

# STATE OF CONNECTICUT



*Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements*

*Office of the Treasurer's Financial Operations  
for the Fiscal Year Ended June 30, 2022*

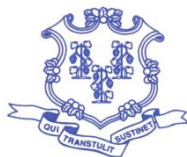
**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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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, 2022

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, 2022, 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 Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements dated December 30, 2022. 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 handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian  
State Auditor

A handwritten signature in black ink, appearing to read "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, 2022, the statement of changes in net position for the fiscal year ended June 30, 2022, 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, 2022, the statement of changes in net position for the fiscal year ended June 30, 2022, 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, 2022, 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, 2022, 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, 2022, 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, 2022. 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, 2022. We have audited the schedule of debt outstanding and the changes in debt outstanding for the fiscal year ended June 30, 2022. This information is included in the State Treasurer's Annual Report for the fiscal year ended June 30, 2022. We have issued our report thereon dated December 30, 2022.

**Report on 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. We identified certain deficiencies in internal control, described in the accompanying State Auditors' Findings and Recommendations as items that we consider to be significant deficiencies.

### **Report on 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*.

### **Office of the Treasurer's Response to Findings**

Government Auditing Standards requires the auditor to perform limited procedures on the Treasurer's response to the findings identified in our audit and described in the accompanying State Auditors' Findings and Recommendations. The Office of the Treasurer's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

**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.

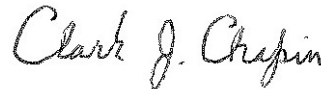


David M. Tarallo  
Administrative Auditor

Approved:



John C. Geragosian  
State Auditor



Clark J. Chapin  
State Auditor

December 30, 2022  
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:

### **Investment Manager Reconciliations**

*Background:* The Office of the Treasurer oversees the investment of the Connecticut Retirement Plans and Trust Funds. The Combined Investment Funds were established to invest pension and trust funds in a variety of investment asset classes. The Office of the Treasurer contracts with a master custodian that is responsible for accounting for the activity of the Combined Investment Funds and with investment managers that are responsible for directing investment activity. The investment managers are required to reconcile their records to the custodian records each month. The reconciliation includes investment values and holdings, income, and other key financial data. The Office of the Treasurer has a procedure in place to review these reconciliations monthly.

On December 1, 2021, the Office of the Treasurer changed master custodians and migrated all custodial records to the new master custodian.

*Criteria:* Sound internal controls and office procedures require the timely review of reconciliations to promptly detect and correct errors. For reconciliations to be effective, they must clearly identify differences. The Treasurer's staff should analyze those differences to determine if any adjustments to the accounting records are necessary.

*Condition:* Our review of investment manager reconciliations found that the Office of the Treasurer did not receive all monthly reconciliations from the new custodian for the fiscal year ended June 30, 2022. No reconciliations were performed for the months of December 2021 through March 2022. During the months of April 2022 through June 2022, the new custodian did not complete 18 of 149 reconciliations.

*Context:* There are 49 fixed and equity fund managers that are responsible for investing approximately 65% of the \$42 billion in net assets of the Combined Investment Funds.

*Effect:* The Office of the Treasurer did not comply with its procedures to promptly review investment manager reconciliations. There is an

increased risk of errors in the financial statements if reconciling items between the custodian and investment managers are not addressed.

*Cause:* The custodian for the pension plans and trusts changed on December 1, 2021. Finalizing internal controls and processes between the new custodian and the pension fund accounting unit took longer than initially anticipated.

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

*Recommendation:* The Office of the Treasurer should strengthen internal controls to ensure that it promptly completes and reviews manager reconciliations. (See Recommendation 1.)

*Agency Response:* “The Office of the Treasurer agrees with the Auditors’ recommendation and is committed to strengthening its internal controls to ensure timely review of investment manager reconciliations.

On December 1, 2021, the Office of the Treasurer changed master custodians and migrated all custodial records to the State Street Bank and Trust Co. (“State Street Bank”) from the Bank of New York Mellon who had served as custodian to the Connecticut Retirement Plans and Trust Funds (“CRPTF”) since 2013. Planning for this complex transition began in the summer of 2021 and continued through implementation on December 1, 2021, at which time the CRPTF transferred approximately \$46 billion of assets, over 20,000 holdings across the 11 asset classes, for the benefit of 15 participating plans and trust.

During the summer of 2021, the Pension Funds Management Division’s staff assigned to the custody conversion experienced significant staff turnover (two employees, representing 50% of the assigned staff, separated from state service). Statewide hiring delays challenged our ability to train both internal staff and State Street Bank employees. As a result, the formalization of the necessary controls and processes with the new custodian caused delays in completing a portion of the investment management reconciliations.

The Office of the Treasurer has worked diligently with State Street Bank to establish the necessary reconciliation processes, and has successfully hired the staff necessary to complete the manager reconciliations in a timely manner.”



## RECOMMENDATIONS

### **Status of Prior Audit Recommendations:**

We presented one recommendation in our Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters for the Fiscal Year Ended June 30, 2021 Office of the State Treasurer, which was resolved.

- The Office of the Treasurer should comply with its Investment Policy Statement by promptly notifying its investors of changes. **This recommendation is not being repeated.**

### **Current Audit Recommendations:**

- 1. The Office of the Treasurer should strengthen internal controls to ensure that it promptly completes and reviews manager reconciliations.**

Comment:

Our review of investment manager reconciliations found that the Office of the Treasurer did not receive all monthly reconciliations from the new custodian of the pension plans and trust fund investments for the fiscal year ended June 30, 2022.