



IAC Audit Committee Meeting - November 14, 2023

Zoom Virtual Meeting



ERICK RUSSELL
TREASURER

State of Connecticut
Office of the Treasurer

SARAH SANDERS
DEPUTY TREASURER

MEMORANDUM

TO: Members of Investment Advisory Council Audit Committee

FROM: Erick Russell, State Treasurer and Council Secretary

DATE: November 9, 2023

SUBJECT: Investment Advisory Council Audit Committee Special Meeting – November 14, 2023

Enclosed is the agenda for the Investment Advisory Council Audit Committee special meeting on Tuesday, November 14, 2023, starting at 11:00 A.M.

The following subjects will be covered at the meeting:

Item 1: Opening Comments by the Chair

Item 2: Executive session

- Discuss the preliminary drafts of the Office of the Treasurer's annual financial statements for the fiscal year ended June 30, 2023

Item 3: Adjournment

We look forward to reviewing these agenda items with you at the November 14th meeting.

Please confirm your attendance with Raymond Tuohey (raymond.tuohey@ct.gov) as soon as possible.

ER/rt

Enclosures

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

CLARK J. CHAPIN

June 28, 2023

Mr. Erick Russell, State Treasurer
Office of the State Treasurer
165 Capitol Avenue
Hartford, CT 06106

Dear Treasurer Russell:

Section 2-90(b) of the General Statutes requires the Auditors of Public Accounts shall annually audit and certify the financial statements contained in the annual reports of the Office of the State Treasurer. These financial statements include those published in the "*Annual Report of the Treasurer*" (Annual Report), and the "*Short-Term Investment Fund (STIF) Annual Comprehensive Financial Report*" (ACFR). We are also responsible for auditing the financial statements of the state and for auditing federal financial assistance under the requirements of the federal Single Audit Act. We are ready to commence an audit of the Office of the State Treasurer – State Financial Operations covering the fiscal year ended June 30, 2023. The purpose of this engagement is to perform procedures in support of our audit of the Office of the State Treasurer's financial statements prepared in accordance with Section 3-37(a) of the General Statutes, our Statewide Single Audit and the related financial statements.

Audit Scope and Objectives

For the Annual Report, we will audit the financial statements of the Combined Investment Funds, which comprise the statement of net position, the statements of changes in net position and the related notes to the financial statements. We will audit the financial statements of the Short-Term Investment Fund, which comprise the statement of net position, including the list of investments, the statements of changes in net position, and the related notes to the financial statements. We will audit the financial statements of the Second Injury Fund, which comprise the statements of net position and the related statements of revenues, expenses and changes in net position and the statements of cash flows, and the related notes to the financial statements. We will audit the accompanying statements of net position of the other Non-Civil List Trust Funds, 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. We will audit the accompanying schedules of Civil List Funds investments

and the summary schedule of cash receipts and disbursements of the Civil List Funds. We will audit the schedule of debt outstanding and the changes in debt outstanding. We will not be auditing the financial statements of the Connecticut Higher Education Trust – Direct Plan, the Connecticut Higher Education Trust – Advisor Plan, or the Achieving a Better Life Experience Trust as these financial statements are audited by an Independent Public Accountant.

For the STIF ACFR, we will audit the financial statements of the Short-Term Investment Fund, which comprise the statement of net position and the statements of changes in net position and related notes.

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), to accompany the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited: management’s discussion and analysis.

We have also been engaged to report on supplementary information other than RSI that accompanies the financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole: the Schedule of Net Position by Investment Fund, Schedules of Changes in Net Position by Investment Fund, Total Net Position Value by Pension Plans and Trust Funds and the Schedules of Investment Activity by Pension Plan and by Trust contained in the supplemental section of the Annual Report; and the list of investments included in the STIF ACFR.

