STATE OF RHODE ISLAND

EMPLOYEES' RETIREMENT SYSTEM

Management Comments

FISCAL YEAR ENDED JUNE 30, 2016

Dennis E. Hoyle, CPA
Auditor General

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

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June 16, 2017

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman

Senator Dominick J. Ruggerio
Senator Dennis L. Algiere
Representative K. Joseph Shekarchi
Representative Patricia L. Morgan

BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM 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, 2016 and have issued our report thereon dated January 20, 2016.

The System's financial statements and our independent auditor's report thereon are included in a separate audit report entitled *STATE OF RHODE ISLAND EMPLOYEES' RETIREMENT SYSTEM - FISCAL YEAR ENDED JUNE 30, 2016*. In accordance with *Government Auditing Standards*, we have also prepared a report, which is included therein 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 no matters deemed significant deficiencies or material weaknesses in internal control or material noncompliance.

We report various matters included herein as management comments which include recommendations to enhance internal control or result in other operational efficiencies.

Sincerely,

Dennis E. Hoyle, CPA
Auditor General

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

FISCAL YEAR ENDED JUNE 30, 2016

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MONITORING OF POST-RETIREMENT EMPLOYEMENT

During our prior and ongoing current year audits of the financial statements of the Employees' Retirement System of Rhode Island (ERSRI), we identified instances of noncompliance with limitations or prohibitions on post-retirement employment.

We acknowledge the inherent challenges in monitoring post-retirement employment since it is largely dependent on self-reporting by pensioners and their employers. We also acknowledge that ERSRI has made relevant information available on its website and is implementing a new functionality to facilitate retiree reporting of post-retirement earnings. Nonetheless, the General Laws include specific prohibitions and limitations that must be observed.

Specifically, an ERS plan retiree was retired from a local school district and was subsequently employed by the University of Rhode Island. Such employment is permitted for certain activities at the University; however, such earnings must not exceed $15,000 in any calendar year. Actual earnings in each of the years since 2006 exceeded such limit. After we informed ERSRI staff of this noncompliance, the retiree's pension was suspended in an effort to recoup excess earnings estimated at $59,000.

Another instance involved a local teacher member of ERS who also worked simultaneously as a state employee at the Department of Corrections with contributions to the ERS plan only from the teacher employment. When the member retired from his teaching position, he was allowed to collect his pension without reduction or modification and continue as an active state employee at the Department of Corrections. Such employment with the State is prohibited, by statute, for ERS retirees. This individual did seek guidance from ERSRI many years ago and was permitted to collect his pension and continue active employment with the Department of Corrections. Such permission appears at odds with current statutory provisions.

We share these instances in support of our recommendations that ERSRI further improve its education efforts and highlight awareness of the specific limitations on post-retirement employment, enhance monitoring and formalize policies that interpret and apply the laws governing post-retirement employment.

Monitoring of post-retirement employment

Despite the requirement included in the General Laws that both the retiree (and URI employee) and subsequent employer have a reporting and monitoring obligation, this employee's earnings in excess of $15,000 were not identified over an extended period of time. This led to the subsequent identification and quantification of an amount owed by the retiree to the System – a significant amount that resulted in subsequent suspension of the retiree's pension for approximately 18 months.

The employee did not periodically report post-retirement earnings from the University until recently when the noncompliance was identified through our audit. We were informed that the University monitors its separate payroll system (used for part-time employees, adjunct faculty, etc.) for this purpose but does not monitor employees paid through the State payroll system. This employee was paid through the State payroll system. In this instance, the University did not meet its employer monitoring and reporting responsibilities.

The University (as well as Rhode Island College and the Community College of Rhode Island) should enhance their monitoring processes and ensure all payroll sources are included in their monitoring efforts. Procedures should be implemented that identify those employees, which may be subject to the post-retirement income limitations and reporting responsibilities at the time of hiring. Coding within the applicable payroll system could be implemented to flag or prevent earnings that approach the limit.

