

**MINUTES OF THE
WV CONSOLIDATED PUBLIC RETIREMENT BOARD
INTERNAL AUDIT COMMITTEE MEETING
OF OCTOBER 11, 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 2:31 p.m. by Acting Cabinet Secretary, Mary Jane Pickens, Chairman.

Roll Call

Members present were:

Mary Jane Pickens, *Acting Cabinet Secretary, Chairman*
Jeff Waybright, *representing Auditor Glen Gainer*
Captain Michael Corsaro
Jeff Vallet

Members absent were:

Diana Stout, Esquire, *representing Treasurer John Perdue*

A quorum was present.

Due notice had been published.

Also, present were:

Jeffrey Fleck, CPRB Executive Director
Terasa Miller, CPRB Deputy Director
Heather Drake, CPRB Administrative Assistant
Annamarie Short, CPRB Chief Compliance Officer
Tina Baker, CPRB Internal Auditor
Darden Greene, CPRB Chief Financial Officer

Item #1: Approval of the July 20, 2016 Meeting Minutes

Mr. Vallet made a motion to approve the July 20, 2016 meeting minutes. The motion was seconded by Captain Corsaro. The motion carried unanimously.

Item #2: Internal Audit of Deemed Loans

Ms. Baker reviewed the Internal Annual of Deemed Loans with the Committee. She announced the scope of this review included loans borrowed by TRS and DSRS members in FY2012-2015; and loans borrowed by TRS and DSRS members in any year that were deemed in FY 2012-2015.

Ms. Baker announced the findings included the following:

1. Data entry errors were found in the disposition years listed for 20 loans, which could affect how and if the loans show up on reports run by computer staff.
2. Of the 22 loans deemed in FY 2012-2015, 15 were not deemed timely.
3. There was inconsistency in the handling of loans suspended for leaves of absence.
4. Of the 128 loans taken out in FY 2012-2015 that were not deemed but were listed as missing payments, 23 missed payments were not detected and addressed timely.
5. The Loans Department has partially complied with recommendations pertaining to defaulted loans made in a 2013 internal audit.

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

1. The Loans Department should develop a verification system for ensuring the accuracy of data in the loans system, either by having data double-checked at the time it is input, or by performing periodic audits of loans information to check for errors or discrepancies.
2. Consideration should be given to including certain parameters in COMPASS that would prevent typographical errors in fields such as disposition year.
3. Management should evaluate the issues described in this report to determine whether another Voluntary Compliance Program (VCP) will have to be submitted to report these issues.
4. A plan should be developed for the continuity of operations in times of staff shortages or other occurrences to ensure that detection of defaults, deeming of loans, and other functions are carried out consistently.
5. Loans management should consider having periodic meetings with the Executive Director and/or Chief Operating Officer to provide updates on defaulted loans to enhance accountability and responsiveness.
6. A memo or other documented outreach method should be sent periodically to remind employers of their duties in withholding and posting loan payments and notifying the Loans Department of relevant changes in the employment status of loan borrowers.
7. The Loans Department should develop and document in its written policies and procedures, a set schedule for the frequency with which team members should check for delinquent loans to ensure that they are detected and acted on timely.
8. The Loans Department should include in its policies and procedures, guidelines for what correspondence is to be sent to individuals who suspend their loan repayment and when this correspondence should be sent.

Darden Greene, CPRB Chief Financial Officer reviewed the response from Management regarding the Internal Audit of Deemed Loans with the Committee.

Mr. Greene announced pursuant to the recommendations put forth by the Internal Auditor, and in contemplating the current situation and circumstances of the agency, Management has taken several actions as a result of identified findings. Prior to identifying these actions, some items that had to be considered were:

- The agency's loan process has relied historically on the system capabilities available.
- The loan processes have changed from time to time over the decades based on personnel changes.
- The new Line of Business Solution will modify loan process to address certain noted weaknesses.
- Personnel will be reporting to new management with the completion of the new software implementation.
- Documentation and notifications will, by in large, be automated with the new system.
- Many manual functions will be automated and not subject to human error or processing.
- Several employers have and will change from semi-monthly pay to bi-weekly pay.

Mr. Greene announced after considering the above, among other concerns, and reviewing the Internal Auditor's findings, Management has addressed the findings as follows:

- Regarding the errors in disposition dates - These were historical human key punch errors and this portion of data will be automated in the new system and not subject to keying error.
- Regarding loans not deemed timely – The timeliness delay occurred as a result of insufficient staff to review data as needed. The loans department has been subsequently fully staffed. As of this report, the loans department has approximately three members that have exceeded the loan cure period and are pending notification of deemed status.
- Regarding Leave of Absence – Given staffing deficiencies during the period under review, certain delinquency reports were not reviewed timely. The loans department is currently fully staffed and is unaware of any members currently out on Leave of Absence.
- Regarding missed payments – Limited staff and the relative inexperience of new staff caused some reports to be overlooked. Additionally, certain system limitations caused some members to not appear properly on certain reports. Currently, with the department fully staffed, the requisite reports are being reviewed timely.
- Regarding loans identified in the 2013 audit – Management is unaware of any outstanding compliance issues at the time of this report. Should any compliance issues be identified, Management will promptly correct said issue.
- Regarding an additional Voluntary Compliance Program (VCP) Filing – Management does not feel this is necessary. While the finding is accurate and of value, the 1099 process only occurs once annually. Management believes the 1099's were issued in the correct year after proper notice was given. If the 1099 issuance did not occur in the proper year, it would be due to the notification process being offered prior to such issuance.

