

Office of Audit Services
Summary of State Controller Office’s Review Report on
Pension Controls and Mechanisms
Current Update as of June 30, 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: OPEN. The Office of Audit Services is in the process of hiring 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.
- Technology-based analytics (business intelligence) and perform focused 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 is utilizing technology-based analytics in its risk assessment as well as in its individual audits 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: RESOLVED. As mentioned in the original response, the Office of Audit Services refines its risk assessment each year. The Office of Audit Services has completed the risk assessment cycle for the 2015-16 fiscal year. For each contracting public agency, the Office of Audit Services evaluates multiple risk factors, assigns a risk value and weight to each risk factor and calculates an overall risk score. The risk factors include the number of years since last audit, input from the Board and management, agency attributes such as annual covered payroll, employee attributes such as high monthly payrate or special compensation, agency size and agency type. We ranked the agency overall risk scores to develop a risk-based audit plan. For the 2015-16 fiscal year, the Office of Audit Services plans to complete 100 compliance reviews and 25 targeted reviews using business intelligence data.

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

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:

Employer Account Services Division: OPEN. Employer 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 June 20, 2016. Additional items will be decided by June 30, 2015.

Office of Audit Services: OPEN. As stated in our earlier response to Recommendation 1, the Office of Audit Services is in the process of hiring additional staff 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:

Employer Account Services Division: OPEN. The Employer Account Services Division is enhancing already existing procedures to review a broader scope of member compensation. The procedures are to be finalized by December 31, 2016.

Office of Audit Services: RESOLVED. As stated in our earlier response to Recommendation 2, the Office of Audit Services completed the risk assessment cycle for the 2015-16 fiscal year. The Office of Audit Services assigned a higher weight 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 performing focused 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: OPEN. 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.