

STATE OF CONNECTICUT



*AUDITORS' REPORT
TEACHERS' RETIREMENT BOARD
FOR THE FISCAL YEARS ENDED
JUNE 30, 2007 and 2008*

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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December 29, 2010

**AUDITORS' REPORT
TEACHERS' RETIREMENT BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and 2008**

We have examined the financial records of the Teachers' Retirement Board for the fiscal years ended June 30, 2007 and 2008. This report on that 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 Board's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating its internal controls established to ensure such compliance.

COMMENTS

FOREWORD:

Section 10-183*l* 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) – Commissioners of Education and Social Services
- Five (three active and two retired teachers) system participants elected by their peers
- Five gubernatorial appointees

Pursuant to Section 10-183*l* of the General Statutes, Board members serve without compensation but any expenditures or loss of salary or wages incurred through their service on the board is reimbursable.

The following persons were members of the Teachers' Retirement Board as of June 30, 2008:
Elected Teacher Members:

Active Teachers:

Clare H. Barnett, Chair

William T. Murray, Jr.

Mary Nicholas

Retired Teachers:

Rosalyn B. Schoonmaker

Marion S. Jewell

Public Members:

Eugene Cimiano

Jonathan Johnson

Eric R. Judge

Elaine T. Lowengard

Thomas I. Knox, Jr. M.D

Ex Officio Members:

Mark K. McQuillan, Commissioner, State Department of Education

Michael P. Starkowski, Commissioner, State Department of Social Services

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

The Board administers a State subsidized defined benefit retirement system primarily for public school teachers who are employed at least half-time. These teachers are not covered by Social Security for their teaching service. It offers normal, pro-ratable, and early retirement after a ten year vesting period. As discussed below, the Board also provides health insurance for some retired teachers and their spouses and partially reimburses towns that provide health insurance for those retirees and spouses not covered by the Board's health plan.

Membership is compulsory for public school teachers working at least one-half time in a position requiring certification by the State Board of Education. The professional staff of the State's Board of Education and the constituent units of the State's higher education system can participate or they can belong to the State Employees' Retirement system, or, if eligible employees of the State Board of Higher Education, they can belong to an alternate retirement program 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, 2008, according to the Board's actuarial valuation there were 63,729 non-retired members of whom, 51,738 were actively teaching. Active teaching members are required to contribute seven and one quarter percent of their gross salary to the retirement fund with six percent helping to finance retirement benefits and the remaining one and one quarter percent helping to finance retirees' health insurance. The six percent is credited to the members' account balance and is refundable to members leaving the system, but the one and one quarter percent is not credited to the member's account balance and is not refundable.

Retired teachers and their spouses eligible for Medicare Part A and Part B may join the Teachers' Retirement Board's health insurance plan. The retired teacher pays a set premium for the coverage. However, this premium is subsidized by the previously discussed one and one quarter percent contribution of active teachers, by State appropriations and by investment income. Retired teachers and their spouses not eligible for Medicare Part A and Part B may

continue their health insurance coverage through the town that last employed them as teachers. The employer must charge the retired teacher the same premium assessed for active teachers for the type of coverage. To offset their cost, the towns are subsidized by the Board. As of June 30, 2008, the subsidy payment is \$110 monthly for the retired member plus an additional \$110 monthly for an enrolled spouse. The subsidies reduce the cost that the retired teacher would otherwise have had to pay to their former employer.

Except for non-retired teachers who have not taught for over 25 years, the Board annually adds interest to non-retired members' account balances. Prior to the fiscal year ended June 30, 1997, interest rates were based on the system's annual investment earnings actually received on a cash basis. After June 30, 1997, upon its actuary's advice, the Board changed to a "smooth market value" basis method of calculating interest, averaging out year to year interest variances over a number of years decreasing large annual swings of interest earned. Those interest rates for the two audited years compared to the previous two years are as follows:

Fiscal year 2007-2008	7.7%	Computed on the June 30, 2008, member's account balance
Fiscal year 2006-2007	10.1%	Computed on the June 30, 2007, member's account balance
Fiscal year 2005-2006	9.8%	Computed on the June 30, 2006, member's account balance
Fiscal year 2004-2005	10.9%	Computed on the June 30, 2005, member's account balance

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 retirement system is funded by members' contributions, State contributions and investment earnings. As discussed more fully in the "Résumé of Operations" section below, State funding is actuarially determined whereas annual contributions are made to cover annual pension benefits earned by active teachers. The contribution is based on a set percentage of the teachers' payroll. (That percentage could change based on experience factors or benefit changes.) Section 10-183z of the General Statutes provides for a phase-in of full funding. Beginning in the 1992-1993 fiscal year, 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, as discussed in the "Résumé of Operations" section below, the required funding levels were not always achieved.

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, 2008, actuarial evaluation reported an unfunded accrued liability for retirement benefits at that date of \$6,530,008,206, compared with \$6,922,454,893 at June 30, 2006.

Significant Legislation:

2007-2008 Legislative Session:

Public Act 08-112 Effective July 1, 2008, this Act increased the health insurance subsidy to retired teachers. The Board will pay a subsidy of \$220 per month to a board of education on behalf of a retired member, spouse, surviving spouse or civil union partner who has (1) attained the required age to participate in Medicare Part A (Hospital Insurance), (2) does not have

sufficient quarters on her/his behalf or as a spouse to qualify for such coverage without paying a premium to purchase Medicare A and (3) is paying a minimum premium of at least \$220 per month toward her/his health plan, excluding the cost of dental insurance, through her/his board of education.

Also effective July 1, 2008, the Act allows a member to purchase in excess of ten years of out of State service provided that the member pays the full actuarial cost resulting from the purchase of such out of State service in excess of ten years.

Public Act 08-76 This Act amends sections of the General Statutes concerning the Teachers' Retirement System to limit the additional voluntary contributions a member may contribute, limit the maximum amount of the annual allowable retirement benefit, and incorporate Internal Revenue Code minimum distribution rules.

2006-2007 Legislative Session:

Public Act 07-186 This Act authorized general obligation bonds of \$2 billion to reduce the system's unfunded liability (totaling \$6.9 billion as of June 30, 2006, per the actuary's report.) In any fiscal year that bonds are outstanding, the Act automatically appropriates the actuarially determined (per Section 10-183z of the General Statutes) State contributions to the Teachers Retirement Fund. The Act eliminates the cost of living adjustment reserve account within the Teachers' Retirement Fund. That account funded the annual cost of living adjustment (COLAs) for retirees who retired after August 31, 1992. The Act guarantees those retirees, an annual COLA by eliminating the requirement that they only get one if the cost of living adjustment reserve account has enough money to pay for it. The Act also reduces promised retirement COLAs for new teachers who become members of the Teachers' Retirement System on or after July 1, 2007.

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 funded by members' contributions, General Fund contributions, and investment earnings.

Capital equipment purchases totaling \$80,196 and \$112,302 were made from the Capital Equipment Purchasing Fund (12051) for the fiscal years ended June 30, 2007 and 2008, respectively. These purchases were made for upgrading workstations and computer equipment for the Agency.

Teachers' Retirement Fund:

A comparison of the three major recurring revenue sources of the Teachers' Retirement Fund is presented below for the audited period and an additional previous fiscal year:

	<u>State Actuarial Funding</u>	<u>Members Contributions</u>	<u>Investment Income</u>
2007-2008	\$2,518,560,263	\$251,759,977	\$519,183,824
2006-2007	412,101,958	242,334,763	482,745,492
2005-2006	396,248,844	234,089,789	425,557,838

General Obligation bond proceeds of \$2 billion were deposited during the fiscal year ending June 30, 2008.

For the most part, member contributions consisted of the 7.25 percent salary deduction as earlier mentioned. Employers collect these deductions and remit them to the Board.

In addition to the amounts shown above for investment income, gains were realized from the sales of investments. These amounted to \$45,550,687, \$650,696,443, and \$188,080,716 for the fiscal years ended June 30, 2006, 2007 and 2008, respectively.

In addition to the State's actuarial funding transfer to the Retirement Fund, 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 \$17,638,843, \$20,749,537, and \$20,769,667 for the 2005-2006, 2006-2007 and 2007-2008 fiscal years, respectively. As discussed below, this subsidy provided General Fund financing of a portion of the cost of the Board's insurance plan and the Board's subsidy to towns covering retired teachers not on the Board's plan.

Pursuant to Section 10-183z of the General Statutes, the required annual State contribution to the Teachers' Retirement Fund is determined each year by the Board's actuary. The State's contribution equaled the required contribution for the audited period. See the following table:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Actuarially determined funding	\$396,248,625	\$412,098,570	\$518,560,263
Actual State Contributions	396,248,844	412,101,958	518,560,263
Percentage Funded	<u>100%</u>	<u>100%</u>	<u>100%</u>

For table above, we excluded the \$2 billion general obligation bond proceeds received in fiscal year 2008.

In addition to the actuarial funding by the State, various towns funded an early retirement program pursuant to Section 10-183j of the General Statutes. Under that program, a town may pay for the cost of some un-served additional credited service time for participating teachers. Receipts attributed to the early retirement program amounted to \$2,802,639, \$2,659,720, and \$1,667,810 for the fiscal years ended June 30, 2006, 2007 and 2008, respectively.

Auditors of Public Accounts

A summary of Fund expenditures for the fiscal years ended June 30, 2006, 2007 and 2008, is presented below for comparative purposes:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Retirement benefits	\$1,050,132,506	\$1,159,443,411	\$1,266,950,462
Health insurance benefits	63,061,247	62,251,292	71,111,961
Contribution refunds	10,823,529	6,212,663	16,314,549
Totals	<u>\$1,124,017,282</u>	<u>\$1,227,907,366</u>	<u>\$1,354,376,972</u>

The number of retirees and beneficiaries receiving payments increased from 26,695 in June 2006 to 28,787 in June 2008. The rise in retirement benefits from the 2005-2006 fiscal year through the 2007-2008 fiscal year is, in part, attributable to this increase but it also, in part, reflects annual cost of living increases.

