



**Transportation Corridor Agencies Employer
Audit**

Report Date: February 14, 2023

Internal Audit Department

OCERS Internal Audit
The Transportation Corridor Agencies Employer Audit
February 14, 2022

Table of Contents

Audit Objective and Scope.....	1
Conclusion and Executive Summary.....	1
Background.....	1
Observation Summary.....	2
Observation Details.....	3

Audit Objective and Scope

The objective of this audit was to provide an independent review of the completeness and accuracy of the Transportation Corridor Agencies (TCA) payroll transmittal data. This includes, but is not limited to the controls both TCA and OCERS management have in place over the payroll transmittals.

The scope of the audit included TCA's payroll data submitted to OCERS between January 2021 and October 2022 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 data is sent accurately and completely to OCERS.

<p>Priority Observations</p> <p>0</p> <p>Important Observations</p> <p>4</p>	<p>Priority Observations</p> <p>None</p> <p>Important Observations</p> <ol style="list-style-type: none">1. For one member in our test sample, the Member Affidavit Form was incomplete regarding the member's previous public service.2. For two members in our test sample, the employer incorrectly reported payroll information (service credit and hourly pay rate) into the OCERS pension administration system (PAS).3. We noted a single instance in which a timesheet lacked supervisory signoff.4. Two process and review controls related to member eligibility and premium pay are not formally documented.
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Internal Audit sampled 60 payroll transactions from TCA's approximately 3,000 payroll transactions during our audit scope:

- Internal Audit reviewed, on a sample basis, TCA's supporting documentation for the pensionable pay reported in its payroll transmittals to OCERS.
- Verified that base pay reported by TCA through payroll transmittals matched TCA human resource records and publicly available pay schedules for completeness and accuracy.
- For premium pay items, verified the information reported in the transmittals against TCA's supporting documentation evidencing that the employee was entitled to that premium pay, such as certification pay.
- Recalculated contributions collected from TCA to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS' Board.
- Noted that TCA has controls in place to ensure its compliance with OCERS' Board Membership Eligibility Policy.

Background

TCA is comprised of the two joint powers agencies - the San Joaquin Hills Transportation Corridor Agency and the Foothill/Eastern Transportation Corridor Agency - formed in 1986 to manage the planning, financing, construction, and operation of State Routes 73, 133, 241 and 261. TCA and its employees contributed approximately \$1.6 million and \$1.7 million to OCERS for the years ended December 31, 2021, and December 31, 2022, respectively. It has 61 active members.

Copies to OCERS:

S. Delaney	J. Lamberson
S. Jenike	S. Ardeleanu
M. Murphy	Audit Committee Members
G. Ratto	
B. Shott	

Copies to Employer:

K. Nicholson
P. Mertz
E. Raya

Observation	Action Plan / Responsible Party / Completion Date
<p align="center">Important Observation (to OCERS)</p>	
<p>1. For one member in our test sample, the Member Affidavit Form was incomplete regarding the member's previous public service.</p> <p>During our test work, Internal Audit reviewed Member Affidavits to confirm that the members' entry ages and contribution basis dates were correctly input into the OCERS pension administration system (PAS). These are needed to help determine the member's entry-age contribution rate. For one member's Member Affidavit, we noted that the section pertaining to previous public service was left blank.</p> <p>The public service portion of the Member Affidavit document provides OCERS with the information needed to determine if a new member is eligible to establish reciprocity with other pension systems.</p> <p>Internal Audit performed testing of additional Member Affidavits of all other current TCA employees noting that the previous public service section was completed by the employee.</p> <p>Risk: If OCERS is not made aware of prior public service on the Member Affidavit Form, an active member would potentially forego the benefits of establishing reciprocity with a reciprocal agency.</p>	<p>Action Plan: TCA ensures all member affidavits are completed for previous public service. The instance identified was for the HR Director. He did not fill out the previous experience because he knew it would not be eligible for reciprocity. TCA reminded the HR Director to ensure all member affidavits have this section completed, regardless of the employee's service credit reciprocity eligibility.</p> <p>Responsible Party: Ed Raya, HR Director.</p> <p>Completion Date: 12/28/2022</p>

Observation	Action Plan / Responsible Party / Completion Date
<p>2. For two members in our test sample, the employer incorrectly reported the payroll information to the OCERS pension administration system (PAS).</p> <p>During our test work, Internal Audit reviewed member timesheets and paystubs to ensure that hours worked were correctly reported in the OCERS PAS. For one member, the employer incorrectly reported 53 service eligible hours to the OCERS PAS instead of 80 hours as recorded on the timesheet and paystub for pay period 14 of 2022. TCA later identified that the previous pay period 13 of 2022 also contained the same error (53 hours instead of 80). The member's service credit is thus understated by 0.026 YOS. The member is currently on active status.</p> <p>These were manual data entry mistakes. The Toll Road's payroll system is not configured to generate an automated payroll transmittal file due to cost reasons. Instead, payroll staff manually update bi-weekly payroll data submitted into the OCERS PAS. Manual data entry is inherently prone to such errors.</p> <p>Service eligible hours reported by the employer are used by the OCERS PAS to calculate a member's years of service credit, which is a component of the member's retirement benefit calculation.</p> <p>In the second sample, the hourly rate for another member was not reported correctly on the payroll</p>	<p>Action Plan: TCA has adjusted the employee's reported hours for PP13 & PP14 to correctly reflect the hours worked. TCA noted our internal OCERS schedules properly reflected the number of hours worked, but they were incorrectly copied over to the OCERS transmittal. Additionally, TCA noted the internal schedule for the second employee properly reflected the hourly rate for the pay periods noted. TCA will adjust the employee's reported hourly rate for these periods. TCA reminded the staff and supervisor responsible for preparing and reviewing the transmittal to confirm all hours and information agree to our internal documentation prior to submission. TCA is also working to automate the process of updating the OCERS transmittals with the data from our payroll reports to limit the potential for manual data entry mistakes.</p> <p>Responsible Party: Angie Hamblin, Sr. Accounting Clerk and Joshua Huang, Accounting Supervisor/Paula Mertz, Assistant Controller.</p> <p>Completion Date: 2/15/2023</p>

Observation	Action Plan / Responsible Party / Completion Date
<p>transmission file (\$92.01 was reported instead of \$83.65). However, the member's earnable salary was reported correctly and would therefore not impact a Final Average Salary calculation. The member had received a pay rate increase due to a temporary promotion. When the temporary promotion ended, the reported hourly rate was not updated.</p> <p>Risk: The member's benefit calculation would be impacted if years of service reported in the OCERS PAS during the member's final average salary measuring period are incorrectly stated.</p>	
<p>3. We noted a single instance in which a timesheet lacked supervisory signoff.</p> <p>In a sampled timesheet, we noted that the supervisor did not formally sign off as having reviewed an employee's timesheet for pay period 25 of 2021. Management believes this was due to the employee transitioning from one role (and supervisor) to a new role (and new supervisor) during the middle of the pay period.</p> <p>Risk: Lack of independent review could lead to Inaccurate tracking of hours worked and leave hours used by OCERS in the calculation of member's Final Average Salary upon retirement.</p>	<p>Action Plan: The Sr. Accounting Clerk responsible for ensuring timesheets were properly approved for the selected pay period and the supervisor of the selected employee are no longer with TCA. TCA reminded the new payroll Sr. Accounting Clerk and Accounting Supervisor responsible for review to confirm all timecards (including partial timecards under a different supervisor) include supervisor approval prior to payroll submission.</p> <p>Responsible Party: Angie Hamblin, Sr. Accounting Clerk and Joshua Huang, Accounting Supervisor.</p> <p>Completion Date: 12/28/2022</p>

Observation	Action Plan / Responsible Party / Completion Date
<p>4. Two process and review controls related to member eligibility and premium pay are not formally documented.</p> <p>Internal controls are not formally documented, specifically for:</p> <ul style="list-style-type: none"> • Quarterly review of total hours worked by Extra Help and temporary staff. • The auto allowance pay item is not formally described in the employee handbook. <p>To help ensure compliance with OCERS Membership Eligibility Policy (policy), TCA’s payroll team maintains a tracking spreadsheet containing hours worked by Extra Help employees and temporary workers. (TCA does not hire retirees or hire part-time staff, whom are also subject to the policy.) The spreadsheet is updated quarterly by payroll staff and reviewed by the Assistant Controller. While a review of the spreadsheet was performed, there was no formal signoff by the reviewer.</p> <p>Auto allowance is a premium pay item currently paid at a rate of \$353.08 per pay period to six TCA employees found in our sample. We were provided evidence of TCA’s Board approval of the auto allowance paid to these employees. However, TCA does not have formal documentation describing the auto allowance program in the employee handbook.</p>	<p>Action Plan:</p> <ul style="list-style-type: none"> • Quarterly review of total hours worked by Extra Help and temporary staff: TCA currently requires managers to monitor the hours of temporary project employees. The Controller reviews and signs off on each payroll register as evidence of review of payroll, which includes the hours of temporary project employees. The quarterly review is prepared as a visual aid to note the YTD hours of service for these employees. For additional documentation, TCA’s Assistant Controller will begin signing off on her quarterly tracking spreadsheet. • Auto allowance: TCA will add verbiage to the employee handbook describing the auto allowance program. This will be incorporated in the employee handbook revised draft for Board approval. <p>Responsible Party: Paula Mertz, Assistant Controller, Kyle Nicholson, Controller, and Ed Raya, HR Director.</p> <p>Completion Date: 1/31/2023 for quarterly review of hours of project employees. 6/30/2023 for Auto Allowance added to employee handbook.</p>

Observation	Action Plan / Responsible Party / Completion Date
<p>Risk: There is a lack of an audit trail evidencing review of the spreadsheet which tracks hours worked by Extra Help and temporary employees.</p> <p>Pay transparency can be improved if the auto allowance pay item is formally documented in the employee handbook.</p>	

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.