

Audit Report

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**Employees' Retirement System of Baltimore County, Maryland**

**June 1998**

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Office of the County Auditor  
Baltimore County, Maryland



BALTIMORE COUNTY, MARYLAND  
OFFICE OF THE COUNTY AUDITOR

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June 9, 1998

Honorable Members of the County Council  
Honorable C.A. Dutch Ruppensberger, III, County Executive  
Baltimore County, Maryland

Gentlemen:

We have audited the Employees' Retirement System of Baltimore County, Maryland (the "System") for the year ended June 30, 1997.

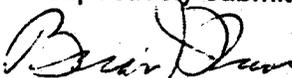
The System is a defined benefit plan providing retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Our audit disclosed that the methodologies used to determine a member's average final compensation and age for purposes of determining employee benefits and member contribution rates, respectively, were not approved by the Board of Trustees of the Employees' Retirement System (the "Board"). In addition, the Board of Trustees' transfer policy identified the time period for applying for prior service credit, the interest rate for determining the contribution deficiency, and the methodology for compounding interest; however, the time period for applying for prior service credit did not comply with State law, and the interest rate used for determining the contribution deficiency, and the methodology for compounding interest did not comply with the policy adopted by the Board of Trustees. Finally, various internal control weaknesses were identified in the areas of cash receipts, disbursements and participant data submitted to the actuary.

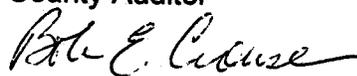
The System's response to our findings and recommendations are included as an appendix to this report.

Our audit reports and responses thereto are available to the public and may be obtained by contacting the Office of the County Auditor, Courthouse, 400 Washington Avenue, Towson, Maryland, 21204.

We wish to express our appreciation to the System's management and the Board of Trustees for the cooperation and assistance extended to us during our audit.

Respectively submitted,

  
Brian J. Rowe, CPA  
County Auditor

  
Bob E. Crouse, CPA  
Audit Manager

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**Executive Summary**  
**Audit Report on Employees' Retirement System of Baltimore County**  
**June 1998**

**Employee Benefits and Member Contribution Rates**

The Baltimore County Code 1988, Title 23, Pensions and Retirement, establishes the Employees' Retirement System for Baltimore County. The Code establishes methodologies for determining employee benefits and member contribution rates. Specifically, Section 23-50 defines average final compensation (AFC) for purposes of determining employee benefits and Section 23-38 provides that member contribution rates shall be determined based on the member's age at the time of joining the System.

- **The System's methodology for calculating average final compensation (AFC) based on 27 pay periods rather than using 26 pay periods may not be in compliance with the Baltimore County Code and was not approved by the Board of Trustees.**

To help ensure consistent application of the Baltimore County Code 1988, Title 23, § 23-50, the System should request advice from the Office of Law as to the proper method for calculating AFC. Further, the methodology of calculating AFC should be approved by the Board of Trustees, codified into law and included in plan descriptions for distribution to System members.

- **Employee contribution rates which are based on the member's age at the time the member joins the System were increased to the next highest rate if the member was within six (6) months of his/her birthday. However, this methodology was not specified in the policies and procedures adopted by the Board of Trustees.**

To help ensure that member contribution rates are consistently applied, the policies and procedures adopted by the Board of Trustees should specify the methodology for determining member contribution rates at the time the member joins the System. This methodology should be included in plan descriptions for distribution to System members.

### **Transfer of Prior Retirement System Service**

The Board of Trustees of the Employees' Retirement System (the "Board") adopted a retirement system transfer policy effective January 1, 1991 for purposes of determining a contribution deficiency for members who transfer to the County from a non-contributory pension system. The policy identifies the time period for applying for prior service credit, the interest rate to be applied in determining the contribution deficiency, and the methodology for compounding interest.

- **The System's administrative practice for determining contribution deficiencies for members transferring to the System did not comply with the policies and procedures adopted by the Board of Trustees.**

The System should comply with the Board's policy for determining contribution deficiencies for members transferring from a non-contributory pension system. Additionally, the policy should be codified into law since the determination of the contribution deficiency directly affects the level of retirement benefits.

- **The System's policy regarding the time period required for the transfer of prior service credit did not comply with the Annotated Code of Maryland.**

The System should amend its transfer policy to comply with the Annotated Code of Maryland for transfers of prior service credit.

