



October 2014  
PE 14-07-561

## AGENCY REVIEW

# CONSOLIDATED PUBLIC RETIREMENT BOARD DEPARTMENT OF ADMINISTRATION

## AUDIT OVERVIEW

The Consolidated Public Retirement Board Has Appropriate Internal Controls Regarding the Accurate Collection of Employee and Employer Retirement Contributions

The CPRB Has Appropriate Internal Controls Related to the Distribution of Retiree Benefit Payments

The Consolidated Public Retirement Board Has Made Improvements to Verify the Earnings of Public Employees Retirement System Disability Retirees as Recommended in PERD's 2006 Special Report



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## EXECUTIVE SUMMARY

This evaluation of the Consolidated Public Retirement Board (CPRB) as part of the Agency Review of the Department of Administration is authorized by the West Virginia Performance Review Act, Chapter 4, Article 10, of the *West Virginia Code*, as amended. This review evaluates the CPRB's internal controls related to the accurate collection and distribution of retirement funds. In addition, an update was conducted to determine to what extent the CPRB has complied with the recommendations made in a May 2006 Performance Evaluation and Research Division (PERD) report. The findings of our review are listed below.

### Report Highlights

#### **Issue 1: The Consolidated Public Retirement Board Has Appropriate Internal Controls Regarding the Accurate Collection of Employee and Employer Retirement Contributions.**

- The Legislative Auditor reviewed the CPRB's internal controls related to the collection of retirement contributions and documentation such as the CPRB's computerized error reports, delinquency reports, and also tested the CPRB's web reporting to determine that these controls are appropriate. The proper utilization of these controls provides the CPRB with a reasonable assurance that the appropriate amounts of retirement funds were collected.
- In order to evaluate if CPRB staff are following appropriate internal controls related to the collection of retirement contributions, the Legislative Auditor conducted a survey that consisted of a test sample of 30 Public Employee Retirement System (PERS) member case files who retired in 2013. The results of this survey concluded that of the cases sampled, proper amounts of public employee retirement contributions were collected.

#### **Issue 2: The CPRB Has Appropriate Internal Controls Related to the Distribution of Retiree Benefit Payments.**

- The Legislative Auditor reviewed documentation for the CPRB's internal controls related the distribution of retirement funds such as the review of members' files, double-checking statutorily required calculations by CPRB staff, and balancing supplemental and monthly payrolls to determine that these controls are appropriate. In addition, these internal controls ensure that the proper amount of retirement funds is being distributed to each participating retiree or beneficiary.
- In order to evaluate if CPRB staff are following appropriate internal controls related to the distribution of retirement funds, the Legislative Auditor conducted a survey that sampled 30 PERS case files of retirees who retired in 2013. The Legislative Auditor recalculated the final average salary for each of the sampled retiree. For each of the sampled retirees, all of the calculations conducted by the Legislative Auditor matched those of the CPRB. In addition, as a result of appropriate internal controls, the Legislative Auditor determined that the proper amount of retirement benefits was distributed to retirees.

**Issue 3: The Consolidated Public Retirement Board Has Made Improvements to Verify the Earnings of Public Employees Retirement System Disability Retirees as Recommended in PERD’s 2006 Special Report.**

- The CPRB is in full compliance with all the applicable recommendations of the 2006 PERD special report regarding the verification of earnings of PERS disability retirees.

**PERD’S Evaluation of the Agency’s Written Response**

The Office of the Legislative Auditor’s Performance Evaluation and Research Division received a written response from the Consolidated Public Retirement Board on September 29, 2014. The agency concurs with all the audit findings in the report. The agency response can be seen in Appendix E.

## ISSUE1

### **The Consolidated Public Retirement Board Has Appropriate Internal Controls Regarding the Accurate Collection of Employee and Employer Retirement Contributions.**

#### **Issue Summary**

As the result of a survey of Public Employee Retirement System (PERS) retiree case files, the Legislative Auditor determined that the Consolidated Public Retirement Board (CPRB) has appropriate internal controls related to the accurate collection of participating employee and employer retirement contributions. These controls consist of conducting monthly computerized error reports that identify errors such as inaccurate contribution rate and incorrect names, delinquency reports that identify employers who are delinquent with their employee contribution payments, and web reporting which only enables employers to remit their employee contributions via the internet if the information provided is accurate. The proper utilization of these controls provides the CPRB with the assurance that the appropriate amounts of retirement funds are being collected. In addition, the results of the Legislative Auditor's survey show that the CPRB is collecting proper amounts of employer and employee retirement contributions.

