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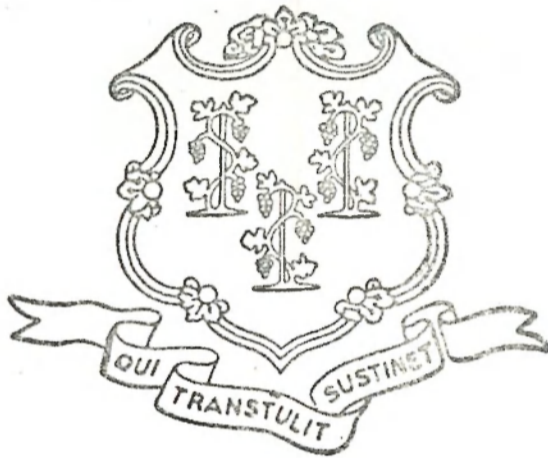
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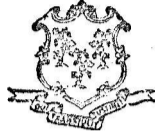
STATE COMPTROLLER - RETIREMENT DIVISION  
CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT  
AND SOCIAL SECURITY SYSTEMS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982



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AUDITORS OF PUBLIC ACCOUNTS  
STATE OF CONNECTICUT

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL  
HARTFORD

LEO V. DONOHUE

October 5, 1983

HENRY J. BECKER, JR.

AUDITORS' REPORT

STATE COMPTROLLER - RETIREMENT DIVISION  
CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT  
AND SOCIAL SECURITY SYSTEMS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

We have made an examination of the financial records of the Connecticut Municipal Employees' Retirement and Social Security Systems, maintained by the Retirement Division of the State Comptroller's Office, for the fiscal year ended June 30, 1982. We have also included within the examination the records of the Policemen and Firemen Survivors' Benefit Fund, which is administered by the Retirement Division as an adjunct of the Municipal Employees' Retirement System.

This report thereon, consists of the Comments, Recommendations and Certification which follow, together with the Statements and Schedule described below:

Municipal Employees' Retirement Funds:

Statement 1 - Balance Sheet

Schedule 1a - Revenues, Expenses and Changes in  
Reserved Fund Balances

Statement 2 - Revenues, Expenses and Changes in  
Unreserved Fund Balance

- Statement 3 - Cash Receipts and Disbursements
- Statement 4 - Investments Owned, Together with Analysis of  
Investment Transactions
- Statement 5 - Obligations of Municipalities for Contribu-  
tions on Employees' Prior Service

Municipal Employees' Social Security Funds:

- Statement 6 - Balance Sheet
- Statement 7 - Cash Receipts and Disbursements

Policemen and Firemen Survivors' Benefit Fund:

- Statement 8 - Balance Sheet
- Statement 9 - Cash Receipts and Disbursements

Comments

Foreword:

Municipal Employees' Retirement Funds:

The Connecticut Municipal Employees' Retirement System, which is administered by the State Employees' Retirement Commission, operates, generally, under the provisions of Sections 7-425 through 7-450a of the General Statutes.

The Municipal Employees' Retirement System, or Funds, is composed of a Retirement Fund and an Administration Fund. As provided in Section 7-426 the Retirement Fund is divided into two parts, namely, Fund A and Fund B. At June 30, 1982, one municipality, with 44 active employees enrolled in the Retirement Fund, was participating in Fund A, while 37 municipalities and 34 housing authorities with 5,357 active employees enrolled in the Retirement

Fund, were in Fund B. We have not included in the foregoing figures those municipalities which entered or transferred within the System as of July 1, 1982.

Any municipality may, by resolution passed by its legislative body and subject to referendum, participate in the plan. Such resolution shall specify whether acceptance is as to participation in Fund A or Fund B. The effective date of participation shall be the first day of July, at least 90 days after official notice of its acceptance by the municipality has been filed with the Retirement Commission. If, however, participation is effected through an agreement between a municipality and an employee bargaining organization, the earliest effective date of participation shall be the first day of the third month following the month in which official notice of the agreement has been received by the Commission. Under Section 7-427 of the General Statutes employees of local housing authorities were required to become members of the retirement plan as of July 1, 1972, unless the board of commissioners for the local authorities voted against such participation.

During the 1981-1982 fiscal year, the Town of Plymouth and the Groton Housing Authority became participating members of Fund B. In addition, the remaining Town of East Haven employees participating in Fund A were transferred to Fund B as of February 11, 1982.

Employee contribution rates for Fund A and Fund B are equal, but municipality contribution rates for Fund B are higher than

for Fund A because of the greater benefits to participants of Fund B. Each employee covered by Social Security makes retirement contributions equal to 2.25 percent of that portion of his salary on which Social Security contributions are made, and five percent on that portion of his salary in excess of that amount. Each employee not covered by Social Security makes contributions equal to five percent of his salary. Municipality contributions, unlike employee contributions, which are fixed by statute, are set by the Retirement Commission based on actuarial surveys, which, under the provisions of Section 7-443, are required at least every five years. Municipality contribution rates during the fiscal year under review were based on an actuarial survey of both Funds made as of December 31, 1973, as follow:

	<u>Fund A</u>	<u>Fund B</u>
	<u>Effective</u>	<u>Date</u>
	<u>7/1/76</u>	<u>7/1/76</u>
Policemen and firemen with Social Security	6.8%	11.9%
Others with Social Security	4.5%	7.1%
Policemen and firemen without Social Security	0.0%	13.9%
Others without Social Security	7.0%	10.4%

An actuarial survey of both Funds was made as of December 31, 1977, and a report thereon was submitted to, and approved by, the Retirement Commission as of March 8, 1979, and January 11, 1979, for Funds A and B, respectively. However, the rate changes included in that report, which were scheduled to take effect July 1, 1979, were deferred by Public Acts 79-305 and 80-37 until June 30, 1981, and then to June 30, 1982, respectively. The next actuarial survey of both Funds is scheduled to be made as of December 31, 1982.

Section 7-441 of the General Statutes, which prescribes the various contributions required of participating municipalities, provides that each municipality must pay to the Retirement Commission an annual proportionate share of the Fund's administrative costs, as determined by the Commission on the basis of the number of members employed by each municipality. During the fiscal year ended June 30, 1982, the participating municipalities were required to contribute \$35 per member for such administrative expenses. These monies are deposited to the Administration Fund which was established to account for all administrative contributions and expenditures. Most administrative costs are paid initially by the Comptroller's Office and are subsequently reimbursed by the Administration Fund. Actuarial costs and refunds, however, are generally paid directly from the Administration Fund. Unlike the Retirement Funds which are classified as trust funds, the Administration Fund falls within the civil list category of State funds.

As mentioned in our previous report covering the 1980-1981 fiscal year, the provisions of Public Act 81-343 authorized the State Treasurer to invest monies from State pension and other trust funds in an innovative investment program involving Connecticut Mortgage Pass-Through Certificates. In line with these provisions, the State Treasurer has established the Connecticut Yankee Mac Program and its requisite mortgage investment fund to make available first mortgages on Connecticut residential properties. As of June 30, 1982, Municipal Employees' Retirement System participation in the Yankee Mac Fund amounted to 7.49 percent of the fund's total participant market value which was approximately \$90.6 million.



During the 1981-1982 fiscal year, Municipal Employees' Retirement System monies also have been invested in two other new investment funds established by the State Treasurer, the Mutual Contract Fund and the Real Estate Fund.

The Mutual Contract Fund provides a means whereby retirement trust funds may invest in "Guaranteed Investment Contracts" or "Pension Funding Contracts" of life insurance companies. As of June 30, 1982, the Municipal Employees' Retirement System share of the participant market value of the fund was 7.49 percent or approximately \$3.57 million.

The Real Estate Fund provides a way that retirement funds can participate in pooled real estate investment accounts managed by insurance companies. Monies in these accounts are invested in commercial real estate while income earned is retained and reinvested with the applicable investment accounts of the insurance companies. As of June 30, 1982, the participant market value attributable to the Municipal Employees' Retirement System was 7.49 percent or approximately \$3.75 million.

Municipal Employees' Social Security Funds:

The Municipal Employees' Social Security System operates generally under the provisions of Sections 7-451 through 7-459a of the General Statutes. Activity in the System is accounted for by use of two civil list funds, one to account for Social Security contributions remitted by municipalities (both employer and employee shares), and one to account for administrative expense assessments against municipalities. Specifically these Funds

are used to account for the financial activity relating to the collection and payment of Social Security contributions and the reporting of employee wages under Social Security coverage.

Section 7-453 of the General Statutes provides that any municipality of the State may, by vote of its legislative body and with the approval of the State Retirement Commission, apply for membership in the Social Security System. The Commission is authorized to make regulations governing the procedure to be followed by the municipalities in entering and maintaining membership in the System.

Each municipality is required to deduct an amount from the wages of its employees whose services are covered under the System by Federal-State agreement, and to contribute an equal amount for each employee on its own behalf, so that the sum of these amounts is equal to the taxes which would be imposed by the Federal Insurance Contribution (Social Security) Act if the services of employees covered by the agreement constituted employment as defined in the Federal Act. The State Retirement Commission, upon receipt of such contributions, is authorized to verify for correctness and endorsement and deliver them to the Secretary of the Treasury of the United States.

Section 7-457 provides that the cost to the State of administering the participation by municipalities in the System shall be paid by the municipalities and apportioned among them quarterly, by the Commission, in the ratio which each municipality's quarterly total payment to the System bears to the total payment of all municipalities made in the same quarter. For the 1981-1982 fiscal year, the State Retirement Commission approved an increase

in the assessment rate on contributions paid in, from one-tenth of one percent to two-tenths of one percent. The assessment rate has again been increased to one-quarter of one percent for the 1982-1983 fiscal year to cover increasing administrative costs.

In the 1980-1981 fiscal year, a change in Federal regulations effective July 1, 1980, changed the collection period for contributions from a quarterly to a monthly basis. Accordingly, each municipality has since been assessed monthly on its contributions. During the course of our current review we were informed that the collection period has again been changed, this time to a twice-monthly basis, effective January 1, 1984. Because the General Statutes still refer to quarterly payments of contributions, legislative action is needed to bring the General Statutes into agreement with current and forthcoming Federal regulations.

Firm participation statistics as of June 30, 1982, were not available from the Retirement Division. However, statistics available from the 1982 Annual Report prepared by the Division showed that, as of December 31, 1982, there were 71,381 employees of 465 reporting units of cities, towns, districts and local authorities and agencies covered by Social Security.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund operates, generally, under the provisions of Sections 7-323a through 7-323i of the General Statutes. The primary objective of the Fund is to provide benefits for surviving dependents of deceased municipal policemen and firemen. Any municipality may, by ordinance or collective bargaining agreement approved by its legislative body,

participate in the plan. Employee contribution rates are fixed by statute at one percent of the employee's compensation. Municipal contributions, however, are made in amounts determined by the Retirement Commission to be necessary to maintain the Fund on a sound actuarial basis. In lieu of the payment of survivors' benefits from the Fund, the Commission may obtain insurance coverage which provides for such benefits, with the premiums for such coverage being paid from the contributions to the Fund.

Section 7-323c, subsection (d), of the General Statutes prescribes that the Retirement Division assess the municipalities participating in the Fund for their proportionate share of the costs of the Administration of the Fund. The State Retirement Commission voted to institute an administrative fee of \$20 per member for the 1981-1982 fiscal year. Revenues collected through this assessment have been deposited to the Administration Fund of the Municipal Employees' Retirement System as its employees have the responsibility of overseeing the operations of the Policemen and Firemen Survivors' Benefit Fund.

