

STATE OF CONNECTICUT



*AUDITORS' REPORT
STATE COMPTROLLER – STATE RETIREMENT FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008*

AUDITORS OF PUBLIC ACCOUNTS

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December 10, 2010

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We have made an examination of the financial records of the State Retirement Funds including the State Employees' Retirement Fund, the Alternate Retirement Program Fund, the State's Attorneys' Retirement Fund, the General Assembly Pension Fund, the Judges' and Compensation Commissioners' Retirement Fund, the Public Defenders' Retirement Fund, the Probate Judges' and Employees' Retirement Fund, the Municipal Employees' Retirement Funds and the Policemen and Firemen Survivors' Benefit Fund, maintained by the Retirement and Benefit Services Division of the State Comptroller's Office for the fiscal years ended June 30, 2007, and 2008. We have included in that examination the records pertaining to the State's Deferred Compensation Plan as well as those pertaining to the appropriations for the Alternate Retirement System, the Judges' and Compensation Commissioners' Retirement Fund, the various miscellaneous statutory pensions and the State's share of retirement salaries and health insurance costs for retirees. This audit did not include the Teachers' Retirement Fund, as a separate Teachers' Retirement Board administers that fund.

Financial statements pertaining to the operations and activities of the State Retirement Funds for the fiscal years ended June 30, 2007 and 2008 are presented on a Statewide Single Audit basis to include all State agencies and funds. This audit has been limited to assessing the State Comptroller's Retirement and Benefit Services Division's compliance with certain provisions of financial and/or retirement related laws, regulations and contracts, and evaluating the State Comptroller's Retirement and Benefit Services Division's internal control structure policies and procedures established to ensure such compliance.

This report on that examination consists of the Comments, Recommendations and Certification, which follow.

COMMENTS

Foreword:

The Office of the State Comptroller operates primarily under the provisions of Article Fourth, Section 24, of the State Constitution and Title 3, Chapter 34, of the General Statutes. The Retirement and Benefit Services Division of the Office of the State Comptroller is responsible for processing the required actions and maintaining the records and accounts of the various retirement plans administered by the Connecticut State Employees' Retirement Commission. It provides counseling services to members, administers State employee deferred compensation, dependent care assistance, group life and health insurance programs, and manages the State unemployment compensation accounts.

Officers:

During the audited period the officers of the Office of the Comptroller were as follows:

State Comptroller	Nancy S. Wyman
Deputy Comptroller	Mark E. Ojakian

Dr. Thomas Woodruff served as Director of the Retirement and Benefit Services Division (Retirement Division) throughout the audited period.

It should be noted that subsequent to the audited period, effective January 30, 2009, the Office of the State Comptroller was reorganized. As a consequence of that reorganization, the Retirement and Benefit Services Division was separated into a new Healthcare Policy and Benefit Division, with Dr. Thomas Woodruff serving as Director, and a renamed Retirement Division, with Deputy State Comptroller Mark E. Ojakian serving as Interim Division Director.

Significant Legislation:

Public Act 07-211 amended Section 5-163, subsection (a)(1), of the General Statutes, effective October 1, 2007, to increase the age, from 65 to the eligibility age for Social Security retirement benefits, after which a Tier 1 State retiree no longer receives the additional temporary monthly retirement income benefit.

Boards and Commissions:

Connecticut State Employees Retirement Commission:

The Connecticut State Employees Retirement Commission, established under Section 5-155a of the General Statutes, is responsible for the administration of the retirement programs mentioned in this report. In accordance with Section 5-155a, the membership of the Retirement Commission is composed of fifteen trustees, including six trustees representing State employees, six trustees representing State management, two trustees who are professional actuaries, and one neutral trustee who serves as chairman. In addition the State Comptroller, ex officio, serves as nonvoting secretary. All trustees serve for a three-year term, except for the chairman who serves

a two-year term. The Governor makes all appointments except for the employee trustees who are selected by employee bargaining agents. The management and employee trustees make the appointments of the chairman and the actuarial trustee positions.

Members of the Retirement Commission serve without compensation, except that the chairman and the two actuarial trustees are compensated at their normal per diem rate plus travel expenses. All other Retirement Commission members are entitled to reimbursement for necessary expenses incurred in the performance of their official duties. Members of the Retirement Commission as of June 30, 2008, were:

Peter R. Blum, Chairman	
Robert D. Baus, Actuarial Trustee	
Claude Poulin, Actuarial Trustee	
Sandra Fae Brown-Brewton, Management Trustee	Charles W. Casella, Employee Trustee*
Stephen Caliendo, Management Trustee	Thomas P. Culley, Employee Trustee*
Robert D. Coffey, Management Trustee	Paul Fortier, Employee Trustee*
Richard Cosgrove, Management Trustee	Stephen Greatorex, Employee Trustee*
Mary M. Marcial, Management Trustee	Salvatore Luciano, Employee Trustee*
Linda J. Yelmini, Management Trustee	Steven Perruccio, Employee Trustee*

* State Employees' Bargaining Agent Coalition (SEBAC)

Medical Examining Board for State Employee Disability Retirement:

Under Section 5-169 of the General Statutes the Governor shall appoint a board of seven State employee physicians to determine entitlement to disability retirement for members of the State Employees' Retirement System. The members of the Board as of June 30, 2008, were:

Cynthia D. Conrad, M.D, Ph.D.
Kenneth H. Dangman, M.D
Anne H. Flitcraft, M.D.
Virgina E. Hofmann, M.D.
Catherine F. Lewis, M.D.
John D. Meyer, M.D, MPH
Timothy Silvis, M.D.

Dr. Marc S. Croteau also served as a member of the Board during the audited period.

RÉSUMÉ OF OPERATIONS:

State Employees' Retirement Fund:

Title 5, Chapter 66, of the General Statutes, defined as the "State Employees Retirement Act," provided for a retirement system for State employees to be administered by a board of trustees known as the Connecticut State Employees Retirement Commission. The Retirement and Benefit Services Division of the State Comptroller's Office maintains the accounting records pertaining to the operations of the retirement system. In addition, the State Treasurer serves as custodian and investment manager of the funds of the retirement system.

On June 30, 1982, the required legislative action was completed approving the first “Pension Agreement,” a collective bargaining agreement to be effective for the period July 1, 1982, through June 30, 1988, concerning changes to the retirement system for State employees. These changes, most of which took place on October 1, 1982, applied to those collective bargaining units party to the agreement or subsequently accepting it and to those employees excluded from collective bargaining to which the provisions were extended by the Joint Committee on Legislative Management and the Commissioner of Administrative Services. The “Pension Agreement” along with a supplemental agreement, which took effect March 1, 1983, was incorporated into the General Statutes.

Since the enactment of the “Pension Agreement” there has been one arbitration award and various negotiated agreements that have changed the terms of the initial “Pension Agreement”. The State of Connecticut and the State Employees’ Bargaining Agent Coalition have negotiated five separate agreements, known as SEBAC agreements, which have modified the terms of the “Pension Agreement”. The SEBAC I, II, III and IV agreements were enacted and effective prior to the 1996-1997 fiscal year. During the 1996-1997 fiscal year, the SEBAC V pension agreement was enacted, which further modified the “Pension Agreement” and created a new tier entitled Tier IIA, effective July 1, 1997. The SEBAC V pension agreement provides that the State Employees Retirement System shall not be changed through June 30, 2017, unless mutually agreed to by the parties.

As of July 1, 1997, the State Employees’ Retirement System consisted of a three-tier system. Membership in each tier, for the most part, depends upon the employee’s hire date. Membership in the Tier I and Tier II retirement plans is closed to those employees hired after June 30, 1997.

The Tier I plan, effective October 1, 1982, was based on the then existing retirement system provided for in Chapter 66 of the General Statutes. Under Tier I, however, certain provisions of chapter 66 were modified by the pension agreement. Employees working in positions covered by the pension agreement, or who were exempt from the collective bargaining process, were automatically covered under Tier I if they were contributing to the State Employees’ Retirement Fund as of October 1, 1982, or the effective date of the Tier II plan stated in the respective collective bargaining unit agreement, whichever was later. Tier I is a contributory pension plan. As provided for in Section 5-158f of the General Statutes, there are two benefit plans within Tier I, referred to as Plan B and Plan C, to which eligible members could elect to belong. Plan B is integrated with Social Security and pays a lower benefit at age 65 or once Social Security disability benefits are received. Plan C benefits are in addition to those provided by Social Security. Approximately 13 percent of the total work force was covered under the Tier I plan at June 30, 2008.