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 COLA levels depending upon the member's retirement date. Retirees are eligible for their first annual increase in the June or January following nine months of their retirement anniversary date. Members who retired before September 1992 are eligible for an annual COLA in line with increases to the Consumer Price Index; subject however to a minimum COLA of three percent and a maximum COLA of five percent.

The calculation differs for those who retired after August 31, 1992, and the payment of such COLAs has been conditional. Subsection (n) of Section 10-183g of the General Statutes established a cost of living adjustment reserve account within the Teachers Retirement Fund. This account consists of the Fund's annual investment returns that exceeded 11.5 percent. Applicable COLAs were paid only to the extent that there is a sufficient balance in the cost of living adjustment reserve account. The COLA is calculated by using the percentage increase granted by the Social Security Administration. However, the annual COLA awarded can not exceed 6 percent, and if the total investment return of the Teachers' Retirement Fund is less than 8.5 percent then the COLA awarded may not exceed 1.5 percent.

As discussed under the caption "Significant Legislation", Public Act 07-186 eliminated, effective July 1, 2007, the cost of living adjustment reserve account. Effective in the 2007-2008 fiscal year, the Act guarantees retirees who retire after August 31, 1992, an annual COLA by eliminating the provision that barred the Board from reducing the COLA in any year that the excess earnings account was insufficient to fully fund that COLA.

A summary of the COLA increases granted during the audited period and the preceding year is presented below:

<u>COLA DATES</u>	<u>Retirees' Retirement Date</u>	
	<u>Prior to September 1992</u>	<u>After August 1992</u>
July 2008	4.5%	2.3%
January 2008	4.6%	2.3%
July 2007	3.0%	3.3%
January 2007	3.0%	3.3%
July 2006	4.3%	4.1%

As noted above, health insurance benefits paid on behalf of retirees increased from \$63,061,247 in the 2005-2006 fiscal year to \$71,111,961 in the 2007-2008 fiscal year. These increases, in part, reflect increases in the number of retirees and beneficiaries but also reflect increases in the actual cost of providing and managing healthcare systems.

Contribution refunds are paid to non retired teachers who terminate public school teaching and who wish to withdraw their cumulative account balances. Account balances consist of accumulated teacher's contributions with credited interest. By withdrawing such funds, the teacher forfeits his or her rights to any retirement benefit for that service. If the former teacher returns to public school teaching, he or she will have the option of repurchasing the forfeited service. As indicated above, contribution refunds amounted to \$6,212,663 and \$16,314,549 in the 2006-2007 and 2007-2008 fiscal years, respectively.

As discussed above, an excess earnings account had been established to allocate part of Fund resources for possible COLA payments to members who retire after August 31, 1992. Such retirees will receive otherwise eligible COLA's only to the extent that a balance exists in the account. The June 30, 2006, cost of living adjustment reserve account balance was \$1,591,025,496. Public Act 07-186 repealed Subsection (n) of Section 10-183g eliminating the cost of living adjustment reserve account.

In 1989, a Health Insurance Premium Account was established within the Teachers' retirement Fund to help provide subsidized health insurance for retired teachers and their spouses. Beginning with the 1989-90 school year, active teachers were required to contribute one percent of their annual salary to this account. As the number of retirees steadily increased along with costs to the plan, the account balance continued to decline. The Board ensured solvency by increasing deductibles and co-payments and teachers' contributions and by obtaining additional State funding. Effective July 1, 2004, the active teacher contribution rate was increased to one and one quarter percent. Beginning July 1, 2005, retired teachers, the State and the Health Insurance Premium Account are required to pay one-third each of the costs for the Board's basic health insurance plan. Prior to July 1, 2005, retired teachers and the State each paid 25 percent of the cost. Fifty percent was paid by the Health Insurance Premium Account. The costs of optional supplemental coverage (dental, vision and hearing) are borne by the participating retired teachers. During the audited period, the Health Insurance Premium Account was maintained within the Teacher's Retirement Fund. The Account balance was \$20,545,453, \$42,034,349, and \$57,538,581 at June 30, 2006, 2007 and 2008, respectively.

The State Treasurer is custodian of the Teachers' Retirement Fund 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>
2008	\$9,651,572,373	\$14,541,624,961
2007	\$7,477,960,376	\$13,782,070,875
2006	\$6,853,416,477	\$12,189,855,336

The bulk of the Teachers' Retirement Fund's assets consist primarily of the investments listed above. Per the State Comptroller's Comprehensive Annual Financial Reports, the net assets (assets less liabilities) amounted to \$12,202,652, \$13,790,810, and \$14,554,461 at June 30, 2006, June 30, 2007 and June 30, 2008, respectively. The net assets figure includes Fund liabilities but does not include the actuarially determined unfunded accrued liability for retirement benefits discussed in the "Forward" section of this report. Instead that information is,

pursuant to governmental accounting standards, presented in a “Schedule of Funding Progress” table that accompanies the financial reports.

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, 2006, 2007 and 2008 is presented below for comparative purposes:

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Transfers to Retirement Fund			
State Funding	\$396,248,844	\$412,101,958	\$518,560,263
Health Insurance subsidies	<u>20,168,953</u>	<u>20,749,537</u>	<u>20,769,667</u>
Total Transfers	416,417,797	432,851,495	539,329,930
Administrative expenses	<u>2,051,076</u>	<u>2,199,785</u>	<u>2,341,304</u>
Totals	<u>\$418,468,873</u>	<u>\$435,051,280</u>	<u>\$541,671,234</u>

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 \$1,492,702, \$1,693,983, and \$1,715,575 for the fiscal years ended June 30, 2006, 2007 and 2008, respectively. This increase reflects staff increases, salary increases and cost of living adjustments.

We noted only immaterial General Fund receipts of about one thousand dollars annually. Such receipts apparently reflect cash received for providing photocopies under the Freedom of Information Act, and the reimbursement of jury duty fees paid to employees.

CONDITION OF RECORDS

Areas warranting comment are presented below:

Board Members and Meetings:

Criteria: Subsection (a) of Section 10-183*l* of the General Statutes states that the Board shall consist of twelve members, five of which shall be public members appointed by the Governor. Nothing in the statute appears to indicate how a member is removed from office due to inactivity.

Typical statutory language which establishes boards and commissions appears to specifically address the inactivity of its members. Such statutes generally state that any member who fails to attend three consecutive meetings or who fails to attend fifty percent of all meetings held during a calendar year, shall be deemed to have resigned from office.

Subsection (a) of Section 10-183*l* of the General Statutes also indicates that three active teachers and two retired teachers shall serve as members of the Board.

Subsection (c) of Section 10-183*l*-11 of the State Regulations indicates that regular monthly Board meetings are held on the date established by the Board from time to time. The chair or the secretary may change the date for any regular monthly Board meeting.

Section 1-200 of the General Statutes extends the definition of a “public agency” to mean a committee created by a board. Thus, committees established by the Board are subject to the same FOI requirements and would be required to keep minutes of their meetings.

Section 10-183aa of the General Statutes indicates that the Board shall designate a medical committee to be composed of no more than five physicians. Such committee shall review each application for a disability allowance and shall make findings and recommendations in writing to the Board.

Condition: We noted that one member of the Teachers’ Retirement Board had been absent from meetings for an extensive period of time.

We were informed that there are four retired teacher members and one active teacher member on the Board as of May 2010.

We noted that the Teachers’ Retirement Board meetings are not held monthly as required by State regulation.

We were informed that the committees established under Section 10-183*l* of the General Statutes by the Teachers’ Retirement Board such as the Legislative and Benefits Committee, as well as, the Medical Review

Committee established under Section 10-183aa of the General Statutes have not kept minutes of their meetings.

Effect: The absence of members at Board meetings may put a strain in establishing a quorum and would reduce the overall effectiveness of the Board without full representation.

It is possible that the active/retired status of the Board's teacher members may have an impact on votes for certain issues.

In the absence of meeting monthly, there appears to be non-compliance with the Board's regulation. The infrequency of meetings may postpone actions which require immediate attention.

Without minutes of committee meetings, it becomes questionable as to whether the function of said committee is operating as intended with the presence of its required applicable complement of members.

Cause: It appears that oversight in consideration and the Board's interpretation of State Statutes contributed to the condition.

Recommendation: The Board should seek to incorporate a member attendance policy within Section 10-183l of the General Statutes; seek to obtain an opinion from the Office of Attorney General as to whether a change in status from active to retired affects a teacher member's ability to continue to serve on the Board; comply with Section 10-183l-11 of the State Regulations by ensuring monthly Board meetings are held; ensure that minutes are kept for the Medical Review Committee and other committees created by the Board in accordance with Sections 10-183l and 1-225 of the General Statutes. (See Recommendation 1.)

Agency Response: "We have begun to take minutes at the subcommittee meetings as described in this recommendation. Currently, the Board holds meetings "as necessary". We will bring this recommendation to the Board members for direction. Statutory clarification may be sought with respect to monthly meetings."

Election of Chairperson of the Board:

Criteria: Section 10-183l of the General Statutes establishes the Teachers' Retirement Board and dictates how its members are appointed. However, we noted that the statute is silent as to how the chairperson of the Board is elected. Subsection (b) of Section 10-183l of the General Statutes allows for the adoption of regulations and rules as long as they are not inconsistent with Chapter 167a – Teachers' Retirement System.

Subsection (b) of Section 10-183l-11 of the State Regulations indicates that one of the members of the Board is to be elected by the Board as its chairperson to serve for a one year term.

Section 4-9a of the General Statutes indicates that, with the exception of a few boards and commissions, the Governor shall appoint the chairperson of all boards and commissions within the Executive Department.

Condition: We noted that the chairperson of the Board is elected every year by Teachers' Retirement Board members, rather than being appointed by the Governor.

Effect: Due to the conflicting legislation, it is unclear as to whether the chairperson is properly elected.

Cause: It appears that the applicable regulation was approved by the Regulation Review Committee of the General Assembly without consideration to Section 4-9a of the General Statutes.