### **Additional Fiscal Operations and Controls**

- **Internal controls over the System's disbursements, cash receipts (employee contributions), and participant data submitted to the actuary need improvement.**

The System should take appropriate action to ensure that the necessary internal controls are implemented in the aforementioned areas in view of the significant amounts involved. For example, for the year ended June 30, 1997, benefit payments to retirees and beneficiaries totaled approximately \$71 million including approximately \$51.8 million for normal and discontinued service retirements and approximately \$15.5 million for disability retirements. Employee contributions totaled approximately \$15.5 million.

## **BACKGROUND INFORMATION**

The Employees' Retirement System of Baltimore County is a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agent serving five entities including the County and certain employees of the Board of Education, Board of Library Trustees, the Community Colleges of Baltimore County and the Baltimore County Revenue Authority. The System is a defined benefit plan providing retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The System is administered in accordance with the provisions of Title 23 of the Baltimore County Code (the "Code").

The System is considered part of the Baltimore County, Maryland reporting entity and its financial statements are included in the County's general purpose financial statements as a pension trust fund. The County is obligated for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. Additionally, the System is fiscally dependent on the County by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. In accordance with Section 23-68 of the Code, responsibility for the proper operation of the System is vested in an 8-member Board of Trustees (the "Board"), five of which are appointed by the County, two are members of the System elected by the members, and one is a retiree elected by retired members of the System. The general administration of the System is vested in the Director of Budget and Finance.

System membership is compulsory for general County classified employees after two years of service. Immediate membership is mandatory for police officers and firefighters as a condition of employment. Membership is optional for part-time employees. System members are vested after five years of employment. At June 30, 1997, System membership consisted of 13,956 individuals including approximately 5,200 retirees and beneficiaries currently receiving benefits, and more than 8,600 active members. Section 23-38 of the Code provides that System members contribute a percentage of their salary to the System as actuarially determined based on the member's age at enrollment. Interest is credited on member contributions at the rate of 5% per annum. Employers are required to contribute an actuarially determined amount annually to finance the System as specified by Sections 23-38 and 23-95 of the Code.

The funds required to finance retirement benefits are accumulated through income on investments and through the collection of employer and employee contributions. For the year ended June 30, 1997, net assets held in trust for pension benefits totaled approximately \$1.45 billion. Investment income exceeded \$245 million and employer and employee contributions totaled approximately \$23.6 million and \$15.5 million, respectively.

Disbursements from the System relate to the payment of benefits and investment expenses (including some administrative costs). Most administrative expenses, professional actuarial costs, and pension consultant fees are paid by the County's General Fund on behalf of the pension trust fund. For the year ended June 30, 1997, benefit payments totaled approximately \$71 million, refunds of contributions (to members who terminated employment or died) totaled approximately \$2.2 million, and investment expenses totaled approximately \$6.4 million.

## Findings and Recommendations

### Average Final Compensation

- 1. The methodology for calculating average final compensation for purposes of determining employee benefits may not be in compliance with the Baltimore County Code and was not approved by the Board of Trustees.**

The Baltimore County Code 1988, Title 23, § 23-50 defines average final compensation (AFC) for purposes of benefit calculations as the "...average earnable compensation...during the twelve (12) consecutive full calendar months of service affording the highest average, or if the person has had less than twelve (12) months of service, then the member's annual earnable compensation projected over twelve (12) months." The Baltimore County Code defines "earnable compensation" as the normal compensation payable to an employee for working the normal time for the employee's position. Generally, an employee's normal annual earnable compensation is set forth in the Baltimore County Classification and Compensation Plans. However, our review disclosed that the System's administrative practice for calculating AFC was based on using twelve (12) consecutive full calendar months containing 27 pay periods instead of the normal 26 pay periods. This methodology resulted in an average final compensation which was approximately 3.8% higher than calculating AFC using the employee's annual earnable compensation as set forth in the County's Classification and Compensation Plans. Although we were advised that the County's method of calculating AFC is consistent with the actuary's benefit funding formulas, the System's administrative practice may not be in compliance with the Baltimore County Code. Additionally, the method for calculating AFC was not approved by the Board of Trustees.

