

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE STATE COMPTROLLER
STATE RETIREMENT BENEFITS AND FUNDS
FISCAL YEARS ENDED JUNE 30, 2017, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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February 17, 2022

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of the State Comptroller – State Retirement Benefits and Funds for the fiscal years ended June 30, 2017, 2018 and 2019. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies and a need for improvement in practices and procedures that warrant the attention of management. The significant findings and recommendations are presented below:

<p><u>Page 16</u></p>	<p>The Retirement Services Division does not consider outside earnings, some of which are substantial, to be part of a disability benefit. It instead treated outside earnings as a reduction of the benefit, which in turn resulted in retirees receiving the minimum 60% amount established in the Interest Arbitration Award. By treating outside earnings this way, the division essentially eliminated the statutory offset, which has resulted in millions of dollars in unnecessary disability retirement benefit payments. The Office of the State Comptroller Retirement Services Division should request a formal opinion from the Office of the Attorney General regarding the appropriate annual benefit calculation for disability retirees who earn outside salary or wages. The request should specifically consider the intent of Issue #25 of the Interest Arbitration Award between the State of Connecticut and the State Employees Bargaining Agent Coalition regarding the Connecticut State Employees Retirement System. (Recommendation 1.)</p>
<p><u>Page 18</u></p>	<p>Our audit of service purchases made during the audited period, noted nine instances in which interest was not charged. Further review disclosed that 85 judicial marshals, who were affected by a memorandum of understanding that retroactively reclassified their service between July 1999 and March 2006 from non-hazardous to hazardous duty, purchased additional service up to June 1999 during the audited period. None of the 85 individuals was charged interest or required to retroactively pay interest to the retirement fund. Instead, the division applied the change in employee contributions prospectively. The Office of the State Comptroller Retirement Services Division should strengthen controls over retirement purchases to ensure compliance with state statutes and collective bargaining agreements. In addition, the division should require the retroactive collection of contributions. (Recommendation 2.)</p>

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AUDITORS OF PUBLIC ACCOUNTS

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State Capitol
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February 17, 2022

AUDITORS' REPORT OFFICE OF THE STATE COMPTROLLER – STATE RETIREMENT BENEFITS AND FUNDS FISCAL YEARS ENDED JUNE 30, 2017, 2018 and 2019

We have audited certain operations of the Office of the State Comptroller – State Retirement Benefits and Funds, including the State Employees Retirement Fund, the Alternate Retirement Program Fund, the State’s Attorneys Retirement Fund, the General Assembly Pension Fund, the Judges and Compensation Commissioners Retirement Fund, the Public Defenders Retirement Fund, the Probate Judges and Employees Retirement Fund, the Municipal Employees Retirement Fund and the Policemen and Firemen Survivors Benefit Fund. We have included in that examination the records pertaining to the appropriations for the Alternate Retirement System, the Judges and Compensation Commissioners Retirement Fund, the various miscellaneous statutory pensions and the state’s share of retirement salaries for active and retired employees in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2017, 2018 and 2019. This audit did not include the Teachers’ Retirement Fund, as a separate Teachers’ Retirement Board administers that fund, which our office audits separately. The objectives of our audit were to:

1. Evaluate the office’s internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the office or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the office; and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal

provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the office's management and the state's information systems, and was not subjected to the procedures applied in our audit of the office. For the areas audited, we:

1. Identified deficiencies in internal controls;
2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Identified a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Office of the State Comptroller – State Retirement Funds.

COMMENTS

FOREWORD

The Office of the State Comptroller operates primarily under the provisions of Article Fourth, Section 24, of the State Constitution, and Title 3, Chapter 34 of the General Statutes. The Office of the State Comptroller's Retirement Services Division administers state pension plans serving active and retired members, providing a comprehensive package of services including retirement counseling and administrative support to the Connecticut State Employees Retirement Commission.

Kevin Lembo was elected State Comptroller in November 2010 and served throughout the audited period. He served until his resignation effective December 31, 2021, when he was succeeded by Natalie Braswell who was appointed to the position by Governor Ned Lamont. John Herrington served as director of the Retirement Services Division during the audited period.

For prior audited periods, our office issued a single report entitled *State Retirement Funds and State Employee and Retiree Benefits* related to these areas. Effective for the current audited period, we separated our reporting to reflect the two areas of review: (1) State Retirement Benefits and Funds, and (2) State Employee and Retiree Healthcare and Benefits.

Significant Legislation

- **Public Act 17-107 (Section 1)**, effective July 1, 2017, allowed a municipality participating in the Municipal Employees Retirement System (MERS) that has an “unfunded accrued liability to the system” as of July 1, 2017, to authorize and issue MERS pension fund bonds to pay all or part of its outstanding liability plus the bond issuance costs.

Boards and Commissions

Connecticut State Employees Retirement Commission

The Connecticut State Employees Retirement Commission, established under Section 5-155a of the General Statutes, is responsible for the administration of the retirement programs presented in this report. In accordance with Section 5-155a, the membership of the commission is composed of the State Treasurer or designee who is a non-voting ex-officio member; the State Comptroller or designee who is a non-voting ex-officio member and also serves as secretary; and 15 trustees, including six representing state employees who are also members of the State Employees Bargaining Agent Coalition (SEBAC), six representing state management, two who are professional actuaries, and one neutral trustee who serves as chairman. All trustees serve for a three-year term except the chairman, who serves a two-year term. The Governor makes all appointments except for the employee trustees, who are selected by employee bargaining agents. The management and employee trustees jointly determine the appointment of the chairman and the actuarial trustee positions. Members of the commission as of June 30, 2019, were:

Peter Adomeit, Chairman	Angel Quiros, Management Trustee
Claude Poulin, Actuarial Trustee	Janet Andrews, Employee Trustee
Sandra Fae Brown-Brewton, Management Trustee	Michael Bailey, Employee Trustee
Karen Buffkin, Management Trustee	Charles W. Casella, Employee Trustee
Michael Carey, Management Trustee	Carl Chisem, Employee Trustee
Robert D. Coffey, Management Trustee	Paul Fortier, Employee Trustee
Karen Nolan, Management Trustee	Salvatore Luciano, Employee Trustee
One Vacancy	

Actuarial trustee Lisa Grasso Egan, management trustee Richard Cosgrove and employee trustees Laila Mandour, Stephen Greatorex, and Ronald McLellan also served as members during the audited period.

