

Contributory Retirement System Audit Process

Harry Chadwick, Chief Auditor
Jim Tivnan, Deputy Chief Auditor

Public Employee Retirement
Administration Commission

What kind of Audit does PERAC perform?

Triennial PERAC audit

- Authorized by Ch 32
- Scheduled by Chief Auditor
- Performed by PERAC audit staff; trained, familiar with retirement issues; they “specialize” in Mass Pension systems
- Final report posted on the PERAC website

What's Included?

- Includes Financial Statements
- Includes Audit Findings
- Includes the verbatim responses of the Retirement Board to the audit findings
- Includes Supplemental Investment regulations
- Includes Supplemental Membership regulations
- Includes a description of the retirement plan
- Includes Insurance coverage
- Includes Actuarial valuation information; % funded,
- Includes # and types of retirements for 10 year period

PERAC report

- The Public Employee Retirement Administration Commission has completed an examination of the Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. 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. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

PERAC “opinion”

- In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission(, with the exception of those noted in the findings presented in this report).
- We commend the Retirement Board for the exemplary operation of the system.

Audit alternatives

You can utilize an outside CPA firm if protocol outlined in PERAC Memo #20/2008 is followed:

- PERAC inspection of audit work papers; ICQ completed
- Notification in advance; meeting optional before; mandatory after completion
- Allow posting of both financial statements and management letter comments on PERAC website
- Separate Report on the Internal Controls (Sarbanes/Oxley)
- CAFR (Comprehensive Annual Financial Report) trend becoming more popular

CPA Audit: Introductory Paragraph

- We have audited the accompanying balance sheet of ABC Company, Inc. (the “Company”) as of December 31, 20XX and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

CPA Audit: Scope Paragraph

- We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

CPA Audit: Opinion Paragraph

- In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 20XX, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Scope of PERAC Audit

- Compliance with G.L. c. 32, § 21 and associated laws
- Compliance with PERAC regulations 840 CMR 25.00.
- Comply with PERAC format for reporting financial activities and operations
- Use PERAC approved forms and satisfy filing requirements
- Comply with PERAC Memo's and follow educational materials

Scope of PERAC Audit covers:

- Cash & Annual Statements
- Accounting
- Membership
- System Administration: Minutes; Attendance
- Fiduciary Bonding Coverage
- Investments: RFP process; prohibited holdings
- Contracts: RFP process; maybe

Scope of CPA Audit

- Follow yellow book manual for protocols
- Prepare financial statements in conformity with GAAP (generally accepted accounting principles)
- Conduct audit in conformity with GAAS (generally accepted auditing standards)
- Comply with GASB (Government Accounting Standards Board) pronouncements on reporting for defined benefit pension plans

How to prepare for any audit

- Keep adequate records that support all receipts and disbursement transactions
- Maintain an accurate database of members contributions and creditable service
- Provide retirees the benefits they are entitled to under the applicable laws
- Counsel retirees of all rights and privileges they are entitled to

How to maintain your records

- Guidance provided by PERAC instructions for Annual Statement preparation
- PERAC regulations
- Vendor provider reports (Tyler; PTG; Data Nat'l)
- PERAC Accounting Manual

Common Audit Deficiencies

- Board member fails to attend 75% of the monthly meetings
- Treasurer does not reconcile bank account to general ledger
- Contributions withheld are not accurate
- Contribution rate assigned is not accurate
- Pay codes included/excluded from regular compensation

How to Avoid Audit Findings

- Read PERAC final audit reports posted on website
- Read instructions for preparing the annual statement
- Read PERAC accounting manual
- Read PERAC regulations
- Be familiar with Ch 32 and related pension laws
- Be familiar with Mass Pension guidebooks and publications
- Out of state residents, tough to comply with minimum attendance policy

Pension Audit Buzzwords

- Due Diligence
- Operational Audit
- Financial Forecast
- Actuarial Study or Evaluation
- Fully Funded
- OPEB: Other Post Employment Benefits
- Fraud or Forensic Audit
- CAFR (Comprehensive Annual Financial Report)
trend becoming more popular
- ICQ (Internal Control Questionnaire)