

OREGON PUBLIC EMPLOYEES RETIREMENT BOARD

Audit Committee Meeting Agenda

Friday November 21, 2008 Immediately Following PERS Board Meeting		PERS 11410 SW 68 th Parkway Tigard, OR	
ITEM		PRESENTER	Discussion Time
A. Administration			
1.	Approval of Minutes from 9/19/08 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.	Update on Benefit Calculation Quality Assurance Project	Harrington	5 minutes
4.	Update on Key Performance Measure for Timely Retirement Payments	Harrington	5 minutes
C. Action and Discussion Items			
1.	Status of Previous Findings	Stanley	5 minutes
2.	Internal Audit Function Overview and Review of IA Effectiveness	Stanley	5 minutes
3.	Effectiveness of System for Monitoring Compliance	Stanley	5 minutes
4.	Effectiveness of Internal Control Systems	Stanley	5 minutes
5.	Internal Audit Director Performance	Cleary	5 minutes
6.	Audit Committee Performance and Charter Review	Stanley	5 minutes
7.	Audit Report 2008-08 Annual Earnings Crediting	Porter	20 minutes
D. Executive Session Pursuant to ORS 192.660(2)(f), 192.501 (23)(c)			
1.	Report 2008-07 Access Review	Stanley	10 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**

***Michael Pittman**

Level 1 - Public

MEETING DATE	11-21-08
AGENDA ITEM	A.1 Minutes

PUBLIC EMPLOYEES RETIREMENT SYSTEM
AUDIT COMMITTEE MEETING

September 19, 2008
Tigard, Oregon

MINUTES

Audit Committee:

James Dalton, Chair
Eva Kripalani
Mike Pittman

Staff:

Jason Stanley
Paul Cleary
Helen Bamford
Beth Porter
Jessica Johnson

Brian Harrington
Yvette Elledge
David Tyler
Jeff Marecic
Zue Matchett

Others

Dallas Weyand

Audit Committee Chair James Dalton called the meeting to order at 2:45 PM.

ADMINISTRATION

A.1. AUDIT COMMITTEE MEETING MINUTES OF June 27, 2008

The Committee unanimously approved the minutes of the June 27, 2008 meeting.

CONSENT AND INFORMATION ITEMS

B.1. AUDIT CHARTER RESPONSIBILITIES UPDATE

Jason Stanley, Internal Audit Director, noted that the calendar reflected a few items that have been moved to the November meeting agenda.

B.2. CURRENT AUDIT PROJECTS

Stanley presented the schedule of current audits and their expected completion dates. Audits of electronic funds transfers (estimated completion in December) and earnings crediting (estimated for completion in November) are currently in progress.

Plan qualification risk assessment is a third project that is currently on hold.

Stanley noted that two external audits are in process. The Secretary of State's (SOS) office is working on the annual Financial Opinion Audit, which we will get an official update on the week of September 22nd. The second external audit is the Information Security Business Risk Assessment follow-up from last year's audit being performed by KPMG under contract to DAS.

Chair Dalton noted that he had met with SOS auditors and was assured that they were on schedule and had not found any issues that would prevent an unqualified opinion.

B.3. REPORT OF INTERNAL AUDIT ACTIVITIES

Stanley reported that the Internal Audits Division is required to send an annual report of its activities to the Department of Administrative Services (DAS). The report includes completed internal audits, external audit activity, risk assessments and other value added activities for fiscal year 2008.

ACTION AND DISCUSSION ITEMS

C.1. REVIEW OF EXECUTIVE DIRECTOR'S EXPENDITURES

Dave Tyler, PERS Chief Financial Officer, presented a report of the detailed expenditures for the PERS Executive Director for calendar years 2006 and 2007. This report is in accordance with Oregon Accounting Manual requirements.

The Committee reviewed and accepted the report.

C.2. AUDIT REPORT OF 2008 – 03 BENEFIT CALCULATIONS

Beth Porter, Principal Internal Auditor, reported the findings of the benefit calculations system audit. Approximately 50 to 60 percent of benefit calculations are performed by RIMS. Others are calculated by the Benefit Calculator side system (approximately 40 percent) and manually (approximately 10 percent).

The purpose of the audit was to determine if regular service retirement benefit calculations are being performed correctly and if the internal controls over the calculation processes are effective.

Porter noted that the audit sample included 60 benefits (approximately 1 percent of the total benefit calculations for that year) with effective retirement dates in 2007. OPSRP was not part of this sampling.

Porter reported that since the Secretary of State's audit of calculations in 2002, the benefit calculation process has become much more complex. The 2003 PERS reforms, look-back calculations, and court case adjustments have added a notable amount of complexity to calculating benefits.

Porter noted that this audit reflected improvement in the areas of initial application data entry and back-up documentation retention.

Financial errors found in the benefit calculations were caused by both staff errors and system errors. Errors caused by staff errors involved incorrect entry of salary, sick leave, and waiting time purchases.

A system error occurred when the Benefic Calculator work-around tool incorrectly applied interest to a variable account that no longer existed. BPD found 22 additional cases where this error had occurred.