**In order to help ensure consistent application of the Baltimore County Code 1988, Title 23, § 23-50, we recommend that the System request advice from the Office of Law as to the proper method for calculating AFC. We further recommend that, based on the advice of the Office of Law, the methodology of calculating AFC be approved by the Board or Trustees, codified into law and be included in plan descriptions for distribution to System members.**

### Member Contributions Rates

- 2. The policies and procedures adopted by the Board of Trustees did not specify the method for determining member contribution rates based on the member's age at the time of joining the System.**

The Baltimore County Code 1988, § 23-38 provides that member contribution rates shall be determined based on the member's age at the time of joining the System. The System's administrative practice for determining a member's age at the time the member joined the System was to increase the member's contribution rate to the next higher rate if the member was within six (6) months of his/her birthday ("age nearest" method) rather than being based upon the member's actual age at the time of joining the System ("age last" method). However, the policies and procedures adopted by the Board of Trustees did not specify the method to be used in determining member contribution rates.

**In order to help ensure that member contribution rates are consistently applied, we recommend that the polices and procedures adopted by the Board of Trustees specify the methodology for determining member contribution rates at the time the member joins the System. This methodology should be included in plan descriptions for distribution to System members.**

### **Retirement System Transfer Policy**

- 3. Contribution deficiencies for members transferring prior service credit did not comply with the policies and procedures adopted by the Board of Trustees.**

Effective January 1, 1991, the Board of Trustees adopted a retirement system transfer policy which provides that a contribution deficiency shall be determined for members who transfer to the County from a non-contributory retirement/pension system. However, the System's administrative practice did not comply with the Board's policy. Specifically, the Board's policy states that the "valuation rate of interest" (i.e., the actuarial assumed rate of interest for purposes of performing the annual valuation of the System) shall be the interest rate applied to unpaid contributions, compounded monthly. The valuation rate for FY 1997 was 7\_% and has ranged from 3% to 8% since 1960. However, the System's administrative practice for calculating the contribution deficiency was based on a 5% interest rate (the interest rate credited to members' contributions), compounded annually. Consequently, the System's administrative

practice could result in significantly lower contribution deficiencies than required by the Board's policy, resulting in higher benefit payments to the member.

**We recommend that the System comply with the Board's policy for determining unpaid contributions for members transferring to the System. We further recommend that the Board's policies regarding transfer of prior service credit, including the methodology for calculating the contribution deficiency, be codified into law since such policies may affect the level of benefits paid to members. Finally, we recommend that the policies and procedures regarding transfer of prior service credit, including the methodology for calculating the contribution deficiency for transfers from non-contributory plans, be included in plan descriptions for distribution to System members.**

#### **Claim For Prior Service Credit**

- 4. The System's policy regarding the time period required for the transfer of prior service credit did not comply with the Annotated Code of Maryland.**

New employees are required to claim prior service credit and provide accumulated contributions (if applicable) within one year from the date of membership in the new system. State Pers. & Pen. Code Ann. § 37-203 (1995). Since general County classified employees have up to two years from the date of employment to join the System, these employees have a maximum of three years from the date of employment to file claim for prior service credit. However, the System's transfer policy requires new employees to claim prior service credit and provide accumulated contributions (if applicable) within one year from the date of employment with the County regardless of when the employee joined the System.

**We recommend that the System comply with the Annotated Code of Maryland regarding the transfer of prior service credit.**

#### **Participating Employers**

- 5. Employee contributions reported to the County's Retirement Office by participating employers were not verified for accuracy.**

As previously mentioned, the System acts as an agent for certain participating employers (Board of Education, Colleges, etc.). After each pay period, participating employers submit employee contributions withheld based on member contribution rates and gross wages earned. Our audit disclosed that the System did not verify the accuracy of employee contributions withheld. Consequently, there was a lack of assurance that employee contributions were properly reported. In this regard, our tests disclosed that employee contributions submitted by one participating employer (totaling approximately \$7,500 each pay period for 150 employees) were improperly calculated.

**We recommend that the System establish procedures to verify employee contributions submitted by participating employers.**

### **Outstanding Checks**

#### **6. Outstanding checks were not investigated in a timely manner.**

Our audit disclosed that outstanding checks were not investigated in a timely manner. Specifically, we noted that 159 checks outstanding for periods ranging from 6 months to 4 years totaling over \$192,800 had not been investigated by the System. Further, we noted instances where individuals who had outstanding checks continued to receive benefit payments. This condition precluded effective internal control since benefit payments could be made to individuals who are no longer eligible.

