

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
TEACHERS' RETIREMENT BOARD  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 and 2004***

**AUDITORS OF PUBLIC ACCOUNTS**  
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

## Table of Contents

---

<b>INTRODUCTION</b> .....	1
<b>COMMENTS</b> .....	1
<b>FOREWORD</b> .....	1
Significant Legislation .....	4
<b>RÉSUMÉ OF OPERATIONS</b> .....	5
Fund Accounting.....	5
Teachers' Retirement Fund.....	6
General Fund.....	8
<b>CONDITION OF RECORDS</b> .....	10
Editing Current Listing of Retirement Enrollees .....	10
Quality of Services Provided .....	11
Reconciliation of Receipts .....	12
Strategic Planning .....	13
Operations Manual.....	14
Lack of Checking Account Reconciliation.....	15
Documentation-Retirement Payments Detail .....	15
Data Verification.....	16
Lack of Accounts Receivable and Accounts Payable Systems .....	18
Credited Interest Calculation .....	19
Petty Cash .....	20
Reconciliation of Source Documents and Journal Entries.....	21
Equipment Inventory .....	21
Core-CT Accounting System.....	22
<b>RECOMMENDATIONS</b> .....	25
<b>CERTIFICATION</b> .....	30
<b>CONCLUSION</b> .....	32

September 19, 2007

**AUDITORS' REPORT  
TEACHERS' RETIREMENT BOARD  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 and 2004**

We have examined the financial records of the Teachers' Retirement Board for the fiscal years ended June 30, 2003 and 2004. This report on the examination consists of the Comments, Recommendations and Certification that follow.

Financial statement presentation and auditing are done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to reviewing this Agency's compliance with laws, regulations, contracts and grants and evaluating its internal controls.

**COMMENTS**

**FOREWORD:**

Section 10-1831 of the General Statutes established the Teachers' Retirement Board. The Board is responsible for managing the Teachers' Retirement System, which operates generally under the provisions of Title 10, Chapter 167a of the General Statutes. The twelve member Board consists of two ex-officio members (or their designees), five elected by participating members, and five members appointed by the Governor. The Commissioners of Education and Social Services are the two ex-officio members. Elected members consist of three active and two retired teachers. Pursuant to Section 10-1831 of the General Statutes, Board members are not paid but any expense or loss of pay resulting from service is reimbursable.

## *Auditors of Public Accounts*

---

The following were members of the Board as of June 30, 2004:

Elected Teacher Members:

Active Teachers:

Clare H. Barnett, Chair

Mary Nicholas

Robert E. Scalzo

Retired Teachers:

Rosalyn B. Schoonmaker, Vice Chair

Marion S. Jewell

Public Members:

Eugene Cimiano

Deborah Freedman

Martin M. Lilienthal

Elaine T. Lowengard

Augustine M. Masiello

Ex Officio Members:

Betty Sternberg, Commissioner, State Department of Education

Patricia Wilson-Coker, Commissioner, State Department of Social Services

William J. Sudol served as Board Secretary (Chief Administrator) during the audited period.

Darlene Perez has served as Board Secretary (Chief Administrator) since September 20, 2004.

Membership in the system is compulsory for most public school teachers whose position requires them to hold a teacher's certificate issued by the State Board of Education. The professional staffs of the State's Board of Education and the constituent units of the State's higher education system have the option of belonging to this retirement plan. Alternatively, they can belong to the State Employees' Retirement system or, if eligible employees in higher education, an alternate retirement program as authorized by subsections (u) and (v) of Section 5-154 and subsection (g) of Section 5-160 of the General Statutes.

As of June 30, 2004, according to the Teachers' Retirement Board, there were approximately 60,302 non-retired members of which, 51,791 were actively teaching. Active members are required to contribute seven percent of their annual salary to the retirement fund. Of the seven percent, six percent goes toward financing retirement benefits and one percent goes toward financing retiree health insurance costs. Except for the one percent contribution paid to finance retiree health insurance costs, members' contributions are credited to the member's account balance and are refundable if a member ends participation and is ineligible for retirement benefits. Changes to the contributions are detailed in the Significant Legislation section of this report.

Retired teachers and their spouses eligible for Medicare Part A may join a Teachers' Retirement Board sponsored health insurance plan. The retired teacher pays a set premium for the coverage. This premium is considered subsidized since the health insurance benefits for

participating retirees and spouses are also funded by the previously discussed one percent contribution made by active teachers as well as State appropriations and investment income.

Retired teachers and their spouses who are not eligible for Medicare Part A may elect to continue their health insurance coverage through the local school district in which the retired teacher was employed at the time of their retirement. Since the cost of health insurance varies from district to district, the employer must charge the retired teacher the same premium that is assessed by the insurance company for the type of coverage received. For self-insured plans, the employer must charge the budgetary premium rate for the particular form of coverage. To offset this cost, the Teachers' Retirement Board issues a subsidy payment to the retired teacher's former employer. The current subsidy payment is up to \$110 monthly for the retired member plus an additional \$110 monthly for a spouse enrolled in the local school district plan. These subsidies reduce the cost the retired teacher must pay to the former employer.

The Board adds annual interest to non-retired members' account balances. Effective in the fiscal year ended June 30, 1997, the Board changed its method of determining that interest. Previously, the interest rates were based on the system's investment earnings actually received (cash basis) such as gains/losses on sales, dividends, and interest income. Under the new method credited interest is based on a market value basis. Besides income actually received, this method includes price increases or decreases (market value appreciation or depreciation) on investment. The annual interest rates for the audited period were credited at fiscal year end based on the member's account balance the previous June 30. Those rates for the audited period compared to the previous year are as follows:

Fiscal year 2003-2004	10.8%	Computed on the June 30, 2003, member's account balance
Fiscal year 2002-2003	9.7%	Computed on the June 30, 2002, member's account balance
Fiscal year 2001-2002	12.0%	Computed on the June 30, 2001, member's account balance

The change in methods resulted in somewhat lower interest rates during the audited period in comparison to prior years. The interest rates for the past four fiscal years prior to the audited period were as follows:

2000-2001	13.8%
1999-2000	14.2%
1998-1999	13.5%
1997-1998	13.3%

Additional comments concerning the change in the method of calculating the interest credited are contained in the "Condition of Records" section of this report.