The retirement benefit for which a Tier I member is eligible is determined by their years of service, age at retirement, average final compensation, plan participation, and the benefit payment option selected. The benefit percentage used for normal retirement (age 55 with at least 25 years of service or age 65 with at least 10 years of service) is two percent multiplied times years of service, times an average salary. Members that have completed at least ten years of service and are between age 55 and 65 may elect to receive an early retirement benefit that is provided at a reduced amount. The benefit percentage used for early retirement ranges from 1.0 to 1.99 percent, based on age and years of service or a reduction of .01 to 1.0 percent times years

of service. Age 70 retirement is allowed with at least five years of service and uses 2.5 percent times years of service to a maximum of 50 percent or two percent per year if over 25 years.

Tier II is a noncontributory plan that provides a single level of benefits to all members, with the exception of hazardous duty members, who must make contributions to the system. Tier IIA is a contributory plan that provides benefits similar to Tier II, but requires contributions. Approximately 45 and 42 percent of the total work force was covered under the Tier II and Tier IIA plans, respectively, at June 30, 2008.

The retirement benefits for Tier II and IIA members are determined by their years of service, age at retirement, average final compensation, a breakpoint calculation and the benefit payment option selected. The benefit percentages and calculation of normal retirement for Tier II and IIA members (age 60 with at least 25 years of vesting service; age 62 with at least 10 but less than 25 years of vesting service; or, age 62 with at least 5 years of actual State service) are the sum of 1.33 percent times average salary plus .5 percent times average salary in excess of the year's breakpoint (\$48,800 for 2008 and increasing by six percent annually) times years of credited service to a maximum of 35 years; plus 1.625 percent times average salary times years of credited service over 35 years. Members that have completed at least ten years of service and have attained age 55 may elect to receive an early retirement benefit that is provided at a reduced amount. The benefit is reduced by .25 percent for each month you receive a retirement benefit prior to your normal retirement or 3 percent per year up to 21 percent.

Retirements effective June 1, 1997 or earlier were eligible for an annual three percent cost-of-living (COLA) increase on their anniversary date. The anniversary date is January 1 or July 1, whichever first follows at least nine full months of retirement. The SEBAC V pension agreement impacted the cost-of-living adjustment. For retirements effective July 1, 1999 and later, the COLA will range from a minimum of two and a half percent to a maximum of six percent based on a formula which utilizes the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the twelve months immediately preceding the retiree's anniversary date. Retirements between July 1, 1997 and June 1, 1999 were eligible to select, irrevocably, either of the two COLA provisions.

Members who work in positions designated as hazardous duty may receive normal retirement benefits with 20 years of service regardless of age. There is no early retirement benefit provided to hazardous duty employees, regardless of tier membership.

Survivor benefits for members of the State Police Division within the Department of Public Safety are provided for in Section 5-146 through 5-150 of the General Statutes. Section 5-146, subsection (a), as amended by the 1989 Pension Agreement and as, subsequently, amended by Public Act 08-64, February 2008 (regular session), provides the surviving spouses of deceased State police officers with a monthly allowance of \$670 payable for the spouse's lifetime with payments to commence upon the death of such State police officer. Provision is also made for a surviving spouse to receive an additional monthly benefit for any unmarried dependent children under the age of 18. Such payments range from \$300 to \$700 per month, depending on the number of children.

The State Employees' Retirement System provides for the retirement coverage of most employees of the State of Connecticut, members of the General Assembly, operators of vending

stands in public buildings, certain teachers employed at the E.O. Smith School, employees of Connecticut Institute for Municipal Studies, and in certain cases, employees of the United States Property and Fiscal Office. Effective January 1, 1993, new employees or reemployed employees of The Newington Childrens' Hospital, The American School for the Deaf and The Connecticut Institute for the Blind are no longer eligible to become members of the System.

Those State employees not participating in the State Employees' Retirement System include Judges, Compensation Commissioners, certain State's Attorneys and Public Defenders, teachers in the Teachers' Retirement System and higher education employees in the Alternate Retirement Program.

Under the provisions of Section 5-156a of the General Statutes, the State Employees' Retirement System is to be funded on an actuarial reserve basis. The General Assembly appropriates annually the amounts necessary to meet this funding plan and such amounts are paid over to the Retirement Fund in equal monthly installments. These payments are not supposed to be reduced or diverted for any purpose until the unfunded liability has been amortized. However, various agreements reached with SEBAC and ratified by the General Assembly have provided for reductions and deferrals in the appropriations needed to meet the funding plan.

The Retirement Commission is required to prepare a valuation of the assets and liabilities of the system at least once every two years. The Retirement Commission is authorized to employ the services of actuaries at least once every two years to prepare such valuations and to determine the annual appropriation of State funds necessary to meet the funding plan outlined in Section 5-156a of the General Statutes. Actuarial valuations of the system were last prepared as of June 30, 2008, with an interim valuation prepared as of June 30, 2007. As a result of these valuations, the unfunded actuarial accrued liability from the most recent valuations follows:

As of June 30,	<u>2006</u>	<u>2007</u>	<u>2008</u>
Unfunded actuarial accrued liability	\$7,878,956,254	\$8,303,094,771	\$9,253,125,542

All assets were valued using the "Actuarial Value of Assets" method, which spreads any gains and losses over a five-year period and makes adjustments, as necessary, so that the final actuarial value is within 20 percent (plus or minus) of the market value.

A comparison of membership information for the State Employees' Retirement System as of June 30, has been presented below:

As of June 30,	<u>2006</u>	<u>2007</u>	<u>2008</u>
Active Members			
Tier I	7,930	7,465	6,865
Tier II	23,918	23,314	22,324
Tier IIA	<u>18,757</u>	<u>21,659</u>	<u>24,007</u>
Total Active Members	50,605	52,438	53,196
Retired Members	36,964	37,420	38,093
Inactive Members (Terminated Vested)	<u>1,732</u>	<u>1,693</u>	<u>1,592</u>
Totals	<u>89,301</u>	<u>91,551</u>	<u>92,881</u>

The four major recurring revenue sources for the State Employees' Retirement Fund are State funding contributions, Federal funding contributions, member contributions and investment income. A comparison of these revenue sources for three fiscal years, along with a non-recurring revenue for the gain on the sale of investments has been provided below:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
State Contributions	\$ 507,264,748	\$ 541,038,351	\$ 548,936,589
Federal Contributions	115,797,984	122,892,384	162,618,685
Employee Contributions	55,234,913	61,794,719	67,389,585
Investment Income	310,758,041	352,709,896	372,298,861
Gain on Sale of Investments	<u>26,543,361</u>	<u>314,468,300</u>	<u>338,560,801</u>
Totals	<u>\$1,015,599,047</u>	<u>\$1,392,903,650</u>	<u>\$1,489,804,521</u>

A summary of the Fund's expenditures for three fiscal years has been presented below. The totals include a comparison of the three major recurring expenditures along with a non-recurring expenditure for the loss on sale of investments.

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Benefit Payments	\$913,030,578	\$951,353,124	\$1,008,131,838
Employer Refunds	5,882,788	5,602,489	5,964,307
Other Expenses	403,382	509,520	558,107
Loss on Sale of Investments	<u>12,506,759</u>	<u>13,862,602</u>	<u>15,027,236</u>
Totals	<u>\$931,823,507</u>	<u>\$971,327,735</u>	<u>\$1,029,681,488</u>

The State Treasurer is the custodian of the Fund's investments. A summary of the market value, the "Actuarial Value of Assets", and rate of return as of June 30, has been presented below. Investments in the State of Connecticut Combined Investment Funds are verified as part of our audit of the State Treasurer. This summary is based on information from actuarial reports on file with the Retirement and Benefit Services Division.

As of June 30	<u>2006</u>	<u>2007</u>	<u>2008</u>
Market Value of Assets	\$8,789,643,845	\$10,041,047,120	\$9,329,175,038
Rate of Return	11.01%	17.11%	(4.80%)
Actuarial Value of Assets*	\$8,951,392,914	\$9,584,970,345	\$9,990,247,212
Rate of Return	8.03%	9.80%	6.76%

*Note: This method spreads the recognition of gains and losses over a five-year period. The resulting value is called the Actuarial Value of Assets and is further adjusted as necessary so that the final actuarial value is within 20 percent (plus or minus) of the market value of assets.

Alternate Retirement Program Fund:

Section 5-155a of the General Statutes empowers the Connecticut State Employees' Retirement Commission to authorize participation in an alternate retirement program for eligible unclassified employees of the constituent units of the State system of higher education. Such program may be underwritten by a licensed life insurance company.

An arbitration award provided that all employees who elect to become members of the Alternate Retirement Program after July 13, 1990, will also be covered by Social Security. Those employees who were members before that date had the option of choosing whether or not they wanted to participate in Social Security. For those employees who chose to be covered by Social Security, their coverage began July 13, 1990.

During the audited period, the Alternate Retirement Program was administered by ING. ING assumed the role of the Third-Party Administrator (TPA) for the program under the terms of a contract, effective January 1, 2006. Under this contract, the employee and the State contributions are forwarded on a biweekly basis to the TPA for transfer to the participant directed investment options offered by the Plan. Retirement benefits are based on contributions, distribution of contributions, length of participation, age and the payment option selected. Payment options include partial or lump-sum withdrawals, systematic withdrawal option, rollover to another eligible retirement plan or IRA, or a combination of various payment and annuity options.