As of June 30, 1982, five municipalities, with 476 active employees, were participating in this plan. They were the towns of Derby, Manchester, Milford, New London and Seymour. To provide the necessary benefits the Retirement Commission negotiated with a local insurance company for a contract to meet the plan requirements. During the course of each fiscal year, employee and town contributions, in a total amount equal to the premium on the insurance contract, are deposited monthly to the Survivors' Benefit Fund and forwarded to the insuring company by the Retirement Division in payment of the premium.

Scope of Audit:

This examination of the financial records of the Municipal Employees' Retirement and Social Security Systems included a review of the general ledgers and cash ledgers maintained for the various funds and a review of the financial matters contained in the minutes of the meetings of the State Retirement Commission.

In addition, our review of the Municipal Employees' Retirement System included the computation of retirement salaries, a verification of contributions refunded, and a review of members who died during the year and the amounts due to or due from their estates. The incomplete condition of equity and control records, especially those of Retirement Fund B, limited our ability to reconcile equity account totals and the control totals. This factor also precluded us from a confirmation of equity balances with members.

Concerning the Municipal Employees' Social Security Funds, our examination also included a review of municipal and Federal remittance reports, as well as a review of the detailed subsidiary records maintained for each of the reporting municipal entities.

Concerning the Policemen and Firemen Survivors' Benefit Fund, our review also included the computation of survivor benefit payments to beneficiaries and a review of the actuarial valuation of the Fund prepared by the insuring company. It should be noted that in addition to those previously mentioned, our review included such other procedures as we deemed necessary during the conduct of our audit.

Members of the Retirement Commission:

The members of the State Employees' Retirement Commission during the fiscal year ended June 30, 1982, were:

William G. Oechslein, Chairman  
Donald R. Sondergeld, Vice Chairman  
J. Edward Caldwell, Secretary  
Artemese Jones  
Everett O'Keefe

Under the provisions of Section 5-155 of the General Statutes, Mr. Lawrence Cacciola, Deputy Comptroller, represented Mr. Caldwell at several Commission meetings during 1981-1982.

Public Act 80-478 authorized an increase in the membership of the Commission to seven members. Appointments to the two new positions were never made.

A separately constituted Retirement Commission of seven members was authorized by the Legislature in conjunction with a "Pension Agreement" affecting State employees. This agreement became effective as of July 1, 1982, and extends through to June 30, 1988. The new Commission was appointed during the 1982-1983 fiscal year, and it has assumed the responsibility of administering the Municipal Employees' Retirement and Social Security Systems. This has resulted in two Retirement Commissions being active during the current period. Legislation will be proposed to resolve this matter.

Financial Position and Resume of Operations:

Municipal Employees' Retirement Funds:

The financial position of the Fund, as of June 30, 1982, is shown on Statement 1 of this report.

Cash in custody of the State Treasurer, on deposit in banks located in Hartford, totalled \$147,351 for Fund A, and cash overdrafts of \$118,161 and \$14,431 for Fund B and the Administration Fund, respectively, at June 30, 1982. The overdrafts which existed in the latter two funds resulted from short-term investment purchases which were redeemed in July 1982.

The deposit balances, as shown in Statements 1 and 3 of this report, were reconciled to bank statements and such bank statements were confirmed by the depositories during our audit of the accounts of the State Treasurer.

A portion of the Municipal Employees' Retirement Fund is invested in State of Connecticut Investment Funds administered by the State Treasurer. As shown in Statement 1, the total cost value of such investments was \$153,255,906 at June 30, 1982. Market values of these investments totalled \$132,273,780 as indicated in Statement 4. A major reason for the smaller market value is the depressed value of bonds within the Mutual Fixed Income Fund. Another consideration is the reserve for realized gains (or losses) within the investment funds which are chargeable to the Municipal Employees' Retirement Fund. At June 30, 1982, such reserves totalled a negative \$1,010,790 and represented losses on sales of securities which will be charged against future income of the Municipal Employees' Retirement Fund over a period of ten years.

A summary of investments owned at June 30, 1982, and an analysis of investment income earned from such investments for the fiscal year under review are presented in Statement 4

of this report. Such investments and income thereon were verified as a part of our audit examination of the State Treasurer for the fiscal year ended June 30, 1982.

Investment income receivable of the Fund totalled \$1,686,828 as of June 30, 1982. In addition, accrued interest of \$29,052 purchased at the time of initial investment in the State of Connecticut Mutual Contract Fund remained receivable as of June 30, 1982.

The amounts due from municipalities at June 30, 1982, for employee and municipality contributions, amounted to \$795,513 as follows:

	<u>Total</u>	<u>Fund A</u>	<u>Fund B</u>
	\$	\$	\$
For salaries paid on or before June 30,			
Employees' contributions	227,946	793	227,153
Municipal contributions	567,567	1,585	565,982
Total	<u>\$795,513</u>	<u>\$2,378</u>	<u>\$793,135</u>

Other receivables of the Fund, exclusive of interfund receivables between Funds A and B, totalled \$526,999 as of June 30, 1982. Of this amount, \$474,340 represented Social Security contributions for certain employees of Bridgeport which were refunded by the Federal government, but were held in the Municipal Employees' Social Security Contribution Fund at the end of the year. The remainder of the receivables were employee contributions due for prior service and interest due, and reimbursements owed by the estates of deceased members. Fund receivables are further discussed in the Condition of Records section of this report.



In accordance with the provisions of Sections 7-441 and 7-439c of the General Statutes, each participating municipality is liable to its respective fund for an amount determined by the Retirement Commission on sound actuarial principles to be necessary for the payment of future retirement salaries based on the members' prior services. The obligation is to be discharged by annual amortization payments. As indicated in our previous report, the balance of obligations at June 30, 1981, was \$16,889,967. During the 1981-1982 fiscal year, net adjustments of \$1,133,074 were made which increased the amortization rates for prior service. The net adjustments, together with net payments of \$818,896 made during the year, increased the balance of obligations to \$17,204,145 at June 30, 1982, as shown on Statements 1 and 5 of this report.

The Administration Fund equipment account and its respective reserve, shown in Statement 1 of our last report, have been deleted from our current report. During our review, it became evident that equipment previously identifiable as belonging to the Administration Fund had now become mixed with other equipment of the Retirement Division and Office of the Comptroller. This subject is further addressed in the Condition of Records section of this report.

Liabilities of the Fund totalled \$287,692 at June 30, 1982, as shown in Statement 1. Aside from the cash overdraft previously mentioned and deferred revenues on certain accounts and interest receivable, the remainder of the liabilities were salaries payable to retired employees, reimbursements due to the General Fund for

administrative expenditures, and final benefits due to the estates of deceased employees. Further comment is made on the final benefits due to estates in the Condition of Records.

The amounts of equity of active and retired employees in their contributions at June 30, 1982, were \$18,424,389 and \$557,788, respectively, as shown in Statement 1. An analysis of the activity within these accounts is presented in Schedule 1a of this report.

At June 30, 1982, the unreserved fund balance of the Municipal Employees' Retirement Fund aggregated \$137,174,698 as indicated in Statements 1 and 2 of this report. Fund A showed a balance of \$4,619,351, Fund B a balance of \$132,531,735 and the Administration Fund a balance of \$23,612. An analysis of these balances is presented in Statement 2. The principal items of increase were the municipal contributions, earnings on investments, the previously mentioned payments towards the obligations of municipalities for prior service, and an adjustment of \$763,904 for retirement salaries chargeable against the equity of retired employees during the 1980-1981 fiscal year. At the time of our prior report, the net equity of retired employees as of June 30, 1981, and the equity consumed in the preceding year had not been determined by the Municipal Retirement Section. This subject is further discussed in the Condition of Records section.

Total retirement salaries paid during the fiscal year ended June 30, 1982, to retired employees amounted to \$6,182,772. Of this amount, \$34,759 was paid from Fund A and \$6,148,013 was paid from Fund B. The 1981-1982 total of \$6,182,772 reflects an increase of \$694,615 over retirement salaries paid for the preceding 1980-1981 fiscal year. This increase in part can be

attributed to the net increase of 109 retired employees during the 1981-1982 fiscal year. Another factor contributing to the increase was a three percent cost-of-living increase granted to retirees during the fiscal year ended June 30, 1982. The cost-of-living increase was granted in accordance with the previously mentioned Public Act 80-37. At June 30, 1982, there were 19 and 1,610 retired employees and beneficiaries receiving retirement salaries from Fund A and Fund B, respectively.

Statement 2 of this report shows the change in fund balance resulting from the year's operations for the Administration Fund. Assessments totalling \$213,462 were collected from participating municipalities and deposited to the Administration Fund during 1981-1982. Of this amount, a total of \$201,042 came from participation in the Retirement System, while \$12,420 arose from participation in the Policemen and Firemen Survivors' Benefit Fund. In addition, investment income totalled \$14,528, while interest on late payments by municipalities totalled \$252.

Administrative expenses during the period under review totalled \$201,638, and were comprised of the following:

	\$
Personal services	108,989
Fringe benefits on personal services	37,274
Contractual services	50,623
Commodities	598
Overhead costs	4,066
Employee education costs	88
Total Expenses	<u>\$201,638</u>

Administrative expenses for the 1981-1982 fiscal year, as shown above, decreased by \$22,250 from the previous fiscal year total of \$223,888. This decrease, for the most part, is attributable

to a considerable decline in expenditures related to the development of an automated processing system which is discussed in greater detail later in this report. This drop more than offset collective bargaining salary increases for the employees of the Municipal Retirement Section, and rising fringe benefit and other operating expenses. Reimbursements made from the Administration Fund to the State Comptroller's Department totalled \$207,290 during the 1981-1982 fiscal year, and included \$58,075 for operating expenses incurred during the final quarter of the 1980-1981 year and \$149,215 for expenses of the 1981-1982 year. Expenses totalling \$38,765 remained due as of June 30, 1982, for the last quarter of the year.

As mentioned above, expenses related to the development of the automated processing system decreased substantially in the 1981-1982 year. During the prior year, expenses on this project had totalled \$88,288 while \$33,765 was expended in the current year. It was originally estimated that this system would cost approximately \$145,000. Through June 30, 1982, a total of \$134,081 had been expended on the system development. A summary of these costs is presented below:

	<u>Total</u>	<u>1981-1982</u>	<u>Prior</u> <u>Years</u>
Personal services	\$ 13,758	\$ 7,762	\$ 5,996
Consultant fees	6,863	1,863	5,000
Data processing charges	110,460	24,140	86,320
All other charges	3,000		3,000
Total	<u>\$134,081</u>	<u>\$33,765</u>	<u>\$100,316</u>

Further comments on the automated processing system and its current status will follow in the Condition of Records section of this report.

Municipal Employees' Social Security Funds:

The Municipal Employees' Social Security participation is accounted for in two funds, one for Social Security contributions and the other for administration costs. The financial position of the funds is shown on Statement 6 of this report.

Cash in custody of the State Treasurer totalled \$1,337,530 for the Contribution Fund and \$61,448 for the Administration Fund at June 30, 1982. Such deposit balances, as shown in Statements 6 and 7 of this report, were verified as part of our audit of the State Treasurer's records. The cash activity of the funds is presented in Statement 7.