#### **The Internal Controls Utilized by the CPRB to Ensure the Accuracy of Member Retirement Contributions Are Appropriate**

The internal controls the CPRB has in place to ensure it is collecting the proper amount of money for employee and employer retirement contributions are appropriate. According to the CPRB, internal controls utilized to confirm that the statutorily required contribution rate is being submitted include monthly computerized error reports, employer delinquency reports, and web reporting. The Legislative Auditor reviewed documentation for the CPRB's computerized error reports, delinquency reports, and also tested the CPRB's web reporting to determine that these controls are appropriate. The proper utilization of these controls provides the CPRB with a reasonable assurance that the appropriate amounts of retirement funds are being collected.

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*The Legislative Auditor reviewed documentation for the CPRB's computerized error reports, delinquency reports, and also tested the CPRB's web reporting to determine that these controls are appropriate. The proper utilization of these controls provides the CPRB with a reasonable assurance that the appropriate amounts of retirement funds are being collected.*

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## Automated Internal Controls Are Identifying Monthly Errors Made by Contributing Employers

The CPRB's computer system has automated internal controls that detect unusual or extreme values when employers submit employee retirement contributions. These monthly reports identify errors or inconsistencies between information that the CPRB database contains and information reported by employers. The CPRB's computer system detects errors such as the contribution received not equaling the statutorily required 4.5 percent of salary earned, there being no match on the name provided, or an error for the number of hours paid to the individual. The CPRB is able to confirm the required contribution rate is being submitted by having staff review the error reports to ensure that all the data matches and agrees with information located in active member's files. Upon receipt of computerized error reports, CPRB staff contacts the employer to correct the information and contribution remitted.

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The Legislative Auditor reviewed error reports for three consecutive months (December 2013 to February 2014) to determine if the CPRB is identifying errors made by employers from month to month. The Legislative Auditor noticed that in several cases it appeared that errors made by employers for certain individual members that needed to be corrected carried over to the following month. In order to further test this evidence, the Legislative Auditor provided the CPRB with a list of members from the provided error reports that had an error that appeared to carry over to the following month and requested an explanation for each example. The CPRB responded by stating:

*Each employer reports contributions to the CPRB monthly and our system generates each exception or Error Report based on that one month's reporting. The Error reporting only applies to that individual month's data. Reporting, entries and errors do not carry over from one month to the next. Therefore, the list of "carried over" errors are actually re-occurring errors.*

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*For the error reports reviewed by the Legislative Auditor for the months December 2013 to February 2014, the average rate for monthly errors detected to active PERS members was approximately 0.8 percent, or 281 errors out of 36,637 PERS members.*

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The CPRB provided an explanation for all the errors in question which clarified the Legislative Auditor's inquiry. As a result, the Legislative Auditor determined that the computerized error reports are being utilized as intended. For the error reports reviewed by the Legislative Auditor for the months December 2013 to February 2014, the average rate for monthly errors detected to active PERS members was approximately 0.8 percent, or 281 errors out of 36,637 PERS members.

## **Delinquency Reports Show Only One Agency Is Delinquent in Making Contributions**

The CPRB agency delinquency reports provide an up-to-date status report for agencies that are delinquent with their retirement contributions. Delinquency reports are reported to the Board of Trustees at every quarterly board meeting that identifies employers who are delinquent in their submissions of employee and employer contributions by more than 30 days. Once an employer is determined to be delinquent, that employer is contacted by CPRB staff by phone or written correspondence to attempt to rectify the delinquency.

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*Delinquency reports are reported to the Board of Trustees at every quarterly board meeting that identifies employers who are delinquent in their submissions of employee and employer contributions by more than 30 days.*

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The Legislative Auditor reviewed a delinquency report that consisted of a section for the delinquent agency's name, dates delinquent, employee amount due, employer amount due, action taken, and a comments section (see Appendix C). As of March 2014, the CPRB reported only one agency as being delinquent, which has already set up a payment plan. However, out of 10 agencies listed on the report, 9 were listed as being typically late. According to the CPRB, some municipalities are always late mailing in their retirement contributions due to their pay schedule.