Recommendation: For purposes of clarity, the Board should refer to the Office of the Attorney General to determine how to resolve the conflicting statutory and regulatory authorization pertaining to the election of the Board's chairperson, and act accordingly. (See Recommendation 2.)

Agency Response: "The Board adopted organizational procedures in 1945 to elect the Chairman to hold office for one year. The minutes of the April 6, 1945 meeting have been provided to the auditor. However, the Board will look into this matter."

Establishment of Board Bylaws:

Criteria: Bylaws, by definition, are the rules enacted to provide a framework for an organization's operation and management.

In accordance with the Department of Administrative Services' job description for the Teachers' Retirement Board Administrator, one of the many duties includes drafting and interpreting bylaws and regulations adopted by the Board.

Condition: Upon our review of Teachers' Retirement Board's operation, we noted and confirmed that the Board has not adopted bylaws.

Effect: Without Board-adopted bylaws there is less clarity as to how the Board and its established committees should function.

Cause: It was noted that the Board's secretary did create an orientation guide for members addressing items that would typically be found in bylaws. However, formally adopted bylaws were apparently not considered.

Recommendation: The Board should establish and adopt bylaws to address how it and its' committees intend to function. (See Recommendation 3.)

Agency Response: "The Administrator will add this item to her "to do" list so that by-laws can be incorporated into the orientation guide for new board members."

Medical Review Committee:

Criteria: Subsection (c) of Section 10-183aa of the General Statutes indicates that the Board shall designate a medical committee to be composed of no more than five physicians. If required, the physicians may be employed to report on special cases.

Subsection (d) of Section 10-183aa of the General Statutes indicates that the disability allowance being paid to a member shall cease when and if the disability ends. The board may determine that a member's disability has ended if it finds, upon the recommendation of its medical committee that the member has failed to pursue an appropriate program of treatment.

Subsection (g) of Section 10-183l-23 of the State Regulations indicates that a member receiving a disability allowance shall submit such medical evidence as may be required by the medical committee for the purpose of fulfilling its obligation to make recommendations to the board regarding the continued eligibility of persons receiving disability allowances. Such medical evidence may be used by the committee to make a recommendation that the member's disability has ended, or that the member has failed to pursue an appropriate program of treatment.

Proper internal control dictates that consideration should be given by the Board to identifying potential conflicts of interest between the medical review committee members and the teacher members applying for a disability allowance. Committee members should not be considering applications for patients whom they or their medical group have treated.

Condition: We were informed by Board staff that the chairperson of the Medical Review Committee makes the selection of the other Committee members. We were also informed that there are no control procedures in place with regard to determining if a teacher member's disability allowance should continue in consideration of whether a treatment plan is being adequately followed; nor controls regarding potential conflicts of interest between Committee members and teacher members applying for a disability allowance.

Effect: While it may prove more expedient for the chairperson of the Committee to make the selection of the additional committee members, it is the statutory responsibility of the Board to designate such.

Without the monitoring of teacher members on treatment plans, there is a risk that the Board may improperly continue disability allowances to those members no longer in a disabled status.

In the absence of conflict of interest controls, there is a higher risk that a Committee member may review and approve a disability allowance application of a teacher member whom they or their medical group treats or has treated.

- Cause:* It appears that the condition is due to statutory interpretation and a lack of oversight in this area.
- Recommendation:* The Board should comply with Section 10-183aa of the General Statutes and designate the Medical Review Committee members; establish a process for monitoring that the members receiving disability allowances are properly continuing treatment and remain in such status; and establish a process for identifying and addressing conflict of interest scenarios between Committee members and teacher members applying for disability allowances. (See Recommendation 4.)
- Agency Response:* “We find the selection of the Medical Review Committee is being managed very effectively through the Chairperson of the Medical Review Committee who has established an attendance policy as evidenced by the recent release of a MRC member for missing a meeting without notice and arriving habitually late for other meetings. The Chairperson ensures that each member, including himself, excuses themselves from participating in any cases where they personally or professionally know the member making application for a disability allowance from the system. A staff member routinely attends the committee meetings and monitors the activities of the committee. We will bring this issue to the Board’s attention to seek direction. A statutory change may be sought with respect to how the MRC is selected and approved.”

Reporting Requirement:

- Criteria:* Subsection (a) of Section 10-183z of the General Statutes indicates that the Retirement Board shall, on or before December 1st, annually, certify to the General Assembly the amount necessary, on the basis of an actuarial determination, to establish and maintain the retirement fund on such determined actuarial reserve basis and make such other recommendations with the regard to the fund and its administration as the board deems necessary. On the basis of each evaluation, the Retirement Board shall determine the normal rate of contribution and, until it is amortized, the unfunded past service liability.
- Condition:* The TRB Administrator indicated that she had not submitted certification of the amount necessary to establish and maintain the retirement fund to the General Assembly, as indicated in subsection (a) of Section 10-183z of the General Statutes.
- Effect:* The absence of such information to the intended recipients of such reports may lead to improper conclusions drawn and thus ineffective actions taken.
- Cause:* We were informed that the required information was submitted by email to the Office of Policy and Management and the Office of Fiscal Analysis in lieu of the General Assembly.
- Recommendation:* The Board should comply with Section 10-183z of the General Statutes by annually certifying to the General Assembly, the amount necessary on the

basis of an actuarial determination to establish and maintain the retirement fund. (See Recommendation 5.)

Agency Response: “The Administrator will annually certify the Annual Required Contribution to the General Assembly.”

Ethics Compliance Issues:

Criteria: In accordance with Executive Order No. 1 and through a memo issued by the Special Counsel for Ethics Compliance, Governor Rell directed that exit interviews are to be conducted by the ethics liaison officer for the agency to remind the individual of potential issues relating to future employment opportunities. A written summary of the post-State employment rules should be provided to the exiting employee at that time. The ethics liaison officer is responsible for coordinating appropriate training programs, monitoring agency policies relevant to ethics compliance, and serve as a resource for ethics guidance and advice.

Subdivision (2) of subsection (a) of Section 1-83 of the General Statutes indicates that each agency shall develop and implement, in cooperation with the Office of State Ethics, an ethics statement as it relates to the mission of the agency. The executive head of each agency shall be directly responsible for the development and enforcement of such ethics statement and shall file a copy of such statement with the Department of Administrative Services and the Office of State Ethics.

Condition: We were informed by the Board’s ethics liaison officer that an ethics statement and ethics training program has not been established or implemented by the Board. In addition, we were informed that exit interviews are not conducted with separating staff and a written summary of the post-State employment rules is not provided to exiting employees.

Effect: In the absence of providing the critical information pertaining to ethics to existing and exiting Board employees, there is an increased risk that non compliance may occur.

Cause: It did not appear that the Board was fully aware of the requirements put forth in Executive Order No. 1 by Governor Rell and the memo issued by the Special Counsel for Ethics Compliance.

Recommendation: The Board should comply with Executive Order No. 1 and the memorandum issued by the Special Counsel for Ethics Compliance by having the Board’s ethics liaison officer conduct exit interviews with separating employees to remind and provide them with a written summary of the post-State employment rules; and establish and implement an ethics training program within the Board. The Board should also comply with Subdivision (2) of subsection (a) of Section 1-83 of the General Statutes by establishing and implementing an ethics statement as it relates to the mission of the Board. (See Recommendation 6.)

Agency Response: “The ethics liaison officer will conduct exit interviews with exiting employees and provide a written summary of the post-State employment rules to the employee; establish and implement an ethics training program; and the Board will establish and implement an ethics statement as it relates to the mission of the Board.”

Personnel Related Issues:

Criteria: The Core-CT Personnel Actions History Report is a report that reflects manual changes to an employee’s job data in Core-CT. Appropriate agency personnel should review such report to ensure that any changes made to an employee’s file have been authorized.

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

Condition: The Core-CT Personnel Actions History Report is not utilized by the Board.

We were informed that the Board’s employee handbook is outdated.

Effect: Without review of the Core-CT Personnel Actions History Report, inappropriate and unauthorized manual changes to an employee’s job data screen on Core-CT may go undetected and result in an improper payment.

The lack of an updated employee handbook may contribute to confusion over policies and lend itself to inefficiency and ineffectiveness within the Board.

Cause: The Board was not cognizant of the Core-CT Personnel Actions History Report and claims that they did not have the time or resources to address updating the employee handbook.

Recommendation: The Board should utilize the Core-CT Personnel Actions History Report to ensure accuracy of changes made to an employee’s file and modify the existing employee handbook to reflect current policies. (See Recommendation 7.)

Agency Response: “The Board will comply with the recommendation on or before June 30, 2011.”

Procurement Related Issues:

Criteria: General business practice indicates that account coding should correlate to the goods/services being purchased.

Certain State contracts provide a listing of approved vendors from which price quotes should be obtained prior to selection by procuring agencies. Proper existing State contracts should be utilized in procuring certain goods and services.

Vendor invoices should be properly reviewed by agency staff prior to payment.

Condition: Of the twenty transactions tested for the audited period, we noted three instances where the purchase did not appear to be properly coded on Core-CT (the State's accounting system); two instances where three vendor bids were not obtained for printing services as required by contract; one instance where a piece of equipment was purchased through a vendor that did not have the State contract for such item; and two instances where vendor invoices did not appear to be properly verified for accuracy prior to payment.

Effect: In the instance of improper coding on Core-CT, budgetary comparisons may become inaccurate.

The Board may pay higher costs for goods and services in the absence of bidding and utilization of the proper State contract.

Without adequate review of vendor invoices, the Board may potentially overpay for services provided.

Cause: The condition appears to result from a lack of supervisory oversight. Additionally, the Board claims that a lack of resources and documentation from the vendor contributes to the condition.

Recommendation: The Board should take greater care to properly code transactions on Core-CT; comply with bidding terms of State contracts; and ensure documentation supporting invoices is sufficient to verify that the proper goods/services are received prior to payment to the vendor. (See Recommendation 8.)

Agency Response: "The agency has reviewed the CORE roles and has determined that a change was necessary in the roles of CORE Procurement approver and AP approver. We are optimistic that this issue will be resolved in the next audit period."

