



AUDIT SUMMARY

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INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

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EMPLOYEES' RETIREMENT SYSTEM

FISCAL YEAR ENDED JUNE 30, 2006

We completed an audit of the Employees' Retirement System of Rhode Island (the "System") for the fiscal year ended June 30, 2006. 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, 2006 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 the reliability of contributions receivable reported by the System's accounting system, ensuring resources are adequate to allow accounting functions to be performed timely with effective oversight of the accounting and financial reporting functions, and reconciling general ledger accounts with data included in the ANCHOR accounting system.

We made other recommendations to perform a risk analysis of the System's computer systems, and develop information systems security policies and procedures. We also made recommendations for the System to improve certain procedures to discontinue pension benefit payments to deceased retirees on a more timely basis thereby limiting overpayments requiring reimbursement.

At June 30, 2006, the combined net assets of the plans was approximately \$7.3 billion (fair value). Net investment income, including net

appreciation in the fair value of the plans' investments during the year, was \$782 million. Benefits paid to retirees and beneficiaries under the plans totaled \$608 million while contributions to all plans by both employers and members totaled \$422 million.

As part of an actuarial valuation performed each year, the progress toward funding pension obligations is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measure is referred to as the funded ratio or funded status. As reflected in the most recent actuarial valuation (June 30, 2005), the funded ratio decreased to 56.3% for State employees and 55.4% for Teachers within the ERS plan. The JRBT and SPRBT plans experienced increases in the funding ratios to 87% and 79%, respectively. The MERS plan funded ratio declined with an overall average ratio of 87.2 %

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.

Financial Highlights (In millions)

	<u>ERS</u>	<u>MERS</u>	<u>SPRBT</u>	<u>JRBT</u>	<u>Total All Plans</u>
Net assets available for benefit (at fair value)	\$6,257	\$1,009	\$38	\$25	\$7,329
Pension benefits provided to retirees	560	48	0.1	0.2	608
Employer and member contributions	374	41	4.0	3.0	422
Net investment income	669	107	3.7	2.4	782