

**STATE OF WEST VIRGINIA**

**SPECIAL REPORT  
OF**

***CONSOLIDATED PUBLIC RETIREMENT BOARD  
WEST VIRGINIA TEACHERS RETIREMENT SYSTEM  
DEFINED BENEFIT PLAN***

**FOR THE PERIOD**

**JULY 1, 1991 - DECEMBER 31, 1996**



**OFFICE OF THE LEGISLATIVE AUDITOR**

**CAPITOL BUILDING**

**CHARLESTON, WEST VIRGINIA 25305-0610**

**SPECIAL REPORT**

**CONSOLIDATED PUBLIC RETIREMENT BOARD**

**WEST VIRGINIA TEACHERS RETIREMENT SYSTEM**

**DEFINED BENEFIT PLAN**

**FOR THE PERIOD**

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**CONSOLIDATED PUBLIC RETIREMENT BOARD**  
**WEST VIRGINIA TEACHERS RETIREMENT SYSTEM**

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**CONSOLIDATED PUBLIC RETIREMENT BOARD**  
**WEST VIRGINIA TEACHERS RETIREMENT SYSTEM**  
**EXIT CONFERENCE**

We held an exit conference on December 8, 1998 with the Executive Secretary of the Consolidated Public Retirement Board and all findings contained within the Special Report on the Teachers Retirement System were reviewed and discussed. The above official did not respond in writing to our findings.

WEST VIRGINIA LEGISLATURE  
*Joint Committee on Government and Finance*

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CHARLESTON, WEST VIRGINIA 25305-0610

To the Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the accounts of the West Virginia Teachers Retirement System as administered by the Consolidated Public Retirement Board.

Our examination covers the period July 1, 1991 through December 31, 1996. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

*Theodore L. Shanklin*  
Theodore L. Shanklin, CPA, Director  
Legislative Post Audit Division

TLS/ela

April 30, 1998

Auditors: Michael A. House, CPA, Supervisor  
Neil M. McEachron, Jr., CPA, Auditor-in-charge  
Peter J. Maruish, Jr., CPA  
Melanie L. Lester

**CONSOLIDATED PUBLIC RETIREMENT BOARD**  
**WEST VIRGINIA TEACHERS RETIREMENT SYSTEM**

**INTRODUCTION**

**Consolidated Public Retirement Board**

Effective July 1, 1991, Chapter 5, Article 10D of the West Virginia Code created the Consolidated Public Retirement Board (CPRB). The Board's duties are to administer all State Retirement Systems. It shall have all the powers, duties, responsibilities and liabilities of the Public Employees Retirement System (PERS); the Teachers Retirement System (TRS); the Teachers' Defined Contribution Retirement System (TDCRS); the Death, Disability and Retirement System (Plan A) of the Department of Public Safety; and the Judges' Retirement System (JRS). On March 12, 1994, the Board also began administering the West Virginia State Police Retirement System (Plan B).

The Board consists of 13 members as follows: the Governor; State Treasurer; State Auditor; Secretary of the Department of Administration; four residents of the State who are not members, retirants or beneficiaries of any of the retirement systems; a member, annuitant or retirant of the Public Employees Retirement System who is or was a State employee; a member, annuitant or retirant of the Public Employees Retirement System who is not or was not a State employee; a member, annuitant or retirant

of the Teachers Retirement System; a member, annuitant or retirant of the Department of Public Safety Death, Disability and Retirement System; and, a member, annuitant or retirant of the Teachers' Defined Contribution Retirement System.

The Board shall elect from its own number a Chairman and Vice Chairman. The Board shall appoint an Executive Secretary who shall be the chief administrative officer of all the systems. The Executive Secretary shall, with Board approval, employ such employees as are required for the proper operation of the systems. Also, the Board is empowered to employ a state retirement actuary or actuarial firm.

The Board shall meet at least once every three months and five voting trustees constitute a quorum. All Board meetings shall be public. Members shall serve without compensation for their services, provided that each member shall be reimbursed, upon Board approval, for any necessary expenses incurred by them in carrying out their duties. No public employee member may suffer any loss of salary or wages on account of their service as a trustee.

#### **West Virginia Teachers Retirement System**

The West Virginia Teachers Retirement System was created by an Act of the 1941 Legislature for the purpose of providing retirement allowances for the public school teachers of West Virginia. In addition to providing retirement benefits for regular retirants, TRS makes provision for members who suffer total and

permanent disability, provides certain survivor benefits to the beneficiaries of deceased members and allows members to borrow against their accumulated contributions. Currently, members of TRS contribute 6.0% of their gross wages whereas the percentage of employees' gross salaries participating employers must match has increased incrementally since July 1, 1994 in accordance with the following table:

<u>Fiscal Year</u>	<u>Employers' Contribution Rate</u>
1995	7.5%
1996	9.0%
1997	10.5%
1998	12.0%
1999	13.5%
2000	15.0%

Starting with fiscal year 2000 and thereafter, participating employers will be required to contribute 15.0% of employees' gross salaries.

To qualify for full retirement benefits, a member must be 60 years old, currently employed by a participating employer, and have at least five years of contributing service. An individual with at least five years but fewer than 20 years of credited service who terminates employment prior to retirement will be eligible for full retirement benefits at age 62. However, if a member has 20 years of total service but is unemployed upon



reaching retirement age (60), then the member is still eligible to receive full retirement benefits without having to wait until age 62. Finally, a member may also retire with full benefits at age 55 with at least 30 years of credited service or at any age with at least 35 years of credited service. TRS has five retirement options as follows:

Option A

Option A provides the maximum monthly benefit to the member. This option entitles the member to monthly payments during his or her lifetime and will cease at the member's death. The member's beneficiary will be entitled to receive the last monthly check due the member only in the event the check was not received and not presented for payment prior to the member's death.