The retirement contribution rate for participants is five percent of salary while the State's share is determined from a schedule in Section 5-156 of the General Statutes. All participant and State contributions are held in a separate retirement fund in the custody of the State Treasurer and are forwarded to the insuring company upon certification from the State Comptroller. Effective July 1, 1985, and thereafter, the State share is fixed at eight percent of salary.

It should be noted that Section 5-156 of the General Statutes provides that expenditures to be forwarded to the insuring company from the Alternate Retirement Program Fund account may exceed the appropriation to such account, if such deficiency is due to anticipated reimbursements to the account and if such reimbursements are anticipated to be made within six months of such expenditures. The transfers of the State share from the General Fund appropriation for that purpose must be made in the month following the employee contribution. We should note that commencing with the fiscal year 2006-2007, the State's share of contributions funded from the General Fund appropriation is paid directly to the insurance company and, therefore, is no longer transferred to and paid from the Alternate Retirement Program Fund.

Contributions from participant employees to the Alternate Retirement Program Fund and the amounts remitted to the insuring company follows:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Contributions - Participants	\$28,668,413	\$30,670,631	\$33,026,556
Contributions - State's Share	22,029,270	-	-
Remitted to insuring company	52,833,095	30,673,191	33,035,833

A cash balance of \$37,946 and \$28,670, as of June 30 2007 and 2008, respectively, represented participant contributions collected, but not yet forwarded to the insuring company.

As previously noted, the State's share of the contributions on behalf of the program was met from appropriations administered by the State Comptroller for the purposes of the Alternate Retirement Program. The State's share of contributions was remitted directly from the General Fund appropriation account to the TPA. Refunds of contributions from the TPA and fringe benefit recoveries to the General Fund were credited against this share resulting in net charges

against the General Fund appropriation account totaling \$20,038,958 and \$17,552,248 for the 2006-2007 and 2007-2008 fiscal years, respectively.

State’s Attorneys’ Retirement Fund:

Sections 51-49, 51-287, and 51-288 of the General Statutes provide a separate retirement plan for State’s Attorneys. Eligibility for membership in this plan is limited under Section 51-287 to, “Each chief state’s attorney, deputy chief state’s attorney and state’s attorney who elected under the provisions of section 51-278 to be included in the provisions of this section...” In accordance with an opinion of the Attorney General, eligibility for participation in the retirement plan is limited to the Chief State’s Attorney, two deputies and to those who were State’s Attorneys and participants in the plan on June 30, 1973, or who were incumbent State’s Attorneys on July 1, 1978, and who were, on June 30, 1973, either Assistant State’s Attorneys, chief prosecuting attorneys or deputy chief prosecuting attorneys. All appointees to these offices who do not meet the eligibility requirements must be members of the State Employees’ Retirement System.

Section 51-278 requires the State Comptroller to deduct five percent of the salaries of member State’s Attorneys as contributions for retirement purposes. These contributions are deposited in a separate trust fund in the custody of the State Treasurer. Contributions can be refunded if any such attorney leaves office before retirement.

The retirement salary for which a member State’s Attorney is eligible is determined by age at retirement, years of service and the salary of the office held at the time of retirement, as such salary may be changed from time to time. The retirement salary, however, cannot exceed two-thirds of the salary of the office. Since the retirement salary is based on six and two-thirds percent of salary for each year of service, the maximum retirement credit is accrued after ten years of service. In the event of disability, a member State’s Attorney may be retired at the maximum retirement salary. In the event of death, the widow of a member State’s Attorney is entitled to one-third of the salary of the office that he held at the time of retirement; as such salary may be changed from time to time.

The aforementioned sections of the General Statutes do not specifically outline the method of financing retirement salary payments to each retired State’s Attorney. Most pension payments have been charged to the General Fund appropriation for “Pensions and Retirements – Other Statutory.” The State’s Attorneys’ Retirement Fund assets were used, if necessary. Charges to the General Fund appropriation account amounted to \$999,382, \$1,032,741 and \$1,092,618 for the 2005-2006, 2006-2007 and 2007-2008 fiscal years, respectively. The State’s Attorneys’ Retirement Fund was charged \$3,110 for pensions paid to retired members during the 2007-2008 fiscal year.

The investments of the State’s Attorneys’ Retirement Fund, which made up most of the assets of the fund, the receipts of the fund, and pensions paid to retired members from the General Fund appropriation account and the Retirement Fund are shown below:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Market Value of Investments, June 30	\$ 771,462	\$ 875,033	\$ 898,001
Receipts	55,730	60,136	66,533
Pensions Paid to Retired Members	999,382	1,032,741	1,095,728

Investments in the State of Connecticut Combined Investment Funds are verified as part of our audit of the State Treasurer. Receipts consisted mainly of employee contributions and investment income. Pensions paid to retired members were mainly financed by the General Fund appropriation for, "Pensions and Retirements – Other Statutory" and, as noted above, the State's Attorneys' Retirement Fund.

General Assembly Pension Fund:

Sections 2-8b to 2-8p of the General Statutes had provided for a voluntary retirement plan for members of the General Assembly. Under Public Act 85-502, effective July 1, 1985, this pension system was abolished and all assets of the Fund were transferred to the State Employees' Retirement Fund, except for those actuarially determined reserves needed to fund those already retired from the General Assembly Pension System. As provided for in Section 2-8r, members of the General Assembly were to be covered under Tier II of the State Employees' Retirement System, unless by December 31, 1990, an election was made by the member to participate in the Tier I plan.

The investments of the General Assembly Pension Fund, which made up most of the assets of the fund and consisted primarily of investments in the State Treasurer's Short Term Investment Fund, the receipts of the fund and pensions paid to retired members were as follows:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Market Value of Investments, June 30	\$ 23,172	\$ 22,192	\$ 20,871
Receipts	1,037	1,235	894
Pensions Paid to Retired Members	2,536	2,215	2,214

Investment balances were verified as a part of our audit of the State Treasurer. Receipts consisted mainly of investment income. The General Assembly Pension Fund financed pensions paid to retired members.

Judges' and Compensation Commissioners' Retirement Fund:

Sections 51-49 through 51-50b, inclusive and Section 51-51 of the General Statutes provide a retirement system for judges, compensation commissioners and family support magistrates. All monies received in connection with the system are to be deposited to the Judges' and Compensation Commissioners' Retirement Fund. Funding for the system is to be provided by contributions from the General Fund and payroll deductions from members' salaries, at a rate of five percent. The Retirement Commission is the administrator of the system while the State Treasurer serves as custodian and investment manager of the fund.

Participation in this system is automatic for all commissioners and judges, except that judges, with ten years of credited service in the State Employees' Retirement System at the time of their initial appointment, may elect to remain in that system, as provided for in Section 5-166a.

Section 51-49d of the General Statutes provides that the Judges' Retirement System be funded on an actuarial reserve basis with actuarial surveys of the system performed at least once every two years and with annual certifications to the General Assembly of funding requirements. Actuarial valuations of the system were prepared as of June 30 2006, June 30, 2007 (interim) and

June 30, 2008. As a result of these valuations, the unfunded actuarial accrued liability as of June 30, 2006, 2007 and 2008, was determined to be \$77,205,261, \$78,823,297 and \$75,297,253, respectively.

The retirement salary for which a member is eligible is determined by age at retirement, years of service and the salary of the office held at retirement. Members become eligible for the normal retirement benefit at age 65, or after 20 years of service. This benefit is equal to two-thirds of the salary of the office, as such salary, including longevity pay, may be changed from time to time or, where applicable, to two-thirds of the member's final compensation.

A reduced retirement benefit is available to those members with ten years of service who do not meet the eligibility requirements for a normal retirement benefit. In the event of disability, members receive the normal retirement benefit. In the event of death, the surviving spouse is entitled to one-third of the salary of the office held at the time of retirement, or, where applicable, one-third of the deceased spouse's final compensation.

The following shows the actuarial value of assets. This value is based on information from actuarial reports on file with the Retirement and Benefit Services Division. It also shows the investments of the Judges' and Compensation Commissioners' Retirement Fund, the receipts of the fund, and pensions paid to retired members, which were derived from the Retirement Division's financial statements that were based on State Treasurer data.

