Assurance Report

2118 Benefit Calculation Review

June 16, 2021

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The LASERS Audit Committee

EXECUTIVE SUMMARY

During this review, the following observations were noted and are detailed below:
1. Three instances of benefit calculation errors identified.
2. One error identified during a quality assurance (QA) review not corrected.
3. A benefit recalculation in SOLARIS derives an incorrect maximum reserve factor in certain instances.

BACKGROUND

This was a planned engagement on the fiscal year end (FYE) 2021 Audit Plan. The fieldwork for this engagement was completed on May 10, 2021.

LASERS Member Services Division calculates retirement benefits in according with Title 11 of the Louisiana Revised Statutes. Preliminary retirement benefit calculations are performed when a retirement application is received by using membership data that is posted to member records. Final retirement benefit calculations are performed once all agency contributions for the member have been received and posted to the member's records.

The formula used to determine the maximum monthly base retirement benefit is: service credit times final average compensation times retirement plan accrual rate. If any component of this formula is

incorrect, the monthly benefit amount will be in error. Member Services conducts an in-depth review of the member's record when performing the preliminary calculation, final calculation, and the final approval phases of the retirement calculation process. Additionally, the same individual does not perform a successive step in the retirement calculation process. For example, the individual that performs the preliminary calculation is not able to perform the final calculation.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this engagement included a review of all benefit calculations for the time period of January 1, 2020 to December 31, 2020. A sample of calculations was reviewed manually, along with results from automated testing methods. In addition, a sample of calculations from the quality assurance review was verified.

The primary objectives of this engagement were to determine if:
- Retirement benefit calculations and reviews are being performed in accordance with applicable regulations and procedures.
- SOLARIS data used to process retirement benefit calculations agrees with documentation in OPTIMUS.

Procedures used to complete this engagement included:
- Interviewing LASERS staff.
- Researching and examining controls, policies, and laws.
- Analyzing SOLARIS and OPTIMUS data.
- Recalculating a sample of retirement benefits.
- Examination of supervisory review documentation.
- Conducting other inquiries considered necessary to achieve engagement objectives.

This engagement was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the policies and procedures of the Audit Services Division.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES
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1.   THREE INSTANCES OF BENEFIT CALCULATION ERRORS IDENTIFIED

OBSERVATION
A sample of benefit calculations finalized in 2020 were randomly selected for independent recalculation by Audit Services. Exception results from analytic queries were also reviewed and independent recalculations were performed, where necessary. Lastly, calculations that required a recalculation as identified during the post-final calculation check performed by the Member Services quality assurance specialist were reviewed by Audit Services.

Of the 152 calculations tested by Audit Services, there were three benefit calculation errors identified. Detailed observations are outlined in the table below.

		OBSERVATION	STATUS
1A		The monthly benefit amount for one disability retiree was understated due to a discrepancy in the service credit. SOLARIS did not accurately calculate the service credit due to a duplicate base salary for February 2020. This resulted in a benefit underpayment of $5.47 per month.	Member Services has taken the necessary action to correct this record. A recalculation was performed changing the retiree's monthly benefit amount. The underpayment of $28.63 from previous months has also been issued.
1B		The initial retroactive benefit payment made to one retiree was in error. This resulted in a one-time benefit underpayment of $29.20.	Member Services has taken the necessary action to correct the record. A payment of $29.20 was issued to the retiree.
1C		The monthly benefit amount for one retiree was understated due to a discrepancy in the final average compensation (FAC) calculation. This resulted in a benefit underpayment of $26.84 per month.	Member Services has taken the necessary action to correct this record. A recalculation was performed changing the member's monthly benefit prospectively. The underpayment of $167.97 from previous months has also been issued.

RECOMMENDATION
Member Services should evaluate the benefit calculation process based on the issues noted in the observation and determine which areas should be strengthened to minimize calculation errors.