Option B

Option B provides a monthly payment to the member during his or her lifetime. However, if the member dies before he has received total benefit payments equal to his own contributions, with interest, the difference is paid in a lump sum to the member's beneficiary. If such total benefit payments exceed the amount of the member's contributions and interest, then no payment will be due the beneficiary.

Option C

Option C is a 100% joint and survivor annuity which provides a monthly payment to the member during his or her lifetime and will continue to pay the member's beneficiary the same amount for his or her life after the member's death.

Option D

Option D is a 50% joint and survivor annuity which provides a monthly payment to the member during his or her lifetime and will continue to pay the member's beneficiary one-half of this monthly payment for his or her life after the member's death.

Option E

Option E provides a monthly payment to the member during his or her lifetime. However, if the member dies before receiving 120 monthly payments, then the balance of these payments will continue being paid to the member's beneficiary.

CONSOLIDATED PUBLIC RETIREMENT BOARD

WEST VIRGINIA TEACHERS RETIREMENT SYSTEM

CONSOLIDATED PUBLIC RETIREMENT BOARD MEMBERS AND STAFF

AS OF DECEMBER 31, 1996

Governor Gaston Caperton . . . . . Ex Officio

Chuck Polan, Secretary of Department  
of Administration . . . . . Chairman - Ex Officio

Glen B. Gainer, III, State Auditor . . . . . Vice Chairman - Ex Officio

Larrie Bailey, Treasurer . . . . . Ex Officio

William McGinley . . . . . State Resident

Janet Wilson . . . . . State Resident

David Wyant . . . . . State Resident

Roger Rumbaugh . . . . . State Resident

James P. Quarles . . . . . State Employee Member  
Public Employees Retirement System

Elizabeth Poundstone . . . . . Non-State Employee Member  
Public Employees Retirement System

Tony Lautar, Jr. . . . . Teachers Retirement System Member

Loretta Elder . . . . . Teachers' Defined Contribution  
Retirement System Member

S.S. Satterfield . . . . . Department of Public Safety's Death,  
Disability and Retirement Fund Member

**STAFF**

James L. Sims . . . . . Executive Secretary  
Paula VanHorn . . . . . Administrative Assistant  
Mary Jane Arvon, Manager . . . . . Retirement Section  
Terasa Flading, Manager . . . Contribution and Withdrawal Section  
Robert Nichols, Manager . . . . . Data Processing Section  
Scott Dennison . . . . . Actuary  
Lori Cottrill . . . . . Accountant

CONSOLIDATED PUBLIC RETIREMENT BOARD

TEACHERS RETIREMENT SYSTEM

SUMMARY OF FINDINGS

No Effective System of Internal Controls

1. During our examination it became apparent to us, based on observed instances of noncompliance with the West Virginia Code, the Board did not have an effective system of internal controls in place to ensure compliance with applicable State laws. We believe the Board having an effective system of internal controls in place would make the management aware of instances of noncompliance with the West Virginia Code at an earlier date and they would be able to take corrective action in a more timely fashion.

Retirement Annuities Miscalculated

2. During the period July 1, 1995 through December 31, 1996, there were 1,517 regular retirants who began to receive a monthly pension benefit. We examined the retirement annuities of 79 of these retirants. Our examination revealed approximately 8.86% of the annuities tested were not prepared in accordance with the West Virginia Code, as amended, and applicable rules and regulations. Of the 79 retirement annuities tested, two annuities (2.53%) were understated and five annuities (6.33%) were overstated. Projecting these

sample results over the population of 1,517 retirants, we estimated the retirement annuities of 38 retirants were understated whereas the retirement annuities of 96 retirants were overstated. We further estimated the dollar impact on these retirants over the aforementioned period was as follows: 38 retirants were underpaid total pension benefits amounting to \$3,250 and 96 retirants were overpaid total pension benefits amounting to \$3,000.

**Reinstatement of Withdrawn Service**

3. We examined 28 of 389 transactions processed by the Board during the period July 1, 1994 through June 30, 1996 involving reinstatements of withdrawn service. The service reinstated by four of these members was either understated or overstated. These errors impacted the final annuity calculation of three of these members who had subsequently retired. From the effective date of their retirement through April 30, 1998, two members were underpaid pension benefits amounting to \$2,770.69 and one was overpaid \$48.00. In addition, of those tested the Board understated one member's repayment cost to reinstate their withdrawn service by \$758.66 while the repayment cost for two members was overstated by a total of \$134.85.

#### Purchase of Past Service

4. We examined 27 of 235 transactions processed by the Board during the period July 1, 1994 through June 30, 1996 involving purchases of past service. The Board miscalculated the amount of PERS service transferred to TRS by one member as well as understating the amount of additional contributions by \$384.24 which should have been paid by the member to transfer that former PERS service to TRS. We also noted the Board understated the repayment cost for three members who purchased out-of-state service by a total of \$448.35. In addition, when we reviewed those members selected who paid additional contributions to transfer their service in the TDCRS over to TRS, we noted the Board overstated the amount of service transferred to TRS for four members.

#### Refund of Accumulated Contributions

5. Of the 59 refund transactions selected for testing, seven refunds were issued to the designated beneficiaries of deceased active members. We noted the Board paid these seven refund recipients \$113,013.39 representing accrued interest and State matching funds from the wrong fund.