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Actuarial Value of Assets, June 30	\$169,666,234	\$182,392,291	\$191,718,630
Market Value of Investments, June 30	163,758,464	187,347,553	177,237,129
Receipts	19,328,809	22,471,951	35,496,786
Pensions Paid to Retired Members	15,893,207	16,744,840	17,491,018

Investments in the State of Connecticut Combined Investment Funds are verified as part of our audit of the State Treasurer. The asset balances are valued using the Actuarial Valuation of Assets method. This method spreads the recognition of gains and losses over a five-year period and is further adjusted, as necessary, so that the final actuarial value is within 20 percent of the market value of assets. Receipts consisted mainly of General Fund appropriation transfers, investment income, including gain on sale of investments, and employee contributions. Pensions paid to retired members were financed by the Judges' and Compensation Commissioners' Retirement Fund, mainly from transfers from a General Fund appropriation for Judges' and Compensation Commissioners' Retirement Contributions. Charges to the General Fund appropriation account amounted to \$11,730,025 \$12,375,172 and \$13,433,610 for the 2005-2006, 2006-2007 and 2007-2008 fiscal years, respectively.

Public Defenders' Retirement Fund:

Sections 51-49, 51-295 and 51-295a of the General Statutes provide a separate retirement program for each Public Defender incumbent on July 1, 1978, similar to the program for State's Attorneys. In addition, effective July 1, 1986, the Chief Public Defender and the deputy could elect membership in this retirement program. A retirement fund was established to receive contributions from participants at the rate of five percent of salary, including transfers from the State Employees' Retirement Fund for transferred service credit. Retirement salary

determination, eligibility, death benefits and funding arrangements are similar to those previously explained for the State's Attorneys' Retirement Fund.

Public Defenders' Retirement Fund investments in the Treasurer's Short Term Investment Fund, receipts and pensions paid to retired members are shown below:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Market Value of Investments, June 30	\$ 68,312	\$ 161,599	\$ 187,648
Receipts	9,547	93,285	26,676
Pensions Paid to Retired Members	391,508	484,407	526,723

The investment balance was verified as part of our audit of the State Treasurer. Receipts were mainly employee contributions. Pensions were paid to five retirees/beneficiaries for the 2005-2006 fiscal year and to six retirees/beneficiaries for the 2006-2007 and 2007-2008 fiscal years. The pensions were mainly financed by the General Fund appropriation for "Pensions and Retirements – Other Statutory." Charges to the General Fund appropriation account amounted to \$391,508, \$484,407 and \$526,098 for the 2005-2006, 2006-2007 and 2007-2008 fiscal years, respectively. The Public Defenders' Retirement Fund was charged \$625 for pensions paid to retired members during the 2007-2008 fiscal year.

Probate Judges' and Employees' Retirement Fund:

Sections 45a-34 through 45a-56 of the General Statutes provide for a retirement system for Probate Court judges and employees to be administered by the Retirement Commission. Section 45a-35 established a Probate Judges' and Employees' Retirement Fund to account for retirement contributions from members of the system as well as the amounts transferred from the Probate Court Administration Fund and to finance the benefits, allowances and other payments required under the system.

As provided in Section 45a-49 all contributions required under the system are to be transmitted by the Retirement Commission to the State Treasurer who shall be Custodian of the Retirement Fund with power to invest as much of the Fund as is not required for current disbursements. Sections 45a-44 and 45a-45 require members of the retirement system to make contributions equal to one percent of their earnings on which Social Security taxes are paid through the Retirement Commission and three and three-quarters percent of earnings in excess of that, while for those not under such Social Security coverage, retirement contributions are three and three-quarters percent of earnings.

Section 45a-82 of the General Statutes requires that on or before July first annually the Retirement Commission shall certify to the State Treasurer, on the basis of an actuarial determination, the amount to be transferred to the Retirement Fund to maintain the actuarial plan adopted by the Retirement Commission. Payments of these actuarially determined funding amounts are made from the Probate Court Administration Fund. Actuarial valuations of the system were prepared as of December 31, 2006, 2007, and 2008. As a result of these valuations, it was determined that there was no unfunded actuarial accrued liability as of December 31, 2006, 2007 and 2008.

The retirement salary for which a member is eligible is determined from Social Security coverage, if any, the retirement date, the years of service, and the average final compensation, in accordance with the provisions of the aforementioned sections of the General Statutes. No retirement salary, however, including Social Security benefits, can exceed 80 percent of the member's average final compensation for judges or 100 percent for employees, and no retirement salary can be less than \$360 annually.

The following shows the actuarial value of assets. This value is based on information from actuarial reports on file with the Retirement and Benefit Services Division. It also shows the investments of the Probate Judges' and Employees' Retirement Fund, which made up most of the assets of the fund, the receipts of the fund, and pensions paid to retired members, which were derived from the Retirement Division's financial statements that were based on State Treasurer data.

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Actuarial Value of Assets, Dec. 31	\$82,006,897	\$86,325,073	\$78,212,689
Market Value of Investments, June 30	77,321,233	87,647,410	81,448,818
Receipts	5,231,615	8,912,266	14,031,191
Pensions Paid to Retired Members	2,613,472	2,766,347	2,965,373
Health Services Costs Paid Through Fund	2,227,629	2,492,212	2,788,772

The asset balances are valued using the Actuarial Valuation of Assets method. This method spreads the recognition of gains and losses over a three-year period and is further adjusted, as necessary, so that the final actuarial value is within 20 percent of the market value of assets. Investments in the State of Connecticut Combined Investment Funds are verified as part of our audit of the State Treasurer. Receipts consisted mainly of investment income, including gain on sale of investments, operating transfers from the Probate Court Administration fund, mainly for health service costs, and employee contributions. Pensions paid to retired members were financed by the Probate Judges' and Employees' Retirement Fund.

Municipal Employees' Retirement Fund:

The Connecticut Municipal Employees' Retirement System, which is administered by the Connecticut State Employees' Retirement Commission, operates generally, under the provisions of Sections 7-425 through 7-450a of the General Statutes.

The Municipal Employees' Retirement System is composed of a Retirement Fund and an Administration Fund. As of June 30, 2008, municipalities and housing authorities with 8,805 enrolled active employees were participants. As of that date, benefits were being paid to 5,455 retired employees or to their survivors. This represented net increases of 300 active participants and 343 benefit recipients during the audited period.

Any municipality may, by resolution passed by its legislative body and subject to referendum, participate in the System. The effective date of participation shall be at least 90 days subsequent to the receipt by the Retirement Commission of a certified copy of the resolution. Participation may also be effected through an agreement between a municipality and an employee bargaining organization. If so, Section 7-474, subsection (f), of the General Statutes, provides that the effective date of participation shall be the first day of the third month

following the month in which a certified copy of the agreement is received by the Retirement Commission, or such later date as may be specified in the agreement. Under Section 7-427, eligible employees of housing authorities who were not already enrolled in Fund B were required to become members thereof on July 1, 1972, unless the board of commissioners of the authority voted against such participation.

Section 7-441 of the General Statutes, which prescribes the various contributions required of participating municipalities, provides that each municipality must pay to the Retirement Commission an annual proportionate share of the Fund's administrative costs, as determined by the Retirement Commission on the basis of the number of members employed by each municipality. The participating municipalities were required to contribute \$75 and \$90 per member per year for such administrative expenses for the fiscal years ended June 30, 2007 and 2008, respectively. These moneys were deposited to the Administrative Fund, which was established to account for all administrative contributions and expenditures.

The retirement salary for which a member is eligible is determined by the years of service and average final compensation over the three highest paid years of service. Members become eligible for retirement after completing 25 years of aggregate service in a participating municipality. Or by attaining the age of 55 and completing 5 years of continuous service, or 15 years of active aggregate service in a participating municipality. Provisions exist for disability retirements and death benefits.

Employee contribution rates are set by Section 7-440 of the General Statutes. Each employee contributes two and one quarter percent of the portion of salary for which Social Security contributions are to be deducted and five percent of the portion for which such contributions are not to be deducted. Municipal contribution rates are set by the Retirement Commission based on actuarial valuations, which, under the provisions of Section 7-443, are required at least every five years. Actuarial valuations have been performed on an annual basis starting with the July 1, 1992, report. Actuarial valuations of the system were prepared as of June 30 of each year and were as follows:

As of June 30,	<u>2006</u>	<u>2007</u>	<u>2008</u>
Unfunded actuarial accrued liability	\$(38,170,164)	\$(60,654,212)	\$(57,257,314)

Despite the negative unfunded actuarial accrued liability, contribution rates to the Municipal Employees' Retirement System have been increased to compensate for the expected impact of asset losses on future valuations that will result from the normal application of the smoothing method used to develop the actuarial value of assets.

The rates shown below, effective July 1, were based on the results of the actuarial valuations performed for the preceding periods. These rates represent the percentage of salaries that municipalities must contribute and are presented in the chart below:

Effective Date July 1,	<u>2006</u>	<u>2007</u>	<u>2008</u>
Policemen and firefighters with Social Security	8.00%	8.00%	8.25%
General employees with Social Security	6.75%	7.00%	7.00%
Policemen and firefighters without Social Security	7.75%	8.00%	8.25%
General employees without Social Security	7.00%	7.00%	7.00%

Section 7-439b of the General Statutes provides for annual cost-of-living increases for each retired member or surviving annuitant of a retired member receiving regular benefit payments. Cost of living increases are determined by the member's date of retirement and age at retirement.