Porter noted that another system issue took place when RIMS calculated a one-time variable transfer (OVT) that had failed in 2001, as if it has been successful. However, this error did not occur in the subsequent three cases that were tested.

Another system error occurred because RIMS is recording some contribution dates incorrectly when waiting-time purchases are made, which result in some members receiving an extra month of service time. Currently CSD is investigating this issue to see how many additional errors may have been caused by this type of error. The Auditors recommend that staff do a cost-benefit analysis to determine the cost to re-calculate benefits that have the one month additional service time error. Preventative controls in jClarety are also recommended to ensure that this error does not occur in that system.

Non-financial errors consisted of incorrect data being presented on the Notice of Entitlement in 33.33 percent of the cases tested. The Audit staff would like PERS to present accurate information to members, even if there is no financial impact involved.

Brian Harrington, BPD administrator, reported that staff are not pleased with the error rate and have had competing priorities. Staff's effort to get benefits paid in the time promised has, in some cases affected the accuracy of the calculations.

Clarey noted that due to the ongoing IT system conversion and the necessary manual work-arounds, the error rate on calculations is more likely to increase prior to it decreasing, when PERS is fully functional with jClarey. Until then, the focus will be to ramp-up desk audits and other quality controls.

Clarey also clarified that RIMS was programmed to re-test for the variable transfer anytime the data changed. Therefore, if a database fix is done on an account, it can potentially trigger another OVT test.

The Committee discussed the results and requested that the audit be scheduled for follow-up in six months.

C.3. AUDIT REPORT 2008-04 PERS HEALTH INSURANCE RISK ASSESSMENT

Jessica Johnson, Senior Internal Auditor shared the results of the PERS Health Insurance Risk Assessment. The purpose of the risk assessment was to identify potential risks in the health insurance program that could inhibit the agency's ability to fulfill its mission.

Johnson noted that Internal Audits identified 15 risks in six key areas. In the area of Eligibility, the assessment revealed no process of confirming continued eligibility for the program once the member was initially found eligible. This could result in members receiving contributions on their behalf for years of ineligibility. It could also result in members not receiving subsidies for which they were eligible. One case of each of these examples was found to have occurred.

Johnson reported that the risk assessment revealed, in the area of financial management, a risk of payments not being collected as well as refunds not being paid. This is due to a lack of detailed invoices, lack of verification of billed amounts and the probability of eligibility errors.

The assessment also revealed that PERS Health Insurance contractor, Benefit Help Solutions, has not conducted an annual audit of program funds as required by their contract with PERS.

Johnson noted that employees of the Health Insurance program are all fairly new and there where no written policies and procedures for them to learn details on program administration.

Internal Audits has made recommendations to address the 15 identified risks to the Health Insurance program. The PERS Health Insurance program has responded, and has already instituted five of the recommendations.

Clarey noted that this assessment will be treated like an audit and kept on the schedule for follow-up and management resolution.

C.4. AUDIT REPORT 2008 – 05 KEY PERFORMANCE MEASURES

Johnson reported that the purpose of this audit was to determine if the data used in the 2007 PERS Annual Performance progress Report (APPR) for Key Performance Measures (KPMs) is reliable. This assessment is required by Oregon Administrative Rules.

The Oregon Savings Growth Plan's (OSGP) Average Dollars Deferred Measure data was determined to be accurate and have adequate controls in place. However, the process for gathering the data had not been documented. Shortly after the audit, OSGP created policies and procedures for gathering the data.

The Timely Retirement Payments KPM lacked a developed process for calculation, which resulted in inaccurate data. The data source, definitions and calculation methodology were not adequately documented. The result was that the query designed to pull the KPM data was inaccurate. Lack of controls prevented these errors from being detected until the time of the audit.

BPD has since developed and documented a clearly defined process for calculating the Timely Retirement Payments KPMs and put a process in place to verify accuracy. Using the new process, BPD identified 7 percent of service retirements were paid within 1.5 months from the effective retirement date, rather than the previously reported 9 percent.

Johnson noted that this report will go to DAS and DAS will provide a summary report to the Legislative Fiscal Office.

C.5. AUDIT REPORT 2008 – 06 SPOTS cards

Stanley reported that the purpose of this annually mandated audit was to verify that PERS was in compliance with the Oregon Account Manual requirements.

Stanley noted that policies and procedures have been developed in this area since the last audit.

The audit revealed that in several cases, both authorizing signatures were not present on the monthly SPOTS card statement. There was one instance of supporting documentation amounts not matching-up with the credit card statement amounts.

The Fiscal Services Division has taken measures to clarify policies and procedures with card holders with a follow-up of formal training later this year.

Other Comments

Dallas Weyand, Legislative Fiscal Office, recommended that the KPMs be used more like a dashboard report and reviewed more frequently, as this is legislative intent.

Chair Dalton adjourned the meeting at 3:45 P.M.

Respectfully submitted,

Jason Stanley

Internal Audit Director