

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of Certain Expenses
of the Salem Retirement Board
For the Six Year Period
January 1, 1995 – December 31, 2000**

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April 3, 2003

The Public Employee Retirement Administration Commission has completed an examination of certain expenses of the Salem Retirement System pursuant to G.L. c. 32, §21. The examination covered the period from January 1, 1995 to December 31, 2000. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

In our opinion the financial records and management functions with respect to expenses are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. However, as noted in this audit, the Board has failed to adequately respond to the findings of the Commission relative to financial discrepancies as they relate to Board travel.

In closing, I acknowledge the work of examiners David Pickering, Edward Johnson, and James Ryan who conducted this examination and express appreciation to the Salem Retirement Board, the current Executive Director and the Board staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Salem Retirement Board

FOR THE SIX YEAR PERIOD ENDING December 31, 2000

The Salem Retirement Board

The plan is a contributory defined benefit plan covering all Salem Retirement System member unit employees deemed eligible by the Retirement Board, with the exception of school department employees who serve in a teaching capacity. The Teacher's Retirement Board administers the pension of such school department employees.

Instituted in 1937, the System is a Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory upon commencement of employment for all permanent, full-time employees.

Selection Criteria:

During a regular audit of the Pittsfield Retirement Board, PERAC Auditors discovered a letter from the Board Chairman to one of the Board's fund managers. The letter contained references to a trip taken by the Chairman, which may have been financed by a third party investment broker. The trip, as it was described to us, was in violation of 840 CMR 17.03 (d).

During a subsequent interview with the Chairman regarding the trip, he explained that it included several other Massachusetts Retirement Board members, whom he went on to name. Boards on which the named members serve were then contacted and a review of certain Board expenditures was conducted for the six-year period January 1, 1995 through December 31, 2000. The Pittsfield Audit was referred to the Attorney General's Office on April 20, 2001.

Audit Scope

The scope of our audit was to review and analyze the internal controls over certain expenses and to review the Board's internal policies and management functions related to this matter. We reviewed expenses for the period of January 1, 1995 to December 31, 2000 inclusive.

Salem Retirement Board

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

Travel Regulations:

On March 7, 2002 PERAC issued Memorandum #15/2002, "Guidelines for Retirement Board Travel Supplemental Regulations" and directed Boards to adopt supplemental regulations consistent with the guidelines. On May 3, 2002 the Salem Retirement Board submitted Education and Travel Policy Supplemental Regulations for review and approval. On July 18, 2002 the Board was advised that its proposed regulations were inconsistent with the guidelines in several respects. On September 3, 2002 the Board responded to PERAC's advisory letter and on September 27, 2002 the Board was advised to review the Travel Guidelines and assure that all mandatory provisions are included in their proposed supplemental travel regulations. As of this date, nothing further has been submitted.

Salem Retirement Board

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE SIX YEAR PERIOD ENDING DECEMBER 31, 2000

Missing Financial Records:

All financial records for the years January 1, 1995 to December 31, 1997, inclusive, were missing including cash books, vouchers, and invoices. PERAC auditors were unable to verify any expenses during that time period. For the following three year period, 1998 to 2000, the records were in order and the minutes of the Board meetings documented travel incurred by both Board and staff personnel.

Recommendation:

PERAC regulation 840 CMR 6.04(1) states that each retirement Board shall designate a person to serve as the custodian of all of the records, which the retirement Board holds. Further, at 840 CMR 6.04(2)(a) and (b), the regulations require the custodian to maintain custody and control over all records held by the retirement Board and take all reasonable precautions to protect the records from fire, theft, flood, natural disaster, unauthorized removal or other security hazard. The Salem Retirement Board must take the proper steps necessary to secure the integrity of its records so that no records are lost or misplaced in the future.

The Salem Retirement Board should continue to review its Education and Travel Policy Supplemental Regulations and move to adopt supplemental regulations consistent with the guidelines issued by PERAC.