Additionally, ERSRI should periodically obtain state payroll information to perform its own monitoring of post-retirement employment and income limitations. Such review would have detected both instances that we have highlighted in this letter.

In an effort to ensure that retirees are aware of the prohibitions and limitations on certain types of post-retirement employment, we also recommend that ERSRI implement a process where members applying for retirement benefits, complete an affidavit indicating awareness of the limitations and prohibitions and the need to self-report when employed in those capacities.

Interpretation of amount deemed payable to ERSRI

When the noncompliance with the post-retirement earnings limitation was discovered for the retiree employed at URI, the retiree retroactively completed the annual disclosure forms listing the actual earnings each calendar year. The amount determined to require reimbursement to the plan was calculated based on the amount of earnings in each calendar year in excess of $15,000. An alternate, and we believe more appropriate interpretation, would determine the overpayment based on the monthly benefits paid which should have been suspended. The General Laws are unclear as to the specific remedy when earnings exceed $15,000 annually; however, other sections of the law regarding post-retirement employment require suspension of the pension when engaging in non-permitted post-retirement employment.

Without trying to discern legislative intent, it is reasonable to assume that the intent was to limit such permitted earnings up to $15,000 per year. The options from the pension fund perspective are to pay the benefit or suspend the benefit when the limit is exceeded. We find no support in the General Laws for the position that earnings over the $15,000 limit shall be paid to the ERS fund. There is a difference in the calculation of the resulting overpayment amount depending upon how the law is interpreted and applied.

Ultimately, in the absence of specific guidance in the law, the ERSRI Board should develop and adopt formal written policies and procedures specific to these types of situations regarding how overpayments resulting from noncompliance are measured and collected.

Ideally, through enhanced and more timely monitoring as well as increased awareness and education, such overpayment amounts, if any, should be much less material and any needed collections or reimbursements would be less burdensome to the retiree.

RECOMMENDATIONS

2016-01a Promulgate policies and procedures, with ERSRI Board adoption, regarding how overpayments resulting from noncompliance with the limitations on post-retirement employment are measured and collected. Revisit the interpretation of how amounts due back to the plan are calculated (e.g., suspension of benefits approach or excess earnings approach).

2016-01b Enhance education and highlight awareness on the specific limitations on post-retirement employment for both employers and retirees. Require each employee applying for retirement benefits to complete an affidavit, which acknowledges awareness of the limitations and reporting responsibilities associated with specific types of post-retirement employment.

2016-01c Enhance monitoring of post-retirement earnings. At a minimum, obtain state payroll information and perform a match to benefit payrolls to enhance overall monitoring efforts.

Auditee Views and Corrective Action Plan:

During FY2017 the ERSRI Board adopted Regulation 1.17 Rules for Exceeding the Allowable Monetary Limits at a State College, University, or State Operated Facility.

The purpose of this regulation is to ensure consistent application of the Retirement Board laws and rules governing post-retirement employment. Specifically, this regulation provides the process and procedures for determining when a retiree exceeds the statutory earnings limitations and how the retiree's pension benefit will be affected pursuant to Rhode Island General Laws §36-10-36(d) (2), (3) & (4)

ERSRI is currently working on implementation of this regulation.

To educate members about their post-retirement employment, the system has implemented the following practices: (1) All members who attend a retirement counseling session are educated on the rules pertaining to post-retirement employment. (2) There is a section dedicated exclusively to post-retirement employment information on the ERSRI website. (3) Post-retirement employment information is regularly included in newsletters issued by the System to all members.

In FY 2018, ERSRI will develop an affidavit to be completed as part of the retirement application. The affidavit will require members to affirm their awareness of post-retirement employment laws and duty to report.

In addition to the steps ERSRI management is taking, and consistent with the Auditor's recommendation, H5743A was introduced in the 2017 session at the request of the General Treasurer. This legislation will allow ERSRI to periodically obtain employer tax information to monitor for post-retirement employment violations. Upon passage, ERSRI staff will develop a protocol to cost-effectively monitor for post-retirement employment compliance.

