

STATE OF CONNECTICUT



*Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards*

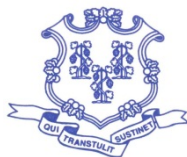
*Office of the Treasurer
for the Fiscal Year Ended June 30, 2021*

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

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

CLARK J. CHAPIN

December 30, 2021

Governor Ned Lamont
Members of the General Assembly
State Treasurer Shawn T. Wooden:

Letter of Transmittal

We have audited the financial statements and certain other information of the Treasurer of the State of Connecticut pertaining to the Combined Investment Funds, Short-Term Investment Fund, Second Injury Fund, Non-Civil List Trust Funds, Civil List Funds, and debt. We have issued our Independent Auditors' Report dated December 30, 2021, which is included within the Treasurer's Annual Report and accompanies the financial statements and related notes to the financial statements. The Treasurer's Annual Report and our audit work were required in accordance with Sections 3-37, and 2-90 (b), of the General Statutes, respectively.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We considered internal control over financial reporting as well as compliance with laws, regulations and other requirements that could have a direct and material effect on the financial statement amounts, in accordance with these standards. We are issuing our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 30, 2021. Also within this report is the State Auditors' Findings and Recommendations, which detail the findings and recommendations for corrective action.

We wish to express our appreciation for the cooperation and courtesies shown to our representatives by the personnel of the Office of the Treasurer during the course of our examination.

A stylized, handwritten signature in black ink.

John C. Geragosian
State Auditor

A handwritten signature in black ink that reads "Clark J. Chapin".

Clark J. Chapin
State Auditor

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Governor Ned Lamont
Members of the General Assembly
State Treasurer Shawn T. Wooden:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Combined Investment Funds, which comprise the statement of net position as of June 30, 2021, the statement of changes in net position for the fiscal year ended June 30, 2021, and the related notes to the financial statements. We have audited the financial statements of the Short-Term Investment Fund, which comprise the statement of net position as of June 30, 2021, the statement of changes in net position for the fiscal year ended June 30, 2021, and the related notes to the financial statements. We have audited the financial statements of the Second Injury Fund, which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses and changes in net position and the statement of cash flows for the fiscal year ended June 30, 2021, and the related notes to the financial statements. We have audited the statement of net position of the other Non-Civil List Trust Funds as of June 30, 2021, together with the related statement of revenue and expenditures, and statement of changes in net position and the statement of cash flows for the other Non-Civil List Trust Funds and the related notes to the financial statements for the fiscal year ended June 30, 2021. We have audited the schedule of Civil List Funds investments and the summary schedule of cash receipts and disbursements of the Civil List Funds for the fiscal year ended June 30, 2021. We have audited the schedule of debt outstanding and the changes in debt outstanding for the fiscal year ended June 30, 2021. This information is included in the State Treasurer's Annual Report for the fiscal year ended June 30, 2021. We have issued our report thereon dated December 30, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Treasurer's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

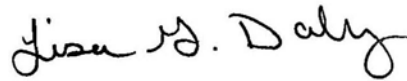
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Treasurer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management in the following State Auditors' Findings and Recommendations. The Office of the Treasurer's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Treasurer's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Treasurer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of the Governor, General Assembly and the State Treasurer; however, this report is a matter of public record and its distribution is not limited.

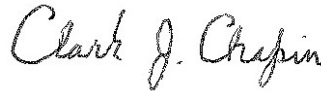


Lisa G. Daly
Administrative Auditor

Approved:



John C. Geragosian
State Auditor



Clark J. Chapin
State Auditor

December 30, 2021
State Capitol
Hartford, Connecticut

State Auditors' Findings and Recommendations

Our examination of the records of the Office of the Treasurer's financial operations disclosed the following recommendation, which has not been repeated from the previous audit:

Short-Term Investment Fund - Investment Policy Statement

Background: The Office of the Treasurer manages the Short-Term Investment Fund (STIF). The fund serves as an investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the state. The fund is not insured by any government or federal agency but has historically maintained one percent of its investable assets in a reserve account to protect against potential losses. The reserve account is funded by investment returns. Due to low interest rates on highly liquid investment opportunities and the desire to increase returns to its investors, the State Treasurer authorized a suspension of contributions to the reserve account in June 2021, until market conditions improved.

Criteria: The Investment Policy Statement (IPS) requires that STIF shall maintain a designated surplus reserve equal to one percent of net investible assets to provide an added layer of security. For any period in which the designated surplus reserve falls below one percent, daily allocations to the designated surplus reserve will be paid from investment returns and will equal, on an annualized basis, one-tenth of one percent of the fund's net investible assets until the reserve equals one percent of net investible assets.

The IPS also states that the Treasurer reserves the right to make changes immediately to respond to market conditions. In such circumstances, revisions to the guidelines must be sent to all STIF investors within two business days of the revision.

Condition: The Office of the Treasurer took action to respond to market changes and suspended contributions to the STIF reserve account on June 24, 2021. However, at the time of our review over four months later, the Office of the Treasurer had not notified investors or modified the IPS to reflect this change.

Context: As of June 30, 2021, the balance in the reserve account was \$82,802,000. The balance required to be at one percent of net investible assets was \$88,482,000. If the Office of the Treasurer had continued to

make the required daily contributions, the account would have accrued an additional \$163,000 through June 30th towards funding the deficit in the reserve account. Daily funding of the reserve would then continue until the reserve was equal to or greater than one percent of net assets at amortized cost.

Effect: The Office of the Treasurer did not comply with its policy of alerting investors to changes in the Investment Policy Statement.

Cause: Management personnel changes may have led to ineffective oversight of compliance with the Investment Policy Statement.

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

Recommendation: The Office of the Treasurer should comply with its Investment Policy Statement by promptly notifying its investors of changes. (See Recommendation 1.)

Agency Response: “The Office of the Treasurer agrees with the Auditors’ recommendation and has reviewed its internal processes to ensure compliance with the Short-Term Investment Fund’s (STIF or Fund) Investment Policy Statement. It is noteworthy that the balance in the STIF fluctuates daily depending on statewide receipts and disbursement. Accordingly, the designated surplus reserve rarely, if ever, equals one percent of net investable assets. As the balance in the STIF fluctuates, the Fund is either in reserve contributing mode or not. Due to the significant decline in yield for allowable investments during the COVID-19 pandemic, the Treasurer temporarily suspended the contribution to the designated surplus reserve to provide state agencies, local governments, and other entities that invest in the Fund with an investment return above zero percent.”

Recommendations

Status of Prior Audit Recommendations:

We presented no recommendations in our Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters for the Fiscal Year Ended June 30, 2020 Office of the Treasurer.

Current Audit Recommendations:

- 1. The Office of the Treasurer should comply with its Investment Policy Statement by promptly notifying its investors of changes.**

Comment:

The Office of the Treasurer took action to respond to market changes and suspended contributions to the STIF reserve account on June 24, 2021. However, at the time of our review, the Office of the Treasurer had not notified investors or modified the IPS to reflect this change.