STATE OF CONNECTICUT

AUDITORS' REPORT
TEACHERS' RETIREMENT BOARD
FOR THE FISCAL YEARS ENDED
JUNE 30, 2011, 2012 AND 2013

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT

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State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

September 11, 2014

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FOR THE FISCAL YEARS ENDED JUNE 30, 2011, 2012 and 2013

We have audited certain operations of the State of Connecticut – Teachers' Retirement Board 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 years ended June 30, 2011, 2012 and 2013. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;

2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and

3. Evaluate the 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 department, and testing selected transactions. 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 our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United

States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;

2. Apparent noncompliance with legal provisions;

3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Teachers' Retirement Board.

COMMENTS

FOREWORD

Section 10-183*l* of the General Statutes established the Teachers' Retirement Board (TRB). 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 fourteen member board consists of:

- Three ex-officio members – Commissioner of the Department of Education, Treasurer and the Secretary of the Office of Policy and Management (or their designees)
- Six system participants (four active and two retired teachers) elected by their peers
- Five gubernatorial appointees

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

The following persons were members of the Teachers' Retirement Board as of June 30, 2013:

Elected Teacher Members:

Retired Teachers:
Clare H. Barnett, Chairperson
Rosalyn B. Schoonmaker

Active Teachers:
Lisa Mosey

Michael L. Freeman
Maureen Honan
William Myers

Public Members:
Eugene Cimiano
Charles Higgins
Jonathan Johnson
Elaine T. Lowengard
Clifford Silvers

Ex Officio Members:
Stefan Pryor, Commissioner, State Department of Education
Denise L. Nappier, Treasurer, Office of the State Treasurer
Benjamin Barnes, Secretary, Office of Policy and Management

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 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. Alternatively, certain eligible employees of the State Board of Higher Education may participate in 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, 2013, according to the board's actuarial valuation, there were 66,267 non-retired members, of whom 50,014 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. 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 last town that 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 employers (typically Boards of Education) are subsidized by the board. As of June 30, 2013, the subsidy payment is up to $220 monthly for the retired member plus an additional amount up to $220 monthly for an enrolled spouse. The subsidies reduce the cost that the retired teacher would otherwise have 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, thereby decreasing large annual swings of interest earned. Those interest rates for the three audited years compared to the previous year are as follows:

Fiscal year 2011-2012	7.2%	Computed on the June 30, 2013, member's account balance
Fiscal year 2010-2011	5.3%	Computed on the June 30, 2012, member's account balance
Fiscal year 2009-2010	5.2%	Computed on the June 30, 2011, member's account balance
Fiscal year 2008-2009	4.5%	Computed on the June 30, 2010, 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, required state funding is actuarially determined whereas member contributions are defined by statute as a set percentage of a teachers' salary. 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 10-183*l* 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, 2012, actuarial evaluation reported an unfunded accrued liability for retirement benefits at that date of $11,127,397,000, compared with $9,065,729,000 at June 30, 2010.

Significant Legislation

2010-2011 Legislative Session

Public Act 11-48: This act made changes to the make-up of the board by removing the commissioner of the Department of Social Services and adding the State Treasurer and the secretary of the Office of Policy and Management as ex officio members, and adding one more active teacher. As a result, board membership increased from 12 to 14 members. It also required that any pension payments be made by electronic direct deposit unless otherwise requested by the recipient.

2011-2012 Legislative Session

Public Act 12-1 of the June Special Session: This act requires that on or after July 1, 2012, federal reimbursements received by the board under the retiree drug subsidy provisions of Medicare Part D shall be used to offset amounts appropriated by the state.

Public Act 12-107: This act expands the benefit options available to the surviving spouse of a teacher who did not name a spouse as the sole designated beneficiary. It allows the surviving spouse who was not designated as the sole beneficiary the same benefit options as those who were named sole beneficiary.

RÉSUMÉ OF OPERATIONS

Fund Accounting

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, as required by Generally Accepted Accounting Principles (GAAP) for government. 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 (General Fund)

2. Benefits are paid out of the Retirement Fund by member contributions, General Fund contributions, and investment earnings.

