

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

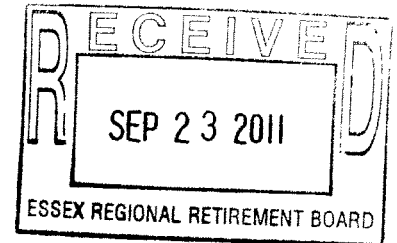
DOMENIC J. F. RUSSO, *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor: SUZANNE M. BUMP | PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. MCCARTHY | GREGORY R. MENNIS

September 22, 2011

Mr. Andrew W. Maylor, Chairperson
Essex Regional Retirement Board
491 Maple Street, Suite 202
Danvers, MA 01923-4025



REFERENCE: Report of the Examination of the Essex Regional Retirement Board for the three-year period from January 1, 2006 through December 31, 2008

Dear Mr. Maylor:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Essex Regional Retirement Board for the most recent period referenced above. We conduct these visits as a regular part of the oversight process. They are designed to ensure the timely implementation of corrective action for the recommendations cited in that report. The examination addressed 23 specific findings and recommendations included in the audit report for the period referenced above. The results are as follows:

1. The Audit Report cited a finding that the bank reconciliation process was flawed in that it simply reflected bank transactions and did not provide a comparison with the activity recorded in the general ledger. In addition, the reconciliations were not current.

Follow-up Result: Despite major improvement in recording all financial transactions in the general ledger, the general ledger itself did not reflect the investment transactions for the 2011 year to date. As a result, the independent reconciliation process involving the bank activity could not be confirmed. This finding is not completely resolved.

2. The Audit Report cited a finding that the system reflected the custodian transactions and did not consider the reports issued directly by the various investment managers. These reports serve to independently confirm custodian activity. They should be the primary source reference for recording transactions in the general ledger.



Follow-up Result: The system has obtained all current reports from all of their various investment managers. These reports will be used as the primary source for recording investment transactions in the general ledger. However, these records had not been reflected in the current general ledger inspected during the follow up field work. This finding is not considered to be completely resolved.

3. The Audit Report cited a finding that the process for approving the warrant items related to the operating expenses of the system were often ratified after payments were distributed. This provided virtually no control over the discretion exercised by the administration of the system.

Follow-up Result: The Board has revised the entire warrant process. Approval is now required prior to operating expenses being included on the warrant. The warrant and supporting documentation is available for inspection prior to creating the payments. Board approval is provided of the entire warrant in advance of distributing payments. The additional control elements provide for a more responsible warrant and expense oversight procedure. This finding is considered to be resolved.

4. The Audit Report cited a finding that the vendor selection process did not include sufficient competitive evaluations to determine that the system was receiving quality value for the retirement funds expended.

Follow-up Result: The system has implemented new procurement procedures to provide for systematic competitive evaluations of all vendors that are equivalent to the mandated 30B standards applied to most public entities. The Board is in the process of procuring competitive bids from vendors on its existing contracts. This finding is considered to be resolved.

5. The Audit Report cited a finding that the creation and approval of the annual budget of the system was less than a transparent exercise.

Follow-up Result: The system has gone to extraordinary lengths to include the Advisory Council in their current budget deliberations. They have taken steps to consider revealing the budget in much more detail than at any previous time. Members of the public are provided with the budget upon request. The Board reviews progress toward the objectives of the budget at every monthly meeting. The auditors attempted to compare a recent year to date budget with the actual general ledger results. This effort disclosed inconsistent results. We recommend including a more comprehensive step to the process that reconciles the current general ledger results with the monthly budgeted actual results provided to the Board. This finding is not considered to be completely resolved.

6. The Audit Report cited a finding that former Board members attended meetings irregularly and often participated by remote devices that rendered them ineligible to vote on important matters.

Follow-up Result: The minutes were inspected for a period since the end of the audit period referenced in this letter to a current meeting. No attendance or Board participation issues were observed. This finding is considered to be resolved.

7. The Audit Report cited a finding that the level of documentation available to support certain specifically cited expenses was not considered adequate.

Follow-up Result: The documentation provided to the audit staff during this follow up visit was inspected and determined to be adequate to support the legitimate business purpose of the financial obligation. This finding is considered to be resolved.