**We recommend that outstanding checks be investigated in a timely manner to ensure that benefit payments are issued only to eligible retirees or their eligible beneficiaries.**

### **Death Match**

#### **7. Results of annual “death match” reports were not investigated in a timely manner.**

An annual “death match” is performed by an outside consultant who compares relevant

participant data (i.e., social security number, name) to other database records (e.g., Social Security Administration, Railroad Retirement Board, Vital Statistics) for the purpose of identifying benefit payments issued to retirees or beneficiaries who may be deceased. However, our audit disclosed that the results of this comparison were not investigated in a timely manner. In this regard, the consultant's most recent "death match" report, dated August 1996, identified 18 individuals as deceased who had been issued retirement benefits. As of the date of our field work, the System had not investigated the propriety of these benefit payments.

**We recommend that the System investigate "death match" results in a timely manner to ensure that benefit payments are issued only to eligible retirees or their eligible beneficiaries.**

### **Disability Benefits**

**8. The System did not require periodic medical reexaminations for those individuals receiving disability benefits.**

The Baltimore County Code 1988, Title 23, § 23-58 (a), provides, "Once each year during the first five (5) years following the retirement of a member on a disability retirement allowance, and once in every three-year period thereafter, the board of trustees may and upon his application shall require any disability beneficiary who has not yet attained the normal service retirement age to undergo a medical examination..." Although the System requires an initial complete medical examination for individuals applying for disability, the System has not required periodic medical reexaminations for those individuals receiving disability benefits as provided for in the Code. Failure to require periodic medical reexaminations for proof of continued disability precludes the System from identifying those individuals who continue, but are no longer eligible, to receive disability benefits. As of June 30, 1997, there were 848 disability retirees receiving annual allowances totaling approximately \$15.5 million.

**We recommend that the System establish procedures to require periodic reexaminations of disability retirees who have not yet attained the normal service retirement age.**

## **Inadequate Segregation of Duties**

- 9. The employee who received and deposited employee contributions also maintained the related accounting records and reconciled the amounts received with the related employee contribution reports.**

Our review of the System's procedures and internal controls regarding employee contributions disclosed an inadequate segregation of duties. Specifically, the employee who received and deposited employee contributions submitted by participating employers also maintained the related accounting records and reconciled the amounts received with the related employee contribution reports. Consequently, errors or irregularities could occur and go undetected.

**We recommend that the employee who receives and deposits member contributions not have access to the related accounting records. We advised the System how to accomplish the needed separation of duties utilizing existing personnel.**

## **Reconciliation of Participant Data**

- 10. The System did not reconcile participant data reported by the actuary with participant data maintained by the System.**

Actuarial valuations of the System are performed annually based on membership and financial data submitted by the County. Such information includes the number of System members (e.g., active, retirees and beneficiaries, terminated), annual compensation, creditable service, and investment, benefit and contribution data. This information is used by the actuary to determine the appropriate funding levels for meeting current and future benefit obligations of the System (e.g., normal, accrued and special accrued liability). Our audit disclosed that the System did not reconcile participant data reported by the actuary with participant data maintained by the System. In this regard, we noted that the number of System members reported in the actuary's valuation as of June 30, 1997 did not agree with System records. For example, the System's records included 8,661 active members and 5,143 retirees and beneficiaries; however, the actuary's valuation as of June 30, 1997, reported only 8,632 active members and only 5,157 retirees and beneficiaries. Consequently, there was a lack of assurance that the actuarial valuation included all participant data. This condition could adversely affect the actuary's

valuation of the System if significant discrepancies exist between System records and data used by the actuary.

**We recommend that the System reconcile its records to membership and financial data reported by the actuary in the annual valuation of the System. We further recommend that all differences be investigated and resolved in a timely manner.**

## **Audit Scope, Objectives and Methodology**

We have audited the Employees' Retirement System of Baltimore County, Maryland (the "System") for the year ending June 30, 1997. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the Baltimore County Charter, Section 311, the objectives of our audit were to evaluate the System's fiscal activities, including the internal accounting control, administrative and operating practices and procedures, and other pertinent financial and compliance matters. In planning and conducting our audit, we primarily focused on the System's major financial related areas of operations (e.g., benefit payments, contributions) based on assessments of materiality and risk.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of the System's operations. We also tested transactions and performed such other auditing procedures as we considered necessary in the circumstances to achieve our objectives.

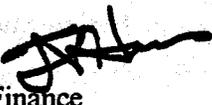
The System's management is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization and properly recorded. Because of inherent limitations in any internal control structure, errors or fraud may nevertheless occur and not be detected. Compliance with applicable laws, rules and regulations is also the responsibility of the System's management.