Except as noted in the preceding paragraphs, the following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor’s report will not provide an opinion or any assurance on that other information: the introduction, division operations, supplemental information and the statutory appendix sections of the Annual Report, the introductory, investment and statistical sections of the STIF ACFR. The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and report on the fairness of the supplementary

information referred to above, when considered in relation to the financial statements taken as a whole. Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and other procedures we consider necessary to enable us to express such opinions and to render the required reports.

If during our audit we become aware that the Office of the State Treasurer is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibilities for auditing the state's financial statements and federal financial assistance require adherence to auditing standards generally accepted in the United States of America, known as *Generally Accepted Auditing Standards*. Amongst these standards is Statement on Auditing Standards section 240 (AU-240) *Consideration of Fraud in a Financial Statement Audit*. The objective of AU-240 is to provide additional guidance on the consideration of fraud, including a requirement that auditors make inquiries of management and staff throughout the entity regarding the potential risks for fraud and whether there are controls in place to address the risks. This requirement is driven in part by the reports of fraud specialists, which state that when a fraudulent act was committed, people with knowledge or suspicion of the act would have come forward if someone had asked the proper questions. We have chosen to adopt the standard for our work done under the GAGAS financial and performance audit standards. Accordingly, we ask for your cooperation and support as our representatives perform routine interviews of your employees so that we can fulfill our mandates. Employees of your agency should also be aware that Section 2-90(h) of the General Statutes permits the results of these interviews to be deemed confidential if they contain information alleging fraud or weaknesses in internal control.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal controls, and because we will not perform a detailed examination of all transactions, there is an unavoidable risk that we may not detect some material misstatements or noncompliance, even though we properly planned and performed the audit in accordance with *Generally Accepted*

Auditing Standards (GAAS) and Government Auditing Standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or on major programs. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any subsequent periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. At the conclusion of our audit, we will require you to provide certain written representations about your responsibilities for the financial statements and other matters.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance, internal control related matters that are required to be communicated under AICPA professional standards, and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Office of the State Treasurer's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Responsibilities of Management and Those Charged with Governance

Our audit will be conducted on the basis that management and those charged with governance understand and acknowledge the responsibilities set forth below.

Management is responsible for the preparation and fair presentation of the financial statements and all accompanying information, including required supplementary information, in conformity with accounting principles generally accepted in the United States of America, as well as all representations contained therein. Management is responsible for making all management decisions and performing all management functions relating to the financial statements and for accepting full responsibility for them. Although we may advise management about appropriate accounting principles and their application, the responsibility for the financial statements, including the proper selection and application of accounting principles, remains with management. Management will be required to acknowledge in the management representation letter that management has reviewed and approved the financial statements and related notes prior to their issuance and has accepted responsibility for them.

Management is responsible for designing, implementing, establishing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility includes implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. It also includes implementing appropriate programs and controls to prevent and detect fraud and informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others in which fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Office of the State Treasurer complies with applicable laws, regulations, contracts, agreements, and grants, as well as for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts and grant agreements, or abuse that we report.

You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements and all accompanying information in conformity with U.S. generally accepted accounting principles, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

You further acknowledge and understand that management is responsible for providing us with access to all information which management is aware of that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other information; for the accuracy and completeness of the information provided to us; and for informing us of events occurring or facts discovered subsequent to the date of the financial statements that may affect the financial statements. This responsibility also includes providing us with any additional information that we may request from management for the purpose of the audit, as well as allowing us unrestricted access to agency employees from whom we may determine it is necessary to obtain audit evidence.

Your responsibilities also include adjusting the financial statements to correct material misstatements and confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles (GAAP). You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Additionally, under Section 4-33a of the General Statutes, management is responsible for reporting any unauthorized, illegal, irregular or unsafe handling or expenditure of state or quasi-public agency funds or breakdowns in the safekeeping of any other resources of the state or quasi-public agencies or contemplated action to do the same within their knowledge.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

At the conclusion of our audit, we will require certain written representations from you about the financial statements, compliance with laws, regulations, contracts, and grant agreements, and other responsibilities required by generally accepted auditing standards. You will be formally requested to provide those assurances in the form of a management representation letter.

If management intends to publish or otherwise reproduce the financial statements and make reference to our office, you agree to provide us with printer's proofs or masters for our review and approval before printing. Management also agrees to provide us with a copy of the final reproduced material for our approval before it is distributed. With regard to using the auditor's report, management must obtain our prior written consent to reproduce or use our report in any other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

As in prior audits, it is anticipated that the Annual Report and STIF ACFR will be issued by December 31st. Management agrees to provide us with drafts of the reports in a timely manner, based upon agreed to deadlines. Management also agrees to provide us with the final formatted version of the reports at least two weeks prior to issuance of the audit opinions. Management understands that failure to follow established deadlines may result in delays in our ability to provide the audit opinions.

Engagement Administration and Other Matters

We intend to start audit field work at your department on July 10, 2023. Our supervisory auditor, Matthew Wood (matthew.wood@cga.ct.gov), will be responsible for overseeing that work. It should be noted that the audit team assigned to the audit is stationed at 165 Capitol Avenue year-round in order to enable our office to meet the various audit requirements associated with the Treasurer's office. Accordingly, the team is always available to answer questions or to offer assistance as the need may arise.

We request that you designate an appropriate person from your staff to serve as liaison to our representatives so that pertinent matters are properly communicated between our departments.

You should be aware that Section 2-90 (g) of the General Statutes, the provisions of any other general statute notwithstanding, requires state agencies to make all of their records available to us and our representatives upon demand. All statutory provisions requiring confidentiality of the information in any state records also apply to us. Therefore, we request that you inform our representatives, in writing, of any such statutory provisions requiring confidentiality of any of your department's records. We will take steps to ensure that any confidential information gathered by our representatives is safeguarded from unauthorized disclosure.

The audit documentation for this engagement is considered to be a public record. Pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Auditors of Public Accounts personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by a federal agency. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party or parties contesting the audit finding for guidance prior to destroying the audit documentation.

If our audit report presents findings and recommendations, we will include the audited agency's views on such findings and recommendations. As our representatives complete the assignment, you will be provided, through your liaison, with a draft of any findings that have been developed. You will then have an opportunity to reply either in writing or orally within a reasonable time. Please be aware, however, that upon review by our managers and us, the draft findings may be changed and, possibly, additional findings may be drafted. After our auditors' work has been reviewed and approved, you will have a chance to comment on a final draft of our report and any findings therein. Subject to applicable laws and regulations, our final report is a matter of public record and will be published on our website. Additionally, subject to freedom of information laws, audit documentation created during the engagement will be made available upon request to appropriate auditors and reviewers.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. A copy of our most recent peer review is available upon request.

Reporting

We will issue a written report upon completion of our audit of the Office of the State Treasurer's financial statements. Our report will be addressed to the Governor and members of the General Assembly. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report is for the use of management, legislative and regulatory bodies. The *Government Auditing Standards* report will include a paragraph that the purpose of the report is solely to describe: (1) the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose.

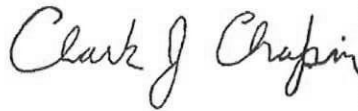
We hope that our audit work will proceed smoothly and without undue disruption of your department's routines. We also hope that employees from our respective departments can resolve any problems or issues that arise. General management oversight for this assignment is the responsibility of our administrative auditor, David Tarallo (david.tarallo@cga.ct.gov), who can be contacted should you have any questions or problems that you wish to discuss with our management.

Please be assured that we are always ready to try to resolve any problem that requires our intervention or to respond to any reasonable request.

Sincerely,



John C. Geragosian
State Auditor



Clark J. Chapin
State Auditor

Response:

This letter correctly sets forth the understanding of the Office of the State Treasurer.

Signed: 

State Treasurer

Signed: 

Deputy State Treasurer

cc: Matthew Wood, Principal Auditor
David Tarallo, Administrative Auditor
Lisa Daly, Deputy State Auditor
Vincent Filippa, Deputy State Auditor
Sarah Sanders, Deputy State Treasurer