Services Provided Prior to Commitment:

Criteria: Section 4-98 of the General Statutes requires that appropriated funds be committed in the form of a purchase order prior to obligating the State. With regard to personal services, an executed "personal service agreement" serves as such commitment.

Section 4-213 of the General Statutes states that no State agency may hire a personal service contractor without executing a personal services agreement.

Condition: Our review of ethics affidavits for procurement purposes revealed two vendors that have appeared to have provided services to the Board without a properly authorized commitment document in place.

One vendor's personal service agreement expired on June 30, 2009, however the vendor was allowed to continue to provide services without a newly authorized commitment or signed contract with the State. They stopped providing services for the Board on January 31, 2010, when a new vendor took over. The vendor served as Pharmacy Benefits Manager for the health insurance program sponsored by the Teachers' Retirement Board. The service provided prescription drug benefits for retirees/spouses.

Another vendor's personal service agreement which took effect on January 1, 2008, was not signed by the Board official until April 28, 2008. The vendor provides administrative services as it pertains to Teachers' Retirement Board's dental plan.

Effect: Obligating the State without having a contractual agreement in place could result in the failure to receive expected services. Noncompliance with statutory requirements could result in the Board exceeding its appropriation.

Cause: The cause of the personal service agreement violation appears to be due, in part, to vendor disagreement over contractual terms.

Recommendation: The Board should comply with Sections 4-98 and 4-213 of the General Statutes and protect the State's interest with fully executed contracts prior to incurring obligations. (See Recommendation 9.)

Agency Response: "The Board places the contracts with our vendors as a very high priority and makes every good faith effort to have contracts in place prior to incurring liabilities by beginning the RFP process well in advance of the expiration of the existing contract. The vendor awarded the contract signed a statement included with their bid that if selected, they would be willing to sign the State of Connecticut contract. The contract was for a Pharmacy Benefits Manager who would be responsible for the delivery of a prescription drug program to retired teachers and spouses on Medicare Parts A and B, many of whom are reliant on our program for maintenance and other prescriptions drugs. Due to the nature of this contract, the Board was faced with the elimination of the pharmacy benefits administrator if they did not continue to pay for claims while the agency rebid the contract upon learning that the vendor would not sign the contract."

Financial Output Controls and Reconciliations:

Criteria: Good business practice requires that management should perform sufficient analytical and quantitative tests to ensure the accuracy of its records and financial reporting.

Condition: The prior audit report recommended that the Board should implement output control procedures over its financial reporting including the reconciliation of its receipts and expenditure totals to Core-CT totals.

We recognize that the Board has established greater input controls over individual postings of receipts and expenditures. For instance, the Board established a procedure requiring management approval of Core-CT expenditure voucher entries before finalization. In addition, a procedure was established to compare daily deposits to bank statement entries to ensure that all receipts are posted to Core-CT.

However, we were informed that the payments made out of the health insurance premium account within the Teachers' Retirement Fund (the account is now a separate OPEB Fund) for health claims are not recorded on Core-CT. Additionally, we were informed that adjustments made between the funds at the end of the year are also not recorded on Core-CT.

The individual input controls in place with the Board should be augmented by aggregate output controls. For instance, Core-CT receipts and expenditure totals by account should be periodically printed out and reviewed for accuracy and consistency. In addition, Core-CT receipts and expenditure totals should be reconciled to the Board's receipt and expenditure totals.

Effect: The implementation of financial output controls would strengthen financial reporting and accountability. A policy of reconciling Agency receipts and expenditure totals to Core-CT report totals would disclose any discrepancies in the Agency's coding.

Cause: We did not determine cause.

Recommendation: While we recognize the improvement in the accountability of revenues and expenditures, the Board should implement output control procedures over its financial transactions which include printing out Core-CT revenue and expenditure reports to directly reconcile to Board records. The Board should also record payments for health claims and end of year adjustments onto Core-CT. (See Recommendation 10.)

Agency Response: "We will record all health claim payments and year-end adjustments in Core-CT, and a reconciliation between Core-CT and Board records will be performed."

Independent Verification of Member Eligibility:

Criteria: Subdivision (18) of Section 10-183b of the General Statutes defines "member" as any Connecticut teacher employed for an average of at least one-half of each school day, except that no teacher who under any provision of the general statutes elects not to participate in the system shall be a member unless and until the teacher elects to participate in the system. Members teaching in a nonpublic school classified as a public school by the board under the provisions of this section may continue as members as long as they continue as teachers in such school even if the school ceases to be so classified. A former teacher who has not withdrawn his or her accumulated contributions shall be an "inactive member". A member who, during the period of a formal leave of absence granted by

his or her employer, but not exceeding an aggregate of ten school months, continues to make mandatory contributions to the board, retains his or her status as an active member.

Subdivision (26) of Section 10-183b of the General Statutes defines "teacher" as (A) any teacher, permanent substitute teacher, principal, assistant principal, supervisor, assistant superintendent or superintendent employed by the public schools in a professional capacity while possessing a certificate or permit issued by the State Board of Education, provided on and after July 1, 1975, such certificate shall be for the position in which the person is then employed, except as provided for in Section 10-183qq, (B) certified personnel who provide health and welfare services for children in nonprofit schools, as provided in Section 10-217a, under an oral or written agreement, (C) any person who is engaged in teaching or supervising schools for adults if the annual salary paid for such service is equal to or greater than the minimum salary paid for a regular, full-time teaching position in the day schools in the town where such service is rendered, (D) a member of the professional staff of the State Board of Education or of the Board of Governors of Higher Education or any of its constituent units, and (E) a member of the staff of the State Education Resource Center established pursuant to Section 10-4q employed in a professional capacity while possessing a certificate or permit issued by the State Board of Education. A "permanent substitute teacher" is one who serves as such for at least ten months during any school year.

Subsection (a) of Section 10-183e of the General Statutes indicates that a member shall receive a month of credited service for each month of service as a teacher, provided the Teachers' Retirement Board may grant a member a month of credited service for a month during which such member was employed after the first school day but not later than the fifth school day of such month if (1) such month was the member's first month of service as a teacher and (2) such month of credited service is needed by the member in order to qualify for a normal retirement benefit. Ten months of credited service shall be equal to one year of credited service. A member may not accumulate more than one year of credited service during any school year.

Condition:

Upon inquiry with Board staff, we were informed that there were no control procedures in place at the Board to verify that new members are properly certified for the positions in which they work. Thus, the Board cannot attest to the propriety of the service time to be credited. Reliance is placed on the districts to properly add members to the transmittal data with applicable contributions on a monthly basis to the Board.

However, we were informed that access to the State Department of Education's Certification System is already available to the Board's Benefits Unit for the purpose of reviewing the propriety of members' purchasing service time.

Effect: In the absence of verifying new members for proper certification, there is an increased risk that ineligible members may receive credited service and improperly computed pension benefits.

Cause: It appears that the condition exists due to a lack of adequate oversight in this area.

Recommendation: The Board should adopt and implement procedures to utilize the State Department of Education's Certification System to verify that proper certification exists for all new members listed on the monthly transmittal data received from districts. (See Recommendation 11.)

Agency Response: "We will research the feasibility of this recommendation."

Accounting for Member Contributions:

Criteria: Section 10-183n of the General Statutes requires each employer to deduct seven and one quarter percent of one-tenth of each active teacher's annual salary each month. Subdivision (7) of Section 10-183b of the General Statutes defines "mandatory contributions" as contributions required to be withheld consisting of six percent regular contributions and one and a quarter percent health contributions.

Subsection (d) of Section 10-183t of the General Statutes indicates that all health contributions withheld in excess of five hundred thousand dollars shall, upon deposit in the Teachers' Retirement Fund, be credited to a separate retired teachers' health insurance premium account within the Teachers' Retirement Fund. Beginning in fiscal year 2009, the Office of the State Comptroller directed the establishment of a separate fund (Other Post Employment Benefits (OPEB) Teachers' Fund) to replace the account.

Section 10-183l-6 of the State Regulations allows teachers to make installment purchases of eligible unpaid additional credited services through payroll deductions from teachers' salaries. The revenue from these purchases should be accounted for as retirement benefit resources.

Condition: We were informed by Board staff that a split of all contributions received is made without discretion to source. Seventeen percent is allocated to the separate retired teachers' health insurance premium account within the Teachers' Retirement Fund (the account is now a separate fund - the OPEB Teachers' Fund) and eighty-three percent is allocated to the Teachers' Retirement Fund. The Board does not separately account for the town's deductions for voluntary payments and installment payments from teachers' salaries which are transmitted to the Board with the members' mandatory contributions.

We were informed that the Board does not specifically track the amount of health contributions received to determine when the five hundred thousand dollar threshold is reached within the Teachers' Retirement Fund in order to ensure that all such funds received in excess of that is promptly credited

to the separate retired teachers' health insurance premium account within the Teachers' Retirement Fund (now the OPEB Teachers' Fund). Instead, a journal voucher adjustment is made at the end of each fiscal year to account for the first five hundred thousand dollars of health contributions that is required to be accounted for as retirement benefit resources.

Effect: Without proper accounting of contributions made, revenue may be significantly understated or overstated in certain funds and accounts. The use of the seventeen percent and eighty-three percent factors to determine the split between regular contributions and health contributions is not precise for purposes of the statute. More accurate factors to use would appear to be 17.24 percent and 82.76 percent.

Cause: It appears that adequate oversight was lacking in this area.

Recommendation: The Board should comply with Sections 10-183n and 10-183t of the General Statutes by properly accounting for both regular contributions and health contributions. (See Recommendation 12.)

Agency Response: "The agency acknowledges that the statutory language states the first \$500,000 will remain in the Pension Fund rather than a journal entry at the end of the fiscal year. We will follow the statutory language for fiscal year 2011."

Transmittal Late Fees:

Background: Subsection (a) of Section 10-183n of the General Statutes requires that each employer deduct for each month seven and one-fourth percent of one-tenth of such teacher's annual salary rate as directed by said Board and any additional voluntary deductions as authorized by the teacher.

