auditors, as part of the terms of the audit engagement, to ensure that the report is compiled, reviewed, and audited in a timely manner.
- Criteria:* Sound business practice suggests that adequate time is provided for the review of report drafts so management can efficiently detect and correct errors.
- Condition:* Our review of the annual report for fiscal year 2020 disclosed that the office did not complete any of the 13 sections within its internal deadlines. The office completed the sections 7 to 73 days late (average of 28 days late).
- The office provided a report with 175 clerical errors. They included incorrectly placed tables and charts, missing amounts from financial statements, and incorrect headings. It took several revisions to correct the key identified errors, delaying the date that the Treasury provided the auditors with the final report.
- Effect:* Although the Office of the Treasurer submitted the report to the Governor on time, there is an increased risk of undetected errors when adequate time is not provided to review draft reports. There is an inefficient use of state resources and time when Treasury staff must review numerous revisions to verify corrections and check for new errors. The Treasury placed undue pressure on the auditors when it did not provide drafts in accordance with agreed-upon deadlines.
- Cause:* Treasury management did not adequately enforce deadlines or review division drafts in a timely manner. In addition, the office did not have a process in place to redline revisions and changes for ease of review.

Prior Audit Finding: This finding has been previously reported in the prior audit report covering the fiscal years ended 2017 through 2018.

Recommendation: The Office of the Treasurer should institute procedures to ensure that it prepares and reviews its annual report in a timely manner. (See Recommendation 3.)

Agency Response: “The Office of the Treasurer (the “OTT”) agrees with the Auditors’ recommendation to enhance our efforts to meet internal deadlines during the preparation, review, and submission of the Annual Report to the State Auditors. The OTT implemented and successfully improved upon the FY2019 Annual Report preparation, review, and submission process particularly given that this year’s FY2020 Annual Report was submitted to the Governor on time and was completed mostly while teleworking to protect health and safety. The OTT disagrees with the characterization included in the “Condition” that inflates the number of “clerical errors” by counting minor nits due to software formatting that resulted in pagination adjustments to tables and charts including images of financial statements appearing, for example, at the beginning of a paragraph as opposed to in the middle of a paragraph. The vast majority of the “clerical errors” identified had no impact on the factual presentation of accurate information regarding the work of the OTT during the fiscal year. The OTT respects the time the Auditors need to accomplish their responsibility and strives to efficiently accomplish this significant reporting requirement in a manner that affords all involved with sufficient time to accomplish their assigned tasks.”

Auditors’ Concluding Comment: Financial statement footnote tables that are mislabeled or appear in the wrong section of the footnotes are not acceptable “software formatting” errors. These types of errors could be misleading or make the footnotes difficult for readers to understand. There were also other errors, including footnote tables with amounts from the wrong fiscal year and many other supporting schedules and charts with incorrect amounts or labeled with the wrong year. Errors of this magnitude, if not corrected, could lead to a modification of the audit opinion.

Inadequate Controls over Compensatory Time

Criteria: Core-CT designates specific compensatory time plans based on bargaining unit contracts and state statutes that govern who is eligible to earn compensatory time. It also sets the expiration period for the use of compensatory time. Enrolling employees in the correct compensatory plan helps to ensure compliance with bargaining unit contracts and state statutes. Treasury policy requires that compensatory time be approved by the employee’s supervisor in advance of earning such time.

- Condition:* Our review of 47 employee compensatory plan enrollments in Core-CT during the audited period disclosed 43 instances in which the agency enrolled employees in the wrong plan. Our review of compensatory time earned by eight employees disclosed 31 instances, totaling 110 hours, in which the office did not maintain documentation of approval.
- Context:* Sixty-three employees were enrolled in compensatory time plans in 2019 and 58 employees in 2020. Eight employees earned 124.50 hours of compensatory time.
- Effect:* Employees could earn compensatory time that is not permitted by bargaining unit contracts if they are not enrolled in the correct compensatory plan. There is an increased risk that employees could improperly earn compensatory time when they have not received prior supervisory approval.
- Cause:* Inadequate controls and lack of supervisory oversight appear to have contributed to the above conditions.
- Prior Audit Finding:* The finding has not been previously reported.
- Recommendation:* The Office of the Treasurer should implement controls to ensure that employees are enrolled in the correct compensatory time plan. The office should ensure that it properly documents compensatory time approvals. (See Recommendation 4.)
- Agency Response:* “The Office of the Treasurer (the “OTT”) agrees with the Auditors’ recommendation and has reviewed internal controls to enhance supervision of compensatory time review and approval. The OTT also agrees that the “potential” exists for employees to earn compensatory time other than what is permitted by bargaining unit contracts, but believes it is important to note that the OTT employees in fact only earned compensatory time that was allowable by their respective collective bargaining unit contracts.”

