OCERS Payroll Transmittal Process Audit

Report Date: March 28, 2024

Internal Audit Department

OCERS Internal Audit
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Audit Objective and Scope

The objective of this audit was to provide an independent review of the design and operating effectiveness of controls over the processing of payroll transmittals by the Employer Payroll Team within Member Services. The audit included controls management has in place over the payroll transmittals, new member affidavits and communications with the Employers.

The scope of the audit included payroll transmittal exceptions flagged by the Pension Administration System (PAS) and new member affidavits submitted by employers between January 2022 and July 2023 on a sample basis.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

Conclusion / Executive Summary

Opinion: *Opportunities for Improvement*

Overall, Internal Audit identified opportunities to improve controls to ensure that payroll transmittal exceptions are cleared timely and accurately, and that Member Affidavits are entered into the PAS accurately and completely. For further detail of the below observations please see page four.

Priority Observations	Priority Observations
0	**None**
Important Observations	Important Observations
4	1. **OCERS does not have a written policy establishing purpose, scope, and roles regarding the employers' responsibility to address employer payroll transmittal exceptions in a timely manner.**
	2. **Internal Audit identified two types of payroll exceptions tracked by the PAS that generate numerous false positives due to either PAS programming or instances in which employers are reporting incorrect employee status.**
	3. **The Employer Payroll Team's procedure documentation does not provide guidance to staff for how to monitor if the employers are correcting payroll exceptions.**

	4. **The Employer Payroll Team's documentation does not provide staff guidance on procedures for checking new Member Affidavit forms for completeness and accuracy or describe escalation steps to take when Member Affidavit forms missing, incomplete, or contain incorrect data.**

Internal Audit sampled 60 payroll transmittal exceptions flagged by the PAS and 60 new Member Affidavits submitted by the employers during our audit scope. Audit procedures performed included the following:

- Review OCERS procedures related to the handling of payroll transmittal exception reporting and the processing of new Member Affidavits was complete.
- Determine if OCERS monitored our sample of 60 payroll transmittal exceptions for correction by the employers.
- Review for evidence of supervisory review over payroll transmittal exceptions.
- Determine if our sample of 60 member affidavits were completed correctly by both the member and employer.
- Determine if key fields of information on the Member Affidavits matched the PAS.
- Review if OCERS follow up process for missing Member Affidavits was performed.
- Review for evidence of supervisory review over payroll transmittal exceptions.

Background

OCERS PAS automatically monitors the employers' bi-weekly transmittal files on a member-by-member basis and flags exceptions related to employer and employee contributions, contribution basis dates, reported hours worked, active members missing from the files, and other demographic data. These exceptions identify differences in numerical or demographic data expected by the PAS but reported differently by the employers on the transmittal files. As directed by OCERS upon implementation of the current PAS, employers are to research and correct these exceptions in subsequent payroll transmittal files with the aid of PAS exception reporting available to the employers. OCERS responsibility is to monitor the employers to help ensure the exceptions are being corrected.

Please see **Appendix 1** for contribution-related exceptions as of year-end 2023, a net total of $210,000 in potentially underpaid/overpaid contributions needing research across 1,500 members.

Furthermore, as employers add new members to the above electronic transmittal files, employers must also submit to OCERS a completed and authorized Member Affidavit form for each new member. Per the County of Employee Retirement Law of 1937 (CERL) §31526, there should be a filing of a sworn statement (i.e., Member Affidavit) by every person who is or becomes a member, showing date of birth, nature, and duration of employment with the employer, compensation received, and other information as is required by the Board of Retirement.

OCERS Employer Payroll Team monitors new Member Affidavits for completeness and accuracy as they are received from the employers. OCERS will notify the employer if the Member Affidavit is missing or has not been fully completed.

Copies to OCERS:

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S. Jenike	S. Ardeleanu
M. Murphy	Audit Committee Members
B. Shott	
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Observations	Action Plan / Responsible Party / Completion Date
Important Observations	
1. **OCERS does not have a written policy establishing purpose, scope, and roles regarding the employers' responsibility to address employer payroll transmittal exceptions in a timely manner.** In the prior PAS, the processing of payroll transmittals, which included updates to member records, had been performed by OCERS staff. But with the addition of the Employer Self-Service (ESS) module in the current PAS, employers process their own payroll transmittals into the system. This transition shifted the responsibility of tracking and clearing payroll transmittal exceptions flagged by the PAS to the employers. OCERS would still monitor the transmittals for outstanding issues. With the implementation of the current PAS, OCERS did provide training to the employers regarding the technical aspects of how to correct and process payroll transmittal exceptions. And on a bi-weekly basis, employers do work to correct payroll transmittal exceptions. However, OCERS did not create a written policy establishing roles and responsibilities between OCERS and the employers regarding the correction of payroll exceptions. A policy should state the purpose, scope, roles, responsibilities, and escalation procedures regarding the employers' responsibility to correct payroll transmittal exceptions flagged by the PAS. Such a policy could enhance the work OCERS performs with the employers to reduce the occurrence of such exceptions and create procedures to help employers evidence to OCERS that all exceptions	**Action Plan:** The Employer Payroll Team will develop a written policy establishing purpose, scope, and roles regarding the employers' responsibility to address employer payroll transmittal exceptions in a timely manner. The Policy will incorporate the various reasons for exceptions, containing errors and False Positive errors, and how to differentiate between the two. The policy will also address the minimum acceptable levels of accuracy, based on the thorough review of what is a valid error. The development of the Policy will include an in-depth review of all aspects of the process, including current processes of reviewing and taking corrective actions, and recommending updates for the Transmittal Exceptions report (e.g., New info vs. reoccurring items). The Policy may generate a supplemental Procedure if necessary. While a policy is to be developed, employers were provided direction prior to V3 implementation, they have been provided guidance on a regular basis during the Annual Employer Workshop, as well as through regular channels of communication between the Employer Payroll Team and employers.

| Observations	Action Plan / Responsible Party / Completion Date
have been cleared or marked as a false positive (such a procedure does not exist today). **Risk:** Not having a formal policy can lead to misunderstanding the role of OCERS versus that of the employer concerning the responsibility of tracking and clearing payroll exceptions that could have a material effect on the data in OCERS PAS.	**Responsible Party:** Silviu Ardeleanu, Director of Member Services **Completion Date:** August 31, 2024
2. **Internal Audit identified two types of payroll exceptions tracked by the PAS that generate numerous false positives due to either PAS programming or instances in which employers are reporting incorrect employee status.** 20,375 mismatches between reported contribution basis dates (CBD) and dates in V3 were flagged by the PAS during the scope of our audit. However, the PAS flags CBD differences down to as little as one day which does not impact age of entry, yielding numerous false positives. 5,589 instances where no work hours were reported for an active member were flagged by the PAS during the scope of our audit. However, this number also contains numerous false positives since employers do not always correctly update employee status to Active on Leave or other non-work status. **Risk:** Not reviewing the processing logic behind the PAS's exception rules for validity could lead to employer and/or OCERS staff time being used to track down exceptions that are not relevant for OCERS business purposes.	**Action Plan:** Review exceptions by importance/priority and determine if certain exceptions can be changed/deleted, especially looking at False Positives. Reach out to the PAS vendor to determine the cost to change in logic or turn off unnecessary exceptions (false positives) once exceptions are reviewed and further categorized (if needed). The Policy will recommend regular ongoing communication with employers, asking them to review and correct errors (that are not False Positives). **Responsible Party:** Silviu Ardeleanu, Director of Member Services **Completion Date:** August 31, 2024

Observations	Action Plan / Responsible Party / Completion Date
3. The Employer Payroll Team's procedure documentation does not provide guidance to staff for how to monitor if the employers are correcting payroll exceptions. The Employer Payroll Team's internal process documentation describes common employer payroll transmittal transaction exception scenarios, how to download and re-format payroll transmittal exception reports from the PAS (for documentation and research), and the types of payroll exceptions that the PAS detects each pay period. The documentation does not provide: • Guidance for staff as to how to prioritize employer payroll transmittal exceptions to research and/or monitor. • A procedure for how the unit's supervisor should review the above work performed by staff. • Direction for how the supervisor's review should be evidenced (e.g., via signature or an automated workflow) We observed that OCERS Employer Payroll Team did not document its research for the 60 employer payroll transmittal exceptions we randomly chose for testing. For 36 of these 60 exceptions, IA was not able to determine if they had been corrected by the employers or marked as a false positive. **Risk:** Not having formal procedure documentation can lead to misunderstanding the roles of staff in meeting OCERS business objectives.	**Action Plan:** Along with development of Policy, procedural guidance will be developed for processing exceptions. **Responsible Party:** Silviu Ardeleanu, Director of Member Services **Completion Date:** August 31, 2024

Observations	Action Plan / Responsible Party / Completion Date
4. The Employer Payroll Team's documentation does not provide staff guidance on procedures for checking new Member Affidavit forms for completeness and accuracy or describe escalation steps to take when Member Affidavit forms missing, incomplete, or contain incorrect data. • 29 of the 60 Member Affidavit forms we tested were missing information regarding beneficiary designations, previous public service history, and/or other member demographics. • 31 of the 60 Member Affidavits forms tested did not agree to the PAS regarding demographics, contribution basis dates, and/or beneficiaries. When a Member Affidavit has not been provided by an employer for a new hire after 30 days from their date of employment, a letter is generated to the employer by the PAS to inform them a Member Affidavit is not on file. Existing procedure documentation does not provide guidance to staff for follow-up of missing Member Affidavit letters sent to the employers. We sampled five missing Member Affidavit letters (one from each of the 5 largest employers). • For one member in our sample, 67 days had elapsed since the date of hire without a Member Affidavit provided to OCERS. • 4 ½ years had elapsed for a second member without a Member Affidavit provided to OCERS. • Two additional members were reported as missing Member Affidavits, but IA was able to locate the affidavit in the member's record. Therefore, the letter was incorrectly reporting two members due to exceptions to the reporting parameters.	**Action Plan:** A New Member Affidavit has been developed and is in the final stage of review. This version gathers more and clearer information. We are also creating a Guidance Sheet for members and employers to assist them in completing the form. New Member Enrollment processes are due to be reviewed for Master Repository Project. We will also develop a Member Services Procedure for processing Affidavits based on current process. The procedure will provide guidance on reviewing and processing Affidavits including receiving and processing timing guidelines; following up for incomplete or missing Affidavits; and incorporate supervisory reviews (e.g., 1-5 % of total new Member Affidavits received). **Responsible Party:** Silviu Ardeleanu, Director of Member Services **Completion Date:** August 31, 2024

Observations	Action Plan / Responsible Party / Completion Date
The procedure documentation also does not include guidance for supervisory review of staff processing Member Affidavits (e.g., via signature or an automated workflow). However, the supervisor does review exceptions brought to him by staff on a case-by-case basis. **Risk:** Not having formal procedure documentation can lead to misunderstanding the roles of staff in meeting OCERS business objectives.	

Appendix 1

Below is a breakdown of $210,000 in outstanding contributions across 1,500 members, per the PAS, as of 12/31/2023. OCERS and the employers would need to research each individual member record to determine if a correction is needed.

Potential Outstanding Contributions Per Employer, as of 12/31/2023

Number of Members Included Above
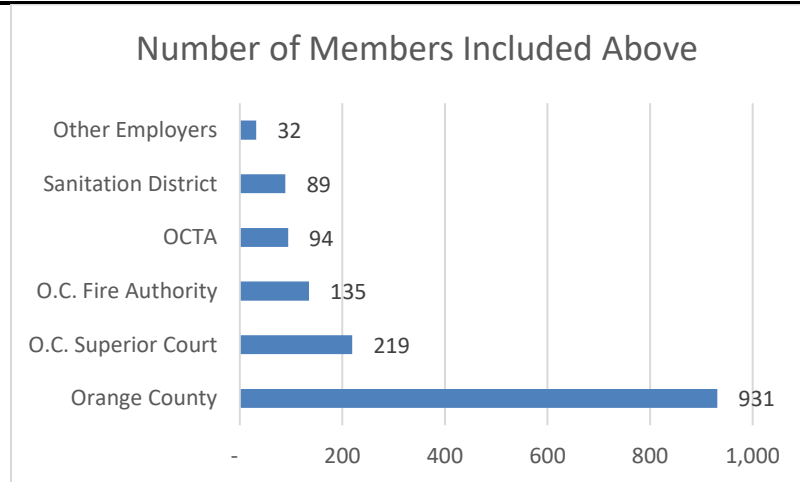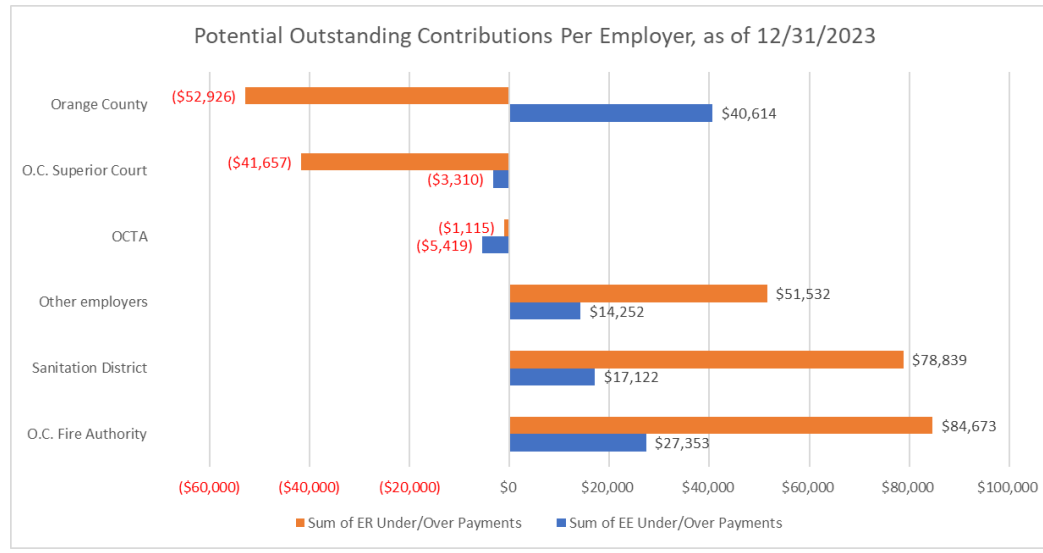
Categories of Observations (Control Exceptions):

Priority Observations:

These are observation(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS' reputation or integrity. Management is expected to address Priority Observations brought to its attention immediately.

Important Observations:

These items are important to the process owner and they do impact the control environment and/or could be observations for improving the efficiency and/or effectiveness of OCERS' operations. Management is expected to address within six to twelve months.

Management's Responsibility for Internal Control

Management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and self-assessment of control risks.

Internal Control Limitations

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with OCERS' policies.

Audit Report Opinions:

Satisfactory:
No issues or a limited number of "Important Observations" (typically no more than two Important Observations).

Opportunities for Improvement:
Multiple issues classified as "Important Observations" (typically two or more Important Observations) with no more than one "Priority Observation".

Inadequate:
Usually rendered when multiple issues are classified as "Priority" (typically one or more Priority Observations), together with one or more other issues classified as "Important Observations". The Priority Observations identified have a major effect on processes, plan sponsors/members, financials, and/or regulatory requirements.