Teachers' Retirement Fund

A comparison of the three major recurring revenue sources of the Teachers' Retirement Fund is presented below for the audited period.

	State Actuarial Funding	Member Contributions	Investment Income
2012-2013	$787,536,000	$273,976,679	$1,068,451,743
2011-2012	757,246,000	269,043,097	542,137,906
2010-2011	581,593,216	269,434,798	690,637,941

Member contributions consisted primarily of the previously mentioned seven and one quarter percent salary deduction. Employers collect these deductions and remit them to the board.

A portion of the amounts shown above for investment income was the result of gains from the sale of investments. These amounted to $202,550,683, $173,279,065, and $611,698,883 for the fiscal years ended June 30, 2011, 2012 and 2013, 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 $0, $35,259,003, and $16,836,244, for the 2010-2011, 2011-2012 and 2012-2013 fiscal years, respectively. The state budget for 2010-2011 excluded the state's share of the health insurance subsidy. For 2012-2013, Public Act 12-1 allowed the state share to be reduced by the amount received by federal reimbursement. 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:

	2010-2011	**2011-2012**	**2012-2013**
Actuarially Determined Funding	$581,593,215	$757,246,000	$787,536,000
Actual State Contributions	581,593,216	757,246,000	787,536,000
Percentage Funded	**100%**	**100%**	**100%**

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 $902,153, $582,142, and $361,042 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively.

A summary of fund expenditures for the fiscal years ended June 30, 2011, 2012 and 2013, is presented below for comparative purposes:

	2010-2011	**2011-2012**	**2012-2013**
Retirement Benefits	$1,499,898,601	$1,531,671,729	$1,625,728,865
Health Insurance Benefits	91,852,759	96,347,420	101,450,529
Contribution Refunds	16,181,894	13,831,495	14,658,485
Totals	**1,607,933,254**	**1,641,850,644**	**1,741,837,879**

The number of retirees and beneficiaries receiving payments increased from 31,796 in June 2011 to 33,037 in June 2013. The rise in retirement benefits from the 2010-2011 fiscal year through the 2012-2013 fiscal year is, in part, attributable to this increase, but it also reflects annual cost of living increases (COLA).

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 COLA has been conditional. Subsection (l) of Section 10-183g of the General Statutes states that the cost of living adjustment will be calculated using the Social Security Administration percentage, provided no cost of living allowance shall exceed six per cent, and if the return earned by the pension assets for the preceding fiscal year is less than eight and one-half per cent, the COLA shall not exceed one and one-half per cent.

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

	Retirees' Retirement Date	
COLA DATES	Prior to September 1992	After August 1992
January 2013	3.0%	1.5%
July 2012	3.0%	3.6%
January 2012	3.8%	3.6%
July 2011	4.1%	0.0%
January 2011	3.0%	0.0%
July 2010	3.0%	0.0%

As noted above, health insurance benefits paid on behalf of retirees increased from $91,852,759 in the 2010-2011 fiscal year to $101,450,529 in the 2012-2013 fiscal year. These increases, in part, reflect increases in the number of retirees and beneficiaries and increases in the actual cost of providing healthcare benefits.

Contribution refunds are paid to non-retired teachers who terminate from public school teaching and wish to withdraw their cumulative account balances. Account balances consist of accumulated teacher contributions with credited interest. By withdrawing such funds, the teacher forfeits the right to any retirement benefit for that service. If the former teacher returns to public school teaching, the teacher will have the option of repurchasing the forfeited service. As indicated above, contribution refunds amounted to $16,181,894, $13,831,495 and $14,658,485 in the 2010-2011, 2011-2012 and 2012-2013 fiscal years, respectively.