In the event a member's participation in the retirement system is terminated during the fiscal year the interest rate is prorated monthly and applied to the member's balance as of the previous June 30. The annualized rate for partial year interest was as follows:

Fiscal year 2003-2004	9.7%	Computed on the June 30, 2003, member's account balance
Fiscal year 2002-2003	12.0%	Computed on the June 30, 2002, member's account balance
Fiscal year 2001-2002	13.8%	Computed on the June 30, 2001, member's account balance

As discussed more fully in the "Résumé of Operations" section below, the Teachers' Retirement System is funded on an actuarial basis. The funds consist primarily of members' contributions, State contributions and investment earnings. Under the actuarial basis, funds are set aside during teaching service to cover the State's pension obligation for the members' services. This contribution is calculated based on a set percentage of the teachers' payroll from year to year. (That percentage could change based on experience factors or benefit changes.) Full funding was to be phased in pursuant to Section 10-183z of the General Statutes. Beginning in 1992-1993, annual State funding was to be at 100 percent of normal (current service) cost and the unfunded past liability was to be amortized over 40 years. In addition, State contributions include amortization, over 30 years, of the unfunded liability attributed to legislation enacted after June 30, 1980, which liberalized benefits. However, the above funding levels were not achieved. (See "Résumé of Operations" section for further discussion.)

Pursuant to subsection (c) of Section 10-183l of the General Statutes, the Board is required to employ an actuary. At least once every two years the actuary is to prepare an actuarial valuation of the assets and liabilities (including the normal cost and unfunded liability). The June 30, 2004, actuarial evaluation reported that, as of that date, the unfunded accrued liability for retirement benefits amounted to \$ 5,223,799,619.

**Significant Legislation:**

Notable legislative changes, which took effect during the audited period, are presented below:

- **Public Act 03-232 amended Section 10-183v** – Effective July 1, 2003, this Act established post retirement earnings limitation changes as outlined in the Post Retirement Employment Bulletin. A retired member may be employed temporarily as a teacher or administrator in the public schools of Connecticut and earn up to forty-five percent of the maximum salary level, established by the school district, for the position occupied. This limitation is on a school year basis (July 1 to June 30). Once this limitation has been met, the employing school district must notify the Teachers' Retirement Board by completing a Post Retirement Employment – Earnings Limitation Exceeded Form and pension benefits are suspended until termination or reemployment. Upon approval of the Teachers' Retirement Board, a retired member may be re-employed in a designated subject shortage area and continue to receive pension income for a period of one school year. The employing school district must submit a Post Retirement Employment in a Subject Shortage Area Form to the Teachers' Retirement Board prior to the reemployment of the retired member. While re-employed in a designated subject shortage area, such former teacher shall be eligible for the same health insurance benefits provided to active teachers employed by such school system. During this period of reemployment, a health insurance subsidy payment will not be issued nor is the re-employed member eligible to participate in a Teachers' Retirement Board Health Plan. The Excess Earnings Account was renamed to the Cost of Living Adjustment Reserve

Account. Payment for additional credited service purchased on behalf of a member by a board of education under an Early Retirement Incentive Program (ERIP) may be made in equal annual installment payments, including interest, not exceeding three times the number of years being purchased. Service as an Elected Teachers' Representative in a statewide, national or international bargaining organization may be purchased if the full actuarial cost is paid to the Teachers' Retirement Board. Effective October 1, 2003, retirement benefits for vested active teachers are contractual in nature.

- **Public Act 03-232 also amended Section 10-183b, subsection (7), of the General Statutes** and changed the definition of contributions to mean amounts withheld pursuant to this chapter and paid to the board by an employer from compensation payable to a member. Prior to July 1, 1989, "mandatory contributions" are contributions required to be withheld under this chapter and consist of five per cent regular contributions and "one per cent contributions". From July 1, 1989, to June 30, 1992, "mandatory contributions" are contributions required to be withheld under this chapter and consist of five per cent regular contributions and one per cent health contributions. From July 1, 1992, to June 30, 2004, "mandatory contributions" are contributions required to be withheld under this chapter and consist of six per cent "regular contributions" and one per cent health contributions. On or after July 1, 2004, "mandatory contributions" are contributions required to be withheld under this chapter and consist of six per cent regular contributions and one and one-fourth per cent health contributions. "Voluntary contributions" are contributions by a member authorized to be withheld under Section 10-183i of the General Statutes.

## **RÉSUMÉ OF OPERATIONS:**

### **Fund Accounting:**

As required by generally accepted accounting principles (GAAP) for government, the Teachers' Retirement Board's financial transactions are accounted for through various State funds and within the General Fund by specific appropriation accounts within the budget established by the State Legislature. Unless changed, the budget establishes spending limits. Section 10-183r of the General Statutes provides for funding of the system as follows:

1. Administrative expenses (exclusive of benefits) are paid out of legislative appropriations (i.e., General Fund).
2. Benefits are paid out of the Retirement Fund that consists of members' contributions, General Fund contributions, and investment earnings of the system.

Also, additional Teachers' Retirement Board equipment expenditures of \$16,870 and \$30,870 were made from a special revenue fund (Capital Equipment Purchase Fund) during fiscal years ended June 30, 2003, and 2004, respectively, as compared to \$19,587 for the Fiscal year ended June 30, 2002.

**Teachers' Retirement Fund:**

The three major recurring revenue sources of the Teachers' Retirement Fund are active members' contributions, State funding contributions and investment income. A comparison of these is given below for the audited period.

	<u>State</u> <u>Actuarial</u> <u>Funding</u>	<u>Cash Basis</u> <u>Members</u> <u>Contributions</u>	<u>Investment</u> <u>Income</u>
2001-2002	\$204,511,460	\$195,539,654	\$392,654,079
2002-2003	\$179,823,603	\$199,792,994	\$487,012,027
2003-2004	\$185,348,144	\$210,417,889	\$491,547,067

For the most part, member contributions consist of the seven percent salary deduction discussed earlier. Employers collect these deductions and remit them to the Board.

The amounts shown for investment income include gains (or losses) realized from sales of investments. These were \$1,584,432, \$11,694,321 and \$66,792,223 for the fiscal years ended June 30, 2002, 2003 and 2004, respectively. The investment income figures are based on data from the State Treasurer's Office.

Besides the State funding contribution, which is discussed below, State General Fund contributions were made for the health insurance cost subsidy provided pursuant to Section 10-183t of the General Statutes. State health insurance contributions totaled \$10,485,935, \$11,367,016 and \$12,206,066 for the 2001-2002, 2002-2003 and 2003-2004 fiscal years, respectively. This subsidy provided General Fund financing of 25 percent (45 percent for those on disability retirement) of the cost of the Board's insurance plan, discussed further below.

Pursuant to Section 10-183z of the General Statutes, the required annual State contributions determined by the Board's actuary were \$210,701,421, \$221,236,492 and \$270,544,487 for the fiscal years ended June 30, 2002, 2003 and 2004, respectively. The General Assembly, however, through the budget acts for those years provided that, despite the provisions of Section 10-183z, the funding to the Teachers' Retirement Fund would be \$204,511,460, \$179,823,603 and \$185,348,144 for the fiscal years ended June 30, 2002, 2003 and 2004, respectively. The funding level appropriated by the Legislature for the 2001-2002 fiscal year represented 97.1 percent of the amount determined by the Board's actuary. For the 2002-2003 fiscal year the appropriated amount was approximately 81.3 percent of the amount determined by the Board's actuary. For the 2003-2004 fiscal year the appropriated amount was approximately 68.5 percent of the amount determined by the Board's actuary.

