

STATE OF WEST VIRGINIA
AUDIT REPORT
OF

PUBLIC SAFETY DEATH, DISABILITY AND RETIREMENT FUND
FOR THE PERIOD
JULY 1, 1972 - JUNE 30, 1981



OFFICE OF LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305

PUBLIC SAFETY DEATH, DISABILITY AND RETIREMENT FUND .

FOR THE PERIOD

JULY 1, 1972 - JUNE 30, 1981



LEGISLATIVE AUDITOR

CHARLESTON

The Honorable Encil Bailey
Legislative Auditor
State Capitol - Main Unit
Charleston, West Virginia

Dear Sir:

In compliance with your instructions and the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the accounts of the Department of Public Safety Death, Disability and Retirement Fund.

Our examination covers the period July 1, 1972 through June 30, 1981. The results of our examination are set forth on the following pages of this report. However, only the financial statements for the years ended June 30, 1981 and June 30, 1980 are included in this report. The financial statements covering the period July 1, 1972 to and including June 30, 1979 are included in our audit workpapers.

Respectfully submitted,

Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

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DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND

TABLE OF CONTENTS

Acknowledgment	1
Exit Conference	2
Introduction	3
Members of the Board	5
Administration	6
Summary of Findings and Recommendations	7
General Remarks	9
Auditors' Opinion	14
Balance Sheet	15
Statement of Revenues, Expenses and Changes in Fund Balances	16
Notes to Financial Statements	17
Supplemental Information	19
Certificate of Legislative Auditor	22

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND
ACKNOWLEDGMENT

We extend our thanks and express our appreciation to the Accounting Officer and his staff for their wholehearted cooperation in supplying information and answering the many questions necessary in preparing this report.

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND
EXIT CONFERENCE

We held an exit conference on July 30, 1982 with the Accounting Officer and the Senior Accountant of the Department of Public Safety and all findings and recommendations relating to the Death, Disability and Retirement Fund were reviewed and discussed. The above officials concurred with the findings and stated they would comply with the recommendations.

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND

INTRODUCTION

The Department of Public Safety was organized in July, 1919. In 1925, a death and disability fund was created by an Act of the Legislature to provide for the payment of benefits to members on account of death or disability. The fund was financed solely by arrest fees, witness fees and awards collected by members of the department.

In 1935, the Act was amended to include retirement and at that time each member was required to pay 4% of his salary into the fund, with an equal amount paid into said fund from the department appropriation. In 1939, the Death, Disability and Retirement Act was again amended to require the employees and employers to pay 6% of gross salary into the fund. The employers' contribution was increased to 12% in 1945.

Presently the Act provides for normal retirement after 25 years of service or at age 55 with 20 years of service. Retirement is mandatory at age 55 with 25 years of service. The annual benefit award is 4½% of total salary earned while a member or \$4,200, whichever is greater. A member may take early or deferred retirement after 20 years of service. Benefits commence at retirement or age 50, whichever is later.

When service-connected disablement prevents adequate performance of duties, a member receives an annual benefit award of 5% of total salary he would have earned during 25 years of service for his lifetime or until recovery. If disablement is total and permanent, the annual benefit award is 8% of the total salary earned during 25 years of service for life.

The annual benefit award for a non-service connected disability if a member has less than 20 years of service is 4½% of the total salary

the member would have earned during 25 years of service. Benefits continue for a period of time equal to $\frac{1}{2}$ the number of years of service. If the member has 20 years of service or more he receives the normal retirement award for his lifetime or until recovery.

Service connected death benefits to the widow are the greater of 5% of the total salary the member would have earned during 25 years of service or \$4,200. For non-service connected death, if the member has less than 20 years of service, annual benefit to the widow is 2 $\frac{1}{2}$ % of the total salary the member would have earned during 25 years of service. If the member has 20 years or more or has retired the award is 50% of the annual benefit determined by normal retirement. A widow receives \$1,200 annually for each child until 18 years of age. Benefits continue during the lifetime of the widow or until remarriage.

Refund of employee contributions is not given if a member resigns with less than two years of service. After two years a full refund is given without interest.

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND
MEMBERS OF THE BOARD

JUNE 30, 1981

The Death, Disability and Retirement Fund Board has the responsibility of administration and management of the Fund. The trustees also have the authority to make rules and regulations concerning the Fund and to make awards and to revise and terminate awards previously made. The Board consists of five members as follows:

John W. O'Rourke, Chairman	Superintendent Department of Public Safety
Sgt. R. A. Perry, Secretary	Member Department of Public Safety
Chauncey H. Browning, Jr.	Attorney General State of West Virginia
Larrie Bailey	Treasurer State of West Virginia
Sgt. R. J. Adams	Member Department of Public Safety

The two members of the Department of Public Safety are elected to the Board by vote of the members of the Department. They serve on the Board for a period of two years.

No Board member receives compensation for his services but may be reimbursed for necessary expenses incurred in carrying out his duties.

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND

ADMINISTRATION

Captain S. S. Satterfield Accounting Officer
Sargeant H. W. Richardson Assistant Accounting Officer
Patricia Waddell Senior Accountant
Doris Sexton Special Funds Officer

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND
SUMMARY OF FINDINGS AND RECOMMENDATIONS

AREAS OF NONCOMPLIANCE

Statement of Condition

1. The annual report does not include a statement of condition, or balance sheet, as required by the West Virginia Code.

We recommend a statement of condition be prepared annually for presentation in the annual report. (Page 10)

Refunds of Contributions

2. Refunds are based on six percent of accumulated gross salary earned instead of the total retirement contributions deducted from gross salary due to cumulative total of contributions not being maintained.

We recommend a system for recording retirement contributions deducted from members gross earnings and a cumulative total of retirement contributions be maintained. Further, we recommend refunds be given for the amount of retirement a member has actually contributed to the Fund in accordance with the West Virginia Code. (Pages 10-11)

Expenses

3. Expenses for Public Employees' Insurance Board Administrative fees were incurred by the Death, Disability and Retirement Fund during the audit period in violation of the West Virginia Code.

We recommend the Death, Disability and Retirement Fund seek reimbursement from the Public Employees' Insurance Board for administrative fees paid. (Pages 11-12)

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

No Written Accounting Procedures

4. The procedures performed for the processing of contributions, miscellaneous receipts, refunds, awards and general accounting procedures are not set forth in written form.

We recommend a procedures manual be prepared detailing and standardizing the procedures and controls to be used by the employees who administer the Death, Disability and Retirement Fund. (Pages 12-13)

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND

GENERAL REMARKS

INTRODUCTION

We have completed a financial and compliance audit of the Department of Public Safety Death, Disability and Retirement Fund. A financial and compliance audit determines whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and whether the entity has complied with laws and regulations that may have a material effect upon the financial statements. The audit covered the period July 1, 1972 through June 30, 1981.

SPECIAL REVENUE ACCOUNT

The Death, Disability and Retirement Fund maintained two special revenue accounts during the period of the audit. These accounts represent funds to account for the proceeds of specific revenue sources or to finance specified activities as required by law or administrative regulations. Monies are deposited with the State Treasurer in the following special revenue accounts:

8360-06	Retirement	The account represents the principal of the fund, including income from payroll deductions, fees, costs and rewards. Disbursements from the account are for the purchase of investments, refunds to resigned members, and transfers to the Income Account.
8360-07	Income	The account from which awards are paid. Income from investments and transfers from the Retirement Account are received in this account.

AREAS OF NONCOMPLIANCE

Chapter 15, Article 2, of the West Virginia Code generally governs the Department of Public Safety. We tested sections applicable to the Death,

Disability and Retirement Fund of the above plus general State regulations and other applicable chapters, articles and sections of the West Virginia Code as they pertain to fiscal matters. Our findings are listed below.

Statement of Condition

The Death, Disability and Retirement Fund's annual report does not meet the requirements set forth by the West Virginia Code, Chapter 15, Article 2, Section 26 which states in part:

"It shall be the duty of the retirement board ... each year to cause to be made and submitted to each member of said department a statement of the condition of said fund."

A statement of condition is an alternative name for a statement of assets and liabilities, or balance sheet, according to Dictionary for Accountants by Eric L. Kohler. The preparation of a yearly balance sheet is also required for a pension fund by the standards for governmental accounting and financial reporting. The annual reports of the Death, Disability and Retirement Fund for the years under audit include a statement of cash receipts and disbursements, but not a balance sheet.

We recommend a statement of condition, or balance sheet, be prepared annually for the Death, Disability and Retirement Fund in accordance with the provisions of the West Virginia Code.

Refunds of Contributions

During our test of refunds given to resigned members, we noted the refunds are based on six percent of the accumulated gross salary earned by the member while an employee of the Department of Public Safety. The West Virginia Code makes specific provision for refunding of contributions to Death, Disability and Retirement Fund in Chapter 15, Article 2, Section 37. The Code states that a refund shall be, "a sum equal to the aggregate of the principal amount of all moneys deducted from the salary of such member and paid into said fund." We totaled the retirement contributions deducted from

the earnings of members who had received refunds and found differences between the refunds received and the amount of retirement contributions to the Fund.

It appears the reason refunds are calculated is that retirement contributions are posted to members' payroll cards but a cumulative total is not maintained. Furthermore, we noted subsequent to the end of the audit, retirement contributions are no longer posted to the members' payroll cards. In order to maintain a good system of accounting controls for the Death, Disability and Retirement Fund a record of contributions should be maintained for refunding purposes and, also, because members' contributions are one of the main sources of receipts into the Fund.

We recommend the administrators of the Death, Disability and Retirement Fund maintain a system for recording retirement contributions deducted from members' gross earnings and a cumulative total of retirement contributions be maintained. We also recommend refunds be given for the amount of retirement a member has actually contributed to the Fund in accordance with the provisions of the West Virginia Code.

Expenses

During our audit of cash disbursements we noted expenditures for insurance in the amount of \$208.80 during fiscal year 1981 and \$194.40 during fiscal year 1980. The expenses are an administrative fee charged by the Public Employees' Insurance Board. The administrative fee paid from the Death, Disability and Retirement Fund is for retired State troopers and widows participating in life and health insurance programs.

State troopers employed by the Department of Public Safety are generally paid from an appropriated account. Accordingly, Chapter 5, Article 16, Section 15 applies to the Public Employees' Insurance Board's administrative fee for general revenue employees and retirants. The section states,

in part, "The legislature shall annually appropriate such sums as may be necessary to pay the proportionate share of the administrative costs for the State as an employer." Because the retired troopers' salaries were paid from an appropriated account, the administrative fee is included in the Public Employees' Insurance Board's annual appropriation from the Legislature. Hence, the Board has received a double payment for administrative expenses incurred for retired State troopers and widows.

We recommend the administrators of the Death, Disability and Retirement Fund seek reimbursement from the Public Employees' Insurance Board for administrative fees paid.

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

As part of our examination, we reviewed and tested the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

Our study and evaluation of the system of internal accounting control for the period July 1, 1972 through June 30, 1981, which was made for the purpose set forth in the above paragraph, would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed a condition that we believe to be a weakness.

No Written Accounting Procedures

We noted the procedures performed for the processing of contributions, miscellaneous receipts, refunds, awards and general accounting procedures are not set forth in written form. If written procedures were prepared, it would promote better efficiency and provide guidelines for new employees.

We recommend a written procedures manual be prepared detailing and standardizing the procedures and controls to be used by the employees who administer the Death, Disability and Retirement Fund.

AUDITORS' OPINION

The Honorable Encil Bailey
Legislative Auditor
State Capitol - Main Unit
Charleston, West Virginia

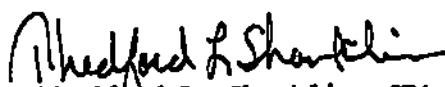
Sir:

We have examined the balance sheet of the Department of Public Safety Death, Disability and Retirement Fund as of June 30, 1981 and June 30, 1980, and the related statement of revenues, expenses and changes in fund balance for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Death, Disability and Retirement Fund at June 30, 1981 and June 30, 1980, and the results of its operations; changes in fund balance and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Theodora L. Shanklin, CPA, Director
Legislative Postaudit Division

June 7, 1982

Auditors: James R. Blake, Supervisor-in-Charge
Susan Rich, Auditor-in-Charge

WEST VIRGINIA DEPARTMENT OF PUBLIC SAFETY

DEATH, DISABILITY AND RETIREMENT FUND

BALANCE SHEET

Assets

	<u>June 30,</u>	
	<u>1981</u>	<u>1980</u>
Cash	\$ 434,223.91	\$ 454,825.20
Accounts Receivable	49,052.98	46,976.38
Investments	23,129,424.58	20,235,139.56
Accrued Interest	<u>561,027.43</u>	<u>548,582.85</u>
Total Assets	<u>\$24,173,728.90</u>	<u>\$21,285,523.99</u>

Liabilities and Fund Balance

Liabilities	\$ -0-	\$ -0-
Fund Balance:		
Retirement	23,598,254.63	20,730,640.10
Income	<u>575,474.27</u>	<u>554,883.89</u>
Total Liabilities and Fund Balance	<u>\$24,173,728.90</u>	<u>\$21,285,523.99</u>

See Notes to Financial Statements

WEST VIRGINIA DEPARTMENT OF PUBLIC SAFETY

DEATH, DISABILITY AND RETIREMENT FUND

STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN FUND BALANCE

	<u>Year Ended June 30,</u>	
	<u>1981</u>	<u>1980</u>
Revenues:		
Contributions -		
Employers'	\$ 1,374,252.69	\$ 1,299,442.88
Military Credit	46,283.47	27,450.11
Employees'	609,939.80	566,513.40
Interest	2,103,012.34	1,831,705.14
Sale of Accident Reports	41,945.00	40,600.00
Arrest Fees, Costs and Rewards	1,572.45	2,714.10
Miscellaneous Income	150.00	294.81
	<u>4,177,155.75</u>	<u>3,768,720.44</u>
Expenses:		
Benefit Payments	1,250,645.40	1,087,499.10
Refunds	38,096.64	36,458.93
Insurance Fees	208.80	194.40
	<u>1,288,950.84</u>	<u>1,124,152.43</u>
Revenue Over Expenses	2,888,204.91	2,644,568.01
Beginning Fund Balance	<u>21,285,523.99</u>	<u>18,640,955.98</u>
Ending Fund Balance	<u>\$24,173,728.90</u>	<u>\$21,285,523.99</u>

See Notes to Financial Statements

DEPARTMENT OF PUBLIC SAFETY
DEATH, DISABILITY AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

Note A - General

Chapter 15, Article 2 of the West Virginia Code created and established the Death, Disability and Retirement Fund to provide for the orderly retirement of state troopers from the Department of Public Safety who meet age and service requirements or become disabled, and to provide survivor benefits. The expenses of administering the fund are paid for by the Department of Public Safety as a part of the operations of the department as a whole and are not accounted for separately under the Death, Disability and Retirement Fund.

Note B - Accounting Policies

The accounting policies of the Death, Disability and Retirement Fund conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

1. Trust funds are used to account for assets held in a trustee capacity for members and the Department of Public Safety.
2. All pension trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when incurred.
3. The Fund is a member of the West Virginia State Board of Investment Consolidated Pension Pool. The fund's share of the pool is as follows:

	<u>1981</u>	<u>June 30,</u> <u>1980</u>
Long-Term	\$22,118,530.80	\$20,122,788.13
Short-Term Investments	<u>1,010,893.78</u>	<u>112,351.43</u>
	<u>\$23,129,424.58</u>	<u>\$20,235,139.56</u>

The investments are stated at cost or amortized cost. The market value of the long-term investments follows:

	<u>1981</u>	<u>June 30,</u> <u>1980</u>
	<u>\$17,265,000.00</u>	<u>\$18,636,000.00</u>

4. The Fund provides for possible losses (none in 1981 and 1980) in the collection of accounts receivable on an individual account basis as considered necessary.

Note C - Unfunded Liability

The total unfunded liability as of July 1, 1978 is \$4,089,500. The period to amortize the liability at 2.19 percent of payroll is 30 years.

SUPPLEMENTAL INFORMATION

WEST VIRGINIA DEPARTMENT OF PUBLIC SAFETY

DEATH, DISABILITY AND RETIREMENT FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND

CHANGES IN CASH BALANCE

Year Ended June 30, 1981

	<u>Retirement</u>	<u>Income</u>	<u>Total</u>
Cash Receipts:			
Trust Deposits and Contributions	\$2,030,121.81	\$ -0-	\$2,030,121.81
Interest	2,075,885.17	14,682.59	2,090,567.76
Collections	41,945.00	-0-	41,945.00
Retirement	-0-	1,259,000.00	1,259,000.00
Miscellaneous Income	-0-	-0-	-0-
	<u>4,147,951.98</u>	<u>1,273,682.59</u>	<u>5,421,634.57</u>
Cash Disbursements:			
Investments	2,879,602.43	14,682.59	2,894,285.02
Annuities	-0-	1,250,645.40	1,250,645.40
Refunds	38,096.64	-0-	38,096.64
Income	1,259,000.00	-0-	1,259,000.00
Insurance Fees	-0-	208.80	208.80
	<u>4,176,699.07</u>	<u>1,265,536.79</u>	<u>5,442,235.86</u>
Receipts Over (Under) Disbursements	(28,747.09)	8,145.80	(20,601.29)
Beginning Cash Balance	<u>448,524.16</u>	<u>6,301.04</u>	<u>454,825.20</u>
Ending Cash Balance	<u>\$ 419,777.07</u>	<u>\$ 14,446.84</u>	<u>\$ 434,223.91</u>

Year Ended June 30, 1980

<u>Retirement</u>	<u>Income</u>	<u>Total</u>
\$1,973,224.52	\$ -0-	\$1,973,224.52
1,728,385.38	-0-	1,728,385.38
40,600.00	-0-	40,600.00
-0-	1,138,000.00	1,138,000.00
-0-	294.81	294.81
<u>3,742,209.90</u>	<u>1,138,294.81</u>	<u>4,880,504.71</u>
2,184,386.66	45,000.00	2,229,386.66
-0-	1,087,499.10	1,087,499.10
36,458.93	-0-	36,458.93
1,138,000.00	-0-	1,138,000.00
-0-	194.40	194.40
<u>3,358,845.59</u>	<u>1,132,693.50</u>	<u>4,491,539.09</u>
383,364.31	5,601.31	388,965.62
<u>65,159.85</u>	<u>699.73</u>	<u>65,859.58</u>
<u>\$ 448,524.16</u>	<u>\$ 6,301.04</u>	<u>\$ 454,825.20</u>

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Encil Bailey, Legislative Auditor, do hereby certify that the report of audit 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 10th day of August,
1982.

Encil Bailey

Encil Bailey, Legislative Auditor

Copy forwarded to the Commissioner of the Department of Finance and Administration to be filed as a public record. Copies forwarded to the Superintendent of the Department of Public Safety; Attorney General; Governor; State Treasurer; and, State Auditor.