

**MINUTES OF THE
WV CONSOLIDATED PUBLIC RETIREMENT BOARD
INTERNAL AUDIT COMMITTEE
MEETING OF JULY 20, 2016**

A meeting of the West Virginia Consolidated Public Retirement Board (CPRB) Internal Audit Committee was held in the Legal Conference Room located at the offices of the CPRB, 4101 MacCorkle Avenue, SE, Charleston, West Virginia, and was called to order at 9:00 a.m. by Acting Chairman, Gale Given.

Roll Call

Members present were:

Gale Given, Acting Chairman, *Representing Acting Cabinet Secretary Mary Jane Pickens*
Jeff Waybright, *representing Auditor Glen Gainer*
Jeff Vallet

Members absent were:

Diana Stout, Esquire, *representing Treasurer John Perdue*
Captain Michael Corsaro

A quorum was present.

Due notice had been published.

Also, present were:

Jeffrey Fleck, CPRB Executive Director
Terasa Miller, CPRB Deputy Director
Candi Kinslow, CPRB Executive Assistant
Heather Drake, CPRB Administrative Assistant
Annamarie Short, CPRB Chief Compliance Officer
Tina Baker, CPRB Internal Auditor
Norm Buckwalter, LRWL

Item #1: Approval of the March 1, 2016 Meeting Minutes

Mr. Waybright made a motion to approve the March 1, 2016 meeting minutes. The motion was seconded by Mr. Vallet. The motion carried unanimously.

Ms. Stout arrived to the meeting at 9:01 a.m.

Item #2: APPFA Professional Development Conference Report

Tina Baker, CPRB's Internal Auditor announced to the Committee that she attended the Association of Public Pension Fund Auditors Professional Development Conference (APPFA) in

Chicago, Illinois in April, 2016.

She announced the conference agenda and continuing education certificate are included in the Committee packets. She informed the Committee that the conference provided discussion of a variety of topics affecting the audits of public pension funds, such as risk management, employer audits, data security, Governmental Accounting Standard Board requirements and other subjects

Item #3: Retirement Annuity Issues Caused by Repayment of “No Hardship” Payments

Ms. Baker announced to the Committee that she had included a memo in the Committee packets to Director Fleck, dated March 2, 2016, concerning retirement annuity issues caused by repayment of no hardship payments.

In 2014, West Virginia implemented arrears pay for all state employees in order for all employees to be in arrears for the conversion from EPICS to the new OASIS payroll system. While employees hired after July 2002 were already paid in arrears, those hired prior to July 2002 were on current pay status. Employees being transitioned to arrears pay were given a one-time transition payment, called a “no hardship payment,” to prevent missing a paycheck. The idea was that when converted employees separate from state employment, they would receive a final payment that adjusts the no hardship payment against an arrears final payment.

What has been seen is that payroll coordinators at state agencies are handling final payment adjustments for no hardship payments in different ways. This is problematic for the CPRB and retirees because how the paychecks are managed has an impact on retirement annuity calculations. Ideally, the deduction would be made from the final arrears salary payment and if this final payment were not enough to cover the amount owed, the remaining amount would be deducted from the prorated increment due the employee.

She announced that she had listed some of the issues that have been seen by CPRB staff in her memo to Director Fleck and informed the Committee the information is in the packets for the Committee to review.

She informed the Committee that how payroll coordinators process the no hardship payments can affect the final average salary and service credits used to compute retirement annuities, so retirees can end up with annuities that are greater or less than what they should be receiving. The variation in how these are handled can cause delays in the processing of annuities because of the required back-and-forth with payroll coordinators. She announced, that based on this information, she made the following recommendations:

1. CPRB should take steps immediately to educate employers concerning how no hardship payments should be handled and the ramifications for retirees if repayments are processed incorrectly.
2. CPRB should develop and distribute to all retirement advisors the procedures for handling these issues to ensure uniformity of processes.
3. CPRB should notify the Enterprise Resource Planning Board of the issues that are being encountered so that official action can be taken to standardize this payroll process and determine what other areas besides retirement may have been affected by the variances in how repayments are being deducted.

Mr. Waybright made a motion the Committee accept the report given by Ms. Baker, CPRB Internal Auditor. The motion was seconded by Mr. Vallet. The motion carried

unanimously.