In addition to the actuarial funding by the State, various towns funded an early retirement program pursuant to Section 10-183jj of the General Statutes. Under that program, a town may pay for the cost of some additional credited service for participating teachers. Receipts attributed to the early retirement program amounted to \$3,324,208, \$4,651,928 and \$1,495,354 for the fiscal years ended June 30, 2002, 2003 and 2004, respectively.

A summary of Fund expenditures for the fiscal years ended June 30, 2002, 2003 and 2004, is presented below for comparative purposes:

	<b>2001-2002</b>	<b>2002-2003</b>	<b>2003-2004</b>
Retirement benefits	\$ 747,349,673	\$ 811,028,527	\$ 874,593,010
Health insurance benefits	44,049,641	46,392,448	52,015,360
Contribution refunds	7,305,803	6,988,264	5,571,647
<b>Totals</b>	<b>\$ 798,705,117</b>	<b>\$ 864,409,239</b>	<b>\$ 932,180,017</b>

The number of retirees and survivorship beneficiaries receiving payments increased from 21,997 in June 2002 to 23,608 in June 2004. The rise in retirement benefits from \$798,705,117 in the 2001-2002 fiscal year to \$874,593,010 in the 2003-2004 fiscal year is partly attributed to the increased number of retirees and survivorship beneficiaries. In addition, annual cost of living increases contributed to the rise in retirement benefits paid.

Pursuant to Section 10-183g of the General Statutes, retirees may be eligible to receive annual cost of living (COLA) increases. Section 10-183g provides for differing COLAs depending on the date members retire. Retirees are eligible for annual increases in the June or January following nine months of their retirement anniversary date. Members who retired before September 1992 are eligible for benefit adjustments according to increases in the Consumer Price Index, with a minimum of three percent and a maximum of five percent.

The calculation differs for those who retired on or after September 1, 1992, and the payment of such COLAs is conditional. Subsection (n) of Section 10-183g of the General Statutes established an "excess earnings account" within the Teachers Retirement Fund. This account consists of the Fund's annual investment returns that exceed 11.5 percent. Account balances are applied to the COLA for such retirees. Applicable COLAs are paid only to the extent that there is a sufficient balance in the excess earnings account. The COLA is calculated by using the percentage increase granted by the Social Security Administration. However, no COLA can exceed 6 percent and if the total investment return of the Teachers' Retirement Fund is less than 8.5 percent then the COLA shall not exceed 1.5 percent.

A summary of the COLA increases granted during the audited period along with the previous year is presented below:

<u>COLA DATES</u>	<u>Retirees' Retirement Date</u>	
	<u>Before September 1992</u>	<u>After August 1992</u>
July 2001	3.7%	3.5%
January 2002	3.0%	1.5%
July 2002	3.0%	1.5%
January 2003	3.0%	1.4%
July 2003	3.0%	1.4%
January 2004	3.0%	1.5%
July 2004	3.0%	1.5%

Health insurance benefits paid on behalf of retirees to medical providers increased from \$44,049,641 in the 2001-2002 fiscal year to \$52,015,360 in the 2003-2004 fiscal year. These increases are partly attributed to the increased number of retirees and survivorship beneficiaries.

Contribution refunds are related to the number of withdrawals from the retirement system as well as the credited interest discussed earlier. Refund amounts are based on membership status, years of service and account balances. Contribution refunds decreased from \$7,305,803 for the fiscal year ended June 30, 2002, to \$5,571,647 for the fiscal year ended June 30, 2004.

As discussed above, an excess earnings account was established to allocate part of Fund resources for possible COLA payments to members who retire on or after September 1, 1992. Such retirees will receive otherwise eligible COLA's only to the extent that a balance exists in the account. The June 30, 2002, excess earnings account balance was \$1,575,541,885. As of July 1, 2004, it had decreased to \$1,460,197,593.

A separate health insurance premium account exists within the Teachers' Retirement Fund. This account, is funded by active teachers through payroll contributions. This account combined with State funds and retiree premiums is used to pay the Board's health insurance benefits. The health insurance premium account had a June 30, 2002, balance of \$10,902,581. As of June 30, 2004, it had decreased to \$4,019,010.

The State Treasurer is custodian of the Fund's investments. A comparative summary of the cost and market values of the Fund's investments is presented below:

<u>As of June 30</u>	<u>Cost</u>	<u>Market</u>
2002	\$6,844,380,906	\$10,125,903,606
2003	\$6,902,702,658	\$ 9,853,283,134
2004	\$6,915,050,228	\$10,853,461,575

**General Fund:**

Administrative expenses, State funding contributions, and the State health insurance subsidies are paid out of General Fund money appropriated to the Board by the General Assembly. A summary of expenditures for the fiscal years ended June 30, 2002, 2003 and 2004 is presented below for comparative purposes:

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
Transfers to Retirement Fund:			
State funding	\$204,511,460	\$179,823,603	\$185,348,144
Health insurance subsidy	<u>10,485,936</u>	<u>11,367,015</u>	<u>12,206,066</u>
Total Transfers	214,997,396	191,190,618	197,554,210
Administrative expenses	<u>2,204,104</u>	<u>2,170,012</u>	<u>1,838,888</u>
<b>Totals</b>	<b><u>\$217,201,500</u></b>	<b><u>\$193,360,630</u></b>	<b><u>\$199,393,098</u></b>

As indicated, by far the greatest payments were for transfers to the Connecticut Teachers' Retirement Fund for the State's funding contributions and health insurance cost subsidies. We discussed these payments more fully above under "Teachers' Retirement Fund".

Administrative expenses consisted primarily of personal service payments to employees that totaled \$1,503,453, \$1,490,842 and \$1,182,278 for the fiscal years ended June 30, 2002, 2003 and 2004, respectively. The decrease in personal services is due in part to a reduction in staffing from 29 employees in the prior audited period to 25 employees in the current audited period.

General Fund receipts amounted to \$1,111, \$50,850 and \$837 for the 2001-2002, 2002-2003 and 2003-2004 fiscal years, respectively. The receipts consisted of refunds of expenditures.

## CONDITION OF RECORDS

Areas warranting comment are presented below:

### **Editing Current Listing of Retirement Enrollees:**

*Criteria:* Good internal controls require that claims presented for payment be supported by adequate documentation and verified for accuracy.

*Condition:* The Board pays an administrative fee to the third party administrator for each participant in the health insurance program. These administrative fees were \$6.48, \$6.87 and \$7.65 per month per enrollee for the 2001-2002, 2002-2003 and 2003-2004 fiscal years respectively.

The Board compensates towns for health insurance coverage of participants including applicable retirees and retirees' spouses. These subsidies are \$110 per month per enrollee. In addition, the Board generally relied on the towns for notification to start or end payments for coverage of spouses.