#### Remittance of Employee and Employer Contributions

6. During our examination of employee and employer contributions, we noted one employer had failed to remit the appropriate amount of employee contributions to the Board for fiscal year

1997. This employer underpaid the Board by \$7,226.40. We also noted three instances where retirement contributions were misclassified by the employer when initially remitted to the Board. Correcting information was subsequently sent to the Board by each employer, but the Board did not make the necessary adjustments. Thus, \$97,162.18 of employer contributions collected from one employer during fiscal year 1997 remained in the Teachers Accumulation Fund instead of being transferred to the Employers Accumulation Fund and \$317.56 of employee contributions collected from two employers remained in the Employers Accumulation Fund instead of being transferred to the Teachers Accumulation Fund. Finally, we noted the Board had erroneously issued a refund of \$151.32 from the Employers Accumulation Fund to a participating employer for an overpayment of employee contributions during fiscal year 1997.

#### Loans

7. During the period July 1, 1995 through December 31, 1996, the Board processed 4,275 loan transactions where TRS members either took out a new loan or restructured an existing loan by borrowing an additional amount of principal. We examined 53 of these transactions. Our examination revealed the following items: interest proceeds amounting to \$18,579.40 were not transferred from the Teachers Accumulation Fund to the Reserve



Fund; one member paid the Board \$245.98 too much to pay off an outstanding loan; and one member's employer was not deducting the proper loan payment amount from the member's monthly gross salary in accordance with the signed loan agreement. We also noted from our examination of retirement annuities the Board had withheld \$30.92 too much from one disability retirant's monthly checks which were being applied towards the repayment of an outstanding loan taken out by the retirant prior to retiring.

#### Disability Retirants

8. There is no system in place which requires disability retirants to undergo an annual examination by a physician or physicians selected by the Board for purposes of determining whether such retirants still qualify for disability retirement.

#### Retention of Records

9. We were unable to examine the remittance of employee contributions prior to fiscal year 1997 because the Board could not provide those records. We were also unable to trace several transactions involving either the reinstatement of withdrawn service or purchase of past service to the Board's deposit records because the Board could not locate these records.

**CONSOLIDATED PUBLIC RETIREMENT BOARD**  
**WEST VIRGINIA TEACHERS RETIREMENT SYSTEM**

**GENERAL REMARKS**

**INTRODUCTION**

We have completed an examination of the West Virginia Teachers Retirement System. The examination covered the period July 1, 1991 through December 31, 1996.

**COMPLIANCE MATTERS**

Chapter 18, Article 7A of the West Virginia Code, as amended, generally governs the West Virginia Teachers Retirement System. We tested applicable sections of the above plus other applicable chapters, articles, and sections of the West Virginia Code as they pertain to the findings listed below.

**No Effective System of Internal Controls**

During our examination it became apparent to us, based on observed instances of noncompliance with the West Virginia Code, the Board did not have an effective system of internal controls in place to ensure compliance with applicable State laws.

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code states in part:

"The head of each agency shall:...(b) Make and maintain records containing adequate and proper documentation of the organization functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal

and financial rights of the state and of persons directly affected by the agency's activities...."

This law requires the agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the agency operates in compliance with the laws, rules and regulations which govern it.

During our examination of the Teachers Retirement System we noted the following instances of noncompliance with the West Virginia Code: **(1)** During the period July 1, 1995 through December 31, 1996, there were 1,517 regular retirants who began receiving a monthly pension benefit. We examined the retirement annuities of 79 of these retirants. Of the 79 retirement annuities tested, two annuities (2.53%) were understated and five annuities (6.33%) were overstated. Projecting these sample results over the population of 1,517 retirants, we estimated the retirement annuities of 38 retirants were understated whereas the retirement annuities of 96 retirants were overstated. We further estimated the dollar impact on these retirants over the aforementioned time period was as follows: 38 retirants were underpaid total pension benefits amounting to \$3,250 and 96 retirants were overpaid total pension benefits amounting to \$3,000 from July 1, 1995 through December 31, 1996. **(2)** We examined 28 of 389 transactions processed by the Board during the period July 1, 1994 through June 30, 1996 involving reinstatements of withdrawn service. The service reinstated by four of these members was either understated or

overstated. These errors also impacted the final annuity calculation of three of these members who had subsequently retired. From the effective date of their retirement through April 30, 1998, two members were underpaid pension benefits amounting to \$2,770.69 and one was overpaid \$48.00. In addition, of those tested the Board understated one member's repayment cost to reinstate their withdrawn service by \$758.66 while the repayment cost for two members was overstated by \$134.85. (3) We examined 27 of 235 transactions processed by the Board during the period July 1, 1994 through June 30, 1996 involving purchases of past service. The Board miscalculated the amount of PERS service transferred to TRS by one member as well as understating by \$384.24 the amount of additional contributions which should have been paid by the member to transfer that former PERS service to TRS. We also noted the Board understated the repayment cost for three members who purchased out-of-state service by a total of \$448.35. In addition, five of our sample of 28 paid additional contributions to transfer their service in the TDCRS over to TRS. We noted the Board overstated the amount of service transferred to TRS for four of those members. (4) Of the 59 refund transactions selected for testing, seven refunds were issued to the designated beneficiaries of deceased active members. We noted the Board paid these seven refund recipients \$113,013.39 representing accrued interest and State matching funds from the wrong fund. (5) During our

examination of employee and employer contributions, we noted one employer had failed to remit the appropriate amount of employee contributions to the Board for fiscal year 1997. This employer underpaid the Board by \$7,226.40. We also noted three instances where retirement contributions were misclassified by the employer when initially remitted to the Board. Correcting information was subsequently sent to the Board by each employer, but the Board did not make the necessary adjustments. Thus, \$97,162.18 of employer contributions collected from one employer during fiscal year 1997 remained in the Teachers Accumulation Fund instead of being transferred to the Employers Accumulation Fund and \$317.56 of employee contributions collected from two employers remained in the Employers Accumulation Fund instead of being transferred to the Teachers Accumulation Fund. Finally, we noted the Board had erroneously issued a refund of \$151.32 from the Employers Accumulation Fund to a participating employer for an overpayment of employee contributions during fiscal year 1997. (6) During the period July 1, 1995 through December 31, 1996, the Board processed 4,275 loan transactions where TRS members either took out a new loan or restructured an existing loan by borrowing an additional amount of principal. We examined 53 of these transactions. Our examination revealed the following items: interest proceeds amounting to \$18,579.40 were not transferred from the Teachers Accumulation Fund to the Reserve Fund; one member paid the Board