The following shows the actuarial value of assets. This value is based on information from actuarial reports on file with the Retirement Division. It also shows the investments of the Municipal Employees' Retirement System, which made up most of the assets of the fund, the receipts of the fund, and pensions paid to retired members, which were derived from the Retirement Division's financial statements that were based on State Treasurer data.

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Actuarial Value of Assets, June 30	\$1,587,659,815	\$1,700,682,361	\$1,779,098,599
Market Value of Investments, June 30	1,501,120,450	1,717,314,131	1,627,636,799
Receipts	99,169,879	131,316,074	256,925,455
Pensions Paid to Retired Members	73,994,846	78,891,714	83,497,548

Investments in the State of Connecticut Combined Investment Funds are verified as part of our audit of the State Treasurer. The actuarial value of assets was determined on a market related basis. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and assumed investment income were phased in over a closed five-year period. Receipts consisted mainly of investment income and employee and municipal contributions. Pensions paid to retired members were financed by the Municipal Employees' Retirement Fund.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund operates, generally, under the provisions of Sections 7-323a through 7-323i of the General Statutes. The primary objective of the Fund is to provide benefits for surviving dependents of deceased municipal policemen and firefighters. Any municipality may, by ordinance or collective bargaining agreement approved by its legislative body, participate in the plan. Employee contribution rates are fixed by statute at one percent of the employee's compensation. Municipal contributions, however, are made in amounts determined by the Retirement Commission to be necessary to maintain the Fund on a sound actuarial basis.

Section 7-323c, subsection (d), of the General Statutes requires that municipalities annually pay a proportionate share of the costs of the administration of the Fund as determined by the Commission. The administrative fee for the fund was \$30 and \$40 per member for the fiscal years ended June 30, 2007 and 2008, respectively. Revenues collected through this assessment have been deposited to the Administration Fund of the Municipal Employees' Retirement System as its employees have the responsibility of overseeing the operations of the Policemen and Firemen Survivors' Benefit Fund.

There were 573 and 588 active employees from nine municipalities participating in the plan as of June 30, 2007 and 2008, respectively.

The following shows the actuarial value of assets, assets in excess of net actuarial liabilities, contributions, interest income and benefit payments. These values are based on information

from available actuarial reports on file with the Retirement and Benefit Services Division. Also shown are the investments of the Police and Firemen Survivors' Benefit Fund, which made up most of the assets of the Fund, the receipts of the Fund, and disbursements for pensions paid to surviving dependents, which were derived from the Retirement Division's financial statements that were based on State Treasurer data.

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Actuarial Value of Assets, June 30	\$22,260,223	\$23,312,682	\$24,009,192
Market Value of Investments, June 30	19,634,650	21,581,479	20,601,465
Receipts	1,071,714	1,203,685	1,286,754
Pensions Paid to Surviving Dependents	756,947	792,341	828,866

Investments in the State of Connecticut Combined Investment Funds are verified as part of our audit of the State Treasurer. Contributions are transferred to the State Treasurer for investment. Disbursements for benefit payments are processed in the Policemen and Firemen Survivors' Benefit Fund through the Municipal Employees' Retirement Fund system. The actuarial valuation prepared as of June 30, 2007, resulted in municipal contribution rates of zero percent of each municipality's active covered payroll, with the exception of the New Britain Police Department, which was assessed a rate of .22 percent as of July 1, 2007. However, the actuarial valuation prepared as of June 30, 2008, resulted in municipal contribution rates of zero percent of each municipality's active covered payroll. As previously mentioned in this report, employee contribution rates are fixed by statute at one percent of the employee's compensation. Administrative assessments are collected from the participating municipalities and are deposited to the Administrative Fund of the Municipal Employees' Retirement System.

Pensions and Retirements – Other Statutory:

Sections 3-2a, 6-2b and 11-10a of the General Statutes and various special acts authorize pensions and retirements to former governors and their spouses, certain former county employees and law librarians, and various individuals. These pensions and retirements are paid from a special appropriation of the General Fund entitled "Pensions and Retirements – Other Statutory." In addition, this account is used to fund that portion of the retirement benefits paid to retired members of the State's Attorneys' and Public Defenders' Retirement Funds that is not funded by those Retirement Funds. Expenditures for State's Attorneys' and Public Defenders' Retirement Funds were disclosed previously. The remaining expenditures for other statutory charges during the 2005-2006, 2006-2007 and 2007-2008 fiscal years, from the above special appropriation account, amounted to \$183,966, \$183,298 and \$159,546, respectively, and were made for that portion related to the above statutes.

Deferred Compensation:

In addition to the retirement programs already noted in this report, Section 5-264a of the General Statutes authorizes the Office of the Comptroller, through a third party administrator, to offer to the State of Connecticut employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Service Code. This plan permits all permanent employees, including elected and appointed officials and members of the General Assembly, to defer a portion of their salary until future years. Effective January 1, 2006, a political subdivision of the State may participate in the plan in accordance with Section 5-264a (g) of the

General Statutes. This deferred compensation is not available to employees until retirement, termination of employment, disability, unforeseeable emergency or death.

During the prior audited period, the Office of the State Comptroller revised the deferred compensation program by contracting with a single administrator selected by a competitive process. This was intended to reduce fees and provide an improved level of services to participants. In February 2005, ING Financial Advisors, LLC (ING) was selected as the third party administrator of the State's deferred compensation program. Per reports prepared by ING, the market value of assets held in the deferred compensation program were \$1,524,469,501 and \$1,553,652,821 as of the fiscal years ended June 30, 2007 and 2008, respectively.

General and Special Transportation Funds Appropriations:

The General and Special Transportation Funds also include appropriations and expenditures for the pension and retirement programs of the State. A summary of the net expenditures of the General and Special Transportation Funds follows:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
General Fund:	\$	\$	\$
Alternate Retirement System:			
State share of contributions	27,204,058	20,038,958	17,552,248
State Employees' Retirement System:			
State share of retirement funding	447,209,748	477,219,351	481,808,264
Pensions and Retirements-Other Statutory:			
State share of costs:			
State's Attorneys' Retirement System	999,382	1,032,740	1,092,618
Public Defenders' Retirement System	391,508	484,407	526,098
Pension payments – miscellaneous (A)	183,966	183,298	159,546
Judges' and Compensation			
Commissioners' Retirement Fund:			
State share of retirement funding	11,730,025	12,375,172	13,433,610
Retired State Employees'			
Health Service Costs:			
State share of costs	390,383,106	415,389,420	450,407,166
Special Transportation Fund:			
State Employees' Retirement System:			
State share of retirement funding	<u>60,055,000</u>	<u>63,819,000</u>	<u>67,058,000</u>
Total Expenditures	<u>\$938,156,793</u>	<u>\$990,542,346</u>	<u>\$1,032,037,550</u>

(A) Includes payments to former governors or widows, county employees, law librarians and individuals whose pensions are authorized by special act.

Retired State Employees' Health Service Costs:

For retirements before July 1, 1997, the State pays 100 percent of the health insurance premiums for each retired employee receiving benefits from a State-sponsored retirement system except those retirees under the Municipal Employees' Retirement System and the Teachers' Retirement System. This coverage includes the payment of 100 percent of health coverage

provided through the State Comptroller or in conjunction with Federal medical benefits provided under the Medicare Part B Program. Members retiring on or after July 1, 1997, may be required to assume a share of the premium cost depending on the plan selected. As of June 30, 2008, there were 37,865 retired State employees receiving health care benefits.

During the 2005-2006, 2006-2007 and 2007-2008 fiscal years appropriations and transfers of \$399,265,000 \$436,409,000 and \$450,430,000, respectively, were made to cover the State's share of health insurance costs for those eligible retirees mentioned previously. A summary of the total expended for this purpose follows:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Anthem Blue Cross/Blue Shield	\$181,159,548	\$200,077,113	\$212,724,658
Health Net	31,569,599	32,417,718	33,461,656
Medicare Part B	28,301,734	16,795,814	18,573,853
Oxford Health Plans	2,380,410	2,686,930	2,981,607
PharmaCare Management Services	144,542,813	160,916,400	179,834,649
United Healthcare Dental	2,278,018	2,322,579	2,623,724
Aetna Dental	150,984	172,865	207,019
Total	<u>\$390,383,106</u>	<u>\$415,389,419</u>	<u>\$450,407,166</u>

The increases in expenditures during the audited period were due to increases in negotiated premiums and an increase in the number of covered retirees. PharmaCare Management Services provides prescription drug coverage for all health plans.

The State has funded the health insurance benefits for retired employees as those costs were incurred, the State did not establish any reserve to provide support for future years. The implementation of Governmental Accounting Standards Board Statement No. 45, (GASB 45) in the 2007-2008 fiscal year required the State to calculate and record an actuarial accrued liability for the future health care benefits of retired employees.