Liabilities of the Funds, as shown in Statement 6, represent reimbursements due to the General Fund for final quarter administrative expenses of the 1981-1982 year already paid by the State Comptroller's Department, and amounts payable to the Federal government and the Municipal Employees' Retirement Fund B. The latter amounts, \$9,230 returnable to the Federal government and \$474,340 payable to Fund B, arose from the transfer of \$752,250 in contributions back to the State by the Federal government as a result of the court order resolving the employee retirement case of the City of Bridgeport. This case and these liabilities are further discussed in the Condition of Records section of this report.

During our review of Retirement Division records we became aware of the future liability of the State and various municipalities for interest assessments related to late filings of contributions. Although these assessments, totalling \$88,283,

were not billed until after June 30, 1982, they relate to filings during the 1980-1981 and 1981-1982 fiscal years. Of this amount, approximately \$48,934 has been identified as having resulted from the State's having not forwarded contributions to the Federal government in a timely manner. This issue is further reported on in the Condition of Records.

As with the Administration Fund of the Municipal Retirement System the Municipal Employees' Social Security Administration Fund equipment account and its respective reserve have been removed from Statement 6 of our current report. Likewise this subject is also further addressed in the Condition of Records section of this report.

Total collections of the Funds amounted to \$67,364,571, as shown on Statement 7 of this report. Of this amount, contributions received from municipalities for both shares of Social Security coverage and interest totalled \$67,209,705, while administrative assessments totalled \$128,010. In addition, \$26,838 was transferred from the Social Security Employer Contributions account of the General Fund to cover several interest assessments which were determined to have been liabilities of the State because of its failure to forward contributions in a timely manner during the 1980-1981 year.

Disbursements from the Funds amounted to \$67,760,806 during the 1981-1982 year. Payments to the Federal government of contributions and assessments totalled \$67,377,144. In addition, contributions refunded to various municipalities amounted to \$290,025, with the largest portion, \$268,680, being returned

to the City of Bridgeport. This refund represented part of the \$752,250 that had been returned by the Federal government as was mentioned earlier in this report.

During the 1981-1982 fiscal year, reimbursements totalling \$93,619 were paid from the Administration Fund to the State Comptroller's Department to cover operating expenses. Of that amount, \$14,914 was for expenses incurred in the last quarter of the 1980-1981 year, while \$78,705 related to expenses of the current year. The actual operating expenses of the Fund for the year totalled \$103,586, with \$24,881 remaining due to the General Fund as of June 30, 1982. A detailed analysis of those expenses is presented in "Note C" of Statement 7 in this report.

The Fund balances at June 30, 1982, totalled \$854,414 and \$36,570 for the Contribution and Administration Funds, respectively, as shown in Statement 6. The undistributed balance of the Contribution Fund was comprised principally of contributions received from various municipalities which were due to the Federal government. The balance of the Administration Fund consisted of \$62,135 in allotted funds and a credit balance of \$25,565 in the undistributed portion. When adjusted for the liability for expenses due to the General Fund, the actual allotted balance is \$87,016. The credit balance existed because the Retirement Division had not adjusted year-end allotments as required by the State Comptroller.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund functions principally as a pass-through account for premiums received from

participating municipalities which are, in turn, remitted to a local insurance company for survivor benefit coverage. Beginning with the 1981-1982 year administrative assessments have been collected from the participating municipalities and deposited to the Administration Fund of the Municipal Employees' Retirement System as was previously mentioned in this report. The financial position of the Fund, as of June 30, 1982, is shown on Statement 8 of this report.

Cash in custody of the State Treasurer as of June 30, 1982, totalled \$10,972, as shown in Statements 8 and 9. This deposit balance was verified as part of our audit of the State Treasurer's records. The cash activity of the Fund is presented in Statement 9.

Contributions receivable totalled \$12,014 and consisted of June premium payments due from two municipalities. Premiums payable of \$22,986 represented the June premium due to the insuring company.

During the 1981-1982 fiscal year cash receipts of the Fund totalled \$263,818, while cash disbursements for the year amounted to \$252,846. The total premium payment due to the insuring company for the year's coverage was \$275,832, the differences being the previously mentioned receivables and payable. In the 1980-1981 fiscal year, a total to \$278,580 was received and disbursed as premiums. The decrease of \$2,748 was due to the fact that the City of Derby had made a retroactive payment for four months in the prior year. Although Derby had become a participating member of the Fund as of March 1, 1980, it did not begin actively contributing to the Fund until the 1980-1981 fiscal year.



During the 1981-1982 fiscal year, the municipal contribution rate was increased to 2.59 percent from a rate of 2.46 in the prior year.

A significant feature of the group annuity insurance plan currently in force is the recognition of the accumulation of assets which are to be used to offset future plan liabilities. Previously, such assets were combined in an experience pool with other employer participants and their identity was lost. An experience credit from the previous plan of \$2,003,189 was transferred to the plan on July 1, 1979, to form the initial portion of the accumulated reserve. Changes in the reserve come from additions for contributions and investment income and from deductions for annuity payments and contract service charges. An actuarial valuation performed as of July 1, 1982, estimated the reserve for future benefit payments to total \$3,690,780 as of June 30, 1982.

Surety Coverage:

Surety coverage for employees of the State Comptroller's Office during the audited period was provided by the following faithful performance blanket bond:

Term: December 31, 1980, in force until cancelled  
Insurance Company of North America  
Bond #PDDJO 019704A in the amount of \$1,000,000

Condition of Records:

Municipal Employees' Retirement System:

Our review of the financial records of the Municipal Employees' Retirement System for the fiscal year ended June 30, 1982, revealed

a number of areas where improvement was needed. These following comments are directed thereto.

In previous reports we have expressed concern with the timeliness in which the administrative function of the Municipal Employees' Retirement System was being carried out by the Municipal Retirement Section of the Retirement Division. At the beginning of our current audit review, January 3, 1983, it became apparent to us that this problem area had deteriorated even further. This was especially evident in the area of contribution accounting.

At that time, we found that although retirement contributions from the various municipalities and their employees were being deposited promptly, the recording of these contributions to members' accounts, as well as to the various control accounts, had fallen five to twelve months behind. The control and member subsidiary cards of Fund A, the smaller Retirement Fund, had been posted through July 31, 1982. For Fund B the posting to control cards was almost complete through April 30, 1982, and most member subsidiary cards were done through March 31, 1982. However, subsidiary cards for seven municipalities had been posted only through December 31, 1981, while two other municipalities were complete through September 30, 1981. This earlier date had been the last period through which the control and subsidiary cards were balanced and reconciled. In addition, this situation prevented the Retirement Division Accountant from closing the general ledger and preparing statements for Fund B for the fiscal year ended June 30, 1982.

We were informed by employees of the Municipal Retirement Section that the record-keeping function had been increasingly hampered by the frequent and finally total breakdown of the bookkeeping machine used for posting the control and subsidiary cards. While our review was in progress, Section personnel manually posted control records through June 30, 1982, which allowed the Division Accountant to complete the year-end closing. The Retirement Division has since acquired and put into service a replacement machine as of May 1983. However, the posting process has been further impeded, though only temporarily, by the necessity of making new cards and transferring account balances for this machine.

Despite this situation, the Municipal Retirement Section has managed to keep the processing of retirement and refund applications up-to-date. This has been done, though, at the cost of some efficiency, as well as a weakening of internal controls. Because the contribution accounting function has been on occasions up to a year or more behind, records supporting transactions which affect the contribution balances must be kept in various pending files for a similar length of time, until such time as the transaction is posted to the contribution account cards. This situation becomes quite cumbersome after a while and can make the location of a particular record more time consuming than it normally would be.

With regards to internal control over the processing of refund and retirement applications, because the computation of retirement benefits and the determination of contribution

balances must be based on constructed figures that have not been completely reconciled and balanced for accuracy, a weakening of internal controls results. (See Recommendation 1.)

In our last report, in addition to the contribution accounting problem, we had noted other areas in the administration of the Municipal Employees' Retirement System which were not being carried out in a timely manner. These areas concerned retired employees' equity, transfers of municipalities from Fund A to Fund B, and unclaimed contributions.

During our review we found that the general ledger accounts for retired employees' equity in both Funds A and B had been closed as of December 31, 1981, and June 30, 1982. In addition, a prior period adjustments had been made for the equity transferred and the retired equity consumed by retirement salary payments during the 1980-1981 fiscal year. As previously mentioned, these adjustments resulted in an increase of \$763,904 in the total unreserved fund balance as of June 30, 1982. It should be noted that although the totals for equity transferred and consumed were prepared by the Municipal Retirement Section in time for the closing of the 1981-1982 fiscal year, they only became available for review late in the course of our audit. In addition to that factor, our opportunity to conduct a test check of the individual member and control account balances was restricted by the incomplete condition of the contribution records and the fact that some of those records had been removed from the premises for data processing purposes.

In the course of our review, we found that the asset transfers related to the membership changes from Fund A to Fund B for certain

employees of the towns of Ellington and East Haven had been recorded in the respective general ledger accounts of each Fund as of June 30, 1982. However, the actual transfer of cash did not take place until the 1982-1983 fiscal year. As we had commented in our last report the Ellington membership transfer had actually gone into effect as of July 1, 1980, while the East Haven transfer, as we previously noted in this report, had taken effect as of February 11, 1982. In the future, we suggest that the Municipal Retirement Section make such asset transfers in a more timely manner.

Concerning the last matter mentioned above, our examination revealed that \$266 in unclaimed contributions, which we had noted in our last report, had not yet been escheated to Fund A. Section 7-440 of the General Statutes provides that contributions which have gone unclaimed for ten or more years should be escheated to the respective Retirement Fund in which they are held. We were informed that these monies would be escheated prior to the close of the 1982-1983 fiscal year.

The Retirement Division issued its first Annual Report on the Municipal Employees' Retirement Fund, covering the fiscal year ended June 30, 1978. Subsequent reports, however, were not issued for any of the fiscal years through June 30, 1982.

Until the issuance of the Retirement Division report, the only other report on the Municipal Employees' Retirement Fund could be found in the State Treasurer's Annual Report. The financial statements appearing in the Treasurer's report for the Municipal Employees' Retirement Fund consist of a cash receipts and disbursements statement and a statement of cash

and investments. Because these statements are prepared on a cash basis, their value is limited.

There exists a need for an annual report that would accurately report and summarize the activities and financial operations of the Municipal Employees' Retirement Fund on an accrual basis. Such a report could serve as a tool for administrative decision making. It would enable comparisons to be made between different fiscal periods, facilitating the identification of any trends that might be taking place. As a communication device it would allow for the convenient transmission of information and provide a means of accountability to interested parties including municipalities and their participating members, legislators, taxpayers, and officials of State or Federal agencies. Finally, it would enforce the discipline of keeping accurate records.

Although there is no statutory requirement for the preparation and issuance of an annual report for the Municipal Employees' Retirement Fund, sound administrative practice would seem to suggest that such a report be prepared. (See Recommendation 2.)

As explained more fully in previous reports, the State Attorney General instituted legal action against the City of Bridgeport in Bridgeport Superior Court during October 1975. This action was brought because of Bridgeport's failure to fulfill specific financial and reporting obligations for certain employees to the Municipal Employees' Retirement System. On July 6, 1979, a "Motion for Judgement by Stipulation" was filed in Superior Court by the Attorney General. As granted, this motion effectively resolved those matters including the issues of unpaid contributions and employee enrollment in the System.

