

Office of Audit Services  
Summary of State Controller Office’s Review Report on  
Pension Controls and Mechanisms  
Current Update as of March 31, 2015

**Audit (Report Issue Date): Pension Controls and Mechanisms (9/09/14)**

**Finding:** CalPERS lacks sufficient oversight of reporting entities

**Recommendation 1:** Increase the frequency with which its reporting entities are reviewed by increasing the number of audit staff. With limited resources, CalPERS should enhance pension spiking monitoring through enhanced technology-based analysis.

**Management’s Current Update:** IN PROGRESS. The Office of Audit Services has requested additional positions to

- Address complex issues and assist in improving the efficiency of the public agency audit process, which in turn will allow for an increase in the number of audits performed each fiscal year.
- Address technology-based analytics (business intelligence) and perform targeted reviews across the public agency population that identifies high risk areas and anomalies regarding various compliance requirements (compensation, membership, payroll), which in turn will provide increased audit coverage and number of audits performed each fiscal year.

The Office of Audit Services has already started the development of targeted reviews through technology-based analytics, which allows CalPERS to identify areas of potential “pension spiking” prior to members retiring.

**Recommendation 2:** Continue to use a risk-based analysis and other evidence-based criteria to identify which reporting entities to review. To aid in its annual workplan, CalPERS should include the “high-pay compensation in excess of \$245,000” attribute in its annual risk assessment. This attribute can be given a larger weighting in the risk analysis to satisfy the CalPERS Board’s concerns. This analysis should be used to determine the number of entities that should be reviewed each year as well as the resources needed to properly provide program oversight.

**Management’s Current Update:** IN PROGRESS. As mentioned in the original response, the Office of Audit Services refines its risk assessment each year. The Office of Audit Services has not yet completed the risk assessment cycle for the 2015-16 fiscal year. However, the Office of Audit Services plans to continue to assign an appropriate weight related to agencies with high pay individuals. In addition, it will continue to refine the risk assessment approach to ensure it considers risk factors relevant to the current environment. The risk assessment process, in addition to the new technology-based analytical reviews, will provide the necessary information to determine sufficient allocation of resources.

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**Recommendation 3:** Perform an analysis to determine the additional types of resources needed in order to provide more effective and adequate oversight of the entities reporting to CalPERS for active employees.

**Management's Current Update:**

Customer Account Services Division: IN PROGRESS. Customer Account Services Division has developed system and review enhancements that are being researched for feasibility. Program will begin implementing two items found to have minimal cost by March 31, 2015. Additional items will be decided by June 30, 2015.

Office of Audit Services: IN PROGRESS. As stated in our earlier response to Recommendation 1, the Office of Audit Services requested additional positions in order to streamline current audit processes and increase audit coverage utilizing technology-based analytics (business intelligence).

**Recommendation 4:** Require procedures to review active employees' pay amounts for material increases in compensation and special compensation amounts.

**Management's Current Update:**

Customer Account Services Division: IN PROGRESS. The Customer Account Services Division is enhancing already existing procedures to review a broader scope of member compensation. The procedures are to be finalized by June 30, 2015.

Office of Audit Services: IN PROGRESS. As stated in our earlier response to Recommendation 2, the Office of Audit Services has not completed the risk assessment cycle for the 2015-16 fiscal year. However, the Office of Audit Services plans to continue to assign higher weights to agencies with highly paid employees. In addition, the Office of Audit Services has already incorporated technology-based analytics (business intelligence) into its current year audit projects and is in the process of developing targeted reviews based on analysis of active employees' pay amounts.

**Recommendation 6:** Request additional analytical staff and/or auditors for the Compensation Review Unit to aid in the review of potential spiking by active employees.

**Management's Current Update:** IN PROGRESS. Once procedures, system enhancements and review criteria have been decided in reference to recommendations 3 and 4, required resources will be requested through the next available budget cycle.