Medical Examining Board for State Employee Disability Retirement

Under Section 5-169 of the General Statutes, the Governor is required to appoint a Medical Examining Board of seven current or retired state employee physicians to determine entitlement to disability retirement for members of the State Employees Retirement System. The State of Connecticut and SEBAC filed an agreement to modify Section 5-169, effective July 1, 2014, whereas up to 25 per diem physicians are designated to the Medical Examining Board by the trustees of the Connecticut State Employees Retirement Commission. Members of the board as of June 30, 2019, were:

Nikolai Lieders, M.D., Chairperson
Richard Blum, M.D.
Amarjeet Dargan, M.D.
J. Robert Galvin, M.D.

Manny Katsetos, M.D.
Rita Ohene-Adjei, M.D.
Debra Pollack, M.D.
Lynn Rudich, M.D.

Dr. Kamel Ghandour and Dr. Albert Geetter also served as members during the audited period.

RÉSUMÉ OF OPERATIONS

State Employees Retirement Fund

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

On June 30, 1982, the General Assembly passed an act that approved the first pension agreement, a collective bargaining agreement concerning changes to the retirement system for state employees to be effective July 1, 1982 through June 30, 1988. The pension agreement, along with a supplemental agreement that took effect on March 1, 1983, was incorporated into the General Statutes.

State employee benefits, including pensions, are negotiated through collective bargaining between the State of Connecticut and SEBAC. Since the enactment of the pension agreement, the state's negotiations with SEBAC resulted in one arbitration award and separate SEBAC agreements which changed the pension terms. The SEBAC I, II, III, and IV agreements were enacted and effective prior to the 1996-1997 fiscal year. During the 1996-1997 fiscal year, SEBAC V was enacted, which modified the pension agreement and created a new tier entitled Tier IIA, effective July 1, 1997. The SEBAC V pension agreement provided that the State Employees Retirement System would not be changed through June 30, 2017, unless agreed to by all parties.

The SEBAC 2009 agreement modified sections of SEBAC V and included a retirement incentive plan. The SEBAC pension agreement was revised again in 2011 for individuals hired on or after July 1, 2011 with the creation of Tier III and a hybrid plan specifically for unclassified

employees of the Connecticut State System of Higher Education and the central office staff of the Department of Higher Education. SEBAC 2011 also provided a one-time, irrevocable opportunity for current members of the Connecticut Alternate Retirement Program to transfer membership to the new hybrid plan and purchase credit of their prior state service in that plan at the full actuarial cost. In addition, the 2011 SEBAC agreement adjusted the salary cap, breakpoint calculations, changed the early retirement reduction factor, and raised the minimum retirement age to 63 and 25 years of state service or age 65 and ten years of state service for employees retiring after July 1, 2022. The 2011 SEBAC agreement also extended the SEBAC V provisions that the State Employees Retirement System would not be changed unless mutually agreed to through June 30, 2022.

The SEBAC 2017 pension agreement was again revised in 2017 and, unless specifically referenced in this agreement, extended the SEBAC V provisions through June 30, 2027. It created Tier IV for employees hired on or after July 31, 2017, subject to increased pension and healthcare contributions and structural changes for normal retirement calculations.

The Connecticut State Employees Retirement Commission adopted new option factor tables for members of the State Employees Retirement System and the Probate Judges and Employees Retirement System to use for retirement benefit calculations effective June 1, 2009. New option factors were adopted for the Municipal Employees Retirement System effective July 1, 2009.

As of June 30, 2019, the State Employees Retirement System consisted of a five-tier system. Membership in each tier generally depends upon the employee's hire date. Membership in Tier I and II retirement plans is closed to those employees hired after June 30, 1997, membership in Tier IIA is closed to those employees hired after June 30, 2011, and membership in Tier III is closed to those employees hired after July 30, 2017. Tier IV was established in the SEBAC 2017 agreement for employees hired on or after July 31, 2017.

Tier I is a contributory pension plan. Section 5-158f of the General Statutes provides that eligible members can elect one of two benefit plans within Tier I, referred to as Plan B and Plan C. Plan B is integrated with Social Security and pays a lower benefit at age 65 or once Social Security disability benefits are received. Plan C benefits are in addition to those provided by Social Security.

Tier II is a noncontributory plan that provides a single level of benefits to all members, with the exception of hazardous duty members, who must make contributions to the system. Tiers IIA and III are contributory plans that provide benefits similar to Tier II.

Tier IV is comprised of a traditional combined benefit component and a new defined contribution component. The defined benefit component mandates a 5% employee contribution and provides benefits similar to Tiers II, IIA, and III. The defined contribution component mandates a 1% employee contribution plus a 1% employer matching contribution and includes investment gains or losses.

Members of each plan are eligible for retirement benefits based on a formula determined by years of service, age at retirement, type of retirement, average final compensation, plan

participation, and the benefit payment option selected. Tiers II, IIA, and III also include a breakpoint calculation. Members must have completed at least ten years of service or have reached the age of 70 with at least five years of service to receive a benefit. Members who become disabled may be eligible for disability retirement benefits regardless of their years of service.