We noted that the Board did not maintain a centralized listing of retirees and/or covered spouses that was continually edited with deceased participant information obtained from a source independent of the notification received from the towns. The Board remains unable to perform timely reconciliations of billings for administrative fees or insurance charges to a continually updated participant listing.

*Effect:* If deceased retirees or spouses are not removed in a timely manner from a participant centralized listing an overcharge of administrative fees and health insurance reimbursements can occur.

The risk exists that overpayment could be made and not be detected by the Board.

*Cause:* It appears that the lack of an on-going procedure that routinely performs the data matches contributed to the inability to do timely reconciliations of billings for administrative fees or insurance charges.

*Recommendation:* The Teachers' Retirement Board should routinely update its current listing of retirees and participants to assure appropriate

payment of health insurance subsidies and administrative fees.  
(See Recommendation 1.)

*Agency Response:* “We agree with this finding. TRB continues to review Social Security numbers for all members and spouses enrolled in the TRB health plan or local school district health plans. We are reviewing the procedures associated with the Bureau of Collections process, including copying in the Auditors of Public Accounts when the third reimbursement notice is mailed. We will work with the Bureau of Collections to define the roles and responsibilities on cases referred to their office.”

**Quality of Services Provided:**

*Background:* The Teachers’ Retirement Board has established a Vision Statement, a Mission Statement and a list of goals and objectives.

Comments on various aspects of these goals and objectives are discussed in the Criteria section.

*Criteria:* One of the Board’s stated objectives is to “Provide a range of services that meet the immediate and long-term needs of the members.” Numerous goals deal with the quality of service provided to system members. For instance, one goal is to “Provide more opportunities to address members’ short-term and long-term retirement planning needs through improved methods of providing information”. Another goal is to “Display patience, understanding, and courtesy in responding to members and other stakeholders.”

Section 4-67m of the General Statutes requires the development for each budgeted Agency of “quantifiable outcome measures, which shall not be limited to measures of activities”.

*Condition:* Despite the establishment of a Vision Statement, a Mission Statement, goals, and objectives that include meeting the needs of and providing quality service to members, the Board does not have any program in place to measure how well it is meeting this ideal.

The Board has developed various program measures in conjunction with its budget requests. However, these all seem to be related to measures of activity. They deal with such measures as monies collected from local school districts, staff hours devoted to various studies and reports, and number of retirees and beneficiaries receiving health insurance subsidies. None of them appear to be related to measuring the quality of service provided.

The Board could conduct surveys that identify members' needs and satisfaction with service. A quantifiable outcome measure could be established, for instance, by surveying what percentage of respondents rate the quality of service as excellent, good, fair, poor, etc. The survey could be conducted in a number of ways. For instance:

- The Board's internet site could be used to conduct on-line surveys.
- Returnable post card surveys could be given to members who come in person to the Board's office.
- Survey forms could be mailed as part of regular mass mailing or distributions of Annual Reports to members.

*Effect:* The Board does not have a system in place to measure how well it is meeting its goals of providing quality service to members. Also, it does not appear to have developed, for budget request purposes, any program measures that meet the requirement of Section 4-67m regarding "quantifiable outcome measures, which shall not be limited to measures of activities".

*Cause:* We did not determine the cause.

*Recommendation:* The Teachers' Retirement Board should develop a system to survey members' requirements and satisfaction with service. (See Recommendation 2.)

*Agency Response:* "We agree with this finding. The Board conducted several independent surveys by mail during August of 2006. We are beginning to receive and collect the results. The Board intends to use the surveys as a tool to understand the needs of our members and to establish goals for the Agency."

### **Reconciliation of Receipts:**

*Criteria:* The State Accounting Manual states, "The Comptroller's records are the official accounting records of the State of Connecticut; it follows, therefore, that the Comptroller's Annual Report is the official statement of the State's revenue, expenditures and surplus....It is the responsibility of the Chief Fiscal Officer of each State Agency to reconcile the Agency's records with those of the Comptroller. Adequate controls over checks received require the receiving agency to verify that the checks have been deposited and to perform a reconciliation of the receipt log to the deposit."

<i>Condition:</i>	The procedures for audit of the Teachers' Retirement Board include the examination, on a test basis, of a sample of deposits for compliance with prompt deposit requirements. The test sample contained 26 checks totaling \$955,625. All checks tested were deposited in accordance with the General Statutes. However, the Board could not provide a reconciliation of receipts to the revenue records of the State Comptroller.
<i>Effect:</i>	The lack of a comprehensive Agency wide reconciliation can lead to undetected errors and reporting inaccuracies.
<i>Cause:</i>	We were not able to determine why the Board does not perform an Agency wide revenue reconciliation.
<i>Recommendation:</i>	The Teachers' Retirement Board should perform a reconciliation of receipts to the revenue records of the State Comptroller. (See Recommendation 3.)
<i>Agency Response:</i>	"We agree with this finding. We have begun to reconcile the receipts by bank statements, lock box reports, and Core-CT reports. This process has been reviewed and agreed to by the Office of the Comptroller. We implemented the procedure for the Fiscal Year Ending 2007."

**Strategic Planning:**

<i>Criteria:</i>	A formal planning process would help the Board meet its written goals and objectives.
<i>Condition:</i>	<p>The Board has identified a number of goals and objectives to pursue for the betterment of the TRB. They include the following:</p> <ul style="list-style-type: none"><li>• Solicit input on process improvements, policies, and use of new tools and technologies.</li><li>• Involve end users in all phases of the systems development life cycle, a comprehensive interactive online website that enables teachers to engage in direct participation and/or communication.</li><li>• Review potential new technologies &amp; identify those that can provide cost-effective solutions to business problems.</li><li>• Build an integrated system with less duplication of effort to collect, report, and distribute information.</li><li>• Re-engineer business processes to meet business needs, including redefining job responsibilities &amp; assignments.</li><li>• Establish and use problem-solving teams to identify and solve business process problems.</li></ul>

- Provide the means, such as policies, procedures, training, and supervision, to help staff implement new processes, roles, responsibilities, and technology.

The Board does not have a formal planning process to help the Board meet its written goals and objectives. A number of the goals and objectives lend themselves to collaboration. By establishing timed targets and utilizing a group effort a formal strategic plan could be developed.

*Effect:* A formal strategic plan could improve the effectiveness and efficiency of the Board. Without a formal strategic plan, the Board may be losing opportunities to provide better services for the teachers.

*Cause:* The development of a formal strategic plan would require significant staff time. Available staff time continues to be devoted to completing daily operations.

*Recommendation:* The Teachers' Retirement Board should develop a formal strategic plan. (See Recommendation 4.)

*Agency Response:* "We agree with this finding. We continue to improve the workflow of the agency and develop new innovative ways to provide the best services to the members. We find that the lack of funding and adequate staffing levels has continued to be a barrier in the development of a formal strategic plan."

