



Agenda Item 5b

August 14, 2012

ITEM NAME: Public Agency Review Program Expansion Alternatives

PROGRAM: Audit Services

ITEM TYPE: Information

EXECUTIVE SUMMARY

The Risk and Audit Committee requested the Office of Audit Services (OFAS) provide an estimate of staff resources that would be needed to both double and triple the number of public agency reviews completed per fiscal year. The discussion that follows provides estimates of the resources that would be required to reach those levels of reviews in our current model. We also provide concepts on new and innovative ways to achieve better risk sensing and coverage by leveraging new tools and approaches that, together with a moderate increase in staff resources, will achieve better efficiencies and better targeting of audit resources in the future. Based on our analysis, we recommend an increase of ten staff in OFAS, as well as working to take advantage of the new tools and approaches discussed below. Staff resources as detailed below will also be needed in other divisions, based on acceptance of the recommended approach.

ANALYSIS

Double the number of agencies reviewed

In the past several years, OFAS has reviewed approximately 55 agencies per year. The number of reviews completed has been impacted in recent years due to the loan of several staff to the myCalPERS project, several very resource-intensive public agency reviews, and furloughs.

In order to achieve a goal of approximately 100 per year using the current audit approach, OFAS would need an increase of eight audit staff members, as well as an additional manager and an office support staff. To support such an increase in public agency reviews, Customer Account Services estimates it would need six to seven PY equivalent staff, and the Legal Office would need two attorneys and an office support staff. The total cost for these additional staff is estimated as \$1.9 million per year.

Triple the number of agencies reviewed

To triple the number of reviews completed in the current audit approach, OFAS estimates the need for 22 staff above current levels. Customer Account Services estimates it would require 13 PY equivalents, and the Legal Office would need four additional staff over current resources. Benefit Services believes the impact would be approximately 20 percent of a PY at this level. The total staff costs over current staffing levels are estimated at approximately \$3.6 million.

Other resources needed

OFAS would also require additional funds for travel and training. Field auditors travel to public agencies to complete their on-site field work. Depending on the agency size and number and complexity of issues, a field auditor will typically spend between four to ten days at the agency. In addition, support divisions such as Information Technology Services, Operations Support Services, and Human Resources would need the resources to support the staff increases necessitated by the increase in public agency reviews.

Other Approaches to Achieve Improved Effectiveness and Efficiency

The implementation of the myCalPERS database brings about major possibilities for enhancing risk targeting and error detection by using data analytics and business intelligence. While OFAS cannot commit to a specific, quantifiable solution today as this functionality is still in development, we believe business intelligence and data analytics as ways to improve risk targeting and for detection of anomalies in membership and payroll reporting will prove to be powerful tools for improving compliance. For example, we envision that tests of certain attributes could be run across entire categories of public agencies at once, instead of testing agencies one by one. We believe exploration of these possibilities will prove very worthwhile. Information Technology Services Division estimates it would require two staff resources support a Business Intelligence initiative for OFAS.

In addition, we are encountering many more complex issues and need to apply audit resources to complex, high-risk areas. With the recommended approach, we will increase the number of audits, but more importantly, better address higher-risk areas, and use fewer audit resources to address important, but simpler and more routine areas.

We also plan to continue to improve the efficiency of the audit process and refine our approaches to ensure we maximize effective application of resources. Another practice gaining wide acceptance is for the audit function to partner with other assurance functions to optimize risk intelligence. We plan to explore strategically with the Office of Enterprise Risk Management to determine the future state of collaboration and coordination of activities to minimize gaps in coverage and avoid redundancies. For instance, we plan to explore the ability for continuous monitoring by the Compliance Office with triggers for initiating audits.

Conclusion

While on-site reviews of public agencies will always be necessary to validate that membership and earnings were reported accurately and to perform more in-depth analysis of the agency's on-site records such as employee personnel files, we believe the leveraging of the new myCalPERS database will enable us to make more efficient use of resources to prioritize audits and identify audit issues. The combination of

continuing to refine our on-site audit approach together with leveraging the potentials of new technology and partnering with other assurance functions will assist us in maximizing effectiveness and efficiency in reviewing public agency compliance in membership and payroll reporting.

Recommendation

OFAS recommends increasing our staff by ten PYs to enable us to respond to more complex audit issues as well as continue to efficiently identify more routine issues in more agencies. We also recommend we work to take advantage of the new Business Intelligence and data analysis tools and approaches discussed above. If accepted, other divisions will also require increased resources as noted in the discussion above.

Any resource additions accepted by the Committee will be requested through the established budget process.

ATTACHMENTS

None.

MARGARET JUNKER, Chief
Office of Audit Services

PETER H. MIXON
General Counsel