During our audit review, we found that neither the Municipal Retirement Section nor the City of Bridgeport has fully carried out all of the provisions of the stipulation. Count I of the court order provided that the City of Bridgeport pay to the Municipal Employees' Retirement Fund contributions due from salaries of non-teaching employees of the Bridgeport Board of Education for service rendered prior to January 1, 1972, provided that these employees have not already paid on their own, or who have not already terminated their employment and have had their contributions refunded. Interest at five percent is to be charged on the unpaid amounts. As of June 28, 1983, no effort has been made by the Municipal Retirement Section to compute the interest on the contribution amounts which are receivable from the City of Bridgeport. These receivable amounts have been set up on the the Section's accounts receivable subsidiary ledger for several years.

Count II of the court order, which dealt with contributions due for Bridgeport employees whose jobs were funded by Federal grants, was dropped by the State because of a change in Federal regulations governing the retirement programs for grant employees.

Count III of the court order provided that all Bridgeport employees as of July 1, 1979, as well as any persons hired thereafter, whose positions are funded in whole or part by Federal grants for a period in excess of one year, shall be enrolled in the Municipal Employees' Retirement Fund as of July 1, 1979, or six months after their date of employment, whichever is later. Provision is also made for retroactive coverage to July 1, 1972, for those eligible employees who choose to purchase such service time.

As of June 28, 1983, the provisions of Count III have been almost completely implemented.

In our prior report we noted that although all applicable employees had been enrolled in the Retirement Fund, receivable amounts due had not been computed and consequently the City of Bridgeport had not been billed for these amounts. It had been indicated to us that part of the delay was due to the lack of reliable wage information for those time periods involved.

During the 1981-1982 fiscal year, this wage information became available through forms received by the Municipal Employees' Social Security Section in regards to an application made for the refund of contributions that had been paid to the Federal government for those employees also specified in the court order. From the total refund of \$752,250 which was previously mentioned in this report, a distribution of \$474,340 was made to the Municipal Employees' Retirement Fund B during the 1982-1983 year. We were informed that this amount which included employee contributions of \$102,830 and employer contributions of \$371,510, has been applied against the receivable amounts arising as a consequence of Count III of the stipulation. In addition, a second smaller distribution is also due from the Federal government and will be applied similarly. Once all the Social Security refunds have been applied, billings will be made for remaining amounts receivable.

In our previous report we also mentioned that the Count III provision regarding retroactive coverage for employees had not been carried out on a timely basis. At that time 41 applications were found to have been on file for over a year and had not been



processed. As of June 29, 1983, most of these applications have been taken care of by the Municipal Retirement Section. However, it was indicated to us that this process is not totally complete and has been hampered by the changing desires of employees regarding retroactive coverage and other factors.

We previously recommended that the Municipal Retirement Section take steps to bill the City of Bridgeport for unpaid contributions and interest. During the last year, considerable headway has been made in this regard towards complying with the provisions of Count III. However, little attention has been given to compliance with Count I of the stipulation; therefore, we have repeated our prior recommendation in this report. (See Recommendation 3.)

In previous reports we have discussed in detail the automated processing system for the Municipal Employees' Retirement System which has been in various stages of development for the last five years. Preliminary work was begun on this system in the 1978-1979 fiscal year and has involved personnel from the Bureau of Information Systems of DAS and the Retirement and Data Processing Divisions of the State Comptroller. This development work has continued through the 1982-1983 fiscal year. A detailed presentation of expenditures associated with the development of this system is presented for the 1981-1982 fiscal year and prior years in the Resume of Operations section of this report.

At the time of our last report, March 1, 1982, we had been informed that all programming for the system had been completed. The next step, testing of the system, was to begin once a computer terminal was installed in the Retirement Division. It was indicated

to us that once the terminal was in place, the systems testing and conversion processing was expected to take approximately six months if no problems arose.

As of June 29, 1983, we were informed that the implementation of the system would not take place for at least seven months, or perhaps longer. Although outside contractors were engaged to help speed the conversion processing which includes constructing the data base, we were told that considerable reprogramming for the system had become necessary before it would be operational. This process was still taking place at that time. According to data processing personnel involved in the system, this had become necessary because of numerous changes in software technology during the last several years and other problems associated with edit programs in the system. We plan to review the implementation of this new automated system once it has finally become operational.

As part of our audit, we test checked the data on file supporting the various changes made to retirement payrolls during the 1981-1982 fiscal year. In addition our procedures included a 20 percent test sampling of the newly-retired employees added to the payrolls during the year. A complete review was made of length of service, final years' salaries, and supporting documentation on file for the employees in the sample. We noted only several minor errors in basic salary calculations and these were brought to the attention of Municipal Retirement Section personnel. Our review, however, disclosed three areas of concern.

The first area of concern which came to our attention was the apparent lack of an internal control procedure for the review of benefits being paid to newly retired employees. We were

informed that although this had existed several years ago, the current practice has been for only one person, a retirement counselor, to review employee data and calculate the salary to be paid with no further check. Good internal control would dictate that the computation of retirement salaries be verified by a second person. We strongly suggest that the Municipal Retirement Section reinstitute this internal procedure that previously existed.

The second area of concern that we noted involved the inconsistent treatment of unpaid leaves of absence in reducing the service time credited to employees. We found that some employees were given credit for a full year of service although they worked only ten months out of any one year. Other employees had their service time reduced by every period of unpaid leave on their service record.

During the course of our review we found a third area of concern which was the inflation of the three year average high salaries from a part-time to a full-time basis for two individuals. This adjustment had been made to assure that these individuals would receive at least a minimum retirement salary from the Municipal Retirement Funds.

In the two latter situations noted above we could find no statutory authority for the granting of a full year's service credit for less than a full year of work, nor could we find any authority for the adjustment of the average high salaries. We recommend that the Municipal Employees' Retirement Section follow the procedures and requirements found in the Statutes in

in fulfilling its responsibilities. If the Retirement Division feels that neither the purpose nor intent of the Municipal Retirement System is being fulfilled by the provisions currently in the Statutes, it should seek legislative amendment to rectify those situations. (See Recommendation 4.)

As part of our audit we conducted a review of the outstanding retirement payroll checks still carried by the State Treasurer. We noted that a number of checks listed as of June 30, 1982, were issued as far back as the 1976-1977 fiscal year. While many of the checks were issued to employees who have since died, some were issued to recipients who are still drawing pension benefits. The Municipal Retirement Section should regularly request outstanding check information from the State Treasurer and follow up on the circumstances surrounding these checks. Monies from checks outstanding more than five years should be escheated to the State as provided for by Sections 3-62a and 3-62e of the General Statutes.

During our audit review of the Municipal Employees' Retirement System we conducted an examination of the various matters related to the deaths of retired members during the 1981-1982 fiscal year, and also followed up unresolved matters of members deceased in prior years. We became aware of several problem areas arising from these matters which included the lack of an accurate and complete control record such as a log for deceased employees, and repayments due from and/or benefits due to the estates of deceased employees.

In regards to the first problem area mentioned above we found that the only control record presently maintained by the

Municipal Retirement Section is a listing of deceased employees names and related general information. This listing, however, was not maintained chronologically neither as to the date of death nor the date that the Retirement Division was notified, and did not present any information regarding the status of the processing of the deceased members' accounts. Moreover, we found that individuals were periodically not added to the listing until certain legal transactions had taken place which were sometimes several months after initial notifications. Two such cases came to our attention as they had remained off the listing for upwards of one year after notification was received.

During our review we noted a second problem area involving repayments due from the estates of deceased employees. We found that adequate control was not being maintained over these receivables. As of February 18, 1983, we found that in two instances the amounts receivable had remained outstanding for over a year, and in a third case involving \$1,148 the receivable had been outstanding since the 1978-1979 fiscal year. In the latter circumstance the current employees of the Municipal Retirement Section were not aware of its existence as no control account or card had been maintained for these receivables. As of June 30, 1983, two of the three amounts receivable, including the oldest one, had been collected in full.

Our review of accounts payable showed that a problem existed with benefits due to the estates of deceased employees. These benefits usually consisted of partial retirement salary payments for the month in which the employee had died. We noted that as

with the receivables due from estates, no control account or card had been established for these payables. Although the deceased employees' retirement folders were supposed to be kept in a pending status until all matters were resolved, we found that in several instances some, with this matter still unresolved, were transferred to inactive files. For all practical purposes any track of amounts payable was lost due to this action. Moreover any monies unclaimed after five years should be escheated to the State General Fund under Sections 3-62a and 3-62e of the General Statutes, not just be lapsed into the Retirement Funds.

As indicated in the three situations mentioned above, there exists a need for the Municipal Retirement Section to improve the procedures and record-keeping in regards to matters involving deceased employees. Good internal control would dictate that all receivables and payables should be properly recorded and accounted for, and also that a chronological record should exist to log all death notices in a timely manner. Therefore, we suggest that the Municipal Retirement Section take such steps as are necessary to improve the internal control over this area.

During our audit we conducted a review of retirement contributions refunded to employees who had terminated their municipal employment. While our test check did not disclose any problems with the computations of the refunds, we did note that the individual applications for the refunds apparently had not been approved by anyone in the Retirement Division. We were informed that although refunds were computed and test checked by two Municipal Retirement Section employees, the Section Coordinator

had not been reviewing and approving the applications due to an oversight. We have brought this matter to the attention of the Coordinator and suggested that this review and approval be conducted in the future.

Upon reviewing various expenditures made from the Administration Fund, we noted that actuarial services totalling \$14,857 were paid for during the 1981-1982 fiscal year. Further examination revealed that this payment actually covered services rendered not only in the year under review, but also in the 1979-1980 and 1980-1981 fiscal years. In addition, we found that the personal service agreement between the actuarial firm and the State did not cover the earliest year and part of the second year. We were informed that through oversight on the part of both the Retirement Division and the firm, the previous agreement was allowed to expire at the end of March 1979, and 19 months passed before a new one was worked out.

As was previously mentioned in this report, during our review we found that office equipment once identified as belonging to the Administration Fund of the Municipal Employees' Retirement System was now mixed with other equipment of the Retirement Division and the agency in general. We were informed that there had been no restriction on the transfer or disposition of furniture or other items from the Municipal Retirement Section, and equipment was frequently moved within the Retirement Division.

In this report we have removed the equipment account and its respective reserve account from our financial statements. It is apparent that these accounts are not a relevant issue in

the financial position of the Municipal Employees' Retirement System. We therefore recommend that the Retirement Division remove the same from its financial statements and in the future the State Comptroller's Office should include a service charge for office equipment usage in its charge for overhead. Equipment would then be purchased through the General Fund appropriation of the agency. (See Recommendation 5.)

Municipal Employees' Social Security Funds:

The records of the Municipal Employees' Social Security Funds were adequately maintained for only a portion of the 1981-1982 fiscal year. A marked deterioration in the recordkeeping, however, appeared in the second half of that year as the Retirement Division attempted to streamline its accounting procedures for Social Security contributions received from the participating municipalities. The following comments address this issue and other areas of concern which became apparent to us during the course of our review.