## **Web Reporting Prevents Employers From Entering Incorrect Information**

Employer web reporting enables employers to remit their monthly contributions accurately. Employers in the Public Employees Retirement System (PERS), the Deputy Sheriff's Retirement System, and the Emergency Medical Services Retirement System can remit their contributions via web reporting. If the amount remitted in the system does not match the amount that the CPRB has on file for that member, then the contribution is rejected. For example, if an employer enters in an incorrect salary for an employee, the employer will not be allowed to continue with their action until the correct salary is entered. The Legislative Auditor tested the process by having incorrect data purposely entered into the system. The system would not accept this data, thus preventing users from continuing with their action until the correct information is entered.

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## A Survey of PERS Retiree Case Files Show That Proper Internal Controls Related to Retirement Contribution Amounts Are Being Followed

In order to evaluate if CPRB staff are following appropriate internal controls related to the collection of retirement contributions, the Legislative Auditor conducted a survey that consisted of a test sample of 30 PERS member case files who retired in 2013. The results of this survey concluded that of the cases sampled, proper amounts of public employee retirement contributions are being collected. According to *West Virginia Code of State Rules §162-5-9*, all participating public employers shall withhold 4.5 percent from the gross compensation of each member. Each member's sums withheld for each calendar month are due to the CPRB at the end of each calendar month.

For each of the 30 PERS retiree case files sampled, the Legislative Auditor reviewed the total compensation for each year employed and the total amount of retirement contributions collected each year throughout the retiree's career. The Legislative Auditor conducted its own calculation to determine if each of the sample retirees' retirement contributions equaled 4.5 percent of their overall salary, and compared it to the CPRB's calculation to determine if it was correct. According to the Legislative Auditor's calculations, the total contributions for 28 of the 30 retirees sampled was inaccurate by less than \$1.00, and another off by \$2.26 for total salary contributions. These inaccuracies may be explained by rounding issues conducted by the employer, or due to human error because the final total contribution amount is calculated by an individual CPRB staff member and not a computer. However, given the small amount of the inaccuracy compared to the overall retirement amounts involved, these inaccuracies are not significant. In addition, these inaccuracies did not have an effect on the retiree's final average salary or their retirement benefits. Ultimately, the control activities that are being carried out by CPRB staff gives a reasonable assurance that CPRB's calculations related to retirement contributions are reasonably accurate.

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The Legislative Auditor discovered one instance where a retiree's total retirement contribution amount appeared to be incorrect by \$23.55. However, after further review, the Legislative Auditor determined that CPRB had actually received the correct amount of retirement contributions and the inaccuracy was due to human error made by CPRB staff by placing an incorrect number into their hand-written calculation.

The CPRB control for ensuring the accuracy for calculations regarding retirement contributions is having each retirement calculation computed by a retirement advisor and then having it checked by another

retirement advisor to avoid errors. However, the Legislative Auditor's survey revealed two cases where the calculations were not checked and signed twice, which is required by CPRB policy. In addition, regarding the instance where the retiree's total calculation appeared to be inaccurate by \$23.55, the calculations had been checked and signed for twice, but the error was not identified. Although this inaccuracy did not have any effect on the retiree's final average salary or his or her retirement benefits, the CPRB staff should have detected this error in their follow-up review of the calculation.

## **Conclusion**

As the result of the Legislative Auditor's survey of PERS retiree cases, the Legislative Auditor has determined that the CPRB has appropriate internal controls related to the collection of employee and employer retirement contributions, and control activities are being followed that give reasonable assurance that contribution amounts are accurate. The proper utilization of these controls provides the CPRB with the assurance that the appropriate amounts of retirement funds are being collected. In addition, these controls ensure that the State's retirement funds are receiving sufficient funding which is determined by the Legislature, and are continuing to reduce its unfunded accrued liability.



## ISSUE 2

### **The CPRB Has Appropriate Internal Controls Related to the Distribution of Retiree Benefit Payments.**

#### **Issue Summary**

The Legislative Auditor determined that the CPRB has appropriate internal controls related to the distribution of retirement benefit payments. These controls consist of having CPRB staff review retiree retirement files to account for all appropriate data, having two CPRB staff members review statutorily-required retirement benefit calculations to ensure accuracy, and having supplemental and monthly payrolls balanced to verify that the proper retirement benefit payments are being made. In addition, results of a Legislative Auditor's survey of PERS retiree case files show that the CPRB is distributing proper amounts of retirement benefit payments to retirees. Ultimately, since the CPRB is executing proper procedures to ensure that the appropriate amounts of state retirement funds are being distributed, participating retirees are receiving proper retirement benefits.