The composition of state's total workforce by retirement plan as of June 30, 2019 follows:

Retirement Plan	Percentage of Workforce
Tier I	1%
Tier II	20%
Tier IIA	43%
Tier III	23%
Tier IV	13%

Retirements effective June 1, 1997 or earlier were eligible for an annual 3% cost of living adjustment (COLA) on their anniversary date. The anniversary date is January 1 or July 1, whichever first follows at least nine full months of retirement. The SEBAC V pension agreement impacted the COLA. For retirements effective July 1, 1999 and later, the COLA ranged from a minimum of 2.5% to a maximum of 6% based on a formula that utilizes the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the 12 months immediately preceding the retiree's anniversary date. Retirements between July 1, 1997 and June 1, 1999 were eligible to select, irrevocably, either of the two COLA provisions. The 2011 SEBAC agreement changed the minimum COLA to 2% and maximum COLA to 7.5% for individuals retiring after October 2, 2011. The 2017 SEBAC agreement altered the COLA formula for employees retiring on or after July 1, 2022. The revised COLA adjustment is based on a formula using the annual increase of the CPI-W for the twelve-month period prior to the effective date of the COLA. In cases in which the index increases are 2% or less, the COLA will be the actual increase in the CPI-W, if any. When the CPI-W increases by more than 2%, there is a minimum 2% COLA to a maximum of 7.5%. Post June 30, 2022, retirees will receive their first COLA 30 months after retirement.

Members who work in designated hazardous duty positions may receive normal retirement benefits with 20 years of service regardless of age. Effective July 1, 2011, Tier III hazardous duty employees may receive normal retirement benefits with 20 years at age 50 or 25 years of service regardless of age. There is no early retirement benefit provided to hazardous duty employees, regardless of tier membership.

The State Employees Retirement System provides for retirement coverage of most state employees, members of the General Assembly, operators of vending stands in public buildings, certain teachers employed at the E.O. Smith School, employees of the Connecticut Institute for Municipal Studies, and in certain cases, employees of the United States Property and Fiscal Office. Those state employees who do not participate in the State Employees Retirement System include judges, compensation commissioners, certain state's attorneys and public defenders, teachers in the Teachers' Retirement System, and higher education employees in the Alternate Retirement Program.

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

The State Retirement Commission must prepare a valuation of the system's assets and liabilities at least once every two years. The commission is authorized to employ actuaries to prepare such valuations and determine the annual appropriation of state funds necessary to meet the funding plan outlined in Section 5-156a of the General Statutes. An actuarial valuation of the system was prepared as of June 30, 2018 with roll forward valuations as of June 30, 2017 and June 30, 2019. As a result of these valuations, the unfunded actuarial accrued liability for the audited period was as follows:

	Fiscal Year		
	2016-2017	2017-2018	2018-2019
Unfunded Actuarial Accrued Liability	\$ 20,387,369,150	\$ 21,222,935,045	\$ 22,292,548,726

All assets were valued using the actuarial value of assets method, which distributes any gains and losses over a five-year period and makes adjustments, as necessary, so that the final actuarial value is within plus or minus 20% of the market value.

A comparison of membership information for the State Employees Retirement System as of June 30, 2017, 2018 and 2019 is presented below:

	As of June 30,		
	2017	2018	2019
Active Members			
Tier I	1,508	731	537
Tier II	12,716	10,152	9,943
Tier IIA	22,020	20,952	21,241
Tier III	13,775	15,015	11,336
Tier IV	-	2,303	6,372
Total Active Members	50,019	49,153	49,429
Retired Members	48,191	50,441	51,745
Inactive Members (Terminated Vested)	1,412	1,281	2,185
Total Members	99,622	100,875	103,359

The three major recurring revenue sources for the State Employees Retirement Fund (SERF) are state, federal, and member contributions. A comparison of these revenue sources for the audited period is provided below:

	Fiscal Year		
	2016-2017	2017-2018	2018-2019
State Contributions	\$ 1,253,898,621	\$ 1,167,731,091	\$1,291,867,358
Federal Contributions	288,399,266	276,322,327	286,455,265
Member Contributions	132,557,554	193,942,825	489,099,453
Total	\$ 1,674,855,441	\$ 1,637,996,243	\$ 2,067,422,076

Approximately \$249 million of the increase in FY 2018-2019 is attributed to the Alternate Retirement Program member service purchase transfers to the hybrid plan.

The two major recurring expenditures for SERF are benefit payments to members of SERS and employer refunds. A summary of these expenditures for the audited period is presented below:

	Fiscal Year		
	2016-2017	2017-2018	2018-2019
Benefit Payments	\$ 1,845,261,975	\$ 1,952,445,438	\$2,025,081,372
Employer Refunds	5,551,507	7,659,204	6,350,314
Total	\$ 1,850,813,482	\$ 1,960,104,642	\$ 2,031,431,686

The State Treasurer is the custodian of the fund’s investments. Investments in the State of Connecticut Combined Investments Funds are verified as part of our audit of the Office of the State Treasurer. A summary of the market and actuarial value of assets and rate of return as of June 30 for the audited period is presented below. This summary is based on information from actuarial reports on file with the Retirement Services Division and the divisions’ financial statements that were based on State Treasurer data.

	June 30,		
	2017	2018	2019
Market Value of Assets	\$ 11,929,236,420	\$ 12,452,787,902	\$ 13,275,692,603
Rate of Return	13.8%	7.1%	5.7%
Actuarial Value of Assets	\$ 12,593,751,330	\$ 12,990,400,124	\$ 13,795,389,341

Alternate Retirement Program (ARP) Fund

Section 5-155a of the General Statutes empowers the commission to authorize participation in an ARP for eligible unclassified employees of the constituent units of the state higher education system. Such program may be underwritten by a licensed life insurance company.

During the audited period, the ARP was administered by Prudential Retirement Insurance and Annuity Company, which became the third-party administrator (TPA) effective July 1, 2015. Retirement benefits are based on employee and employer contributions and investment earnings. Retirement payment options, at age 55 or older, include partial or lump-sum withdrawal, a systematic withdrawal option (includes specified period or specified amount), rollover to another eligible retirement plan or individual retirement arrangement (IRA), a combination of various

payout and annuity options, or Internal Revenue Code (IRC) Required Minimum Distribution. The rollover option is the only choice for participants that separate from service and are under the age of 55 and less than ten years of participation.