Addressing this issue in May 2008, the State created two defined benefit Other Post-Employment Benefit (OPEB) plans: the State Employees OPEB Plan (SEOPEBP) and the Retired Teachers Healthcare Plan (RTHP), which is administered by the Teachers' Retirement Board. The SEOPEBP is administered by the State Comptroller and is a single-employer defined benefit OPEB plan that covers retired employees of the State who are receiving benefits from any State-sponsored retirement system, except the Teachers' Retirement System and the Municipal Employees' Retirement System. The SEOPEBP provides healthcare and life insurance benefits to eligible retirees and their spouses. The State funds the costs of providing post-retirement health care benefits for persons covered under the SEOPEBP as those costs are incurred through an annual appropriation from the General Fund.

During May 2009, the SEBAC V pension agreement was modified to require an employee with less than ten years of actual State service to have a total of 75 years in a combination of age and actual State service to be eligible for health insurance as a retired State employee. It is also provided that any employee that directly transitions from employment to retirement on or after July 1, 2009, with a minimum of ten years of actual State service, or is age 52 years or older as of July 1, 2009, shall be entitled to health insurance as a retired State employee. Employees that terminate State service and do not immediately begin to receive pension benefits are entitled to the same health insurance benefits as active employees as active employees receive at the time

they begin to receive pension payments. Employees that receive a work related disability retirement benefit are still entitled health insurance regardless of the number of years of State service they may have. The revised SEBAC agreement also establishes a three tier formulary for prescription drugs with revised copayments for those employees who retire subsequent to July 1, 2009.

The modified SEBAC agreement also made changes to require all new health care eligible employees, during their first ten years of employment, contribute three percent of their salaries to a fund for the purpose. It requires any health care eligible employee with less than five years of service to contribute three percent of their salary until they have reached ten years of employment. The State and SEBAC have agreed to establish a trust fund to allow for the pre-tax contributions toward retiree healthcare. Contributions made to the fund would be refundable to those employees leaving State employment prior to completing ten years of service. The modified SEBAC agreement also states such contributions made prior to July 1, 2013 shall be made available to reduce budgeted General Fund payments for retiree health care. It also allows the State sole discretion in providing health care benefits on an insured or self insured basis.

As noted above, the State must provide an actuarial valuation of the OPEB liability. In February 2009, a preliminary report of an actuarial valuation of the SEOPEBP, as of June 30, 2008, projected the OPEB actuarial accrued liability for post-retirement health care benefits to be \$23.7 billion. As an initial contribution toward this liability, \$10,000,000 was transferred from 2006-2007 fiscal year General Fund surplus appropriations to the Other Post Employment Benefits Fund during the 2007-2008 fiscal year.

CONDITION OF RECORDS

During our review of the financial records of the State Retirement Funds, as kept by the Retirement and Benefit Services Division of the State Comptroller's Office, we found areas warranting comment. These areas are described below:

State Employees' Retirement Fund

Finalizing Retirement Payrolls:

Criteria: The process of finalizing retirement applications should be done in a timely manner. Section 5-156e of the Connecticut General Statutes requires that the Retirement and Benefit Services Division must pay five percent interest per year on any lump sum amount owed to the retiree at the time of finalization that has not been paid within six months. Interest does not start accruing until after the first six months.

Condition: As a result of the Early Retirement Incentive Program (ERIP) granted in 2003, a significant backlog of retirement applications not yet finalized was created. Prior to the 2003 ERIP, a backlog averaging approximately 1,200 applications existed. At June 30, 2003, a backlog of approximately 5,900 applications was on file. The number was reduced to approximately 5,600 as of June 30, 2006, but has shown no further improvement with approximately 6,340 and 6,585 listed on file as of June 30, 2007 and 2008, respectively.

We should also note that Special Act 09-6, approved in May 2009, created a new Retirement Incentive Program (RIP), which with few exceptions, was effective on June 1, 2009, or July 1, 2009. At June 30, 2009, the backlog of applications pending finalization had increased to approximately 7,200. The Retirement Division calculated that an additional 3,654 retirement applications were received that were directly related to the RIP, which significantly increased the backlog of applications pending finalization. At the time of our current review (May 2010), there were approximately 10,600 applications on file pending finalization.

Effect: Retirees are not receiving their finalized benefit in a timely manner. The retirement fund must pay interest on the difference between estimated benefit amounts and the actual amount owed at the time of finalization for any period of time after the first six months.

Cause: The Retirement Division experienced a significant increase in the number of applications pending finalization due to the 2003 ERIP, which it has not been able to eliminate with the continual addition

of new retirements. Also, the impact of the State's implementation of the 2009 RIP has been to further exacerbate the existing backlog of applications awaiting finalization. The Division lacks the resources necessary that would allow it to make any significant near-term reduction in the number of applications pending finalization.

Our previous audit also noted a number of causes that made it more difficult for Division staff to promptly complete retirement finalizations, among them the various complexities arising from the pension agreement and other collective bargaining agreements, particularly the retroactive provisions of such agreements and verifying compliance with the "130 percent cap" provision governing an employee's retirement base salary.

The Retirement Division has made efforts to address the condition. It established an ad-hoc labor and management subcommittee to review the final audit process seeking efficiencies. In March 2007, the Division retained contract consultants to assist in the automation of retirement benefits calculations. A spreadsheet has been designed and implemented to facilitate that automation and its use has significantly improved productivity. On two separate occasions, in July 2007 and February 2008, the Division's administration requested and received authorization from the State Employees Retirement Commission to use \$80,000 from the State Employees' Retirement Fund to pay the costs of the overtime worked by the Retirement Division's staff to reduce the backlog of applications. In addition, the Division requested and received approval from the Office of Policy and Management to increase the number of staff in the audit unit. However, we note that the number of new retirement applications has continued to increase, outpacing the improvements.

Conclusion:

In our prior audit, we recommended that the Retirement Division should continue its efforts to reduce the backlog of retirement applications awaiting finalization. It is our opinion that the Retirement Division has complied with our prior audit recommendation. It appears that the Division has maximized its use of all available resources in its efforts to address the identified condition.

Lack of Formal, Comprehensive Written Policies and Procedures:

Criteria:

Proper internal control dictates that formal written policies and procedures should be established, maintained and disseminated to provide guidance to employees in the performance of their assigned duties.

The responsibility of designing and implementing internal controls is a continuous process. As conditions change, management must anticipate that certain procedures will become outdated, inadequate and/or obsolete, and that it will become necessary to modify its internal controls in response.

Condition: The Retirement Services Division lacks current formal, comprehensive written policies and procedures manuals for its various operating units. Previously, the Retirement Division prepared and maintained formal, comprehensive written manuals to standardize and document the activities and procedures of the various units within the Division. These manuals were prepared to ensure effective internal control over each unit's activities, and to serve as both a point of reference and as a basis for training the members assigned to each of the various units. Some examples of the manuals that we found were previously maintained but which have not been recently updated include the "Working Procedures Manual for the Alternate Retirement Program", the "Contributions Accounting Trial Balance Procedure" manual, the "Retirement Division-Payroll Unit – Working Procedures Manual" and the "Purchasing Operating Manual". Although the various units within the Division have experienced significant changes, including changes in organizational structure and changes to the information processing activities and procedures, some of which were related to the implementation of the Core-CT system, the Division has not updated its formal, comprehensive activities and procedures manuals to reflect these changes. Although we found that the Division has documented some of the changes that have occurred in the activities and procedures for some of its operating units, we found that the documentation appears to be maintained in an informal and fragmented manner.

Effect: The ability to train staff, as well as the effectiveness and efficiency of the functions within the various units of the Office's Retirement Services Division may be diminished.

Cause: The updating and maintenance of formal, comprehensive written policies and procedures manuals for the various units has not been designated as a high priority.

Recommendation: The State Comptroller's Retirement Services Division should take the necessary steps to improve its internal controls by establishing, updating and maintaining formal, comprehensive written polices and procedures manuals for all of its functions. (See Recommendation 1.)

Agency Response: “We agree with your assessment of the importance of maintaining formal written policies and procedures to insure proper internal controls and are attempting to update our policy manuals. The increased workload of the Retirement Division (the implementation of the Retirement Incentive Program and the Longley decision to name a couple of examples), and the reduction in staff resources, have made it virtually impossible to complete work on this project. Sections of our manuals have been updated as procedures have changed. We will make an effort to move this project forward.”

Per Diem and Travel Expenditures:

Criteria: Section 5-155a of the Connecticut General Statutes established the Connecticut State Employees Retirement Commission. The Statute states in part... “The trustees, with the exception of the chairman and the actuarial trustees, shall serve without compensation but shall be reimbursed in accordance with the standard travel regulations for all necessary expenses that they may incur through service on the commission. The chairman and the actuarial trustees shall be compensated at their normal and usual per diem fee, plus travel expenses, from the funds of the retirement system for each day of service to the commission.”