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*The Legislative Auditor determined that the CPRB has appropriate internal controls related to the distribution of retirement benefit payments.*

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#### **The Internal Controls Utilized by the CPRB to Ensure the Accuracy of Benefit Payments Paid to Retirees Are Appropriate**

The internal controls the CPRB has in place to ensure it is distributing the proper amount of retiree benefit payments are appropriate. According to the CPRB, internal controls utilized to ensure the accuracy of retirement benefit payments include the review of members' files, double-checking statutorily required calculations by CPRB staff, and balancing supplemental and monthly payrolls. The Legislative Auditor reviewed documentation for these internal controls related to PERS to determine that the controls are appropriate. In addition, these internal controls ensure that the proper amount of retirement funds is being distributed to each participating retiree or beneficiary.

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*According to the CPRB, internal controls utilized to ensure the accuracy of retirement benefit payments include the review of members' files, double-checking statutorily required calculations by CPRB staff, and balancing supplemental and monthly payrolls.*

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#### **Review of Member's Files Determine That Proper Information Is Collected**

The CPRB maintains personal retirement files for each retirement system member in order to manage personal and financial information used in the retirement process. Each retirement file consists of personal

information such as birth and marriage certificates, detailed service credit, career salary information, and tax information. Each retirement file has a checklist that the CPRB uses to keep track of data contained in the file (see Appendix D). According to the CPRB, when a service specialist is reviewing member files prior to benefit calculations being performed in order to ensure the accuracy of benefit payments, they are looking for inconsistencies, such as out-of-date data or missing data, which could result in an inaccurate calculation. In addition, prior to the effective retirement date of a retiree, the CPRB documents when a member's file is reviewed to ensure accuracy of service credit and salary information. The files are signed and dated when reviewed by CPRB staff. The Legislative Auditor reviewed case files as part of its survey of 30 PERS members and determined that the CPRB is collecting all necessary documentation needed to determine retirement benefit calculations.

If errors are identified related to a member's service credit and/or salary after the retiree's annuity payments have begun, the CPRB will follow its statutorily-appropriate Error Correction Policy in order to address the proper actions to be taken in the event that an error is discovered. The policy provides actions to be taken in the event the errors are related to the collection of retirement contributions and/or the distribution of retirement benefits. In one case identified by the Legislative Auditor, an employer for a PERS retiree had initially reported a balance of 197.45 days of leave for the retiree. However, the employer later remitted a correction to the CPRB that reflected a balance of 238.26 days of leave. As a result, an additional four months of service credit was added to the retiree's file. The CPRB followed the appropriate correction procedures that increased the retiree's monthly annuity payment to the proper amount and also submitted a check to the retiree in order to repay for the months that the retiree received an improper annuity amount.

### **Calculations Are to Be Double Checked by CPRB Staff in Order to Verify Accuracy of Benefit Payments**

As required by CPRB policies and procedures, each statutorily required retirement calculation is computed and signed by a retirement advisor and then checked and signed by another retirement advisor to avoid errors in calculations. As stated in the previous issue, the Legislative Auditor's survey revealed 2 cases out of 30 where calculations were not checked and signed twice as required by policy. However, this did not have an effect on the accuracy of either of the retirees' retirement benefit payments. The Legislative Auditor concluded that the calculations related to these two cases were accurate and the proper amounts of retirement benefit payments were determined.

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*The Legislative Auditor reviewed case files as part of its survey of 30 PERS members and determined that the CPRB is collecting all necessary documentation needed to determine retirement benefit calculations.*

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*If errors are identified related to a member's service credit and/or salary after the retiree's annuity payments have begun, the CPRB will follow its statutorily-appropriate Error Correction Policy in order to address the proper actions to be taken in the event that an error is discovered.*

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## **Balancing of Supplemental and Monthly Payrolls Verifies That the Proper Benefit Payments Are Being Made**

In order to ensure accuracy, the CPRB balances the supplemental and monthly annuity payrolls prior to entering the overall annuity payroll for distribution. Between monthly annuity payrolls, there are supplemental payrolls that are generated that result in changes to the annuity payroll. These changes to the annuity payroll may include when a newly retired member begins to receive their annuity and that amount is added to the payroll, when a retiree returns back to work and their annuity is stopped, or when a retiree dies and their annuity is ceased and the amount is removed from the payroll. Staff manually review these changes to make sure that the amounts balance and are accounted for when the next annuity payroll report is generated. The supplemental and monthly payrolls must match information contained in the retirees' retirement files. Once this has been done, the balance payroll will be established and sent out.

