

FRANKLIN REGIONAL RETIREMENT SYSTEM

MANAGEMENT LETTER

DECEMBER 31, 2020



100 Quannapowitt Parkway
Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

To the Honorable Franklin Regional Retirement Board
Franklin Regional Retirement System
Greenfield, Massachusetts

In planning and performing our audit of the financial statements of the Franklin Regional Retirement System (System), as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Franklin Regional Retirement System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audit we became aware of matters that represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

The System's written responses to the comments identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various System personnel and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the Franklin Regional Retirement System and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

July 22, 2021

FRANKLIN REGIONAL RETIREMENT SYSTEM

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DECEMBER 31, 2020

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***Current Year Comments and
Recommendations***

Selecting a Discount Rate

Comment

The Financial Reporting and Disclosures report as of December 31, 2020, issued by the System's Actuary contained a qualification that the Actuary did not support the 7.75% discount rate selected by the Retirement Board. In the professional opinion of the Actuary, the discount rate selected is not reasonable. In June of 2020, PERAC approved the board's funding schedule under Chapter 32 at the 7.75% discount rate with a statement that they have generally recommended an assumption of 7.25% or lower and that they consider the 7.75% discount rate to be outside the high end of their reasonable range.

Under the standards set by the Government Accounting Standards Board (GASB), the Board is responsible for selecting a discount rate that reflects the expected average earnings over a long period and that is consistent with the standards of practice of the actuarial profession. Selecting a rate that is too high will understate liabilities and undercharge current taxpayers at the expense of future taxpayers.

Recommendation

We recommend the Board work with PERAC and your Actuary to resolve discrepancies related to the discount to be used for the January 2022 valuation and for the next Financial Reporting and Disclosures report to be issued as of December 31, 2021 by the System's Actuary.

Management's Response

In discussion with the auditors a distinction was made between the Investment Return Rate ("IRR") used in actuarial work, and the Discount Rate ("DR") used in the GASB 67/68 work, and that the numbers do not have to be the same because they serve two different purposes. The discussion with the actuary concluded differently, and so yes there is a pending discussion with management, the actuary, and perhaps PERAC, and then later an involved discussion with the FRRS Board.

Internal Controls Over Processing Cash Disbursements

Comment

During 2020, the System implemented a new cash disbursement process which allows the System to pay their vendors via electronic bill pay, through the online banking module. The new process allows for the Executive Director to approve the online payments. Previously, the System paid vendors via manual checks which were manually signed by the System's Treasurer, and the Executive Director did not have the authority to approve the payments.

While there are benefits to the electronic payment function, the new process removes previous internal controls which were in place and creates additional risks for the System. The Executive Director now has access to posting within the System's general ledger and authority to approve payments at the bank. Strong internal controls ensure these two functions are not handled by the same individual. Allowing access to these two important functions provides opportunity for the position to approve and conceal activity which has not been approved by the Board. While the System has mitigating controls in place, the processes do not fully reduce the risk to an appropriate level.

Recommendation

We recommend that the System's banking approval functions remain solely with the System Treasurer. Doing so would ensure the System has appropriate internal controls as banking and general ledger authority would reside

with separate employees.

Management's Response

Management and the Board Treasurer have plans to hand over the new disbursement process to the Board Treasurer.

***Prior Year Comments and
Recommendations***

Complete Member Unit Payroll Reports

Comment

The System receives full detailed payroll deduction reports from all except for six of the member units. These six member units do not provide full salary detail to include non-members. This limits the System's ability to fully audit membership compliance, since they do not have a listing of employees who are considered non-members. The System is therefore unable to confirm that all eligible employees of those member units are enrolled and properly contributing to the System.

The System uses covered payroll, from the member unit full payroll detail reports, to allocate the annual appropriation to member units. Errors with employee enrollment, and therefore contributions, could impact the future allocation by member unit.

Current Status

No significant changes were noted for the year ended December 31, 2020. Management was unable to develop a process that would require all member units to provide full detail payroll reports each time they remit member deductions, due to the ongoing COVID-19 pandemic.

Continuing Recommendation

We continue to recommend that the System require all member units provide complete, detailed payroll reports each time member deductions are remitted to the System. The System will then be able to ensure all eligible members of the System are enrolled and contributing.

Management's Response

Management greatly appreciates the auditors' supportive comments in this endeavor. Although it is unlikely that any other retirement system in Massachusetts matches the detailed efforts of this system, it would be even better if all our units could participate. The lack comes from outright refusal, or lack of time, or dearth of experience – all of which likely could be overcome with more time and attention from senior management from this office. For now, the burden of covid-19's presence usurps efforts to solve the above lack.

Monitoring the Correction of Errors in Payroll Withholdings

Comment

The System audits the payroll deduction reports received from member units each pay period using an Access database program created by the System. During the payroll deduction audit process, the System may discover that a member unit has made errors in the amounts withheld from employees for pension deductions. The identified errors can be seen in the Access database and are discussed with the appropriate member unit to ensure the error is corrected in future payrolls.

The Access database lists several old errors which have not been marked as resolved. Many of these errors have been corrected and the database has not been updated. As a result, an accurate listing of unresolved withholding issues is not currently being maintained. This provides opportunity to unresolved issues to continue into future pay periods.

Current Status

In the current year, management did not make significant progress in resolving the old errors in the access database.

Continuing Recommendation

We continue to recommend the System implement a process which will track all outstanding withholding issues, and properly document, within the Access database, when they are resolved. Doing so will ensure the System is monitoring withholding errors that have not yet been corrected and can follow-up with the member units as necessary.

Management's Response

Management agrees. This issue is a result of management loading staff up with unprecedented comprehensive reviews of payroll records versus deductions received and requiring them to move on after resolution and not take the time to circle back to check the "resolved" box. It should be noted that this Access database tests every deduction record and reports a variance. If it was done in the past, it was done manually and took a lot longer. The time saved with this database has made it possible for the same number of staff to add to their duties the auditing of "detailed payroll". Management will endeavor to rectify the situation.