In our prior audit report we included a recommendation that the Retirement Division should take steps to streamline its contribution accounting procedures. This recommendation was made because it had become apparent to us during our accompanying review that subsidiary records could be consolidated and Retirement Division personnel might be more effectively utilized without sacrificing the quality and level of internal control that would be necessary for this operation. However, the Retirement Division's attempt at implementation has not proven successful, and many changes which were made did not seem to have been properly conceived and instituted.



Upon beginning our current review in April 1983, we found that while on the surface our recommendation appeared to have been implemented, there was a critical loss of control throughout the operation. Although the day to day responsibilities for contribution accounting had been removed from the Division Accountant in April 1982 and turned over to the Social Security Section, we noted that many of those responsibilities had gone unfulfilled. A reconciliation of the general ledger had not taken place since March 31, 1982, as no control account cards had been used nor had a full trial balance of the municipal subsidiary account cards been taken during that period. In addition, our examination revealed that, although the subsidiary cards maintained for each municipality had been consolidated into one card, the cards were not being used as a chronological record of contributions and interest received from each municipality. The same weakness was found to exist as far as monies subsequently transferred to the Federal government by the Comptroller on the behalf of the municipalities. Furthermore, we noted that necessary balances had not always been transferred from the old subsidiary cards to the one currently in use.

As part of our audit we made an attempt to prepare a trial balance of the Contribution Fund as of June 30, 1982. We abandoned this procedure when it became apparent that we would have to reconstruct a balance for each municipal subsidiary account. We brought this situation to the attention of the administrative head of the Retirement Division and the Chief Administrative Officer of the Comptroller's Office. As a result the Accounting

Systems Division of the Comptroller's Office was called in to conduct a complete review of the operations of the Social Security Section and to oversee the implementation of the changes necessary to improve internal control.

As of this writing, July 11, 1983, we have been informed that new procedures for contribution accounting have been established and that new subsidiary and control records have been designed and are being put into service. In addition the Social Security Section has begun to reconstruct municipal account balances through June 30, 1983, starting with April 1982 transactions.

In our prior report we noted improvement as far as the timely remittance of Social Security contributions, received from the municipalities, to the Federal government. During our current review we found that although the 1981-1982 fiscal year seemed to show continued improvement in this area, there was some indication that deterioration had occurred in the 1982-1983 year. An examination of contributions received in December 1982 showed that prior period contributions were not remitted to the Federal government until March 1983. It is hoped that this area will again show improvement with the implementation of the procedures and changes which were mentioned above.

In the Resume of Operations section of this report we commented on a future liability of the State and various municipalities for additional interest assessments totalling \$88,283. These assessments which were paid in the 1982-1983 fiscal year represented late charges on contributions not forwarded in a timely manner to the Federal government during the prior two fiscal

years. Unlike the \$26,838 in assessments which were paid in the 1981-1982 fiscal year, it was determined that these charges were at least partially the responsibility of the municipalities. Our review of the records of the Social Security Section, however, showed that approximately 55 percent of these late charges, \$48,934, were still due to the negligence of the Retirement Division.

During our review, we noted that the general practice had been for the Retirement Division to pay all interest assessments from the available resources of the Contribution Fund within 30 days so as to comply with Federal requirements. The involved municipalities then would be billed for their shares of the assessment which ideally would be the total amount. In the case of the \$88,283 mentioned above, these assessments were paid from the Fund, but then the total charges, both the State and municipal shares, were billed to the affected municipalities. Arising from that initial billing, a total of \$14,927 had been collected through May 16, 1983, although \$8,160 appeared to have been collected in error. Our examination showed that some municipalities had paid these charges when, in fact, they should have borne no responsibility for them, and others had paid the full amount when they were actually responsible for only a small portion of the charge. Furthermore, we were informed that because of some complaints, a second corrected billing was sent out in December 1982, except to those municipalities which had already paid.

As of July 12, 1983, it was indicated to us that the above situation has yet to be rectified. Although some additional payments have been received in the intervening months, the Retirement Division has not taken any action either to reimburse

the Contribution Fund for the State share of the assessment or to notify the affected municipalities of the initial error and their possible overpayment of the charges. We therefore recommend that the Retirement Division take those steps necessary to resolve this matter. (See Recommendation 6.)

As previously mentioned in this report, Social Security contributions totalling \$752,250 were returned by the Federal government as a result of the legal action brought by the State against the City of Bridgeport over the participation of specific employees in the Municipal Employees' Retirement System. During our review we found that, although this money was received in January 1982, and an initial refund distribution was made in March 1982, the transfer of \$474,340 to the Municipal Employees' Retirement Fund B did not take place until July 1982. We were informed that this transfer was held up pending formal notice of agreement by Bridgeport as to the amounts to be refunded and/or transferred. When this information did not appear to be forthcoming, the transfer was finally made. It should be noted that because this transfer was not made sooner, four months' investment income was lost to Retirement Fund B. Monies held in the Municipal Employees' Social Security Contribution Fund are not invested as it functions principally as a pass-through account.

In addition to the above, our examination also disclosed that another \$9,230, which was part of the amount returned by the Federal government, was still being held in the Contribution Fund. This amount had previously been refunded by the Social Security Administration and was requested a second time in error.

It was indicated to us that this money would be returned when it was requested which might take several years because of delays in the Federal System.

As part of our audit we performed a review and test check of contributions and administrative assessments received in the third quarter of the 1981-1982 fiscal year. Our ten percent sample included 43 municipalities and six subunits of those. We found no major variances in either the computation of the contributions or assessments as received by the Social Security Section. However, we noted that eight of the 49 entities failed to submit a quarterly reconciliation report for that period. We also found that two entities in our sample were late in making their monthly payments, with one being four, three, and two months behind for each respective month of that quarter.

As part of our review we had an opportunity to examine a report prepared in May 1981 by the Social Security Administration of the United States Department of Health and Human Services. This State and Local Onsite Review was a compliance survey done by representatives of that Federal agency and resulted in six recommendations concerning the State-administered System. While we noted that several of these recommendations had been complied with, we found several others still requiring attention. We were informed that no attention has yet been given to the development of a State handbook to serve as a reference and procedural information source for the reporting entities. We also were told that the recommended quarterly reconciliations were being required from the reporting entities. Our previously mentioned test-check of the third quarter of the 1981-1982 year, however, revealed

that not all entities in our sample were in compliance for that period, and some had failed to submit any during the 1982 calendar year.

As previously mentioned in this report, our review showed comparable situations concerning office equipment in both the Municipal Employees' Retirement and Social Security Systems. Equipment once identified as belonging to the Administration Fund of each System had now become mixed with the other equipment of the State Comptroller's Office. Therefore, the recommendation referred to in the Municipal Employees' Retirement part of the Condition of Records section also applies to the Municipal Employees' Social Security Administration Fund. (See Recommendation 5.)

Policemen and Firemen Survivors' Benefit Fund:

The financial records of the Policemen and Firemen Survivors' Benefit Fund were well maintained during the fiscal year ended June 30, 1982. Additional comments on the records of this Fund follow.

In our prior audit reports we had suggested that the Retirement Division assess the municipalities who were participating in the Fund for their proportionate share of the costs of the administration of the Fund. As we have previously mentioned in this report, these assessments were collected in the 1981-1982 fiscal year and deposited to the Administration Fund of the Municipal Employees' Retirement System.

During our review we found that the Retirement Division had been inconsistent in its application of the administrative

assessment. During the 1981-1982 fiscal year a \$20 per employee assessment was charged each town and was based on the total active, retired, or deceased employees participating in the Fund. We were informed that, for the 1982-1983 year, the assessment was charged based only on the number of active employees.

The group annuity contract in effect during the audited period, for the Policemen and Firemen Survivors' Benefit Fund, provides for the insuring company to submit, annually, an actuarial valuation of the contract plan. The second valuation under this contract was performed as of July 1, 1981, for use in the plan year July 1, 1981, through June 30, 1982.

In the past the State Retirement Commission has been concerned about the possibility of excessive reserve amounts being accumulated by the insuring company for the payment of future plan benefits. Although no such concern has been expressed by the Commission concerning the three valuations performed by the insuring company since the implementation of this plan, consideration should be given to having an independent actuarial firm review the valuation methods and assumptions used by the insuring company, to ensure that they are not resulting in excessive reserve accumulations.

#### Recommendations

In our previous report we presented five recommendations concerning the operations of the Municipal Employees' Retirement and Social Security Systems. The following is a summary of those

recommendations and the actions taken thereon.

1. Posting of municipal and employee contributions to control and subsidiary records in a timely manner - We have repeated this recommendation since our review showed that this situation had deteriorated even further. As of this writing, the posting of subsidiary records is at least one year behind.
2. Transfer of employer's share of contributions for members transferring between the Municipal and State Retirement Systems - Public Act 82-377 repealed this requirement and limited the transferred amounts to employee contributions.
3. Preparation and issuance of annual report - This recommendation has been repeated since there has been no attempt to issue any kind of annual report for the Municipal Employees' Retirement Fund since the fiscal year ended June 30, 1978.
4. The billing of the City of Bridgeport for unpaid contributions and interest - We have repeated this recommendation although at this time we must recognize that considerable headway has been made towards resolving the issue. However, there are still many loose ends that must be acted on.
5. Retirement Division action to streamline the accounting procedures for the Municipal Employees' Social Security System - The Retirement Division attempted to streamline the operations of this system, but was not successful as the many changes which were made were not properly conceived and instituted. We found a critical loss of control throughout the system. The Accounting Systems Division of the State Comptroller's Office has been called in to conduct a complete review of the operations and to oversee the implementation of the changes necessary to improve internal control.

Those recommendations of the prior report which need further implementation, together with those new recommendations resulting from this audit review, are presented below:

1. The posting of municipal and employee contributions to contribution control and subsidiary records should be brought up-to-date.

Our review showed that the contribution accounting function, performed by the Municipal Retirement



Section of the Retirement Division, had deteriorated substantially. The posting of contribution control and subsidiary records had fallen at least a year behind. As long as this situation is permitted to continue, an inefficiency in operations as well as a weakening of internal controls will exist.

2. The Retirement Division should prepare annually a report, complete with financial statements, which would summarize the activities and financial operations of the Municipal Employees' Retirement Fund.

During the 1978-1979 fiscal year, the Retirement Division issued an annual report on the Municipal Employees' Retirement Fund for the fiscal year ended June 30, 1978, but did not issue subsequent annual reports for any of the fiscal years through the year ended June 30, 1982. Among the benefits of such an annual report are that it would serve as a tool for administrative decision making, provide a means of accountability and a method for communicating information to interested parties, and would reinforce the need for accurate recordkeeping.

3. The Municipal Retirement Section should take steps to bill the City of Bridgeport for unpaid contributions and interest.

As outlined in Count I of the July 6, 1979, Bridgeport Superior Court stipulation for judgement, the Retirement Section should calculate contributions due with interest at five percent per annum on non-teaching employees of the Bridgeport Board of Education for services rendered prior to January 1, 1972. Although considerable headway has been made during the last year toward fulfilling the requirements of Count III of the judgment, there are still many matters to be completed before the terms of this order are totally fulfilled.

4. The Municipal Retirement Section should follow the statutory provisions in determining retirement benefits and employee service time.

During our review we found that the Municipal Retirement Section was not consistent in the

treatment of unpaid leave time. In several cases we found that employees had been credited with a full year of service time although less than a full year was worked. We also found that the Municipal Retirement Section had inflated the average high salaries of two individuals from a part-time to a full-time basis to assure that they would receive at least a minimum retirement salary from the Municipal Retirement Funds. We could find no statutory authorization for either action.

5. The Retirement Division should remove the equipment accounts from the financial records and statements of the Administration Funds in both the Municipal Employees' Retirement and Social Security Systems, and in the future the State Comptroller's Office should include a service charge for office equipment in its charge for overhead.

Our review showed that office equipment, once identified as belonging to the Administration Funds of these systems, was now mixed with other equipment of the agency. We were informed that there had been no restriction on the transfer or disposition of equipment from either the Municipal Social Security or Retirement Sections, and equipment was frequently moved within the Retirement Division. It is apparent that equipment is not a relevant issue in the financial position of either operation.

6. The Retirement Division should take steps to resolve the situation concerning the responsibility for those interest assessments paid in the 1982-1983 fiscal year that relate back to contributions not forwarded in a timely manner during the prior two fiscal years.

During our review we became aware of the future liability of the State and various municipalities for additional interest assessments representing late charges on contributions not forwarded in a timely manner to the Federal government. Further examination showed that approximately 55 percent of those charges were due to the negligence of the Retirement Division. As of July 13, 1983,

we found that no steps have been taken to reimburse the Contribution Fund for the State share of the assessment or to notify the affected municipalities who may have overpaid on those assessments that there was an error.

Certification

Our examination of the financial records of the Municipal Employees' Retirement and Social Security Systems was made in accordance with generally accepted government auditing standards for fiscal and compliance audits, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements contained in this report were prepared from the records of the State Comptroller and the State Treasurer. The statements of the Municipal Employees' Retirement System including those of the Policemen and Firemen Survivors' Benefit Fund reflect a modified accrual basis of accounting, while the statements of the Municipal Employees' Social Security System are shown on a cash basis of accounting. Because of the amortization of gains and losses in the Municipal Employees' Retirement Funds, the financial statements on such funds, as presented in this report, were not prepared, nor were they intended to be, in accordance with generally accepted accounting principles. The condition of the financial records of the Municipal Social Security Funds has necessitated that those respective statements be presented on a cash basis.

In our opinion, subject to the comments in the preceding paragraph, the financial statements contained in this report present fairly:

1. The financial position of the Municipal Employees' Retirement Funds as of June 30, 1982, and the results of the operations of such funds for the year ended on that date, in conformity with the modified accrual basis of accounting as described above applied on a basis consistent with that of the preceding year.
2. The assets and liabilities of the Municipal Employees' Social Security Funds as of June 30, 1982, as have resulted from cash transactions and activity for the year ended on that date.
3. The financial position of the Policemen and Firemen Survivors' Benefit Fund as of June 30, 1982, in conformity with a modified accrual basis of accounting, and the cash transactions and activity for the year ended on that date.

Following a selective testing method we examined the financial transactions processed and recorded by the Municipal Employees' Retirement and Social Security Systems for compliance with statutory requirements and administrative regulations. Except as noted in the Condition of Records and Recommendations sections of this report, we found the transactions tested to be in substantial compliance with such requirements and regulations. Further, during the course of our examination nothing came to our attention to cause us to believe that the transactions not tested were not in compliance with such requirements and regulations.

The State of Connecticut, through the Offices of the Comptroller and Treasurer, provides centralized budgetary, accounting, payroll, accounts payable and cash management and investment

controls and purchasing procedures compliance review for all general government operations except for those social service assistance programs authorized to have direct disbursement of benefits. As a part of this audit examination we made a study and evaluation of the system of internal accounting controls of the Municipal Employees' Retirement and Social Security Systems including a review of compliance with the procedures to be followed to assure the effectiveness of the centralized controls specified above which were studied and evaluated as part of our audits of the State Comptroller and State Treasurer. For the purpose of this report we have classified and studied the Municipal Employees' Retirement and Social Security Systems' significant internal accounting controls in the categories of payroll, cash receipts and disbursements, billings and collections, and reporting systems. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements prepared from agency records and to extend our study and evaluation of the State's centralized internal accounting controls to the agency level. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal control taken as a whole or on any of the categories of control specified above and, therefore, would not necessarily disclose all material weaknesses in the system.

Because of the limited nature of this examination with respect to the system of internal control as explained above, we do not express an opinion on the system of internal accounting


control of the Municipal Employees' Retirement and Social Security Systems taken as a whole or on any of the categories of control specified above. However, we did find conditions that we believe result in more than a relatively low risk that errors or irregularities, in amounts that would be material in relation to the general purpose financial statements of the Systems, may occur and not be detected within a timely period. Our comments on these specific conditions of internal accounting control are found in the "Condition of Records" section of this report. These conditions were considered in determining the nature, timing and extent of the audit tests applied in our examination of the financial statements of each System.

Conclusion

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the Retirement Division, especially those employees of the Municipal Retirement and Social Security Sections, during the course of our examination.

  
For the Auditors of Public Accounts

Approved:

  
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Auditors of Public Accounts

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statement 1  
Sheet 1

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
BALANCE SHEET  
AS OF JUNE 30, 1982

Assets and Resources	Total	Retirement Fund A	Retirement Fund B	Administration Fund
	\$	\$	\$	\$
Cash in custody of State Treasurer	147,351	147,351		
Investments Owned:				
State of Connecticut Short Term Investment Fund	1,686,495	854,473	753,744	78,278
State of Connecticut Mutual Fixed Income Fund	98,477,308	3,284,028	95,193,280	
State of Connecticut Mutual Equity Fund	39,076,914	333,449	38,743,465	
State of Connecticut Mutual Mortgage Fund	57,653		57,653	
State of Connecticut Mutual Contract Fund	3,505,320	98,280	3,407,040	
State of Connecticut Yankee Mac Mortgage Fund	6,707,216	188,052	6,519,164	
State of Connecticut Real Estate Fund	3,745,000	105,000	3,640,000	
Total Investments Owned	<u>153,255,906</u>	<u>4,863,282</u>	<u>148,314,346</u>	<u>78,278</u>
Accrued interest purchased and receivable	29,052	815	28,237	
Investment income receivable	1,686,828	52,608	1,633,405	815
Employees' contributions receivable	227,946	793	227,153	
Municipal contributions receivable	567,567	1,585	565,982	
Accounts receivable	43,505		43,505	
Interest receivable	9,154		9,154	
Due from Municipal Employees' Social Security Contribution Fund	474,340		474,340	
Interfund receivables and payables		(421,022)	421,022	
Drafts in process of cancellation	5,203		5,203	
Total Other Assets	<u>3,043,595</u>	<u>(365,221)</u>	<u>3,408,001</u>	<u>815</u>
Obligations of municipalities for prior service	17,204,145		17,204,145	
Total Assets and Resources	<u>\$173,650,997</u>	<u>\$4,645,412</u>	<u>\$168,926,492</u>	<u>\$ 79,093</u>
Liabilities and Fund Equity				
Liabilities:				
Cash overdraft	132,592		118,161	14,431
Accounts payable	4,286		4,286	
Retirement salaries payable	54,946		54,946	
Due to General Fund	38,765			38,765
Deferred revenues - receivables to be revenue when received	52,659		52,659	
Amortization payments collected in advance	4,444		4,444	
Total Liabilities	<u>287,692</u>		<u>234,496</u>	<u>53,196</u>
Fund Equity:				
Fund Balances:				
Reserved for member contributions:				
Active members	18,424,389	24,727	18,399,662	
Retired members	557,788	1,334	556,454	
Total Member Contribution Reserves	<u>18,982,177</u>	<u>26,061</u>	<u>18,956,116</u>	
Reserved for actuarial deficiency - resources to be provided (see Note C)	17,204,145		17,204,145	
Reserved for allotments in force	2,285			2,285
Unreserved balances - available for retirement salaries and other payments	137,174,698	4,619,351	132,531,735	23,612
Total Fund Equity	<u>173,363,305</u>	<u>4,645,412</u>	<u>168,691,996</u>	<u>25,897</u>
Total Liabilities and Fund Equity	<u>\$173,650,997</u>	<u>\$4,645,412</u>	<u>\$168,926,492</u>	<u>\$ 79,093</u>



Statement 1  
Sheet 2

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
BALANCE SHEET  
AS OF JUNE 30, 1982

NOTE 1: The obligations of municipalities for prior service credits to members as shown above were based on amortization rates in effect as of July 1, 1979, and were based on the actuarial survey for the Funds as of December 31, 1977. The method of valuation used by the actuary was described as the "unit credit cost method."

NOTE 2: The aggregate market value of investments owned by the Funds as of June 30, 1982, totalled \$132,273,780. The supporting detail for this figure is presented in Statement 4.

NOTE 3: Within the State of Connecticut's Mutual Fixed Income Fund and Mutual Equity Fund there exists a reserve account for realized gains (or losses) which was established by the State Treasurer under regulations pursuant to Section 3-31b of the Connecticut General Statutes. Through the use of these reserve accounts realized gains or losses on investment disposals are distributed to participant capital balances over ten year periods. The Municipal Employees' Retirement Fund's pro rata share of the balances of undistributed realized losses being held in these reserve accounts at June 30, 1982, totalled \$1,010,790 as follows:

Reserve for Net Gains (or Losses) on Disposal of Investments as of June 30, 1982:	<u>Total</u>	<u>Fund A</u>	<u>Fund B</u>
State of Connecticut Mutual Fixed Income Fund	\$ (4,372,138)	\$ (183,094)	\$ (4,189,044)
State of Connecticut Mutual Equity Fund	3,361,348	28,342	3,333,006
Total Undistributed Realized Gains (or Losses) at June 30, 1982	<u>\$ (1,010,790)</u>	<u>\$ (154,752)</u>	<u>\$ (856,038)</u>

NOTE 4: A court order handed down in Bridgeport Superior Court on July 6, 1979, provided for the City of Bridgeport to pay the Municipal Employees' Retirement Fund interest at the rate of five percent per annum on unpaid employee contributions totalling approximately \$35,000 which previous to the court order, had been in dispute since January 1, 1972. Because the interest amounts due had not yet been determined by the Retirement Division, they were not reflected in the interest receivable figure appearing on our balance sheet.

Additionally the Retirement Division has not determined additional interest amounts receivable on several other long-outstanding contribution amounts receivable from municipalities and individuals.

NOTE 5: The Administration Fund accounts for Equipment and Reserve for Equipment which have been shown on this statement in prior years have been deleted. It was determined that because of agency transfers, usage, and dispositions of equipment, these accounts do not truly reflect items "purchased by" and "property of" this Fund. (See further comments in Condition of Records section of this report.)

NOTE 6: This amount represents the unfunded past service liability of Retirement Fund B. Funding of this liability is provided by the participating municipalities in annual actuarially determined payments. An analysis of each municipality's portion of the past service liability is shown on Statement 5.

## Schedule 1a

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
REVENUES, EXPENSES AND CHANGES IN RESERVED FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	Retirement Fund A		Retirement Fund B		Actuarial Deficiency Resources to be provided	Administration Fund	
	Members Active	Contributions Retired	Members Active	Contributions Retired		Equipment	Reserve for Allotments in Force
Revenues:							
Member contributions	\$ 10,267	\$	\$ 3,067,013	\$			
Expenses:							
Refunds of contributions	5,551		534,048	7,659			
Portion of retirement salaries paid and charged against retired employees' equity		395		849,086			
Total Expenses	5,551	395	534,048	856,745			
Excess (Deficiency) of Revenues over Expenses	4,716	(395)	2,532,965	(856,745)			
Other Changes in Reserved Fund Balances:							
Intrafund equity transfers	(1,616)	1,616	(1,771,297)	1,771,297			
Interfund transfers	(24,067)		24,067	182			
Actuarial adjustments to amortization rates (net) (see Note 1)					1,133,074 (818,896)		
Municipal amortization payments applied							
Prior year adjustments (see Note 2)			a) 13,477	b) (763,904)		(14,693)	
Adjustment to remove equipment (see Note 3)							2,285
Increase for allotments in force							
Net Changes Resulting from Operations of 1981-1982	(20,967)	1,221	799,212	150,830	314,178	(14,693)	2,285
Add:							
Fund Balances - Reserved June 30, 1981	45,694	113	17,600,450	405,624	16,889,957	14,693	
Fund Balances - Reserved June 30, 1982, per Statement 1	\$ 24,727	\$ 1,334	\$ 18,399,662	\$ 556,454	\$ 17,204,145	\$	\$ 2,285

## NOTE 1:

The total amount shown as a net actuarial adjustment includes \$564,068 to adjust the City of Shelton's obligation for prior service and its share of the reserved fund balance. This adjustment brings Shelton's obligation back to the value determined by the actuarial firm. In the prior year a transfer of \$564,068 representing group pension assets was made by the former insurer and applied in error as amortization. Also included is \$550,890 representing the obligation of the Town of Plymouth. Also see Statement 5.

## NOTE 2:

a) The prior year adjustment for \$13,477 represents active member contributions which were included in the asset transfer by the City of Shelton's former insurer during the 1980-1981 year. (See Note 1, above.)

b) As mentioned in our prior report the Retirement Division had not computed the balance of retired employees' equity as of June 30, 1981, for Retirement Fund B. In the 1981-1982 year the portion of retired salaries determined to be chargeable for the prior year against retired employees' equity was \$763,904.

## NOTE 3:

See Note 5, Statement 1.

Statement 2

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
REVENUES, EXPENSES AND CHANGES IN UNRESERVED FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

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Revenues:

Investment income earned, per Statement 4  
Less - Distribution of Mutual Fund gains and losses (net)  
    Net Investment Earnings  
Contributions from municipalities (net of refunds)  
Amortization payments from municipalities (net of refunds)  
Contributions for administrative and actuarial expenses:  
    Municipal Employees' Retirement Fund  
    Policemen and Firemen Survivors' Benefit Fund  
Interest on prior service, military service and late payments (net of  
Interest earned on savings account  
Total Revenues

Expenses:

Retirement salaries  
Less - portion of salaries paid and charged against retired  
    employees' equity  
    Net Retirement Salaries Paid  
Reimbursements to General Fund for administrative expenses  
Payments for actuarial services (net of reimbursements)  
Consultant fees - investments  
Total Expenses  
Excess of Revenues over Expenses

Other Changes in Unreserved Fund Balance:

Prior Year adjustment for portion of retirement salaries  
charged against retired employees' equity (see Note 1)  
Interfund transfers  
Amortization adjustments  
Increase in allotments in force  
Unreserved Fund Balance, June 30, 1981, per previous report  
Unreserved Fund Balance, June 30, 1982, per Statement 1

NOTE 1:

See Note 2b, Schedule 1a

	Total	Retirement Fund A	Retirement Fund B	Administration Fund
	\$	\$	\$	\$
	13,515,974	444,437	13,057,009	14,528
	762,747	44,943	717,804	
	<u>12,753,227</u>	<u>399,494</u>	<u>12,339,205</u>	<u>14,528</u>
	7,663,688	15,054	7,648,634	
	818,896		818,896	
	201,042			201,042
	12,420			12,420
refunds)	79,910		79,658	252
	7,701	7,701		
	<u>21,536,884</u>	<u>422,249</u>	<u>20,886,393</u>	<u>228,242</u>
	6,182,772	34,759	6,148,013	
	849,481	395	849,086	
	<u>5,333,291</u>	<u>34,364</u>	<u>5,298,927</u>	
	187,981			187,981
	13,657			13,657
	1,797	50	1,747	
	<u>5,536,726</u>	<u>34,414</u>	<u>5,300,674</u>	<u>201,638</u>
	16,000,158	387,835	15,585,719	26,604
	763,904		763,904	
	(182)	(176,784)	176,602	
	(17,921)		(17,921)	
	(2,285)			(2,285)
	<u>120,431,024</u>	<u>4,408,300</u>	<u>116,023,431</u>	<u>(707)</u>
	<u>\$137,174,698</u>	<u>\$4,619,351</u>	<u>\$132,531,735</u>	<u>\$ 23,612</u>

Statement 3

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
CASH RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

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Cash in custody of State Treasurer, June 30, 1981, per previous audit report

Receipts:

Cost of investments disposed of, per Statement 4  
Investment income received  
Prepaid investment income from Mutual Contract Fund  
Interest earned on cash deposits  
Contributions from municipalities  
Contributions from employees  
Amortization payments from municipalities  
Interest on prior service, military service and late payments  
Contributions for administrative and actuarial services  
Retirement salaries returned  
Actuarial expenses reimbursed  
Interfund transfers (see contra)  
Total Receipts  
Total

Disbursements:

Cost of investments acquired, per Statement 4  
Mutual Contract Fund interest purchased  
Retirement salaries paid  
Contributions refunded to employees - active and retired  
Contributions refunded to municipalities  
Amortization payments refunded to municipalities  
Interest refunded  
Consultant fees - investments  
Payments for actuarial services  
Reimbursements to General Fund for administrative expenses  
Interfund transfers (see contra)  
Total Disbursements

Cash in custody of State Treasurer, June 30, 1982, see Statement 1

Total	Retirement Fund A	Retirement Fund B	Administration Fund
\$ 67,183	\$ 137,548	\$ (73,909)	\$ 3,544
16,896,759	406,989	16,414,770	75,000
12,855,067	425,040	12,415,769	14,258
56,924	1,596	55,328	
7,701	7,701		
7,316,456	15,226	7,301,230	
2,994,673	10,341	2,974,332	
886,297		886,297	
80,078		79,824	254
213,540			213,540
1,479	220	1,259	
1,200			1,200
10,124	5,604	4,520	
<u>41,310,298</u>	<u>872,717</u>	<u>40,133,329</u>	<u>304,252</u>
<u>41,377,481</u>	<u>1,010,265</u>	<u>40,059,420</u>	<u>307,796</u>
34,253,582	815,214	33,338,368	100,000
85,976	2,410	83,566	
6,139,824	35,096	6,104,728	
547,258	5,551	541,707	
5,816	73	5,663	90
96,032		96,032	
166		166	
1,797	50	1,747	
14,857			14,857
207,290			207,290
10,124	4,520	5,604	
<u>41,362,722</u>	<u>862,914</u>	<u>40,177,581</u>	<u>322,227</u>
\$ 14,759	\$ 147,351	\$ (118,161)	\$ (14,431)

Statement 4

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
INVESTMENTS OWNED AS OF JUNE 30, 1982, TOGETHER WITH ANALYSIS OF  
INVESTMENT TRANSACTIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

Description	Cost Value June 30, 1981 (per previous report)	Cost of Investments Acquired (per State- ment 3)	Disposed of (per State- ment 3)	Amortized Realized Gain or (Loss) for Year	Cost Value June 30, 1982 (per Statement 1)	Investment Income for Fiscal Year (per Statement 2)	Investment Income Receivable June 30, 1981 (per Statement 1)	Number of Units or % of Participation June 30, 1982	Market Value June 30, 1982
<b>Retirement Fund A:</b>									
State of Connecticut Short Term Investment Fund	837,580	423,882	406,989		854,473	110,616	9,740	854,473	854,473
State of Connecticut Mutual Fixed Income Fund	3,328,308			(44,280)	3,284,028	291,680	25,704	32,176	2,212,456
State of Connecticut Mutual Equity Fund	334,112			(663)	333,449	22,087	1,765	3,871	345,827
State of Connecticut Mutual Contract Fund		98,280			98,280	11,754	11,754	.21%	100,023
State of Connecticut Yankee Mac Mortgage Fund		188,052			188,052	8,300	3,645	.21%	190,255
State of Connecticut Real Estate Fund	105,000				105,000			.21%	105,071
<b>Totals</b>	<b>4,500,000</b>	<b>815,214</b>	<b>406,989</b>	<b>(44,943)</b>	<b>4,863,282</b>	<b>444,437</b>	<b>52,608</b>		<b>3,808,107</b>
<b>Retirement Fund B:</b>									
State of Connecticut Short Term Investment Fund	7,410,306	9,758,208	16,414,770		753,744	591,453	43,687	753,744	753,744
State of Connecticut Mutual Fixed Income Fund	88,634,225	7,423,983		(864,928)	95,193,280	9,198,274	843,404	1,055,744	72,594,065
State of Connecticut Mutual Equity Fund	36,006,368	2,589,973		147,124	38,743,465	2,566,036	210,875	462,342	41,304,682
State of Connecticut Mutual Mortgage Fund	57,653				57,653	6,055	1,626	500	30,452
State of Connecticut Mutual Contract Fund		3,407,040			3,407,040	407,462	407,462	7.28%	3,467,469
State of Connecticut Yankee Mac Mortgage Fund		6,519,164			6,519,164	287,729	126,351	7.28%	6,594,455
State of Connecticut Real Estate Fund	3,640,000				3,640,000			7.28%	3,642,528
<b>Totals</b>	<b>132,108,552</b>	<b>33,338,368</b>	<b>16,414,770</b>	<b>(717,804)</b>	<b>148,314,366</b>	<b>13,057,009</b>	<b>1,633,405</b>		<b>128,387,395</b>
<b>Administration Fund:</b>									
State of Connecticut Short Term Investment Fund	53,278	100,000	75,000		78,278	14,528	815	78,278	78,278
<b>Total</b>	<b>53,278</b>	<b>100,000</b>	<b>75,000</b>		<b>78,278</b>	<b>14,528</b>	<b>815</b>		<b>78,278</b>
<b>Grand Totals</b>	<b>\$136,661,830</b>	<b>\$34,253,582</b>	<b>\$16,896,759</b>	<b>\$(762,747)</b>	<b>\$153,255,906</b>	<b>\$13,515,974</b>	<b>\$1,686,828</b>		<b>\$132,273,780</b>

NOTE:  
See Note 3, Statement 1

Statement 5  
Sheet 1

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
OBLIGATIONS OF MUNICIPALITIES FOR CONTRIBUTIONS ON EMPLOYEES'  
PRIOR SERVICE  
AS OF JUNE 30, 1982