### **Operations Manual:**

*Criteria:* Formal written procedures are an important aspect of a sound system of internal control. They are particularly important for an operation as complex as the State's Teachers' Retirement System.

*Condition:* A set of comprehensive written procedures has not been prepared for the Agency's various operational phases.

*Effect:* Staff changes or significant absences could result in critical disruptions of Agency operations or in required policies not being followed.

*Cause:* Available staff time continues to be devoted primarily to completing required daily operations.

*Recommendation:* The Teachers' Retirement Board should prepare formal written procedures addressing the various operational phases of the

Connecticut Teachers Retirement System. (See Recommendation 5.)

*Agency Response:* “We agree with this finding. The Agency has made good progress this year in reviewing, approving and documenting written procedures. Once this phase is complete, we will begin the next phase of developing unit based operations manuals.”

**Lack of Checking Account Reconciliation:**

*Criteria:* Proper accounting and good internal control require the following:

The Board should maintain a record of all retirement benefit checking account transactions and such record needs to be independently reconciled to bank statements periodically in a timely manner.

*Condition:* We continued to note the following deficiency:

Although the Board can determine on an individual basis those checks that are currently outstanding and the total amount of outstanding checks, they do not maintain comprehensive accounting records detailing the transactions and balance of the retirement benefit checking account. Thus, Agency records were inadequate to reconcile to bank statements and reconciliations were not performed.

*Effect:* These conditions increase the potential for errors or undetected fraud, and weaken financial reporting.

*Cause:* The Agency has indicated that these conditions are due to a lack of sufficient staffing.

*Recommendation:* The Teachers’ Retirement Board should develop and maintain accounting records for the retirement benefit checking account and reconcile these records to the bank statements in a timely manner. (See Recommendation 6.)

*Agency Response:* “We agree with this finding. We will meet and coordinate with the Treasurer’s Office and any other State Agency deemed necessary to develop a procedure to reconcile the bank statement.”

**Documentation – Retirement Payments Detail:**

*Criteria:* Good business practice and sound internal control principles require that important fiscal and tracking documentation of

payments to retirees is readily available for verification and that unauthorized or incorrect data has not been entered on the retirement accounts.

*Condition:* Various documents such as withholding tax changes, direct deposit authorizations, name and address changes, etc. are not being maintained in the retirees' files. Such documentation is generally being kept in monthly batches according to the date it was entered into the computer. Computer entries to the wrong file or omissions of these changes have no audit trail.

*Effect:* The absence of readily available documentation increases the risk that errors or fraud could occur and not be detected. In addition, if a question or problem concerning such documentation occurred, the Board might not readily, if at all, find such documentation. Changes not posted or posted to the wrong account would go undetected.

*Cause:* The Agency acknowledges that it would be a good idea to have all source documents placed in the retiree's files. It feels, however, that it does not have the staff time to accomplish this task without decreasing its effectiveness in processing retirement benefits.

*Recommendation:* The Teachers' Retirement Board needs to provide an improved accounting/audit trail over all retirement account information. (See Recommendation 7.)

*Agency Response:* "We disagree with this finding. The pension administration software we implemented in 2002 records an effective date for each transaction or posting made to a members account. The legacy system did not. We now have history dating back to the implementation of the new system in March, 2002. Since we have an effective date for each transaction, we can easily locate the source documents which are filed by document type and effective date."

*Auditor's Concluding*

*Comment:* Data entered in the wrong file or omitted in error would not be located by the procedure described in the "Agency Response."

**Data Verification:**

*Background:* The Board is required to track the death of active teachers, inactive non-retired members, retired members, spouses of retired members, and surviving spouses of retired members. The deaths of such participants should result in the cessation of payments to

retirees, and/or cessation of health insurance payments or reimbursements and may result in the payment of refunds and survivorship benefits. When retirees or retirees' spouses die, the Board should, of course, remove them from its records to stop retirement payments and/or insurance coverage. For notification of these deaths the Board often must rely upon such things as newspaper obituaries, notification from the family and notification by the town for the death of retirees' and covered spouses on reimbursed town plans. The Board cannot completely rely on these sources, however, to provide them with timely information. As a result the Board might not discover such deaths until much later.

*Criteria:* Sound business practice requires that the Board independently verify and document that all deceased retirees and spouses have been removed from its retirement and insurance records. One way to do this would be to provide an outside vendor with a tape containing social security numbers of all retirees and their spouses. This could then be compared by the vendor to a database of social security numbers of deceased individuals.

*Condition:* We noted that the Board, in early 2003, had done a computer match of retirees and their covered spouses to determine if any had become deceased. This was accomplished by hiring The Berwyn Group, an outside vendor, to perform a "death audit" of anyone collecting retirement checks from the Board. This match was completed in February 2003. Social security numbers of retirees and their covered spouses were matched to death files on the social security and other pertinent websites. Another data match was recently performed by the same company, two years after the previous one. There is no on-going procedure that routinely performs the data matches on a timely basis. The Board has not given us a report that shows that all the information gathered in the Berwyn Group's February 2003, data match report was used to update and/or edit the files of the system participants. The editing process was not complete by the conclusion of our fieldwork.

*Effect:* If the Board is not notified or if it is notified but fails to record the death of a retiree or a retiree's spouse, overpayments could result.

The lack of a process to periodically perform data matches increases the risk that errors could be made and not detected.

*Cause:* The Board noted that time constraints and costs are the reasons given for not performing on-going computer match procedures to continuously update the health insurance records.

*Recommendation:* The Teachers' Retirement Board should improve the documentation and verification of its database of system participants. (See Recommendation 8.)

*Agency Response:* "We agree in part with this finding. The Board has applied for a Retiree Drug Subsidy (RDS) from the Federal government for continuing to sponsor a prescription program for its Medicare covered health plan participants. As part of the subsidy application process, we are required to file a monthly eligibility file with the RDS center. The center reviews the file on a monthly basis and prepares reports back to the Board. For the Board to receive a subsidy on behalf of the plan participant they must be living. Included in the information the RDS center reports back to us are plan participants that are deceased. This monthly reporting cycle has provided us with a frequent automated routine death notification process on a portion of our membership. A deficiency still exists on the non Medicare portion of our population."

**Lack of Accounts Receivable and Accounts Payable Systems:**

*Criteria:* Proper accounting and good internal control require the following:

An accounts receivable system to track monies due and record monies received should be set up when funds are due to the Agency. This accounts receivable system should follow principles set out in the State Accounting Manual.

An accounts payable system to track monies owed and record monies paid should be set up when funds are due to surviving relatives.

*Condition:* We continued to note the following deficiencies.

Receivables and payables - Until April 1995, the Agency had maintained a monthly running record of accounts receivable due from and accounts payable due to the estates of deceased retirees. When the Agency stopped maintaining this record, payables to deceased retirees amounted to \$916,876 and receivables from the estates of deceased retirees amounted to \$288,569.