Condition: The Connecticut State Employees Retirement Commission did not comply with the recommendation included in our prior audit report, dated October 1, 2008, with respect to the per-diem fees billed by the Commission’s one neutral and two actuarial trustees, and the travel-related expenses billed by the two actuarial trustees.

Our review revealed that the total amount of per-diem fees and travel-related expenses billed by the one neutral and two actuarial trustee members increased by \$175,286, or approximately 72.4 percent, when comparing the total expenses for calendar year 2007 to the total expenses for calendar year 2009. For the calendar year 2007, these three trustees billed the State Employees’ Retirement Fund expenses totaling \$242,057. This total was comprised of \$212,450 in per-diem fees charged by the three trustees and \$29,607 for the reimbursement of travel-related expenses incurred by the two actuarial trustees.

For the calendar year 2009, the three trustees billed the State Employees’ Retirement Fund expenses totaling \$417,343. This total was comprised of \$391,300 in per-diem fees charged by the three trustees and \$26,043 for the reimbursement of travel-related expenses incurred by the two actuarial trustees.

Effect: The State Employees' Retirement Fund may be charged administrative costs that are in excess of what is generally considered reasonable for governmental service.

Cause: State travel regulations controlling travel expenditures were not made applicable to the Retirement Commission. The definition of "normal and usual per diem fee, plus travel expenses" was never established at the time the chairman and actuarial trustees were originally appointed. The Commission as a body approves the per diem and travel expenditures of its own members.

Recommendation: The Connecticut State Employees Retirement Commission should adopt regulations to effect the limitation of the reimbursable costs related to the per diem fees charged and travel expenses incurred by the non-employee trustees for services on behalf of the Commission to the lowest reasonable rates.
(See Recommendation 2.)

Agency Response: "Please be advised that the Trustees of the Connecticut State Employees Retirement Commission at this time have not adopted regulations governing the *normal* and *usual* per diem fees and travel expenses for outside Trustees. Travel expenses and per diem charges authorized for outside Trustees under Conn. Gen. Statutes Sec. 5-155 are scrutinized and then approved by the Commission Trustees on a monthly basis.

It is not practical or necessary for the Trustees to adopt regulations in the face of a clear standard of normal and usual which is already set out in Conn. Gen. Statutes Sec. 5-155. The travel expenses and per diem charges can be easily verified, if it becomes necessary, as normal or usual by the full body of Trustees.

The reason there has been an increase in the monies paid to the three (3) outside Trustees in 2009, mentioned in your preliminary findings, was not caused by an increase in per diem fees or travel expenses. The per diem fees of the outside Trustees have been increased minimally, or not at all in one case, during the last two (2) years. Rather, the increase in payments was due to the complying with State Statutes and special circumstances which necessitated more meetings being held at the subcommittee level than in previous years.

The multitude of extra subcommittee meetings covered such topics as the hiring of outside counsel, with the permission of the Attorney General, to defend lawsuits in State and Federal Court associated with the Longley decision, reviewing of statutory RFPs concerning the Employees Benefit Statement, statutory hiring of actuaries and investment advisors for various Retirement Funds

and the interviewing, discussing and choosing of successful applicants. Through these meetings, tens of thousands of dollars were saved for the State by the receipt of competitive bids. All of these meetings necessitated increased work by the outside Trustees.

The per diems and travel expenses for the extra subcommittee meetings are set out in detail in the various submitted monthly bills of the outside Trustees for 2009 and for several months in 2010. Many of these subcommittee meetings will not be repeated for several years until again necessitated by State Statute. It is also pointed out to the Auditors that the governmental discount is being used where obtainable for travel and lodging expenses. Per diems and travel expenses have been eliminated or diminished through telephone conferencing at times by outside Trustees, and the elimination of the Chairman's attendance at subcommittee meetings. The above actions will result in a substantial decrease in fees paid to outside Trustees starting in mid-2010."

Other Matters:

Subsequent to the 2003 Early Retirement Incentive Program (ERIP), several members of the State Employees Retirement System, who had elected to retire under the ERIP, petitioned the Connecticut State Employees Retirement Commission (Commission) requesting that the dollar value of their accrued vacation time and final, pro-rated longevity payments be counted as part of their regular annual salary for their final year of state service for the purpose of determining the *base salary*, as defined in Section 5-162, subsection (b) (2), of the General Statutes, that would be used in the calculation of their retirement income.

The Commission denied the respective retiree's petition on the grounds that to include the lump-sum payments for accrued vacation time and the final, pro-rated longevity payment directly in the calculation of the retiree's salary based on the final three years of state service would impermissibly result in adding time to the retiree's years of state service. Thus the Commission held to the position that to include the lump-sum payment for accrued vacation time in the calculation of the retiree's *base salary* would be contrary to the existing statutory language and would negatively impact its calculation of the retiree's *base salary*, which represents the average salary received for the three highest paid years of state service.

In an opinion issued by the State Superior Court, Judicial District of Hartford, in December 2004, in response to the retirees' appeal of the Commission's declaratory ruling, the trial court upheld the Commission's ruling and denied the retirees' appeal. As a consequence of the State Superior Court's decision, the retirees appealed to the Connecticut Appellate Court. In its opinion *Donald M. Longley ET AL. v. State Employees Retirement Commission*, which was officially released by the Connecticut Appellate Court on December 27, 2005, the Appellate Court reversed the Superior Court's ruling, concluding that both the dollar value of the respective retiree's final, pro-rated longevity payment and the payment for accrued vacation time must be added directly to the salary the retiree earned in his final year of State service for the purpose of calculating his *base salary*. Accordingly, the Appellate Court ordered the Commission to perform a recalculation of the respective retiree's *base salary*, which would be used to determine the retiree's retirement income, based on the inclusion of the payments for the retiree's accrued vacation time and the final, pro-rated longevity in the determination of the retiree's annual salary for the final year of state service.

In February 2006, the Commission filed a petition for certification with the Supreme Court of the State of Connecticut (Supreme Court) to appeal the Appellate Court's opinion that reversed the trial court's judgment. Based on forecasts provided by the Commission's actuaries, the Commission estimated that, if allowed to stand, the Appellate Court's decision could cost the State an additional \$62 million to \$107 million per year in additional State contributions to the State Employees Retirement System and could increase the State's unfunded pension liability on a prospective basis over the next 25 years by \$800 million to \$1.4 billion.

In its opinion *Donald M. Longley ET AL. v. State Employees Retirement Commission*, officially released on October 2, 2007, the Supreme Court ruled that the Appellate Court "improperly rejected the Commission's treatment of the retirees' accrued vacation time payments but properly rejected the Commission's treatment of the retirees' final, pro-rated longevity payments." With respect to the Appellate Court's ruling in favor of the respective retiree's claim that, under Section 5-154 (m) of the General Statutes, the retiree's accrued

vacation time should be excluded in the calculation of total length of the retiree's State service, under Section 5-162 (a) of the General Statutes, but the payment for the retiree's accrued vacation time should be included in the calculation of the retiree's salary for his final year of State service for the purpose of computing *base salary*, under Section 5-162 (b) (2) of the General Statutes, the Supreme Court ruled in favor of the Commission. Thus, the Supreme Court agreed with the Commission's position that to add the value of the retiree's accrued vacation time in the calculation of the retiree's salary for his final year of State service would effectively extend the period of State service on which the retiree's *base salary* is predicated beyond the statutorily mandated period of the three highest-paid years. With respect to the respective retiree's claim that the final, pro-rated longevity payment should be included in the calculation of the retiree's salary for his final year of State service for the purpose of computing his *base salary*, the Supreme Court agreed. The Supreme Court ruled that longevity payments do not fall within the definition of State service, as defined in of Section 5-162, subsection (b) (2), of the General Statutes, and, consequently, "there is no statutory basis for ascribing a temporal value to them." Accordingly, the Supreme Court determined that the dollar value of the respective retiree's final, pro-rated longevity payment must be added directly to the salary the retiree earned in the final year of State service because adding the payment does not extend the statutorily mandated three year period for the purpose of calculating the retiree's *base salary*.