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, co-payments, and teacher 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. According to the agency, the account balance was $55,055,498, $91,776,617, and $102,974,330 at June 30, 2011, 2012 and 2013, 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:

As of June 30	Cost	Market
2011	$9,705,934,876	$14,143,319,676
2012	$9,723,385,654	$13,473,161,942
2013	$10,187,899,181	$14,453,543,844

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 $14,152,237,000, $13,482,136,000, and $14,462,903,000 at June 30, 2011, 2012 and 2013, respectively. The net assets figure includes fund 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 for the board by the General Assembly. A summary of expenditures for the fiscal years ended June 30, 2011, 2012 and 2013 is presented below for comparative purposes:

	2010-2011	2011-2012	2012-2013
Transfers to Retirement Fund			
State Funding	$581,593,215	$757,246,000	$787,536,000
Health Insurance Subsidies	0	35,259,003	15,882,645
Total Transfers	581,593,215	792,505,003	803,418,645
Administrative Expenses	2,384,803	1,699,818	1,774,577
Totals	583,978,018	794,204,821	805,193,222

As indicated, the largest payments by far 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 $1,456,985, $1,445,039, and $1,402,236 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

The following recommendations resulted from our current review of the Teachers' Retirement Board:

Health Fund Accounting and Reporting

Background: The Teachers' Retirement Board is responsible for the withholding of health insurance premiums from monthly pension payments it makes to retirees. Insurance premiums withheld are to be transferred monthly to the retiree health fund and recorded in Core-CT as revenue to the fund.

The board is responsible for the administration of a health plan in which retired members have the option to enroll. A separate health account has been established in which health related expenditures are processed. During the audited period, the board made quarterly entries in Core-CT, which were estimates of expenditures so that the Office of the State Treasurer was able to fund the account.

Criteria: Section 10-183t(d) requires the establishment of a separate teachers' health insurance premium account. The section further requires that all contributions withheld in excess of five hundred thousand dollars be credited to this account. Furthermore, accepted accounting practice requires that proceeds received are recorded in the proper revenue account to facilitate accurate financial reporting and that periodic reconciliations are performed to detect errors, omissions or possible fraud in a timely manner.

Strong internal controls and good business practice require periodic reconciliations of accounts and accurate recording and reporting of expenditures.

The State Accounting Manual promulgated by the Office of the State Comptroller, fiscal year end close section 4.4, requires that "agencies maintain their financial records in a manner which will enable them to provide the required adjustments to legal balances and other information necessary for the Comptroller to prepare a GAAP annual report." This data is critical to the accurate reporting of the state's financial position in the Comprehensive Annual Financial Report (CAFR) produced by the Office of the State Comptroller.

Condition: Funds withheld from retirees for health insurance premiums were not transferred into the health fund from February 2012 until the board was notified by our staff in November 2013. As of June 30, 2013, over $53 million was due to the health fund. Furthermore, the board continued to record the transfers in their own records, resulting in a large discrepancy between the board's records and Core-CT. As of June 30, 2013, the health fund balance per the board was $102,974,330, while the fund balance posted to Core-CT was $84,076,243.

As standard practice, the board made an entry of $7 million each quarter, which represents an estimate of two specific types of expenditures, quarterly health subsidy payments and medical benefit payments. However, the board does not enter an adjustment to accurately reflect the actual expenditure. In fiscal year 2013, actual expenditures were approximately $51 million while the board only recorded $28 million. This issue was not identified until the excess authorizations from prior years had been depleted by current expenditures exceeding authorizations.

Due to the failure to follow established procedures and lack of basic procedures for recording transactions described above, the board is unable to readily produce accurate financial reports required for CAFR reporting. In addition, this basic financial information is critical to the overall administration and budgeting of the retiree health fund.

Effect: By not making the transfers and only recording expenditure estimates for certain types of expenditures, the fund balance reported by the board does not reflect the fund balance per the official accounting record. Statutorily required transfers to the health account were not made. Incomplete accounting increases the risk of misappropriation and reduces accountability for the funds.

Amounts reported by the board to the Comptroller required significant adjustments in order to accurately reflect the financial position of the board as required for CAFR purposes.

Cause: Because of a severe lack of management oversight and failure to establish basic internal control procedures, including reconciliation of cash accounts, the board was unable to detect errors and omissions in a timely manner. Because no reconciliation or other procedures were performed, the board was unaware of the discrepancy and no effort was made to correct it.