*Effect:* The Board cannot provide account balances for receivables and payables related to deceased retirees.

*Cause:* The Agency has indicated that the absence of accounting records over these totals does not hinder it in processing payments or

collecting receivables when surviving relatives are located or request payment from the Board.

*Recommendation:* The Teachers' Retirement Board should develop and implement accounts receivable and accounts payable systems that address reimbursements due to and from the Board. (See Recommendation 9.)

*Agency Response:* "We agree with this finding. The pension administration software we recently implemented did not include the accounts payable or accounts receivable feature. Therefore, we intend to develop them outside the pension administration software."

**Credited Interest Calculation:**

*Criteria:* Subsection (8) of Section 10-183b of the General Statutes states that credited interest "means interest at the rate from time to time fixed by the Board which shall be substantially that earned by the funds of the system." That seems to indicate that annual credited interest rates be approximately equal to the system's investment earnings in the same time period.

*Condition:* In changing its method of calculating the annual interest credit, the Board put into practice a "smoothed market value procedure". That procedure does not include all of a year's annual investment earnings in that year's calculation. A portion of the annual investment earnings (including unrealized gain/losses) is recognized in the same year. The rest of that year's earnings is phased in over the next ten years. The procedure also includes phasing in, over a nine year period starting June 30, 1996, the difference between book (cost) value and market value of investments. We determined that the Board has not obtained legal clarification concerning this method (smoothed market value procedure) of calculating the annual interest credit to members.

*Effect:* Under the smoothed market value procedure the annual interest credit rate does not tend to be equal to the amount "substantially earned" by the system's investments in that year. As a result, the Board may not be in compliance with the requirements of subsection (8) of Section 10-183b of the General Statutes.

*Cause:* The Board believes that the smoothed market value procedure will stabilize the credited interest rate over time by minimizing the effects of any wide market fluctuations. They also anticipate that the method will minimize the possibility that market value

depreciation will result in the calculation of a negative interest credit rate.

*Recommendation:* The Teachers' Retirement Board should seek a legal opinion as to whether the "smoothed market value procedure" of calculating the annual interest credit to members complies with Section 10-183b, subsection (8), of the General Statutes. (See Recommendation 10.)

*Agency Response:* "We agree with this finding. The Board recently received a legal opinion that the IRS requires that we credit actual interest earned on any additional or voluntary contributions a member makes into this system. Therefore, we plan on changing the definition of credited interest rate for voluntary contributions to comport with the IRS. The Board is in the process of obtaining outside legal counsel to assist us with our legal affairs."

**Petty Cash:**

*Criteria:* The State Accounting Manual provides guidance to agencies in establishing and administering petty cash funds. Good internal controls require the safeguarding of funds in the custody of agencies.

Per the State Accounting Manual, "All Petty Cash Fund custodians must submit to the agency's Chief Fiscal Officer or Business Manager a monthly status report on the activities of the Fund...The Petty Cash Fund custodian should have no other cash handling responsibilities...A periodic detailed examination of the Petty Cash Fund should be made by the Chief Fiscal Officer to verify the following:...Verify that checking account bank statements are being reconciled monthly by a person other than the custodian and/or one who has the authority to sign checks...Periodically, obtain the checking account statement direct from the bank and perform a verification of all checks..."

*Condition:* There has not been a supervisory review of any reconciliation since 2002.

*Effect:* Failure to have separation of duties in the administration of the Petty Cash account may result in a loss of assets. The Board is not assured that all disbursements have been authorized.

*Cause:* It appears that only one person provides oversight of the Petty Cash account.

*Recommendation:* The Teachers' Retirement Board should provide proper separation of duties and supervisory oversight in the administration of the Petty Cash Account. (See Recommendation 11.)

*Agency Response:* "We agree with this finding. We have established a procedure to have an accounting staff member reconcile the petty cash on a monthly basis."

**Reconciliation of Source Documents and Journal Entries:**

*Criteria:* Management should perform sufficient analytical and quantitative tests to ensure the accuracy of all ledger postings.

*Condition:* Journal entries for August to November 2003, recording the receipt of retirement fund contributions, were posted to the wrong ledger account. There were also two instances in which the backup did not match the information posted.

*Effect:* Ledger account balances were incorrect.

*Cause:* The Board lacked a procedure requiring managerial review of all journal entry postings. Transposition errors were made between the backup source documents and the data entry of information into the system.

*Recommendation:* The Teachers' Retirement Board's management should establish and perform procedures to ensure the accurate posting of all major transactions of the Teachers' Retirement Board to the accounts of the Comptroller's records. (See Recommendation 12.)

*Agency Response:* "We agree with this finding. We established written Core-CT procedures that were reviewed and agreed to by the Treasurer and the Comptroller's Office."

**Equipment Inventory:**

*Criteria:* The *State of Connecticut Property Control Manual* states that items of equipment inventory should be recorded with proper identification, including serial numbers. Items of equipment inventory should be coded properly and listed as equipment inventory if they qualify as equipment inventory per the Manual.

*Condition:* The physical examination of items chosen from the inventory record revealed three items of equipment out of nine tested had a serial number on the equipment that was different than the serial number recorded in the inventory records. In addition, we noted

that the purchase of EDP equipment was miscoded as commodities instead of equipment. This was brought to the attention of the Board, and the errors were corrected.

*Effect:* The failure to accurately record the equipment serial number in the records may cause the Board to be unable to properly track the item. In the event of a loss, the Board may not be able to properly identify the item. The inventory was misstated due to the coding of two items as commodities instead of equipment.

*Cause:* The location of the serial number on the equipment may have made it hard to read or difficult to find. The cause of the miscoding to commodities instead of equipment may have been due to the new Core-CT coding.

*Recommendation:* The Teachers' Retirement Board should implement internal controls to ensure that its equipment inventory is maintained in accordance with the equipment inventory policies and procedures as set forth in the *State of Connecticut Property Control Manual*. (See Recommendation 13.)

*Agency Response:* "We agree with this finding. The Agency will continue to review its internal policies to ensure they conform to the *State of Connecticut Property Control Manual*."

**Core-CT Accounting System:**

*Criteria:* A memorandum from the Office of the Treasurer states that, "With the implementation of the Core-CT system, deposit information obtained from our depository banks is passed back to agencies on the day after the deposits are recorded at the bank. Agencies then are responsible for confirming the bank data (for example, date, account number and dollar amount) and adding the appropriate accounting information. Agencies should complete the confirmation and journalizing steps by the end of the day that the deposit information is received by the agencies through the Core-CT system. For incoming wire transfers and automated clearing house (ACH) payments, the Treasurer's Office enters location codes that allow the deposit information to be routed to the appropriate agencies. Agencies should complete the confirmation and journalizing steps for these transactions within 24 hours of the receipt of the deposit information through the Core-CT system."