Criteria: Subsection (b) of Section 10-183n of the General Statutes indicates that each local treasurer or other person having custody of teacher contributions deducted by an employer shall transmit and report such amounts to the Board so that they are received by said Board no later than the fifth business day of the following month. If such amounts are not accompanied by the reports and information deemed necessary or desirable by the Board for the proper administration of the system, the Board may deem such amounts not received by the fifth business day of the following month for purposes of this subsection until the date on which such reports and information are received. The Board shall be entitled to receive from an employer interest at the rate of nine percent per year from the due date on all amounts deducted by such employer and not received by said Board by the fifth business day of the following month. Interest at the rate of nine percent per year shall be compounded annually on the interest assessed from the date payment is received to the date the interest assessment is paid.

Subdivision (14) of Section 10-183b of the General Statutes defines "employer" as an elected school committee, a board of education, the State Board of Education, the board of governors or any of its constituent

units, the governing body of the Children's Center and its successors, the E.O. Smith School and any other activity, institution or school employing members.

Condition: Upon review of monthly transmittals from employers, it was noted that four out of ten transmittals were submitted late and subject to a late fee but were not pursued by Board staff.

Effect: In the absence of pursuing the late fees due, the State did not collect approximately \$2,000 in revenue.

Cause: Board staff explained that at that time of the exceptions, the process of pursuing late fees was new and that these instances were an oversight.

Recommendation: The Board should comply with subsection (b) of Section 10-183n of the General Statutes by pursuing and collecting all fees, due to late submitted transmittals from employers. (See Recommendation 13.)

Agency Response: "The agency has begun a process and procedure to establish a consistent response to late fees."

Accounts Receivable and Payable Records:

Criteria: Proper accounting and internal controls require that accounts receivable and payable systems be used to trace monies due to and from the Board. The estates of deceased retirees may owe the Board money or the Board may owe money to the beneficiaries of deceased retirees.

Since Core-CT is the State's accounting system, all accounts receivable records should be maintained on such.

Condition: Until April 1997 when it was stopped, the Board kept a monthly running record of accounts receivable and accounts payable related to retirees' deaths. Receivables, at that time, amounted to \$267,957 and payables amounted to \$755,615. While we have seen evidence of these functions put in place within the Board's computerized pension system (Pension Gold) to record and track such receivables and payables, we were informed that the function has not been utilized by staff yet.

Additionally, we were informed that none of the other types of accounts receivable records maintained at the Board are recorded on Core-CT.

Effect: Since April 1997, the Board could not provide account balances for these receivables and payables thus weakening financial reporting, weakening the safeguarding of State assets, and weakening the ability to match moneys due to moneys received.

The financial records for the Board are not properly represented on the State's official accounting system without entry of the receivable records.

Cause: The Board stopped maintaining these records because of staff time limitations; however, the Agency has indicated that the absence of accounting records has not hindered it in processing payments due or collecting receivables.

The Board indicated that the pension system does not currently interface with Core-CT. It would require them to enter such accounts receivable information twice. It was also explained that the process for entering such information on Core-CT was cumbersome and time consuming for which their limited resources could not address.

Recommendation: The Board should utilize the separate function in its computerized pension system (Pension Gold) to capture the receivables and payables due to the death of retirees. The Board should also continue to pursue entry of all its accounts receivable records to Core-CT. (See Recommendation 14.)

Agency Response: “The Board established the accounts payable and receivable within the current pension system. The Board will continue to pursue the use of the Core-CT receivable system in the future.”

CO-59 Inventory Report and Pension System Software:

Criteria: The State Property Control Manual issued by the Office of the State Comptroller provides the instructions for completing the CO-59 Asset Management/Inventory Report/GAAP Reporting Form. It additionally provides information to determine if the State owns certain software for reporting purposes. Unless the State has copyright ownership which allows exclusive rights to reproduce the copyrighted work and to distribute copies, the line for Software (Capitalized) Owned by the State on the CO-59 should be left blank.

Condition: The Board has reported \$1,116,000 as Software (Capitalized) Owned by the State in error. The Benefit Payment Module software used by the Board is under a source code license to the Board and does not possess copyright ownership.

Effect: The Board incorrectly overstated its annual inventory by \$1,116,000. Additionally, since the Board is under the impression that the software is State-owned, there is a higher risk that copyright infringement could occur.

Cause: It does not appear that the Board was clear on what represented State-ownership of software.

Conclusion: The Board has corrected its 2010 CO-59 Asset Management/Inventory Report/GAAP Reporting Form.

Accountability of Software:

Criteria: The State Property Control Manual indicates that agencies are to maintain a software inventory and conduct a physical inventory of the software

library at the end of each fiscal year to compare to the annual software inventory report. The manual also indicates that the software property control record should include the location and identification number of the CPU device in which the software is installed.

Condition: We were informed by Board staff that a physical software inventory is not conducted. Additionally, we noted that the software inventory records maintained by the Board did not include the location and identification number of the CPU device in which the software is installed.

Effect: Accountability over the software inventory is weakened without compliance with the State Property Control Manual policy and procedures regarding software inventory control.

Cause: It does not appear that Board staff were aware of the requirement.

Recommendation: The Board should comply with the State Property Control Manual and perform annual physical software inventory procedures and amend their software inventory records to include the location and the identification number of the CPU device where software is installed. (See Recommendation 15.)

Agency Response: “The Board is updating the physical inventory process to include software in the annual inventory.”

Telephone Usage Policy:

Criteria: The Acceptable Use of State Systems Policy issued in 2006 indicates that State systems are provided at State expense and are to be used solely to conduct State of Connecticut business. State systems are defined as including but not limited to electronic mail systems, the Internet, computers, laptops and related technologies and equipment.

Condition: It was noted that the Board has an internal policy pertaining to the use of State telephones and/or personal cell phones. It indicates that personal calls on occasion and of brief duration are understandable. It continues to add that employees should be aware that extensive numbers of such calls and/or calls of long duration would be considered misuse of State time and State equipment.

Effect: There is a higher risk that employees may violate the State’s Acceptable Use of State Systems Policy if employees choose to abide by the Board’s internal policy covering use of State telephones which appears to condone personal calls to a degree.

Cause: It appears that the condition exists due to an oversight.

Conclusion: The Board redistributed the latest State’s Acceptable Use of State Systems Policy to its staff in October 2010 and will incorporate it into the Board’s Employee Handbook during its next revision on or before June 30, 2011.

Accounting Procedures Manual:

- Criteria:* A formal accounting procedures manual can provide staff and management with a defined, consistent and authorized approach to handling various administrative situations. This provides employees a clear understanding of what is required and expected to comply with Agency policies. It can also provide guidance in unfamiliar and infrequently occurring situations. Such a manual should be periodically reviewed and kept up-to-date.
- Condition:* We noted that the Board has a collection of numerous separate procedural statements in a binder concerning the practices of its Accounting Unit which are not formally part of an organized and indexed accounting procedures manual.
- Effect:* The lack of a formal accounting procedures manual may lend itself to a higher risk that certain accounting functions may not be performed in an accurate or efficient manner.
- Cause:* We were informed that due to staffing issues, it was the best that the Board can do for now.
- Recommendation:* The Board should create a formal accounting procedures manual and periodically update it to ensure that any changes in process are properly reflected. (See Recommendation 16.)
- Agency Response:* “The Board will update and centralize the internal accounting procedures.”

Reemployment of Retired Teachers:

- Criteria:* Section 10-183v of the General Statutes limits the reemployment of retired public school teachers in public schools and gives the Board compliance responsibilities. Reemployment limitations differ according to the subject taught. A retired teacher may teach in a subject shortage area without approval for one full year but may, with the prior approval of the Board, work a second year. The Board requires employing towns to report all subject shortage area reemployment hiring.
- Other retirees may be temporarily employed for less than a school year but cannot be paid more than 45 percent of their former position’s maximum salary. Any retiree who is paid more than the 45 percent limit is required to reimburse the Board for the excess. Towns are required to report all such employment and the retirees are required to report their service at the end of their assignment.
- Condition:* Based upon the previous audit performed using records at the Connecticut Department of Education, it was found that during the 2007-2008 school year, various towns hired 175 retirees without notifying the Board. Retired teachers generally did not report to the Board at the end of their assignment as required. It was additionally noted that after the previous auditor informed the Board that various towns failed to report the

employment of 175 retirees, the Board contacted each of those towns and requested records on the employment of those retirees.

The current audit noted that the Board does not have written procedures regarding the process of monitoring compliance with Section 10-183v of the General Statutes. While the TRB does obtain “Post Retirement Reemployment 45% Rule” forms from the towns and applicable employees, there is no assurance that they are accurate. Also, there is still no assurance that towns are reporting all of the reemployed rehired teachers and administrators to ensure that the payments made by the towns do not exceed 45% of the employee’s former position’s maximum salary for those applicable.

Effect: The Board’s ability to enforce the requirements dealing with the reemployment of retired teachers appears weakened. Moreover, noncompliance could result in extra cost to the State. This is because subsection (c) of Section 10-183v provides that upon approval by the Board of a shortage area employment, the town is responsible for the retiree’s health insurance benefits cost without the Board’s subsidization for that cost under Section 10-183t of the General Statutes.

Cause: It appears that staff time limitations contributed to this situation.

Recommendation: The Board should develop written procedures for an enhanced program of monitoring compliance with statutory provisions concerning the reemployment of retired public school teachers in public schools. The Board should collaborate with the State Department of Education to obtain data to ensure that all reemployed retired teachers and administrators that are supposed to be reported by the towns are accounted for. Additionally, actual payroll documentation should be obtained from the town along with the “Post Retirement Reemployment 45% Rule – Employer Version” form to confirm the accuracy of each rehired retirees’ reported salary. (See Recommendation 17.)

Agency Response: “The Board will work with the State Department of Education to see if the new software allows for additional verification. We will also review our current pension system to see if any flags can be activated.”

Audits of Service Organizations:

Background: Three outside service organizations process medical claims for the Board’s self-insured health plan covering some retirees and retirees’ spouses.