Management Comment 2016-2

ENSURE ADEQUATE RESOURCES ARE COMMITTED TO MEETING THE SYSTEM'S CRITICAL ACCOUNTING, FINANCIAL REPORTING, AND PARTICIPATING EMPLOYER FINANCIAL REPORTING NEEDS

Various factors have increased the importance of timely financial reporting and highlighted the interdependency of the System's reported financial results. These include:

- Inclusion of ERSRI's financial statements in the State's Comprehensive Annual Financial Report - the State has made (1) completing the State's CAFR within 6 months of the close of the fiscal year and (2) attaining the GFOA's certificate of excellence in financial reporting a key objective. For fiscal 2016, we opined on the State's financial statements before issuing our separate report on the System. Ideally, the audited financial statements of the System should be issued prior to completion of the State's financial statements.

- The ERSRI Board needs to adopt annual actuarial valuation results at its December meeting – those actuarial valuations are dependent on audited operating results of ERSRI for the previous fiscal year.

- New COLA formulas that are dependent upon the System's operating results for the prior fiscal year.

- Compliance with GASB Statement No. 67 (applicable to plan financial statements) which requires final audited net position and other operating information for the determination of the net pension liability (assets) of the various plans within the System for disclosure in the System's annual financial statements.

- A significant volume of newly required financial reporting due to the implementation of GASB Statement No. 68 which requires the System to provide information for participating employers within the System's multiple employer cost-sharing and agent plans. In essence, specific information for each participating employer must be prepared, audited, and reported.

- An overall enhanced need and expectation by those charged with governance and the public at large for timely audited financial results.

Additionally, accounting and financial reporting requirements for governmental pension plans have grown increasingly complex, thereby demanding enhanced skills for both preparers and auditors as well as more time and effort to issue compliant financial reports.

These factors all point to a need to recommit resources and adhere to a comprehensive time schedule that addresses all the various interdependent financial reporting deliverables for the System.

The System has multiple critical accounting/financial reporting challenges that are ongoing and demand significant resources. In developing the timelines, we need to ensure that sufficient resources are committed to the tasks with effective monitoring to ensure compliance with those goals.

RECOMMENDATIONS

2016-2a Assess the adequacy of staff resources available and committed to the significant accounting and financial reporting tasks facing the System.

2016-2b Develop and adhere to a comprehensive time schedule that addresses all the various interdependent financial reporting deliverables for the System.

Auditee Views and Corrective Action Plan:

ERSRI recognizes the challenges, magnitude, and complexity of the complex financial reporting requirement for governmental pension plans. ERSRI has added additional accounting resources to address these reporting requirements in recent years. For example, in fiscal 2017 a dedicated Investment Accounting Manager was added to the ERSRI Investments/Administrative staff.

ERSRI will continue to assess the need for additional accounting resources in future fiscal years, but must also adhere to the budgetary constraints that the System operates under.

At the beginning of every audit cycle, ERSRI and the Office of the Auditor General approve a schedule of deliverable items that are required to prepare the financial statement and required *note disclosures of the System. The system recognizes the interdependency of other entities that rely on their information being reported in a timely fashion.*

The System is committed to continuing to produce its financial information in a time that is conducive to all interested parties. Also, the System is committed to continuing its positive working relationship with the Office of the Auditor General. ERSRI will consider adding additional resources to produce this information, but there is an expectation that the Auditor General's Office will have adequate resources to audit the administrative components of ERSRI, its complex investment portfolio, and present follow-up questions to the System in a reasonable timeframe.

Regarding the ERSRI annual valuation, the ERSRI Board has approved valuations at its December Board meeting and the annual COLA percent as well for eligible employers are reported to the Board.

