



# AUDIT SUMMARY

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INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

FEBRUARY 2006

## EMPLOYEES' RETIREMENT SYSTEM

FISCAL YEAR ENDED JUNE 30, 2005

We completed an audit of the Employees' Retirement System of Rhode Island (the "System") for the fiscal year ended June 30, 2005. Benefits are provided under the following plans which comprise the System:

- ❑ Employees' Retirement System (ERS) - provides pension benefits to state employees as well as teachers and other employees of local school districts;
- ❑ Municipal Employees' Retirement System (MERS) - provides pension benefits to employees of participating municipalities, housing authorities, water and sewer districts, and municipal police and firemen;
- ❑ State Police Retirement Benefits Trust (SPRBT) - provides pension benefits to state police and superintendents hired after July 1, 1987; and
- ❑ Judicial Retirement Benefits Trust (JRBT) - provides pension benefits to judges appointed after December 31, 1989.

Each plan's assets may be used only for the payment of benefits to members of that plan.

We concluded that the System's financial statements present fairly, in all material respects, the fiduciary net assets of the plans within the System as of June 30, 2005 and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We reported material weaknesses in the System's internal control over financial reporting relating to timely bank reconciliations, refining the accounting system to meet financial reporting needs, ensuring resources are adequate to allow accounting functions to be performed timely with effective oversight of the accounting and financial reporting functions, reconciling general ledger accounts, and improving data entry controls.

We also found that ERSRI overpaid the beneficiaries of eleven deceased retirees by approximately \$255,000. We recommended that ERSRI enhance controls to ensure that future death refund payments conform to state law and that ERSRI pursue recovery of the overpayments.

We reported that investment income was misallocated among the four plans. Correcting adjustments were included in ERSRI's fiscal 2005 financial statements and we recommended that the System implement a revised methodology to withdraw cash required to meet pension

benefits to prevent any misallocation of investment income in the future.

We made other recommendations to enhance the monitoring of investment compliance, improve the accumulation of investment information needed to prepare financial statements, perform a risk analysis of the System's computer systems, and develop information systems security policies and procedures.

At June 30, 2005, the combined net assets of the plans was approximately \$6.7 billion (fair value). Net investment income, including net appreciation in the fair value of the plans' investments during the year, was \$708 million. Benefits paid to retirees and beneficiaries under the plans totaled \$565 million while contributions to all plans by both employers and members totaled \$363 million.

The audit report includes schedules detailing the progress made, by plan, in accumulating sufficient assets to pay benefits when due and the contributions made by employers.

*Copies of this report can be obtained by calling 222-2435 or by visiting our website at [www.oag.ri.gov](http://www.oag.ri.gov).*

### Financial Highlights (In Millions)

	<u>ERS</u>	<u>MERS</u>	<u>SPRBT</u>	<u>JRBT</u>
Net assets available for benefits (at fair value)	\$5,788	\$912	\$30.5	\$19.9
Pension benefits provided to retirees	520	44	0.1	0.2
Employer and member contributions	324	33	3.4	2.6
Net investment income	609	95	2.7	1.8