The retirement contribution rate for participants hired prior to July 1, 2017 is 5% percent of salary and the state's share is 7% of salary. Employees hired on or after July 1, 2017 can choose to contribute either 5% or 6.5% of their salary, the state's share is 6.5%. All contributions are held in individual accounts with Prudential.

Section 5-156 of the General Statutes provides that expenditures forwarded to the insurance company from the ARP Fund account may exceed the appropriation to such account, if such deficiency is due to anticipated reimbursements to the account and if such reimbursements are anticipated to be made within six months of such expenditures. The transfers of the state share from the General Fund appropriations must be made in the month following the employee contributions and is paid directly to the insurance company and, therefore, is no longer transferred to and paid from the ARP Fund.

The state's share of contributions was remitted directly from the General Fund appropriation account to the third-party administrator. Refunds of contributions from the TPA and fringe benefit recoveries to the General Fund were credited against this share, resulting in net charges against the General Fund appropriation account totaling \$(4,481,076), \$(14,532,297), and \$(21,539,657) for the fiscal years ended June 30, 2017, 2018, and 2019, respectively.

State's Attorneys Retirement Fund

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

Section 51-278 requires the State Comptroller to deduct 5% of the salaries of members of the State's Attorneys Retirement Fund as retirement contributions. These contributions are deposited in a separate trust fund in the custody of the State Treasurer. Contributions can be refunded if an attorney leaves office before retirement.

The retirement salary for which a member is eligible is determined by age at retirement, years of service, and the salary at the time of retirement. Provisions exist for disability retirements and death benefits.

The aforementioned sections of the General Statutes do not specifically outline the method of financing retirement salary payments to each retired state’s attorney.

The investments in the State’s Attorneys Retirement Fund, which made up most of the assets of the fund, the employee contributions, and net investment income for the audited period are presented below:

	As of June 30,		
	2017	2018	2019
Market Value of Investments	\$ 1,798,681	\$ 1,932,097	\$ 2,056,554
Employee Contributions	\$ 25,702	\$ 25,107	\$ 25,421
Investment Income	\$ 351	\$ 365	\$ 429

Our office verifies investments in the State of Connecticut Combined Investment Funds as part of our audit of the Office of the State Treasurer. Receipts primarily consisted of employee contributions and investment income. Pensions paid to retired members were principally financed by the General Fund appropriation for Pensions and Retirements – Other Statutory and, if necessary, the State’s Attorneys Retirement Fund assets.

General Assembly Pension Fund

Sections 2-8b through 2-8p of the General Statutes previously provided for a voluntary retirement plan for members of the General Assembly. Public Act 85-502 repealed these statutes and abolished this pension system, effective July 1, 1985, and all assets of the fund were transferred to the State Employees Retirement Fund, except for an actuarially determined reserve needed to fund those already retired and receiving benefits from the system. As of July 1, 1985, provided for in Section 2-8r, members of the General Assembly are covered under Tier II of the State Employees Retirement System, unless a member elected by December 31, 1990, to participate in the Tier I plan.

The assets of the General Assembly Pension Fund consisted primarily of investments in the State Treasurer’s Short Term Investment Fund. The net investment income and pensions paid to retired members during the audited period are presented below:

	As of June 30,		
	2017	2018	2019
Market Value of Investments	\$ -	\$ -	\$ -
Investment Income	\$ 64	\$ 152	\$ 284
Pensions Paid to Retired Members	\$ -	\$ -	\$ -

Our office verifies investment balances as part of our audit of the Office of the State Treasurer. Receipts consisted primarily of investment income. The General Assembly Pension Fund finances pensions paid to retired members.

Judges and Compensation Commissioners Retirement Fund

Chapters 871, 872, and 882 of the General Statutes provide a retirement system for judges, compensation commissioners, and family support magistrates. All monies received in connection with the system are to be deposited to the Judges and Compensation Commissioners Retirement Fund. Funding for the system is to be provided by contributions from the General Fund and 5% payroll deductions from member salaries. The State Employees Retirement Commission administers the system, while the State Treasurer serves as custodian and investment manager of the fund.

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

The retirement salary for which a member is eligible is determined by age at retirement, years of service, and the salary of the office held at retirement. Members must have completed at least ten years of service to receive a benefit. There are provisions for disability retirement and death benefits.

Section 51-49d of the General Statutes provides that the Judges’ Retirement System be funded on an actuarial reserve basis, with actuarial surveys of the system performed at least once every two years with annual certifications to the General Assembly of funding requirements. Actuarial valuations of the system were prepared as of June 30, 2018 and 2019, which resulted in unfunded actuarial accrued liabilities of \$211,206,242 and \$230,918,150, respectively.

The following analysis presents the market value of investments of the Judges and Compensation Commissioners Retirement Fund, the employee contributions, and investment income for the audited period:

	As of June 30,		
	2017	2018	2019
Market Value of Investments	\$ 209,118,132	\$ 221,363,036	\$ 234,958,025
Employee Contributions	\$ 1,689,192	\$ 1,663,425	\$ 1,693,504
Investment Income	\$ 91,889	\$ 102,435	\$ 89,631

Our office verifies investments in the State of Connecticut Combined Investment Funds as part of our audit of the Office of the State Treasurer. Receipts consisted primarily of investments, employee contributions, and investment income.

Public Defenders Retirement Fund

Sections 51-49, 51-295, and 51-295a of the General Statutes provide for a separate retirement program for each public defender incumbent on July 1, 1978, similar to the program for state’s attorneys. In addition, effective July 1, 1986, the chief public defender and the deputy could elect this retirement program. A retirement fund was established to receive 5% payroll contributions

from participants, including transfers from the State Employees Retirement Fund for transferred service credit.

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

Pensions were paid to five retirees/beneficiaries during the audited period. The pensions were mainly financed by the General Fund appropriation for Pensions and Retirements – Other Statutory.