DIVISION RESPONSE
Member Services agrees with this recommendation. Processing staff will continue to review final earnings including the impact to service credit and will notify the Service Credit staff to correct when anomalies are found. TFS request 57967 will add a warning message to estimates and benefit calculations when FAC capping occurs. The priority for this item has been set as medium with a target completion date of December 31, 2021.

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2. ONE ERROR IDENTIFIED DURING A QUALITY ASSURANCE (QA) REVIEW NOT CORRECTED

OBSERVATION
Member Services has developed a QA review process for retirement calculations which include a random 10 percent review of benefit calculations finalized each month, a random 10 percent review of all work completed by Member Services analysts, and a 100 percent review of all specialty plan calculations and calculations that were completed using a workaround.

According to Member Services, if an error is found by the QA specialist during their review, then they provide details of the error to Member Services management for correction. The error should be corrected within 10 days, if possible. Furthermore, the applicable Member Services supervisor is

responsible for verifying that any corrections related to their section (i.e., retirement, DROP, disability) are completed. During the project, it was observed that one error identified by the QA specialist in March 2020 was not corrected as of March 2021. The monthly benefit amount for the member in DROP accrual was understated due to a service credit miscalculation. This resulted in an underpayment of $10.59 per month. Member Services has taken the necessary action to correct this record. A recalculation was performed changing the member's monthly benefit amount prospectively. The underpayment of $174.03 from previous months has also been issued.

RECOMMENDATION (CLOSED)
Member Services should evaluate the quality assurance review process based on the issues noted in the observation and make the appropriate changes to ensure that errors identified by the QA specialist are corrected in a timely and accurate manner.

DIVISION RESPONSE
Member Services agrees with this recommendation. Supervisors are responsible for making sure QA items are corrected within 10 days. During weekly supervisor meetings, the Manager will address any outstanding items to ensure they get corrected prior to the deadline. Effective June 2021, QA follow-up has been added to weekly meetings to ensure timely completion. The corrective action has already been taken for this observation.

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3. BENEFIT RECALCULATION IN SOLARIS DERIVES INCORRECT MAXIMUM RESERVE FACTOR IN CERTAIN INSTANCES

OBSERVATION
During this project, Audit Services identified an issue in SOLARIS where an incorrect maximum reserve factor is being derived on a benefit recalculation when the retirement date changes from the final calculation.

As an example, the maximum reserve factor is used when calculating the amount of the monthly benefit reduction when a retiree selects the Initial Benefit Option (IBO).

According to Member Services, when a recalculation is performed, SOLARIS uses the retirement date from the original final calculation as the recalculation effective date. The recalculation effective date is used to derive the maximum reserve factor. However, in the instance where the retirement date changes on the recalculation, the new retirement date should be utilized to derive the maximum reserve factor since it is based on the age at retirement. This issue could cause an error in the monthly benefit amount if the difference in the retirement date results in a change to the derived age at retirement and the calculation uses the maximum reserve factor.

Member Services has submitted TFS request 57201 to address this issue.

RECOMMENDATION #1
Member Services should work with IT to perform a query that identifies any calculations that were impacted by this issue in SOLARIS. Any calculations identified should be reviewed and corrected accordingly.

DIVISION RESPONSE

Member Services agrees with this recommendation. TFS request 57908 will generate a query to identify any other possible members with errors in the recalculation of their benefit. Staff will make corrections as needed. The priority of this item has been set as medium with a target completion date of December 31, 2021.

RECOMMENDATION #2

Member Services should work with IT to prioritize and resolve TFS request 57201.

DIVISION RESPONSE

Member Services agrees with the recommendation and is currently working with IT to resolve TFS request 57201. Member Services' staff is aware of the issue and will verify recalculations manually until the TFS request is resolved. The priority of this item has been set as medium with a target completion date of December 31, 2021.

FOLLOW-UP

A follow-up to this engagement will not be scheduled at this time. Audit Services will maintain this information on a tracking report. These items will be tracked until they are closed.

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