Unauthorized Change in Accounting Procedures

- Background:* The Pension Fund Management Division contracts with external vendors to provide investment advisory services. These investment advisors manage portfolios within the State Treasurer’s Combined Investment Fund and are paid quarterly based on contractually defined fee schedules.
- Criteria:* Section 3-112 of the Connecticut General Statutes requires that the State Comptroller prescribe the mode of keeping and rendering of all public accounts of state departments or agencies. The State Accounting Manual Accounting Policies and Procedures section states that Core CT

is the official book of record for the State of Connecticut and that agencies must secure the Comptroller's written approval prior to establishing or revising any accounting procedures which in any way affect the official state records.

Condition: Our review of fees paid to investment advisors disclosed that, during the fiscal year ended June 30, 2020, the Pension Fund Management Division changed the way it paid investment advisor fees. The office moved these payments from Core CT to the Combined Investment Fund's master custodian system. This resulted in \$65,534,908 in management fees being omitted from the state's official book of record. The Office of the Treasurer did not obtain the State Comptroller's written approval for this change.

Effect: The Office of the State Comptroller was not aware of this change and was unable to adjust the accounting records for the Comptroller's Annual Report, which is the official statement of the state's financial position.

Cause: The Office of the Treasurer management decided it was not necessary to seek approval to make this change.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Office of the Treasurer should obtain written approval from the State Comptroller prior to revising any accounting procedures which affect the official state records. (See Recommendation 5.)

Agency Response: "The Office of the Treasurer (the "OTT") agrees with the Auditors' recommendation. During FY2020, the OTT changed the process of recording investment advisor fee payments to more accurately match investment performance during the reporting period to be net of fees. As the Sole Fiduciary of the Connecticut Retirement Plans and Trust Funds (the "CRPTF"), the Treasurer is responsible for accurate and timely performance reporting to satisfy the fiduciary duty regarding the monitoring of external investment managers utilized for portfolio management. While Core-CT is the official book of record for the State, the Pension Funds Management Division (the "PFM") and the CRPTF utilize the Bank of New York Mellon as its custodian and official book of record for plan assets, which is the source of information for the CRPTF's performance reporting. During FY2020, prior to changing the process for recording these payments in Core-CT, the OTT communicated with the State Comptroller's Office and the Office of Policy and Management regarding the rationale for the change. During FY2021, we engaged the State Comptroller's Office to design and implement the process to effectively report quarterly vendor payments for these investment advisory services. The process includes the posting

of journal entries to account for these expenses, and a reconciliation to ensure Core-CT accurately and appropriately reflects the total management fees paid by the PFM. We are working with the Comptroller's Office to obtain their written approval for this agreed upon process.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Office of the Treasurer's Departmental Operations contained three recommendations. One has been implemented or otherwise resolved and two have been repeated or restated with modifications during the current audit.

- The Office of the State Treasurer should strengthen internal controls over its contracting process. **This recommendation is not being repeated.**
- The Office of the State Treasurer should comply with the reporting requirements of Section 7-313k of the General Statutes or seek a legislative change to repeal the statute or amend it to reflect the current practice. **This recommendation is being repeated. (See Recommendation 2.)**
- The Office of the State Treasurer should institute procedures to ensure that the annual report is prepared and reviewed in a timely manner. **This recommendation is being repeated. (See Recommendation 3.)**

Current Audit Recommendations:

- 1. The Office of the Treasurer should improve internal controls over asset accountability and reporting of property and software inventory to ensure compliance with the requirements of the State Property Control Manual.**

Comment:

The Office of the Treasurer made numerous errors when recording new assets, which affected the accuracy of reporting. The office did not comply with several requirements of the State Property Control Manual.

- 2. The Office of the Treasurer should strengthen internal controls to ensure compliance with reporting requirements and formally evaluate and document its internal controls annually on the State Comptroller's internal controls questionnaire.**

Comment:

The Office of the Treasurer did not meet several reporting requirements during the audited period.

- 3. The Office of the Treasurer should institute procedures to ensure that it prepares and reviews its annual report in a timely manner.**

Comment:

The Office of the Treasurer did not adhere to its internal schedule for the completion of its annual report and made numerous clerical errors. The late preparation did not provide the agency with adequate time to properly review the report prior to submitting it to the auditors.

- 4. The Office of the Treasurer should implement controls to ensure the employees are enrolled in the correct compensatory time plan. The office should ensure that it properly documents compensatory time approvals.**

Comment:

The Office of the Treasurer enrolled employees in the wrong compensatory plans in Core-CT. Employees did not obtain written approval prior to earning compensatory time.

5. **The Office of the Treasurer should obtain written approval from the State Comptroller prior to revising any accounting procedures that affect the official state records.**

Comment:

The Office of the Treasurer changed its method of paying management fees without obtaining written approval from the Office of the Comptroller, which affected the official state accounting records.

ACKNOWLEDGMENTS

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

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

Matthew Wood
Jaimie Hubeny
Thomas Caruso
David Tarallo

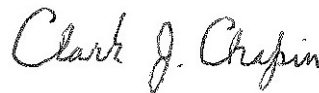


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Principal Auditor

Approved:



John C. Geragosian
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State Auditor