\$245.98 too much to pay off an outstanding loan; and one member's employer was not deducting the proper loan payment amount from the member's monthly gross salary in accordance with the signed loan agreement. We also noted from our examination of retirement annuities the Board had withheld a total of \$30.92 too much from one disability retirant's monthly checks which were being applied towards the repayment of an outstanding loan taken out by the retirant prior to retiring. (7) There is no system in place which requires disability retirants to undergo an annual examination by a physician or physicians selected by the Board for purposes of determining whether such retirants still qualify for disability retirement. (8) We were unable to examine the remittance of employee contributions prior to fiscal year 1997 because the Board could not provide those records. We were also unable to trace several transactions involving either the reinstatement of withdrawn service or purchase of past service to the Board's deposit records because the Board could not locate those records.

We believe the Board having an effective system of internal controls in place would make the management aware of noncompliance with State law at an earlier date and they would be able to take corrective action in a more timely fashion. The following pages of this report contain additional information regarding specific instances of noncompliance with State law which came to our attention.

**Retirement Annuities Miscalculated**

During the time period July 1, 1995 through December 31, 1996, there were 1,517 regular retirants who began receiving a monthly pension benefit. We examined the retirement annuities of 79 of these retirants. Our examination revealed approximately 8.86% of the annuities tested were not prepared in accordance with the West Virginia Code, as amended, and applicable rules and regulations. The following table reflects the results of our sample as projected over the entire population:

<u>Remarks</u>	<u>Percent</u>	<u>Number of Annuitants Affected</u>	
		<u>Sample</u>	<u>Population</u>
In Compliance	91.14%	72	1,383
Annuities Understated	2.53%	2	38
Annuities Overstated	<u>6.33%</u>	<u>5</u>	<u>96</u>
Total	<u>100.00%</u>	<u>79</u>	<u>1,517</u>

As the above table indicates, 8.86% of the retirement annuities paid to the population of 1,517 retirants were either understated or overstated. Using the 2.53% error rate, we estimated the monthly annuities of 38 annuitants in the population were understated. For these 38 annuitants, we further determined their average monthly annuity of \$712 was understated by approximately \$15 per month. Using the 6.33% error rate, we

estimated the annuities of 96 annuitants were overstated. For these 96 annuitants, we further determined their average monthly annuity of \$1,257 was overstated by approximately \$4 per month. The following table depicts the dollar impact of these errors on both the sample and population through December 31, 1996:

<u>Remarks</u>	<u>DOLLAR IMPACT ON SAMPLE</u>		<u>DOLLAR IMPACT ON POPULATION</u>	
	<u>Total Pension Benefits Paid During Period</u>	<u>Actual Pension Benefits (Underpaid)/ Overpaid</u>	<u>Total Pension Benefits Paid During Period</u>	<u>Projected Pension Benefits (Underpaid)/ Overpaid</u>
In Compliance	\$ 931,200	N/A	\$16,687,000	N/A
Understatements	9,250	(\$182)	166,000	(\$3,250)
Overstatements	<u>62,850</u>	\$169	<u>1,126,000</u>	\$3,000
Total	<u>\$1,003,300</u>		<u>\$17,979,000</u>	

Generally, the types of errors noted included miscalculations of a member's final average salary or years of total service credit. These miscalculated annuities did not comply with Chapter 18, Article 7A, Section 26 of the West Virginia Code, as amended, which states in part,

"...Upon establishment of eligibility for a retirement allowance, a member shall be granted an annuity which shall be the sum of the following:

(a) Two percent of the member's average salary multiplied by his total service credit as a teacher. In this paragraph "average salary" shall mean the average of the highest annual salaries received by the member during any five years contained within his last fifteen years of total service credit...."



In addition to miscalculations of final average salary and total service credit, we also noted one retirant's monthly annuity was understated because the wrong option factor amount was utilized in the determination of the retirant's option D annuity. To determine the final annuity amount for a retirant who elected to receive an option D annuity rather than a straight life annuity, option factor (actuarial) tables are utilized in the computation of the retirant's final annuity. These tables are based on the ages of both the retirant and beneficiary. Our examination indicated the wrong age had been used for the retirant which impacted the calculation of the retirant's monthly annuity.

When we spoke with the Manager of the Retirement Section about the large number of errors noted, we learned the retirement section experienced several changes in personnel during the first several months of 1996. She stated her department was severely understaffed at the retirement advisor position during this time. Retirement advisors are responsible for preparing a retirant's final annuity calculation. She further stated that to fill these vacant retirement advisor positions, other employees within her department were transferred from other positions and reassigned as retirement advisors to help process retirement annuities. Being new to these positions, these employees were not fully trained in their new job duties before they began processing retirement annuities. The unfamiliarity of these employees with the

applicable laws, rules and regulations necessary to prepare a retirant's final annuity calculation contributed to the occurrence of many of these errors.

Reinstatement of Withdrawn Service

During the period July 1, 1994 through June 30, 1996, the Board processed 389 transactions involving reinstatements of withdrawn service. We examined 28 of these transactions. TRS members seeking to reinstate withdrawn service must do so in accordance with Chapter 18, Article 7A, Section 13 of the WV Code, as amended, which states in part:

"...Any former member of the retirement system who has withdrawn accumulated contributions but subsequently reenters the retirement system shall be permitted to repay to the retirement fund the amount withdrawn, plus interest at a rate of six percent, compounded annually from the date of withdrawal to the date of repayment: Provided, That no such repayment may be made until the former member has completed two years of contributory service after reentry; and such member shall be accorded all the rights to prior service and experience as were held at the time of withdrawal of such accumulated contributions...."