Our reports on fiscal compliance are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports generally do not address activities we reviewed that may be functioning properly.

This report includes findings and recommendations relating to conditions that we consider to be significant deficiencies in the design or operation of the internal control structure that could adversely affect the System's ability to safeguard its assets or properly record authorized transactions. This report also includes findings and recommendations relating to instances of non-compliance with applicable laws, rules or regulations.

**BALTIMORE COUNTY, MARYLAND****INTER-OFFICE CORRESPONDENCE**

TO: Bob Crouse, Audit Manager  
Office of the County Auditor

FR: Fred Homan, Director   
Office of Budget and Finance

Sub: Response - ERS Fiscal Compliance Audit

**Average Final Compensation**

1. The methodology for calculating average final compensation for purposes of determining employee benefits may not be in compliance with the Baltimore County Code and was not approved by the Board of Trustees.

In order to help ensure consistent application of the Baltimore County Code 1988, Title 23, Sec 23-50, we recommend that the System request advice from the Office of Law as to the proper method for calculating AFC. We further recommend that, based on the advice of the Office of Law, the methodology of calculating AFC be approved by the Board of Trustees, codified into law and be included in plan descriptions for distribution to System members.

The calculation of average final compensation using twelve (12) consecutive full calendar months containing 27 pay periods has been administration practice since the benefit was first purchased by the Fire Union effective 07/01/83. Prior to application of twelve (12) consecutive full calendar months, the calculation for three (3) consecutive years could also include a 79<sup>th</sup> pay period.

As noted, the method of calculating AFC is consistent with the actuary's benefit funding formula. In addition, while the Board of Trustees has not adopted written rules regarding the AFC, its members have been aware of the calculation. In fact, the current County Council approved a special 27<sup>th</sup> pay provision as part of the structure of the last Retirement Incentive Program.

Nonetheless, the Office of Law has recently been requested to review this matter. The further recommendation regarding approval and codification will be discussed as part of the revision of Title 23.

### **Member Contributions Rates**

2. **The policies and procedures adopted by the Board of Trustees did not specify the method for determining member contribution rates based on the member's age at the time of joining the System.**

In order to help ensure that member contribution rates are consistently applied, we recommend that the policies and procedures adopted by the Board of Trustees specify the methodology for determining member contribution rates at the time the member joins the System. The methodology should be included in plan descriptions for distribution to System members.

The "age nearest" methodology has been consistently applied by the ERS for approximately 53 years. Further, Buck Consultants has reported that this approach is considered the industry standard.

### **Retirement System Transfer Policy**

3. **Contribution deficiencies for members transferring prior service credit did not comply with the policies and procedures adopted by the Board of Trustees.**

We recommend that the System comply with the Board's policy for determining unpaid contributions for members transferring to the System. We further recommend that the Board's policies regarding transfer of prior service credit, including the methodology for calculating the contribution deficiency, be codified into law since such policies may affect the level of benefits paid to members. Finally, we recommend that the policies and procedures regarding transfer of prior service credit, including the methodology for calculating the contribution deficiency for transfers from non-contributory plans, be included in plan descriptions for distribution to System members.

As previously discussed, the System's administrative practice will comply with Board policy. In addition, the issue of whether the valuation rate of interest is sufficient given the State-mandated cost to the ERS will be considered by staff during the next several months and may result in a future recommendation to the Board of Trustees. For information purposes, the ERS' average rate of return during the past eighteen years has been 13.2%. The further recommendation regarding approval and codification will be discussed as part of the review of Title 23.

#### **Claim For Prior Service Credit**

- 4. The System's transfer policy did not comply with State law for transferring prior service credit.**

**We recommend that the System comply with the aforementioned State law regarding the transfer of prior service credit.**

The ERS' administrative staff will comply with State law. In addition, several issues related to the interpretation of State and County provisions will be discussed with the Office of Law. Thereafter, a revised policy will be presented to the Board of Trustees for review.

#### **Participating Employers**

- 5. Employee contributions reported to the County's Retirement Office by participating employers were not verified for accuracy.**

**We recommend that the System establish procedures to verify employee contributions submitted by participating employers.**

As the Auditor's Office is aware, the ERS' administrative staff does not have on-line access to payroll information related to participating employees.

Therefore, a new procedure is being established whereby the Chief Financial Officers (or their designees) of the participating employers must verify the accuracy of employee contributions withheld in a manner analogous to County department heads' verification of payroll.