Criteria: The Board has the responsibility of monitoring that these outside organizations use adequate controls in processing the Board’s medical claim payments. The most effective way to meet this responsibility is to rely on standardized “SAS 70” audits. The Statement of Auditing Standards (SAS) number 70 is authoritative guidance by the American Institute of Certified Public Accountants that provides a means of independent assurance to service organization users. Under SAS 70, an

independent auditor issues a report on the service organization's controls. Optimally, the Board should request and obtain from its service organizations "Type II SAS 70 reports", "Reports on Policies and Procedures placed in operation and test of operating effectiveness". (A type II report differs, primarily, from a type I report in that it requires that the service organization auditor do detailed testing of the service organization's controls.)

Condition: We were informed that the Board did not have a procedure in place to require that a suitable employee review the SAS 70 audits required to be provided by its service organizations to identify any control weaknesses that might undermine the Board's confidence in the accuracy of their service providers' invoices. However, we were informed that the review was assigned to the Board's Fiscal Administrative Supervisor in July 2010 and that one vendor's audit was reviewed. We were informed by the Board that another service provider would not provide a SAS 70 Audit until 2011, as it is not required under the current contract.

Effect: In the absence of satisfactory type II SAS 70 audit reports that have been reviewed by a suitable employee, the Board is not able to rely upon the accuracy of its service providers' invoices. Such invoices totaled over eighty-eight million dollars during the audited period.

Cause: Until recently, the Board did not give a high enough priority to receiving and reviewing type II SAS 70 audits of its service providers on a regular basis.

Recommendation: The Board should ensure all of its service providers have language within their contracts requiring that a copy of a type II SAS 70 audit is provided on a regular basis. In addition, the Board should establish procedures requiring such audits to be obtained and reviewed by a suitable Board employee. (See Recommendation 18.)

Agency Response: "We have obtained and reviewed all existing type II SAS 70 reports. We have added to our contract process."

Claims Audits:

Criteria: During fiscal years 2007 and 2008, the Board expended in excess of \$88 million in health insurance claims. The Board has a fiduciary responsibility to make regular efforts to cost-effectively identify and eliminate fraudulent and wasteful practices. One widely used approach to this end is to employ a specialist every two or three years to undertake a "claims audit". Claims audits review a percentage of claims payments made during an agreed time period identifying inappropriate claim payments for possible recoveries.

There are two ways of paying a claims audit specialist:

- Direct fee
- Splitting of income from claim recoveries.

It should be noted that hospital and medical claims (the Board's supplemental Medicare coverage plan), which amounted to approximately \$34,000,000 during the audited period, are reviewed by Medicare. However, the National Center for Policy Analysis indicated that "one estimate states that fraud and abuse cost Medicare and Medicaid about \$33 billion each year." In addition to fraud, Medicare overpayments might result from errors.

Condition: We were informed by Board staff that they did take initial steps in having a staff member initiate a claims audit. However, the employee was terminated and the audit was never completed. The Board has not taken any other steps to arrange for a claims audit to be completed.

Effect: Claims audits arranged on a splitting of income basis would provide a low risk way to recover overpayments and would provide assurance that claim payments are appropriate.

Cause: Board management has expressed that they do not have the funds to have such audits performed.

Recommendation: The Board should further explore arranging for claims audits of its self-insured health care plans. (See Recommendation 19.)

Agency Response: "The agency does not have the internal resources to accomplish this recommendation. With the budgetary restraints we will need to explore additional means to accomplish this recommendation."

Strategic Planning:

Criteria: A formal Strategic plan would help the Board to better clarify how it plans on meeting its written goals and objectives.

Condition: As identified in the previous audit report, the Board has identified a number of goals and objectives to pursue. They include the following:

- Review potential new technologies & identify those that can provide cost-effective solutions to business problems.
- Build an integrated system with less duplication of effort to collect, report, and distribute information.
- Re-engineer business processes to meet business needs, including redefining job responsibilities & assignments.
- Establish and use problem-solving teams to identify and solve business process problems.
- Provide the means, such as policies, procedures, training, and supervision, to help staff implement new processes, roles, responsibilities, and technology.

During the period under review, we noted that a Strategic Plan appeared to be created to meet the Board's written goals and objectives. However, we

noted that there was no formal approval by the Board for implementing the Plan.

Effect: In the absence of Board approval of such Plan, it is questionable as to whether all potential concerns of Board members would have been addressed.

Cause: The condition appears to exist due to an oversight.

Recommendation: The Board should review and consider the Strategic Plan for formal adoption in its meeting minutes. (See Recommendation 20.)

Agency Response: “The Strategic Plan will be brought before the Board for adoption.”

Vulnerability Assessment:

Criteria: The Board’s significant and complex processes are heavily dependent on its specialized computerized system. Management is responsible for establishing and maintaining effective internal control over its operations. Consequently, management should evaluate the effectiveness of its internal controls to meet problems and threats on an ongoing basis. Inherent in this process is the performance of vulnerability assessments that identifies risks and explores vulnerability solutions. Such a process should also monitor that controls procedures are being performed by employees.

Condition: The Department does not have a systematic formal vulnerability assessment process.

Effect: Vulnerabilities that could have been anticipated and avoided by an ongoing assessment remain. This may lead to problems such as errors, inefficiencies, additional costs and fraud exposure.

Cause: The Department does not have specialized position(s) for a formal, dedicated risk and vulnerability assessment and mitigation function. However, its staff possesses the competencies required to integrate a formal vulnerability assessment and mitigation effort into its overall management process. This did not occur during the period under review, because under the pressure of a high work-load, the need for a formal vulnerability assessment was not recognized as a high priority.

Recommendation: The Board should have a systematic formal vulnerability assessment process. That process should identify risk and explore vulnerability solutions. (See Recommendation 21.)

Agency Response: “We have received a SOW from DOIT, funding has been requested for this project in our Fiscal year 2012 budget.”

Workplace Security Measures:

- Criteria:* Connecticut has a “zero tolerance workplace violence policy”. Pursuant to Chapter 60a of the General Statutes, the Department of Public Works (DPW) is responsible for administering statewide security in State workplaces. DPW’s “Violence in the Workplace Policy and Procedures Manual” (Manual) delineates State agencies’ responsibilities which include the establishment of a Threat Assessment Team (TAT) and the implementation of ongoing workplace assessment and prevention strategies.
- Condition:* The Board has not complied with certain of the manual’s requirements; for instance, it has not established a formal Threat Assessment Team.
- Effect:* The absence, for instance, of a formal Threat Assessment Team might weaken the Board’s ability to prevent and react to workplace violence.
- Cause:* We were informed by management staff that it was felt that the Agency is too small to have a formal Threat Assessment Team.
- Recommendation:* The Board should comply with the Department of Public Works’ “Violence in the Workplace Policy and Procedures Manual” by establishing a Threat Assessment Team and implementing ongoing workplace assessment and prevention strategies. (See Recommendation 22.)
- Agency Response:* “We are working with DPW to establish a TAT with the two agencies housed in 765 Asylum Avenue.”

Lack of Timely Notification to Members of Lost Data:

- Criteria:* Sound business practice dictates that where a loss of sensitive data occurs, timely notification should be provided to those individuals potentially affected.
- Condition:* We were informed by Board staff that a flash drive containing data for the 2008 Annual Member Statements, which included such information as the member’s last four digits of the social security number, was determined to be lost in October 2009. Notification by the Board to members did not occur until June 2010, despite a letter from the Attorney General’s Office on January 29, 2010, advising the Board to immediately notify all individuals whose information was contained on the flash drive.
- Effect:* While it was indicated by Board staff that the flash drive lost was encrypted, the lack of prompt notification to members appears to have heightened concern amongst members and has placed the Board in a negative light.
- Cause:* It was indicated by the Administrator that since the flash drive was encrypted, there would be less concern regarding potential access to the data it contained. Additionally, there were initial questions as to whether

the data was subject to release under the Freedom of Information Act. This appears to have contributed to the delay in notification.

Recommendation: The Board should establish its own policy to promptly notify individuals affected upon any loss of sensitive information in its care. (See Recommendation 23.)

Agency Response: “We will establish a policy how to handle data losses in the event there is a loss in the future. After the notification was sent the Board received a “few” initial requests for identity loss protection so the Board is waiting for DAS to negotiate a contract for such services.”

Monitoring of Compliance with Section 10-183e, subsection (g):

Criteria: Subsection (g) of Section 10-183e of the General Statutes indicates that any teacher member who has been elected to a full-time or part-time position in an organization which has been duly designated as the teachers’ representative or who has been elected to a full-time or part-time position in a State-wide, national or international bargaining organization may, during the time such member so serves, continue membership and may make, or have made for such member, payments of contributions for such time, provided the organization which such member represents shall pay the full actuarial cost that would otherwise be incurred by the State for the time such member serves in excess of one year. If payment is made during such periods or at any time before retirement, such member shall receive credit for such service and shall be considered as serving as a public school teacher in the State for the purpose of computing length of service, and for the purpose of computing average annual salary, and shall be considered by the retirement board as though such member were remaining in such member’s latest teaching position.

Condition: The Board does not appear to monitor compliance with the Statute. The Board does not obtain information to track teacher members who hold positions with “union” organizations; nor does it bill such organizations for the full actuarial cost that would otherwise be paid for by the State.

Effect: We were informed that due to the lack of control over this area, the State has paid an indeterminate amount of the actuarial costs for such teacher members that should have been paid by the unions. Seven retired teacher members who held “union” positions have been identified as potentially overpaid on pension since the unions have not paid their full actuarial costs and their service time credits were applied anyway.

Cause: It appears that the condition exists due to an oversight in statutory interpretation.

Recommendation: The Board should establish controls and procedures to track when teacher members hold “union” positions and for determining compliance with subsection (g) of Section 10-183e of the General Statutes. (See Recommendation 24.)

Agency Response: “The TRB will survey the Boards of Education to determine how to obtain this information.”