The Legislative Auditor reviewed examples from April and May 2014 of the CPRB's supplemental and monthly annuity payrolls for the PERS and the Teachers Retirement System and determined that the CPRB is using the data as intended. In addition, the Legislative Auditor determined that CPRB staff are reviewing the information and checking it for accuracy. As a result, by reviewing the information that is being entered into supplemental payrolls for accuracy and making sure it balances with monthly annuity payrolls, the CPRB can determine that it is distributing the appropriate amount of retirement funds to retirees.

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## **A Survey of PERS Retiree Case Files Show That Proper Internal Controls Related to Distributed Annuity Amounts Are Being Followed**

In order to evaluate if CPRB staff are following appropriate internal controls related to the distribution of retirement funds, the Legislative Auditor conducted a survey that sampled 30 PERS retiree case files who retired in 2013. The results of this survey conclude that the control activities are being followed to provide reasonable assurance that correct amounts of retirement benefits are being distributed to retirees. According to *WVC §5-10-22(a)*:

*... all members retired and all members retiring shall receive a straight life annuity equal to two percent of his or her final average salary multiplied by the number of years, and fraction of year, of his or her credited service....*

The Legislative Auditor reviewed the sampled retirement files, and conducted its own calculations using the statutorily-required formula to determine if retirees' retirement benefits calculated by the CPRB were correct. The Legislative Auditor recalculated the final average salary for each of the sampled retiree, which is defined by *WVC §5-10-2(13(a))* as being the highest annual compensation received by a member, during any period of 3 consecutive years of credited service contained within the member's 15 years of credited service immediately preceding the date his or her employment with a participating public employer last terminated. For each of the sampled retirees, all of the calculations conducted by the Legislative Auditor matched those of the CPRB. In addition, as a result of appropriate internal controls being utilized by the CPRB, the Legislative Auditor determined that the proper amount of retirement benefits is being distributed to retirees.

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*Since the appropriate amounts of state retirement funds are being distributed, participating retirees are receiving their deserved retirement benefits and the State is not paying more in retiree benefits than it should.*

## Conclusion

As the result of the Legislative Auditor's survey of PERS member case files who retired in 2013, the Legislative Auditor determined that the CPRB is utilizing appropriate internal controls related to the distribution of retirement benefit payments. In addition, results of the sample show that the CPRB is distributing proper amounts of retirement benefit payments to retirees. Since the appropriate amounts of state retirement funds are being distributed, participating retirees are receiving their deserved retirement benefits and the State is not paying more in retiree benefits than it should.

## ISSUE 3

### **The Consolidated Public Retirement Board Has Made Improvements to Verify the Earnings of Public Employees Retirement System Disability Retirees as Recommended in PERD's 2006 Special Report.**

#### **Recommendation 1 (May 2006)**

*The Legislative Auditor recommends that the CPRB implement a process by which it verifies the earnings of at least a limited number of PERS disability retirees.*

#### **Level of Compliance: In Compliance**

Prior to the Performance Evaluation and Research Division's (PERD) May 2006 report, the Legislative Auditor initiated an evaluation of the CPRB disability process within the PERS. Although the CPRB was authorized to verify the earned income of PERS disability retirees, the CPRB had not exercised that authority. The Legislative Auditor was initially concerned that without earned income verification, the State was paying more in PERS disability retirement benefits than it should. Furthermore, passage of House Bill 2984 in 2005 made income verification more important since the new law was more stringent regarding the amount of earned income a disability retiree can receive.

The Legislative Auditor found that there were a relatively small number of individuals who had earned income as reported by W-2 forms, but there were individuals who had reported undocumented sources of income on their tax returns. The Legislative Auditor's staff obtained copies of the 2004 state income tax returns for 788 retirees. The Legislative Auditor found that 17 of 788 individuals had earned income as recorded by W-2 forms. Under the law prior to House Bill 2984, 8 of the disability retirees had earned enough to result in an adjustment of their disability annuities totaling over \$44,000. Therefore, PERD reported in its May 2006 report, that relatively few PERS disability retirees had significant amounts of earned income as documented by W-2 forms, but some had unidentified sources of income and recommended that the CPRB implement a process to verify earnings for at least a limited number of PERS disability retirees.