Mr. Greene announced that in addition to the above actions taken by the loans department, the CFO, future loans manager and loans staff have been working with the new Line of Business Solution Vendor during the design process of the loans application within the system. In doing so, all noted findings by the Internal Auditor and other areas of betterment

opportunity have been incorporated to the extent of ability within said system.

Mr. Greene informed the Committee that Management intends to adopt the recommendations of the auditor as follows:

- The verification methodology is currently being performed through the Workflow process within the new system (COMPASS) which requires segregation of duties and approvals at pertinent steps.
- The loans process has been automated to the maximum capacity during the design phase of the application within COMPASS.
- Management does not feel another VCP is warranted based on the resolution of each scenario.
- The CFO will work with the future loans manager to design the appropriate plan for continuity of operations during any type of downturn in staff or other limiting circumstances.
- Management has currently implemented quarterly meetings with the loans staff to review status of all active loans and associated actions to be taken and that have been taken since the prior meeting.
- With implementation of the new COMPASS system, the agency will be heavily involved in employer reporting activity. Included in this training will be loans functionally in the system and a review of the employer responsibilities regarding loans. Subsequent outreach will also be established regarding the same.
- The CFO and the future loans manager will collaborate on documentation of the processes, policies and procedures within the new system. This documentation will complement the help data already contained within the COMPASS system.
- The correspondence to members when a change in loan status occurs is automated in the COMPASS system. This design feature was established to eliminate potential human oversight and is driven by date and posting parameters.

Mr. Vallet made a motion the Committee accept and recommend to the Board to approve the Internal Audit of Deemed Loans. Captain Corsaro seconded the motion. The motion carried unanimously.

Item #3: Updated 2016 Internal Audit Plan

Ms. Baker reviewed the Updated 2016 Internal Annual Audit Plan with the Committee. She announced there were two new projects on the audit plan.

Ms. Baker announced that she was asked to conduct a project to determine whether interest calculations performed in COMPASS are accurate. She stated she has completed the first phase of this project, which consisted of performing a sample from a report of contribution and interest figures for members of each of the retirement plans to verify that the reports derived from BlueZone to be used for comparison with COMPASS figures. The next phase is to actually determine the accuracy of the COMPASS figures. The timing of that phase will depend on when that aspect of COMPASS is ready to be tested, which is unknown at this time.

Ms. Baker announced she was also asked to determine whether 1099-R information generated in the COMPASS system is accurate. She has determined random samples for each 1099-R distribution code on a report pulled from COMPASS and has started verifying the information for each sample file.

Executive Director Fleck announced to the Committee this will be the first time 1099-R information will be coming from the new COMPASS system and explained that it is important that the information be correct.

Ms. Baker stated that because of the inclusion of these new projects on the audit plan, the completion date of the PERS Refunds review will be pushed back tentatively from November to January 2017.

Item #4: Tentative 2017 Internal Audit Plan

Ms. Baker reviewed the Tentative 2017 Internal Audit Plan with the Committee.

PERS Refunds – Determine whether internal controls as described in the procedures are sufficient and operating as intended to ensure requests for refunds have been permitted, calculated, paid and posted in accordance with the provisions of West Virginia State Code and West Virginia Code of State Rules.

Annuitant Deaths - Determine whether internal controls as described in the procedures are sufficient and operating as intended to ensure that proper notification is received when a retiree or beneficiary receiving an annuity passes away and that, if notification is not received, the death is timely detected by other means and payment stopped.

PERS Reinstatements and Retroactive Service Purchases - Determine whether internal controls as described in the procedures are sufficient and operating as intended to ensure that PERS reinstatements and retroactive service purchases are processed in compliance with applicable rules and statutes.

Employer Contributions - Determine whether internal controls are sufficient and operating as intended to ensure that any untimely employer contributions are detected and that appropriate action is taken to bring contributions current.

Payroll - Determine whether internal controls are sufficient and operating as intended to ensure that payroll processes are conducted timely and accurately.

COMPASS Interest Calculations Verifications – Determine whether interest calculations are being computed accurately in the COMPASS system.

External Audit Coordination – Work with internal management and the WV State Auditor’s Office to help ensure timely response and resolution of issues to aid the audit process.

Mr. Vallet made a motion the Committee accept the Tentative 2017 Internal Audit Plan presented by the Internal Auditor, Tina Baker. Captain Corsaro seconded the motion. The motion carried unanimously.

Item #5: Other Business

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

Captain Corsaro 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.

Chairman Pickens adjourned the October 11, 2016 CPRB Internal Audit Committee Meeting at 3:07 p.m.

Respectfully submitted,



Cabinet Secretary John Myers, Chairman



Jeffrey E. Fleck, Executive Director