Subsequent to the decision by the Supreme Court, the Commission requested and received various opinions from both its in-house and outside legal counsels, and the actuary for the State Employees Retirement System. These opinions were requested to facilitate the Commission's analysis of both the legal and financial impact of the Supreme Court's *Longley* decision for the Commission and for the State Employees Retirement Fund. The financial impact was specifically related to the costs of future benefits, including the possibility for both prospective and retroactive application of the decision, on the State Employees Retirement Fund. In its actuarial analysis of the funding impact of the *Longley* decision on the State Employees Retirement System (SERS), which was presented to the Director of the State Comptroller's State Employees Retirement and Benefit Division in October 2007, the actuary presented four possible scenarios outlining how the decision could impact the funding for the SERS. These scenarios included the possibilities of making future annual only payments or making both future annual and retroactive payments, with the added consideration of making such payments to either all retirees or to only those retirees who retired within a period of years subject to a statute of limitations prior to the date of the Supreme Court's decision. The actuary's analysis of the funding impact found that the dollar value of the impact of the payments to retirees on the funding for the SERS under these four scenarios, which included annual future only payments or both annual future and retroactive payments, ranged from a minimum annual payment of \$736,286 under the lowest cost scenario up to a maximum of \$157,732,207 in annual future and retroactive payments under the highest cost scenario.

In a legal analysis of the *Longley* decision by the Commission's outside legal counsel prepared in October 2007, the Commission was informed that it was required to follow the *Longley* decision when calculating the benefits of all future retirees and current retirees whose benefit applications had not yet been finalized. However, the Commission was also advised that the *Longley* decision did not require the Commission to recalculate the future benefits of all current retirees whose benefit applications have been finalized "unless they file a timely petition for a declaratory ruling requesting recalculation." In addition, the analysis presented the possibility that, with respect to the retroactive application of the *Longley* decision to current

retirees and its related financial impact, an argument could be presented that a statute of limitations period governs challenging the Commission's final calculation of retirement benefits.

In the minutes prepared for the Commission's meeting for October 18, 2007, the Commission's members' made the decision that, with the exception of the two plaintiffs, who filed the initial appeal of the Commission's declaratory judgment, calculations including the pro-rated longevity payments will be made only on a prospective basis for new retirees from the date of the Supreme Court's decision and that current retirees will not have a recalculation of their retirement benefits.

Following the Commission's decision made in its meeting held on October 18, 2007, a group of current state retirees filed a class action lawsuit in the United States District Court, District of Connecticut (U.S. District Court), against the State Employees' Retirement Commission. This class action lawsuit, which was originally filed in April 2008, was amended in early September 2008 in order to include the individual members of the Commission as named defendants. The case of *Belanger v. State Employees Retirement Commission* was filed in the U.S. District Court by three current state retirees claiming that, by failing to apply retroactively to them and others similarly situated the recent decision of the Supreme Court in *Longley v. State Employees Retirement Commission*, the Commission's members breached their fiduciary duties and Federal law.

In a meeting held on April 16, 2009, the State Employees Retirement Commission approved the motion that the retirees eligible for a *Longley* benefit increase were all individuals who retired within a six-year time frame prior to the official released date, October 2, 2007, of the Supreme Court's decision. Thus, the Commission decided that, in order to fully conform with the Supreme Court's ruling in *Longley v. State of Connecticut*, 284 Conn. 149 (2007), the *Longley* benefit increase would be paid to all eligible retirees who retired on or after October 1, 2001, or who retired prior to that date, but whose pension was not yet finalized by that date. Based on the estimates prepared by the State Comptroller's Retirement Division in April 2009, it was estimated that the Commission's decision could impact approximately 11,000 current retirees. In addition, it was estimated that the annual future and retroactive payments resulting from the recalculation of these retirees' benefits, including the additional costs related to the recalculation of previously paid cost-of-living increases and interest, would total approximately \$6,557,000.

In its decision, dated June 10, 2009, the U.S. District Court dismissed the case of *Belanger v. State Employees Retirement Commission*. It appears that this decision was based partially on the Commission's decision made on April 16, 2009, to pay benefits to the class of people represented by the plaintiffs in the case. The dismissal of this case effectively ended all *Longley*-related cases against the State Employees Retirement Commission.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Retirement and Benefit Services Division should continue its efforts to reduce the backlog of retirement applications waiting to be finalized.** The current audit revealed that the Retirement Division has made various good faith efforts to comply with our prior audit recommendation. These good faith efforts have included: adding additional staff to the Retirement Division's Audit Unit, requesting and receiving approval from the State Employees' Retirement Commission for the use of \$80,000 from State Employees' Retirement Fund to fund overtime hours for the Division's audit staff for the express purpose of reducing the backlog, the implementation of a specialized spreadsheet to facilitate the automation of the retirement benefits calculation, and the employment of summer interns to assist in the population of data into the previously mentioned specialized spreadsheets used to calculate the retirement benefits. We have concluded that the OSC's Retirement Division implemented a number of good faith efforts to address our prior audit recommendation. We will not repeat the prior audit recommendation.
- **The Retirement Division should implement the internal control procedures necessary to ensure that monthly and fiscal-year-end reconciliations are performed between the Retirement Funds' accounting records and the State's official record in the form of the Comptroller's General Ledger in accordance with the requirements of the State Comptroller's *State Accounting Manual* and the Retirement Division's *Accounting Procedures Manual*.** We found that the Retirement Division's Accounting Unit staff implemented the necessary procedures to ensure that the monthly and fiscal-year-end reconciliations were performed between the Retirement Funds' accounting records and the corresponding account balances as recorded in the Comptroller's General Ledger. This recommendation has been sufficiently addressed and will not be repeated.
- **The Retirement Division should implement the procedures necessary to ensure that the Division's internal accounting records for General Fund appropriation accounts are prepared, properly maintained and reconciled with the State Comptroller's records in accordance with the requirements of the *State Accounting Manual*.** Our review revealed that the Retirement Division's Accounting Unit staff implemented the necessary corrective actions to ensure that the Division's internal accounting records related to the General Fund appropriation accounts were prepared, maintained and reconciled with the State Comptroller's records in accordance with the requirements of the *State Accounting Manual*. This recommendation has been sufficiently addressed and will not be repeated.
- **The Connecticut State Employees Retirement Commission should adopt, or otherwise implement, regulations to effect the limitation of costs related to trustees' overnight lodging and travel that are commensurate with the reimbursement amounts set forth in the State Travel Regulations.** This recommendation will be repeated in modified form. (See Recommendation 2.)

- **The Retirement and Benefit Services Division should take greater care in the review of the retirement benefit calculations for the Municipal Employees' Retirement System; internal controls relating to the finalization process should be strengthened and reviews should be documented.** Our current review revealed that the Retirement Division's Municipal Employees' Retirement Unit staff implemented the necessary corrective actions to address the "condition" that resulted in our prior audit finding. We will not repeat this recommendation.

Current Audit Recommendations:

- 1. The State Comptroller's Retirement Services Division should take the necessary steps to improve its internal controls by establishing, updating and maintaining formal, comprehensive written policies and procedures manuals for all of its functions.**

Comment:

The Retirement Services Division has not updated or maintained its formal, comprehensive written policies and procedures manuals for its various operating units. Although we found that the Division has documented some of the changes that have occurred in the activities and procedures for some of its operating units, we found that the documentation appears to be maintained in an informal and fragmented manner.

- 2. The Connecticut State Employees Retirement Commission should adopt regulations to effect the limitation of the reimbursable costs related to the per diem fees charged and travel expenses incurred by the non-employee trustees for services on behalf of the Commission to the lowest reasonable rates.**

Comment:

Our review revealed that the total amount of expenses billed for the per diem fees for the one neutral and two actuarial trustees and the travel-related expenses for the two actuarial trustees, increased from approximately \$242,100 for calendar year 2007 to approximately \$417,300 for calendar year 2009. The increase in billed expenses of approximately \$175,200 between calendar years 2007 and 2009 represented an increase of approximately 72.4 per cent in billed expenses.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the State Comptroller's State Retirement Funds for the fiscal years ended June 30, 2007 and 2008. This audit was primarily limited to performing tests of the State Comptroller's Retirement and Benefit Services Division's compliance with certain provisions of laws, regulations, contracts and grant agreements, and to understanding and evaluating the effectiveness of the Division's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Division are complied with, (2) the financial transactions of the Division are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Division are safeguarded against loss or unauthorized use. The financial statement audits of the State Retirement Funds for the fiscal years ended June 30, 2007 and 2008, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the State Comptroller's Retirement and Benefit Services Division complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

In planning and performing our audit, we considered the State Comptroller's Retirement and Benefit Services Division's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Division's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Division's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* 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 on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control

deficiency, or combination of control deficiencies, that adversely affects the Division's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Division's internal control. We consider the following deficiency, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be a significant deficiency in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 – Lack of Formal, Comprehensive Written Policies and Procedures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Division's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Division being audited will not be prevented or detected by the Division's internal control.

Our consideration of the internal control over the Division's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the State Comptroller's Retirement Services Division complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Division's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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*. However, we noted certain matters which we reported to the Division's management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The State Comptroller's Retirement Services Division's and the Connecticut State Employees Retirement Commission's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit either the State Comptroller's Retirement Services Division's or the Connecticut State Employees Retirement Commission's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, the Connecticut State Employees Retirement Commission, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the State Comptroller's Retirement and Benefit Services Division during the course of this examination.

Robert Koch
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts