

## MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Retroactive Changes to Cash Book Entries

DATE: July 1, 2014

Some confusion has developed over the appropriate process to be used to correct Cash Book filings, PERAC Annual Statements and other accounting filings submitted to PERAC. This Memo is an attempt to clarify the procedure that results in a consistent application of the expectations in these filings.

Changes occur in many instances relating to the completion of accounting functions. Cash Books consist of Receipts, Disbursements, Adjusting Journal Entries, a completed trail balance and a general ledger detail for each monthly accounting period. These are required to be filed/received at PERAC within 30 days of each month end. These required filings are reviewed by the PERAC Investment Unit. The results are then inserted into a spreadsheet that tracks the investment results for that period. The investment results of each period are used to calculate the Return on Investment that is published for each retirement system within the PERAC regulatory authority. The integrity of these results should not be compromised since they inform the public as well as the institutional debt rating organizations of the progress the systems are making toward eliminating the unfunded liabilities relating to pension obligations.

Errors can and do occur on a regular basis as we all are aware. These could be mathematical errors, or the misapplication of the understanding of how or where financial transactions are to be recorded in the PERAC Chart of Accounts, or a misunderstanding of the fact pattern relating to the recording of a transaction. They may be related to an estimate, or an accounting principle or an accounting method. These errors could affect the current monthly period Cash Books, a prior monthly period within the same calendar year, or may affect some prior year for which the PERAC Annual Statement has been completed and filed.

The generally accepted accounting practice (GAAP) is to recognize the error in the period in which the error is discovered. The “clean surplus” theory implies that the accumulated Fund Balances reported at the conclusion of the calendar year (except for State and Teachers) are free of material misstatement and available for claims from the retirees and members seeking the



MEMORANDUM - Page Two

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benefits entitled to them under the collective rules applied under Chapter 32, MGL, et al. It would undermine the credibility of this information if changes were posted directly to the Funds that were not included in the results reported for the current accounting period. That is why all inter fund transfers must be reported specifically in the period they occur and reflect how they affect to related Fund Balances.

It is generally not a good practice to change accounting information previously reported. It is never a good practice to make changes to original source documents. The result is to undermine the reliability of the accounting records. It could lead to the contention the system is deliberately misstating its financial results to mislead or otherwise obscure the operations of the system.

Prior period adjustments must be limited to specific circumstances that would otherwise undermine the integrity of comparable information already reported to the public. You should seek the guidance and permission of PERAC when determining the appropriate cause to restate financial information previously filed with the public.

In summary, the reporting of accurate, complete, and correct information in the current period results in the most accurate reflection of your investment results for that period. Anything else tends to skew this result. Deliberate obfuscation will not be tolerated. Repetitive errors and changes are symptomatic of poor internal financial controls. These may result in increased audit risk assessment.

The rule is to report all errors and changes in the current accounting period. Do not initiate a retroactive change to a previous accounting period. This simple rule should make it easier to complete the filing requirements for regular cash books and related submissions.

We trust the foregoing is of assistance. If you have any questions, do not hesitate to contact the PERAC Investment Unit or the PERAC Audit Unit.