Management Comment 2016-3

PENSION FUNDING POLICY

The Governmental Accounting Standards Board's (GASB) newly effective pronouncements (GASB Statements No. 67 and 68) regarding accounting for pension liabilities and related costs, had a significant impact on the financial reporting for governmental pension plans. One of the many provisions of these pronouncements particularly worthy of note is the "delinking" of accounting requirements from pension funding policies.

Previously, under prior statements issued by GASB for pensions, accounting guidance was also used as the basis for "acceptable" funding policies with GASB defining acceptable actuarial methods, amortization periods, etc. Under the newly effective guidance (GASB Statements No. 67 and 68) GASB only defines the **accounting** and disclosure requirements for pensions to be included in the financial statements of governments. These accounting measures are likely unsuitable for funding purposes and determining actuarially determined contributions. For example, the accounting measures for determining the net pension obligation to be included on a governmental statement of net position (balance sheet) reflects the fair value of pension plan assets at that date. For funding purposes, most plans use "asset smoothing" (generally over five years) that tempers the volatility in required contribution rates due to significant market valuation changes in any one year.

Consequently, most governments need a separate policy statement to guide their funding decisions over time, while using the accounting measures in their financial statements prepared in accordance with generally accepted accounting principles.

In response to the new GASB pension standards, organizations such as the Government Finance Officers Association and others are recommending that governments establish and adopt comprehensive pension funding policies, which outline all the key provisions designed to responsibly fund a pension plan and calculate the employer actuarially determined contribution.

In Rhode Island, pension funding policies are a combination of legislatively enacted statutes and other measures adopted by the Board of the Employee's Retirement System. The new environment requires accumulation of comprehensive pension funding policies that include statutory measures and other provisions adopted by the Board of ERSRI.

RECOMMENDATION

2016-3 Develop and adopt a formalized pension funding policy that incorporates statutory provisions as well as funding and actuarial policies approved by the Board of the Employees' Retirement System.

Auditee Views and Corrective Action Plan:

The ERSRI Board annually approves an actuarial valuation report as prepared by the System's actuary. Within the valuation of each Trust, the valuation report defines the System's funding policy and financing objectives. The approval of each valuation by the Board and the language that is prescribed in statute represents an acceptable funding policy.

ERSRI will work with its actuary and legal counsel to develop a "formal" pension funding policy document that memorializes policies approved by the Board in its valuation and prescribed in RI General Law.

Management Comment 2016-4

SEEK FORMAL INTERNAL REVENUE SERVICE DETERMINATION OF THE QUALIFYING STATUS OF EACH DEFINED BENEFIT and DEFINED CONTRIBUTION PENSION PLAN

Governmental pension plans operate under unique Internal Revenue Service (IRS) code provisions. Certain of these provisions relate to the taxable treatment of member contributions to the plan as well as benefits paid from the plan. The IRS has various requirements relating to a pension plan being established and maintained as a qualified governmental plan.

The System has not sought formal determination letters from the IRS confirming the qualifying status of all the System's defined benefit and defined contribution plans. The State did enter into an "Agreement as to Final Determination of Tax Liability and Specific Matters" with the IRS in 1994 primarily to resolve issues related to the prior withdrawal of contributions. That agreement addressed various plan compliance matters. TIAA-CREF, as the plan administrator/record keeper for the defined contribution plan, sought and received pro-forma plan type approval from the IRS for that plan but the approval was not plan specific.

Available information suggests that "best practices" for governmental pension plan administration include obtaining a formal determination from the IRS regarding the qualifying status of the pension plan and then maintaining such qualification consistent with IRS guidelines. The IRS, in a document released in November 2013, noted that although "submitting a request" for a determination letter is voluntary, there are compelling reasons to apply for one. For example, a favorable letter allows the plan to:

- minimize the risk that the IRS will disqualify the plan on audit because the plan document doesn't satisfy the applicable tax-qualification requirements, and

- use certain IRS correction programs to correct plan errors."

We understand that a large part of obtaining a formal determination requires submission of plan documents which address all the required areas of the IRS regulations. The Executive Director informed us that legal staff have begun accumulating all necessary plan documents with the intent of seeking a formal determination. We are not aware of any information indicating that the plans do not meet the IRS requirements of a qualified plan.

RECOMMENDATION

2016-4 Seek formal determination letters from the Internal Revenue Service regarding the qualifying status of the System's defined benefit and defined contribution plans.

Auditee Views and Corrective Action Plan:

Regarding the defined contribution plan, the plan has an IRS approval letter dated March 31, 2014 reference TEGE:EP:7521.

Regarding the defined benefit plan and as stated in the management comment, ERSRI has received a determination IRS letter entitled "Tax Liability and Specific Matters" dated February 4, 1994 in which the IRS noted that the plan is intended to be a qualified plan under section 401(a) of the IRS code. As required by the letter, Rhode Island General Laws were amended in the 1994 legislative session to add RIGL 36-8-20 Internal Revenue Code Qualification. In addition, the Plan meets the definition of a Governmental plan as defined by IRS under sections 414(d) and (h), and 415.

However, ERSRI recognizes that receiving a formal IRS determination letter for the defined benefit plan is generally accepted as a "best practice". Management will engage tax counsel in FY 2018 to develop a workplan to submit a formal request for determination to the IRS.

Management Comment 2016-5

SYSTEM ADMINISTRATIVE COSTS

The administrative costs of operating the retirement system are allocated to and paid from the plans within the System. These include the (1) direct costs of operating the System such as personnel costs for employees of the Retirement Division, actuarial, custodial and investment manager fees, and (2) allocated personnel costs for certain members of the General Treasurer's staff who spend a portion of their time on retirement system related activities.

The Employees' Retirement System Board should formalize a policy regarding which administrative costs are to be paid from the plans within the System. This would provide guidelines for the consistent determination and allocation of such costs to the System in keeping with the Board's fiduciary responsibility. The administrative costs charged to the System are a component (albeit small) of the calculation of the actuarial rate of return which is an important element of the actuarial valuations performed of the plans and a determinant of whether a cost of living adjustment (COLA) will be paid and the amount of such COLA.

A formal policy would additionally provide guidance when either unusual or new expenses arise and a decision must be made regarding whether the item should be charged as an expense of each pension trust. Recent examples include legal defense fees related to challenges to the enactment of the Retirement Security Act of 2011.

Additionally, there are other trust funds in addition to the Employees' Retirement System, which could receive an allocation of certain costs if the goal is to equitably distribute such costs based on proportionate effort. For example, the OPEB Trust funds were created in fiscal 2011. Currently, applicable investment custodial fees are allocated to the OPEB Trust funds; however, no General Treasurer investment division costs are allocated - unlike the allocation to the Retirement System trust funds.

As fiduciaries of the plans within the System, the Board's approval of administrative costs would supplement the annual legislatively approved appropriation for the System from a restricted receipts account within the State's General Fund. A formal policy statement would guide (1) which costs are deemed appropriate as expenses of the various trusts within the System and (2) the equitable distribution of such expenses when shared by multiple plans/trusts.

<u>RECOMMENDATION</u>

2016-5 Formalize ERSRI Board policy regarding administrative costs to be charged to the Employees' Retirement System.

<u>Auditee Views and Corrective Action Plan:</u>

Regulation 1(A) 5(10) of the Employees' Retirement System of Rhode Island provides authority to the Retirement Board to approve an annual budget. ERSRI management has continued to provide clarity and detail regarding allocation of expenses of System to the board during the budget approval process. Additionally, through the new recently adopted board sub-committee structure, the annual proposed budgets will receive a new level of detailed scrutiny from board members on the administrative sub-committee prior to the budget proposal reaching the full board.

Management Comment 2016-6

<u>COMPLETE IMPLEMENTATION OF THE INFORMATION TECHNOLOGY GOVERNANCE AND STRATEGIC PLAN</u>

ERSRI has created an Information Technology Governance and Strategic Plan for the oversight of the Employees' Retirement System of Rhode Island, which has been partially implemented. Due to the recent and significant changes to the ERSRI information technology environment with the implementation of the Ariel and Microsoft Dynamics applications and use of a third party payroll-processing service, it is critical that ERSRI completes implementation of the IT governance and Strategic Plan. The plan, as well as associated procedures, is additionally important due to the nature of the "cloud-based" Ariel, software-as-a-service model structure now in place.

Implementation of the plan would ensure that security, operational documentation, program change controls, user access rights, disaster recovery, data back-up, and equipment aspects of the System's overall IT governance structure have been adequately addressed and monitored.

<u>RECOMMENDATION</u>

2016-6 Complete implementation of the IT Governance and Strategic Plan developed for ERSRI.

<u>Auditee Views and Corrective Action Plan:</u>

The Information Technology Governance and Strategic Plan is a comprehensive and evolving document. As noted, the System entered an agreement with a new IT vendor that transitioned ERSRI from its legacy systems to a new line-of-business, accounting and payroll platform.

Revisions have and will be made to the plan to ensure that it is reflecting the changing IT environment of ERSRI. The plan will be fully implemented after the new "IT system" is completely implemented to incorporate any necessary changes. In FY 2017 ERSRI will continue to identify the appropriate resources necessary for implementation of the plan.

Management Comment 2016-7

REQUIRE ELECTRONIC REMITTANCE OF CONTRIBUTIONS TO THE SYSTEM

Member contribution data is uploaded to the ANCHOR computer system electronically; however, municipal employer units remit their contributions to the system by mailing a check to the System. The System should require electronic remittance of employer contributions to speed their availability thereby limiting the need to liquidate investments to meet the monthly pension benefit payroll. The impact on employer units should be minimal, since most are already remitting federal and state withholding taxes and FICA contributions electronically as required by federal and state law and the cost to effect an electronic ACH payment is less than the cost to process a check. A change to the General Laws may be required to mandate electronic remittance of contributions for member units.

Additionally, the System should seek amendment to the General Laws, which currently requires that contributions to the System be remitted by the 15th of the month following the month in which the payroll was paid. Requiring remittance of contributions electronically within five business days of the payroll date would speed the availability of contributions to the system and is generally consistent with the remittance requirements for federal, state and FICA taxes paid by employers.

Accelerating the timing of contributions remitted to the System is important to minimize the amount of investments that need to be liquidated each month to meet the System's pension benefit payroll.

RECOMMENDATIONS

2016-7a Require member units to remit contributions to the System electronically rather than by check.

2016-7b Seek amendment to the General Laws to require remittance of contributions by employers within five business days of the payroll date.

Auditee Views and Corrective Action Plan:

The reference in the management comment of liquidating investments each month to meet pension benefit payroll has limited, if any, relation to the timing of receipt of contributions. However, we do agree that the System should collect contributions electronically. The replacement line-of-business and general ledger systems will establish a process for the electronic remittance of contributions.

The Board's legislative subcommittee proposed language for submission in the 2014 session regarding the timing of contribution payments. The legislation sought to collect contributions from member units in a shorter time period than currently prescribed in Rhode Island General Laws. Subsequently, due to the constraints of the pending pension litigation, this proposed bill needed to be tabled pending outcome of the proposed settlement. In FY2017 the System will request that the Board review and propose revised language that would allow for the submission of retirement contributions to be made to the System in significantly reduced time.

Management Comment 2016-8

PROMULGATE AND CODIFY POLICIES FOR VARIOUS PENSION ADMINISTRATION ISSUES

Administration of the System is largely governed by specific statutes regarding membership, required contributions, actuarial matters, and benefit provisions. However, in certain instances, statutes are not specific to all situations and therefore various issues require judgment, interpretation of various statutes individually or collectively, consultation with the System's actuary, or decision by the ERSRI board. At times, precedent and past practices are used to guide various administrative decisions. The System has promulgated regulations covering a number of areas. We believe these regulations should be expanded to codify various policies which have been either formally or informally developed, and others which have not yet been established. Examples of the types of policies recommended for codification include:

- Determination of service credits for part-time employees;
- State employees who accrue service credits and then become members of the judiciary;
- Permitted post-retirement employment;
- Actuarial reductions taken in computing amounts paid to a beneficiary when a member dies in service; and
- Frequency of actuarial audits.

