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STATE OF RHODE ISLAND  
**EMPLOYEES' RETIREMENT SYSTEM**  
**MANAGEMENT COMMENTS**  
**JUNE 30, 2000 AUDIT**

Ernest A. Almonte, CPA, CFE  
Auditor General

State of Rhode Island and Providence Plantations  
General Assembly  
Office of the Auditor General

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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

August 31, 2001

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood, Chairman

Senator William V. Irons  
Senator Dennis L. Algiere  
Representative Gerard M. Martineau  
Representative Robert A. Watson

We audited the financial statements of the Employees' Retirement System of the State of Rhode Island (the System) for the year ended June 30, 2000 and have issued our report thereon dated November 14, 2000. In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2000 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Our report on the System's compliance and internal control over financial reporting indicated no matters that we considered to be reportable conditions or material instances of noncompliance. However, during our audit, we noted certain matters involving compliance, internal controls, and other operational matters that are presented herein. These comments and recommendations are intended to enhance compliance with laws, regulations and contracts, improve internal control, or result in other operational efficiencies.

Sincerely,

Ernest A. Almonte, CPA, CFE  
Auditor General

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## **EMPLOYEES' RETIREMENT SYSTEM INVESTMENTS**

### **INCOME AND RETURN OF CAPITAL TRANSACTIONS**

As reported in prior years, the State's investment custodian did not properly classify certain cash and stock distributions from real estate and alternative investment managers. Both the Treasurer's Office and the custodian receive letters and quarterly reports from the managers to identify distributions as either income or return of capital. In some instances, the custodian recorded returns of capital as income and vice versa. Reconciliation by the General Treasurer's Office of the managers' quarterly reports to the custodian's reports would identify these discrepancies. In some circumstances, the managers classified the distributions differently on their letters versus their quarterly reports, requiring further clarification from the managers on the type of distribution.

### **RECOMMENDATION**

1. Reconcile, on a quarterly basis, the investment managers' quarterly reports and letters to the custodian's reports to verify that investment transactions are properly recorded.

### **Auditee Views**

*Treasury concurs with this recommendation and has taken several steps to address these concerns and will continue to develop processes to fully address this issue.*

## **EMPLOYEES' RETIREMENT SYSTEM ADMINISTRATION**

### **PENSION BENEFIT INFORMATION SERVICE**

The Retirement System provides a tape file of pensioners' social security numbers to the Pension Benefit Information (PBI) service, which then matches the social security numbers to its own database. PBI notifies Retirement of any social security numbers that are invalid or belong to deceased individuals. Retirement then researches whether those individuals are in fact deceased. Upon confirmation of death, pension payments are suspended.

While Retirement has procedures that address the results of the PBI report, we noted two instances where PBI data indicating that an individual was deceased did not result in the suspension of pension payments to the individual. In one of these cases, a beneficiary claimed and was paid a death benefit. Retirement should enhance its control procedures to ensure that all names appearing on the PBI report are investigated timely and that appropriate action is taken.

## RECOMMENDATION

2. Investigate completely all individuals reported as deceased on the PBI report and ensure that action is taken to cease pension payments when appropriate.

### Auditee Views

*Retirement concurs with this recommendation and has implemented additional procedures and will maintain further documentation of action taken for members appearing on the PBI report requiring suspension.*

## ACTUARIAL DATA

We found some instances where the equated date of hire (an effective date for actuarial purposes reflecting amount of credited service) was erroneously reported to the actuary. One situation that may cause incorrect data being reported to the actuary is when a teacher-member transfers to a different school district. A new membership application is completed to “join” the Retirement System. If the membership records are combined, the member’s folder will contain more than one application. In some instances, we found the date of hire was taken from the second application causing the years of service to be understated as well as the corresponding actuarial liability. Retirement staff should verify the equated date of hire for all teachers to ensure the information has been accurately reported to the actuary.

## RECOMMENDATION

3. Verify the equated date of hire for all active teachers and ensure accurate information is reported to the actuary.

### Auditee Views

*This issue will be resolved with the implementation of the new computer system. As part of the new system implementation, information is being “scrubbed” and reviewed for accuracy.*

## COST ALLOCATION

The salaries and fringe benefits of Treasury personnel who are involved in the administration of the Retirement System or the investment of retirement funds are allocated to the Retirement System. Documentation to support these allocations has not been updated for changes in personnel and job duties. The basis for these allocations should be updated and documented periodically to support the amounts charged to the Retirement System.

## RECOMMENDATION

4. Document the basis for the allocation of salaries and fringe benefits to the Employees Retirement System.

### Auditee Views

*Treasury concurs with this recommendation. Supporting documentation will be updated and Treasury will review the allocations and supporting documentation annually.*

## DISABILITY PENSIONS

Disability pension recipients may engage in gainful employment, but their pension benefit will be reduced such that total earnings will not exceed the current wages paid to an individual in their former position. The calculations to reduce the pension benefits were not documented in the Retirement files. The calculations and any other information obtained on the disability recipient should be documented and maintained in the disability recipient's folder or with the Continuing Statement of Disability.

## RECOMMENDATION

5. Document all necessary information in the disability recipient's folder or with the Continuing Statement of Disability.

### Auditee Views

*Treasury's new computer system will perform this task and automatically include the necessary documentation for disability pensioner.*