Recommendation: The Teachers' Retirement Board should institute improvements in the retiree health fund accounting to ensure it is following existing procedures, modify inadequate procedures and create procedures where none exist in order to maintain necessary fiscal controls for the accurate reporting and safeguarding of assets in the retiree health fund.

Agency Response: "We agree with this finding. OFA and OPM receive the TRB (non-Core) Health Fund record on a monthly basis. This is the record that the TRB staff created at the inception of the health fund in 1989, and have used all along to enter all health fund receivables and payables. As Core-CT is the statutorily required accounting system for the state, the TRB will institute improvements in the health fund Core-CT entries. The board expects to enter all corrective entries into Core-CT on or before June 30, 2014. Additionally, since the board is aware of the two monthly transactions that had not been entered into Core-CT, we are in a position to enter those on a going forward basis. We have begun to document the detailed procedures for the Health Fund Account, and will deploy them upon completion."

Beneficiary Entitled Benefits

Criteria: Sections 10-183g subsection (h) and 10-183h subsection (e) of the General Statutes provide for a lump sum payment to a beneficiary when excess accumulated contributions remain in a deceased member or retiree's account, as determined by the provisions of the respective sections. Section 10-183ee of the General Statutes states that two years after a beneficiary becomes entitled to collect a benefit, the board shall send a statement of the benefit amount to the beneficiary's last known address.

Condition: In the course of our auditing work at the Teachers' Retirement Board, we noted that the board is unable to comply with statutory requirements for notifying beneficiaries designated by plan members. Retired plan members designate a beneficiary to receive unrecovered pension contributions upon the plan member's death; however, the board does not acquire the address of the beneficiary at the time of the designation. We noted one such case in which approximately $192,000 of accumulated contributions were on hand for one deceased plan member who designated a beneficiary. The plan member died in 2009, and as of April of 2014, no attempts had been made to contact the designated beneficiary who is due this amount.

Effect: Beneficiaries may not be aware that they have amounts due to them.

Cause: The form in which the member designates a beneficiary does not contain the address information required to contact the beneficiary.

Recommendation: The Teachers' Retirement Board should collect the information necessary to comply with Section 10-183ee of the General Statutes.

Agency Response: "We partially agree with this finding. The statute under which TRB operates requires that a field identifying the address of the beneficiary be entered. The agency stopped requesting the addresses many years ago upon discovery that many of the addresses became invalid prior to our need for the address. Our success rate of locating designated beneficiaries and settling deceased member accounts exceeds 99%, so we do not feel as though obtaining addresses is critical to our mission. The TRB has considered this issue and will pursue the elimination of obtaining addresses for beneficiaries during the next legislative session. In the meantime, to comply with the statutes we have added the address field back to the beneficiary designation forms and will be collecting the addresses until and unless the requirement is removed. Additionally, we subscribed to a "people finder" service in June of 2014 to augment our efforts in locating designated beneficiaries."

Management of Accounts Receivable and Accounts Payable

Criteria: The State Accounting Manual, Management of Receivables section 2.0, requires that accounts receivable records are maintained in an accurate, complete manner and indicate the length of time the debt has been outstanding.

The State Accounting Manual, Management of Receivables, section 3.1(c) requires that at least three documented efforts be made to collect all delinquent accounts over $25. Agency policy requires collection efforts be made monthly, and if, after three collection efforts, substantial progress has not been made, cases should be referred to the DAS Bureau of Collections.

Good business practice and adequate management oversight require that accounts payable records be maintained in an accurate and complete manner in order to identify and manage liabilities.

Section 10-183h(e) of the General Statutes provides for a lump sum payment to a beneficiary when excess funds remain in a deceased retiree's account, as determined by the provisions of that section.

Condition: The board has not taken steps to adequately identify, record, monitor, or resolve accounts payable and receivable.

The board maintains no cumulative record of amounts owed to and from towns, estates, or beneficiaries of deceased members.