In February 2014, the Legislative Auditor inquired whether or not the CPRB had addressed the recommendations made in the May 2006 report. In regards to the first recommendation, the CPRB responded by stating it has implemented a process by which it verifies the earnings of

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not only a limited number of PERS disability retirees, but for all PERS disability retirees up to age 60. The CPRB requires all PERS disability retirees to complete an “Affidavit of Earned Income” form each year. If individuals answer that they did earn income, the CPRB requires that they submit a copy of their federal tax return, any W-2 forms, 1099 forms, self-employment documents and any other document of income. Individuals certify the accuracy of the information under penalty of perjury. As a result, the Legislative Auditor concludes that the CPRB is in compliance with recommendation 1.

The Legislative Auditor further inquired if the CPRB performs any type of follow-up to determine if any disability retirees are guilty of false swearing on the Affidavit of Earned Income. The CPRB responded by stating that it relies on retirees’ signed statements and turned in tax information when determining if retirees are being honest about their earned income. The CPRB also state that a hotline was established primarily to prevent disability fraud, where people can call in to provide tips on individuals they believe to be taking advantage of the retirement system.

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*The CPRB requires all PERS disability retirees to complete an “Affidavit of Earned Income” form each year. If individuals answer that they did earn income, the CPRB requires that they submit a copy of their federal tax return, any W-2 forms, 1099 forms, self-employment documents and any other document of income. Individuals certify the accuracy of the information under penalty of perjury.*

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## **Recommendation 2 (May 2006)**

*The Legislative Auditor recommends that the CPRB conduct a study of the earnings of all PERS disability retirees who are living out of state by requesting federal tax returns from these individuals.*

### ***Level of Compliance: In Compliance***

In response to the Legislative Auditor’s inquiry regarding recommendation 2, the CPRB stated that it not only requests federal tax returns from PERS retirees living out of state, but from all PERS retirees in order to verify the earnings for PERS disability retirees. The Legislative Auditor reviewed tax documentation received by the CPRB from PERS disability retirees that verified this activity was taking place. Therefore, the Legislative Auditor concludes that the CPRB is in compliance with recommendation 2.

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*In response to the Legislative Auditor’s inquiry regarding recommendation 2, the CPRB stated that it not only requests federal tax returns from PERS retirees living out of state, but from all PERS retirees in order to verify the earnings for PERS disability retirees.*

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## **Recommendation 3 (May 2006)**

*The Legislative Auditor recommends that the CPRB reexamine a larger number of PERS disability retirees, and consider using earned income obtained from statements of earnings as an indicator of a retirees’ continued disability and therefore, criteria for scheduling reexaminations.*

### ***Level of Compliance: In Compliance***

For all PERS disability retirees who indicate that they did earn income, the CPRB requires that they submit a copy of their federal tax return, any W-2 forms, 1099 forms, self-employment documents and any other document of income, from which they certify the accuracy of the information under the penalty of perjury. In addition, the CPRB stated in its response to the Legislative Auditor's February 2014 inquiry that as a result of findings from the statement of earnings, disability retirees in PERS have had their annuities terminated and discontinued. Retirees are terminated if it is determined that their earned income exceeds the maximum allowed amount. They are discontinued if they fail to submit their earned income information and they have one year to reapply. Since 2006, 6 disability retirees have had their annuities terminated and 38 have had their annuities discontinued for a total of 44. Additionally, pursuant to *WV Code §5-10-26*, disability retirees may be examined once per year for the first 5 years following a disability award and then every 3 years until age 60 to determine if their disability status has changed. The Legislative Auditor reviewed tax documents received by the CPRB from PERS disability retirees that verified that this actually was taking place. Therefore, the Legislative Auditor concludes that the CPRB is in compliance with recommendation 3.

### **Conclusion**

The CPRB has made improvements to verify the earnings of PERS disability retirees. The CPRB addressed the recommendations made in the 2006 PERD report by not only verifying the earnings of a limited number of PERS disability retirees, but by verifying the earnings for all PERS disability retirees along with having them submit financial documents and sign an Affidavit of Earned Income. As a result, since 2006, 6 disability retirees have had their annuities terminated and 38 have had their annuities discontinued. Therefore, the State is not paying more in PERS disability retirement benefits than it should.

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*Since 2006, 6 disability retirees have had their annuities terminated and 38 have had their annuities discontinued for a total of 44.*

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# Appendix A Transmittal Letter

## WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

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September 18, 2014

Jeffrey E. Fleck, Executive Director  
West Virginia Department of Administration  
Consolidated Public Retirement Board  
4101 MacCorkle Avenue S.E.  
Charleston, WV 25304

Dear Mr. Fleck:

This is to transmit a draft copy of the Performance Review of the West Virginia Consolidated Public Retirement Board. This report is scheduled to be presented during the October 20-22, 2014 interim meeting of the Joint Committee on Government Operations, and the Joint Committee on Government Organization. We will inform you of the exact day, time, and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committees may have.

If you would like to schedule an exit conference to discuss any concerns you may have with the report, please notify us between Monday, September 22, 2014 and Friday, September 26, 2014. We need your written response by noon on Tuesday, October 7, 2014, in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, October 16, 2014 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

  
John Sylvia

*Joint Committee on Government and Finance*



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## Appendix B

# Objectives, Scope and Methodology

The Performance Evaluation and Research Division (PERD) within the Office of the Legislative Auditor conducted this performance review of the Consolidated Public Retirement Board (CPRB) as part of the Agency Review of the Department of Administration, as required and authorized by the West Virginia Performance Review Act, Chapter 4, Article 10, of the *West Virginia Code*, as amended. The purpose of the CPRB, as established in West Virginia Code §5-10D-1, is to administer all public retirement plans in the state.

### Objectives

The objectives of this performance review are to evaluate the appropriateness of internal controls used by the CPRB to verify that retirement fund collections and distributions are accurate. In addition, an update was conducted to document to what extent the CPRB has complied to recommendations made in a May 2006 PERD report.

### Scope

The scope of this review consisted of the CPRB's internal controls utilized to verify that retirement fund collections and distributions are relatively accurate and appropriate. Documents reviewed consisted of computerized error reports, Public Employees Retirement System (PERS) members' retirement files, an agency delinquency report, monthly and supplemental payrolls, CPRB policies and procedures, West Virginia Code and Code of State Rules, and email correspondence with CPRB staff during fiscal year 2013 to fiscal year 2014. The unfunded accrued liability was reviewed for all of the State's retirement funds for the time period July 2006 to July 2013. In addition, the first three recommendations from a May 2006 PERD report dealing with disability retirees were reviewed and updated from the time of the report to February 2014.

### Methodology

PERD gathered and analyzed several sources of information and conducted audit procedures to assess the sufficiency and appropriateness of the information used as audit evidence. The information gathered and audit procedures are described below.

Testimonial evidence gathered for this review through interviews with the CPRB's staff was confirmed by written statements and in some cases by corroborating evidence. Testimonial evidence was gathered for this review through interviews and written statements regarding internal controls utilized by the CPRB to ensure reasonable accuracy for the collection and distribution of retirement funds. Corroborating evidence was obtained by reviewing documentation of these internal controls such as computerized error reports to determine errors identified during the retirement contribution collection process were being addressed appropriately; agency delinquency reports to determine to what extent agencies are delinquent in remitting employee retirement contributions; PERS member files to determine what information the CPRB was collecting and to what extent the information was being used; and monthly and supplemental payrolls were reviewed to determine if the numbers balance which helps ensure that the CPRB is collecting and distributing appropriate amounts of retirement funds. In addition, PERD observed the process of web reporting used by some agencies to remit employee contributions online in order to provide a reasonable assurance of accuracy.

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In order to evaluate if CPRB staff are following appropriate internal controls related to the collection of retirement contributions, the Legislative Auditor conducted a survey that consisted of a test sample of 30 PERS member case files who retired in 2013. For each of the 30 PERS retiree case files sampled, the Legislative Auditor reviewed the total compensation for each year employed and the total amount of retirement contributions collected each year throughout the retiree's career. The Legislative Auditor conducted its own calculation to determine if each of the sample retirees' retirement contributions equaled 4.5 percent of their overall salary, and compared it to the CPRB's calculation to determine if it was correct.

In order to evaluate if CPRB staff are following appropriate internal controls related to the distribution of retirement funds, the Legislative Auditor conducted a survey from the same sample of 30 PERS retiree case files who retired in 2013. The Legislative Auditor reviewed the sampled retirement files, and conducted its own calculations using the statutorily-required formula to determine if retirees' retirement benefits calculated by the CPRB were correct. The Legislative Auditor recalculated the final average salary for each of the sampled retiree, which is defined by *WVC §5-10-2(13(a))* and compared the results to CPRB figures.

In order to determine the extent of compliance the CPRB had achieved regarding the first three recommendations from the May 2006 PERD report, documentation was obtained indicating that the CPRB has taken action and is in compliance with the first three recommendations from the report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix C PERS Delinquent Agency Report

### PERS DELINQUENT AGENCY REPORT Prepared for the March 5, 2014 Board Meeting

Agency Name	Month/Year Delinquent	Employee Amount Due	Employer Amount Due	Action Taken	Comments
Green Acres Regional Center	October 2006 - August 2008	(\$4,711)	\$475,419.74	Paid through January 2014 on current contributions	Settlement agreement has been entered into with agency. Staff is in regular contact with agency.
Town of Grant Town	November, December 2013, January 2014			Late letters mailed and numerous telephone calls made to the town. November 2013 turned over to State Auditor on 3/4/14	Always late
City of South Charleston	December 2013, January 2014			December late letter mailed 1/17/14. January late letter mailed 2/19/14. December to be turned over to State Auditor on 3/15/14	Typically late (recent)
City of Thomas	January 2014			Late letter mailed 2/19/14	Always late
Weston Sanitary Board	January 2014			Late letter mailed 2/20/14	Always late
City of Mullens	January 2014			Late letter mailed 2/19/14	Always late
Kanawha PSD	January 2014			Late letter mailed 2/19/14	Usually on time
Southwestern Water District	January 2014			Late letter mailed 2/20/14	Typically late (recent)
City of Shinnston	January 2014			Late letter mailed 2/19/14	Always late (recent)
Enlarged Hepzibah PSD	January 2014			Late letter mailed 2/20/14	Always late







# Appendix E Agency Response



**Board Members**  
Governor Earl Ray Tomblin  
Auditor Glen B. Gainer III, Vice Chairman  
Treasurer John D. Perdue  
Cabinet Secretary Ross Taylor

## State of West Virginia Consolidated Public Retirement Board

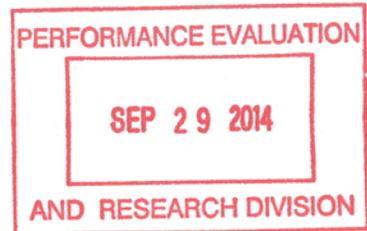
4101 MacCorkle Avenue, SE  
Charleston, West Virginia 25304-1636  
Telephone: 304-558-3570 or 800-654-4406  
Fax: 304-558-6337  
email: [cprb@wv.gov](mailto:cprb@wv.gov)  
[www.wvretirement.com](http://www.wvretirement.com)

**Board Members**  
David L. Wyant, Chairman  
Thomas Bradley  
Joseph Bunn  
Captain Michael G. Corsaro  
Joe Lynch  
D. Todd Murray  
Andrew Richardson  
C. Jeffrey Vallet

**Executive Director**  
Jeffrey E. Fleck

September 25, 2014

Mr. John Sylvia, Director  
West Virginia Legislature  
Performance Evaluation and Research Division  
Building 1, Room W-314  
1900 Kanawha Boulevard, East  
Charleston, WV 25305-0610



Dear Mr. Sylvia:

Thank you for the time and effort that you and your staff exerted in completing your audit of the West Virginia Consolidated Public Retirement Board (CPRB). Over 130,000 West Virginians entrust us with their retirement security and we take that responsibility and our fiduciary duty very seriously. The results of your audit give me great assurance in knowing that we are effectively performing our duties. Please consider this letter as my response to your audit.

### Issue 1

**The Consolidated Public Retirement Board Has Appropriate Internal Controls Regarding the Accurate Collection of Employee and Employer Retirement Contributions.**

Agency Response: We concur with the findings of the Legislative Auditor.

### Issue 2

**The CPRB Has Appropriate Internal Controls Related to the Distribution of Retiree Benefit Payments.**

Agency Response: We concur with the findings of the Legislative Auditor.

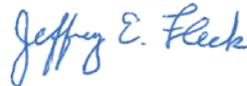
**Issue 3**

**The Consolidated Public Retirement Board Has Made Improvements to Verify the Earnings of Public Employees Retirement System Disability Retirees as Recommended in PERD's 2006 Special Report.**

Agency Response: We concur with the findings of the Legislative Auditor.

The CPRB continues to look for ways to improve our processes and customer service. We are in the beginning phases of implementing a new computer system called the CPRB COMPASS that will improve our communication with employers, employees and retirees and will result in a more efficient and effective retirement system. If you need any further information, please feel free to contact me.

Sincerely,



Jeffrey E. Fleck  
Executive Director



WEST VIRGINIA LEGISLATIVE AUDITOR

**PERFORMANCE EVALUATION & RESEARCH DIVISION**

Building 1, Room W-314, State Capitol Complex, Charleston, West Virginia 25305

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