We recognize that ERSRI has accelerated the process to formalize and codify various policies and procedures and acknowledge this is a significant endeavor due to the complexity of the administration of the retirement system. However, that complexity supports the need to document and codify the many policies and procedures utilized in administering the System.

RECOMMENDATION

2016-8 Codify all existing polices and promulgate various informal policies used in the administration of the System.

Auditee Views and Corrective Action Plan:

ERSRI is and has been in an ongoing effort to codify rules. ERSRI prioritizes the delivery of rules given the order of magnitude of an affected procedure or issue.

ERSRI regularly publishes regulations that are approved and promulgated by the Board. Additionally, information impacting the membership is posted on ERSRI's website. ERSRI continues to update regulations and members' handbooks to support current business needs and will continue its work to codify various policies used in the administration of the System.

In the 2017 fiscal year, ERSRI conducted a comprehensive governance study led by a national firm with expertise in public retirement system board governance.

As a result of the study, the Board adopted a subcommittee structure which will enhance board governance by allowing the Board to apply focus to core areas of administration, governance, and member services.

Consistent with the auditor's recommendation, Management anticipates that a key result of this enhanced governance structure will be the adoption of more formalized policies across the enterprise.

By way of example, the newly created Governance subcommittee promulgated Regulation 1.17 <u>Rules for Exceeding the Allowable Monetary Limits at a State College, University, or State Operated Facility</u> in FY 2017 in order to enhance reporting related to MC 2016-01c.

Management Comment 2016-9

<u>REVISIT THE SYSTEM'S ANNUAL REPORT PROCESS</u>

The System prepares an annual report as required by Section 36-8-8 of the General Laws. The report is to be submitted to the governor and legislative leaders "before the first day of December in each year… for the fiscal year of the state preceding said date".

The System should revisit the current annual report process with the aim of ensuring information is available in the most timely and efficient manner. We suggest the System explore amendment of the section of the General Laws (36-8-8) regarding the annual report, to reflect a more current view towards the timeliness of financial data and also modify the other types of data currently required, which is not provided in the System's annual reports. Further, the mode and manner in which System information is made available has changed dramatically since the enactment of the General Law provision. Audited financial statements are available on-line immediately upon completion of the audit and actuarial valuations are similarly made immediately available on-line upon acceptance by the Board. Consequently, a separate communication including these items a year or more later becomes redundant and unnecessary.

The System may also wish to consider a "popular report" that is intended to provide a more summarized overview of the System's key financial information which could be appropriate for communication to members of the System and the general public. Other State retirement systems have issued "popular reports" and the Government Finance Officers Association has guidelines on the recommended content of such reports.

<u>RECOMMENDATIONS</u>

2016-9a Revisit the current annual report process with the aim of ensuring information is available in the most timely and efficient manner and propose revisions to the

General Laws regarding the content and or timing of such information as warranted.

2016-9b Consider issuing a "popular report", which readily summarizes key financial information on the System that could be a useful tool in communicating with plan members and the general public.

Auditee Views and Corrective Action Plan:

The timing of the production of the pension fund's valuation has been accelerated, which will also assist to eliminate the reporting period differences. It should be noted that ERSRI has followed the law (RIGL §36-8-8) as it is currently written.

Audited Financial Statement and Actuarial Valuations are posted to the ERSRI website and linked to other public transparency sites within Treasury as soon as they are available. ERSRI is currently conducting an internal review regarding financial reporting. As part of this review ERSRI is considering accelerating its time line for production of the annual report and the effort to produce a "Popular Report."