Item #4: Update on State Auditor's Office Audits/Proposed Processes for Addressing Audits

Ms. Baker announced that since the last Committee Meeting, that she and the PERS and TRS managers had held meetings with the State Auditor's Office to discuss resuming their audits for the CPRB. We provided the Auditor's Office with a list of six county boards of education and five PERS employers to look at and the Auditor's Office informed her that they would begin with the boards of education. A letter of engagement was signed by Executive Director Fleck and the auditors and they had already started with the first board of education; Wyoming County.

She informed the Committee that she sent a memo to Executive Director Fleck on March 24, 2016, proposing procedures for addressing the findings of audits conducted by the State Auditor's Office. She suggested the audits be shared with the audited employer and the plan manager and that they be required to provide a written response detailing the actions that they took or will take to address the issues found in the audit and periodic updates concerning any ongoing issues. She announced that the Chief Operating Officer or a designee should give periodic updates to the Committee, as necessary to apprise them of actions taken to address the audit findings. These procedures should also be retroactively applied to the three audits that have already been conducted.

Executive Director Fleck informed the Committee that he had informed the internal auditor that he agreed with the audit conducted by Ms. Baker.

Mr. Waybright made a motion the Committee to accept and approved the audit by Ms. Baker, CPRB Internal Auditor. The motion was seconded by Mr. Vallet. The motion carried unanimously.

Item #5: Internal Audit of the Deputy Sheriff Retirement System Annuity Calculations

Ms. Baker informed the Committee that she conducted an internal audit of the Deputy Sheriff Retirement System (DSRS) to determine whether internal controls are sufficient to provide reasonable assurance that DSRS benefit calculations are accurate and in compliance with applicable laws and rules and that DSRS annuities are approved only for those individuals eligible for retirement.

The scope of this review included all regular, disability and early retirement annuities granted from DSRS in FY2013-2015.

She announced they include the following:

1. The written policies and procedures addressing the processing of DSRS applications for retirement are out of date and not in use.
2. Some DSRS annuity calculations must be performed manually because the system is unable to do them, which increases the risk of error. The new COMPASS system should be able to perform these calculations when it goes live.
3. Every file in the evaluated timeframe had been double checked by a second individual for accuracy; however, one application was missing the required applicant and witness signatures and 17 documents contained errors such as the use of incorrect

reduction factors, inaccuracies and inconsistencies in the calculation of disability retirements and service credit errors.

4. The program for calculating DSRS annuities in BlueZone does not determine the beneficiary age correctly.
5. No issues were identified with annuity approvals – all annuitants in the evaluated timeframe met eligibility requirements.
6. Six applications contained no date stamps, indicating the dates they were received.

Ms. Baker announced that based on these findings, she made the following recommendations:

1. Consideration should be given to formalizing the process for verifying retiree information and annuity calculations.
2. Applications should always be date stamped to show the date received.
3. Applications should always be reviewed for the presence of required signatures by both the retirement advisor initially processing the application and the retirement advisor who double checks the file and returned if unsigned.
4. If employers indicate accumulated leave in hours rather than days, the form should be returned for correction or other documented communications should take place to guarantee the accuracy of leave information reported.
5. Calculations for the final average salary for disability annuity calculations should be standardized so that partial months are eliminated in all cases.
6. The program for calculating DSRS annuities should be corrected in order to ensure that annuities are calculated based on approved actuarial assumptions.
7. All programs used to compute annuities for all retirement systems should be evaluated for accuracy in order to ensure that annuities are computed using the correct reduction factors and that the formulas being used to develop the COMPASS system are based on approved actuarial assumptions.
8. The issues with specific files identified in this report should be corrected as applicable.

Executive Director Fleck announced that he had informed the internal auditor that he agreed with this audit and informed the Committee that this will be incorporated into our new COMPASS system.

Mr. Waybright made a motion that the Committee approve and accept the audit of the Deputy Sheriff Retirement System (DSRS) conducted by Ms. Baker, Internal Auditor. The motion was seconded by Mr. Vallet. The motion carried unanimously.


Item #6: Other Business

Acting Chairman Given asked if there was any other business to bring before the Committee. None was heard.

Mr. Waybright made a motion to adjourn the public meeting of the CPRB Internal Audit Committee. The motion was seconded by Mr. Vallet. The motion carried unanimously.

Acting Chairman Given adjourned the July 20, 2016 CPRB Internal Audit Committee Meeting at 9:22 a.m.

Respectfully submitted,


Acting Cabinet Secretary
Mary Jane Pickens, Chairman


Jeffrey E. Fleck, Executive Director