

***MIDDLESEX COUNTY RETIREMENT SYSTEM***

***FINDINGS AND RECOMMENDATIONS***

***YEARS ENDED DECEMBER 31, 2008-2010***



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To the Honorable Middlesex Retirement Board  
Middlesex County Retirement System  
Billerica, Massachusetts

In planning and performing our audit of the financial statements of the Middlesex County Retirement System (MCRS) as of and for the years ended December 31, 2010, 2009, and 2008 we considered the system's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, we became aware of findings and other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations concerning these matters.

This letter does not affect our report dated December 20, 2011, on the financial statements of the Middlesex County Retirement System.

The accompanying comments and recommendations are intended solely for the information and use of management of the Middlesex County Retirement System (MCRS) and the Public Employees Retirement Administration Commission (PERAC), and are not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next engagement. We have already discussed these comments and recommendations with various personnel, and we will be pleased to discuss them further at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendations.

A handwritten signature in black ink that reads "Powers &amp; Sullivan, LLC". The signature is written in a cursive, flowing style.

December 20, 2011

MIDDLESEX COUNTY RETIREMENT SYSTEM

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## **Status of Prior Audit Findings**

PERAC completed an examination of the Middlesex County Retirement System for the period January 1, 2005 through December 31, 2007 and issued their opinion, findings and recommendations in a report dated August 5, 2008. The examination included 3 findings which are summarized below along with the current status of each finding.

1. Finding 1 related to the sampling of member deductions, which comprised of two parts. The first showed a 15% error rate for withholding the correct amount of 2% additional contributions for members earning over \$30,000. The second part noted fourteen percent of the governmental units sampled had questionable pay codes classified as regular compensation.

Current Status – **Partially resolved** – We tested the member withholding deduction and noted that there were errors in 3.3% of the testing selection for withholding the correct amount of 2% additional contributions for members earning over \$30,000. MCRS has improved on its error rate from the prior audit. **Resolved** - We tested pay codes classified as regular compensation and did not find any errors. MCRS has reduced the error rate from 14% to 0%.

2. Finding 2 related to the buyback agreements that were not being monitored properly to ensure members were actively making appropriate payments and that interest calculations were accurate.

Current Status – **Resolved** – The System has developed a process to monitor the agreements and correct any errors in a timely manner.

3. Finding 3 related to the fact that approximately 250 checks outstanding for more than six months.

Current Status – **Unresolved** – The System has worked to resolve some of the old outstanding checks, however, the issue still remains.

### Management's Response

Through December 31, 2011 the System has found 19 stale checks in Refunds and Expenses and 17 stale checks from Retiree Payroll. These will be resolved before the balancing and reconciliation for the close of 2011. The System now monitors this matter on a monthly basis with a more thorough quarterly review.

## ***Current Findings, Recommendations and Questioned Costs***

### **4. Travel Expenses**

#### Finding

##### *Meal Reimbursements*

The travel policy for the System reimburses the cost of meals and nonalcoholic beverages for board members away on travel. Documentation is required to support the reimbursement request. We noted that approximately 29% of the expenditures for hotel reimbursements did not include an itemized receipt. The error rate found in our testing is considered high and the lack of proper documentation can result in unallowable reimbursements to occur.

##### *Rental Car Reimbursements*

The travel policy for the System allows for the use of a standard grade rental vehicles from a national agency. Standard grade is defined as an intermediate or full sized vehicle. We noted one instance where there was no itemized receipt to indicate the vehicle grade. MCRS was not following its reimbursement policy and can result in unallowable reimbursements to occur.

#### Management's Response

With reference to meal reimbursements, original documentation is required to support all expense reimbursement requests. A meal charge reflected on an original hotel portfolio had been accepted as such documentation. Travelers have since been advised that meals charged to the hotel portfolio must be supported by additional documentation.

With reference to rental car reimbursements, the one incident in which the standard vehicle grade was not indicated on the receipt was the result of the agency's failure to provide that information on the preprinted receipt. Travelers have been advised to ensure that the rental vehicle grade is listed on the receipt, and where not feasible due to the agency's practices, to obtain other verification. The Board's travel policy will be amended to address both of these findings.

### **5. Refund and Transfer Testing**

#### Finding

When individuals leave the system, their contributions are either transferred to a new system or refunded to the individual. We tested a selection of the System's refunds and transfers to ensure that the amounts were correct, that the transactions were properly approved, and the correct individual was being reimbursed. The System was unable to provide supporting documentation for 7% of the sample selection for testing refunds and transfers. Although the transactions in which support was provided did not result in compliance errors the inability to produce 100% of the requested documentation is a compliance finding.

#### Management's Response

The lack of supporting documentation that resulted in a 7% error from the sample consisted of a missing file and a missing letter from a member's file. Both cases were further reviewed.

With reference to the missing letter, it was determined that the letter was in fact included in the member's file and must have been overlooked.

With reference to the missing file, it was determined that the member was employed at two separate times by two separate units resulting in two separate membership files. Unfortunately, the listing of the files to be reviewed was by name only, and through oversight, only one file was provided.

## 6. Availability of Board Minutes

### Finding

The Retirement Board meeting minutes for the entire year were not readily available during the time of our scheduled audit. The minutes to Board Meetings is legal requirement to have readily available as a public record. Any significant delay is considered a compliance violation. Board minutes should be transcribed, approved and available for public review on a timely basis.

### Management's Response

The Board further investigated this finding and determined that this resulted from a misunderstanding by a member of the Board's staff who believed that because certain board minutes had yet to be signed, and that certain minute pages had yet to be stamped, the minutes were not in a form to be presented. Unfortunately, other staff who could have assisted were either not consulted or were on extended sick leave. The Board is keenly sensitive to its obligation to provide minutes in a timely fashion, including draft minutes, and the Board's staff has been so advised.

## 7. Withheld Checks

### Finding

We noted several large checks that were issued during 2010 that had not cleared the bank as of the date of this report. We learned that these checks were for payments to the Worcester and Waltham Systems for 3(8)(c) reimbursement payments. These checks were withheld by MCRS due to outstanding receivable balances from the Worcester and Waltham Retirement Systems for 3(8)(c) payments dating back to 2008. MCRS needs to adopt formal policies to collect valid amounts receivable.

### Management's Response

The situation with the Waltham Retirement System has been resolved and all Section 3(8)(c) reimbursements have been made and received. It is anticipated that the issue with the Worcester Regional Retirement System will be likewise resolved shortly. Many payments had been disputed due to pending requests for recalculations made to PERAC. In Memo #15/2010 PERAC determined that recalculations would become effective "as of the date that the request for recalculation was received", and not as of the date of retirement, as had been the prior case. In the future, no payment checks will be issued and held. Instead, the amounts will be posted in the Accounts Payable until outstanding issues are resolved.

## 8. Independent Valuation of Real Estate and Alternative Investments

### Finding

The System currently uses State Street Corporation (State Street) as the custodian of their investments. State Street is not contractually obligated to, nor does it, independently verify the balances of pooled real estate and pooled alternative investments. At December 31, 2010 these investments accounted for approximate \$24 million, which represents 4.6% of the total investments of the System. MCRS currently does not have a third party independently verify the current value of these investments. Not having a periodic independent valuation of these investment increases the risk that the asset values are misstated.

### Management's Response

All of the real estate and alternative investment partnerships are subject to annual independent audits by outside audit firms, the reports of which are provided to the Board and reviewed at Board meetings. The cost to the Board for additional independent verification of the value of these assets, totaling less than 5% of the fund, would not justify the additional independent verification.

## 9. Member Make-Up and Redeposit Receivables

### Finding

As of December 31, 2010, the System has approximately \$290,000 of receivables for Member Make-Up and Redeposits. Approximately 70% of these did not have any activity during 2010 and some date back to 2004 without activity. The System does not have a policy to pursue these collections and the member can maintain a balance as long as they are in the System. MCRS should adopt a collection policy that will be followed in the case of unpaid amounts due. Once the policy is adopted it should be applied to all amounts currently due.

### Management's Response

The Board will change its policy so that Member Make-up and Redeposits with no payment activity for two years will be removed from accounts receivables, per the recommendation of PERAC auditors. No creditable service under a make-up or redeposit has been granted to a member absent payment with full interest prior to retirement. Effective April 2, 2012, the retirement law provides that members who are reinstated to membership or re-enter membership or are otherwise entitled to purchase creditable service must make a make-up payment into the system within 1 year of reinstatement or re-entry, plus buyback interest. If the member enters into an installment repayment plan, the buyback must be completed within one year of reinstatement re-entry, or within 1 year of April 2, 2012, whichever is later. If the member does not make the make-up payment within the time period described, the interest on the make-up payment will be the assumed actuarial interest.