Of the 28 reinstatement transactions examined, we noted four instances where the amount of reinstated service posted to a member's contribution history (profile) was either understated or overstated. The following table provides detailed information on each occurrence of misstated service:

<u>Member</u>	<u>Actual Amount of Service Reinstated</u>	<u>Recalculated Amount of Withdrawn Service</u>	<u>Amount (Understated) / Overstated</u>
1	4.313	4.563	(0.250)
2	1.091	0.977	0.114
3	5.439	7.563	(2.124)
4	5.222	5.167	0.055

These four (4) errors were the result of clerical errors made by agency personnel during the process of determining the appropriate amount of service to credit each member.

Concerning the four (4) members reflected in the table above, we also noted the first three (3) members retired shortly after reinstating their withdrawn service. Thus, these errors impacted their final annuity calculation as illustrated by the following table:

<u>Member</u>	<u>Date Retired</u>	<u>Actual Monthly Gross Annuity</u>	<u>Recalculated Gross Annuity</u>	<u>Difference</u>	<u>Amount (Underpaid) /Overpaid thru 04/30/98</u>
1	04/01/95	\$1,349.60	\$1,360.77	(\$ 11.17)	(\$ 413.29)
2	07/01/97	\$ 633.91	\$ 629.11	\$ 4.80	\$ 48.00
3	09/01/96	\$2,512.20	\$2,630.07	(\$117.87)	(\$2,357.40)

Because of these errors, two members were underpaid a total amount of \$2,770.69 after retiring while the other member was overpaid by \$48.00 before the appropriate corrections were made by the Board in April 1998.

As part of our examination, we recalculated the repayment cost paid by each member to reinstate their withdrawn service. Our examination revealed one member had underpaid the Board by \$758.66 to reinstate their withdrawn service while three members overpaid by a total of \$134.85. For two of the members whose repayment cost was miscalculated, we also noted the incorrect amount of contributions was posted to each member's profile. One member's contributions were understated by \$140.03 while the other member's contributions were overstated by \$20.07.

When we spoke with agency personnel, we learned calculations of service credit and repayment costs related to transactions involving the reinstatement of withdrawn service are not rechecked for accuracy on a consistent basis. We believe the errors noted during our examination resulted from the Board not having sufficient procedures in place to detect these errors. As noted earlier, some of these errors resulted in members who retired subsequent to reinstating withdrawn service having their final annuity miscalculated.

#### Purchase of Past Service

During the period July 1, 1994 through June 30, 1996, the Board processed 235 transactions involving the purchase of past service by TRS members. We examined 27 of these transactions. Chapter 18, Article 7A, Section 17 of the West Virginia Code allows members of TRS to purchase the following types of service: out-of-

state service, service attained while serving as a member of the Legislature and service with a parochial school accredited by the West Virginia Department of Education. This Code section also allows members who were former contributing members of PERS to transfer their PERS service to TRS. In addition to this Code Section, Chapter 18, Article 7B, Section 7 of the West Virginia Code was amended in 1995 to allow for a limited time, former members of the Teachers Defined Benefit (DB) Plan who were currently contributing in the Teachers Defined Contribution (DC) Plan to reenter the DB Plan provided certain conditions were met.

The repayment cost a member must pay to the Board to purchase out-of-state service is calculated in accordance with Chapter 18, Article 7A, Section 17 of the West Virginia Code, as amended, which states in part:

"...For service as a teacher in the employment of the federal government, or a state or territory of the United States, or a governmental subdivision of such state or territory, the retirement board shall grant service credit to the member: Provided, That the member shall pay to the system double the amount he contributed during the first full year of current employment, times the number of years for which credit is granted, plus interest at a rate to be determined by the retirement board. Such interest shall be deposited in the reserve fund and service credit so granted at the time of retirement shall not exceed the lesser of ten years or fifty percent of the member's total service as a teacher in West Virginia...."

Of the six members included in our sample who purchased out-of-state service, we noted three of these members underpaid the Board by a total amount of \$448.35 for their service as a result of agency personnel miscalculating their repayment cost. We also noted the Board understated the amount of reinstated contributions posted to each member's profile by a combined total of \$110.63.

For a member to be eligible to transfer or reinstate withdrawn PERS service to TRS, he or she must comply with the requirements set forth in Chapter 18, Article 7A, Section 17 of the West Virginia Code, as amended, which states in part:

"...The teachers retirement board shall grant service credit to any former or present member of the West Virginia public employees retirement system who has been a contributing member for more than three years, for service previously credited by the public employees retirement system, and (1) shall require the transfer of the member's contributions to the teachers retirement system or (2) shall require a repayment of the amount withdrawn any time prior to the member's retirement: Provided, That there shall be added by the member to the amounts transferred or repaid under this paragraph an amount which shall be sufficient to equal the contributions he would have made had the member been under the teachers retirement system during the period of his membership in the public employees retirement system plus interest at a rate of six percent compounded annually from the date of withdrawal to the date of payment. The interest paid shall be deposited in the reserve fund...."

Of the five members included in our sample who transferred PERS service to TRS, we noted one member underpaid the Board by \$384.24 as a result of agency personnel miscalculating his repayment cost. In addition, the Board misstated both the amounts of purchased service and contributions posted to this member's profile. The Board understated his purchased service credit by 0.18 years and related contributions by \$89.53.

During the 1995 regular session of the Legislature, House Bill 2600 was passed to amend Chapter 18, Article 7B, Section 7 of the West Virginia Code to allow former members of the DB Plan who were currently contributing in the DC Plan to reenter the DB Plan provided certain conditions were met. Chapter 18, Article 7B, Section 7 of the West Virginia Code, as amended, states in part:

"...Any employee reemployed with an employer on or after the first day of July, one thousand nine hundred ninety-one, who had five or more years credited service in the teachers' defined benefit retirement system may elect readmission to the teachers' defined benefit retirement system in which he or she was originally a member. Any employee reemployed between the first day of July, one thousand nine hundred ninety-one, and the first day of July, one thousand nine hundred ninety-five, and who was required to participate in the teachers' defined contribution system but now elects, pursuant to the provisions of this section, readmission to the teachers' defined benefit retirement system shall pay an additional contribution to the teachers' defined benefit retirement system equal to one and one-half percent of his or her annual gross compensation earned for each year he or she participated in the teachers' defined contribution system and

shall transfer all member and employer contributions and investment earnings therefrom from the teacher defined contribution system to the teachers' defined benefit system and shall receive service credit for the time the member participated in the defined contribution system as if that participation had been in the teachers' defined benefit retirement system. Any member making an election under the provisions of this section to reenter the teachers' defined benefit retirement system who is currently a member of the defined contribution retirement system must do so on or before the first day of January, one thousand nine hundred ninety-six...."

Of the five members included in our sample who transferred their membership from the DC Plan to the DB Plan under the authority of this Code section, we noted the amount of service credit posted to the profile of four of these members was overstated by the Board. The following table depicts the amount of service credit overstated on each member's profile:

<u>Member</u>	<u>Amount of Service Posted for 95-96 School Year</u>	<u>Recalculated Amount of Service Credit for 95-96 School Year</u>	<u>Difference</u>
1	1.483	1.000	0.483
2	1.161	1.000	0.161
3	1.444	1.000	0.444
4	1.273	1.000	0.273



This overstatement of service credit due to posting errors does not comply with Title 162, Series 4, Section 5.5 of the Legislative Rule promulgated by the Board for the DB Plan which states in part:

"Maximum yearly service credit.--Under no circumstances shall a member of the system receive more than one year of service credit for any one fiscal year...."

Agency personnel told us calculations of service credit and repayment costs related to transactions involving the purchase of past service are not rechecked for accuracy on a consistent basis. We believe the errors noted during our examination occurred as a result of the Board not having adequate procedures in place to detect these errors.

#### Refund of Accumulated Contributions

During the period July 1, 1995 through December 31, 1996, the Board processed 1,233 refund transactions. Of the 59 refund transactions selected for testing, seven of these refunds were issued to the designated beneficiaries of deceased active members. Chapter 18, Article 7A, Section 23 of the West Virginia Code, as amended, states in part:

"...Benefits upon the death of a contributor prior to retirement under the provisions of this article shall be paid as follows:

(1) If the contributor was at least fifty years old, and if his total service as a teacher was at least twenty-five years at the time of his death, then the surviving spouse of the deceased, provided said spouse is designated as the sole refund beneficiary,

shall be eligible for an annuity which shall be computed as though the deceased were actually a retired teacher at the time of death, and had selected a survivorship option which pays such spouse the same monthly amount which would have been received by the deceased; or

(2) If the facts do not permit payment under the preceding paragraph(1), then **the following sum shall be paid to the refund beneficiary of the contributor: His accumulated contributions with refund interest up to the year of his death plus the amount of his accumulated contributions. The latter sum shall emanate from the employer's accumulation fund.** [Emphasis added].

As this Code section indicates, a refund paid to the beneficiary of a deceased member will consist of the following three amounts: the deceased member's accumulated contributions, any refund interest accrued on the deceased member's accumulated contributions, and State matching funds equaling the amount of the deceased member's accumulated contributions. The payment of interest earnings is addressed by Chapter 18, Article 7A, Section 18(d) of the West Virginia Code, as amended, which states in part:

"(d)...The retirement board shall allow interest on the contributions in the teachers accumulation fund. **Such interest shall be paid from the reserve fund....**" [Emphasis added].

The accumulated contributions of a deceased member are paid from the Teachers Accumulation Fund; State matching funds are paid from the Employers Accumulation Fund and any interest earnings are paid from the Reserve Fund. However, we noted interest

earnings and State matching funds paid to the seven beneficiaries were erroneously paid from the wrong fund. A total of \$21,342.22 in interest earnings was paid to these seven beneficiaries from the Teachers Accumulation Fund instead of the Reserve Fund, while \$91,671.17 in State matching funds was paid from the Teachers Accumulation Fund instead of the Employers Accumulation Fund. The remaining 52 transactions involving refunds were issued to withdrawing members and interest earnings were paid from the Reserve Fund in all instances.

When processing a refund transaction involving the beneficiary of a deceased member, the Board's practice is to pay the entire refund including interest earnings and State matching funds from the Teachers Accumulation Fund. However, we believe this practice is not in compliance with the aforementioned Code sections. Paying State matching funds and interest earnings out of the Teachers Accumulation Fund to the beneficiaries of deceased active members results in less monies available for members to borrow from the Teachers Accumulation Fund, as well as, an overstated amount of monies in both the Employers Accumulation Fund and Reserve Fund.

**Remittance of Employee and Employer Contributions**

Chapter 18, Article 7A, Section 15 of the West Virginia Code, as amended, states in part:

"Each employer shall each month deduct six percent from the salary of each employee who is a member of the retirement system, in an

amount not to exceed the amount named in section fourteen [§ 18-7A-14] of this article, and shall at the end of each month remit to the retirement board the amounts so deducted...At such times as the retirement board may deem advisable each employer shall report to the retirement board the total amount so deducted from the salary of each employee...Each employer shall be held accountable for the sum composing the contributions made by its member employees...."

