

Improving Retirement System Operations

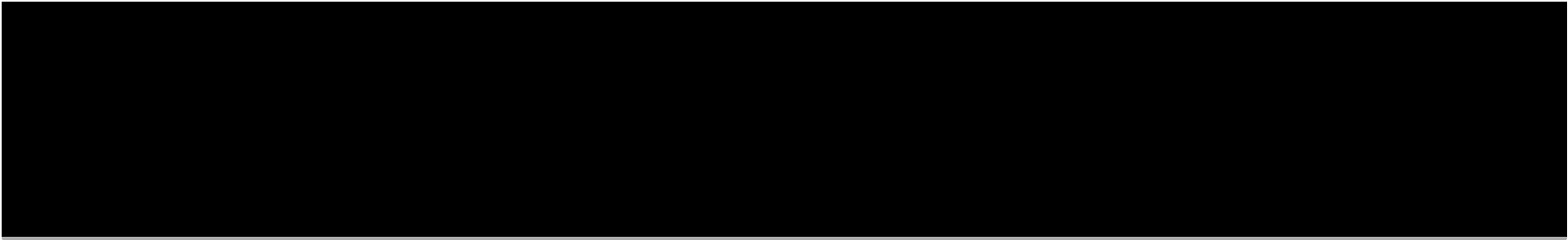
James Tivnan
PERAC Deputy Chief Auditor
Public Employee Retirement Administration Commission

Public Pension Institute




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Common *risks* associated with the
administration of a local retirement system

Suggestions for *controls* to help
mitigate those risks



Risks

Defined as:

- Exposure to the chance of injury or loss; a hazard or dangerous chance: *It's not worth the risk.*
- The degree of probability of such loss.
- Under financial or legal obligation; held responsible: *Are system assets at risk?*
- *Take or run a risk*, to expose oneself to the chance of injury or loss; put oneself in danger; hazard; venture.

Controls

Defined as:

- To eliminate or prevent the flourishing or spread of.
- A legal or official means of regulation or restraint: *To institute internal financial controls.*
A person who acts as a check; controller.
- **Controls**, a coordinated arrangement of such devices: *A system of controls.*

Strategic Planning

Large Systems Only?

Risks

- Inadequate planning and documentation
- Inefficient or inappropriate allocation of staff resources
- Failure to complete major projects in a timely fashion

Controls

- Develop a mission statement, strategic plan, and short and long-term objectives with time frames
- Conduct annual risk assessment and performance review
- Prioritize major projects
- **Document existing procedures**
- Monitor the plan for compliance

Investments

Risks

- The selected investment underperforms
- Malfeasance, theft, abuse of authorized limits
- Money manager does not meet target returns
- Deviation from investment policy, asset allocation strategy
- Something happens to the manager

Controls

- "Due Diligence" review of performance
- Review investment mix in light of current events
- Review target returns on a current basis
- Review fund manager policies, "stop loss," and successor manager
- Assign specific responsibility for monitoring policy compliance

Business Continuity Planning

Risks

- No disaster recovery plan
- Disaster recovery plan is inadequate
- Plan is not tested, reviewed, or updated
- Key external service providers do not have a plan

Controls

- Develop a plan
- Identify critical processes and assign priorities for recovery within 24, 36, 72 hours
- Develop checklists, procedures, and expected results
- Establish schedule to review and update the plan
- Coordinate with external service providers
- Conduct an actual test

Segregating Duties

(For systems with more than one staff person)

Risks

- A single employee controls all elements of a transaction
- Compensating controls may be inadequate
- Segregating duties and compensating controls are overridden

Controls

- Periodic self-assessment by staff of risk elements
- Rotate functions in high risk areas
- Design management reports that confirm activities
- Authorize an individual to update/confirm wire and/or cash/funds transfer procedures
- Include wire transfers on the warrant so Board can confirm

Systems with one staff person may involve Board Members (ex officio) by frequently reviewing high risk areas.

Payroll Data

Risks

- Incorrect compensation and/or contributions are recorded
- Compensation includes disallowed elements
- Contributions not credited properly
- Retroactive adjustments incorrectly applied

Controls

- Provide training and current information to employer units
- Distribute guide or summary of rules, exceptions, and common errors
- Reconcile receipts with contribution reports
- Distribute periodic summary or detail data reports to units and request they reconcile with their records
- Reconcile rates with members' data
- Perform an employer payroll audit
- Send annual statements to members

System Funding

Risks

- The plan is weighed down with low contributing/high benefit members
- Employer appropriations are insufficient to fund benefits
- Funding will be inadequate
- Contributions are lost

Controls

- Evaluate cost/benefit of ERI plan
- Reconcile rates with members data
- Apply contributions on a timely basis
- Perform an employer payroll audit
- Develop reports that monitor funding progress

Budgeting & Cash Forecasting

Risks

- Cash not available when required
- Coordination is lacking between investment and operations
- Lack of formal policy/procedure to govern process
- Every benefit payroll is a mad rush to fund
- Poor planning causes increased fees

Controls

- Priorities are set in written policy and procedure
- Match disbursements for benefits and operational expenses with receipts from contributions, buy-backs, and appropriations
- Prioritize asset liquidity
- Identify capital calls
- Compare budget to actual expenditures

Information Systems Acquisition & Development

Risks

- Expectations are not met for time/money invested
- Scope of services is not defined or justified
- Inadequate technical support
- Unrealized user requirements or business objectives

Controls

- Critical assessment of needs
- Define and identify method, plan, tools, objectives, milestones, criteria, scope, and approval
- Identify training options
- Manage testing process
- Evaluate cost/benefit of ongoing maintenance

Retirement Planning Services

Risks

- Members receive inadequate information for decision making
- Retirement alternatives are not fully evaluated
- Staff provides misleading, contradictory, or less than full disclosure

Controls

- Staff to attend periodic financial and retirement planning education courses
- Contact members who are within 5 years of retirement to assess/update their records
- Provide website access to members for information, benefits, formulas, and estimates

Customer Service

Risks

- “Street” counsel contradicts facts
- Poor communication causes members/retirees to avoid local office staff
- Misunderstandings result in frequent appeals to CRAB/DALA

Controls

- Review all processes, policies, forms, and communications to identify possible improvements
- Develop service standards
- Survey, identify priorities, and monitor performance
- Implement changes to improve quality of experience

Audit Risks

Risks

- Financial information is not useful
- Misstatements, errors, or omissions occur
- Material weaknesses in controls are not identified
- Inadequate affidavit procedures
- Insufficient sampling
- Waste of time/money

Controls

- Compose narrative description of reports
- Reconcile financial information with other sources
- Review Sarbanes/Oxley Act and SAS requirements
- Review work papers
- Assess added value of vendors

Summary

- Develop a strategic plan
- Develop a plan for business continuity and disaster recovery
- Put all procedures in writing and analyze all functions for vulnerability to fraud and manipulation
- Look for efficiencies without compromising security
- Coordinate budgeting, forecasting, and system funding
- Ensure your system tools work for you and not vice versa
- Provide quality service to all members, retirees, and others
- Keep your investment advisor accountable
- **Identify Risks, Implement Controls**