

MEMORANDUM

TO: Audit Committee
Jon Strinden
Arvy Smith
Rebecca Dorwart

FROM: Jamie Kinsella, Internal Auditor

DATE: August 23, 2010

SUBJECT: **March 12, 2010 Special Audit Committee Meeting**

In Attendance:

Jon Strinden, via conference call
Arvy Smith
Rebecca Dorwart
Sparb Collins
Jamie Kinsella
Leon Heick

The special meeting was called to order at 11:00 a.m. to discuss final average salaries and whether a bill should be submitted to address the irregular salaries that were found in an audit.

Staff provided an overview of what was found during the audit. There are employees in our system who are paid biweekly, resulting in 2 months per year of higher salaries. Also, temporary employees and employees who are hourly also have fluctuating salaries. Per Segal's email in response to our query regarding the effect of these salary spikes on the retirement system, a copy of which was provided to the audit committee, these atypical salaries "...increase the rate by 0.09... This increases the NC from 8.38 to 8.43. There's some leverage here, because it doesn't change the employee contributions. The whole .05 goes to increase the employer rate. Then it increases the AAL by a small percent but there is leverage again, so the UAAL goes up by 2.8%, which gives the other .04."

Internal audit staff conducted a survey of public pension funds of how final average salary is calculated in their systems and provided this information to the audit committee. A spreadsheet was also provided to the audit committee showing a representation of employees on our system and how different final average salary methods affect their final average salary.

The internal audit staff made the following recommendations internally:

- 1) Submit no changes for this session (continue research).
- 2) Propose changing final average salary calculations for all active and new members.
- 3) Propose changing final average salary calculation for new members only (current members will be under existing law).

- 4) Adjust contribution rate for specific employers.

Increasing the contribution rate is difficult given that PERS is submitting bills in 2011 to increase the rates for all employers.

Staff recommended deferring this issue for the 2011 session and studying the issue more thoroughly with the possible submission of a bill in 2013. Discussion followed.

ARVY MOVED TO STUDY FOR THE 2013 SESSION. BECKY SECONDED THE MOTION.

MOTION PASSED.

The meeting adjourned at 11:30 a.m.