

Office of Audit Services
Summary of State Controller Office's Review Report on
Pension Controls and Mechanisms
Current Update as of December 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: 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. In addition, the Office of Audit Services is in the process of completing 25 desk reviews identified through technology with a planned completion date of June 30, 2016.

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. The Employer Account Management Division (EAMD) documented an analysis of alternatives, identifying several solutions to enhance controls and mechanisms used to review active members. EAMD moved the analysis forward in the budget process, requesting resources to increase oversight in this area. EAMD is currently awaiting board approval for these additional resources. Additional items will be decided by June 30, 2016.

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, streamlining current audit processes, and increasing audit coverage utilizing technology-based analytics (business intelligence).

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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. EAMD is enhancing already existing procedures to review a broader scope of member compensation. The procedures are to be finalized by December 31, 2016.

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. EAMD documented an analysis of alternatives, identifying several solutions to enhance controls and mechanisms used to review active members. EAMD moved the analysis forward in the budget process, requesting resources to increase oversight in this area. EAMD is currently awaiting board approval for these additional resources.