



# **Audit of Information Technology Automated Controls (ITAC)**

**Report Date: February 14, 2023**

**Internal Audit Department**

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**Audit of Information Technology Automated Controls (ITAC)**  
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## Audit Objective and Scope

The objective of this audit was to validate the accuracy of the pension administration system's (PAS) design specification documents over the Final Average Salary calculation process, which is performed prior to management's manual adjustment process.

The scope of the audit included the testing of the design and operating effectiveness of relevant IT automated controls (ITACs), focusing on a review of ITACs related to the accuracy of the Final Average Salary (FAS) calculation. These calculations included the following components that were also tested: benefit type, FAS, member's retirement age factor, and years of service.. The time period covered was August 2020 through August 2021.

A sample of 30 members were selected for testing. Members were judgmentally selected in order to include recent retirements processed in 2020 and 2021 and to capture a variety of member characteristics. Characteristics included age, benefit type, and employer group. The sample included 14 different benefit types and an age range covering member retirees between age 37 and 75.

The audit was performed by RSM US LLP in collaboration with OCERS' Internal Audit. 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: Satisfactory

Overall, ITACs within the PAS are properly setup and ensure accurate calculation of member's retirement benefits. Internal Audit did provide recommendations to enhance the design specification documents which Management will act on as OCERS prepares for the next pension administration system implementation.

<p><b>Priority Observations</b></p> <p><b>0</b></p> <p><b>Important Observations</b></p> <p><b>1</b></p>	<p><b>Priority Observations</b></p> <p>None</p> <p><b>Important Observation</b></p> <p>1. An opportunity exists to enhance documentation of three specific areas described across six of the 19 pension administration system design specification documents reviewed by Internal Audit.</p>
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## **Background**

OCERS is currently providing retirement benefits for The County of Orange employees and other eligible members. There are almost 50,000 active, deferred and retired members, as of December 31, 2021. In 2016, OCERS implemented its current version of the PAS to facilitate the calculation and disbursement of retirement benefits. All member account data provided by members, employers, and others are input and maintained in the PAS.

As part of this implementation, ITACs were built into the PAS in order to assist OCERS in calculating, processing, and ensuring the quality and accuracy of each member's retirement benefit. The PAS automatically calculates and generates key components of the member's retirement benefits using member data input into the system. Components include benefit type, FAS, member's retirement age factor, and years of service. These automated controls and processes are documented by OCERS in design specification documents and user guides and reflect the current ITAC setup in the PAS. These documents and guides include specific formulas and steps built into the PAS to automatically calculate data and generate data outputs. While the specification documents did include important details for the implementation of the PAS, the documentation could be enhanced with additional detail.

The Audit of IT Automated Controls has received increased importance by OCERS to validate and obtain assurance around the accuracy of its retirement benefits calculations, specifically validating that the ITAC controls within the PAS related to these calculations are operating properly. Previous reviews by Internal Audit tested and reviewed the accuracy FAS calculations that were manually calculated by Member Services, but this is the first review that solely reviewed the PAS' calculations.

### **Copies to:**

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M. Murphy  
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B. Shott

J. Lamberson  
J. Sadoski  
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p align="center"><b>Important Observation</b></p>	
<p><b>1. An opportunity exists to enhance documentation of three specific areas described across six of the 19 pension administration system specification documents reviewed by Internal Audit.</b></p> <p>During our review, Internal Audit reviewed 19 design specification documents and noted that six specification documents should be updated to more accurately describe the calculations performed by the PAS for benefit calculations in three specific areas, as noted below.</p> <ol style="list-style-type: none"> <li>1. We noted that the documentation for the Part Account Detail Annualized Information report can be improved to provide additional detail on the calculation for Years of Service. This report includes the member’s historical earnable salary and years of service among other key demographic information. The documentation currently does not contain a detailed description of how the Years of Service calculations in the report are performed.</li> <li>2. Additionally, the PAS design specification documents did not consistently describe how the rounding for the years of service calculations should be performed. For Years of Service, the</li> </ol>	<p><b>Management Action Plan:</b> IT Management will work with our PAS vendor and Member Services to update the identified PAS Design Specification documents to include the detailed logic and calculations configured for our PAS.</p> <p><b>MAP Responsible Party:</b> Jenny Sadoski, Director of Information Technology</p> <p><b>Completion Date:</b> December 31, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>specification document states to “Round up to the 4th decimal place”. However, later in the specification document, and confirmed by testing, it was noted that the PAS rounding was not “up to” but traditionally rounded to the 4th decimal place.</p> <p>3. There is no clear definition of how the PAS is supposed to use start and end dates of premium pay items in the factor table. The factor table is used to apply the proration of a premium pay item, if applicable, in the FAS calculation. If a record of a pay item in the factor table has an end date associated with it, it is unclear whether that pay item is to be prorated or not prorated as part of the FAS calculation after the end date.</p> <p><b>Risk:</b> Incorrect and/or unclear documentation of certain system specifications can lead to OCERS staff, who reference the documentation, to improperly calculate and possibly override outputs in the PAS.</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 for 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”.

**Opportunities for Improvement:**

Multiple issues classified as “Important Observations” with limited or no “Priority Observations”.

**Inadequate:**

Usually rendered when multiple issues are classified as “Priority”, 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.