Section 4-32 of the General Statutes requires that any State Agency receiving any money or revenue for deposit in a State account, must deposit such funds within 24 hours of receipt. If the amount

is less than five hundred dollars it may be held for not longer than seven calendar days. The Treasurer is authorized to make an exception to this rule with a request from the head of any State department.

Since the implementation of Core-CT, agencies are responsible for maintaining their deposit records. Cash receipts, available cash, and bank account ledgers are maintained by the Office of the State Treasurer's Bank Control Unit on Core-CT. Agencies are required to review on a daily basis their daily activities as shown in the Core-CT system, and are required to reconcile the accounts in the Core-CT agency records.

Core-CT is the system that keeps the official books of the State from which the Office of the State Comptroller prepares its reports. A monthly reconciliation between Core-CT and the bank activity in the Retirement Fund and Health Fund should be done on a regular basis to keep Core-CT as accurate as possible. This would keep the cash balances correct for the Treasurer's Office and the reporting correct for the Comptroller's Office.

*Condition:*

A review of a number of bank deposits to Core-CT for accuracy and timeliness revealed that the Teachers' Retirement Board's major accounting transactions were not being entered into Core-CT in a timely manner. Some daily entries into Core-CT were not made. Written agency procedures for entering accounting data into Core-CT have not been developed, approved, and implemented. Some transactions were not being recorded correctly to Core-CT. Incorrect SID account codes were used. These SID's do not correspond to the funds of the TRB.

A monthly reconciliation of TRB's funds between the bank activity in the funds and the Core-CT accounting of these funds has not been performed regularly or adequately. The TRB cash balances have not been reported correctly to the Office of the State Treasurer, and the reporting of accounting transactions to the Office of the State Comptroller has not been accurate.

*Effect:*

The Comptroller's Office corrected some miscodings for the TRB, but has indicated that it is not their responsibility to do so. The late, insufficient, or incorrect codings have also hindered the ability of the Office of the State Treasurer to track cash flows and determine when to buy and sell investments. The Office of the Treasurer is unable to buy and sell investments in the most advantageous way for the State, due to the inaccurate and untimely reporting of the accounting position of the Teachers' Retirement

Board. The activity reflected in Core-CT does not reflect the activity of the funds of the TRB on a timely basis. In addition, some deposits have been posted late in violation of certain State Accounting Manual guidelines. The Office of the Comptroller is not receiving accurate reporting of the accounts of the Teachers' Retirement Board. There are no manuals or written agency procedures that identify the major accounting entries that must be made to Core-CT. It appears that duties are not clearly defined. There is a lack of understanding as to what entries need to be made, who is responsible for those entries, and the purpose of each entry.

*Cause:* It appears that the Teachers' Retirement Board has not prioritized the posting of accounting information into Core-CT.

*Recommendation:* A monthly reconciliation of the Teachers' Retirement Board's funds bank activity to Core-CT accounting activity should be performed regularly. Postings to Core-CT should be made in a timely manner. Agency procedures, should be written, reviewed, approved, and implemented to address the processing of major accounting transactions into Core-CT, and the notification to the Treasurer to transfer funds into the Retirement and Health Funds. Key TRB employees should receive Core-CT training. (See Recommendation 14.)

*Agency Response:* "We agree with this finding. We established written Core-CT reconciliation procedures with monthly timeframes. Procedures regarding this recommendation have been established and are being reviewed on a continuous basis."

## RECOMMENDATIONS

Our prior report contained a total of 10 recommendations. Of those recommendations, one has been partially implemented. The status of recommendations contained in this prior report is detailed below.

### *Status of Prior Audit Recommendations:*

- The Board should routinely update its current listing of retirees and participants to assure appropriate payment of health insurance subsidies and administrative fees. In revised form, this recommendation is being repeated as Recommendation 1.
- The Board should develop a system to survey members' requirements and satisfaction with service. This recommendation is being repeated as Recommendation 2.
- The controls over receipt of checks should be improved to ensure prompt deposit of receipts in accordance with statutory requirements and the Board should perform a reconciliation of accounts to verify deposit of all checks received. This recommendation has been partially satisfied, but part of it is being repeated in Recommendation 3.
- The Board should develop a formal strategic plan. This recommendation is being repeated as Recommendation 4.
- The Board should prepare formal written procedures covering the various operational phases of the Connecticut Teachers' Retirement System. This recommendation is being repeated as Recommendation 5.
- The Board should develop and maintain accounting records for the retirement benefit checking account and reconcile these records to the bank statements in a timely manner. This recommendation is being repeated as Recommendation 6.
- The Board needs to provide an improved accounting/audit trail over all retirement account information. This recommendation is being repeated as Recommendation 7.
- The Agency should improve the documentation and verification of its database of system participants. This recommendation is being repeated as Recommendation 8.
- The Board should develop and implement accounts receivable and accounts payable systems that address reimbursements due to and from the Board. This recommendation is being repeated as Recommendation 9.
- The Board should seek a legal opinion as to whether the "smoothed market value procedure" of calculating the annual interest credit to members complies with Section 10-183b, subsection (8), of the General Statutes. This recommendation is being repeated as Recommendation 10.

*Current Audit Recommendations:*

- 1. The Teachers' Retirement Board should routinely update its current listing of retirees and participants to assure appropriate payment of health insurance subsidies and administrative fees.**

Comments:

We noted that the Board did not maintain a centralized listing of retirees and/or covered spouses that was continually edited with deceased participant information. The Board remains unable to perform timely reconciliations of billings for administrative fees or insurance charges to a continually updated participant listing.

- 2. The Teachers' Retirement Board should develop a system to survey members' requirements and satisfaction with service.**

Comments:

We noted that the Board does not have a system in place to measure how well it is meeting its goals of providing quality service to members. It does not appear to have developed, for budget request purposes, any program measures that meet the requirement of Section 4-67m of the General Statutes regarding "quantifiable outcome measures, which shall not be limited to measures of activities".

- 3. The Teachers' Retirement Board should perform a reconciliation of receipts to the revenue records of the State Comptroller.**

Comments:

We noted that the Board could not provide a receipt reconciliation to the revenue records of the State Comptroller. The lack of a comprehensive agency wide reconciliation can lead to undetected errors and reporting inaccuracies.

- 4. The Teachers' Retirement Board should develop a formal strategic plan.**

Comments:

The Board has identified a number of goals and objectives to pursue for the betterment of the TRB. The development of a formal strategic plan could help the Board attain these goals and objectives.

- 5. The Teachers' Retirement Board should prepare formal written procedures addressing the various operational phases of the Connecticut Teachers' Retirement System.**

Comments:

Such procedures are an important part of a sound system of internal control. They are particularly important for an operation as complex as the Connecticut Teachers' Retirement System. A set of comprehensive written procedures has not been prepared for the Agency's various operational phases.

