

ESSEX REGIONAL RETIREMENT SYSTEM

FINDINGS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2013

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To the Honorable Essex Regional Retirement Board
Essex Regional Retirement System
Danvers, Massachusetts

In planning and performing our audit of the financial statements of the Essex Regional Retirement System (ERRS) as of and for the year ended December 31, 2013, 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 August 27, 2014, on the financial statements of the Essex Regional Retirement System.

The accompanying comments and recommendations are intended solely for the information and use of management of the Essex Regional Retirement System (ERRS) 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.

Powers & Sullivan LLC

August 27, 2014

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Abandoned PropertyFinding

The System has approximately \$10,000 of uncashed checks “abandoned property” recorded as a liability on the balance sheet. These checks all relate to prior fiscal years, mostly from 2010 when the System first began accounting for abandoned property. The System has not fully investigated whether the unclaimed checks are abandoned or if the checks should have been voided. The System has not taken additional steps to follow the Massachusetts Abandoned Property Law (MGL Chapter 200A) to take action to either locate the owners of the uncashed checks and to reissue them if necessary, or to follow the law for checks that have been found to be abandoned.

Recommendation

We recommend that the System implement a policy for following up on uncashed checks and to follow the state Abandoned Property Law.

Management Response

This finding relates to uncashed checks discovered as a result of the closure of our accounts with the Salem Five Bank in 2012. All of these checks are from 2010 or earlier. Many of these checks were re-issued checks, including a single check for \$5,000.

As these checks are from a period in which the record keeping of the retirement system was at best spotty and during a period in which reconciliations were sporadically performed, ERRS does not feel comfortable classifying these checks as abandoned property. Rather, ERRS believes these checks are more properly classified as a reconciling item and, given the time and amount involved, we further believe these checks should be written off with the appropriate documentation and journal entries recorded.

Maintaining Proof of AgeFinding

The System is required to confirm the age of each member by inspecting a birth certificate or other substantiation of the date of birth. A copy of this record should be maintained in the member's file. An inspection of retiree records determined that Birth Certificates were not on file in some cases.

Recommendation

We recommend that the System implement procedures to ensure that member files include proof of age.

Management Response

It is our understanding that those members who did not have birth certificates on file were enrolled prior to 2012 and were discovered during testing of refunds issued in 2013. ERRS is aware that prior to 2012, new enrollments were not always done properly or completely. We do not believe it is feasible to review in excess of 3,800 active and inactive member files to determine if each file contains the required proof of age.

However, ERRS does require proof of age documentation prior to processing a retirement application or if an active or inactive member's file is discovered to be missing this information during the normal course of business. Further, since 2012, the Membership Coordinator, as part of the enrollment process, sends out a

reminder form if certain documents, including proof of age, are missing. The Membership Coordinator maintains a data base of those new enrollees who have information missing and checks off the information as it is received. ERRS continues to monitor this data base and follows up regularly on outstanding missing documents.

ERRS would not normally seek to obtain proof of age for members taking a refund or transferring their accounts, as the issue would seem to be moot at that point.

Maintaining New Member Forms

Finding

The System should maintain enrollment forms for all members and the forms should be signed by both the employee (member) and by the employer. The System was unable to provide signed new member enrollment forms for some active members selected for testing.

Recommendation

We recommend that the System implement procedures to ensure that signed enrollment forms are on file for all active members.

Management Response

ERRS is aware that prior to 2012, many members were entered into the retirement system without a properly completed enrollment form. It is also our understanding that the active members selected for testing which were found to be missing new member enrollment forms were all from prior to 2012.

As described in the previous finding, since 2012, the Membership Coordinator does not process an enrollment application without a New Member Enrollment Form. The completed enrollment information is then submitted to the Executive Director for review, and, subsequently, all new enrollments are approved by a vote of the Board.

Also, as mentioned above, ERRS does not believe it is feasible to review in excess of 3,800 active and inactive member files to determine if each file contains the required enrollment form. However, as mentioned above, if an active or inactive member's file is discovered to be missing the new enrollment form during the normal course of business, the employer is contacted and the enrollment form is obtained and added to the file.

Maintaining I-9 Forms

Finding

The System did not maintain I-9 Forms in some of the employee files selected for testing. The I-9 Form is a United States Citizenship and Immigration Services form used by employers to verify employees' identities and to establish that workers are eligible to accept employment in the United States. Employers are required to have employees complete the I-9 Form, including providing required original supporting documents to establish the identity and eligibility of any individual hired to perform work for an employer in the United States.

Recommendation

We recommend that the System implement procedures to ensure that I-9 forms are on file for all current employees.

Management Response

ERRS has on file completed and verified I-9 Forms for all full-time employees of the retirement system. ERRS also has on file a completed and verified I-9 Form for the only new member added to the Board since 2011. However, we understand this finding pertains to Board Members elected by all or a defined group of the ERRS membership and who began their original terms of office in 2010.

ERRS will obtain I-9 Forms from all Board members and will include the I-9 Form in the new Board member packet going forward.