As of April 2014, there were a total of 51 deceased retiree member cases under review in the benefits division with associated receivables due to payments being made after a member's death. Our review of all 51 cases revealed $434,709 in unrecorded receivables due to these overpayments. In 47 of the 51 cases, no collection efforts had been made in the past 10 months.

As of April 2014, there were a total of 83 deceased retiree member cases under review in the benefits division in which the board owed money to beneficiaries. Our review of 11 of these cases disclosed a total of $520,203 in unrecorded liabilities.

Our review of payments from towns indicated that there was a total of $32,965 due to various towns from overpayments that should have been recorded as accounts payable from fiscal year 2013. Conversely there was a total of $17,179 due from towns in the form of underpayments and late fees that should have been recorded as accounts receivable for fiscal year 2013.

Effect: The board is in violation of State Accounting Manual requirements as well as those of reasonable business practice regarding the proper identification and recording of receivables. The board is in violation of its own collection policies, and there is an increased risk of loss when collection efforts are not made in a timely manner. By not establishing reasonable procedures for accounts payable, management is unable to accurately report or adequately plan for liabilities that go unidentified and unrecorded.

By not attempting to contact beneficiaries, the board is unable to meet its statutory requirement and fiduciary responsibility to its members to forward monies due to beneficiaries.

Cause: The board stated that it ceased to maintain accounts receivable and accounts payable records in 1997 because of limited personnel. Lack of management oversight has led to a complete lack of controls and documented procedures regarding accounts receivable and payable, including collections and payments to beneficiaries.

Recommendation: The Teachers' Retirement Board should establish and follow procedures to properly identify, record, and resolve accounts payable and receivable.

Agency Response: "We agree with this finding. The identification of a decedent is a difficult issue for pension systems. Most individuals that are part of families report the death of the member. In addition, the TRB receives death notifications through the federal government as well as through a death identification service provider when our members appear on public roles. There are times, that despite the efforts of the TRB and its vendors, individuals are not identified or reported and continue receiving pension benefits after their demise. The operation and follow up on those identified as deceased after monthly benefit deposits were already made has not been as systemized as necessary. Efforts are underway to reorganize the function within the Accounting Division, where we feel it rightfully belongs. Upon completion of the reorganization and the filling of three vacancies within the Accounting Division we believe we will have the structure and resources in place to properly address this recommendation. In the interim, the function will remain in our Benefits Unit where a supervisory position was recently created to provide necessary and appropriate over site. The control document has been created and the supervisor is committed to following the procedures.

The board agrees to establish control documents for all accounts payable and receivable in order to record and resolve accounts payable and receivable."

Monitoring Compliance with Disability Allowances

Criteria: Section 10-183*l*-23 of the Regulations of State Agencies requires each person receiving a disability allowance during a calendar year to file an annual income statement with the board by April 15th of the following year. Payment of disability retirement allowances may be suspended for any retiree when the required annual income statement or other additional documentation has not been submitted.

Section 10-183aa(f) of the General Statutes limits the amount of outside income a member may earn before a disability allowance is reduced.

Per Section 10-183b(13) of the General Statutes, the definition of disabled changes from "inability to perform the usual duties of his occupation" to "inability to engage in any substantial gainful activity" after 24 months of receiving a disability allowance. It is the responsibility of a medical review committee to evaluate medical evidence and make recommendations to the board regarding the continued eligibility of persons receiving disability allowances.

Condition: We noted that in 8 of the 15 member cases reviewed, there was no evidence that the member provided an annual income statement for one or all of the years under review. In addition, 8 of the 9 member cases reviewed that were over 24 months old lacked documentation, indicating that the medical review committee had approved an ongoing disability allowance in accordance with the more stringent criteria applied after 24 months.

Effect: The board is not monitoring or enforcing compliance with state regulations, thereby increasing the risk that a member's disability allowance may be overpaid due to the member exceeding the income limit.

There is a greatly increased risk that members who no longer meet the definition of disabled after 24 months, as defined in Section 10-183b(13) of the General Statutes, will continue to receive disability allowances.

