

STATE OF CONNECTICUT



***AUDITORS' REPORT
TEACHERS' RETIREMENT BOARD
FOR THE FISCAL YEARS ENDED
JUNE 30, 2009 AND 2010***

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

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September 12, 2012

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010

We have examined the financial records of the Teachers' Retirement Board for the fiscal years ended June 30, 2009 and 2010. 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 evaluating its internal controls established to ensure such compliance.

COMMENTS

FOREWORD:

Section 10-183I of the General Statutes established the Teachers' Retirement Board (TRB or 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— Commissioners of Education and Social Services (or their designees)
- Five (three active and two retired teachers) system participants elected by their peers
- Five gubernatorial appointees

Pursuant to Section 10-183I 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.

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The following persons were members of the Teachers' Retirement Board as of June 30, 2010:
Elected Teacher Members:

Active Teachers:

Clare H. Barnett, Chair
William T. Murray, Jr.
William Myers

Retired Teachers:

Rosalyn B. Schoonmaker, Vice Chairperson
Marion S. Jewell

Public Members:

Eugene Cimiano
Jonathan Johnson
Elaine T. Lowengard
Two vacancies

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 for public school educators who are employed at least half-time. These educators are not covered by Social Security for their teaching service. The retirement system offers normal, pro-ratable, and early retirement after certain vesting periods. 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 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, 2010, according to the Board's actuarial valuation, there were 63,998 non-retired members of whom 51,368 were actively teaching. Active teaching members are required to contribute seven and one quarter percent of their pensionable 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 participating in 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, 2010, the subsidy payment is up to \$110 monthly for the retired member plus an additional amount up to \$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 inactive teachers who have not taught for over 25 years, the Board annually adds interest to active and inactive 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 2009-2010	4.5%	Computed on the June 30, 2009, member's account balance
Fiscal year 2008-2009	3.7%	Computed on the June 30, 2008, member's account balance
Fiscal year 2007-2008	7.7%	Computed on the June 30, 2007, member's account balance
Fiscal year 2006-2007	10.10%	Computed on the June 30, 2006, member's account balance

In the event a member's participation in the retirement system terminates 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 member 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.

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, 2010, actuarial evaluation reported an unfunded accrued liability for retirement benefits at that date of \$9,065,729,000, compared with \$6,530,008,000 at June 30, 2008.

Significant Legislation:

2009-2010 Legislative Session:

Public Act 10-22: This act makes minor changes in the law governing the Teachers Retirement System (TRS). It specifies that a member who completes the 10 years of credited

service needed for deferred vested retirement eligibility after turning age 60 may begin receiving benefits immediately instead of no sooner than age 65 and how an employing board of education and a TRS member, as appropriate, must pay for additional TRS service credit purchased in connection with a retirement incentive plan.

Public Act 10-57: This act allows the Teachers Retirement Board to pay professional consultant fees for administering TRB retirement plans, up to \$150,000 per year from the Retired Teachers' Health Insurance Premium Fund instead of the General Fund. It also requires TRB, when it determines that a member retired based on a retirement benefit estimate issued on or after November 1, 2008 that contains a material error, to pay the member the benefits specified in the estimate. Under the act, a material error means that the estimate was off by 10 percent or more. The act also makes technical changes.

2008-2009 Legislative Session:

Public Act 09-43: This act corrects a typographical error in the statute dealing with promised annual pension cost of living adjustments (COLAs) for those who join the Teachers' Retirement System after July 1, 2007. By doing so, it applies percentage COLAs for such members after they retire to the basic retirement benefits they will receive on the last day of December or June and excludes from the COLA calculation any benefits based on one percent or voluntary contributions. This matches the COLA calculation for all other TRS members.

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 \$9,998 and \$0 were made from the Capital Equipment Purchasing Fund for the fiscal years ended June 30, 2009 and 2010, respectively.

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>
2009-2010	\$559,224,244	\$264,684,734	\$843,366,050
2008-2009	539,302,674	260,278,792	426,043,504
2007-2008	2,518,560,263	251,759,977	519,183,824

Note that general obligation bond proceeds of \$2 billion were deposited during the fiscal year ended June 30, 2008.

Member contributions consisted primarily 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 \$188,081,000, \$24,937,000, and \$502,467,000 for the fiscal years ended June 30, 2008, 2009 and 2010, 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 \$20,769,667, \$22,433,384, and \$4,058,868 for the 2007-2008, 2008-2009 and 2009-2010 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 who obtain health insurance coverage through their last employing board of education.

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>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Actuarially Determined Funding	\$518,560,263	\$539,302,674	\$559,224,244
Actual State Contributions	518,560,263	539,302,674	559,224,244
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 \$1,667,810, \$1,573,023, and \$857,420 for the fiscal years ended June 30, 2008, 2009 and 2010, respectively.

A summary of fund expenditures for the fiscal years ended June 30, 2008, 2009 and 2010, is

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presented below for comparative purposes:

	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Retirement Benefits	\$1,266,950,462	\$1,381,129,716	\$1,415,903,458
Health Insurance Benefits	71,111,961	85,195,057	91,994,607
Contribution Refunds	16,314,549	14,691,011	12,382,933
Totals	\$1,354,376,972	\$1,481,015,784	\$1,520,280,998

The number of retirees and beneficiaries receiving payments increased from 28,787 in June 2008 to 30,493 in June 2010. The rise in retirement benefits from the 2007-2008 fiscal year through the 2009-2010 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 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.

Effective July 1, 2007, Public Act 07-186 eliminated the cost of living adjustment reserve account. Effective with 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 2010	3.0%	0.0%
January 2010	3.0%	0.0%
July 2009	3.0%	1.5%
January 2009	3.0%	1.5%
July 2008	4.5%	2.3%

As noted above, health insurance benefits paid on behalf of retirees increased from \$71,111,961 in the 2007-2008 fiscal year to \$91,994,607 in the 2009-2010 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 healthcare benefits.

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 \$14,691,011 and \$12,382,933 in the 2008-2009 and 2009-2010 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, 2008, 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.

A Health Insurance Premium Account was established in 1989 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 pensionable 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 \$57,538,581, \$73,785,190, and \$66,072,302 at June 30, 2008, 2009 and 2010, 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>
2010	\$9,694,150,621	\$12,273,555,439
2009	\$9,465,461,178	\$11,396,681,762
2008	\$9,651,572,373	\$14,541,624,961

The Teachers' Retirement Fund's assets consist of the investments listed above. Per the State Comptroller's Comprehensive Annual Financial Reports, the net assets (assets less liabilities) amounted to \$14,554,461,000, \$11,410,680,000, and \$12,284,330,000 at June 30, 2008, June 30, 2009 and June 30, 2010, respectively. The net assets figure includes fund

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liabilities but does not include the actuarially determined unfunded accrued liability for retirement benefits discussed in the Foreword section of this report. Instead that information is, presented, pursuant to governmental accounting standards, 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, 2008, 2009 and 2010 is presented below for comparative purposes:

	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Transfers to Retirement Fund			
State Funding	\$518,560,263	\$539,302,674	\$559,224,245
Health Insurance Subsidies	<u>20,769,667</u>	<u>22,433,384</u>	<u>0</u>
Total Transfers	539,329,930	561,736,058	559,224,245
Administrative Expenses	<u>2,341,304</u>	<u>2,326,288</u>	<u>1,813,701</u>
Totals	<u>\$541,671,234</u>	<u>\$564,062,346</u>	<u>\$561,037,946</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.

Administrative expenses consisted primarily of personal service payments to employees that totaled \$1,715,575, \$1,832,131, and \$1,504,386 for the fiscal years ended June 30, 2008, 2009 and 2010, respectively. This increase, from fiscal year 2008 to 2009, reflects staff increases, salary increases and cost of living adjustments.

General Fund receipts totaled \$582 and \$10 during fiscal years 2008-2009 and 2009-2010, respectively. For comparative purposes, General Fund receipts totaled \$270 for the fiscal year 2007-2008.

CONDITION OF RECORDS

Areas warranting comment are presented below:

Financial Output Controls and Reconciliations:

Criteria: Good business practice requires that management should perform sufficient analytical and quantitative tests to provide reasonable assurance over 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 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: The Board's inexperience with Core-CT's financial reporting system contributed to this condition.

Recommendation: The Teachers' Retirement 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 1.)

Agency Response: "We will begin to record pension fund expenditures and health fund receipts and expenditures in Core-CT and reconcile these on a monthly basis beginning July 1, 2012."

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. Members teaching in a non-public 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 the 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: The prior audit report indicated although the Board's Benefit Unit had access to the State Department of Education's Certification System, there were no control procedures to verify that new members were properly certified for the positions in which they worked. Therefore, the Board relies on the districts to correctly add members to the monthly transmittal data with the applicable contributions.

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: The Board's lack of emphasis in this area has contributed to this condition.

Recommendation: The Teachers' Retirement 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 2.)