8. The Audit Report cited the system for repeated possible violations of the Open Meeting Laws of the Commonwealth.

Follow-up Result: The Essex County District Attorney had jurisdiction for enforcement of the Open Meeting Law at the time and cited the Board for actual violations. The system has completely revised its preparation and notification process in advance of regular and special meetings of the Board. Posting of a complete agenda in advance in several prominent locations as well as internet notice have offset the deficiencies cited in the audit report. This finding is considered to be resolved.

9. The Audit Report cited a finding that there were inadequate controls related to reimbursement of staff travel and business related expenses. These weaknesses led to both direct and inadvertent violations of the specific travel regulations adopted by the Board.

Follow-up Result: The system has completely revised its authorization and reimbursement policy for business travel. There are approval steps required in advance to business travel that more closely identify the legitimate business purpose of staff and board members travel. A more detailed and comprehensive reimbursement form was observed to support these expenses. This finding is considered to be resolved.

10. The Audit Report cited a finding that the Board possibly violated the spirit of the Open Meeting Laws of the Commonwealth by obscuring the actual reason for entering into an Executive Session and proceeding to discuss matters that should have more appropriately been the subject of an open meeting agenda.

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Follow-up Result: The Essex County District Attorney had jurisdiction for enforcement of the Open Meeting Law at the time and cited the Board for actual violations. The minutes were inspected for a period since the end of the prior audit period referenced in this letter to a current meeting. No instances of subjects discussed in Executive sessions that would be more appropriately included on the agenda of a regular open meeting were observed. This finding is considered to be resolved.

11. The Audit Report cited a finding that specific votes were taken in Executive Session in apparent violation of the Open Meetings Laws of the Commonwealth. This finding referenced the approval of an employment agreement and a supplemental retirement plan for a staff employee.

Follow-up Result: The Essex County District Attorney had jurisdiction for enforcement of the Open Meeting Law at the time and cited the Board for actual violations. The minutes were inspected for a period since the end of the prior audit period referenced in this letter to a current meeting. No instances of confidential votes taken related to the subjects discussed in Executive sessions were observed. This finding is considered to be resolved.

12. The Audit Report cited a finding that the Board met and concluded business despite the lack of a quorum and that specific votes were taken in Executive Session in apparent violation of the Open Meetings Laws of the Commonwealth. This finding referenced the approval of legal fees associated with amending an employment agreement and other matters more appropriately the subject of an open meeting agenda.

Follow-up Result: The Essex County District Attorney had jurisdiction for enforcement of the Open Meeting Law at the time and cited the Board for actual violations. The minutes were inspected for a period since the end of the prior audit period referenced in this letter to a current meeting. No instances of confidential votes taken related to the subjects discussed in Executive sessions were observed. No warrant items approvals outside of a legitimate open public session were observed. This finding is considered to be resolved.

13. The Audit Report cited a finding that the Board may have violated the Campaign Finance Laws of the Commonwealth by using a newsletter to influence voters concerning a matter subject to a referendum ballot question.

Follow-up Result: It was determined the Campaign Finance Laws of the Commonwealth were violated. To the best of the auditors' observation, the system has not provided any information to its members since that determination was made that would appear to be in violation of any use of public resources related to this issue. This finding is considered to be resolved.

14. The Audit Report cited a specific finding that funds of the system were transferred via wire that were authorized solely upon the authorization of a Board/Staff employee without any specific approval cited from the prior Board.

Follow-up Result: The system has completely revised its authorization and approval process to initiate and complete wiring funds from the resources of the system. The revised process provides for advance notification and approval by the Board and inclusion in the official minutes of all such transactions. No unauthorized transfers were observed during the follow up procedures. This finding is considered to be resolved.

15. The Audit Report cited a finding that certain specific documents and records were located off the premises of the system and were not made available to the audit staff upon request.

Follow-up Result: The system has provided all documents requested by the audit staff on a timely basis. In addition, detailed supporting evidence was inspected during the follow up visit to the system. This finding is considered to be resolved.

16. The Audit Report cited a finding that a certain specific vendor was engaged by the system to provide services on behalf of a town for the purpose of advancing certain benefits that appeared to be beyond the purview of the legitimate interest of any retirement plan benefits.

Follow-up Result: The system has terminated all financial relationships with this vendor. An inspection of the current professional service providers disclosed no similar involvement in matters outside of legitimate retirement interests. This finding is considered to be resolved.

17. The Audit Report cited a finding that the system exercised weak internal controls related to the recognition of the legitimate business purpose for reimbursement and subsidy of meals, snacks, mileage, parking, travel and similar discretionary expenditures generally available to staff employees.

Follow-up Result: The system has completely revised its authorization and reimbursement policy for business travel and similar purposes. There are approval in advance procedures that more closely identify the legitimate business purpose of staff travel and reimbursement for meals. A more detailed and comprehensive reimbursement form was observed to support these expenses. This finding is considered to be resolved.

18. The Audit Report cited a finding that the system exercised weak internal controls related to the use of credit cards issued both to the system as well as the former Chairman.

Follow-up Result: The system has completely terminated and prohibited the use of any system credit card to conduct the operations or business of the system. This finding is considered to be resolved.

19. The Audit Report cited a specific finding that the system circumvented its stated authorization policy requiring two signatures on checks in excess of \$10,000. The authorization for these payments was referenced in Executive Session. The payments were related to legal services. The authorization and purpose associated with these services were not clarified to the satisfaction of the auditors.

Follow-up Result: The system has completely revised its policies for engaging legal and other professional services. Approval and authorization is much more apparent from the direction exercised by the Board to engagement letters issued by the firms including details provided on the legal invoices rendered. This finding is considered to be resolved.

20. The Audit Report cited a specific finding that the system acted unilaterally to reclassify certain employees into a category that would provide for expanded benefit options without authorization from the local employing units involved.

Follow-up Result: The system has subsequently developed an approved protocol for initiating the process of clarifying whether these employees qualify for reclassification and are legitimately eligible for expanded benefits. This process involves engaging the employer, confirming the content of job descriptions and comparing those facts with the statutory basis for the group classifications. This is an extended and involved process that has not been completed. This finding is not considered to be completely resolved.

21. The Audit Report cited a finding that the system failed to elect its former Board members within the statutory terms that existed prior to reform legislation initiated since the release of the audit report.

Follow-up Result: The Board has been completely reconstituted as a direct result of specific legislation approved since the audit report was issued. The terms of the current Board are largely coincident with this legislation and their election in November 2009. The Executive Director was engaged in January 2010 and he is ultimately assigned responsibility to monitor the terms and initiate elections to the Board in accordance with that legislative mandate. This finding is considered to be resolved.

22. The Audit Report cited a specific finding that the system failed to obtain the proper prior approval of PERAC in advance of the actual funding of an investment.

Follow-up Result: The investment cited in this finding was subsequently approved by PERAC. The investment strategy of the Board has been revised to concentrate the portfolio in the PRIT Fund managed by the PRIM Board. Certain residual investment agreements

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related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Board. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, it is unlikely the system will require the approval of PERAC prior to funding any additional investments for the foreseeable future. This finding is considered to be resolved.

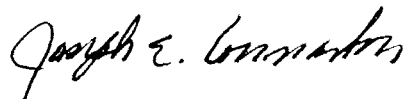
23. The Audit Report cited a specific finding that the system made indirect payments for lobbying fees provided by professional service providers as well as registration fees for lobbying services for a former staff employee.

Follow-up Result: The system has completely revised its policies for engaging legal and other professional services. Approval and authorization is much more apparent from the direction exercised by the Board to engagement letters issued by the firms including details provided on the invoices rendered. The auditors did not associate any of the services performed on behalf of the Board with any lobbying efforts or otherwise observe these services to be involved in anything other than the pursuit of the legitimate business interests of the retirement system. This finding is considered to be resolved.

The Commission wishes to acknowledge the significant effort demonstrated by the staff of the Essex Regional Retirement Board to correct many of the deficiencies cited in the most recent examination of the system. PERAC auditors may conduct an additional follow-up visit to ensure appropriate progress is being made in those areas that have not been corrected adequately at this time.

We anticipate your continued cooperation in resolving these important matters.

Sincerely,



Joseph E. Connarton
Executive Director

JEC/tal

cc: Essex Regional Retirement Board Members