Cause: The board did not have procedures to effectively monitor compliance with the eligibility requirements of disability allowances, nor prevent possible overpayments.

Recommendation: The Teachers' Retirement Board should comply with the requirements of the disability allowance program.

Agency Response: "We agree with this finding. We restored the two year review process for members who went out on a disability allowance on or after May of 2011 and the income reporting requirements in April of 2012. We maintain control documents and apply offsets where applicable."

Reemployment of Retired Teachers

Criteria: Section 10-183v of the General Statutes allows a retired teacher to be reemployed in a school district and continue to receive retirement benefits from the board. Reemployed retirees may earn up to forty-five per cent of the maximum salary for the position; or may be compensated in full for up to two years in certain positions designated by the Commissioner of the Department of Education or pursuant to Section 10-266p of the General Statues. Earnings in excess of the allowed amounts must be returned to the board.

The employing board of education and reemployed retiree are required to send notification of the reemployment to the board at the time of hire.

Condition: In 8 of 15 instances reviewed, documentation to indicate that proper notice had been given to the board by the retired teacher and employer could not be located. In 3 instances, there was no documentation from the employer indicating the compensation of the reemployed teacher.

Effect: The board is not in compliance with the requirements of Section 10-183(v) of the General Statutes and risk of overpayment due to other earnings is greatly increased.

Cause: Staffing shortages may have limited the agency's ability to follow up on instances of missing documentation.

Recommendation: The Teachers' Retirement Board should institute procedures to ensure compliance with the requirements of Section 10-183v of the General Statutes.

Agency Response: "We agree with this finding. During the fiscal year ending June 30, 2014, we partnered with the State Department of Education and identified retirees who were reemployed who went unreported to the TRB. We obtained the required reporting forms from the employer, and recovered excess earnings, where applicable. We plan to continue with this additional procedure in addition to our annual routine e-mail requests that we send out to all school districts."

Accounting Procedures Manual

Criteria: The board oversees over $14 billion in assets, $1.75 billion in receipts and $1.66 billion in disbursements annually. Adequate safeguarding of assets and proper operation of an organization of this size requires formal documented accounting policies and procedures approved by appropriate management personnel to provide staff the guidance necessary to perform accounting functions in a consistent, accurate and efficient manner. These procedures should be reviewed periodically and updated as necessary to reflect current operations.

Condition: The board has several fragmented procedural statements that relate to practices generally followed in the Accounting Unit. These procedures are not part of a formal, cohesive or complete accounting procedures manual and fail to address many of the board's activities.

Effect: The lack of formal accounting policies and procedures increases the risk that some accounting functions may be performed inaccurately, inefficiently, or not performed at all.

Cause: A lack of management oversight has allowed the establishment of undocumented and informal procedures. The updating and maintenance of formal, comprehensive written policies and procedures manuals for the Accounting Unit have not been designated as a high priority.

Recommendation: The Teachers' Retirement Board should take the necessary steps to improve its internal controls by establishing, updating and maintaining formal, comprehensive written policies and procedures manuals for the accounting unit.

Agency Response: "We agree with this finding. We assigned this task to a former Accounting Division staff member who recently accepted a position in the Administration Division and is familiar with the Accounting Division workflow. She has written several of the procedures that were lacking in the electronic procedures directory and has begun a review of the existing procedures; and will revise if necessary. Upon the completion of documenting all procedures, she will work the Accounting Division staff to create a work flow of the procedures and create a procedures manual. Our goal is to complete the manual during the fiscal year ending June 30, 2015."

Outdated State Regulations

Criteria: The Regulations of State Agencies help to clarify the General Statutes and should reflect current information.

Condition: The board's regulations have not been updated in over ten years. Certain instances were noted in which they do not reflect current law or board procedures.

