



CURTIS E. MEIER, JR.

WYOMING STATE TREASURER

DAWN A. WILLIAMS, DEPUTY STATE TREASURER

MEMORANDUM

TO: Members, Select Committee on Capital Financing & Investments
Members, Joint Appropriations Committee

FROM: Dawn Williams, Deputy State Treasurer

DATE: September 29, 2022

SUBJECT: Operational Audit – Status of Recommendations
LSO Report ID 1477

Pursuant to 2022 Wyoming Session Laws, Chapter 51, Section 2, Section 004, Footnote 3 and 2022 Wyoming Session Laws, Chapter 90, Section 4, the State Treasurer's Office shall identify and track implementation steps taken to respond to the recommendations in the operational audit of the investments and financial accounting within the State Treasurer's Office.

In October 2020, CliftonLarsonAllen (CLA) was engaged by the State Treasurer's Office and the State Loan and Investment Board (SLIB) to perform an Operations Assessment of the Investment and Financial Accounting functions of the State Treasurer's Office (STO). The purpose was to assess the STO Investment and Financial Accounting operations (staffing structure, roles and responsibilities, processes, systems) and to make recommendations for improvement.

CLA determined that SLIB made changes to the investment policy with resulting changes in investment styles and strategies to meet the policy objectives of earning the highest possible risk-adjusted total return, and the changes were not accompanied by appropriate changes in operations and accounting personnel, resulting in a significant accounting breakdown. The problems stemmed from a combination of components: the actions of people, the breakdown in processes and the limitations of systems in place. CLA made recommendations under each of these headings, which are summarized below with STO responses added (❖).

Recommendations - People

1. The STO should hire an Accounting Analyst, a Principal Accountant, and an Auditor.
 - ❖ The legislature added three (3) positions in the 2021 legislative session. The accounting analyst position was filled in March 2021; the principal accountant was filled in December 2021; and the auditor position was filled in May 2022.
2. Financial Accounting management must continuously evaluate potential operating requirements against current staff skills and experience levels.
 - ❖ The investment team and the financial accounting team conduct regular, monthly meetings to determine how/if investment initiatives will affect accounting operations and to ensure compliance in each division.
3. The CIO must be proactive in alerting the Financial Accounting Administrator to potential changes in strategy or investment operations that may increase the Financial Accounting burden.
 - ❖ Not only is this achieved through regular meetings, but the CIO and the Administrator of Financial Accounting routinely communicate to ensure both parties are aware of challenges and issues in each division.



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4. Structural changes in organization and governance as described in the report could have a positive long-term impact on Investment and Financial Accounting operations and efficiency.
 - ❖ The legislature responded to this recommendation by passing House Bill 244 State Investment Administration (HB0244) in the 2021 general session. This bill directed the Investment Funds Committee (IFC) to submit a report with recommendations to the Select Committee on Capital Financing and Investments by November 1, 2021. The IFC completed its report, but the legislature did not take any action on its recommendations in the 2022 legislative session. This matter was placed on the Select Committee on Capital Financing and Investments schedule of interim topics for 2022.

Recommendations – Processes and Systems

1. STO perform a systematic strategic review of IT systems and architecture and develop a master plan for improvements to build a robust and nimble system architecture that can support portfolio objectives.
 - ❖ In May 2021 STO gathered its internal stakeholders and completed a master plan for system architecture.
 - a. Rethink and redesign the purpose and function of existing spreadsheets to take advantage of automation and greatly reduce the number of spreadsheets in use.
 - ❖ After a thorough study of both Clearwater Analytics and Broadridge, STO contracted with Broadridge in December 2021 to provide an investment accounting system upgrade that will modernize and automate a significant number of processes thereby eliminating most spreadsheets. Phase I went live on July 1, 2022. Phase II is in progress.
 - b. Implement an Order Management System (OMS), a best practice that will largely automate the trade execution, settlement, and reconciliation processes.
 - ❖ STO contracted with Bloomberg in February 2022 to implement an OMS. This program went live on August 15, 2022.
 - c. In conjunction with an OMS, implement JPM Chase Middle Office as a Service ("MOaaS"). Chase MOaaS complements an OMS to complete the automation of trade execution, settlement, failure management and trade reconciliation.
 - ❖ CLA representatives misunderstood this functionality. There is no such system available for STO to implement.
 - d. Add data analytics capability. In conjunction with a review of the system architecture, consider the addition of data analytics capability that puts the power to aggregate, analyze and report on data from any source in the hands of the user.
 - ❖ Data analytics are included as a part of the investment accounting software upgrade in Phase III.

CLA went a step further and offered recommendations for organizational framework and governance.

1. STO transition to an organization structure that includes a CSO, a CFO, a COO and a CCO to oversee the Investment and Financial Accounting divisions. The Treasurer effectively serves as the Chairman of the investment organization and the Deputy Treasurer would maintain broad oversight during the transition.



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- ❖ The IFC made similar suggestions in its report to the legislature.
 - ❖ During the 2022 legislative session the Treasurer's Office received a new position for a COO. The Treasurer prepared a job description and submitted it to the Department of Administration and Information Human Resources Division on June 21, 2022 for classification. The Office has not received a response to date, though we regularly inquire as to status. In addition, we have prepared an RFP to employ a firm to assist with recruitment.
2. Establish an instrumentality or other independent legal entity to manage the investment portfolio.
- a. The State Loan and Investment Board would continue to set investment policy. However, to provide effective governance, we recommend establishing a governing board with board responsibilities and committee members who have the experience and authority to oversee:
 - i. Compliance with investment policy and overall investment management,
 - ii. Legal compliance,
 - iii. Trade execution and settlement, operations, and infrastructure,
 - iv. Audit, accounting, asset valuation and reporting, and
 - v. Personnel and compensation policies.
 - ❖ Though the Treasurer does not agree with this recommendation, this recommendation was placed on the Select Committee on Capital Financing and Investments schedule of interim topics for 2022.

Cc: Treasurer Meier
Investment Funds Committee