Monitoring Compliance for Disability Allowances:

Background: Section 10-183aa of the General Statutes identifies how an active member may be eligible to receive a disability allowance if he or she has (1) become disabled as a result of any sickness or injury incurred in the performance of his or her duty as a teacher, without regard to the member’s accumulated years of service at the time the disability is incurred; or (2) accumulated at least five years of service in the public schools and becomes disabled, without regard to whether the disability was incurred in the performance of his or her duty as a teacher.

Criteria: Subsection (f) of Section 10-183aa of the General Statutes indicates that during the first twenty-four months of payment of the disability allowance to a member, twenty percent of all such members’ outside earned income or wages shall be offset against the disability allowance payable, unless the board determines that such earned income or wages are being paid as part of the rehabilitation of the member. At the expiration of such twenty-four month period, if the total of the disability allowance and outside earned income exceeds one hundred percent of average annual salary, the disability allowance will be reduced by the amount of such excess over one hundred percent.

Subsection (j) of Section 10-183l-23 of the State Regulations requires a member receiving a disability allowance to provide to the retirement board information regarding all worker’s compensation payments received while receiving the disability allowance, and all social security benefits to which he is entitled. The member’s disability allowance shall be adjusted so that the total of such allowance, less cost of living adjustments, plus worker’s compensation payments and social security benefits payable in any month do not exceed seventy-five percent of the member’s average annual salary. A member receiving a disability allowance shall provide to the retirement board information, including but not limited to copies of the member’s federal income tax return, regarding all income earned during the period the member is eligible to receive a disability allowance.

Condition: We were informed by staff that while the Board had been obtaining income verification data from members receiving disability allowance, the form received was simply filed and no action was taken by the Board to determine if a reduction in the disability allowance was necessary. In our review, we also noticed numerous instances in which members had not provided such information. For these cases, we were informed that the Board can only send another request for the income information. Under current legislation, the Board does not have the ability to stop payment if the income information required is not submitted by the member. For the 2007-2008 fiscal year, there were 362 individuals receiving disability allowance payments which totaled \$8,575,149.

Effect: There is a higher risk that the Board is overpaying members for disability allowance in the absence of analyzing the member's reported income. We were informed of one instance noted where a former teacher's income was submitted on the Board's applicable income verification forms but was not reviewed by the Board to determine if offsets were necessary. It was made clear that the former teacher exceeded allowable earnings and should have had the disability allowance suspended.

Cause: We were informed that a lack of staffing resources contributed to this condition.

Recommendation: The Board should establish and perform procedures to analyze the income verification documentation obtained from members receiving disability allowances to determine compliance with Section 10-183aa of the General Statutes and subsection (j) of Section 10-183l-23 of the State Regulations. Additionally, legislative change should be pursued to provide the Board with the authority to stop payment when such income verification documentation is not submitted by members. (See Recommendation 25.)

Agency Response: "The Administrator will bring this to the Board for direction. A statutory change may be sought by the Board with respect to stopping disability payments when an income verification form is not submitted by member."

Compliance with Section 10-183bb:

Criteria: Subsection (a) of Section 10-183bb indicates that retirement income payments being made to a member shall be suspended during any period when the member is receiving disability payments and necessary medical and hospital expenses because of injury incurred in the performance of certain duties, as provided in subsection (a) of Section 10-183aa.

Subsection (b) of Section 10-183bb indicates that retirement income payments being made to a member receiving disability payments and necessary medical and hospital expenses under the provisions of the Workers' Compensation Act shall be reduced while such disability payments are being made, except as provided in subsection (c) of this Section. The amount of each reduced retirement income payment shall equal the excess, if any, of the full retirement income payment over the disability payments.

Subsection (c) of Section 10-183bb indicates that retirement income payments shall not be reduced: (1) For a member receiving a specific indemnity award under section 31-307 or 31-308; (2) for a member who received a judgment for personal injuries and pain and suffering under the provisions of Section 31-293, provided he has reimbursed the State in full for all sums expended by it.

Condition: We were informed that the Board does not have any controls yet established to routinely receive the necessary data to determine compliance with this Statute.

- Effect:* In the absence of controls, there is a greater risk that the Board may be overpaying retired members due to the lack of income offsets. We were informed of instances in which certain retirees did not have their retirement income offset for workers' compensation received.
- Cause:* We were informed that a lack of staffing resources contributed to this condition.
- Recommendation:* The Board should establish controls and procedures to ensure that the necessary data pertaining to members receiving disability payments and necessary medical and hospital expenses under the provisions of the Workers' Compensation Act is received and any necessary offsets to members' retirement income is made in accordance with Section 10-183bb of the General Statutes. (See Recommendation 26.)
- Agency Response:* "The Board has reviewed the Waterbury Workers' Compensation information with the Comptroller's Office and State Workers' Compensation Commission to determine that the cases presented to the Board were not covered by the offset statutory language. A survey of the Boards of Education will determine the source of where this information can be obtained to determine if there are any cases requiring an offset."

Outdated State Regulations:

- Criteria:* The Regulations of State Agencies help to clarify the General Statutes and should reflect current information.
- Condition:* Upon inquiry, we were notified that the regulations had not been updated in many years. Certain instances were noted where they do not reflect current legislation or Board procedures.
- Effect:* The lack of accurate data in the Board's Regulations of State Agencies can lead to inefficiencies in operation.
- Cause:* It appears that the Board has not made updating of its regulations a high priority.
- Recommendation:* The Board should review its Regulations of State Agencies to determine what modifications or additions would be necessary to reflect current statutory language, as well as, their internal procedures. (See Recommendation 27.)
- Agency Response:* "The agency acknowledges that the regulations need to be reviewed with our statutes and internal procedures. Staff limitations make this a difficult item for this fiscal year."

Other Matters:

OPEB Teachers' Fund:

Subsection (d) of Section 10-183t of the General Statutes established a separate teachers' health insurance premium account within the Teachers' Retirement Fund. Notwithstanding this, the State Comptroller, to improve financial reporting and management, changed the account to a new separate fund – OPEB Teachers' Fund. The State Comptroller appears to have that authority. Section 24 of Article Fourth of the Constitution of the State of Connecticut and Section 3-112 of the General Statutes authorizes the Comptroller to “prescribe the mode of keeping and rendering all public accounts”. Section 3-112 of the General Statutes further provides that the Comptroller shall “Establish and maintain the accounts of the state government”. Nonetheless, the State Comptroller's Office notified us that they will introduce legislation revising Subsection (d) of Section 10-183t to change the teachers' health insurance premium account within the Teachers Retirement Fund to a separate fund.

RECOMMENDATIONS

Our prior report contained a total of eight recommendations. Of those recommendations, three have been substantially implemented or otherwise resolved and will not be repeated. Five have been revised to reflect current conditions. Twenty-two additional recommendations have been presented as a result of our current review.

Status of Prior Audit Recommendations:

- The Board should implement output control procedures over its financial transactions including the reconciliation of its receipts and expenditure totals to Core-CT totals. This recommendation is being modified and repeated. (See Recommendation 10.)
- The Board should require its service providers to furnish them with a copy of a type II SAS 70 audit on a regular basis. In addition, the Board should put in place procedures requiring SAS 70 audits to be reviewed by a suitable employee. This recommendation is being modified and repeated. (See Recommendation 18.)
- The Board should have a systematic formal vulnerability assessment process. That process should identify risks and explore vulnerability solutions. This recommendation is being repeated. (See Recommendation 21.)
- The Board should develop and maintain accounting records for the retirement benefits checking account and reconcile those records to bank statement totals in a timely manner. This recommendation is not being repeated.
- The Board should explore the possibility of arranging for claims audits of its self-insured health care plans. This recommendation is being repeated. (See Recommendation 19.)
- The Board should develop procedures for an enhanced program of monitoring compliance with statutory provisions concerning the reemployment of retired public school teachers in public schools. This recommendation is being modified and repeated. (See Recommendation 17.)
- The Board should improve its recordkeeping over the retired teachers' health insurance account. This recommendation is not being repeated.
- The Board should, with the assistance of the Comptroller's Office if necessary, review its accounting procedures regarding its process of recording cash receipts and the need to prepare accountability reports. This specific recommendation is not being repeated. However, we are making a related recommendation (See Recommendation 10.)

Current Audit Recommendations:

- 1. The Board should seek to incorporate a member attendance policy within Section 10-183I of the General Statutes; seek to obtain an opinion from the Office of Attorney General as to whether a change in status from active to retired affects a teacher member's ability to continue to serve on the Board; comply with Section 10-183I-11 of the State Regulations by ensuring monthly Board meetings are held; ensure that minutes are kept for the Medical Review Committee and other committees created by the Board in accordance with Sections 10-183I and 1-225 of the General Statutes.**

Comments:

We noted that one member of the Teachers' Retirement Board had been absent from meetings for an extensive period of time yet retained membership.

We were informed that there are four retired teacher members and one active teacher member on the Board as of May 2010. The Statute indicates that there shall be three active teacher members and two retired teacher members on the Board.

We noted that the Teachers' Retirement Board meetings are not held monthly as required by State regulation.

We were informed that the committees established under Section 10-183I of the General Statutes by the Teachers' Retirement Board such as the Legislative and Benefits Committee, as well as the Medical Review Committee established under Section 10-183aa of the General Statutes have not kept minutes of their meetings.

- 2. For purposes of clarity, the Board should refer to the Office of the Attorney General to determine how to resolve the conflicting statutory and regulatory authorization pertaining to the election of the Board's chairperson, and act accordingly.**

Comments:

Section 4-9 of the General Statutes indicates that, except for certain boards and commissions, the Governor shall appoint the chairperson of each board under the Executive Department. Subsection (b) of Section 10-183I-11 of the State Regulations indicates that one of the members of the Board is to be elected by the Board as its chairperson to serve for a one year term.

- 3. The Board should establish and adopt bylaws to address how it and its' committees intend to function.**

Comments:

It was noted that Teachers' Retirement Board does not have any adopted bylaws.