Effect:	The lack of accurate data in the board's regulations can lead to inefficiencies and practices that are in conflict with the general statutes.
Cause:	The board has not made updating its regulations a priority.
Recommendation:	The Teachers' Retirement Board should review its regulations to determine the necessary modifications or additions to reflect current statutory language and internal procedures.
Agency Response:	"The TRB is without legal counsel, therefore, we submitted legislation for the 2014 legislative session that would transfer some health insurance related expenses from our Operating Expense Account to the Teachers' Health Fund. Our intent was to repurpose the Operating Expense to obtain a pension and tax attorney who could assist us with our various pension, tax, and legislative needs. The legislation did not pass in 2014 (even though it was not opposed). We will be resubmitting the legislation for the 2015 legislative session."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit examination resulted in 10 recommendations, of which seven are being repeated in our current audit report. The following is a summary of those recommendations and the action taken by the Teachers' Retirement Board.

- The Teachers' Retirement Board should implement output control procedures over its financial transactions, which include printing 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 into Core-CT. This recommendation is being repeated in an amended form. (See Recommendation 1.)

- 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. This recommendation is not being repeated.

- 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 transmittals from employers. This recommendation is being repeated in an amended form. (See Recommendation 3.)

- 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 also should continue to pursue entry of all its accounts receivable records to Core-CT. This recommendation is being repeated in an amended form. (See Recommendation 3.)

- The Teachers' Retirement 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 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 retiree's reported salary. This recommendation is being repeated in an amended form. (See Recommendation 5.)

- The Teachers' Retirement Board should further explore arranging for claims audits of its self-insured health care plans. The Teachers' Retirement Board has implemented procedures and has started to review the health plans. This recommendation will not be repeated.

- 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. The Teachers' Retirement Board has implemented a procedure to attempt to identify any members holding union positions. This recommendation will not be repeated.
- The Teachers' Retirement Board should enforce its authority by suspending members' disability allowance payments when income verification statements are not filed. This recommendation is being repeated in an amended form. (See Recommendation 4.)
- 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. This recommendation is being repeated. (See Recommendation 7.)

Current Audit Recommendations:

The following recommendations resulted from our current review.

1. **The Teachers' Retirement Board should institute improvements in the retiree health fund accounting to ensure it follows existing procedures, modify inadequate procedures and create procedures where none exist to maintain necessary fiscal controls for the accurate reporting and safeguarding of assets in the retiree health fund.**

   Comments:

   The accounting of the health fund is inadequate.

2. **The Teachers' Retirement Board should collect the information necessary to comply with Section 10-183ee of the General Statutes.**

   Comments:

   Information necessary to comply with statutory requirements is not always available and beneficiaries are not always contacted.

3. **The Teachers' Retirement Board should establish and follow procedures to properly identify, record, and resolve accounts payable and receivable.**

   Comments:

   Accounts receivable and payable are not always recorded adequately.

4. **The Teachers' Retirement Board should comply with the requirements of the disability allowance program.**

   Comments:

   The board is not monitoring or enforcing compliance with state regulations. The failure to monitor outside income increases the risk that members' disability allowance may be overpaid. There is a greatly increased risk that members who no longer meet the definition of disabled after 24 months, as defined in Section 10-183b(13), will continue to receive disability allowances.

5. **The Teachers' Retirement Board should institute procedures to ensure compliance with the requirements of Section 10-183v of the General Statutes for the reemployment of retirees.**

   Comments:

   The board is not in compliance with the requirements of Section 10-183(v) of the General Statutes, and risk of overpayment due to other earnings is greatly increased.

6. **The Teachers' Retirement Board should take the necessary steps to improve its internal controls by establishing, updating and maintaining formal, comprehensive written policies and procedures manuals for the accounting unit.**

   Comments:

   The lack of formal accounting policies and procedures increases the risk that some accounting functions may be performed inaccurately, inefficiently, or not performed at all.

7. **The Teachers' Retirement Board should review its regulations to determine the necessary modifications or additions to reflect current statutory language and internal procedures.**

   Comments:

   The lack of accurate data in the board's regulations can lead to inefficiencies and practices that are in conflict with the general statutes.

CONCLUSION

In 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 the course of our examination.

David Tarallo
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts