



# The Commonwealth of Massachusetts

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NO. 2011-1315-3A

**INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF THE  
PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION  
JANUARY 1, 2009 TO JUNE 30, 2010**

**OFFICIAL AUDIT  
REPORT  
FEBRUARY 10, 2011**



# The Commonwealth of Massachusetts

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February 10, 2011

2011-1315-3A

Joseph E. Connarton, Director  
Public Employee Retirement Administration Commission  
5 Middlesex Avenue  
Suite 304  
Somerville, Massachusetts 02145

Dear Director Connarton:

Enclosed is an audit report for your review. This audit of the Public Employee Retirement Administration Commission covers the audit period of January 1, 2009 to June 30, 2010. This is one of a number of audits commenced and largely completed during the tenure of my predecessor, State Auditor A. Joseph DeNucci. Should you desire more information relative to this audit, please contact me.

I look forward to fostering a cooperative relationship between our respective offices. If my staff or I may be of assistance at any time, please do not hesitate to call upon us. I know we both share the goal of making government work better.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne M. Bump".

Suzanne M. Bump

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### INTRODUCTION

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The Public Employee Retirement Administration Commission (PERAC) was established under Chapter 306 of the Acts of 1996 and Chapter 32 of the Massachusetts General Laws. PERAC is responsible for the oversight, guidance, monitoring, and regulation of Massachusetts public pension systems. Public pension assets in Massachusetts are controlled by the 106 retirement boards and the Pension Reserve Investment Management (PRIM) Board, which is charged with the general supervision of the Pension Reserves Investment Trust (PRIT) Fund. Each retirement board is responsible for the assets of its system, and the PRIM Board, through its investment vehicle, the PRIT Fund, is responsible for those assets and investments of the pension funds, including the Massachusetts State Teachers' Retirement System; the Massachusetts State Employees' Retirement System; and the assets of county, district, authority, and municipal retirement systems that chose to invest in the PRIT Fund. The aggregate market value of both these systems for calendar year 2009 and 2008 was approximately \$54.1 billion and \$ 47.7 billion, respectively.

Our review of PERAC was conducted to determine the efficiency and effectiveness of its operations and to ascertain whether it is accomplishing its goals and objectives. Accordingly, we reviewed PERAC's internal controls over financial and management activities; its policies and procedures for providing oversight, guidance, monitoring, and regulation of Massachusetts public pension systems; and compliance with its enabling legislation (Chapter 7, Sections 49 and 50, of the General Laws). Finally, we conducted a review of PERAC audits of public pension systems to determine whether they are conducted in a timely manner and that the Commission is properly following up on prior audit disclosures for resolution.

Our review of PERAC determined that it is accomplishing its goals and objectives in an efficient and effective manner. PERAC's internal controls over financial and management activities and its policies and procedures for providing oversight, guidance, monitoring, and regulation of Massachusetts public pension systems were adequate. Further, PERAC was compliant with its enabling legislation (Chapter 7, Sections 49 and 50, of the General Laws). Finally, PERAC's audits of public pension systems were conducted in a timely manner and the Commission is properly following up on prior audit disclosures for resolution.

## INTRODUCTION

### *Background*

The Public Employee Retirement Administration Commission (PERAC) was established by Chapter 306 of the Acts of 1996 to oversee the guidance, monitoring, and regulation of the 106 retirement systems in the Commonwealth. PERAC, which falls under but is not subject to the Executive Office for Administration and Finance, consists of seven members. The Governor appoints three members, three members are appointed by the State Auditor, and these six members choose the Chairman. The commission must select and enter into an employment contract with an Executive Director. The members serve without pay, but are compensated for the necessary expenses of their official duties.

Most public pension assets in the Commonwealth are controlled by the 106 retirement boards and the Pension Reserve Investment Management (PRIM) Board, which is charged with the general supervision of the Pension Reserves Investment Trust (PRIT) Fund. Each retirement board is responsible for the assets of its system. The PRIM Board, through its investment vehicle, the PRIT Fund, is responsible for the assets and investments of the pension funds of the Massachusetts State Teachers' Retirement System; the Massachusetts State Employees' Retirement System; and certain assets of county, district, and municipal retirement systems. The aggregate market value of these systems for the years ending December 31, 2009 and 2008 was as follows:

Calendar Year	Total Market Value	Retirement System			
		Managed by PRIM	Percentage	Managed by Local Retirement Systems	Percentage
2009	\$54.1 billion	\$42.6 billion	78.7%	\$11.5 billion	21.3%
2008	\$47.7 billion	\$37.8 billion	79.2%	\$9.9 billion	20.8%

### *Audit Scope, Objectives, and Methodology*

Our audit was conducted to determine the adequacy of PERAC's internal controls over operations; financial management activities; policies and procedures for providing oversight, guidance, monitoring, and regulation of Massachusetts public pension systems' compliance with enabling legislation (Chapter 306 of the Acts of 1996; Chapter 7, Sections 49 and 50; and Chapter 32 of the

Massachusetts General Laws); and audits of major pension systems. Our audit, which covered the period January 1, 2009 to June 30, 2010, was conducted in accordance with generally accepted government auditing standards for performance audits, as issued by the Comptroller General of the United States, and included such tests and procedures as we considered necessary to meet those standards.

Accordingly, we assessed PERAC's compliance with its enabling legislation and conducted testing to determine the efficiency and effectiveness of its operations. To accomplish our objectives, we examined PERAC's accounting records and other related documents, reviewed applicable laws and regulations, and interviewed PERAC officials and staff. In addition, we reviewed the PERAC audit reports of public pension systems from January 1, 2009 through June 30, 2010. This examination included a review of audit work papers to determine compliance with 840 Code of Massachusetts Regulations (CMR) 25.00, "The Conduct of Field Examinations of Contributory Retirement Systems."

The examinations of contributory retirement systems are to be conducted in accordance with generally accepted auditing standards to determine the system's financial condition; monitor the performance under the terms of its legal, contractual, and fiduciary requirements; and examine the system's effectiveness in achieving the intended results established by 840 CMR 25.01 for the efficient administration of public employee retirement systems. The cited requirements state that PERAC shall conduct an examination of each system, including the PRIM Board, every three years to ascertain the systems' financial condition, ability to fulfill their obligations, whether all interested parties have complied with the laws applicable thereto, and whether the transactions of the systems have been in accordance with applicable requirements.

Our review of PERAC determined that it is accomplishing its goals and objectives in an efficient and effective manner. PERAC's internal controls over financial and management activities and its policies and procedures for providing oversight, guidance, monitoring, and regulation of Massachusetts Public Pension Systems were adequate. Further, PERAC was compliant with its enabling legislation (Chapter 7, Sections 49 and 50, of the General Laws). Finally, PERAC's audits of public pension systems were conducted in a timely manner and the Commission is properly following up on prior audit disclosures for resolution.