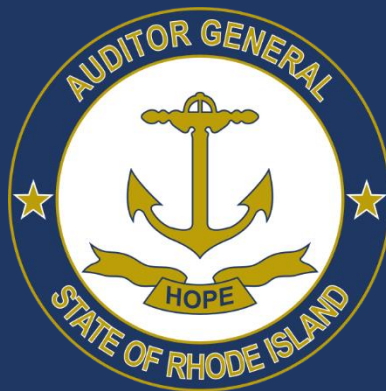


**Employees' Retirement System  
of the State of Rhode Island**

**Findings and Management Comments**

**Audit of the Fiscal 2023  
Financial Statements**



**David A. Bergantino, CPA, CFE**  
**Auditor General**

**State of Rhode Island**  
**General Assembly**  
**Office of the Auditor General**



# Office of the Auditor General

State of Rhode Island - General Assembly

David A. Bergantino, CPA, CFE - Auditor General

[oag.ri.gov](http://oag.ri.gov)

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January 4, 2024

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER K. Joseph Shekarchi, Chairman

Senator Dominick J. Ruggerio

Senator Jessica de la Cruz

Representative Christopher R. Blazejewski

Representative Michael W. Chippendale

RETIREMENT BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
STATE OF RHODE ISLAND:

We have audited the financial statements of the Employees' Retirement System of the State of Rhode Island (the "System") for the year ended June 30, 2023 and have issued our report thereon dated December 26, 2023 in accordance with Section 36-8-19 of the Rhode Island General Laws. The System's financial statements and our Independent Auditor's Report thereon are included in the Annual Comprehensive Financial Report of the System.

In accordance with *Government Auditing Standards*, this report includes our Independent Auditor's Report in Section I on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. We reported a significant deficiency in internal control which is included in Section II of this report. We noted no material weaknesses in internal control or material noncompliance.

We also reported other matters included herein as management comments in Section III which include recommendations to enhance internal control or result in other operational efficiencies.

The System's management has provided their planned corrective actions relative to these findings and management comments, which have been included herein.

Sincerely,

David A. Bergantino, CPA, CFE  
Auditor General

**Employees' Retirement System of the State of Rhode Island**

**Findings and Management Comments  
Audit of the Fiscal 2023 Financial Statements**

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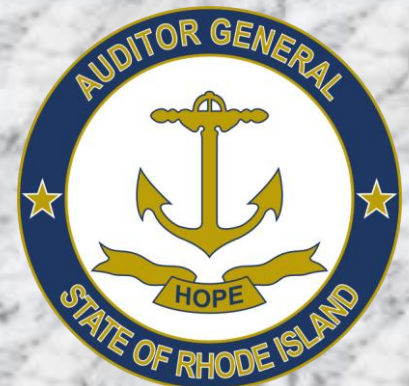
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**SECTION I**

**INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL  
CONTROL OVER FINANCIAL  
REPORTING  
AND ON COMPLIANCE AND  
OTHER MATTERS**

**AUDIT OF THE EMPLOYEES'  
RETIREMENT SYSTEM  
OF THE STATE OF  
RHODE ISLAND**

**FISCAL 2023**





# Office of the Auditor General

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
STATE OF RHODE ISLAND:

RETIREMENT BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
STATE OF RHODE ISLAND:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the plans within the Employees' Retirement System of the State of Rhode Island (System) as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 26, 2023.

## **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2023-01, that we consider to be a significant deficiency.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## System Management's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the System's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David A. Bergantino, CPA, CFE  
Auditor General

December 26, 2023

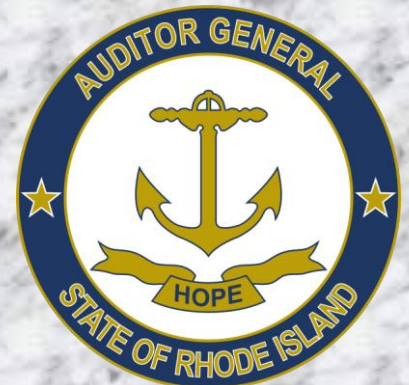


**SECTION II**

**SCHEDULE OF FINDINGS AND  
RESPONSES**

**AUDIT OF THE EMPLOYEES'  
RETIREMENT SYSTEM  
OF THE STATE OF  
RHODE ISLAND**

**FISCAL 2023**



Finding 2023-01

*significant deficiency / repeat finding***OVERSIGHT OF THE DEFINED CONTRIBUTION PLAN**

**Background:** The Employees' Retirement System of the State of Rhode Island (System) oversees a defined contribution (DC) plan for members which is part of the overall "hybrid" pension benefits, in conjunction with defined benefit plan benefits, for most covered employees. The DC plan is administered totally by the Teachers Insurance and Annuity Association of America (TIAA) and the System is reliant on information provided by TIAA for financial reporting purposes. No independent records are maintained by the System for the DC plan activities.

As expected, total assets of the DC plan have grown considerably since plan inception and members are beginning to withdraw funds to meet their retirement objectives. Total assets in the DC plan at June 30, 2023 totaled \$1.7 billion.

**Criteria:** The System should have sufficient information to support effective compliance monitoring and financial reporting for the DC plan. Management is responsible for the accuracy of the System's financial reporting.

**Condition:** The System does not receive information on the employer remittances of employer and employee contributions to the DC plan and therefore has limited information to ensure employer compliance with the DC plan provisions. Contribution compliance monitoring should be included within the risk-assessment process to determine effective controls are in place.

Our testing in fiscal 2023 continued to note limited instances where employer remittances to the plan administrator incorrectly coded employer and employee contribution amounts in reverse. Since the System utilizes reporting by the plan administrator for financial reporting, incorrect employer coding results in misstatements in the financial statements. While we noted some improvement over fiscal 2022, the exceptions noted continue to support a deficiency in internal control over financial reporting for the DC plan.

As the plan matures and investment assets continue to grow, the System should assess and strengthen their oversight of the DC plan to ensure 1) compliance by the plan administrator with contracted plan provisions, 2) employer compliance with plan provisions, and 3) the accuracy of reported DC plan activity in the financial statements. This should include consideration of relevant risks and the development and formalization of an oversight/monitoring plan to meet this objective. The monitoring plan should include how the plan administrator's annual Service Organization Control (SOC) Report is utilized by the System as oversight of critical defined contribution plan activities. Ensuring documentation of critical user entity controls (i.e., reviewing plan reports and ensuring reconciliation to internal records and/or plan documents) and how those controls are performed should also be documented within the plan.

Additionally, consideration should be given to modifying the existing contribution and benefit system for the defined benefit plans to also include the employer data for the DC plan before transmission to TIAA. This would facilitate monitoring of contribution data and provide independent corroboration of amounts reported by TIAA as employer and employee contributions to the plan. In the short-term, requiring employers to provide more data elements (i.e., employee wages subject to contribution) in their submissions to the plan administrator coupled with additional reporting by the plan administrator could enhance the System's monitoring of employer compliance with DC plan provisions.



Other plan administration areas that should be addressed in the plan to strengthen internal controls include periodic (at least monthly) analytical reviews of investment growth and performance, contributions to and distributions from the plan and fees paid. The analytical reviews should include documentation of follow-up and resolution when actual results differ from expectations.

**Cause:** At the inception of the DC plan, the plan design, enacted by legislation, provided for employer and employee contribution data to flow directly from the employer to TIAA without any data capture by ERSRI.

**Effect:** The System lacks sufficient accounting and contribution data to monitor compliance with contribution requirements and to validate reporting by TIAA.

RECOMMENDATIONS

- 2023-01a Perform a risk assessment for the DC plan and identify areas where internal controls and oversight can be strengthened.
- 2023-01b Consider modifying the existing contribution and benefit system for the defined benefit plans to capture employer (employee and employer contributions) data for the DC plan or implement other procedures to enhance monitoring of employer compliance with the plan provisions.
- 2023-01c Formalize a DC monitoring plan to protect member plan balances, ensure compliance by the plan administrator, and enhance controls over financial reporting of the plan within the System’s overall financial reporting.

Management’s Views and Corrective Action Plan:

*A public RFP was issued in 2023 for the State of Rhode Island Defined Contribution Retirement Plan. The Defined Contribution Plan maintained its existing relationship with TIAA. Included in the RFP were specific requirements to provide tools to ERSRI with the ability to monitor contribution processing and add internal controls. ERSRI is currently working with TIAA to develop these internal controls. A formalized DC monitoring plan will be developed upon completion of discussions.*

*With regard to investment activity, the State Investment Commission (SIC) contracts with a vendor that serves to monitor the investment activities of the DC plan. This vendor communicates with the Investments team regularly and reports to the SIC on a quarterly basis. ERSRI and Treasury feel confident the oversight functions performed with the vendor, the Investments team and the SIC serve as a strong monitoring process related to the investment activities of the DC plan.*

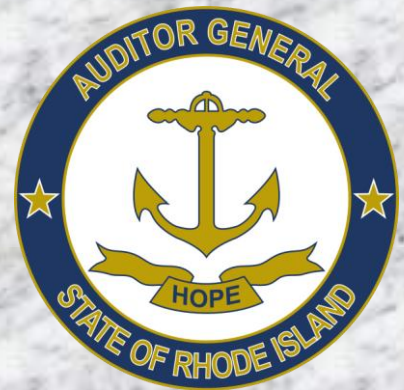
*While ERSRI has a robust wage and contribution processing system for the defined benefit (DB) plan, configuration to accommodate the defined contribution (DC) plan processing would require significant technical and personnel resources that cannot be funded through the DB administrative allocation consistent with R.I. Gen. Laws § 36-8-10.1. Administrative funding for the DC plan is insufficient to cover such a change.*

**SECTION III**

**MANAGEMENT  
COMMENTS**

**AUDIT OF THE EMPLOYEES'  
RETIREMENT SYSTEM  
OF THE STATE OF  
RHODE ISLAND**

**FISCAL 2023**



**Management Comment 2023-01**

**INTERNAL AUDIT FUNCTION**

The Employees' Retirement System of the State of Rhode Island (System) had previously contracted with an external accounting/auditing firm to perform an internal audit function. That contract ended several years ago without replacement.

An internal audit function is an important overall component of management's responsibility to ensure designed controls are in place and operating effectively. The Government Finance Officers Association (GFOA) has adopted a best practice policy and recommends "that every government should consider the feasibility of establishing a formal internal audit function to help management maintain a comprehensive framework of internal controls".

Additionally, internal audit can provide information and assurance to the System's "audit committee" (Administration, Audit, Risk and Compliance Committee) as well as the overall Board about the effectiveness and compliance with the controls management has placed into operation.

The internal audit activities performed under the prior contracted arrangement were narrow in focus. Consideration should be given to establishing a risk-based work plan with input from the Administration, Audit, Risk and Compliance Committee. Areas of higher risk may include the System's investments and the operation of the defined contribution plan which are largely performed by external entities.

The State operations which collectively operate under the General Treasurer's oversight, which includes the System, have grown significantly over the years and a dedicated internal audit function that operates within the internal control structure for all operations should be considered. The funding of a dedicated internal audit function could be allocated across General Treasurer operations.

**RECOMMENDATIONS**

- MC 2023-01a Implement a risk-based internal audit work plan to guide the efforts of the internal audit function with input and approval from the System's Administration, Audit, Risk and Compliance Committee.
  
- MC 2023-01b Determine the necessary resources (personnel or contract) to implement an internal audit function based on the developed work plan. Consider implementation of dedicated internal audit resources within the internal control structure for all operations under the oversight of the General Treasurer.

**Management's Views and Corrective Action Plan:**

*ERSRI will complete preparation of the Request for Proposal to solicit bids from qualified firms to serve as ERSRI's internal audit function. The process will be performed with input and approval from the Administration, Audit, Risk and Compliance Committee.*

<b>Management Comment 2023-02</b>
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**INFORMATION SECURITY OFFICER**

The System obtained a beneficial external security assessment of its information technology operations a few years ago. One of the recommendations from that assessment included adding an information security officer (ISO) with sufficient authority and resources to oversee and maintain an organization-wide information security program. Corrective actions for other issues noted in the assessment are dependent on dedicated information security resources for the System.

Most of the System's information technology is maintained by external entities, which while lessening the resources needed to manage daily IT operations, increases the need for oversight and monitoring of overall information security best practices and protocols. Information security is of critical importance for all entities involved in the collection, sharing, transmission, and storage of personally identifiable information (PII). A strong and well-designed information security program is essential for protecting an organization's communications, systems, and assets from both internal and external threats.

Overall IT operations that collectively operate under the General Treasurer's oversight, which includes the System, have grown significantly over the years as has the use of information technology and the various risks associated with it. A dedicated ISO responsible for securing the IT operations within these critical functional areas is needed. The funding of a dedicated position could be allocated across General Treasurer operations.

**RECOMMENDATIONS**

- MC 2023-02a Dedicate information security personnel responsible for the security of IT operations under the responsibility of the General Treasurer.
- MC 2023-02b Ensure IT security resources immediately implement the required corrective actions recommended by the IT security assessment.

**Management's Views and Corrective Action Plan:**

*The Treasury IT operations has upgraded the Information Systems Manager position with increased IT security requirements. The position has been filled. ERSRI has also added responsibilities to the Director of Retirement Business Systems role to manage various requirements. ERSRI will continue to evaluate the management of the security infrastructure with Treasury.*

<b>Management Comment 2023-03</b>
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**TIMELY REMOVAL OF AUTHORIZED SIGNATORIES FROM INVESTMENT ACCOUNTS**

Communication of changes of authorized signatories for investment accounts to the System's investment companies is essential to maintaining adequate internal control over investments. Our update of this issue for fiscal 2023 noted that the investment custodian did not have an updated list of authorized

signatories for the State. The timely removal of authorized personnel upon termination from employment is vital to ensuring controls over investments.

In response to our comment for fiscal 2022, the Office of the General Treasurer implemented updated policies and procedures and communicated changes in authorized signatories to its financial managers and custodians in March 2023. We further recommend that the Treasurer's office periodically confirms authorized signatories with key financial managers and custodians to ensure the effective implementation of its designed policies and procedures.

RECOMMENDATION

MC 2023-03    Ensure that newly implemented policies and procedures for updating authorized signatories are working effectively by periodically confirming authorized signatories with key financial managers and custodians.

Management's Views and Corrective Action Plan:

*The Office of the General Treasurer shall buttress the process developed in fiscal 2023 by modifying the communication sent to external entities upon any staffing changes. The modification will be to include a request that the external entity confirm the authorized signatories. The staff assigned to execute this communication shall also record the receipt of the confirmation to enable following up with any non-responsive external entities.*