

OREGON PUBLIC EMPLOYEES RETIREMENT BOARD

Audit Committee Meeting Agenda

Friday September 19, 2008 Immediately Following PERS Board Meeting		PERS 11410 SW 68th Parkway Tigard, OR	
ITEM	PRESENTER	Discussion Time	
A. Administration			
1.	Approval of Minutes from 6/27/08 Meeting	Dalton	5 minutes
B. Consent and Information Items			
1.	Audit Charter Responsibilities Progress Update	Stanley	5 minutes
2.	Current Audit Projects	Stanley	5 minutes
3.	Annual Report of Internal Audit Activities	Stanley	5 minutes
C. Action and Discussion Items			
1.	Review of Executive Director's Expenditures	Tyler	10 minutes
2.	Audit Report 2008-03 Benefit Calculations	Porter	20 minutes
3.	Report 2008-04 PERS Health Insurance Risk Assessment	Johnson	10 minutes
4.	Audit Report 2008-05 Key Performance Measures	Johnson	5 minutes
5.	Audit Report 2008-06 SPOTS Cards	Stanley	5 minutes

Note: If you have a disability that requires any special materials, services or assistance, call (503) 603-7575 at least 48 hours before the meeting.

***James Dalton, Chair**

*** Eva Kripalani**
Level 1 - Public

*** Michael Pittman**

MEETING DATE	09-19-08
AGENDA ITEM	A.1 Minutes

PUBLIC EMPLOYEES RETIREMENT SYSTEM
AUDIT COMMITTEE MEETING

June 27, 2008
Tigard, Oregon

MINUTES

Audit Committee:

James Dalton, Chair
Eva Kripalani
Mike Pittman – Excused

Staff:

Jason Stanley
Elaine King
Helen Bamford
Patrick Teague
Paul Cleary

Beth Porter
Jessica Johnson
David Tyler
Jeff Marecic
Zue Matchett

Others

Brenda Rocklin

Audit Committee Chair James Dalton called the meeting to order at 12:30 PM.

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF February 15, 2007

Eva Kripalani moved to approve the minutes, Chair Dalton seconded and minutes were approved unanimously.

ACTION AND INFORMATION ITEMS

B.1. AUDIT CHARTER RESPONSIBILITIES UPDATE

Jason Stanley reported that the calendar previously reflected three Audit Committee meetings for the year. However, after discussing the schedule with Chair Dalton it was decided to go back to four meetings a year.

A new audit item on the September meeting agenda is to receive and review the financial transactions of the PERS Executive Director, an Oregon Accounting Manual requirement.

CONSENT AND INFORMATION ITEMS

B.1. CURRENT AUDIT PROJECTS

Stanley presented the schedule of current audits and their expected completion dates. The performance measures audit is a Department of Administrative Services (DAS) required audit. PERS Internal Audits (IA) has committed to completing the audit and sharing the results with DAS and Legislative Fiscal Office (LFO) by the end of September.

The Secretary of State will be at PERS on July 7 for the entrance conference for the upcoming yearly financial opinion audit.

The Internal Auditors have had a preliminary meeting with KPMG, a DAS contractor, to discuss the next phase of the information security business risk assessment. We will meet with KPMG again in September.

ACTION AND DISCUSSION ITEMS

C.1. STATUS OF PREVIOUS FINDINGS

Stanley reported that management has completed many outstanding audit recommendations since the last Audit Committee meeting on February 15, 2008. Of the 17 high impact audit recommendations, 15 remain unresolved. Additionally, 26 of the medium/low impact recommendations have been resolved since the February audit meeting.

Of the outstanding information security risk recommendations, only six high impact and 10 medium/low impact recommendations remain unresolved.

Details on the outstanding high risk audit recommendations are listed on C.1. attachment 1.

C.2. POLICY REVIEWS

Stanley reported that the Audit Committee Charter requires the Audit Committee to periodically review certain operational policies, including risk management, internal controls, and conflicts of interest.

There haven't been any changes to these policies since they were reviewed with the Audit Committee last year. The committee reviewed the policies.

PERS Management is currently piloting an Enterprise Risk Management process with the Financial Reporting Section of Financial Services Division (FSD).

C.3. AUDIT REPORT 2008-02 DESKTOP APPLICATIONS

Jessica Johnson, Senior Internal Auditor, shared the results of the Desktop Applications audit. The purpose of the audit was to ensure that data created in side system workaround applications was properly entered into RIMS. There are currently 22 desktop applications involved in the calculation of benefits. None of these applications were developed or supported by the Information Services Division (ISD). Three applications were reviewed during this audit; the Calculation Adjustment Tool (CAT), the Final Lump Sum Installment Strunk/Eugene Calculator (LSI), and the Benefit Calculator. These applications were used for the audit because of their high volume of usage.

Brenda Rocklin asked why all these applications are not supported by ISD staff.

Director Cleary clarified that ISD staff are focused on maintaining the RIMS system and the jClarety conversion. There is a policy and procedure that the end users must go through in order to develop and maintain a side-system.

Johnson reported that the objective of the audit was to determine if information created in the desktop applications was transferring into RIMS completely and accurately.

Six errors were found in the 7,403 transactions tested for the CAT program. These mistakes were due to staff error. These errors resulted in overpayments, underpayments and non-issued retro payments and were not detected for 10 months. The error was not found in a timely manner because the Strunk/Eugene Adjustment Section had not yet implemented controls to ensure these transactions were properly integrated into RIMS.

The Internal Auditors made two recommendations with regard to the CAT application. BPD Management agreed with the audit recommendations and completed both.

In addition to the six errors in CAT transactions, completeness couldn't be verified for the Benefit Calculator. Johnson explained that it wasn't possible to verify that all transactions processed in the Benefit Calculator were recorded into RIMS. While there is a database of most benefit calculator transactions, the audit found some transactions are missing because the saving mechanism is optional. The Internal Auditors recommended that management determine whether a business need exists for increasing the functionality of the database to automatically save calculations.

Johnson noted that SEAS document retention could be improved, as documentation for 123 of the retro payments reviewed was not available. Another area of concern identified was that of alternate payee accounts. The audit identified 11 alternate payee accounts that were not in the Strunk/Eugene project database.

Lastly, Johnson noted that change management for desktop applications could be improved. The audit found instances of improper development environments and inadequate segregation of software change duties.

Management agreed with all audit recommendations and has or is in the process of implementing improvements and controls.

Rocklin asked if the 22 work around applications will go away when jClarety is completely operational.

Clarey answered that the majority of the side systems will not be needed when jClarety is fully operational. However, there will always be exceptions to what can be programmed.

Chair Dalton adjourned the meeting at 12:50 P.M.

Respectfully submitted,

Jason Stanley

Internal Audit Director