- 6. The Teachers' Retirement Board should develop and maintain accounting records for the retirement benefit checking account and reconcile these records to the bank statements in a timely manner.**

Comments:

Although the Board can determine on an individual basis those checks that are currently outstanding and the total amount of outstanding checks, they do not maintain comprehensive accounting records detailing the transactions and balance of the retirement benefit checking account. Thus, the Board's records were inadequate to reconcile to bank statements and reconciliations were not performed.

- 7. The Teachers' Retirement Board needs to provide an improved accounting/audit trail over all retirement account information.**

Comments:

Various retirement account documentation (such as withholding tax changes, direct deposit authorization forms, name and address changes, etc.) is not maintained in the retirement files for each retiree. Computer entries to the wrong file or omissions of these changes have no audit trail. Documentation is generally being kept in monthly batches according to the date it was entered into the computer. If a question or problem concerning such documentation occurred, the Board might not find such documentation readily, if at all.

- 8. The Teachers' Retirement Board should improve the documentation and verification of its database of system participants.**

Comments:

We noted that the Board has recently done a computer match of retirees and their covered spouses to determine if any had become deceased. However, there is no ongoing procedure that routinely performs the data matches. The Board previously performed a match in early 2003. The Board reported that it is in the process of

editing its files based on the information contained in the Berwyn Group match report. The editing process was not complete by the conclusion of our fieldwork.

- 9. The Teachers' Retirement Board should develop and implement accounts receivable and accounts payable systems that address reimbursements due to and from the Board.**

Comments:

The Board has not maintained accounting records over receivables and payables resulting from the death of retirees. Thus, the total of these accounts cannot be readily identified.

- 10. The Teachers' Retirement Board should seek a legal opinion as to whether the "smoothed market value procedure" of calculating the annual interest credit to members complies with Section 10-183b, subsection (8), of the General Statutes.**

Comments:

Pursuant to subsection (8) of Section 10-183b of the General Statutes, the Board adds annual interest to non-retired members' balances. Subsection (8) states that credited interest "means interest at the rate from time to time fixed by the Board which shall be substantially that earned by the funds of the system." That appears to require that credited interest rates be substantially at the same rate as the system's investment earnings in the same time period. Beginning in the fiscal year 1996-1997, the Board used a method ("smoothed market value procedure") that spreads out the recognition of annual investment earnings over ten years. Also, the method phases in over nine years the difference between book (cost) value and market value of investments at June 30, 1996.

- 11. The Teachers' Retirement Board should provide proper separation of duties and supervisory oversight in the administration of the Petty Cash Account.**

Comments:

Reconciliation of the Petty Cash account should be done by someone that does not administer the account. In addition, the operation of the Petty Cash account should be overseen by a manager. Separation of duties should be maintained in order to comply with State Accounting Manual principles.

- 12. The Teachers' Retirement Board's management should establish and perform procedures to ensure the accurate posting of all major transactions of the Teachers' Retirement Board to the accounts of the Comptroller's records.**

Comments:

Account balances should be reconciled to source documentation and bank accounts on a periodic basis in order to ensure accurate data entry.

- 13. The Teachers' Retirement Board should implement internal controls to ensure that its equipment inventory is maintained in accordance with the equipment inventory policies and procedures as set forth in the *State of Connecticut Property Control Manual*.**

Comments:

The *State of Connecticut Property Control Manual* states that items of equipment inventory should be recorded with proper identification, including serial numbers. Items that qualify as equipment should be coded as such and included in the equipment inventory.

- 14. A monthly reconciliation of the Teachers' Retirement Board's funds bank activity to Core-CT accounting activity should be performed regularly. Postings to Core-CT should be made in a timely manner. Agency procedures, should be written, reviewed, approved, and implemented to address the processing of major accounting transactions into Core-CT, and the notification to the Treasurer to transfer funds into the Retirement and Health Funds. Key TRB employees should receive Core-CT training.**

Comments:

Since the implementation of Core-CT, agencies are responsible for maintaining their deposit records. Cash receipts, available cash, and bank account ledgers are maintained by the Treasury's Bank Control Unit on Core-CT. Agencies are required to review on a daily basis their daily activities as shown in the Core-CT system, and are required to reconcile the accounts in Core-CT to Agency records.

Core-CT is the system that keeps the official books of the State from which the Comptroller's Office prepares its reports. A monthly reconciliation between Core-CT and the bank activity in the Retirement Fund and Health Fund should be done on a regular basis to keep the Core-CT system as accurate as possible. This would keep the cash balances correct for the Treasurer's Office and the reporting correct for the Comptroller's Office.

## **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Teachers' Retirement Board for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Teachers' Retirement Board for the fiscal years ended June 30, 2003 and 2004 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 Teachers' Retirement Board complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of its internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance:**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Teachers' Retirement Board is the responsibility of the management of the Teachers' Retirement Board.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, 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 Agency's financial operations for the fiscal years ended June 30, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less

than significant instances of noncompliance, which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.

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

The management of the Teachers’ Retirement Board is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency’s internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency’s financial operations in order to determine our auditing procedures for the purpose of evaluating the Teachers’ Retirement Board’s financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency’s financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency’s financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency’s ability to properly record, process, summarize and report financial data consistent with management’s authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following findings represent reportable conditions: the absence of a reconciliation of the retirement benefits checking account and the failure to complete a database verification of retired membership.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts and grants or the requirements to safeguard assets that would be material in relation to the Agency’s financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the absence of a reconciliation of the retirement benefit checking account is a material or significant weakness.

We also noted other matters involving internal control over the Agency’s financial operations and over compliance which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.

This report is intended for 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**

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Teachers' Retirement Board during this examination.

Josepha M. Brusznicki  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts

**Table of Contents**

---

**INTRODUCTION**..... 1

**COMMENTS**..... 1

**FOREWORD** ..... 1

        Significant Legislation ..... 4

**RÉSUMÉ OF OPERATIONS** ..... 5

        Fund Accounting..... 5

        Teachers’ Retirement Fund..... 6

        General Fund..... 8

**CONDITION OF RECORDS** ..... 10

    Editing Current Listing of Retirement Enrollees ..... 10

    Quality of Services Provided ..... 11

    Reconciliation of Receipts ..... 12

    Strategic Planning ..... 13

    Operations Manual..... 14

    Lack of Checking Account Reconciliation ..... 15

    Documentation-Retirement Payments Detail ..... 15

    Data Verification..... 16

    Lack of Accounts Receivable and Accounts Payable Systems ..... 18

    Credited Interest Calculation ..... 19

    Petty Cash ..... 20

    Reconciliation of Source Documents and Journal Entries..... 21

    Equipment Inventory ..... 21

    Core-CT Accounting System..... 22

**RECOMMENDATIONS**..... 25

**CERTIFICATION**..... 30

**CONCLUSION** ..... 32