Of the 17 employers tested, we noted one employer failed to remit the appropriate amount of employee contributions for fiscal year 1997. We also noted this shortage was not detected by the Board's staff.

Each participating employer is required to submit an "Employee Distribution" (ED) Report to the Board at the end of each fiscal year. This report summarizes the total amount of retirement contributions withheld from each employee's gross salary during the fiscal year as well as the amount of service performed by each employee on behalf of the participating employer. The Board utilizes these ED Reports to reconcile the amount of employee contributions reflected on the ED Report against the actual amount of employee contributions remitted by each employer during the respective fiscal year. This process is done to ensure each participating employer has remitted the appropriate amount of employee contributions.

Upon comparing the total amount of employee contributions reflected on the employer's ED Report and the actual amount of employee contributions remitted as shown on the monthly

contribution reports, we noted this employer had underpaid the Board employee contributions amounting to \$7,226.40. In talking with agency personnel, we learned this shortage was simply overlooked during the reconciliation process involving all participating employers.

During our examination we also noted three instances where retirement contributions initially reported to the Board as either employee or employer contributions were subsequently reclassified. However, the Board did not transfer these monies to the appropriate funds once reclassified. Thus, \$97,162.18 of employer contributions collected from one employer during fiscal year 1997 remained in the Teachers Accumulation Fund instead of being transferred to the Employers Accumulation Fund. In addition, \$317.56 of employee contributions collected from two employers remained in the Employers Accumulation Fund instead of being transferred to the Teachers Accumulation Fund.

Employee contributions received by the Board are to be accounted for in accordance with Chapter 18, Article 7A, Section 14 of the West Virginia Code, as amended, which states in part:

**"At the end of each month every member of the retirement system shall contribute six percent of that member's monthly earnable compensation to the retirement board.... Annually, the contributions of each member shall be credited to the member's account in the teachers accumulation fund...." [Emphasis added].**

Employer contributions are to be accounted for in accordance with Chapter 18, Article 7A, Section 18(b) of the West Virginia Code, as amended, which states in part:

"(b) Beginning on the first day of July, one thousand nine hundred eighty-four, **contributions of employers, shall be deposited in the employers accumulation fund....**"  
[Emphasis added].

In addition to the aforementioned deposit errors discovered during our examination, we also noted one instance where the Board erroneously issued a refund of \$151.32 due an employer for overpayment of employee contributions from the Employers Accumulation Fund instead of the Teachers Accumulation Fund and two instances of posting errors made to the Board's accounting records concerning the remittance of employee contributions.

When monies are deposited to or refunded from the incorrect fund, these monies are not being used for their intended purpose. Monies deposited to the Teachers Accumulation Fund are used for such purposes as the payment of loans granted to members and refunds issued to withdrawing members, while monies deposited to the Employers Accumulation Fund are periodically transferred to other funds to be paid out as annuity payments to retired members. We believe these errors occurred because the Board does not have adequate procedures in place to detect these types of errors.

Loans

During the period July 1, 1995 through December 31, 1996, the Board processed 4,275 loan transactions where TRS members either took out a new loan or restructured an existing loan by borrowing an additional amount of principal. We examined 53 of these transactions.

Monthly, each TRS employer will remit to the Board in accordance with Chapter 18, Article 7A, Section 34 of the West Virginia Code a lump sum payment representing loan payments withheld from the monthly gross pay of those employees with outstanding loan balances. These payments are comprised of both principal and interest. The Board deposits these monies into the Teachers Accumulation Fund upon receipt.

Chapter 18, Article 7A, Section 18(d) of the West Virginia Code, as amended, states in part:

"(d) The retirement board is hereby authorized to accept gifts and bequests. All gifts, bequests and interest earnings from investments received by the board shall be deposited in the reserve fund. Any funds that may come into possession of the retirement system in this manner or which may be transferred from the teachers accumulation fund by reason of the lack of a claimant or because of a surplus in any of the funds, or any other moneys the disposition of which is not otherwise provided for, shall be credited to the reserve fund...."

This Code section requires any surplus funds to be transferred to the Reserve Fund.

Currently, the Board's practice is to leave all loan proceeds on deposit in the Teachers Accumulation Fund. Of the 53 loan transactions examined by us, we noted the Board collected \$18,579.40 in interest from these 53 members during the period July 1, 1995 through December 31, 1996. We believe these monies should have been transferred to the Reserve Fund in accordance with the aforementioned statute since only the principal portion of employees' monthly loan payments are utilized towards the repayment of borrowed member contributions.

Loan transactions are processed in accordance with Chapter 18, Article 7A, Section 34 of the West Virginia Code, as amended, which states in part:

"A member of the retirement system upon written application may borrow from his individual account in the teachers accumulation fund, subject to these restrictions:

(1) Loans shall be made in multiples of ten dollars, the minimal loan being one hundred dollars and the maximum being eight thousand dollars except if the total amount of loaned money outstanding exceeds forty million dollars, the maximum will be three thousand dollars until the teachers retirement board determines that loans outstanding have been reduced to an extent that eight thousand dollar loans are again authorized.

(2) Loans to any one member shall not exceed one half of his contributions to his individual account in the teachers accumulation fund.

(3) Interest charged on the amount of the loan shall be six percent per annum, or a higher rate as set by the teachers retirement board. If repayable in installments, the interest shall not exceed the annual rate so



established upon the principal amount of the loan, for the entire period of the loan, and such charge shall be added to the principal amount of the loan. The minimal interest charge shall be for six months.

(4) No member shall be eligible for more than one loan in any one year.

(5) If a refund or benefit is payable to the borrower or his beneficiary before he repays the loan with interest, the balance due with interest to date shall be deducted from such benefit or refund.

(6) From his monthly salary as a teacher the member shall pay the loan and interest by deductions which will pay the loan and interest in not more than sixty nor less than six months. Upon notice of loan granted and payment due, the employer shall be responsible for making such salary deductions and reporting them to the retirement board...."

During our examination of loan transactions, we noted the Loan Department had miscalculated the payoff balance on one member's outstanding loan. Loan payments are deducted from a member's monthly salary and remitted monthly to the Board by the member's employer. This error occurred because the Loan Department was unaware of a payment deduction made by the member's employer prior to the calculation of the member's payoff balance. As a result, the member paid \$245.98 more than required to pay off the loan.

The aforementioned Code section requires the employer of any member applying for a loan to withhold each month from the member's gross salary the amount of the loan payment specified in the loan agreement (signed by the member) and remit this amount to the Board. However, we noted one occurrence where the employer of

a member with an outstanding loan balance was not deducting the proper payment amount as reflected on the loan agreement from the member's monthly gross salary. From September 1996 through June 1997, the member's employer remitted \$365.20 less than what was reflected on the member's loan agreement.

During our examination of retirement annuities, we noted one disability retirant with an outstanding loan balance at retirement had her monthly retirement checks held by the Board in accordance with the aforementioned statute until the balance was paid off. However, we noted the Board withheld more than they should to settle this retirant's loan balance as a result of the Board's staff using incorrect payment amounts in preparing an amortization schedule for the remaining balance based on the retirant's monthly retirement check amounts. Thus, the Board withheld a total of \$30.92 too much from the retirant's monthly retirement checks.

#### Disability Retirants

Chapter 18, Article 7A, Section 25 of the West Virginia Code, as amended, states in part,

"...A member shall be eligible for annuity for disability if he satisfies the conditions in both (a) and (b) as follows:

(a) His service as a teacher in West Virginia must total at least ten years, and service as a teacher must have been terminated because of disability, which disability must have caused absence from service for at least six months before his application for disability annuity is approved.

(b) An examination by a physician or physicians selected by the retirement board must show that the member is at the time mentally or physically incapacitated for service as a teacher, that for such service the disability is total and likely to be permanent, and that he should be retired in consequence thereof.

Continuance of the disability of the retired teacher shall be established by medical examination, as prescribed in the preceding paragraph, annually for five years after retirement, and thereafter at such times as the retirement board may require. Payment of the disability annuity provided in this article shall cease immediately if the retirement board finds that the disability of the retired teacher no longer exists, or if the retired teacher refuses to submit to medical examination as required by this section."

This Code section requires disability retirants to undergo an annual medical examination for the first five years of their retirement (and thereafter as the Board may require) to ensure such retirants remain eligible to receive a retirement annuity due to disability.

During the period of July 1, 1995 through December 31, 1996, there were 122 TRS members who were approved for disability retirement and subsequently began to receive a monthly pension benefit. We examined the retirement annuities of 11 of these retirants. Even though the final annuity of these 11 retirants had been properly prepared, our examination revealed no retirant had been required to undergo an annual medical examination during the time subsequent to their retirement. Our review of each retirant's

microfilm file did not provide any indication these retirants had been required to undergo an annual medical examination conducted by a physician or physicians selected by the Board. We also examined the microfilm file of three disability retirants who retired during fiscal year 1992 to determine whether these retirants had been required to undergo an annual medical examination in the years following their retirement. Once again our review did not produce any evidence that this requirement had been met.

In discussions with the Executive Secretary and other agency personnel, we learned the Board recently began sending "Recertification of Disability" Forms to all disability retirants to be completed and returned by their doctors. These forms are to be sent out annually and will serve as certification of the retirant's continued disability. However, we believe this practice does not fully comply with the aforementioned statute. Through a conversation with the Executive Secretary, we learned compliance with this statute has not been accomplished previously due to the enormous cost which would be incurred by the Board in requiring disability retirants to undergo annual medical examinations as conducted by physicians selected by the Board. However, we find no language in the West Virginia Code which would indicate that the Board would incur any additional cost.

Retention of Records

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code states in part:

"The head of each agency shall:...(b) Make and maintain records containing adequate and proper documentation of the organization functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities...."

Each participating employer is required to submit an "Employee Distribution" (ED) Report to the Board at the end of each fiscal year summarizing the total amount of retirement contributions withheld from each employee's gross salary as well as other relevant contribution data. Prior to fiscal year 1997, the Board's practice was to dispose of the ED Reports originally submitted by each employer once these reports had been reconciled against the monthly contribution reports previously submitted by each employer. Thus, we were unable to examine the remittance of employee contributions prior to fiscal year 1997 because records were not available for our review.

We were also unable to trace several transactions involving either the reinstatement of withdrawn service or purchase of past service to the Board's deposit records. We requested the Board provide us with the deposit records for fiscal year 1995. However, the Board was only able to locate a portion of these

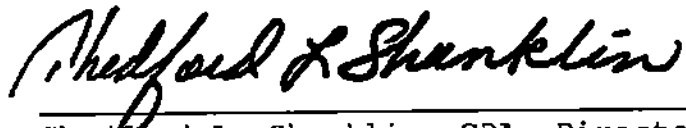
records. Thus, we were prevented from determining whether \$58,020.58 of cash receipts generated from 22 transactions involving the reinstatement/purchase of past service were deposited to the appropriate Board accounts during this time.

**STATE OF WEST VIRGINIA**

**OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:**

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 11th day of January 1998.



Thedford L. Shanklin, CPA, Director  
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Consolidated Public Retirement Board; Governor; Attorney General; and, State Auditor.