Agency Response: "The State Department of Education (SDE) and the local Boards of Education are responsible to verify members' certification. The SDE informs us of uncertified teachers and of certification lapses; we take appropriate action to remove membership credit and refund ineligible contributions. We have also instituted a random review of the certification status of members reported on transmittals. We are not aware that the audit identified any instances of uncertified members receiving membership credit."

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 requires 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 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: Initial attempts were made by the Board to collect fees and interest due on the late submittals of transmittals. However, there were no subsequent follow-ups for those transmittals where late fees were charged but not collected.

Effect: The Board did not collect approximately \$2,300 in revenues.

Cause: We were informed by the Board that due to limited staff, the process of following-up on late fees not collected was not prioritized.

Recommendation: The Teachers' Retirement Board should fully comply with subsection (b) of Section 10-183n of the General Statutes by collecting all fees due to the late submitted transmittals from employers. (See Recommendation 3.)

Agency Response: "We will institute a follow-up procedure for uncollected fees, and forward uncollected items to the Department of Administrative Services' Collection unit beginning on July 1, 2012."

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 and payable records should be maintained on such.

Condition:

Our prior audit report indicated that until April 1997 the Board maintained monthly records of accounts receivable and accounts payables related to retiree deaths. Receivables, at that time, were \$267,957 and payables were \$755,615. We noted that the Board's current computerized pension system has the functions to record and track receivables and payables but they are not being utilized by the Board's personnel.

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 ceased to maintain accounts receivable and accounts payable records because of limited personnel resources; however, the Board indicated that this was not a hindrance in processing payments due or collecting receivables from retirees or their estates.

The Board indicated that the pension system does not interface with Core-CT. Thus, it would require the accounts receivable and accounts payable data to be entered twice. The Board also explained that its personnel had limited experience with Core-CT.

Recommendation:

The Teachers' Retirement Board should utilize the separate function in its computerized pension system 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 4.)

Agency Response:

"We will record accounts receivable and payable beginning July 1, 2012."

Accounting Procedures Manual:

- Criteria:* A formal accounting procedures manual can provide staff 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:* The Board has several procedural statements in a binder that relates to the practices generally adhered to in the Accounting Unit. These procedural statements are not formally part of an authorized 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:* The Board is understaffed and believes that it does not have the resources to compile an accounting procedures manual at this time.
- Recommendation:* The Board should create formal accounting procedures manual and periodically update it to ensure that any changes in process are properly reflected. (See Recommendation 5.)
- Agency Response:* "Documentation exists for most significant accounting policies and functions. We will consolidate this into a manual during fiscal 2013."

Reemployment of Retired Teachers:

- Criteria:* Section 10-183v of the General Statutes limits the re-employment of retired public school teachers and gives the Board compliance responsibilities. Re-employment limitations differ according to the subject taught. A retired teacher may teach in a subject shortage area without approval for one full school 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 re-employment hiring.

Other retirees may be temporarily employed for less than a school year but cannot be paid more than 45 percent of the maximum salary level for the assigned position. 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: The previous audit report disclosed that the Board did not have written procedures regarding the process of monitoring compliance with Section 10-183v of the General Statutes. While the TRB does obtain completed Post Retirement Reemployment 45% Rule forms from applicable towns and employees, there does not appear to be any verification procedures in place to ensure that the forms have been completed accurately. In addition, there is no assurance that the towns are reporting all of the re-employed rehired teachers and administrators to ensure that the payments made by the towns do not exceed 45 percent of the employee's former position's maximum salary for those applicable.

Effect: The Board's ability to enforce the requirements concerning the reemployment of retired teachers may be compromised resulting 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: A general lack of staff appears to have contributed to this situation in this area.

Recommendation: The Teachers' Retirement Board should develop written procedures for an enhanced program of monitoring compliance with statutory provisions concerning the re-employment of retired public school teachers in public schools. The Board should collaborate with the State Department of Education to obtain data to verify 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 6.)

Agency Response: "We will validate our information regarding retired members' postretirement reemployment against the SDE's records beginning in 2013. Receiving salary documentation will not help us in that there are many things that appear on payroll documents such as W2s that include items that are not pensionable and would only serve to complicate matters."

Claims Audits:

Criteria: During the current audit period the Board expended in excess of \$115 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 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 \$41 million during the audit period, are reviewed by Medicare. However, the National Center for Policy Analysis indicated 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 the Board that no claims audits have been performed during the current audit period.
- 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:* The Board expressed that budgetary and personnel restrictions have limited their ability to address this situation.
- Recommendation:* The Teachers' Retirement Board should further explore arranging for claims audits of its self-insured health care plans. (See Recommendation 7.)
- Agency Response:* "We'll again request that a claims audit be included in our expense budget. We should also note that we obtain SAS 70 reports for entities which pay our health care claims; these reports attest to the effectiveness of the entities' internal controls. Also, we understand that the Comptroller's Office plans to perform an audit of prescription drug claims that will include our prescription plan's claims. We are not aware that the audit identified any erroneous claims."

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: The state has paid an indeterminate amount of the actuarial costs for such teacher members that should have been paid by the unions. In our prior audit, seven retired teacher members who held union positions have been identified as potentially overpaid on pensions since the unions have not paid their full actuarial costs and their service time credits were applied anyway.

Cause: A general limited staff appears to have contributed to this situation.

Recommendation: The Teachers' Retirement 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 8.)

Agency Response: "We will devise and implement a method to identify members holding union positions in 2012-13."

Monitoring Compliance with Disability Allowances:

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

Section 10-183aa(f)-1 of the General Statutes indicates each person receiving a disability retirement allowance from the system during a calendar year shall by April 15th, of the following year file with the Board an annual income statement on a form approved by the

Board containing such details of the income of the disabled retiree for the calendar year as may be required or useful to insure compliance with the provisions of Chapter 167a relating to disability retirement. In addition, the Board may require a disabled retiree to furnish copies of the retiree's federal income tax return for any year for which disability retirement allowances have been paid to the retiree. Payment of disability retirement allowances may be suspended for any retiree while the retiree is delinquent in filing an annual income statement or a required copy of the retiree's federal income tax return

Criteria:

Subsection (f) of Section 10-183aa of the General Statutes indicates that during the first twenty-four months 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 10-1831-23 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 collecting 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:

During the period under review we noted that income verification forms received from members receiving disability allowance were reviewed to determine whether reductions in the disability allowances were necessary. However, we noted numerous instances in which members did not provide the applicable information. We were informed that the Board could only send subsequent requests for the income verification information.

- 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.
- Cause:* The Board was not aware that disability retirement payments could be suspended if the retiree is delinquent in filing an annual income statement or a required copy of the retiree's federal income tax return.
- Recommendation:* The Teachers' Retirement Board should enforce its authority by suspending members' disability allowance payments when income verification statements are not filed. (See Recommendation 9.)
- Agency Response:* "We will suspend members' disability allowance payments beginning with our current reporting cycle."

Outdated State Regulations:

- Criteria:* The Regulations of State Agencies help to clarify the General Statutes and should reflect current information.
- Condition:* As noted in the prior audit report, the Board's regulations had not been updated in several 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:* The Board has not made updating its regulations a high priority.
- Recommendation:* The Teacher's Retirement 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 10.)
- Agency Response:* "We will update those Regulations that do not reflect current legislation or Board procedures in 2012-13."

RECOMMENDATIONS

Our prior report contained a total of 27 recommendations. Of those recommendations, 17 have been substantially implemented or otherwise resolved and will not be repeated. Ten recommendations are being repeated, one in modified form.

Status of Prior Audit Recommendations:

- 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. This recommendation is not being repeated.
- 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. This recommendation is not being repeated.
- The Board should establish and adopt bylaws to address how it and its' committees intend to function. This recommendation is not being repeated.
- 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. This recommendation is not being repeated.
- 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. The Board certified this amount to the General Assembly. This recommendation is not being repeated.
- 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. This recommendation is not being repeated.
- 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. This recommendation is not being repeated.

- 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. This recommendation is not being repeated.
- 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. This recommendation is not being repeated.
- 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. This recommendation is being repeated. (See Recommendation 1).
- 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. This recommendation is being repeated. (See Recommendation 2).
- 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. The Board is now in compliance with this statute. This recommendation is not being repeated.
- 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. This recommendation is being repeated. (See Recommendation 3).
- 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. This recommendation is being repeated. (See Recommendation 4).
- 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. This recommendation is not being repeated.
- The Board should create a formal accounting procedures manual and periodically update it to ensure that any changes in process are properly reflected. This recommendation is being repeated. (See Recommendation 5).
- 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. This recommendation is being repeated. (See Recommendation 6).

- 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. This recommendation is not being repeated.
- The Board should further explore arranging for claims audits of its self-insured health care plans. This recommendation is being repeated. (See Recommendation 7).
- The Board should review and consider the Strategic Plan for formal adoption in its meeting minutes. A strategic plan was adopted in April 2011. This recommendation is not being repeated.
- The Board should have a systematic formal vulnerability assessment process. That process should identify risk and explore vulnerability solutions. This recommendation is not being repeated.
- 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. A Threat Assessment Team has been established. This recommendation is not being repeated.
- The Board should establish its own policy to promptly notify individuals affected upon any loss of sensitive information in its care. The Board has adopted a policy to address this issue. This recommendation is not being repeated.
- 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. This recommendation is being repeated. (See Recommendation 8).
- 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. This recommendation is being repeated in modified form. (See Recommendation 9).
- 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. This recommendation is not being repeated.

- 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. This recommendation is being repeated. (See Recommendation 10).

Current Audit Recommendations:

1. **The Teachers' Retirement 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 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 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.

2. **The Teachers' Retirement 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 prior audit report indicated although the Board's Benefit Unit had access to the State Department of Education's Certification System, there were no control procedures to verify that new members were properly certified for the positions in which they worked. Therefore, the Board relies on the districts to correctly add members to the monthly transmittal data with the applicable contributions.

3. **The Teachers' Retirement Board should fully comply with subsection (b) of Section 10-183n of the General Statutes by collecting all fees due to the late submitted transmittals from employers.**

Comments:

Initial attempts were made by the Board to collect fees and interest due on the late submittals of transmittals. However, there were no subsequent follow-ups for those transmittals where late fees were charged but not collected.

4. **The Teachers' Retirement Board should utilize the separate function in its computerized pension system 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:

Our prior audit report indicated that until April 1997 the Board maintained monthly records of accounts receivable and accounts payables related to retirees' deaths. Receivables, at that time, were \$267,957 and payables were \$755,615. We noted that the Board's current computerized pension system has the functions to record and track receivables and payables but they are not being utilized by the Board's personnel. Additionally, we were informed that none of the other types of accounts receivable records maintained at the Board are recorded on Core-CT.

5. **The Teachers' Retirement Board should create formal accounting procedures manual and periodically update it to ensure that any changes in process are properly reflected.**

Comments:

The Board has several procedural statements in a binder that relates to the practices generally adhered to in the Accounting Unit. These procedural statements are not formally part of an authorized accounting procedures manual.

6. **The Teachers' Retirement 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 verify 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 disclosed that the Board did not have written procedures regarding the process of monitoring compliance with Section 10-183v of the General Statutes. While the TRB does obtain completed Post Retirement Reemployment 45% Rule forms from applicable towns and employees, there does not appear to be any verification procedures in place to ensure that the forms have been completed accurately. In addition, there is no assurance that the towns are reporting all of the reemployed rehired teachers and administrators to ensure that the payments made by the towns do not

exceed 45 percent of the employee's former position's maximum salary for those applicable.

- 7. The Teachers' Retirement Board should further explore arranging for claims audits of its self-insured health care plans.**

Comments:

We were informed by the Board that no claims audits have been performed during the current audit period.

- 8. The Teachers' Retirement 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 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.

- 9. The Teachers' Retirement Board should enforce its authority by suspending members' disability allowance payments when income verification statements are not filed.**

Comments:

During the period under review we noted that income verification forms received from members receiving disability allowance were reviewed to determine whether reductions in the disability allowances were necessary. However, we noted numerous instances in which members did not provide the applicable information. We were informed that the Board could only send subsequent requests for the income verification information.

- 10. The Teachers' Retirement 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:

As noted in the prior audit report, the Board's regulations had not been updated in several years. Certain instances were noted where they do not reflect current legislation or Board procedures.

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, 2009 and 2010. This audit was primarily limited to performing tests of the Board's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Board's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Board are complied with, (2) the financial transactions of the Board's are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Board are safeguarded against loss or unauthorized use. The financial statement audits of the Teachers' Retirement Board for the fiscal years ended June 30, 2009 and 2010, 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:

Management of Teachers' Retirement Board is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. 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 Board's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of Teachers' Retirement Board internal control over those control objectives.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Board's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this

section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Board's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies. Recommendation 1 – There is a lack of reconciliation of revenues/expenditures from agency records to Core-CT. Recommendation 7 – Claims audits on the agency's self-insured health care plans are not performed. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 Board's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

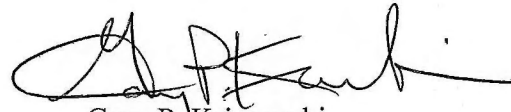
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters which we reported to the Board's management in the accompanying Condition of Records and Recommendation sections of 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 response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Board's 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.



Gary P. Kriscenski
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts