

**SC PUBLIC EMPLOYEE BENEFIT AUTHORITY  
BOARD OF DIRECTORS MEETING**

Wednesday, January 21, 2015 1:00 p.m. MINUTES Approved 2.18.15  
200 Arbor Lake Drive, Columbia SC, 29223

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**Board Members Present:**

Chairman Art Bjontegard  
Mr. Audie Penn  
Mr. Frank Fusco  
Mr. Steve Heisler  
Mr. David Tigges  
Mr. John Sowards  
Ms. Stacy Kubu  
Sherriff Leon Lott (via telephone)  
Mr. Steve Matthews (via telephone)  
Mr. Steve Osborne (via telephone)

**Board Members Absent:**

Vice Chairman Joe "Rocky" Pearce

**Others present for all or a portion of the meeting:**

Peggy Boykin, Kim Brown, Sarah Corbett, Ariail Kirk, Megan Lightle, Heather Muller, Lisa Phipps, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Brian Lamkin and Patrick Maley from the South Carolina Office of Inspector General; Keith Bozarth, Rick Funston, Rose Hewig, Keith Johnson, Todd McGowan, Randall Miller, and Dave Stella from Funston Advisory Services LLC; Wayne Bell, Sam Griswold, Wayne Pruitt and Donald Tudor with the State Retirees Association; Brooks Goodman from Blue Cross Blue Shield of South Carolina; and Thompson Kinney from Milliken Law Firm.

**1. CALL TO ORDER**

Chairman Art Bjontegard called the PEBA Board of Director's (Board) meeting to order at 1:00 p.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

**2. ADOPTION OF PROPOSED AGENDA**

Chairman Bjontegard asked for amendments to the proposed Board meeting agenda. There being none, Mr. Steve Heisler made a motion, which was seconded by Mr. Audie Penn, and passed unanimously, to adopt the agenda as presented.

**3. APPROVAL OF MEETING MINUTES – DECEMBER 17, 2014**

Chairman Bjontegard asked for a motion to adopt the December 17, 2014, meeting minutes. Mr. Heisler made a motion, which was seconded by Mr. Penn, and approved unanimously, to adopt the December 17, 2014, meeting minutes as presented.

**4. PEBA FIDUCIARY AUDIT PRESENTATION**

Mr. Rick Funston, Managing Partner of Funston Advisory Services, introduced members of the Funston team, and provided PEBA's Fiduciary Performance Audit review. The full presentation is attached as part of the meeting minutes.

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**5. PEBA RESOLUTION EMPOWERING EXECUTIVE DIRECTOR TO DESIGNATE AUTHORIZED SIGNATORIES**

Mr. Stephen Van Camp, PEBA'S General Counsel, provided an overview regarding a resolution drafted to give the Executive Director of PEBA the authority to designate persons authorized to sign requisitions for the payment of funds from the Retirement System.

Mr. Heisler made a motion, which was seconded by Mr. Penn, and passed unanimously, to approve the PEBA Resolution Empowering Executive Director To Designate Persons To Sign Vouchers For Retirement System Payments And Authorizing Vouchers.

**6. COMMITTEE REPORTS**

Chairman Bjontegard stated that PEBA Board Committees did not meet in January.

**7. OLD BUSINESS/DIRECTOR'S REPORT**

Ms. Peggy Boykin, PEBA's Executive Director, provided the Director's Report, and advised that PEBA will be presenting the State Health Plan budget report to the House Ways and Means Committee Healthcare Subcommittee on February 4, 2015.

Ms. Boykin stated that the report concerning the impact on retirees and active members related to the settlement between the State of South Carolina and the Bank of New York Mellon (BONY), was provided to the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee, as directed by last year's proviso.

Ms. Boykin also reported that the Operational Assessment kick-off meeting is scheduled for January 22, 2015.

At the conclusion of the Director's Report, Chairman Bjontegard provided an opportunity for a roundtable discussion.

**8. EXECUTIVE SESSION**

At 3:25 p.m., Mr. Heisler made a motion, which was seconded by Mr. Penn, and passed unanimously, to recede into executive session to discuss personnel and contractual matters pursuant to S.C. Code Ann. § 30-4-70.

The Board reconvened in open session at 3:42 p.m. Chairman Bjontegard announced that no action was taken by the Board while in executive session.

**9. ADJOURNMENT**

There being no further business, and upon motion by Mr. Frank Fusco, which was seconded by Mr. Heisler, and approved unanimously, the Board meeting adjourned at 3:45 p.m.

**Fiduciary Performance Audit  
of the South Carolina  
Public Employee Benefit Authority**

**INVESTING IN PEBA FOR THE FUTURE:**  
*A Transformation Agenda*

**January 21, 2015 Presentation to the  
South Carolina PEBA Board of Trustees**



## Project Team Experience

- Dave Stella and Keith Bozarth – formerly Executive Directors of the Wisconsin agencies equivalent to PEBA and RSIC
- Keith Johnson – fiduciary and institutional investor legal expert, former General Counsel for the State of Wisconsin Investment Board
- Rose Hewig – former Deputy General Counsel for New York State Teachers' Retirement System and highly experienced in retirement operations
- Todd McGowan – former banking chief risk and compliance officer and Deloitte audit and IT security partner
- Rick Funston – former leader of Deloitte's Governance and Risk practice and Managing Partner of Funston Advisory Services for five years
- Randy Miller – former Deloitte Consulting partner and Principal with Funston Advisory Services for five years

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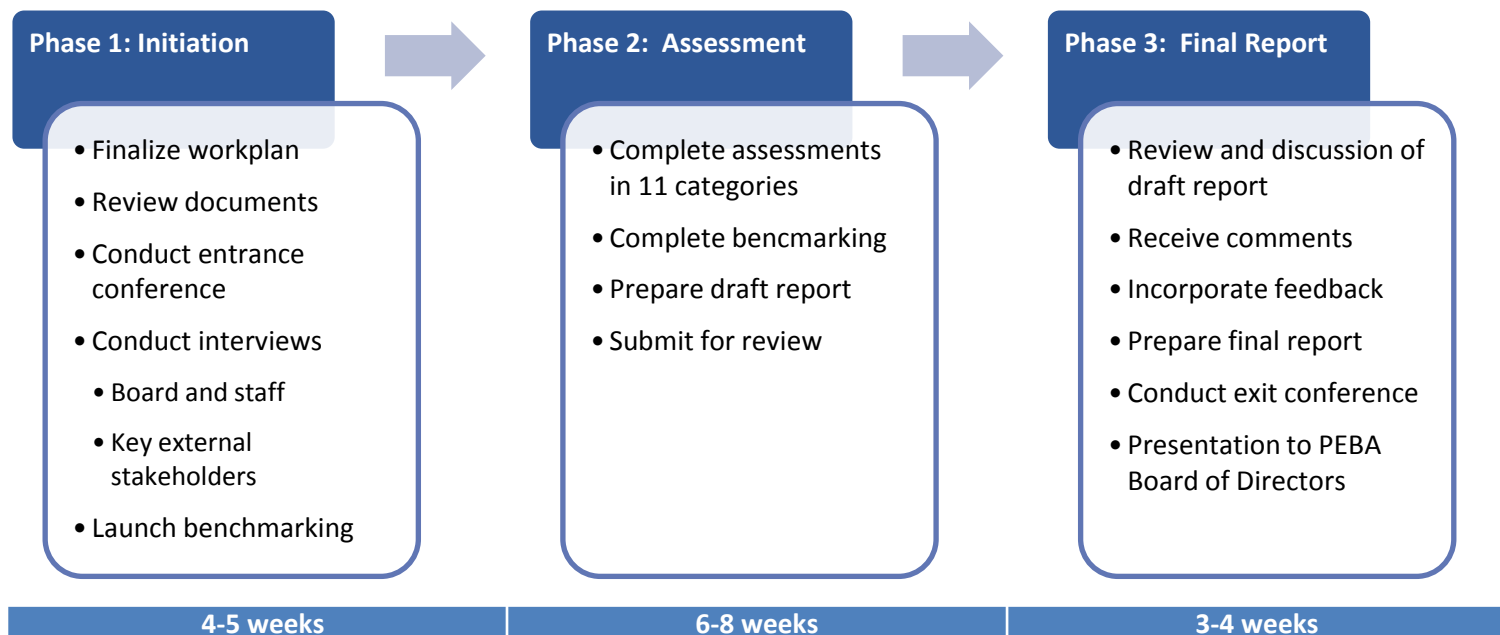
- Fiduciary Performance Audit Purpose, Process and Product
- Overall Conclusions
- Driving the Transformation Agenda
- Recommendations
- Implementation Considerations

# Purpose

- Critically evaluate the fiduciary roles and responsibilities of the PEBA Trustees and staff, the relationship with other fiduciaries of the Retirement System, and the operational policies and practices of PEBA.
- The goal of the review was to identify areas of strengths and weaknesses, provide comparison with leading practices of other retirement agencies, and make improvement recommendations.
- Because PEBA is a relatively new state agency, the review was designed to be broad in nature, spanning all key functions, and the review was organized into eleven categories:
  1. Governance
  2. Policy Review and Development
  3. Organization Structure
  4. Communications with Stakeholders
  5. Benefits Administration
  6. Actuarial Matters
  7. Legal Compliance
  8. Customer Service
  9. Record Keeping and Security of Information
  10. Cost of Operations
  11. Information Technology Systems

# Process

- The Fiduciary Performance Audit began October 1, 2014.
- We reviewed nearly 400 documents and interviewed over 50 people (several, multiple times).
- We conducted a leading practices benchmarking survey with participation by six other retirement administration agencies.
- Comments and feedback were received from PEBA, STO and RSIC on a Draft Final Report which was submitted on December 22, 2014.
- The Fiduciary Performance Audit Final Report was submitted January 16, 2015.



# Product

- In developing our report, we addressed six fundamental questions:
  1. Who are the South Carolina Retirement System fiduciaries with respect to retirement and insurance administration?
  2. What are their duties?
  3. What are their authorities?
  4. Do their authorities match their duties? Are these duties in conflict with other roles played by the various fiduciaries?
  5. How is PEBA performing?
  6. Where and how can the PEBA improve?
- One hundred thirteen recommendations were identified.
  - 102 can be addressed directly by PEBA, with 40 of these requiring the direct involvement of the Board of Trustees
  - 11 require legislative changes by the General Assembly and three more will require budgetary support from the General Assembly
- The primary purpose of today's presentation is to discuss priorities and implementation considerations that directly involve the Board of Trustees and the General Assembly.



## Overall Conclusions

1. PEBA staff are competent, dedicated and service-oriented.
2. The administrative processes used by PEBA to deliver services to members appear to function well and consistently at low cost.
3. However, a transformation is needed for several key reasons and, fortunately, it has already begun.
  - Many processes are not well documented and rely extensively on the institutional knowledge and experience of long-time employees.
  - Up to 45% of employees are eligible for retirement within five years.
  - The ability to adapt to new requirements is limited due to aging information systems and lean staffing.
4. The Board needs to become more strategic and less tactical and delegate more to the Executive Director.
5. The organization should continue to evolve; the recent reorganization is a good step forward.
6. With support from the General Assembly, alignment of fiduciary responsibilities and authorities could be significantly improved.

## Driving the Transformation Agenda

- PEBA is only now beginning to achieve a degree of management stability with its first permanent Executive Director in nearly two years.
- Despite budgetary pressures and open staff positions, PEBA staff have done and continue to do an excellent job and morale has remained high.
- There has been minimal investment in PEBA's information systems since its formation in 2012.
- Without investment in people and systems, service quality will likely decline and PEBA will have difficulty adapting to future requirements.
- The recommendations included in this Fiduciary Performance Audit are intended to assist the PEBA Board and staff, as well as provide input to the General Assembly, in formulating the transformation agenda which will help PEBA continue to successfully fulfill its mission.
- We have been pleased with the high level of cooperation, insight and enthusiasm demonstrated by PEBA leadership and believe they can lead a successful transformation with appropriate support by the Board and General Assembly.

# Recommendations

- Synthesizing the findings across the eleven categories we reviewed, we organized the recommendations into nine topical areas:
  - Board (19 recommendations)
  - Actuarial (6 recommendations)
  - Legislation (11 recommendations)
  - Organization (14 recommendations)
  - Planning (15 recommendations)
  - Policy (7 recommendations)
  - Process (27 recommendations)
  - Risk (8 recommendations)
  - Systems (6 recommendations)
- Specific recommendations are organized by each of these topical areas on the following slides; the most important recommendations in each area are shown in **bold**.

## Board Recommendations

- **1.8:** Training of new Trustees and periodic Board fiduciary education updates should include expanded treatment of the duties of loyalty and impartiality, the different roles of Trustees and plan sponsors and the distinct functions of the Board and staff.
- **7.4.1:** PEBA should provide periodic fiduciary training to staff and Board members through standardized onboarding education, regular updates and use of examples that are targeted to key issues.
- **1.9.1:** The Board should engage in a deliberative process to develop a conceptual framework governing the delegation of authority and reservation of powers to the Board. Given the inherent conflicts between Trustees and staff in this exercise, consideration should be given to engaging an independent expert to assist with the process.
- **1:13:** The Board should evaluate mechanisms to improve its two-way communication with stakeholders.
- **4.3.2:** The PEBA Board should play a more active role in reaching out to employee groups on a regular basis to improve communications.
- **4.5.3:** Similar to Recommendation 4.3.2, the PEBA Board should play a more active role in reaching out to retiree groups on a regular basis to improve communications.

## Board Recommendations

- 1.10: The Board should further improve its Bylaws and Committee Charters by:
  - 1.10a: Formalizing the process for the development of meeting agendas;
  - 1.10b: Creating a Charter for the Executive Committee that includes a framework for evaluation of the Executive Director;
  - 1.10c: Removing the provision that Committee members serve at the pleasure of the Board Chairman;
  - 1.10d: Establishing procedures for calling a Committee meeting that parallel those for convening a Board meeting;
  - 1.10e: Developing position descriptions for Board and Committee officers;
  - 1.10f: Creating a Board disciplinary policy;
  - 1.10g: Formalizing a process for approving the Board Chairman's educational program attendance and cost reimbursements;
  - 1.10h: Including the Board's Self-Assessment process in the Bylaws and using it to identify Trustee training priorities.

## Board Recommendations

- 4.5.2: The PEBA Board should develop a process and protocol for receiving and considering public comments before its meetings.
- 1.9.2: The Board should continue to prioritize and spend more time on strategic planning, identification of program goals, desired outcomes, implementation strategies, targets and measures to successfully meet PEBA's challenges.
- 1.11: The Board should periodically engage a consultant to facilitate the Board's self-assessment and improvement process, perhaps on a biennial basis.
- 1.12: The Board should proceed with prioritizing enhancement of PEBA's risk identification, risk management and compliance functions. Consideration should be given to the appropriate assignment of Committee oversight responsibilities for this initiative.

# Actuarial Recommendations

- **6.4: The actuary, in conjunction with the PEBA staff and subject to approval by the Board, should develop and recommend all actuarial assumptions for the pension plan and other benefit plans. If the state law placing responsibility for setting the investment return assumption with the Legislature is not changed, there should be a prescribed periodic review process adopted by the State Legislature.**
- **6.7: PEBA should adopt a policy of conducting regular independent actuarial audits.**
- 6.1: PEBA should determine whether additional assistance from the actuarial team would be beneficial, as identified under Recommendations 6.6, 6.8 and 6.9 below.
- 6.5: PEBA staff should develop procedures, in conjunction with the actuary, to determine when and how to adopt annuity option factor changes.
- 6.6: PEBA should consider closer engagement between the PEBA Board, staff, actuary, and the RSIC Board and staff in order to better understand how investment return projections under various asset allocation models may impact plan liabilities and costs.
- 6.8: PEBA should consider having the actuary validate the premium rates once PEBA completes the calculation process.

## Legislative Recommendations

- **1.1:** The General Assembly should simplify and clarify the system of fiduciary governance for the Retirement System and insurance programs by reducing the multiple conflicts and overlapping fiduciary authority of the Treasurer and BCB (and its successors) with PEBA. Appendix A also describes options for consideration in addressing this Recommendation from the Funston Fiduciary Audit Report on RSIC, which covered some of the same issues.
- **1.3.1:** The General Assembly should transfer investment responsibility for insurance trust fund assets to the Retirement System Investment Commission as the most qualified State entity to provide those services.
- **1.3.2:** The General Assembly should transfer approval of Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.
- **1.4:** The General Assembly should allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.



## Legislative Recommendations

- **1.6: The General Assembly should update the PEBA Board Member appointment process to be more consistent with peer practices. This should include consideration of four- or five-year staggered terms, subject only to early removal for cause. It might also include consideration of changes in the appointment process to improve engagement with participant groups and the PEBA Board by establishing a process for them to submit qualified candidates for consideration by the appointing authorities.**
- 1.2: The General Assembly should give the PEBA Board of Trustees greater independence for budget and headcount decisions to ensure that they are consistent with the strict fiduciary standards to which it is bound.
- 1.5: The General Assembly should eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups. See also Recommendation 4.9.
- 4.9: The General Assembly should eliminate the requirement for PEBA to convene a Retirement and Preretirement Advisory Panel, as it duplicates responsibilities of the PEBA Board has not been meeting its legislative intent. See also Recommendation 1.5.
- 1.7: The statutory requirement that the PEBA Board meet monthly throughout the year should be repealed.

## Legislative Recommendations

- 4.10: The General Assembly should include a provision in future legislation that replaces references to the BCB, or its successor, in S.C. Code Ann. §§ 9-1-1310 and 9-4-45 with specific references to the SFAA, in order to more explicitly effectuate transfer of the BCB's co-trustee functions to new State Fiscal Accountability Authority.
- 8.10: The General Assembly should eliminate the notarization requirement for a member death by amending the appropriate statutes to delete the requirement for a “duly acknowledged” written notification to PEBA.

## Organizational Recommendations

- **10.2: PEBA should determine if current headcount is adequate in all areas.**
- **10.5: PEBA should increase its budget for health insurance strategy development and planning.**
- **3.4.2: Human resources should develop a training policy and program that provides for new employee orientation. New Employee Orientation should include a general organizational overview of PEBA's functions and services.**
- **7.4.2: PEBA should formalize a staff training schedule to ensure that consistent ethics and compliance training is conducted.**
- 2.11.1: PEBA should determine whether it needs additional experienced procurement resources to address upcoming requirements.
- 3.1.1: PEBA should consider adding the title of Deputy Executive Director to the title of Chief Operating Officer to provide a more streamlined flow of communication between the Executive Director and executive staff, as well as create a succession plan for the Executive Director position.
- 3.1.2: Over the longer term, PEBA should consider creating the position of a leader of retirement programs who would have responsibility for both defined benefit and defined contribution and savings programs.

## Organizational Recommendations

- 3.3: PEBA should continue to fill remaining vacant positions in order that PEBA may maintain sufficient staffing in all areas to effectively and efficiently perform all functions.
- 3.4.1: Each PEBA business area should develop a specialized staff training and education policy and program for staff in their area.
- 3.5.1: The staff training and education policy should provide for cross-training and rotation of staff to other, similarly classified positions within the business functions for cross-training purposes.
- 3.5.2: Succession planning should be a higher priority. Executive Staff and managers should maintain organizational charts of each business unit that reflect the time remaining to retirement eligibility of individual staff members and regularly discuss anticipated vacancies and plan for future staffing needs and training. The discussion should also include the possibility of back-filling positions where vacancies are anticipated to provide that the replacement is fully trained when the retiring staff member vacates the position.

## Organizational Recommendations

- 3.6.1: As the new technology platform and processes are developed, PEBA should implement additional operational consolidations.
- 9.3.2: PEBA should develop and implement a training program for business unit staff in the event the data center recovery plan has to be activated.
- 11.6.2: PEBA should continue to assess potential third-party IT vendors which may be able to provide additional legacy “Natural language” programming support in the event a large number of existing PEBA programming staff retire or leave the organization.

## Planning Recommendations

- **4.1:** PEBA should develop a comprehensive communications strategy and plan.
- **4.11:** As part of its comprehensive communications strategy and plan (see Recommendation 4.1), PEBA should include initiatives which improve communications with key legislators.
- **4.8:** As part of its strategic communications strategy and plan (see Recommendation 4.1), PEBA should include initiatives which improve communications with the general public.
- **6.9:** PEBA should explore additional consulting services for the Health Insurance plans to assist in developing long-term strategies to reduce cost and improve health outcomes.
- **10.1:** PEBA should review its focus on low cost of retirement operations and ensure there is an adequate level of investment in infrastructure to continue to provide a high level of customer service.
- **10.4:** To achieve PEBA's stated strategies of further integration and improved infrastructure, it should request at least a temporary increase in administrative expenses and professional and consulting fees for several years.

## Planning Recommendations

- **9.1:** PEBA should continue its efforts to conduct a comprehensive assessment of its operational infrastructure and business processes.
- **11.1:** PEBA should complete its comprehensive assessment of its existing IT infrastructure and business systems.
- **11.4:** After the Operational Systems Assessment is completed, the IT department should lead an effort to develop a long-term IT strategic plan which supports the plan infrastructure direction.
- **11.6.1:** PEBA should continue to move forward with its plans to conduct a comprehensive IT Operations Assessment to identify common business process, technology and develop a roadmap to develop its next generation of systems to support the strategic direction of the organization.
- **11.10:** As PEBA completes its Operational Systems Assessment it should consider what, if any, additional methodologies and skills will be required for the Information Technology Department to effectively support a new IT plan.

## Planning Recommendations

- 1.9.3: The strategic planning process should give particular consideration to risk identification, compliance issues and staff development, over both short- and long-term (three to five years) time horizons.
- 3.6.2: The budgeting process for all areas should be more coordinated and collaborative. A formal budget process should be developed and include all department heads in its development. Integration of the budget process will reduce silos and enhance an enterprise approach to administrative functions.
- 11.11: PEBA should continue its efforts to address its business continuity planning deficiencies.
- 11.5: Further efforts should be made to move from a data center disaster recovery plan orientation to an enterprise wide business continuity focused plan.



## Policy Recommendations

- **2.1:** To provide the most assistance for Board members in understanding and upholding the ethical requirements, the ethics policy should be expanded to provide an additional framework around the ethical standards.
- **2.12.2:** The PEBA Trustee Education Policy should specify topics on which training is needed and include mandatory fiduciary training on a periodic basis, and could be linked with the self-assessment process.
- **7.5:** PEBA should confirm that ORP and Deferred Compensation investment advisors acknowledge their compliance with the SEC ‘pay to play’ regulations and state requirements.

## Policy Recommendations

- 2.12.1: With most Board members only needing six additional credits after attending the Board's annual retreat, the Board should determine whether the Board members are receiving sufficient training from independent outside sources. If not, the policy should be revised to require additional credits or limit the number of credits from the Board retreat and staff training that can be used to meet training requirements.
- 2.6: PEBA should have a formal compensation policy which documents its acknowledgement of its status as a South Carolina State government agency and its compliance with the State's Office of Human Resources policies, job classifications system and pay bands. A simple statement and reference to the State policies to which it adheres would provide transparency of PEBA's compensation policy to its employees and to the public.
- 5.1.1: PEBA should continue to maintain internal controls and keep its written policies and procedures current.
- 6.2: PEBA should develop an internal policy that documents its competitive RFP process in future procurements of actuarial services.

## Process Recommendations

- **5.1.2: PEBA should revise its written benefits administration procedures to reflect changes required by the new administration software which will be implemented as part of the new benefits platform.**
- **8.7.1: PEBA should obtain the email addresses of a much higher proportion of its members, particularly retirees, to ensure they receive news electronically.**
- 2.11.2: PEBA should consider revising its procurement process to provide for a post-audit process by Internal Audit, potentially using a questionnaire.
- 3.8: Each of PEBA's departments should create and maintain a standard operating procedures manual documenting its process for performing its functions.
- 4.3.1: PEBA should consider mailing newsletters to members with an "opt-out" electronic option for either email delivery or an RSS newsfeed to ensure that all members receive PEBA news on a timely basis.
- 4.5.1: Consistent with Recommendation 4.3.1, PEBA should consider mailing newsletters to retirees and survivors with an "opt-out" electronic option for either email delivery or an RSS newsfeed to ensure that all retirees receive PEBA news on a timely basis.

## Process Recommendations

- 4.6.2: PEBA communications should review its communications process on legislative changes as they relate to employers and ensure that it results in timely employer updates.
- 4.6.3: PEBA should determine whether having an employer advisory group to provide feedback in a structured manner would be beneficial.
- 5.3: PEBA should consider expanding the scope of information provided on annual benefit statements.
- 7.2: In conjunction with outside legal counsel, PEBA legal staff should continue to perform periodic reviews of changes in the law and the plans' compliance with federal and state law requirements.
- 7.3: PEBA should review its printed training materials, reports and use of protected health information to make sure its minimum necessary standards are being consistently applied.
- 8.4: PEBA should develop a more standardized approach for performance monitoring and customer satisfaction surveys with common tools, data and reporting.
- 8.5.1: PEBA should identify the key areas and metrics for customer service monitoring and develop a comprehensive, integrated customer service monitoring framework which is used to drive its customer surveys and follow-up improvement programs.

## Process Recommendations

- 8.15: PEBA should consider increasing the number of retirement presentations it offers in the field to reduce the size of the groups and allow more individual attention.
- 8.16: PEBA should consider adding additional information to member statements to help them better understand their future options.
- 8.17: PEBA should determine if assigning responsibility for monitoring insurance customer service to a single manager in the insurance organization could help focus the reporting and provide helpful input during contract negotiations.
- 8.5.2: The PEBA Customer Service Department should establish a small group with expertise in customer service metrics and monitoring, or conversely, utilize an outside specialist firm to assist in developing its customer service monitoring approach and tools.
- 8.6: PEBA should re-evaluate its satisfaction surveying process to include single activity surveys for disability, pension inceptions, withdrawals and transfers-out and service credit purchases.
- 8.7.2: PEBA should consider alternative means of reaching members if they do not use email or the internet.

## Process Recommendations

- 8.13.1: PEBA should consider if expanded hours for its call center would result in improved customer service.
- 8.14: PEBA should consider whether offering one-on-one counseling sessions at employer sites would result in improved customer service and participation levels.
- 9.3.1: PEBA should address identified business continuity planning deficiencies.
- 9.4: PEBA should continue its efforts to address the deferred compensation control procedural deficiencies noted by PEBA's staff. Once the deficiencies have been remediated, Internal Audit should conduct a follow-up compliance audit to determine that the control enhancements address the specific concerns noted.
- 11.3: PEBA should continue its efforts to address the IT control procedural deficiencies noted by their external auditors. Once the deficiencies have been remediated, Internal Audit should conduct a follow-up compliance audit to determine that the control enhancements address the specific concerns noted.

## Process Recommendations

- 11.7: PEBA should continue to work closely with the State's Information Sharing and Analysis Center (SC-ISAC) along with other third-party information technology consulting firms to proactively assess existing and trending threats to information and network security.
- 11.8: Issues and error correcting processes should be shared across functional business units to ensure that similar errors in one beneficiary system are also being addressed in other similar application systems.
- 11.9: The Information Technology Department should consider developing a formal IT user satisfaction feedback process

## Risk Recommendations

- 2.5: PEBA should increase the frequency of its enterprise-wide risk assessment. Currently, one is conducted every five years; however, given the significant changes that have occurred in PEBA's leadership, as well as proposed changes, conducting a more frequent risk assessment would help to ensure that new issues or concerns are promptly identified and prioritized for remediation.
- 11.2: PEBA should increase the frequency of a full enterprise wide risk assessment to ensure that Internal Audit's Plan for the upcoming year reflects the most significant risks to the organization (see also Recommendations 2.7.1 and 2.7.2).
- 2.7.1: Internal Audit should continue to develop a comprehensive risk self-assessment tool for PEBA as an integrated organization.
- 2.7.2: The development of a risk management policy (including risk appetite and risk tolerance) should be the responsibility of executive management with input from Internal Audit and other stakeholders.



## Risk Recommendations

- 2.7.3: An executive should be assigned responsibility and accountability for the assessment and management of specific risks within each business function and overall based on factors such as impact, velocity and vulnerability. Internal Audit and others can support management in their self-assessments but operating management should be held accountable for the results.
- 2.7.4: The Board should identify the type and magnitude of risks which ought to come to its attention, e.g., financial, legal, operational, organizational, reputational, strategic.
- 2.7.5: The Board should require that the presentation of information for all major decisions include a risk assessment including the risk of inaction.
- 2.7.6: Internal Audit should focus its audit plans on areas that present the highest inherent risk and which rely most of the effectiveness of controls. Time permitting; Internal Audit should focus its consulting efforts on areas of high inherent risk and low control effectiveness.

## Systems Recommendations

- **4.2.2:** The new website should include additional self-service functions to reduce the requirement for submission of paper forms and to provide more member information and tools online.
- **4.6.1:** PEBA should ensure that its new website has significantly improved functionality for accepting online submission of forms and reports.
- **8.13.2:** PEBA should evaluate new phone and email management systems and consider acquiring newer technologies if they could improve service levels and/or staff productivity levels.
- **8.8:** As PEBA develops its new website, it should place a high emphasis on maximizing self-service capabilities for both members and employers.
- **9.2:** PEBA should continue to conduct annual network and security vulnerability tests to ensure its networks and other infrastructural processes are working as intended. Greater use should be made of in-house based security monitoring tools to identify and protect its networks from unauthorized access and unintentional disclosure of member data.
- **4.2.1:** PEBA should develop the planned consolidated website as soon as practical to improve integration of and access to all information.

## Implementation Considerations

- With input from PEBA staff, a matrix has been prepared which describes for each recommendation:
  - Criticality (Critical, Important, Consider as a leading practice)
  - Degree of difficulty (Difficult, Medium, Easy)
  - Board of Trustees involvement needed
  - Outside entities involvement/support needed
- PEBA has already adopted a number of changes during the course of this review.
  - The new organization structure announced in early December addressed a number of preliminary concerns and recommendations we identified early in the review.
  - The business process and IT alignment project was initiated which will create a foundation for many of the operations and systems recommendations
  - A new strategic plan is being developed which will address many of the recommendations in several areas