Probate Judges and Employees Retirement Fund

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

As provided in Section 45a-49, the commission transmits all contributions required under the system to the State Treasurer, who shall be custodian of the fund with power to invest as much of the fund that is not required for current disbursements. Sections 45a-44 and 45a-45 require members of the retirement system to make contributions equal to 1% of their earnings on which Social Security taxes are paid through the commission and 3.75% of earnings in excess of that. For those not covered under Social Security, retirement contributions are 3.75% of earnings.

Section 45a-82 of the General Statutes requires that on or before July 1 annually, the commission certify to the State Treasurer, on the basis of an actuarial determination, the amount to be transferred to the retirement fund to maintain the actuarial plan adopted by the commission. Payments of these actuarially determined funding amounts are made from the Probate Court Administration Fund. Actuarial valuations of the system were prepared as of December 31, 2017, 2018 and 2019. As a result of these valuations, it was determined that there was no unfunded actuarial accrued liability as of those dates.

The retirement salary for which a member is eligible is determined by any Social Security coverage, the retirement date, the years of service, and the average final compensation, in accordance with the provisions of the aforementioned sections of the General Statutes.

The following analysis presents the market value of investments of the Probate Judges and Employees Retirement Fund, employee contributions, interest and investment income, and pensions paid to retired members through the fund for the audited period:

	As of June 30,		
	2017	2018	2019
Market Value of Investments	\$ 94,651,815	\$ 99,284,571	\$ 109,203,456
Employee Contributions	\$ 253,796	\$ 233,018	\$ 221,630
Interest and Investment Income	\$ 42,349	\$ 50,494	\$ 50,423
Pensions Paid to Retired Members	\$ 5,154,005	\$ 5,359,601	\$ 5,643,046

Our office verifies investments in the State of Connecticut Combined Investment Funds as part of our audit of the Office of the State Treasurer. Receipts consisted primarily of investment income, including gain on sale of investments, operating transfers from the Probate Court Administration Fund, mainly for health services costs and employee contributions. Pensions and health services costs paid to retired members were financed by the Probate Judges and Employees Retirement Fund.

Municipal Employees Retirement Fund

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

The Municipal Employees Retirement System is composed of a retirement fund and an administration fund. As of June 30, 2019, municipalities and housing authorities with 9,759 enrolled active employees were participants. As of that date, benefits were being paid to 7,824 retired employees or their survivors.

Any municipality may, by resolution passed by its legislative body and subject to referendum, participate in the system. The effective date of participation shall be at least 90 days subsequent to the commission's receipt of a certified copy of the resolution. Participation also may be achieved through an agreement between a municipality and an employee bargaining organization in accordance with Section 7-474(f) of the General Statutes.

Section 7-441 of the General Statutes, which prescribes the various contributions required of participating municipalities, requires each municipality to pay the commission an annual proportionate share of the fund's administrative costs, as determined by the commission on the basis of the number of members employed by each municipality. These monies are deposited into the Administrative Fund, which was established to account for all administrative contributions and expenditures.

The member's eligible retirement amount is determined by the years of service and the average final compensation over the three highest paid years. Members must have completed at least 25 years of service, or attain the age of 55 with five years of service to receive a benefit. Provisions exist for disability retirements and death benefits.

Employee contribution rates are set by Section 7-440 of the General Statutes. Employees contribute either 2.25% or 5%, based on whether Social Security contributions are deducted from their salary. Municipal contribution rates are set by the commission based on actuarial valuations,

which, under the provisions of Section 7-443 of the General Statutes, are required at least every five years. Actuarial valuations of the system were prepared as of June 30, 2018 and 2019, with a roll forward valuation prepared as of June 30, 2017. As a result of these valuations, the unfunded actuarial accrued liability as of June 30, 2017, 2018 and 2019 was \$414,723,578, \$843,099,289, and \$912,993,626, respectively.

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

	Effective Date July 1,		
	2016	2017	2018
Policemen and Firefighters with Social Security	16.73%	17.13%	17.13%
General Employees with Social Security	11.38%	11.74%	11.74%
Policemen and Firefighters without Social Security	14.98%	16.93%	16.93%
General Employees without Social Security	10.91%	12.15%	12.15%

Section 7-439b of the General Statutes provides for an annual cost of living adjustment (COLA) for each retired member or surviving annuitant of a retired member receiving regular benefit payments. A COLA is determined by the member's date of retirement and age at retirement.

The following analysis presents the market value of investments of the Municipal Employees Retirement System, which made up most of the assets of the fund, the employee contributions, investment income earned, and pensions paid to retired members for the audited period:

	As of June 30,		
	2017	2018	2019
Market Value of Investments	\$ 2,430,791,432	\$ 2,611,356,558	\$ 2,702,326,608
Employee Contributions	\$ 23,979,083	\$ 23,021,345	\$ 22,420,456
Interest and Investment Income	\$ 1,243,809	\$ 1,368,695	\$ 1,000,228
Pensions Paid to Retired Members	\$ 154,179,090	\$ 166,548,132	\$ 178,609,910

Our office verifies investments in the State of Connecticut Combined Investment Funds as part of our audit of the Office of the State Treasurer. The actuarial value of assets was determined on a market-related basis. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and assumed investment income were phased in over a closed five-year period. Pensions paid to retired members were financed by the Municipal Employees Retirement Fund.

Policemen and Firemen Survivors Benefit Fund

The Policemen and Firemen Survivors Benefit Fund generally operates under the provisions of Section 7-323a through 7-323i of the General Statutes. The primary objective of the fund is to provide benefits for surviving dependents of deceased municipal policemen and firefighters. Any municipality, by ordinance or collective bargaining agreement approved by its legislative body,

may participate in the plan. Employee contribution rates are fixed by statute at 1% of the employee’s compensation. Municipal contributions, however, are made in amounts determined by the commission to be necessary to maintain the fund on a sound actuarial basis.

Section 7-323c(d) of the General Statutes requires municipalities to annually pay a proportionate share of the administration costs of the fund as determined by the commission. The fee is charged on a per member basis. Revenues collected through this assessment are deposited to the Administration Fund of the Municipal Employees Retirement System, as its employees have the responsibility of overseeing the operations of the Policemen and Firemen Survivors Benefit Fund.