#### **Outstanding Checks**

- 6. Outstanding checks were not investigated in a timely manner.**

**We recommend that outstanding checks be investigated in a timely manner to ensure that benefits payments are issued only to eligible retirees or their eligible beneficiaries.**

This office concurs. As a result, procedures have been changed. Outstanding checks will be reviewed in a timely manner. In situations where individuals with numerous outstanding checks continue to receive benefits, affidavits will be sent to the payee to confirm their eligibility to receive these benefit checks.

### **Death Match**

- 7. Results of annual "death match" reports were not investigated in a timely manner.**

**We recommend that the System investigate "death match" results in a timely manner to ensure that benefit payments are issued only to eligible retirees or their eligible beneficiaries.**

This office concurs. There will be a return to semi-annual processing of the retirement records with Pension Benefit Information. These reports will be reviewed in a timely manner and all individuals listed on the report will be required to file affidavits with the retirement office if they are still receiving monthly benefits.

### **Disability Benefits**

- 8. The System did not require periodic medical reexaminations for those individuals receiving disability benefits.**

**We recommend that the System establish procedures to require periodic reexaminations of disability retirees who have not yet attained the normal service retirement age.**

The Board of Trustees does, in fact, exercise its discretion to require certain disability beneficiaries to undergo a medical examination in accordance with Section 23-58. However, neither the County Code nor the Board of Trustees require that every beneficiary be reexamined. It must be pointed out that Sections 23-53 (ordinary disability retirement benefits) and 23-55 (accidental disability benefit) require that the Medical Board must certify that the member is mentally or physically incapacitated for the further performance of duty and that such incapacity is likely to be permanent before the Board of Trustees can take action. When there is doubt on the part of the Medical Board or there is a conflict in various medical reports, the Board of Trustees requires additional medical review. This does not eliminate the need in all cases for reexamination, but the intention of the Board of Trustees is to exercise due diligence in the beginning of the process and reexamine as it deems necessary rather than reexamine carte blanche. This is also the most practical approach given that Section 23-57.1 (2) (Allowance on Accidental Disability - Police and Fire Departments) defines incapacity as relating to the member's job classification. This language serves to restrict the Board's ability to reassign an individual to a position that has a different set of functional requirements.

### **Inadequate Segregation of Duties**

- 9. The employee who received and deposited employee contributions also maintained the related accounting records and reconciled the amounts received with the related employee contribution reports.**

**We recommend that the employee who receives and deposits member contributions not have access to the related accounting records. We advised the System how to accomplish the needed separation of duties utilizing existing personnel.**

**Inadequate Segregation of Duties - The duties were segregated in August 1997 so that the Office Coordinator receives and deposits contribution checks and the Retirement System Accountant reconciles the contributions. The Debt Management Accountant is designated as the back up for receiving and depositing checks.**

### **Reconciliation of Participant Data**

- 10. The System did not reconcile participant data reported by the actuary with participant data maintained by the System.**

**We recommend that the System reconcile its records to membership and financial data reported by the actuary in the annual valuation of the System. We further recommend that all differences be investigated and resolved in a timely manner.**

**Reconciliation of Participant Data - The participant data used in the actuary valuation is extracted directly from the System's June database. After an extensive review of the data is performed by the actuary and reviewed with the staff, certain changes are required. Since June retirees do not receive a benefit payment until the end of July, the participant data did not account for the 14 members that retired in June 1997. The process is performed with the June data in order to prepare the actuary valuation as expediently as possible. Therefore, the participant data was adjusted to add 14 retired members and deduct 14 active members. Additionally, since the actuary recognizes new hires as members only after a contribution has been made, the participant data was reduced by 14, backing out the new hires that had yet to contribute by June 1997. Through the actuary's extensive review process, a duplication of one active member was discovered and reversed. A reconciliation of those changes is attached. Based on this information, there should clearly be no lack of assurance that the actuarial valuation included all participant data.**

**Baltimore County Employees' Retirement System  
 Reconciliation of Participant Data  
 For Fiscal Year Ended June 30, 1997**

	<u>Active Members</u>	<u>Retired Members</u>
Baltimore County Retirement Contribution Report	8661	5143
Finals Closed in June for Check in July	(14)	14
On Active Register Not on Tape (List VIII)	(14)	
Duplicate on Active Register	<u>(1)</u>	<u>          </u>
Buck Table 14	<u><u>8632</u></u>	<u><u>5157</u></u>