4. **The Board should comply with Section 10-183aa of the General Statutes and designate the Medical Review Committee members; establish a process for monitoring that the members receiving disability allowances are properly continuing treatment and remain in such status; and establish a process for identifying and addressing conflict of interest scenarios between Committee members and teacher members applying for disability allowances.**

Comments:

We were informed by Board staff that the Chairperson of the Medical Review Committee makes the selection of other Committee members rather than the Board. Additionally, we were informed that there are no control procedures in place with regard to reassessing whether a teacher member's disability allowance should continue; nor are there procedures addressing potential conflicts of interest between Committee members and teacher members applying for a disability allowance.

5. **The Board should comply with Section 10-183z of the General Statutes by annually certifying to the General Assembly, the amount necessary on the basis of an actuarial determination to establish and maintain the retirement fund.**

Comments:

We were informed the required information was not submitted to the General Assembly.

6. **The Board should comply with Executive Order No. 1 and the memorandum issued by the Special Counsel for Ethics Compliance by having the Board's ethics liaison officer conduct exit interviews with separating employees to remind and provide them with a written summary of the post-State employment rules; and establish and implement an ethics training program within the Board. The Board should also comply with Subdivision (2) of subsection (a) of Section 1-83 of the General Statutes by establishing and implementing an ethics statement as it relates to the mission of the Board.**

Comments:

We were informed that formal exit interviews with separating employees are not conducted to enable post-State employment rules to be disseminated. We additionally noted that the Board does not have an ethics statement as it relates to the mission of the Board nor does it have an established ethics training program.

7. **The Board should utilize the Core-CT Personnel Actions History Report to ensure accuracy of changes made to an employee's file and modify the existing employee handbook to reflect current policies.**

Comments:

We were informed that the Board does not utilize the Core-CT Personnel Actions History Report and that the Board's employee handbook is outdated.

8. **The Board should take greater care to properly code transactions on Core-CT; comply with bidding terms of State contracts; and ensure documentation supporting invoices is sufficient to verify that the proper goods/services are received prior to payment to the vendor.**

Comments:

Instances were noted where purchases did not appear to be properly coded to Core-CT, bidding was not performed in accordance with State contract, and insufficient supporting documentation was provided by the vendor for payment on invoices.

9. **The Board should comply with Sections 4-98 and 4-213 of the General Statutes and protect the State's interest with fully executed contracts prior to incurring obligations.**

Comments:

We noted two instances where services were being provided by a vendor despite the lack of an approved commitment document.

10. **While we recognize the improvement in the accountability of revenues and expenditures, the Board should implement output control procedures over its financial transactions which include printing out Core-CT revenue and expenditure reports to directly reconcile to Board records. The Board should also record payments for health claims and end of year adjustments onto Core-CT.**

Comments:

The Board has not yet reconciled its records of revenue and expenditures to Core-CT. Also, we were informed that payments for health claims and end of year adjustments are not entered onto Core-CT.

11. **The Board should adopt and implement procedures to utilize the State Department of Education's Certification System to verify that proper certification exists for all new members listed on the monthly transmittal data received from districts.**

Comments:

The Board does not have procedures in place to verify that proper certification exists for all new members.

12. **The Board should comply with Sections 10-183n and 10-183t of the General Statutes by properly accounting for both regular contributions and health contributions.**

Comments:

We were informed by Board staff that a split of all contributions received is made without regard to source. Seventeen percent is allocated to the separate retired teachers' health insurance premium account within the Teachers' Retirement Fund (the account is now a separate fund - the OPEB Teachers' Fund) and eighty-three percent is allocated to

the Teachers' Retirement Fund. The Board does not separately account for the town's deductions for voluntary payments and installment payments from teachers' salaries which are transmitted to the Board with the members' mandatory contributions.

We were informed that the Board does not have a mechanism in place to specifically track the amount of health contributions received to determine when the five hundred thousand dollar threshold is reached within the Teachers' Retirement Fund in order to ensure that all such funds received in excess of that is credited to the separate retired teachers' health insurance premium account within the Teachers' Retirement Fund (now the OPEB Teachers' Fund). A journal voucher adjustment is made at the end of each fiscal year to account for the first five hundred thousand dollars of health contributions that is required to be accounted for as retirement benefit resources.

- 13. The Board should comply with subsection (b) of Section 10-183n of the General Statutes by pursuing and collecting all fees due to late submitted transmittals from employers.**

Comments:

We noted that four out of ten transmittals reviewed had late fees totaling approximately two thousand dollars that were not pursued for collection.

- 14. The Board should utilize the separate function in its computerized pension system (Pension Gold) to capture the receivables and payables due to the death of retirees. The Board should also continue to pursue entry of all its accounts receivable records to Core-CT.**

Comments:

The Board has established a separate function on its computerized pension system to capture receivables and payables due to the death of retirees but does not currently utilize it. Additionally, it was noted that accounts receivables records are not maintained on Core-CT.

- 15. The Board should comply with the State Property Control Manual and perform annual physical software inventory procedures and amend their software inventory records to include the location and the identification number of the CPU device where software is installed.**

Comments:

An annual physical inventory of the Board's software is not conducted. Additionally, the Board's software inventory records do not include the required information identified by the State Property Control Manual.

- 16. The Board should create a formal accounting procedures manual and periodically update it to ensure that any changes in process are properly reflected.**

Comments:

The Board has a collection of numerous separate procedural statements in a binder concerning the practices of its Accounting Unit which are not formally part of an

organized and indexed accounting procedures manual.

- 17. The Board should develop written procedures for an enhanced program of monitoring compliance with statutory provisions concerning the reemployment of retired public school teachers in public schools. The Board should collaborate with the State Department of Education to obtain data to ensure that all reemployed retired teachers and administrators that are supposed to be reported by the towns are accounted for. Additionally, actual payroll documentation should be obtained from the town along with the “Post Retirement Reemployment 45% Rule – Employer Version” form to confirm the accuracy of each rehired retirees’ reported salary.**

Comments:

The previous audit report noted that upon comparison with the State Department of Education’s database districts had failed to report the employment of 175 retirees. The Board does not have any mechanism in place to discover if this issue continues. Reliance is wholly placed upon employers to report such information.

- 18. The Board should ensure all of its service providers have language within their contracts requiring that a copy of a type II SAS 70 audit is provided on a regular basis. In addition, the Board should establish procedures requiring such audits to be obtained and reviewed by a suitable Board employee.**

Comments:

We were informed that there remains one service provider that does not have language in their contract requiring that a copy of a type II SAS 70 audit be performed and submitted to the Board on a regular basis. It was also noted that the Board had not established procedures for such audits to be reviewed by a suitable Board employee.

- 19. The Board should further explore arranging for claims audits of its self-insured health care plans.**

Comments:

The Board has not performed any claim audits during the audited period.

- 20. The Board should review and consider the Strategic Plan for formal adoption in its meeting minutes.**

Comments:

While it was discussed in minutes, the Board’s Strategic Plan was not formally adopted by vote.

- 21. The Board should have a systematic formal vulnerability assessment process. That process should identify risk and explore vulnerability solutions.**

Comments:

The Department does not have a systematic formal vulnerability assessment and mitigation process. Management is responsible for establishing and maintaining an effective control process over its operations. Consequently, management is responsible to periodically and systematically evaluate operational vulnerabilities.

- 22. The Board should comply with the Department of Public Works' "Violence in the Workplace Policy and Procedures Manual" by establishing a Threat Assessment Team and implementing ongoing workplace assessment and prevention strategies.**

Comments:

The Board has not established a Threat Assessment Team as recommended in the previous audit report.

- 23. The Board should establish its own policy to promptly notify individuals affected upon any loss of sensitive information in its care.**

Comments:

We were informed by Board staff that a flash drive containing data for the 2008 Annual Member Statements, which included such information as the member's last four digits of the social security number, was determined to be lost in October 2009. Notification by the Board to members did not occur until June 2010, despite a letter from the Attorney General's Office on January 29, 2010, advising the Board to immediately notify all individuals whose information was contained on the flash drive.

- 24. The Board should establish controls and procedures to track when teacher members hold "union" positions and for determining compliance with subsection (g) of Section 10-183e of the General Statutes.**

Comments:

The Board does not obtain information to track teacher members who hold positions with "union" organizations; nor does it bill such organizations for the full actuarial cost that would otherwise be paid for by the State.

- 25. The Board should establish and perform procedures to analyze the income verification documentation obtained from members receiving disability allowances to determine compliance with Section 10-183aa of the General Statutes and subsection (j) of Section 10-183I-23 of the State Regulations. Additionally, legislative change should be pursued to provide the Board with the authority to stop payment when such income verification documentation is not submitted by members.**

Comments:

While the Board does obtain income verification documentation from members who receive disability allowances, there is no analysis conducted to determine if an offset or

suspension of such allowance is necessary. Additionally, the Board does not have the legislative authority to stop payment for when income verification documentation is not supplied by the member.

- 26. The Board should establish controls and procedures to ensure that the necessary data pertaining to members receiving disability payments and necessary medical and hospital expenses under the provisions of the Workers' Compensation Act is received and any necessary offsets to members' retirement income is made in accordance with Section 10-183bb of the General Statutes.**

Comments:

We were informed of instances in which certain retirees did not have their retirement income offset for workers' compensation received. We noted that there is no control in place for the Board to obtain information on who receives workers' compensation payments.

- 27. The Board should review its Regulations of State Agencies to determine what modifications or additions would be necessary to reflect current statutory language, as well as, their internal procedures.**

Comments:

The Board's Regulations of State Agencies are not up-to-date.

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, 2007 and 2008. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 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 Teachers' Retirement Board 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 Teachers' Retirement Board'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 Agency'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 Agency'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 Agency'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 Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 10 – There is a lack of reconciliation of revenues/expenditures from agency records to Core-CT. Additionally, not all transactions on the agency's records are recorded onto Core-CT. Recommendation 19 – Claims audits on the agency's self-insured health care plans are not performed.

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 Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency'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 believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Teachers' Retirement Board 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 Agency'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 Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Teachers' Retirement Board'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 the Teachers' Retirement Board's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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.

Dennis R. Collins Jr.
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts