STATE OF WEST VIRGINIA

AUDIT REPORT

OF

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

FOR THE PERIOD

JULY 1, 2003 - JUNE 30, 2005

OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

FOR THE PERIOD

JULY 1, 2003 - JUNE 30, 2005

WEST VIRGINIA LEGISLATURE

Joint Committee on Government and Finance

Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division
Building 1, Room W- 329
1900 Kanawha Blvd., E

Area Code (304)
Phone: 347-4880
Fax: 347-4889

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 Deputy Sheriff Retirement System as administered by the West Virginia Consolidated Public Retirement Board (CPRB).

Our examination covers the period July 1, 2003 through June 30, 2005. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

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

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WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

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WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

EXIT CONFERENCE

We held an exit conference on August 30, 2006 with the Acting Executive Director and other representatives of the Consolidated Public Retirement Board (CPRB) and all findings and recommendations were reviewed and discussed. The agency's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks section of this report.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF 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 or TDC Plan); the Death, Disability and Retirement System (Plan A) of the West Virginia State Police; and the Judges' Retirement System (JRS). Subsequent to July 1, 1991, the Board also began administering (in addition to the aforementioned retirement systems) the West Virginia State Police Retirement System (Plan B) on March 12, 1994 and the Death, Disability and Retirement Fund for Deputy Sheriffs on July 1, 1998. Additionally, the Board is responsible for administering a 457 Deferred Compensation Plan, which members of the other State Retirement Systems can utilize to supplement their regular retirement.

The Board consists of 14 members as follows: the Governor; State Treasurer; State Auditor; Secretary of the Department of Administration; four residents of the State who are not members, retirees or beneficiaries of any of the retirement systems; a member, annuitant or retiree of the Public Employees Retirement System who is or was a State employee; a member, annuitant or retiree of the Public Employees Retirement System who is not or was not a State employee; a member, annuitant or retiree of the Teachers Retirement System; a member, annuitant or retiree of the State Police Death, Disability and Retirement System; a member, annuitant or retiree of the Deputy Sheriff's Death, Disability and Retirement System; and, a member, annuitant or retiree of the Teachers' Defined Contribution Retirement System.

The Board elects from its own number a chairman and vice chairman. The Board is granted the authority under State law to appoint an executive director to be the chief administrative officer of all of the retirement systems. The executive director is responsible for employing, with the Board's approval, such administrative, technical and clerical employees as are required in the proper operation of the retirement systems. Also, the Board is authorized by State law to employ a state retirement actuary or actuarial firm and be represented by an attorney who is licensed to practice law in the State of West Virginia who is not a member of any of the retirement systems administered by the Board.

The Board is required by law to meet at least once every three months, with seven voting members constituting a quorum. All board meetings must be public. Members serve without compensation for their services, provided that each member is 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.

Deputy Sheriff Retirement System

The Deputy Sheriff Retirement System (DSRS), created by the passage of House Bill 2415 during the 1998 Legislative Session, was established for all deputy sheriffs hired on or after July 1, 1998. This same legislation allowed deputy sheriffs who were actively contributing to PERS at that time to transfer their PERS membership to the newly created Deputy Sheriff Retirement System. However, deputy sheriff members of PERS had to make this election by the end of January

1999, and once made the transfer of membership was irrevocable. Active members of DSRS contribute 8.5% of their total gross monthly salary into the retirement plan, while participating employers (county commissions) contribute an amount equal to 10.5% of each employee's gross monthly salary. Additionally, each participating employer contributes certain fees charged for reports and other services provided by sheriff's offices. Any active member who has any additional employment in which the additional employment requires the deputy sheriff to be a member of another retirement system administered by the CPRB must contribute an additional 8.5% of his or her gross monthly salary from such additional employment. An active member is considered vested after the member completes 60 months of covered employment.

In order to qualify for full regular retirement benefits while still in covered employment, a member may retire with full benefits at age 50, if age plus service equals or exceeds 70 years (excluding military service), or retire at age 60 with five years of service (excluding military service). However, when covered employment has ceased, a member may retire with full benefits at age 50 with 20 years of service or with reduced benefits at age 40 (excluding military service) or retire at age 62 with five or more years of service (excluding military service).

A regular retirement benefit is paid in equal monthly installments during the lifetime of the retired member in an amount equal to 2.25% of the member's final average salary multiplied by the member's years of credited service. Final average salary refers to the average of the highest annual compensation received for covered employment by the member during any five consecutive plan years within the member's last 10 years of service.

The following five annuity options are available to retiring members: Straight Life Annuity, Option A - True Joint and Survivor Annuity, Option B - Joint and Survivor Annuity, Option C - Ten Years Certain and Life Annuity, and Option D - Level Income Annuity. These annuity options are described as follows:

Straight Life

A lifetime annuity payable monthly to the member determined under the regular benefit formula without adjustment. There are no death benefits payable under this option.

Option A - True Joint and Survivor Annuity

A reduced annuity payable monthly to the member. Upon the death of either the member or the beneficiary, the annuity is further reduced to either 50%, 66 2/3%, 75% or 100% of the original monthly amount dependent on the original option elected by the member. The reduced benefit is payable to the surviving member or beneficiary for the remainder of his or her life.

Option B - Joint and Survivor Annuity

A reduced annuity payable monthly to the member. Upon the death of the member, a reduced annuity of either 50%, 66 2/3%, 75% or 100% of the original monthly amount, dependent on the original option elected by the member, is payable to the beneficiary. There is no change in the original monthly amount if the beneficiary pre-deceases the member.

Option C - Ten Years Certain and Life Annuity

A reduced annuity payable monthly to the member. If the member dies before receiving 120 monthly payments, the remainder of the 120 monthly payments shall be payable to the member's beneficiary or the member's estate.

Option D - Level Income Annuity

An increased annuity payable monthly to the member until the member attains Social Security Retirement Age. After the member attains Social Security Retirement Age, the benefit is reduced by the estimated Primary Insurance Amount determined at retirement. The reduced benefit is payable monthly for the remaining lifetime of the member. There are no death benefits payable under this option.

In addition to providing retirement benefits for regular retirees, DSRS makes provision for members who suffer one the following types of disability: total duty, partial duty, total non-duty, and partial non-duty. Also, DSRS provides certain survivor benefits to the beneficiaries of deceased active members and retirees.

A member who terminates employment and is not immediately eligible for retirement benefits is entitled to receive from the retirement system the member's accumulated contributions which includes earned interest. If a member withdraws their contributions, he or she forfeits all rights to any future retirement or disability benefits under this retirement system. Also, any member who completes 60 months of covered employment and ceases employment is eligible to either withdraw their accumulated contributions or receive retirement income payments upon attaining normal retirement age.

Any member who withdraws his or her accumulated contributions after terminating employment and thereafter becomes re-employed in covered employment may elect to redeposit to the retirement system the amount of the withdrawn covered employment contributions, together with interest. Upon repayment, the member shall receive the same credit for his or her former covered employment as if no refund had been made. The repayment must be made in a lump sum within 60 months of the deputy sheriff's re-employment. Rollovers and plan transfers shall be accepted on behalf of the member, but solely for the purpose of purchasing permissive service credit or repayment of withdrawn contributions.

Under DSRS, members are entitled to apply for up to five years of military service credit for active duty in the armed forces of the United States prior to employment with a participating employer. No contributions are required to receive credit for this service. Any member of the retirement system who is called to active duty in the armed forces of the United States during covered employment under DSRS and returns to covered employment within 90 days following discharge may be eligible to purchase up to five years of military service credit for such duty. Military service credit under this retirement system may not be credited under any other retirement system.

Any active member who was hired before July 1, 2005 may borrow up to 50% of his or her contributions, but the total existing loan may not exceed $8,000. Refinancing existing loans is not permitted. Also, any outstanding loan balance must be paid in full before a member can receive retirement benefits. A member may elect to receive a lifetime actuarial reduction of their monthly retirement benefit to pay off their outstanding loan balance.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

CONSOLIDATED PUBLIC RETIREMENT BOARD MEMBERS AND STAFF

AS OF JUNE 30, 2005

Governor Joe Manchin III	Ex Officio
Robert W. Ferguson, Jr., Secretary of Department of Administration	Ex Officio
Glen B. Gainer III, State Auditor	Vice Chairman - Ex Officio
John Perdue, Treasurer	Ex Officio
William McGinley	State Resident
Janet Wilson	State Resident
David Wyant	Chairman - State Resident
Carl Guthrie	State Resident
Paul Hardesty	State Employee Member Public Employees Retirement System
Drema B. Evans	Non-State Employee Member Public Employees Retirement System
E. Gene Davis	Teachers Retirement System Member
David Anderson	Teachers' Defined Contribution Retirement System Member
F. Douglas Beasley	Division of Public Safety's Death, Disability and Retirement Fund Member
Donald T. Murray	Deputy Sheriff's Death, Disability and Retirement Fund Member

STAFF

Joseph J. Jankowski, Jr. . . . . Executive Director
(July 1, 2003 - February 23, 2005)

Terasa Miller . . . . Acting Executive Director
(February 23, 2005 - June 30, 2005)

Karen Copeland . . . . .Manager of Membership Section

Lisa Trump . . . . Uniformed Services Retirement Advisor

Ralph Holbrook . . . . Uniformed Services Membership Coordinator

Harry Mandel . . . . Board Actuary

Lori Cottrill . . . . Accounting Manager

Cynthia Boyd . . . . Internal Auditor

WEST VIRGINIA CONSOLIDATED PENSION RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

EXECUTIVE SUMMARY

I. System of Internal Control

During the course of our audit, it became apparent to us, based on the observed noncompliance with the West Virginia Code, the Consolidated Public Retirement Board (CPRB) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. Chapter 5A, Article 8, Section 9 of the West Virginia Code 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 spending unit operates in compliance with the laws, rules and regulations which govern it.

Auditors' Recommendation

We recommend the CPRB comply with Chapter 5A, Article 8, Section 9 (b) of the West Virginia Code, as amended, and establish a system of internal control.

Spending Unit's Response

The West Virginia Consolidated Public Retirement Board believes that it has a very effective system of internal controls in place to ensure compliance with applicable state laws, rules and regulations. Therefore, I disagree with your general statement on page nineteen (19) of your report that it does not have such a system. However, all systems can be improved, and I appreciate your findings and recommendations. (See pages 17-19)

II. Incorrect Posting of Service Credit Information

The CPRB is not accurately posting on a consistent basis to the members' contribution data records maintained on the CPRB's mainframe system the service credit information (total hours worked) reported monthly by each county commission on behalf of its deputy sheriff members. Of the 50 member contribution data posting transactions tested, we noted five instances in which a deputy sheriff's total hours worked for the month as reported by the member's employer were different than the total hours worked for the month actually posted to the member's contribution data record. When projected to all posting activity of the CPRB, we estimate the service credit information relating to 1,942 posting transactions of 19,421 processed were not properly posted to members' contribution data records.

Auditors' Recommendation

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Section 2 (ii) of the West Virginia Code, as amended, and Chapter 5, Article 10C, Section 4 (d) of the West Virginia Code, as amended, by strengthening internal controls over the reporting of DSRS members' service credit information by the county commissions, as well as, the posting of service credit information to members' contribution data records maintained on the CPRB's mainframe system.

Spending Unit's Response

We have already taken steps to implement the audit recommendations. (See pages 19-24)

III. Member Refunds of Accumulated Contributions

Of the 113 refund transactions processed by the CPRB during the period July 1, 2003 through May 17, 2006, we noted 23 refund recipients had been underpaid by a total of $4,806.70 and eight recipients were overpaid by a total of $4,541.76. We also noted that two refund calculations were not checked by another CPRB employee and the coding status of one member's contribution data record had not been changed from an active status to a withdrawal status.

Auditors' Recommendation

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Section 13 (a) of the West Virginia Code, as amended; Chapter 7, Article 14D, Sections 2 (b) and 2 (dd) of the West Virginia Code, as amended; and Title 162, Series 7, Section 3.1.1 of the Legislative Rule for Refund, Reinstatement and Loan Interest Factors by strengthening internal controls over the processing fo member refunds of accumulated contributions. We also recommend the CPRB pay the 23 members noted by us for any retirement contributions or interest earnings still owed to them, as well as, review all refunds processed between July 1, 1998 through June 30, 2003 to determine whether any other refund recipients were underpaid any accrued interest which they were entitled to receive.

Spending Unit's Response

We agree with the audit finding and we have taken steps to implement the audit recommendations. (See pages 25-32)

IV. Miscellaneous Report Fees Not Remitted In Timely Manner by County Commissions

Of the 50 miscellaneous report fees remittances tested, we noted 27 occurrences totaling $23,274.00 where the county commissions did not remit their monthly remittances of miscellaneous report fees to the CPRB in a timely manner. Also, the timeliness of three remittances could not be determined because the documentation supporting each remittance could either not be located or was not date stamped. Based on the results of our testing, we estimate that approximately $650,000.00 of the $950,345.11 of miscellaneous report fees collected from the various county commissions during the audit period were remitted late resulting in the CPRB foregoing $3,000.00 in investment earnings due to these late remittances.

Auditors' Recommendation

In order to ensure compliance by county commissions with the CPRB's payment policy for report fees, we recommend the CPRB seek similar legislation to the passage of the amendment to Chapter 5, Article 10D, Section 1 of the West Virginia Code discussed above which would allow the CPRB to recover from a participating employer that fails to pay any report fees due the CPRB in a timely manner a surcharge as a result of the untimely payment. We further recommend the CPRB strengthen internal controls over the documenting of the receipt of report fees remittances from county commissions to ensure compliance with the CPRB's payment policy.

Spending Unit's Response

A recommendation will be made to the Board to consider proposing a statutory change that permits assessing a delinquency charge to the DSRS employers for late payment of these fees in West Virginia Code § 7-14E-2. (See pages 32-37)

V. CPRB Not Ensuring Continued Eligibility of Disability Retirees

The CPRB currently is not requiring disability retirees to submit to regular physical and/or mental examinations by a Board designated physician or physicians subsequent to retirement as authorized by Chapter 7, Article 14D, Section 16 of the West Virginia Code to ensure such retirees remain eligible to draw a pension benefit as a result of their continued disability.

Auditors' Recommendation

We recommend the CPRB utilize the authority already granted to the Board by Chapter 7, Article 14D, Section 16 of the West Virginia Code.

Spending Unit's Response

CPRB agrees that disability re-certification of disability is useful. CPRB staff is in the process of revising the PERS re-certification form to be completed by the DSRS disability retiree's physician to attest to the continued disability of the member. (See pages 37-42)

VI. Unfunded Liability of the Deputy Sheriff Retirement System (Informational Only)

As of July 1, 2005, the Deputy Sheriff Retirement System had an unfunded accrued liability of $29,167,000.

VII. Retirement Annuities Miscalculated

Of the 16 retirement annuities tested, we noted where the monthly annuities paid to two annuitants were understated by a total of $134.20 and the monthly annuity of another annuitant was overstated by $5.93.

Auditors' Recommendation

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Sections 2 (e), 2 (s), 2 (ii) and 18 (a) of the West Virginia Code, as amended, by strengthening internal controls over the processing of retirement annuities.

Spending Unit's Response

We have corrected the errors found by the auditors as a part of their work. (See pages 43-50)

VIII. Retirement Contributions Not Remitted In Timely Manner by County Commissions

Of the 50 retirement contribution remittances tested, we noted 17 occurrences totaling $95,375.97 where the county commissions did not remit their monthly remittances of employee and employer contributions to the CPRB in a timely manner. Also, the timeliness of two remittances could not be determined because the documentation supporting each remittance was not date stamped indicating when each remittance had been received. Based on the results of our testing, we project the CPRB received as much as $2,650,000 of late retirement contributions from the various county commissions resulting in the CPRB foregoing approximately $6,550 in investment earnings.

Auditors' Recommendation

We recommend the CPRB comply with the provisions of both Chapter 7, Article 14D, Section 7 and Chapter 5, Article 10D, Section 1 (f) (2) of the West Virginia Code, as amended, by strengthening internal controls over the collection of retirement contributions from the county commissions. We further recommend the CPRB strengthen internal controls over the documenting of the receipt of monthly retirement contribution remittances from county commissions to ensure compliance with the aforementioned Code sections.

Spending Unit's Response

CPRB is in agreement that the County Commissions do not always timely remit the contributions to CPRB. Effective June 9, 2006, West Virginia Code § 5-10D-1 was amended during the 2006 Legislative session to allow CPRB to assess delinquency charges for untimely contributions, and CPRB has proposed a legislative rule for consideration during the 2007 Legislative Session that implements this authority. (See pages 50-54)

IX. PERS Retirement Contributions Erroneously Deposited to DSRS State Account

While performing a general review of all revenue transactions processed through the West Virginia Deputy Sheriff Retirement Account during July 1, 2003 through June 30, 2005, we noted one instance where PERS retirement contributions totaling $151,848.10 were erroneously deposited to the DSRS State account.

Auditors' Recommendation

We recommend the CPRB comply with the provisions of Chapter 5, Article 10, Sections 29 © and 31 (a) of the West Virginia Code, as amended, by strengthening internal controls over the coding of retirement contributions received for deposit to the appropriate State accounts.

Spending Unit's Response

CPRB is in agreement and the staff error has been corrected. (See pages 54-56)

X. Active PERS Member Erroneously Included by Employer on DSRS Monthly Retirement Reports

During our review of 50 DSRS enrollment transactions, we noted where the CPRB had erroneously established a DSRS contribution data record on their mainframe system for an employee of the Kanawha County Commission who was already enrolled as an active member of the Public Employees Retirement System (PERS) with the same employer.

Auditors' Recommendation

We recommend the CPRB strengthen internal controls over the processing of PERS retirement contributions to ensure participating public employers are complying with the provisions of Chapter 5, Article 10, Sections 29 and 31 of the West Virginia Code, as amended, as well as, Title 162, Series 5, Sections 9 and 10 of the Legislative Rule for the Public Employees Retirement System, as amended. We also recommend the CPRB refund the aforementioned PERS member the amount of any excess employee contributions withheld from his gross compensations for the period April 2004 through October 2004 and transfer the appropriate amount of employee and employer contributions from the account maintained for the Deputy Sheriff Retirement System to the appropriate accounts maintained for the Public Employees Retirement System. We further recommend the CPRB adjust the member's PERS data record on the mainframe system to accurately reflect the appropriate amounts of service credit and accumulated contributions.

Spending Unit's Response

We will comply with the audit recommendation. (See pages 56-61)

XI. Excess Amount of Federal Taxes Withheld from Death Benefit Issued to Estate of Deceased Retiree

Upon the death of a total non-duty disability retiree in May 2005, the CPRB issued a gross death benefit payment to the estate of this deceased retiree amounting to $8,330.21. However, we noted the CPRB withheld too much federal taxes from the net death benefit payment issued to the deceased retiree's estate.

Auditors' Recommendation

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Section 2 (x) of the West Virginia Code, as amended, by strengthening internal controls over the processing of death benefit payments.

Spending Unit's Response

CPRB is in agreement with the Auditors' findings concerning this issue and has determined that this was an isolated incident. ***(See pages 61-63)***

XII. Annualizing a Member's Annual Compensation for Final Average Salary Purposes

Of the 16 retirement annuities tested, we noted where for two retirees the CPRB annualized the annual compensation for final average salary purposes for a plan year where each member had a break in service.

Auditors' Recommendation

We recommend the CPRB, for clarification purposes, incorporate the practice of annualizing a member's annual compensation for final average salary purposes for a plan year where the member has a break in service into the CPRB's Legislative Rules for the Deputy Sheriff Retirement System.

Spending Unit's Response

CPRB is in agreement with the Auditors' finding. CPRB has a proposed legislative rule to be considered at the 2007 Legislative session that clarifies annualizing salary for DSRS members with a break in employment for the final average salary calculation. ***(See pages 64-67)***

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

GENERAL REMARKS

INTRODUCTION

We have completed a post audit of the Deputy Sheriff Retirement System (DSRS) as administered by the West Virginia Consolidated Public Retirement Board (CPRB). The audit covered the period July 1, 2003 through June 30, 2005.

SPECIAL REVENUE ACCOUNT

During the audit period, the CPRB maintained one special revenue account to contain the retirement contributions received and to account for all expenditures related to the operation of the Deputy Sheriff Retirement System as required by law. Monies collected were deposited with the State Treasurer in the following special revenue account:

Account Number	Description
2150	**West Virginia Deputy Sheriff Retirement Account** Member and employer contributions, miscellaneous revenue, investment earnings, and reinstatements to disburse annuities, withdrawals, loans, scholarships and administrative fees.

COMPLIANCE MATTERS

Chapter 7, Article 14D of the West Virginia Code generally governs the administration of the Deputy Sheriff 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 financial matters. Our findings are discussed below.

System of Internal Control

During the course of our audit, it became apparent to us, based on the observed noncompliance with the West Virginia Code, the Consolidated Public Retirement Board did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, 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 audit of the Deputy Sheriff Retirement System as administered by the Consolidated Public Retirement Board, we found the following noncompliance with State laws or other rules and regulations: **(1)** The CPRB is not accurately posting on a consistent basis to the members' contribution data records maintained on the CPRB's mainframe system the service credit information (total hours worked) reported monthly by each county commission on behalf of its deputy sheriff members. Of the 50 member contribution data posting transactions tested, we noted five instances in which a deputy sheriff's total hours worked for the month as reported by the member's employer were different than the total hours worked for the month actually posted to the member's contribution data record. **(2)** Of the 113 refund transactions processed by the CPRB during the period July 1, 2003 through May 17, 2006, we noted 23 refund recipients had been underpaid by a total of $4,806.70 and eight recipients were overpaid by a total of $4,541.76. We also noted that two refund calculations were not checked by another CPRB employee and the coding status of one member's contribution data record had not been changed from an active status to a withdrawal status. (3) Of the 50 miscellaneous report fees remittances tested, we noted 27 occurrences totaling $23,274.00 where the county commissions did not remit their monthly remittances of miscellaneous report fees to the CPRB in a timely manner. Also, the timeliness of three remittances could not be determined because the documentation supporting each remittance could either not be located or was not date stamped. (4) The CPRB currently is not requiring disability retirees to submit to regular physical and/or mental examinations by a Board designated physician or physicians subsequent to retirement as authorized by Chapter 7, Article 14D, Section 16 of the West Virginia Code to ensure such retirees remain eligible to draw a pension benefit as a result of their continued disability. (5) As of July 1, 2005, the Deputy Sheriff Retirement System (DSRS) had an unfunded liability totaling $29,167,000. (6) Of the 16 retirement annuities tested, we noted where the monthly annuities paid to two annuitants were understated by a total of $134.20 and the monthly annuity of another annuitant was overstated by $5.93. (7) Of the 50 retirement contribution remittances tested, we noted 17 occurrences totaling $95,375.97 where the county commissions did not remit their monthly remittances of employee and employer contributions to the CPRB in a timely manner. (8) While performing a general review of all revenue transactions processed through the West Virginia Deputy Sheriff Retirement Account during July 1, 2003 through June 30, 2005, we noted one instance where PERS retirement contributions totaling $151,848.10 were erroneously deposited to the DSRS State account. (9) During our review of 50 DSRS enrollment transactions, we noted where the CPRB had erroneously established a DSRS contribution data record on their mainframe system for an employee who was already enrolled as an active member of the Public Employees Retirement System (PERS) with the same employer. **(10)** The CPRB is not properly calculating the amount of federal taxes to withhold from death benefit payments payable to the beneficiary or estate of a deceased retiree. **(11)** Of the 16 retirement annuities tested, we noted where for two retirees the CPRB annualized the annual compensation for final average salary purposes for a plan year where each member had a break in service.

We recommend the CPRB comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, and establish an effective system of internal controls.

Spending Unit's Response

The West Virginia Consolidated Public Retirement Board ("CPRB" or "Board") believes that it has a very effective system of internal controls in place to ensure compliance with applicable state laws, rules and regulations. Therefore, I disagree with your general statement on page nineteen (19) of your report that it does not have such a system. However, all systems can be improved, and I appreciate your findings and recommendations. Your report lists items that you consider CPRB in non-compliance with applicable state laws, rules and regulations, and for clarity, I have addressed each one individually.

Incorrect Posting of Service Credit Information

As part of our audit of DSRS retirement contributions, we tested 50 posting transactions to ensure the member contribution data reported by each member's employer was properly posted by the CPRB to each member's contribution data record maintained on the CPRB's mainframe system. Our audit of these 50 posting transactions indicated the CPRB is not accurately posting on a consistent basis the service credit information (total hours worked) to the members' contribution data records maintained on the mainframe system as reported monthly by each county commission on behalf of its deputy sheriff members. The service credit information for five of the 50 members included in our test sample was inaccurately posted to each member's contribution data record, resulting in a noncompliance rate of 10%. Projecting the error rate of our audit sample to the population of posting transactions where service credit information was posted to members' contribution data records during the period of July 1, 2003 through June 30, 2005, we estimate the service credit information relating to1,942 posting transactions of 19,421 processed were not properly posted to members' contribution data records. Any inaccurate posting of a member's service credit information as reported by the member's employer from month to month to the member's contribution data record may result in an incorrect amount of pension benefits being received by the member when they retire.

We noted two instances in which a deputy sheriff's total hours worked for the month as reported by each member's employer were different than the total hours worked for the month actually posted to the member's contribution data record. These two instances are described in further detail in the following schedule:

Member	Report Month	County Commission	Total Hours Worked Per Payroll Detail Listing	Total Hours Worked Per Member's Contribution Data Record	Amount Understated/ (Overstated)
#1	February 2004	Cabell	213	178	35
#2	November 2004	Nicholas	176	184	(8)

Also, we noted three instances where a member's employer had either reported the member's service credit information in total days worked rather than as total hours worked or the member's employer failed to report any service credit information for the member. For these three instances, we were unable to locate any documentary evidence showing where a CPRB employee had contacted each county commission to verify the total number of hours worked by each member. As a result of our bringing these discrepancies to the attention of the appropriate spending unit personnel, the CPRB contacted each member's employer to obtain a faxed verification of the actual number of hours worked by each member for the particular month in question. Using these faxed verifications, we compared the total hours worked for each member as provided by each member's employer to the actual number of hours worked posted to each member's contribution data record. In each case, there was a difference. These three instances are described in further detail in the following schedule:

Member	Report Month	County Commission	Total Hours Worked Per Fax Verification Provided by Member's Employer	Total Hours Worked Per Member's Contribution Data Record	Amount Understated/ (Overstated)
#1	September 2004	Barbour	219*	215	4
#2	October 2004	Barbour	195*	220	(25)
#3	December 2004	Morgan	165**	160	5

*Note: Member's employer did not report any service credit information for the member on the payroll detail listing.
**Note: Member's employer listed member's service credit information on the payroll detail listing as total days worked rather than total hours worked.

A "year of service" is defined by Chapter 7, Article 14D, Section 2(ii) of the West Virginia Code, as amended, which states in part:

> "(ii) "Year of service." A member shall, except in his or her first and last years of covered employment, be credited with year of service credit based upon the hours of service performed as covered employment and credited to the member during the plan year based upon the following schedule:
>
> | Hours of Service | Year of Service Credited |
> |---|---|
> | Less than 500 | 0 |
> | 500 to 999 | 1/3 |

1,000 to 1,499 . . . . 2/3
1,500 or more 1

> During a member's first and last years of covered employment, the member shall be credited with one twelfth of a year of service for each month during the plan year in which the member is credited with an hour of service...."

Additionally, Chapter 5, Article 10C, Section 4(d) of the West Virginia Code, as amended, states in part:

> "(d) The amount of employee contributions picked up by the participating public employer shall be paid to the retirement system in the manner and form, and in the frequency required by the board of trustees and **shall be accompanied by supporting data that the board of trustees may prescribe...." (Emphasis added)**

When posting the monthly member contribution data reported by a DSRS employer to the CPRB's mainframe system, CPRB personnel will post this information to a temporary data file. This temporary data file is brought forward from the previous month. As a result, CPRB personnel responsible for posting member contribution data to this temporary data file simply adjust the previous month's data for a member to reflect any changes relating to the current month. It is the responsibility of the CPRB personnel posting this member contribution data to the temporary data file to ensure the accuracy of the data posted. If CPRB personnel fail to properly adjust a member's total hours worked to reflect total hours worked for the current month when posting to the temporary data file, then the member's total hours worked for the previous month will usually be posted as the member's total hours worked for the current month by default. Once all member contribution data has been posted from the payroll detail listing for each employer, this temporary data file is then used to update the permanent master file used to maintain each member's monthly contribution history.

After this permanent master file has been updated, a computer report is generated from the mainframe system summarizing total gross wages and total employee contributions withheld posted for each county commission. The employee who posted the member contribution data to the temporary data file then uses this report to reconcile the total amounts posted to the mainframe system for gross salaries and employee contributions withheld back to the member contribution data reported by each DSRS employer to ensure the accuracy of the member contribution data posted. However, we noted total hours worked are not included as part of this monthly reconciliation process.

The CPRB has no formal policy or procedure which addresses a situation where either an employer has reported members' service credit information in total days worked rather than total hours worked or the employer failed to report any service credit information for its deputy sheriff members. We believe the absence of a formal policy or procedure addressing these situations contributed to the occurrence of these posting errors. The CPRB essentially has no effective internal control procedures in place to ensure the service credit information reported monthly by the county commissions for DSRS members is being properly posted to the members' contribution data records maintained on the mainframe system.

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Section 2(ii) of the West Virginia Code, as amended, and Chapter 5, Article 10C, Section 4(d) of the West Virginia Code, as amended, by strengthening internal controls over the reporting of DSRS members' service credit information by the county commissions, as well as, the posting of service credit information to members' contribution data records maintained on the CPRB's mainframe system.

Spending Unit's Response

CPRB agrees that an employee incorrectly keyed certain information into the computer system and did not review the monthly remittance report as directed, resulting in the incorrect posting. This employee is no longer employed at CPRB, and the employee's replacement has been thoroughly trained.

To prevent this occurring again, CPRB sent a letter in April 2006 to all DSRS payroll clerks stressing the importance of appropriately completing the monthly remittance forms. CPRB has also instituted a new internal procedure that requires the CPRB employee to request, via telephone or letter, written confirmation from the DSRS employer of the hours worked per month by DSRS member if the payroll remittance report is incorrectly submitted by the payroll clerk.

On page 25 of the draft report, the Auditors note "total hours worked are not included as part of this monthly reconciliation process". Please note that effective with the June 2006 payroll, computer program updates have been made to allow total hours worked to be part of the monthly reconciliation process.

CPRB is in disagreement with the draft report's statement on page 25 that "CPRB has no formal policy or procedure which addresses ...service credit information." Historically, the CPRB employee should have contacted the payroll clerk to verify hours worked. However, since May 1, 2006, the new internal procedure requiring the CPRB employee to have written confirmation from the DSRS employer of the hours a DSRS member worked if the payroll remittance report is incorrectly submitted by the payroll clerk has been in effect.

Member Refunds of Accumulated Contributions

During the period of July 1, 2003 through May 17, 2006, the CPRB processed 113 refund transactions. We reviewed the calculation of the gross refund by the CPRB for all 113 refund recipients. We determined the existence of noncompliance with State law and corresponding areas of weaknesses in internal controls over the processing of refund transactions which resulted from both the underpayment and overpayment of accumulated contributions made in refunds paid to these 113 withdrawing members.

Chapter 7, Article 14D, Section 13(a) of the West Virginia Code, as amended, states:

> "(a) Any member who terminates covered employment and is not eligible to receive disability benefits under this article is, by written request filed with the board, entitled to receive from the fund the member's accumulated contributions. Except as provided in subsection (b) of this section, upon withdrawal the member shall forfeit his or her accrued benefit and cease to be a member."

Also, Chapter 7, Article 14D, Section 2(b) of the West Virginia Code, as amended, defines "accumulated contributions" as follows:

> "(b) "Accumulated contributions" means the sum of all amounts deducted from the compensation of a member, or paid on his or her behalf pursuant to article ten-c, chapter five of this code, either pursuant to section seven, of this article or section twenty-nine, article ten, chapter five of this code as a result of covered employment together with regular interest on the deducted amounts."

Additionally, Chapter 7, Article 14D, Section 2(dd) of the West Virginia Code, as amended, defines "regular interest" as follows:

> "(dd) "Regular interest" means the rate or rates of interest per annum, compounded annually, as the board adopts in accordance with the provisions of this article."

Furthermore, Title 162, Series 7, Section 3.1.1 of the Legislative Rule for Refund, Reinstatement and Loan Interest Factors states:

> "3.1.1. Deputy Sheriffs Retirement System. In the event a member of the Deputy Sheriffs Retirement System terminates covered employment and thereafter requests and is determined to be eligible to receive a refund of accumulated contributions, the interest rate applicable to the refund is four percent (4%), compounded per annum."

Our findings and observations with respect to the aforementioned two areas of weaknesses in internal controls are set out as follows:

1. <u>Refund Recipients Underpaid Accumulated Contributions</u>

Of the 113 refund transactions processed by the CPRB, 23 refund recipients had been underpaid by a total of $4,806.70. Of the 23 refund recipients who were underpaid, 21 of these under payments totaling $4,265.80 were related to the underpayment of accrued interest. The remaining total of $540.90 involved two under payments of retirement contributions to two refund recipients.

Based on the aforementioned criteria, interest earnings compound annually on a member's balance of accumulated contributions at the end of each plan year (June 30th). The calculation of a member's accrued interest is a computerized process which is performed by the mainframe system when spending unit personnel access the mainframe system to print off a member's withdraw profile to assist in the calculation of the member's refund. This withdraw profile summarizes a member's accumulated contributions (amount of employee contributions contributed and corresponding interest earnings) by plan year. To determine the appropriate amount of accrued interest earnings to refund a member, CPRB personnel are trained to use the total amount of accrued interest reflected on the member's withdraw profile.

Interest earnings will only be reflected on the member's withdraw profile for a particular plan year when the monthly contribution data (members' gross salaries, employee contributions withheld, and related service credit) for each month within that plan year has been posted to the mainframe system. Generally, a time lag of one to two months will occur before a member's contribution data for a specific month will be posted to the member's account on the mainframe system as the result of the processing time required by the CPRB to process the member's contribution data. Thus, accrued interest for a regular plan year may not be reflected on a member's withdraw profile which is generated by the mainframe system immediately following the end of the plan year. As a result of the time lag in posting monthly contribution data to members' accounts, 21 members were underpaid interest earnings for the plan year immediately preceding the submission of their refund applications to the CPRB. The Membership Section Manager told us that she was aware some DSRS members may have been underpaid interest earnings, but that she had not yet had an opportunity to work with the Information Technology (IT) Department to implement the necessary programming changes to correct this problem.

Concerning the remaining two under payments, these two refund recipients were not fully compensated for the amount of employee contributions each member had contributed to DSRS while an active member. One refund recipient was not refunded $317.46 representing the member's employee contributions for September and October 2004, while the other refund recipient was not refunded $223.44 representing the member's employee contributions for July 2005. We believe these under payments were the result of an error made by the CPRB employee responsible for preparing each member's refund.

Any member with contributions on deposit with the CPRB at June 30th of any plan year is entitled to accrued interest on their balance of accumulated contributions at June 30th for that plan year regardless of when the member applies for a refund. As a result of the untimely nature of the CPRB's process of posting monthly contribution data to the mainframe system adversely affecting the calculation of accrued interest which is reflected on a member's withdraw profile, some DSRS members are not being fully compensated for their full share of accumulated contributions. The underpayment of interest earnings to these refund recipients has demonstrated that the CPRB is not treating all refunding members in the same manner on a consistent basis.

2. <u>Refund Recipients Overpaid Accumulated Contributions</u>

Of the 113 refund transactions processed by the CPRB, eight refund recipients were overpaid by a total of $4,541.76. We also noted that two refund calculations were not checked by another CPRB employee and the coding status of one member's contribution data record had not been changed from an active status to a withdrawal status.

According to the Programmer Analyst II with the IT Department, the CPRB utilizes the same computer program to generate withdraw profiles for both PERS members and DSRS members. For a PERS member, interest earnings are calculated at the end of each calendar year (once all monthly contribution data has been posted to the mainframe system for the calendar year) based on the member's balance of accumulated contributions at December 31st of the preceding calendar year. Since the same computer program is used to generate withdraw profiles for both PERS and DSRS members, the Programmer Analyst II explained to us that occasional programming errors may occur as the result of the different methods employed for calculating interest earnings for the two differing retirement systems which may have a negative impact on the calculation of some member refunds. He further explained that eventually a separate computer program would be created by the IT Department for the purpose of generating withdraw profiles solely for DSRS members. In the case of five of the eight aforementioned overpayments, a programming error resulted in interest earnings being calculated twice on each member's balance of accumulated contributions at June 30, 2004.

The Programmer Analyst II also explained that the employees within the Membership Section who are responsible for processing refund transactions have been made aware that such posting errors are possible and they have been instructed to do a proper review of each refunding member's withdraw profile for repetitive postings of retirement contributions and/or interest earnings for the same plan year and not take the amounts reflected on the withdraw profile representing total employee contributions and total accrued interest at face value. The Membership Section Manager also confirmed that these employees have been made aware of these potential posting errors and should be reviewing each withdraw profile for possible posting discrepancies when processing a refund transaction. When a refund transaction is processed by the Membership Section, one employee is responsible for preparing the initial calculation of the member's refund amount and a different employee is responsible for reviewing this initial calculation for accuracy.

The Membership Section Manager told us that in March 2005, she had instructed the employee responsible for processing refund transactions to go back and review all refund transactions processed up to that point during Fiscal Year 2005 to determine whether any member's balance of accumulated contributions had been adversely affected by any programming errors. CPRB records indicate that four of the eight overpayments were discovered by spending unit personnel during this review process. However, none of these overpayments had been originally detected in a timely manner in order to prevent an overpayment of accumulated contributions being paid to each refund recipient. Upon detecting each overpayment, the CPRB sent a notification letter to the affected member requesting the member repay the amount of the overpayment. The CPRB subsequently was successful in recovering three of these overpayments totaling $1,429.04. But, one member who was overpaid $1,397.44 has yet to respond to the CPRB's notification letter.

Regarding the other three overpayments, the Membership Section Manager told us one refund recipient was overpaid as the result of a programming error which caused the member's employee contributions for the 2004 plan year to be erroneously included as part of the member's 2005 plan year contributions on the member's withdraw profile. An overpayment resulted since the member's 2004 plan year contributions were counted twice on his withdraw profile. Although this error appears to have been an isolated incident, we still believe CPRB personnel should have caught this error when preparing this member's refund.

She also explained the remaining two overpayments were the result of a clerical error on the part of the employee who prepared each member's refund. When processing each member's refund, the employee had counted each member's total amount of accrued interest as reflected on the member's withdraw profile twice in the calculation of the member's refund amount. This employee had also failed to request that another employee review the calculation of each member's refund for accuracy. Additionally, for one of these refunding members, we noted this CPRB employee failed to change the coding status of the refunding member's contribution data record from an "active status" to a "withdrawal status".

As a result of programming errors which occasionally occur in the computer program currently being utilized by the CPRB to generate withdraw profiles for DSRS members, some refunding members are receiving overpayments of accumulated contributions to which they are not entitled to receive. By overpaying some members their accumulated contributions, the CPRB has less monies available to fund the pension benefits and refunds of accumulated contributions of future retirees and refund recipients. These overpayments may also increase the unfunded liability of the Deputy Sheriff Retirement System.

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Section 13(a) of the West Virginia Code, as amended; Chapter 7, Article 14D, Sections 2(b) and 2(dd) of the West Virginia Code, as amended; and Title 162, Series 7, Section 3.1.1 of the Legislative Rule for Refund, Reinstatement and Loan Interest Factors by strengthening internal controls over the processing of member refunds of accumulated contributions. We also recommend the CPRB pay the 23 members noted by us for any retirement contributions or interest earnings still owed to them, as well as, review all refunds processed between July 1, 1998 through June 30, 2003 to determine whether any other refund recipients were underpaid any accrued interest which they were entitled to receive.

__Spending Unit's Response__

CPRB does not dispute the Auditors' findings that there were one hundred thirteen refunds processed by CPRB during the period of July 1, 2003 through May 17, 2006, and that twenty-three (23) people were underpaid an average of approximately two hundred ($200.00) dollars and eight (8) people were overpaid. Of the twenty-three under payments, twenty-one involved accrued interest resulting from the lagtime caused by the employer payroll reports and CPRB posting. Staff has initiated an interim spreadsheet for use by the CPRB employees until the mainframe programming changes are completed. The other two under payments were caused by the employee noted above who failed to follow the appropriate procedures. This employee is no longer employed at CPRB. The twenty-three under payments are in the process of being corrected and the additional amounts paid as member refunds.

As to the eight overpayments, CPRB agrees that seven (7) overpayments resulted from programming errors as noted in the draft report on page 29. One (1) overpayment was caused by the employee who is no longer employed with CPRB failing to follow the appropriate procedure. Mainframe programming changes have been implemented to prevent such overpayments from re-occurring. Three of the overpayments have been successfully recovered. CPRB is in the process of contracting with a collections attorney to pursue recovering the other overpayment, as well as other collections matters.

Miscellaneous Report Fees Not Remitted In Timely Manner by County Commissions

Chapter 7, Article 14E, Section 2 of the West Virginia Code authorizes county commissions to set fees for obtaining certain reports, such as traffic accident reports, criminal investigation reports, incident reports and property reports. Ten dollars of the charge for each such report is to be deposited to the West Virginia Deputy Sheriff Retirement Account. The aforementioned Code section further authorizes all sheriff's offices in this State to collect a fee of $5.00 for performing the following services: (1) adult private employment fingerprinting; (2) fingerprinting for federal firearm permits; (3) motor vehicle number identification; (4) adult identification card; and, (5) photo-identification card. All sheriff's offices are also authorized to collect a fee of $5.00 for the sale of each non-governmental background investigation report. Finally, Chapter 17A, Article 3, Section 17 of the West Virginia Code, as amended, authorizes each county sheriff to charge a $1.00 service fee for each renewal of a Class A or G vehicle registration issued by their office. One half of this fee is to be deposited to the West Virginia Deputy Sheriff Retirement Account. Monthly, each county commission will remit any such report fees collected to the CPRB. The purpose of these monies is to help fund the pension benefits payable to future DSRS retirees.

In accordance with CPRB policy during the audit period, each county commission was required to remit monthly report fees within ten days following the end of the report month. Of the 50 miscellaneous report fees remittances tested, we noted 27 occurrences totaling $23,274.00 where the county commissions did not remit their monthly remittances of miscellaneous report fees to the CPRB in a timely manner. Also, the timeliness of three remittances could not be determined because the documentation supporting each remittance could either not be located or was not date stamped.

Of the 50 miscellaneous report fees remittances tested, we were only able to evaluate whether 47 of these remittances were remitted timely as stated in the prior paragraph. Twenty-seven of these 47 miscellaneous report fees remittances were not remitted timely to the CPRB, resulting in a noncompliance rate of 57%. The 27 remittances were remitted an average of 11 days late. Projecting the error rate of our audit sample to the population of miscellaneous report fees remittances received from the county commissions which were processed during the period July 1, 2003 through June 30, 2005, we estimate 762 remittances of 1,326 processed were not remitted timely to the CPRB. Furthermore, we estimate that approximately $650,000 of the $950,345.11 of miscellaneous report fees collected from the various county commissions during the audit period were remitted late. Based on an average annual rate of return, we further estimate the CPRB lost approximately $3,000 in investment earnings during the audit period due to these miscellaneous report fees remittances not being remitted timely.

Chapter 7, Article 14E, Section 2 of the West Virginia Code states in part:

> "(a) Effective the first day of July, one thousand nine hundred ninety-eight, the county commission of each county in this state shall set a fee for obtaining certain reports. This fee shall be set at a minimum of ten dollars for each report, with a maximum of twenty dollars for each report. Ten dollars of the charge for each report shall

> be deposited into the deputy sheriff's retirement fund created in section six, article fourteen-d, chapter seven of this code. The reports for which a charge may be made are traffic accident reports, criminal investigation reports, incident reports and property reports.
>
> (b) Effective the first day of July, one thousand nine hundred ninety-eight, all sheriff's offices in this state shall collect a fee of five dollars for performing the following services: adult private employment fingerprinting; fingerprinting for federal firearm permits; motor vehicle number identification; adult identification card and photo-identification card. Upon collection, these fees shall be deposited into the deputy sheriff's retirement fund created in section six, article fourteen-d of this chapter.
>
> (c) Effective the first day of July, one thousand nine hundred ninety-eight, all sheriff's offices in this state shall collect a fee of five dollars for each nongovernmental background investigation report. Upon collection, these fees shall be deposited into the deputy sheriff's retirement fund created in section six, article fourteen-d, chapter seven of this code...."

Also, Chapter 17A, Article 3, Section 17(c) of the West Virginia Code, as amended, states:

> "(c) Each sheriff shall charge a service fee of one dollar for each renewal of a Class A or G vehicle registration he or she issues. Effective the first day of July, one thousand nine hundred ninety-eight, the sheriff shall pay one half of this fee into the county general fund. The sheriff shall pay the remaining one half of this fee into the deputy sheriff retirement fund created in section six, article fourteen-d, chapter seven of this code."

Additionally, the CPRB's payment policy for miscellaneous report fees which was in effect during the audit period is reflected on the Statewide Uniform Fees Generated by Sheriff's Offices report form used by county commissions to report the remittance of report fees. This policy states:

> "**Report due on or before the 10th day of the month following the month reported.** Make check payable to: WV Deputy Sheriff Retirement Plan. (This must be a separate check from your monthly payroll check)" **(Emphasis added)**

According to the Membership Section Manager, the State laws requiring the remittance of the various types of report fees by the county commissions do not impose a penalty on the county commissions for delinquent remittances; therefore, there is no incentive for the county commissions to remit these report fees timely. During the 2006 Legislative Session, the Legislature passed House Bill 4032 amending Chapter 5, Article 10D, Section 1 of the West Virginia Code to authorize the CPRB to recover from a participating employer that fails to pay retirement contributions due the CPRB in a timely manner a surcharge as a result of the untimely payment. She also explained that the CPRB would have to seek similar legislation to allow the CPRB the authority to charge county commissions a surcharge for the untimely remittance of miscellaneous report fees.

Effective April 9, 2005, the CPRB changed their policy to allow employers more time to remit their monthly report fees by changing the due date from the 10th day following the end of the report month to the 15th day following the end of the report month. This policy change was made by CPRB in an effort to bring uniformity in the deadline for submission of these miscellaneous report fees to be in conjunction with the deadline set in State law for the submission of membership retirement contributions, as well as, an effort to foster uniformity among the various retirement systems.

Additionally, in September 2006, the CPRB plans to implement a pilot program using one employer where the employer will utilize a new reporting feature called Web Reporting to report their monthly report fees to the CRPB. This reporting feature is being implemented by the CPRB to help facilitate the monthly reporting process of miscellaneous report fees. In conjunction with Web Reporting, the CPRB will also begin offering the county commissions two new payment methods in which to remit payment to the CPRB: Automatic Clearing House (ACH) Debit and

Lockbox. Once the CPRB has worked out any implementation problems which may arise during the pilot program, the CPRB will eventually be making Web Reporting and ACH Debit/Lockbox available to all employers.

In order to ensure compliance by county commissions with the CPRB's payment policy for report fees, we recommend the CPRB seek similar legislation to the passage of the amendment to Chapter 5, Article 10D, Section 1 of the West Virginia Code discussed above which would allow the CPRB to recover from a participating employer that fails to pay any report fees due the CPRB in a timely manner a surcharge as a result of the untimely payment. We further recommend the CPRB strengthen internal controls over the documenting of the receipt of report fees remittances from county commissions to ensure compliance with the CPRB's payment policy.

Spending Unit's Response

CPRB is in agreement that the Sheriff Offices/County Commissions do not always timely remit the miscellaneous fees to CPRB and that CPRB changed its policy in April 2005. Unfortunately, there is no statutory authority that allows CPRB to assess a delinquency charge to the DSRS employers for late payment of these fees; there is no statutory provisions for DSRS employer deadlines for collection of those fees. There is a statute that permits delinquency charges for untimely retirement contributions, and CPRB has proposed a legislative rule for consideration during the 2007 Legislative Session that implements this authority. A recommendation will be made to the Board to consider proposing a statutory change that permits assessing a delinquency charge to the DSRS employers for late payment of these fees in West Virginia Code § 7-14E-2.

In addition, CPRB would note that the expected implementation date of September 2006 of the pilot program noted on pages 35 and 36 has been delayed due to the technical difficulties with the ACH system experienced by the PERS payroll clerks. Until the bugs are worked out of the PERS rollout, DSRS payroll Web Reporting will be postponed.

<u>CPRB Not Ensuring Continued Eligibility of Disability Retirees</u>

Under State law, the CPRB has the authority to require disability retirees to submit to regular physical and/or mental examinations by a Board designated physician or physicians subsequent to retirement to ensure such retirees remain eligible to draw a pension benefit as a result of their continued disability. However, we noted that during the time period of July 1, 2003 through June 30, 2005, the CPRB was not requiring disability retirees to submit to medical examinations subsequent to the members being awarded disability retirement benefits. Therefore, no attempt was being made by the CPRB to reaffirm that a retiree remains eligible to draw a pension benefit as a result of their continued disability.

As of June 30, 2005, CPRB records indicate that 31 disability retirees were receiving retirement benefits under the Deputy Sheriff Retirement System. Through June 30, 2005, these annuitants have been paid pension benefits totaling approximately $2,485,000. We also noted the average annual pension benefit being paid to these annuitants is $19,948. As a result of not requiring retirees who receive disability retirement benefits to undergo regular medical examinations by a Board physician, the CPRB would not be aware of any retirees who, while initially determined to be disabled, may no longer meet the requirements to qualify for disability retirement benefits. Therefore, the possibility exists that the CPRB is paying disability retirement benefits to persons who no longer qualify to receive those benefits.

Chapter 7, Article 14D, Section 16 of the West Virginia Code states:

> "(a) The board may require any member who has applied for or is receiving disability benefits under this article to submit to a physical examination, mental examination or both, by a physician or physicians selected or approved by the board and may cause all costs incident to the examination and approved by the board to be paid from the fund. The costs may include hospital, laboratory, X ray, medical and physicians' fees. A report of the findings of any physician shall be submitted in writing to the board for its consideration. If, from the report, independent information, or from the report and any hearing on the report, the board is of the opinion and finds that: (1) The member has become reemployed as a law-enforcement officer; (2) two physicians who have examined the member have found that considering the opportunities for law enforcement in West Virginia, the member could be so employed as a deputy sheriff; or (3) other facts exist to demonstrate that the member is no longer totally disabled or partially disabled as the case may be, then the disability benefits shall cease. If the member was totally disabled and is found to have recovered, the board shall determine whether the member continues to be partially disabled. If the board finds that the member is no longer totally disabled but is partially disabled, then the member shall continue to receive partial disability benefits in accordance with this article. Benefits shall cease once the member has been found to be no longer either totally or partially disabled: **Provided, That the board shall require recertification for each partial or total disability at regular intervals as specified by the guidelines adopted by the public employees retirement system." (Emphasis added)**

According to the Membership Section Manager, the issue of requiring disability retirees to undergo regular medical examinations by a Board physician once awarded disability retirement benefits has not been addressed by the CPRB in recent years. As a result, the CPRB has not implemented a formal policy regarding this issue. Additionally, she told us the CPRB has not addressed proposing legislation for DSRS, similar to that which was recently enacted for PERS during the 2005 Legislative Session, which would amend the State Code to allow the CPRB to require disability retirees to submit a statement signed by the disability retiree's physician attesting to their continued disability . However, she told us the CPRB has required in some instances disability retirees to submit to medical examinations subsequent to retirement if the Board physician who conducted their examination during the disability retirement application process recommended the retiree be examined again a year later to determine whether the retiree continues to be disabled. However, CPRB records indicate that only one disability retiree was required to submit to such a followup examination during the audit period.

The Membership Section Manager further stated that the Legislative Rule for the Deputy Sheriff Retirement System was amended during the 2005 Legislative Session to allow the CPRB to require disability retirees to submit on an annual basis a statement of earnings so the CPRB could more easily identify those disabled retirees who engage in substantial gainful activity. Title 162, Series 10, Section 11 of the Legislative Rule for the Deputy Sheriff Retirement System, as amended, states:

> "11.1. The Board may require a disability benefit recipient awarded a disability retirement under the provisions of this rule to file an annual statement of earnings and any other financial information required by the Board. If a disability recipient refuses to file the statement or financial information as requested by the Board, the Board shall suspend the disability benefit until the statement or financial information is filed. If the refusal continues for sixty (60) days, the Board shall terminate the recipient's right to the disability benefit."

In November 2005, the CPRB mailed out letters to all retirees who were retired due to a disability as of December 31, 2004 requesting these retirees provide the CPRB with copies of their personal income tax return along with any other related documents (such as W-2 forms, 1099 forms, self-employment documents, backup data, and any other document of income received) for calendar year 2004. Along with this letter, an Affidavit of Income form was mailed to each retiree requesting the disability retiree to indicate whether he or she filed a personal income tax return for calendar year 2004 and to sign it.

The letter which was specifically mailed to totally disabled retirees, both duty and non-duty related, informed these disability retirees that they were not allowed to engage in any type of substantial gainful employment in accordance with Chapter 7, Article 14D, Section 2(hh) of the West Virginia Code, as amended. This Code section states:

> "(hh) "Totally disabled" means a member's inability to engage in substantial gainful activity by reason of any medically determined physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve months.
> For purposes of this subdivision:
> (1) A member is totally disabled only if his or her physical or mental impairment are so severe that his or she is not only unable to perform his or her previous work as a deputy sheriff but also cannot, considering his or her age, education and work experience, engage in any other kind of substantial gainful employment which exists in the state regardless of whether: (A) The work exists in the immediate area in which the member lives; (B) a specific job vacancy exists; or (C) the member would be hired if he or she applied for work.
> (2) "Physical or mental impairment" is an impairment that results from an anatomical, physiological or psychological abnormality that is demonstrated by medically accepted clinical and laboratory diagnostic techniques.
> A member's receipt of social security disability benefits creates a rebuttable presumption that the member is totally disabled for purposes of this plan. Substantial gainful employment rebuts the presumption of total disability."

"Substantial gainful employment" or "gainful employment" is defined as follows by Title 162, Series 10, Section 2.4 of the Legislative Rule for the Deputy Sheriff Retirement System, as amended:

> "2.4. "Substantial gainful employment" or "gainful employment" means employment in which an individual may earn up to an amount that is determined by the United States Social Security Administration as substantial gainful activity and still receive total disability benefits."

According to the letter sent to each disability retiree, the maximum amount which a retiree could have earned during calendar year 2004 from substantial gainful activity and still be eligible to receive total disability benefits was $810 per month.

A similar letter was mailed to all partially disabled retirees, both duty and non-duty related, which informed these disability retirees that they were allowed to engage in non-deputy gainful employment as long as they did not earn an amount in excess of two-thirds of the average annual compensation earned by all active members of DSRS during the plan year ending the most recent thirtieth day of June as required by Chapter 7, Article 14D, Section 2(z) of the West Virginia Code, as amended. This Code section states:

> "(z) "Partially disabled" means a member's inability to engage in the duties of deputy sheriff by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve months. A member may be determined partially disabled for the purposes of this article and maintain the ability to engage in other gainful employment which exists within the state but which ability would not enable him or her to earn an amount at least equal to two thirds of the average annual compensation earned by all active members of this plan during the plan year ending as of the most recent thirtieth day of June, as of which plan data has been assembled and used for the actuarial valuation of the plan."

According to the letter, two-thirds of the average annual compensation earned by all active members of DSRS as of June 30, 2004 was an amount equal to $23,285.83. Thus, a partially disabled retiree could have earned an amount up to $23,285.83 from gainful employment during calendar year 2004 and still be eligible to receive partial disability benefits.

We recommend the CPRB utilize the authority already granted to the Board by Chapter 7, Article 14D, Section 16 of the West Virginia Code.

Spending Unit's Response

CPRB agrees that disability re-certification of disability is useful. CPRB staff is in the process of revising the PERS re-certification form to be completed by the DSRS disability retiree's physician to attest to the continued disability of the member.

West Virginia Code 7-14D-16 allows CPRB to cause disability retirants to undergo additional medical evaluations or re-examinations; it does not, however, require CPRB to do so. Medical evaluations can be expensive. Staff is developing and has developed some screening tools that may lessen the cost including requiring an annual statement of earnings (as noted on page 38 of the Auditors' draft report).

Upon receipt of the disabled members re-certification and annual statement of earnings, the Board will better be able to evaluate whether a disabled member should be considered for a re-exam by a Board physician.

Unfunded Liability of Deputy Sheriff Retirement System (Informational Only)

As of July 1, 2005, the Deputy Sheriff Retirement System had an unfunded accrued liability of $29,167,000. This amount is based on the most recent actuarial valuation report prepared by the actuarial staff of the Consolidated Public Retirement Board in December 2005. This retirement system is funded through employee contributions of 8.5% of gross payroll and employer contributions of 10.5% of gross payroll. Additionally, the retirement system is funded by a portion of the fees generated by each sheriff department for reports which are remitted to the CPRB throughout the year. This actuarial valuation indicates that the statutory employee and employer contributions along with the report fees deposits are adequate to cover accruing liabilities, referred to as the normal cost, and to fully fund the existing unfunded liability of $29,167,000 by June 30,

2029. The following schedule illustrates the funding progress of the unfunded accrued liability for the seven fiscal years prior to July 1, 2005:

Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Entry Age Actuarial Accrued Liability (b)**	**Unfunded Actuarial Accrued Liability (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll (b-a)/(c)**
06/30/99	$32,801,140	$49,237,316	$16,436,176	66.6%	$19,581,154	83.9%
06/30/00	$39,679,000	$57,480,622	$17,801,622	69.0%	$21,055,550	84.5%
06/30/01	$42,919,000	$64,869,270	$21,950,270	66.2%	$22,589,854	97.2%
06/30/02	$44,371,000	$72,701,961	$28,330,961	61.0%	$24,292,160	116.6%
06/30/03	$49,364,000	$78,870,860	$29,506,860	62.6%	$26,094,112	113.1%
06/30/04	$59,715,000	$87,759,000	$28,044,000	68.0%	$28,326,000	99.0%
06/30/05	$68,914,000	$98,081,000	$29,167,000	70.3%	$29,837,000	97.8%

Source: Actuarial Valuation Report as of July 1, 2005 prepared in December 2005 by the actuarial staff of the Consolidated Public Retirement Board.

Based on this schedule, the funded ratio of plan assets to the actuarial accrued liability of the retirement system has increased by 3.7% over the last seven fiscal years.

Spending Unit's Response

CPRB is unable to find a conclusion or recommendation in the section labeled Unfunded Liability of Deputy Sheriff Retirement System beginning on page forty (41) to which it should respond.

Retirement Annuities Miscalculated

Between July 1, 2003 and June 30, 2005, there were 43 retirees and beneficiaries who began receiving an annuity. We reviewed the retirement annuities of 16 (or 37%) of these retirees and beneficiaries. During our review of these retirement annuities, we noted where the monthly annuity paid to one annuitant was understated by $19.22 and the monthly annuity of another annuitant was overstated by $5.93. These two instances are detailed in the following schedule.

Annuitant	Date Retired or Date Started Receiving Annuity	Actual Monthly Annuity	Recalculated Monthly Annuity	Amount Overstated/ (Understated)
#1	05/01/2004	$2,544.67	$2,563.89	($19.22)
#2	01/01/2005	$2,026.30	$2,020.37	$5.93

The following schedule reflects the results of our sample as projected over the entire population:

		Number of Annuitants Affected	
Result	Percent	Sample	Population
In Compliance	88%	14	37
Annuities Understated	6%	1	3
Annuities Overstated	6%	1	3
Total	100%	16	43

As the above schedule indicates, 12% of the retirement annuities paid to the population of 43 retirees and beneficiaries were either understated or overstated. Based on the first 6% error rate, we estimate the monthly annuities of three annuitants in the population were understated. For these three annuitants, we further estimate their average monthly annuity of $2,545 was understated by approximately $19 per month. Also, based on the second 6% error rate, we estimate the annuities of three annuitants in the population were overstated. For these three annuitants, we further estimate their average monthly annuity of $2,026 was overstated by approximately $6 per month. The following schedule details the dollar impact of these errors on both the sample and population:

	Dollar Impact on Sample		Dollar Impact on Population	
Result	Total Pension Benefits Paid During Audit Period	Actual Pension Benefits (Underpaid)/ Overpaid	Total Pension Benefits Paid During Audit Period	Projected Pension Benefits (Underpaid)/ Overpaid
In Compliance	$280,500	N/A	$788,000	N/A
Understatements	35,600	($269)	100,000	($750)
Overstatements	12,200	$36	34,000	$100
Total	**$328,300**		**$922,000**	

Chapter 7, Article 14D, Section 2(s) of the West Virginia Code, as amended, defines "final average salary" as follows:

> "(s) "Final average salary" means the average of the highest annual compensation received for covered employment by the member during any five consecutive plan years within the member's last ten years of service. If the member did not have annual compensation for the five full plan years preceding the member's attainment of normal retirement age and during that period the member received disability benefits under section fourteen or fifteen of this article then "final average salary" means the average of the monthly salary determined paid to the member during that period as determined under section seventeen of this article multiplied by twelve."

Furthermore, "years of service" is defined by Chapter 7, Article 14D, Section 2(ii) of the West Virginia Code, as amended. This Code section states in part:

> "(ii) "Year of service." A member shall, except in his or her first and last years of covered employment, be credited with year of service credit based upon the hours of service performed as covered employment and credited to the member during the plan year based upon the following schedule:

Hours of Service	Year of Service Credited
Less than 500	0
500 to 999	1/3
1,000 to 1,499	2/3
1,500 or more	1

During a member's first and last years of covered employment, the member shall be credited with one twelfth of a year of service for each month during the plan year in which the member is credited with an hour of service. A member is not entitled to credit for years of service for any time period during which he or she received disability payments under section fourteen or fifteen [of this article. Except as specifically excluded, years of service include covered employment prior to the effective date...."

We noted the first annuitant's monthly retirement annuity had been understated by $19.22 because the wrong final average salary was used by the CPRB to calculate his monthly annuity. When preparing an annuitant's retirement annuity, the CPRB's retirement advisor will utilize a Final Payroll Data Letter received from the annuitant's employer to assist with the calculation of the annuitant's final average salary. This Final Payroll Data Letter serves as verification of the annuitant's termination of employment as well as listing the annuitant's gross salary and related retirement deduction for the last four months of the annuitant's active employment. We noted the retirement advisor used the salary information reflected on the letter to help determine the annuitant's total gross salary for the 2004 plan year which was subsequently used in the calculation of the member's final average salary. However, we determined the annuitant's employer reported the wrong gross salary amount for the annuitant's last month of employment which resulted in the annuitant's final average salary being understated.

The second annuitant's total amount of credited service was overstated by one month. CPRB records indicate this annuitant had worked a total of 1,440 hours during the 2001 plan year; however, the CPRB erroneously credited the annuitant with nine months of service credit for this plan year rather than eight months of service credit. This annuitant's monthly contribution history indicated the annuitant had a three-month break in service during the 2001 plan year. When a member has a break in service during any plan year, CPRB personnel within the Membership Section are responsible for reviewing the member's contribution history for the plan year to determine whether the proper amount of service credit months was credited to the member's annual contribution history by the mainframe system based on the total number of hours worked by the member during the plan year. If CPRB personnel determine that an improper amount of service credit months has been credited to the member's annual contribution history, then the member's annual contribution history will be adjusted by CPRB personnel to reflect the proper amount of service credit months. However, CPRB personnel failed to adjust this annuitant's service credit months for this plan year to reflect the proper amount of service credit months the annuitant was entitled to receive.

Additionally, we noted one other annuitant's monthly annuity had been understated by $114.98 as the result of a misinterpretation of the statutes governing the determination of the retirement annuity payable to this annuitant. This understated annuity involved the beneficiary of a deceased retiree who had been awarded a total duty disability. CPRB records indicate this was the only retirement annuity transaction of this nature processed during the audit period and as such was treated as an isolated incident. The annuitant's understated monthly annuity is detailed in the following schedule.

Annuitant	Date Retired or Date Started Receiving Annuity	Actual Monthly Annuity	Recalculated Monthly Annuity	Amount Overstated/ (Understated)
#1	10/01/2003	$1,034.79	$1,149.77	($114.98)

Chapter 7, Article 14D, Section 18(a) of the West Virginia Code, as amended, states:

> "(a) The surviving spouse of any member who, after the effective date of this article while in covered employment, has died or dies by reason of injury, illness or disease resulting from an occupational risk or hazard inherent in or peculiar to the service required of members, while the member was or is engaged in the performance of his or her duties as a deputy sheriff, or the survivor spouse of a member who dies from any cause while receiving benefits pursuant to section fourteen [§ 7-14D-14] of this article, is entitled to receive and shall be paid from the fund benefits as determined in subsection (b) of this section: **To the surviving spouse annually, in equal monthly installments during his or her lifetime an amount equal to the greater of: (i) Two thirds of the annual compensation received in the preceding twelve-month period by the deceased member;** or (ii) if the member dies after his or her early or normal retirement age, the monthly amount which the spouse would have received had the member retired the day before his or her death, elected a one hundred percent joint and survivor annuity with the spouse as the joint annuitant, and then died." **(Emphasis added)**

Also, "annual compensation" is defined by Chapter 7, Article 14D, Section 2(e) of the West Virginia Code, as amended. This Code section states in part:

> "(e) "Annual compensation" means the wages paid to the member during covered employment within the meaning of Section 3401(a) [26 USCS § 3401] of the Internal Revenue Code, but determined without regard to any rules that limit the remuneration included in wages based upon the nature or location of employment or services performed during the plan year plus amounts excluded under Section 414(h) (2) [26 USCS § 414] of the Internal Revenue Code and less reimbursements or other expense allowances, cash or noncash fringe benefits or both, deferred compensation and welfare benefits...."

When preparing this annuitant's monthly annuity, CPRB personnel calculated this annuitant's monthly annuity based on two-thirds of the total pension benefits paid to the deceased retiree in the twelve-month period preceding his death. However, we believe the calculation of this annuitant's monthly annuity should have been based on two-thirds of the total wages paid to the deceased retiree while employed as a deputy sheriff during the twelve-month period preceding the deceased retiree's disability.

Upon our bringing this discrepancy to the attention of CPRB personnel, CPRB personnel consulted with their legal counsel about this issue. The CPRB's legal counsel issued the following legal opinion on this matter:

> "The provisions of WV Code § 7-14D-18 control but are, unfortunately, not as clear as they could be. There are no legal cases that construe this statute. Taking into consideration WV Code § 7-14D-4 requiring liberal construction of the article, WV Code § 7-14D-14 concerning duty-related disability and the current definitions of relevant definitions as found in WV Code § 7-14D-2, it is my legal opinion that the term "annual compensation received in the preceding twelve-month period by the deceased member" refers to the wages received by the member during the last twelve-month period he or she received wages while employed as a deputy sheriff. It does not mean the amount of disability retirement benefits he or she may have received in the twelve month period preceding death."

Based on this legal opinion, CPRB personnel subsequently adjusted the annuitant's monthly retirement annuity in June 2006 from $1,034.79 to $1,149.77. Additionally, the CPRB issued the annuitant a supplemental retirement payment in June 2006 in the amount of $3,679.36, representing the total amount she had been underpaid from October 2003 through May 2006.

The CPRB not properly calculating an annuitant's final average salary or total amount of credited service has resulted in some annuitants either receiving more or less pension benefits than they were entitled to receive. Upon bringing each of these discrepancies to the attention of the appropriate agency personnel, the calculation of each annuitant's retirement annuity was re-examined. After re-examining each annuitant's retirement file, the CPRB concurred with our findings and subsequently took the necessary steps to correct these errors.

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Sections 2(e), 2(s), 2(ii) and 18(a) of the West Virginia Code, as amended, by strengthening internal controls over the processing of retirement annuities.

Spending Unit's Response

During the audit period, there were forty three (43) DSRS retirants and beneficiaries who began receiving an annuity. The Auditors found three annuities that were miscalculated. One retirant's payroll clerk incorrectly completed the employer forms. This has now been corrected and the retirement annuity recalculated. The second retirant received an unearned additional month of credited service; this has been corrected and the retiree has paid back to CPRB the $5.93 this miscalculation occasioned.

The third miscalculation involved an isolated incident, as noted on page 46 of the draft report, and the beneficiary of the disability retirant has been paid a supplemental for the underpayment and the monthly retirement annuity has been adjusted.

Retirement Contributions Not Remitted in Timely Manner by County Commissions

Of the 50 retirement contribution remittances tested, we noted 17 occurrences totaling $95,375.97 where the county commissions did not remit their monthly remittances of employee and employer contributions to the CPRB in a timely manner. Also, the timeliness of two remittances could not be determined because the documentation supporting each remittance was not date stamped indicating when each remittance had been received. Additionally, we noted where the December 2003 monthly retirement report submitted by the Mercer County Commission had not been signed by its executive officer certifying as to the accuracy of the information submitted.

Of the 50 retirement contribution remittances tested, we were only able to determine whether 48 remittances were remitted timely. Seventeen of these 48 retirement contribution remittances were not remitted timely to the CPRB, resulting in a noncompliance rate of 35%. The 17 remittances were remitted an average of six days late. Projecting the error rate of our audit sample to the population of monthly retirement contribution remittances received from the county commissions which were processed during the period of July 1, 2003 through June 30, 2005, we estimate 468 remittances of 1,321 processed were not remitted timely to the CPRB. Furthermore, we estimate that approximately $2,650,000 of the $10,395,033.88 of retirement contributions collected from the various county commissions during the audit period were remitted late. Based on an average annual rate of return, we further estimate the CPRB lost approximately $6,550 in investment earnings during the audit period due to these monthly retirement contribution remittances not being remitted timely.

During the 2004 fiscal year, the CPRB's policy was to require employers (county commissions) to remit their employee and employer contributions to the CPRB no later than ten days following the end of the calendar month for which the monies were due even though there was no specific statutory authority at this time which addressed the timely remittance of retirement contributions to the CPRB by a participating employer. However, effective July 1, 2004, the West Virginia Legislature amended the provisions of Chapter 7, Article 14D, Section 7 of the West Virginia Code to require each county commission to start remitting employee and employer contributions to the CPRB within ten days following the end of the calendar month for which these monies were due. Chapter 7, Article 14D, Section 7 of the West Virginia Code, as amended, states in part:

> "There shall be deducted from the monthly salary of each member and paid into the fund an amount equal to eight and one-half percent of his or her monthly salary...An additional amount shall be paid to the fund by the county commission of the county in which the member is employed in covered employment in an amount determined by the board: Provided, That in no year may the total of the contributions provided for in this section, to be paid by the county commission, exceed ten and one-half percent of the total payroll for the members in the employ of the county commission for the preceding fiscal year. If the board finds that the benefits provided by this article can be actually funded with a lesser contribution, then the board shall reduce the required member or employer contributions or both. **The sums withheld each calendar month shall be paid to the Fund no later than ten days following the end of the calendar month." (Emphasis added)**

During the 2005 Legislative Session, the West Virginia Legislature passed House Bill 2984 amending the aforementioned Code section to reflect a new due date for which monthly retirement contributions were to be remitted to the CPRB by the county commissions. This amendment, which became effective on April 9, 2005, states in part:

> "...The sums withheld each calendar month shall be paid to the Fund no later than **fifteen days** following the end of the calendar month." **(Emphasis added)**

According to the Membership Section Manager, during the audit period there was no mechanism under State law by which the CPRB could impose a penalty on the county commissions for delinquent remittances; therefore, there was no incentive for the county commissions to remit these retirement contributions timely. However, during the 2006 Legislative Session, the West Virginia Legislature passed House Bill 4032 amending Chapter 5, Article 10D, Section 1 of the West Virginia Code to authorize the CPRB to recover from a participating employer that fails to pay retirement contributions due the CPRB in a timely manner a surcharge as a result of the untimely payment. Chapter 5, Article 10D, Section 1(f)(2) of the West Virginia Code, as amended, states:

> "(2) The board may recover from a participating employer that fails to pay any amount due a retirement system in a timely manner the contribution due and an additional amount not to exceed interest or other earnings lost as a result of the untimely payment, or a reasonable minimum fee, whichever is greater, as untimely payment, or a reasonable minimum fee, whichever is greater, as provided by legislative rule promulgated pursuant to the provisions of article three, chapter twenty-nine-a of this code. Any amounts recovered shall be administered in the same manner in which the amount due is required to be administered."

Additionally, in September 2006, the CPRB plans to implement a pilot program using one employer where the employer will utilize a new reporting feature called Web Reporting to report their monthly retirement contributions to the CRPB. This reporting feature is being implemented by the CPRB to help facilitate the monthly reporting process of retirement contributions. In conjunction with Web Reporting, the CPRB will also begin offering the county commissions two new payment methods in which to remit payment to the CPRB: Automatic Clearing House (ACH) Debit and Lockbox. Once the CPRB has worked out any problems which may arise during the pilot program, the CPRB will eventually be making Web Reporting and ACH Debit/Lockbox available to all employers.

We recommend the CPRB comply with the provisions of both Chapter 7, Article 14D, Section 7 and Chapter 5, Article 10D, Section 1(f)(2) of the West Virginia Code, as amended, by strengthening internal controls over the collection of retirement contributions from the county commissions. We further recommend the CPRB strengthen internal controls over the documenting of the receipt of monthly retirement contribution remittances from county commissions to ensure compliance with the aforementioned Code sections.

Spending Unit's Response

CPRB is in agreement that the County Commissions do not always timely remit the contributions to CPRB. Effective June 9, 2006, West Virginia Code §5-10D-1 was amended during the 2006 Legislative session to allow CPRB to assess delinquency charges for untimely contributions, and CPRB has proposed a legislative rule for consideration during the 2007 Legislative Session that implements this authority.

PERS Retirement Contributions Erroneously Deposited to DSRS State Account

While performing a general review of all revenue transactions processed through the West Virginia Deputy Sheriff Retirement Account during the period July 1, 2003 through June 30, 2005, we noted one instance where PERS retirement contributions totaling $151,848.10 were erroneously deposited to the DSRS State account. This erroneous deposit is detailed in the following schedule:

FIMS Document Number	Date of Deposit	Amount of PERS Employee Contributions Erroneously Deposited to DSRS State Account	Amount of PERS Employer Contributions Erroneously Deposited to DSRS State Account
D1060769	8/10/2004	$45,554.48	$106,293.62

The employee contributions deducted from the gross compensations of PERS members are to be remitted to the CPRB by each participating public employer of PERS in accordance with Chapter 5, Article 10, Section 29(c) of the West Virginia Code, as amended, which states:

> "(c) The officer or officers responsible for making up the payrolls for payroll units of the state government and for each of the other participating public employers shall cause the contributions, provided for in subsection (b) above, to be deducted from the compensations of each member in the employ of the participating public employer,

> on each and every payroll, for each and every payroll period, from the date the member enters the retirement system to the date his membership terminates. When deducted, each of said amounts shall be paid by the participating public employer to the retirement system; said payments to be made in such manner and form, and in such frequency, and shall be accompanied by such supporting data, as the board of trustees shall from time to time prescribe. **When paid to the retirement system, each of said amounts shall be credited to the members' deposit fund account of the member from whose compensations said contributions were deducted." (Emphasis added)**

Additionally, the account to which PERS employer contributions are to be deposited is established by Chapter 5, Article 10, Section 31(a) of the West Virginia Code, as amended, which states:

> "(a) The employers accumulation fund is hereby continued. It shall be the fund in which shall be accumulated the contributions made by the participating public employers to the retirement system, and from which transfers shall be made as provided in this section."

The employee responsible for preparing PERS contribution remittances for deposit is required to complete an Excel deposit cover sheet summarizing the deposit totals for the monies received by account and revenue source code. The Accounting Department staff utilize this cover sheet to enter the deposit transactions into FIMS. These PERS employee and employer retirement contributions were erroneously coded for deposit to the West Virginia Deputy Sheriff Retirement Account rather than to the PERS Member Deposit Account and PERS Employers Accumulation Account, respectively, on the Excel deposit cover sheet prepared for this transaction as the result of a clerical error on the part of the CPRB employee who prepared the deposit cover sheet. We reviewed all subsequent transactions and found no documentary evidence to indicate this erroneous deposit had been caught and corrected by agency personnel.

By not properly coding revenue transactions for entry into FIMS, the CPRB may risk producing misleading financial statements. Specifically, as a result of this clerical error, PERS retirement contributions for the 2005 fiscal year were understated by $151,848.10, while DSRS retirement contributions for the 2005 fiscal year were overstated by $151,848.10. Furthermore, the CPRB is utilizing PERS contributions to subsidize the funding of pension benefits and refunds of accumulated contributions being paid out to DSRS members.

We recommend the CPRB comply with the provisions of Chapter 5, Article 10, Sections 29(c) and 31(a) of the West Virginia Code, as amended, by strengthening internal controls over the coding of retirement contributions received for deposit to the appropriate State accounts.

Spending Unit's Response

CPRB is in agreement and the staff error has been corrected.

Active PERS Member Erroneously Included by Employer on DSRS Monthly Retirement Reports

CPRB records indicate 172 deputy sheriffs joined the Deputy Sheriff Retirement System between July 1, 2003 and June 30, 2005. During our review of 50 DSRS enrollment transactions, we noted where the CPRB had erroneously established a DSRS contribution data record on their mainframe system for an employee of the Kanawha County Commission who was already enrolled as an active member of the Public Employees Retirement System (PERS) with the same employer.

Upon accessing the member's contribution history on the CPRB's mainframe system, we noted two separate contribution data records being maintained for this member. One data record was a PERS data record while the other data record was a DSRS data record. Both data records were coded as active meaning the member was actively contributing to both retirement systems. This employee's PERS data record reflected monthly contributions posted to his account for the period August 2003 through March 2004 and November 2004 through the present. His DSRS data record reflected monthly contributions posted to his account for the period April 2004 through October 2004. A review of the member's membership file indicated the member had completed a PERS enrollment form dated August 4, 2003 but there was no DSRS enrollment form maintained as part of his file.

The employee contributions deducted from the gross compensations of PERS members are to be remitted to the CPRB by each participating public employer of PERS in accordance with Chapter 5, Article 10, Section 29(c) of the West Virginia Code, as amended, which states:

> "(c) The officer or officers responsible for making up the payrolls for payroll units of the state government and for each of the other participating public employers shall cause the contributions, provided for in subsection (b) above, to be deducted from the compensations of each member in the employ of the participating public employer, on each and every payroll, for each and every payroll period, from the date the member enters the retirement system to the date his membership terminates. When deducted, each of said amounts shall be paid by the participating public employer to the retirement system; said payments to be made in such manner and form, and in such frequency, and shall be accompanied by such supporting data, as the board of trustees shall from time to time prescribe. When paid to the retirement system, each of said amounts shall be credited to the members' deposit fund account of the member from whose compensations said contributions were deducted."

Also, Title 162, Series 5, Section 10 of the Legislative Rule for the Public Employees Retirement System, as amended, states in part:

> "All participating public employers shall withhold four and five-tenths percent (4.5%) from the gross compensation of each member...."

Additionally, the account to which PERS employer contributions are to be deposited is established by Chapter 5, Article 10, Section 31(a) of the West Virginia Code, as amended, which states:

> "(a) The employers accumulation fund is hereby continued. It shall be the fund in which shall be accumulated the contributions made by the participating public employers to the retirement system, and from which transfers shall be made as provided in this section."

Furthermore, Title 162, Series 5, Section 9 of the Legislative Rule for the Public Employees Retirement System, as amended, states in part:

> "Each participating public employer shall contribute nine and five-tenths percent (9.5%) of each compensation payment of all its employees who are members of the Public Employees Retirement System: Provided, That beginning on the first day of July, two thousand three, each participating public employer shall contribute ten and five-tenths percent (10.5%) of each compensation payment of all its employees who are members of the Public Employees Retirement System...."

We spoke to the Uniformed Services Retirement Advisor concerning this discrepancy surrounding the member's apparent membership in two different retirement systems. To clear up this discrepancy, the Uniformed Services Retirement Advisor forwarded an Employer Verification Form to the member's employer (Kanawha County Commission) to ascertain whether the member had any service as a deputy sheriff since August 2003. This form was completed by the member's employer and returned to the CPRB. The member's employer indicated on this form that the member has been employed by Kanawha County Commission as a Communications Specialist (civilian employee) since August 1, 2003 through the present and did not reflect any service as a deputy sheriff.

Based on this information, we believe this employee was never eligible to participate in DSRS and was erroneously included by the member's employer on the DSRS monthly retirement reports submitted to the CPRB for the period April 2004 through October 2004 rather than on the PERS monthly retirement reports submitted for the same time period as he should have been. The member's employer is a participating employer of both PERS and DSRS.

As a result of Kanawha County Commission erroneously including this PERS member on their DSRS monthly retirement reports starting in April 2004, the CPRB considered the employee as a new member of DSRS and thus established a DSRS data record for him on the mainframe system. Starting with their November 2004 monthly retirement report, Kanawha County Commission appropriately began including this member once again on their PERS monthly retirement reports. Due to this reporting error, we determined excess employee contributions amounting to $483.55 were remitted to the CPRB on behalf of this member as follows:

Report Month	Monthly Gross Salary	Actual DSRS Contributions Withheld (8.5%)	Recalculated PERS Contributions Which Should Have Been Withheld (4.5%)	Excess Amount of Contributions Withheld
April 2004	$ 1,779.04	$ 151.22	$ 80.06	$ 71.16
May 2004	1,668.48	141.82	75.08	66.74
June 2004	1,755.52	149.22	79.00	70.22
July 2004	1,687.30	143.42	75.93	67.49
August 2004	1,668.48	141.82	75.08	66.74
September 2004	1,884.90	160.22	84.82	75.40
October 2004	1,644.95	139.82	74.02	65.80
Total	**$12,088.67**	**$1,027.54**	**$543.99**	**$483.55**

Additionally, $1,269.31 in employer contributions were erroneously deposited to the Deputy Sheriff Retirement System rather than to the Public Employees Retirement System. The misreporting of this member's PERS contributions as DSRS contributions for the period April 2004 through October 2004 results in the understatement of the member's PERS service credit which will negatively impact the calculation of the member's PERS annuity when he retires.

We recommend the CPRB strengthen internal controls over the processing of PERS retirement contributions to ensure participating public employers are complying with the provisions of Chapter 5, Article 10, Sections 29 and 31 of the West Virginia Code, as amended, as well as Title 162, Series 5, Sections 9 and 10 of the Legislative Rule for the Public Employees Retirement System, as amended. We also recommend the CPRB refund the aforementioned PERS member the amount of any excess employee contributions withheld from his gross compensations for the period April 2004 through October 2004 and transfer the appropriate amount of employee and employer contributions from the account maintained for the Deputy Sheriff Retirement System to the appropriate accounts maintained for the Public Employees Retirement System. We further recommend the CPRB adjust the member's PERS data record on the mainframe system to accurately reflect the appropriate amounts of service credit and accumulated contributions.

Spending Unit's Response

CPRB is in agreement that the DSRS employer payroll clerk incorrectly included this person in the DSRS report. CPRB is in process of correcting and returning the additional contribution to the employer.

As noted above, to prevent this from occurring again, the DSRS payroll clerks received a letter in April 2006, emphasizing the importance of properly completing the monthly

reports. CPRB staff has also started to double check all new names on the monthly remittance report to ensure that a DSRS enrollment and beneficiary form has been submitted to CPRB. If forms are not found, CPRB will follow up with the payroll clerk to ensure the member is in the appropriate retirement system.

<u>Excess Amount of Federal Taxes Withheld from Death Benefit Issued to Estate of Deceased Retiree</u>

Upon the death of a retiree, the deceased retiree's beneficiary or estate is entitled to receive any excess of the retiree's accumulated contributions (retirement contributions contributed while an active member plus accrued interest) over the total amount of pension benefits paid to the retiree from the retiree's date of retirement up until the date of death. The excess is paid as a "lump sum" which is generally subject to federal taxes. CPRB records indicate there was one such death benefit transaction processed by the CPRB during the audit period. Upon the death of a total non-duty disability retiree in May 2005, the CPRB issued a gross death benefit payment to the estate of this deceased retiree amounting to $8,330.21. However, we noted the CPRB withheld too much federal taxes from the net death benefit payment issued to the deceased retiree's estate. The following schedule illustrates the amount of excess federal taxes withheld from this death benefit payment.

Recipient	Date of Death Benefit Payment	Actual Amount of Federal Taxes Withheld	Audited Amount of Federal Withholding Taxes	Excess Amount of Federal Taxes Withheld
#1	6/16/2005	$1,757.00	$443.00	$1,314.00

Chapter 7, Article 14D, Section 2(x) of the West Virginia Code, as amended, states:

> "(x) "Normal form" means a monthly annuity which is one twelfth of the amount of the member's accrued benefit which is payable for the member's life. **If the member dies before the sum of the**

> **payments he or she receives equals his or her accumulated contributions on the annuity starting date, the named beneficiary shall receive in one lump sum the difference between the accumulated contributions at the annuity starting date and the total of the retirement income payments made to the member." (Emphasis added)**

Upon requesting the balance of a deceased retiree's retirement contributions, the beneficiary or administrator of the deceased retiree's estate must fill out several forms. One of these forms is the "Notice of Withholding on Distributions or Withdrawals from Pension and Deferred Compensation Plans" form. This form states in part:

> "The distribution or withdrawal you receive from the Consolidated Public Retirement Board will be subject to federal income tax withholding unless you elect not to have withholding apply. **Withholding will only apply to the portion of your distribution or withdrawal that is included in your income subject to federal income tax.** Thus, for example, there will be no withholding on the return of your own nondeductible contributions to the plan...Even if you elect not to have federal income tax withheld, **you are liable for payment of federal income tax on the taxable portion of your distribution or withdrawal...." (Emphasis added)**

By not properly calculating the amount of Federal taxes to be withheld from death benefit payments, the CPRB may risk underpaying or overpaying death benefits which are payable to the beneficiaries or estates of deceased retirees. As a result of withholding too much Federal taxes from the aforementioned death benefit payment, the deceased retiree's estate was underpaid death benefits amounting to $1,314.00.

As mentioned earlier, the deceased retiree's beneficiary or administrator of the deceased retiree's estate will complete a "Notice of Withholding on Distributions or Withdrawals from Pension and Deferred Compensation Plans" form when applying for a lump sum payment of the deceased retiree's excess contributions. The CPRB utilizes this form to determine the amount of Federal taxes to withhold from the death benefit payment payable to the deceased retiree's beneficiary or estate (if no beneficiary). We noted the administrator of the aforementioned deceased retiree's estate had not completed this form; thus, the CPRB calculated the amount of Federal taxes to withhold from this death benefit payment based on the last W-4P Form completed by the retiree prior to his death.

When calculating the amount of Federal taxes to be withheld from a death benefit payment, CPRB personnel will first deduct the unused non-taxable portion of the deceased retiree's accumulated contributions from the gross death benefit amount to arrive at the taxable portion against which withholding taxes will be withheld. However, we noted the CPRB failed to deduct the amount of the deceased retiree's unused non-taxable contributions of $4,988.70 to arrive at the appropriate taxable portion of the death benefit payment of $3,341.51 against which Federal taxes should have been withheld. Instead, the CPRB treated the entire gross death benefit amount of $8,330.21 as taxable. According to the Membership Section Manager, this calculation error was an oversight on the part of the CPRB employee responsible for processing the death benefit payment.

We recommend the CPRB comply with the provisions of Chapter 7, Article 14D, Section 2(x) of the West Virginia Code, as amended, by strengthening internal controls over the processing of death benefit payments.

Spending Unit's Response

CPRB is in agreement with the Auditors' findings concerning this issue and has determined that this was an isolated incident.

Annualizing a Member's Annual Compensation for Final Average Salary Purposes

Chapter 7, Article 14D, Section 2(s) of the West Virginia Code defines a member's "final average salary" as the average of the highest annual compensation received for covered employment by the member during any five consecutive plan years within the member's last ten years of service. For final average salary purposes, if a member has a break in service during one of these five plan years, the CPRB's practice is to annualize the member's annual compensation for that plan year. Of the 43 retirement annuities processed during the audit period, we noted where for three retirees the CPRB annualized the annual compensation for final average salary purposes for a plan year or plan years, where each member had a break in service. A comparison of each retiree's final average salary with and without the annualizing of the annual compensation for the one plan year where there was a break in service is detailed in the following schedule.

Retiree	Date Retired	Annualized Final Average Salary	Final Average Salary Not Annualized	Amount of Increase
#1	01/01/2005	$ 42,165.79	$ 40,712.46	$ 1,453.33
#2	12/01/2004	42,877.94	39,577.94	3,300.00
#3	01/01/2005	48,634.34	41,487.57	7,146.77
Total		$133,647.07	$121,777.97	$11,900.10

Chapter 7, Article 14D, Section 2(s) of the West Virginia Code, as amended, defines "final average salary" as follows:

> "(s) "Final average salary" means the average of the highest annual compensation received for covered employment by the member during any five consecutive plan years within the member's last ten years of service. If the member did not have annual compensation for the five full plan years preceding the member's attainment of normal retirement age and during that period the member received disability

> benefits under section fourteen or fifteen of this article then "final average salary" means the average of the monthly salary determined paid to the member during that period as determined under section seventeen of this article multiplied by twelve."

Also, Chapter 7, Article 14D, Section 2(e) of the West Virginia Code, as amended, QWdefines "annual compensation" as follows:

> "(e) "Annual compensation" means the wages paid to the member during covered employment within the meaning of Section 3401(a) of the Internal Revenue Code, but determined without regard to any rules that limit the remuneration included in wages based upon the nature or location of employment or services performed during the plan year plus amounts excluded under Section 414(h) (2) of the Internal Revenue Code and less reimbursements or other expense allowances, cash or noncash fringe benefits or both, deferred compensation and welfare benefits. Annual compensation for determining benefits during any determination period may not exceed one hundred fifty thousand dollars as adjusted for cost of living in accordance with Section 401(a) (17) (B) of the Internal Revenue Code."

Annualizing a member's annual compensation for final average salary purposes for a plan year where there was a break in service results in a higher final average salary than had the member's annual compensation not been annualized. Furthermore, a higher final average salary resulting from annualizing the member's annual compensation for a particular plan year produces a larger monthly retirement annuity than the retiree would have otherwise received. The effect of annualizing a member's annual compensation for final average salary purposes on the calculation of a member's monthly retirement annuity is illustrated in the following schedule for the three aforementioned retirees.

Retiree	Date Retired	Monthly Retirement Annuity With Annualizing of Final Average Salary	Monthly Retirement Annuity Without Annualizing of Final Average Salary	Amount of Increase
#1	01/01/2005	$2,020.37	$1,950.73	$ 69.64
#2	12/01/2004	2,806.89	2,590.85	216.04
#3	01/01/2005	2,614.10	2,230.22	383.88
Total		$7,441.36	$6,771.80	$669.56

We spoke with the Membership Section Manager concerning the reason the final average salary of these three retirees was annualized for one or more of the plan years used in the calculation of each retiree's final average salary. The Membership Section Manager told us that during the course of preparing the retirement annuity of one of the aforementioned retirees by the CPRB's Uniformed Services Retirement Advisor, the prospective retiree had asked the retirement advisor how a break in service he had within his last ten years of service would affect the calculation of his final average salary. To ensure the proper calculation of the member's final average salary, membership section personnel consulted with the Board's actuary as to the correct method to employ in calculating the member's final average salary where there was a break in service in one or more of the plan years comprising the member's five highest consecutive plan years of annual compensation.

We subsequently met with the CPRB's actuary concerning this issue. The actuary explained that the CPRB annualizes a member's salary for a particular plan year for which the member had a break in service and which is included as part of the member's final average salary to be in compliance with the nondiscrimination requirements of 401(a) retirement plans as set forth in Section 401 of the Internal Revenue Code. The actuary was unable to reference a specific IRS Code cite governing this issue. However, he explained that it is common practice among 401(a) retirement plans to annualize member salaries in this manner where there is a break in service so that the calculation of a member's final average salary fairly represents the annual salary earned by the member during those five consecutive years. He stated that this is required by the IRS Code as it governs 401(a) retirement plans. For example, dividing a member's total salary paid over a four and one-half year period (member had a six-month break in service during one plan year) by five years would not yield a final average salary which fairly reflects the member's true average annual salary over this five year period. Thus, the salary for the year in which there was a break in service is annualized to arrive at a final average salary which fairly represents the member's average annual salary.

We recommend the CPRB, for clarification purposes, incorporate the practice of annualizing a member's annual compensation for final average salary purposes for a plan year where the member has a break in service into the CPRB's Legislative Rules for the Deputy Sheriff Retirement System.

Spending Unit's Response

CPRB is in agreement with the Auditors' finding. CPRB has a proposed legislative rule to be considered at the 2007 Legislative session that clarifies annualizing salary for DSRS members with a break in employment for the final average salary calculation.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of cash receipts, disbursements and changes in cash balance of the Deputy Sheriff Retirement System as administered by the West Virginia Consolidated Public Retirement Board (the "Board") for the years ended June 30, 2005 and June 30, 2004. The financial statement is the responsibility of the management of the West Virginia Consolidated Public Retirement Board. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the financial statement was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenses paid of the Deputy Sheriff Retirement System as administered by the West Virginia Consolidated Public Retirement Board for the years ended June 30, 2005 and June 30, 2004, on the basis of accounting described in Note A.

Respectfully submitted,

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

June 30, 2006

Auditors: Michael E. Sizemore, CPA, Audit Manager
Neil M. McEachron, Jr., CPA, Auditor-in-Charge
India R. Welder
Thomas F. Ward, CPA
John J. Signore

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS

AND CHANGES IN CASH BALANCE

	Year Ended June 30,	
	2005	2004
Cash Receipts:		
Member Contributions	$2,455,536.69	$2,366,114.89
Employer Contributions	3,067,330.20	2,651,147.27
Reinstatements of Withdrawn Service	20,138.20	61,424.01
Miscellaneous Revenue from Sale of Reports	470,249.31	479,480.80
Investment Earnings	6,573,144.47	6,944,861.41
	12,586,398.87	12,503,028.38
Disbursements:		
Transfer of Administrative Fees to CPRB Expense Account	37,135.00	35,315.00
Membership Loans, Retirement Funds	(40,545.63)	39,323.06
Pension Benefits	3,029,933.95	2,527,786.26
Withdrawal from Retirement Funds	257,214.45	298,848.33
	3,283,737.77	2,901,272.65
Cash Receipts Over Disbursements	9,302,661.10	9,601,755.73
Beginning Balance	9.92	85.60
Transfers to Investment Management Board	(9,302,670.47)	(9,601,831.41)
Ending Balance	$ 0.55	$ 9.92

See Notes to Financial Statement

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

DEPUTY SHERIFF RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENT

Note A - Accounting Policy

Accounting Method: The cash basis of accounting was followed for all accounts. Therefore, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Note B - Unfunded Liability

As of July 1, 2005, the Deputy Sheriff Retirement System had an unfunded accrued liability of $29,167,000. This amount is based on the most recent actuarial valuation report prepared by the actuarial staff of the Consolidated Public Retirement Board in December 2005. This retirement system is funded through employee contributions of 8.5% of gross payroll and employer contributions of 10.5% of gross payroll. Additionally, the retirement system is funded by a portion of the fees generated by each sheriff department for reports which are remitted to the CPRB throughout the year. This actuarial valuation indicates that the statutory employee and employer contributions along with the report fees deposits are adequate to cover accruing liabilities, referred to as the normal cost, and to fully fund the existing unfunded liability of $29,167,000 by June 30, 2029. The following table illustrates the funding progress of the unfunded accrued liability for the seven fiscal years prior to July 1, 2005:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
06/30/99	$32,801,140	$49,237,316	$16,436,176	66.6%	$19,581,154	83.9%
06/30/00	$39,679,000	$57,480,622	$17,801,622	69.0%	$21,055,550	84.5%
06/30/01	$42,919,000	$64,869,270	$21,950,270	66.2%	$22,589,854	97.2%
06/30/02	$44,371,000	$72,701,961	$28,330,961	61.0%	$24,292,160	116.6%
06/30/03	$49,364,000	$78,870,860	$29,506,860	62.6%	$26,094,112	113.1%
06/30/04	$59,715,000	$87,759,000	$28,044,000	68.0%	$28,326,000	99.0%
06/30/05	$68,914,000	$98,081,000	$29,167,000	70.3%	$29,837,000	97.8%

Source: Actuarial Valuation Report as of July 1, 2005 prepared in December 2005 by the actuarial staff of the Consolidated Public Retirement Board.

Based on this schedule, the funded ratio of plan assets to the actuarial accrued liability of the retirement system has increased by 3.7% over the last seven fiscal years.

Note C - Investments

The following table details the investment holdings of the Deputy Sheriff Retirement System held in trust for pension benefits by the West Virginia Investment Management Board as of June 30, 2005 and 2004:

Investment Pool	Fair Market Value of Investments as of June 30, 2005	Fair Market Value of Investments as of June 30, 2004
Large Cap Equity	$17,196,764.16	$14,283,647.50
Non-Large Cap Equity	10,343,697.64	9,911,062.85
International Equity	13,558,668.90	11,594,415.34
Fixed Income	26,498,577.70	22,593,821.50
Short-Term Fixed Income	613,850.68	644,877.54
Total	**$68,211,559.08**	**$59,027,824.73**

Note D - Plan Membership

The following is a summary of plan membership for the Deputy Sheriff Retirement System for fiscal years ending June 30, 2005 and June 30, 2004:

Membership Type	Fiscal Year Ending 6/30/05	Fiscal Year Ending 6/30/04
Actives	835	811
Retirees & Beneficiaries	162	145
Terminated Vested	35	33
Terminated Non-vested	82	72
Total	**1,114**	**10**

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 12th day of September 2006.

Thedford L Shanklin

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; State Auditor; and, Director of Finance Division, Department of Administration.