Municipality	Balance of Principal Obligations June 30, 1981	Net Adjustments	Payments Applied	Credits Refunded	Balance of Principal Obligations June 30, 1982
	\$	\$	\$	\$	\$
Retirement Fund B:					
Andover	33,575		1,343		32,232
Ansonia Housing Authority	44,071	4,444	1,565		46,950
Aspetuck Valley Health District	38,646		1,017		37,629
Branford	212,174		14,087		198,087
Bridgeport	3,830,869		104,626	7,939	3,734,182
Bridgeport Housing Authority	659,011	(2,371)	27,360		629,280
Bristol Housing Authority	80,883		2,451		78,432
Danbury Housing Authority	124,696		5,668		119,028
Danielson	7,956		663		7,293
Derby	440,110		20,005		420,105
East Hartford Housing Authority	407,524		15,674		391,850
East Haven	760,790		49,127		711,663
Ellington	242,909		12,802		230,107
Enfield Housing Authority	53,846		1,417		52,429
Greenwich Housing Authority	(12,024)			501	(11,523)
Griswold	185,080		9,254		175,826
Groton Housing Authority		16,043	4,501		11,542
Hartford Housing Authority	688,320		19,120		669,200
Jewett City	57,023		2,902		54,121
Lebanon	144,420		4,814		139,606
Lower Naugatuck Valley Health District	(2,024)			92	(1,932)
Manchester	(185,616)			15,468	(170,148)
Manchester Housing Authority	48,174		2,294		45,880
Mansfield	272,766		12,000		260,766
Mattabassett District	81,477		2,469		79,008
Meriden Housing Authority	106,652		4,102		102,550
Middletown Housing Authority	48,150		1,605		46,545
Milford Housing Authority	(15,066)			837	(14,229)
Monroe	(139,308)			11,609	(127,699)
Montville	1,304,128		46,576		1,257,552
Naugatuck Housing Authority	(23,235)			1,549	(21,686)
New Britain	4,644,492		387,041		4,257,451
New Britain Housing Authority	290,556		10,377		280,179
New London Housing Authority	43,320		2,166		41,154
Norwalk Housing Authority	60,615		2,245		58,370
Norwalk 1st Taxing District	134,130		7,890		126,240
Norwalk 2nd Taxing District	(2,352)			196	(2,156)
Norwich City Housing Authority	50,388		1,326		49,062
Norwich Town Housing Authority	88,125		3,525		84,600
Plymouth (see Note 1)		550,890			550,890
Portland Housing Authority	(432)			18	(414)



Statement 5  
Sheet 2

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' RETIREMENT FUNDS  
OBLIGATIONS OF MUNICIPALITIES FOR CONTRIBUTIONS ON EMPLOYEES'  
PRIOR SERVICE  
AS OF JUNE 30, 1982

Municipality	Balance of Principal Obligations June 30, 1981	Net Adjustments	Payments Applied	Credits Refunded	Balance of Principal Obligations June 30, 1982
	\$	\$	\$	\$	\$
Retirement Fund B: (Continued)					
Putnam	3,672		408		3,264
Putnam Housing Authority	3,843		183		3,660
Redding	32,450		1,475		30,975
Regional School District #4	159,870		5,329		154,541
Seymour	244,400		14,071		230,329
Seymour Housing Authority	18,249		869		17,380
Shelton (see Note 3)	496,897	564,068	36,585		1,024,380
Southeastern Connecticut Regional Planning Agency	53,088		2,212		50,876
Southeastern Connecticut Water Authority	63,206		2,873		60,333
Southington	(68,096)		3,038	16,099	(55,035)
South Norwalk Electric Works	(168,696)			9,372	(159,324)
Stafford Springs	76,449		4,497		71,952
Stamford Housing Authority	420,498		16,173		404,325
Stonington	123,462		6,859		116,603
Stratford Housing Authority	445,527		16,501		429,026
Thompson	233,600		9,344		224,256
Torrington Housing Authority	(3,708)			206	(3,502)
Vernon Housing Authority	6,489		309		6,180
Wallingford Housing Authority	40,641		1,311		39,330
Watertown	6,643		186		6,457
West Haven Housing Authority	37,884		1,804		36,080
Willimantic Housing Authority	141,480		5,240		136,240
Winchester Housing Authority	11,664		486		11,178
Windsor	11,556		963		10,593
Windsor Locks	(248,736)			20,728	(228,008)
Windsor Locks Housing Authority	8,164		314		7,850
Woodbridge	(65,348)		1,886	11,418	(55,816)
Totals	<u>\$16,889,967</u>	<u>\$1,133,074</u>	<u>\$914,928</u>	<u>\$96,032</u>	
Obligations of Municipalities to Retirement Fund B as of June 30, 1982, per Statement 1					<u>\$17,204,145</u>

NOTE 1:  
Although the Town of Plymouth Police Department began actively participating in the Municipal Employees' Retirement System as of April 1, 1982, the first amortization payment did not become due until July 1, 1982.

NOTE 2:  
The participating municipalities of Retirement Fund A have fully paid their obligations for contributions on employees prior service as of June 30, 1982.

See Note 1, Schedule 1a.

Statement 6

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' SOCIAL SECURITY FUNDS  
BALANCE SHEET  
AS OF JUNE 30, 1982

Assets	Total	Contribution Fund (7030)	Administration Fund (1122)
Cash in custody of State Treasurer	\$ 1,398,978	\$ 1,337,530	\$ 61,448
Deposit in transit	457	457	
Interfund receivables/payables		(3)	3
Total Assets (Notes A and B)	<u>\$1,399,435</u>	<u>\$1,337,984</u>	<u>\$ 61,451</u>
Liabilities and Fund Balance			
Liabilities:			
Due to General Fund	24,881		24,881
Due to Federal government (Note C)	9,230	9,230	
Due to Municipal Employees' Retirement Trust Fund "B"	474,340	474,340	
Total Liabilities	<u>508,451</u>	<u>483,570</u>	<u>24,881</u>
Fund Balance:			
Allotted	62,135		62,135
Undistributed (Note D)	828,849	854,414	(25,565)
Total Fund Balance (Notes A and B)	<u>890,984</u>	<u>854,414</u>	<u>36,570</u>
Total Liabilities and Fund Balance	<u>\$1,399,435</u>	<u>\$1,337,984</u>	<u>\$ 61,451</u>

NOTE A:  
The Administration Fund accounts for Equipment and Reserve for Equipment which have been shown on this statement in prior years have been deleted. It was determined that because of agency transfers, usage, and dispositions of equipment, these accounts do not truly reflect items "purchased by" and "property of" this Fund. (See further comments in Condition of Records section of this report.)

NOTE B:  
The Contribution Fund accounts for Contributions receivable from municipalities and its respective reserve have been deleted from this statement because of the unavailability of accurate records of these amounts as of June 30, 1982.

NOTE C:  
Interest assessments of at least \$88,283 were found to have been paid to the Federal government during the first half of the 1982-1983 fiscal year. These assessments relate to late filing of contributions during the 1980-1981 and 1981-1982 fiscal years. Of this amount, approximately \$48,934 has been identified as having resulted from the State having not forwarded contributions to the Federal government in a timely manner.

NOTE D:  
The undistributed portion of the Fund Balance shown for the Contribution Fund is comprised principally of contributions received from various municipalities and due to the Federal government. A lesser amount of the undistributed Fund Balance represents amounts due to various municipalities for overpayments of contributions.

Statement 7  
Sheet 1

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' SOCIAL SECURITY FUNDS  
CASH RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	Total	Contribution Fund (7030)	Administration Fund (1122)
Cash in custody of State Treasurer, June 30, 1981, per previous audit report	\$ 1,795,213	\$ 1,768,174	\$ 27,039
Cash Receipts:			
Contributions from municipalities for:			
Social Security coverage (both shares) and interest	67,209,705	67,209,705	
Administrative assessments	128,010		128,010
Transfers from General Fund (Note A)	26,838	26,838	
Other interfund transfers (Note B)	18		18
Total Cash Receipts	<u>67,364,571</u>	<u>67,236,543</u>	<u>128,028</u>
Total	<u>69,159,784</u>	<u>69,004,717</u>	<u>155,067</u>
Cash Disbursements:			
Payments of contributions and assessments to Federal government	67,377,144	67,377,144	
Contributions refunded to municipalities	290,025	290,025	
Reimbursements to General Fund for administrative expenditures (Note C)	93,619		93,619
Interfund transfers (Note B)	18	18	
Total Cash Disbursements	<u>67,760,806</u>	<u>67,667,187</u>	<u>93,619</u>
Cash in custody of State Treasurer, June 30, 1982, per Statement 6	\$ <u>1,398,978</u>	\$ <u>1,337,530</u>	\$ <u>61,448</u>

NOTE A:

Two transfers were from the Social Security Employer Contributions account of the General Fund to cover several interest assessments made by the Federal government because of late contribution filings in the 1980-1981 fiscal year. It was determined that the liability for these assessments rested with the State because these contributions had not been forwarded in a timely manner. (Also see Note C of Statement 6.)

NOTE B:

Three interfund transfers totalling \$18 were made from the Contribution Fund to the Administration Fund to correct errors in deposits made in the 1980-1981 fiscal year.

STATE COMPTROLLER - RETIREMENT DIVISION  
MUNICIPAL EMPLOYEES' SOCIAL SECURITY FUNDS  
CASH RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

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NOTE C:

Actual administrative expenses were as follows:

	\$	
Personal services		69,892
Fringe benefits		23,903
Contractual services		8,809
Supplies and equipment		982
Total		<u>\$103,586</u>

A reconciliation between the actual and reimbursed expenditures is as follows:

	\$	
Total reimbursed, above		93,619
Amount due for June 30, 1982, quarter, reimbursed in 1982- 1983		<u>24,881</u>
Total		118,500
Less - Amount due for June 30, 1981, reimbursed in 1981-1982		<u>14,914</u>
Total Actual Expenditures, above		<u>\$103,586</u>

STATE COMPTROLLER - RETIREMENT DIVISION  
POLICEMEN AND FIREMEN SURVIVORS' BENEFIT FUND  
BALANCE SHEET  
AS OF JUNE 30, 1982

	\$
Assets	
Cash in custody of State Treasurer	10,972
Contributions receivable from municipalities	<u>12,014</u>
Total Assets	<u>\$22,986</u>
Liabilities	
Premiums payable to insuring company	<u>22,986</u>
Total Liabilities	<u>\$22,986</u>

## NOTE A:

In lieu of providing benefit payments from the Policemen and Firemen Survivors' Benefit Fund, the State Retirement Commission, in accordance with Section 7-323f of the General Statutes, negotiated with a local insurance company for a group annuity contract to provide the survivor benefit coverage. An actuarial valuation of the insurance company plan performed as of July 1, 1982, estimated the reserve for future benefit payments to total \$3,690,780 as of June 30, 1982.

## NOTE B:

In accordance with subsection (d) of Section 7-323c of the General Statutes, each participating municipality is supposed to pay a proportionate share of the administrative costs associated with this fund. For the 1981-1982 fiscal year the Retirement Commission assessed each with an administrative charge of \$20 per member. Assessments totalling \$12,420 were collected and deposited to the Municipal Retirement System Administration Fund, from which this fund's expenses are paid.

STATE COMPTROLLER - RETIREMENT DIVISION  
POLICEMEN AND FIREMEN SURVIVORS' BENEFIT FUND  
CASH RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	\$	\$
Cash in custody of State Treasurer, June 30, 1981, per previous audit report		-0-
Receipts:		
For employees' and towns' share of costs		
Derby	12,036	
Manchester	43,272	
Milford	123,849	
New London	76,356	
Seymour	8,305	
Total Receipts		<u>263,818</u>
Total		<u>263,818</u>
Disbursements:		
Payments made to insurance company for monthly premiums	<u>252,846</u>	
Total Disbursements		<u>252,846</u>
Cash in custody of State Treasurer, June 30, 1982		<u>\$ 10,972</u>