Actuarial valuations of this fund were prepared as of June 30, 2018 and 2019. As of June 30, 2019, there were 679 active employees from nine municipalities participating in the plan.

The following analysis presents the market value of investments of the Police and Firemen Survivors Benefit Fund, which made up most of the assets of the fund, employee contributions, interest and investment income, and disbursements from the pension paid to surviving dependents for the audited period:

	As of June 30,		
	2017	2018	2019
Market Value of Investments	\$ 32,192,507	\$ 34,389,491	\$ 36,516,811
Employee Contributions	\$ 554,892	\$ 576,916	\$ 643,932
Interest and Investment Income	\$ 14,746	\$ 16,433	\$ 19,327
Pensions Paid to Surviving Dependents	\$ 1,212,163	\$ 1,188,078	\$ 1,233,611

Investments in the State of Connecticut Combined Investment Funds are verified as part of our audit of the Office of the State Treasurer. Contributions are transferred to the State Treasurer for investment. Disbursements for benefit payments are processed in the Policemen and Firemen Survivors Benefit Fund through the Municipal Employees Retirement Fund system.

Pensions and Retirements – Other Statutory

Section 3-2a, 6-2b, and 11-10a of the General Statutes and various special acts authorize pensions and retirements to former Governors and their spouses, certain former county employees and law librarians, and various individuals. These pensions and retirements are paid from a special appropriation of the General Fund entitled Pensions and Retirements – Other Statutory. In addition, this account is used to fund that portion of the retirement benefits paid to retired members of the State’s Attorneys and Public Defenders Retirement Funds that is not funded by those retirement funds.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of the State Comptroller – State Retirement Funds disclosed the following three recommendations, all of which have been repeated from the previous audit:

STATE EMPLOYEES RETIREMENT SYSTEM

Statutory Offsets for Disability Retirees with Outside Earned Salary or Wages

Background:

Issue #25 of the September 1989 Interest Arbitration Award between the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC) regarding the Connecticut State Employees Retirement System (SERS) created a minimum disability retirement benefit of no less than 60% of the employees' rate of salary at the time their disability occurred, and required an annual adjustment to the benefit. Prior to this agreement, the Retirement Services Division applied the statutory offsets for disability retirees with outside earnings when it performed its annual benefit calculation, which reduced the amount SERS paid to those retirees. The division changed its calculation methodology after this agreement became effective, which essentially eliminated the statutory offset provisions.

Criteria:

For Tier I members, Issue #25 of the arbitration award proposed adding a new subsection to Section 5-169 of the General Statutes that states, "Notwithstanding any other provision of law, each member entitled to disability retirement under this section shall receive a retirement income, inclusive of social security and workers' compensation, which is no less than sixty per cent of their rate of salary at the time their disability occurred. This benefit shall be adjusted in accordance with Sec 5-162d, Sec 5-162(h) or Sec 169(h)(3) whichever is greater." It should be noted that this new subsection has not been codified.

The statutes referred to in the new subsection apply to the annual benefit increase for which each disability retiree is entitled. Section 5-169(h)(3) of the General Statutes only applies to the maximum benefit per subdivision (1) of Section 5-169(g) and shall only be considered if the member had outside earned salary or wages. Section 5-169(g) of the General Statutes applies a maximum benefit, which includes outside earned salary or wages.

For Tier II members, Issue #25 of the arbitration award proposed adding a new subdivision to Section 5-192p(d) of the General Statutes that states, "Notwithstanding any other provision of law, each member entitled to disability retirement under this section shall receive a retirement income, inclusive of social security and workers'

compensation which is no less than sixty per cent of their rate of salary at the time their disability occurred. This benefit shall be adjusted in accordance with Sec 5-192s or Sec 5-192p(e)(3) whichever is greater.” This new subdivision has not been codified.

The statutes referred to in the new subdivision apply to the annual benefit increase for which each disability retiree is entitled. Section 5-192p(e)(3) of the General Statutes only applies to the maximum benefit provided in Section 5-192p(d)(1) and shall only be considered if the member has outside earned salary or wages. Section 5-192p(d)(1) of the General Statutes applies a maximum benefit, which includes outside earned salary or wages.

Condition:

The 1989 arbitration award created a minimum benefit when an employee retires due to a disability, which is to be adjusted annually in accordance with applicable statutes. As noted in the Criteria, those statutes consider outside earnings as part of the benefit.

Since the effective date of the arbitration award, the division has not considered outside earnings, some of which are substantial, to be part of the benefit. It instead treated outside earnings as a reduction of the benefit, which in turn resulted in retirees receiving the minimum 60% amount established in the arbitration award. By treating retirees outside earnings this way, the division essentially eliminated the statutory offset, which has resulted in millions of dollars in unnecessary disability retirement benefit payments.

Effect:

The failure to reduce the retirement payments to disability retirees with outside earnings appears to have resulted in significant overpayment of benefits. Unless the division changes its calculation methodology for these payments, it will continue to make overpayments, which will add to the already significant SERS unfunded liability.

Cause:

The division believes that it is calculating the annual benefit for disability retirees in accordance with Issue #25 of the arbitration award.

Prior Audit Finding:

This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2012 through 2016.

Recommendation:

The Office of the State Comptroller Retirement Services Division should request a formal opinion from the Office of the Attorney General regarding the appropriate annual benefit calculation for disability retirees who earn outside salary or wages. The request should specifically consider the intent of Issue #25 of the Interest Arbitration Award between the State of Connecticut and the State Employees

Bargaining Agent Coalition regarding the Connecticut State Employees Retirement System. (See Recommendation 1.)

Agency Response:

“The Auditors’ analysis makes two incorrect assumptions. First, it asserts that Issue #25 has not been “codified.” In fact, Issue #25 has the same status as any statute, pursuant to Conn. Gen. Stat. § 5-278(e). Second, the Auditors confuse two different types of pension adjustment. Issue #25 does, indeed, refer to statutes that take outside earnings into account. But it does so only with respect to the annual cost-of-living adjustments that must be made to retirees’ disability pensions. With respect to those cost-of-living adjustments, Issue #25 requires the Division to apply the statute that results in the largest possible pension amount.

Issue #25 also requires the Retirement Services Division to adjust the base amount of pensions, to account for a retiree’s receipt of outside income. It is this type of adjustment that the Auditors purport to address. In connection with this type of adjustment, however, Issue #25 permits consideration of only two types of outside income: workers’ compensation benefits and Social Security benefits. Thus, the Retirement Services Division could not include outside earnings in the calculation of basic pension amounts without violating an award that has the full force of law.

Seeking a formal opinion on this issue from the Office of the Attorney General would be superfluous because the Division’s position is consistent with the advice it has received from the independent legal counsel of the State Employees Retirement Commission. Advice about the “intent” of Issue #25 would also be irrelevant, because the language of the award is plain and unambiguous. *See* Conn. Gen. Stat. § 1-2z.”

Auditor’s Concluding Comment:

We disagree that Issue #25 pertains only to workers’ compensation and Social Security, as it specifically states, “including any Social Security and worker compensation.” Furthermore, it does not appear that the intent of the 60% minimum was to eliminate offsets for outside earnings, but to create a base for disabled employees who have limited service time and cannot work.

Retirement Purchases

Background:

In March 2006, the State Employees Bargaining Agent Coalition (SEBAC) and the state entered into a memorandum of understanding (MOU) that reclassified certain judicial marshals from non-hazardous to hazardous duty. The MOU indicated that this reclassification would be retroactive to July 1999 and that the Retirement Services Division

should provide the hazardous duty retirement credit in accordance with its past procedures.

Criteria: The SEBAC V agreement specifies that, to receive credit for prior period service, Tier IIA employees must pay 5% per year interest from the time such service was rendered to the date of payment.

Collective bargaining agreements, Section 5-180(b) of the General Statutes, and division policies establish the requirements for state employees who wish to purchase qualifying prior service to be counted for retirement purposes.

Condition: Our audit of 30 prior service purchases made during the audited period, noted nine instances in which interest was not charged. The purchases were made by seven Tier IIA retirement plan members and one member each in the Tier I and Tier III plans.

In addition, we noted that four employees from those nine instances above were judicial marshals affected by the MOU that retroactively reclassified their service between July 1999 and March 2006 to hazardous duty. Many of the judicial marshals, including the four tested, purchased additional service back to June 1999 during the audited period. Further review into the processing of this MOU disclosed that all 85 affected judicial marshals that purchased prior service time during the audited period were not charged interest. Additionally, we noted that none of the judicial marshals was required to retroactively pay interest to the retirement fund. Instead, the division prospectively applied the change in employee contributions.

Effect: The Retirement Services Division does not consistently apply the various policies and procedures that govern the purchase of service time for employees in the State Employees Retirement System.

Cause: It appears that there were insufficient controls in place to properly adhere to these policies.

In our previous audit, the division informed us that it did not charge interest because the MOU was silent on the matter. In addition, the division did not request catch-up contributions because its policy has been to prospectively apply these types of changes.

Prior Audit Finding: Part of this finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2012, through 2016. The matter related to the judicial marshals was previously reported only in the last audit report covering the fiscal years ended June 30, 2015 and 2016.

Recommendation: The Office of the State Comptroller Retirement Services Division should strengthen controls over retirement purchases to ensure compliance with state statutes and collective bargaining agreements. In addition, the division should require the retroactive collection of contributions. (See Recommendation 2.)

Agency Response: “The Conditions described in this finding are matters of interpretation and policy, not the strength of controls. The State Employees Retirement Commission has adopted a policy of requiring hazardous duty contributions only prospectively where, as in the case of judicial marshals, re-classification is the result of an agreement affecting a class of employees, rather than an individual choice. The Memorandum of Understanding that effected this re-classification provides that judicial marshals would receive hazardous duty credit “in accordance with the procedures utilized for including previous classifications in the Hazardous Duty Retirement Appendix.” For this reason, judicial marshals were not required to make “catch-up” contributions, and no interest was due on any of their contributions.

The other purchases of service credit for which interest was not charged involved credit for prior military service. The Auditors are correct that Section 5-193(I) of SEBAC V provides that members of Tier IIA should pay 5% interest in connection with the purchase of most forms of service credit. But that provision also states that purchases shall be for “a sum based on the provision governing contributions for such service under the applicable provision of Tier I.” In the case of purchases of credit for prior military service, the applicable provision of Tier I is Section 5-180(b), and that section provides that *no* interest shall be charged for the purchase of military service that occurred after January 1, 1962.

In all other situations, the Retirement Services Division endeavors to enforce applicable statutes and agreements relating to the award of service credit for prior service.”

Auditor’s Concluding Comment:

It appears that the policy adopted by the State Employees Retirement Commission conflicts with SEBAC regarding purchases and hazardous duty contributions.

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

Contributions from Municipalities

- Criteria:* Section 4-32 of the General Statutes requires the deposit of receipts of \$500 or more within twenty-four hours. Although the funds received for the Municipal Employees Retirement Fund (MERF) do not represent state revenue, the Office of the State Comptroller controls the fund and it is therefore subject to the provisions of Section 4-32.
- Condition:* Our audit of 36 contribution reports, totaling \$999,400, disclosed three instances in which the division did not deposit contributions on time. These contributions totaled \$221,404 and were deposited between one and six business days late.
- In addition, we noted 11 instances in which \$296,893 in contributions, were not stamped with a receipt date. Due to the lack of a documented receipt date, we were unable to determine whether the division deposited these funds in a timely manner.
- Effect:* The Retirement Services Division Municipal Employees Retirement System (MERS) Unit did not fully comply with the prompt deposit requirements set forth in Section 4-32 of the General Statutes.
- Cause:* The Retirement Services Division MERS Unit did not consistently follow procedures to date stamp contribution reports when they are received.
- Prior Audit Finding:* This finding has been previously reported in the last three audit reports covering the fiscal years ended June 30, 2009 through 2016.
- Recommendation:* The Office of the State Comptroller Retirement Services Division MERS Unit should ensure that it deposits all receipts in accordance with the provisions of Section 4-32 of the General Statutes and should date stamp or otherwise record receipt dates. (See Recommendation 3.)
- Agency Response:* “The Retirement Services Division agrees with this recommendation. The Division has implemented policies to ensure that it deposits all receipts in a timely manner and stamps contribution reports with the date on which they are received. As a result of these policies, the Division’s practices have been compliant with Section 4-32 since late 2019.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Office of the State Comptroller – State Retirement Funds contained nine recommendations. Six have been implemented or otherwise resolved and three have been repeated or restated with modifications during the current audit.

- The Office of the State Comptroller Retirement Services Division should ensure compliance with Section 415 of the Internal Revenue Code by ceasing all benefit payments in excess of the limitations imposed within that section. **This recommendation has been resolved.**
- The Office of the State Comptroller Retirement Services Division should request a formal opinion from the Office of the Attorney General regarding the appropriate annual benefit calculation for disability retirees who earn outside salary or wages. The request should specifically consider the intent of Issue #25 of the Interest Arbitration Award between the State of Connecticut and SEBAC regarding the Connecticut State Employees Retirement System. **This recommendation is being repeated. (See Recommendation 1).**
- The Office of the State Comptroller Retirement Services Division should revise its methodology for calculating death benefits for the beneficiaries of retired SERS plan members. Specifically, the federal tax exclusion ratio should be calculated on a case-by-case basis using the simplified method instead of the average exclusion ratio the division has been using. **This recommendation has been resolved.**
- The Office of the State Comptroller Retirement Services Division should strengthen controls over retirement purchases to ensure compliance with the procedures set forth in state statutes and collective bargaining agreements. In addition, the division should require the retroactive collection of contributions. **This recommendation is being repeated. (See Recommendation 2).**
- The Office of the State Comptroller Retirement Services Division should recover the monies due to the State Employee Retirement System, collect the proper amounts from the undercharged employees, and deposit those monies to the appropriate SERS tier plans. **This recommendation has been resolved.**
- The Office of the State Comptroller Retirement Services Division should improve internal controls to ensure that it date stamps contributions upon receipt and deposits them within the time limits required by Section 4-32 of the General Statutes. **This recommendation has been resolved.**
- The Office of the State Comptroller Retirement Services Division should track accounts receivable more accurately and actively follow up on the collection or write-off of inactive accounts. **This recommendation has been resolved.**

- The Office of the State Comptroller Retirement Services Division MERS Unit should ensure that it deposits all receipts in accordance with the provisions of Section 4-32 of the General Statutes, and should stamp all contribution reports indicating the date it received them. **This recommendation it being repeated. (See Recommendation 3).**
- The Office of the State Comptroller Retirement Services Division MERS Unit should continue to clear old cases and actively pursue all types of overpayments for repayment or write-off. It also should modify or add language to the repayment letters informing the contingent annuitants or the estates of the deceased retirees that they are not required to repay the overpayment. **This recommendation has been resolved.**

Current Audit Recommendations:

- 1. The Office of the State Comptroller Retirement Services Division should request a formal opinion from the Office of the Attorney General regarding the appropriate annual benefit calculation for disability retirees who earn outside salary or wages. The request should specifically consider the intent of Issue #25 of the Interest Arbitration Award between the State of Connecticut and the State Employees Bargaining Agent Coalition regarding the Connecticut State Employees Retirement System.**

Comment:

Citing a 1989 interest arbitration award, the division's calculation methodology to determine annual disability retirement benefits essentially eliminated the statutory offset provisions for retirees with outside earnings. However, it does not appear that the arbitrator intended to eliminate those statutory offset provisions. As a result, the state may be incurring millions of dollars in unnecessary disability retirement benefit payments.

- 2. The Office of the State Comptroller Retirement Services Division should strengthen controls over retirement purchases to ensure compliance with state statutes and collective bargaining agreements. In addition, the division should require the retroactive collection of contributions.**

Comment:

Our audit of 30 prior service purchases made during the audited period noted nine instances in which interest was not charged. The purchases were made by seven Tier IIA retirement plan members and one member each in the Tier I and Tier III plans. In seven of those instances, the purchases were made by Tier IIA members.

Further review disclosed that four employees of those nine noted above were part of the 85 judicial marshals affected by a memorandum of understanding retroactively reclassifying their service between July 1999 and March 2006 from non-hazardous to hazardous duty. We noted that all of those 85 affected judicial marshals were not charged interest. Additionally, we noted that none of the judicial marshals was required to retroactively pay interest to the retirement fund. Instead, the division prospectively applied the change in employee contributions.

- 3. The Office of the State Comptroller Retirement Services Division MERS Unit should ensure that it deposits all receipts in accordance with the provisions of Section 4-32 of the General Statutes and should date stamp or otherwise record receipt dates.**

Comment:

Our audit of 36 contribution reports, totaling \$999,400, disclosed three instances in which the division did not deposit contributions on time. These contributions totaled \$221,404 and were deposited between one and six business days late.

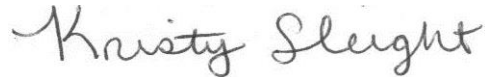
In addition, we noted 11 instances in which \$296,893 in contributions, were not stamped with a receipt date. Due to the lack of a documented receipt date, we were unable to determine whether the division deposited these funds in a timely manner.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the State Comptroller during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Sarah Monaghan
Brianna Passero
Kristy Sleight
Samantha Smith

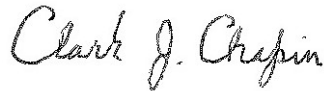


Kristy Sleight
Principal Auditor

Approved:



John C. Geragosian
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Clark J. Chapin
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