



SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

MEMORANDUM

DATE: August 21, 2020

TO: SDCERS Audit Committee

FROM: Sarah Dickson, SDCERS Chief Internal Auditor

SUBJECT: Domestic Relations Orders Audit

Enclosed is the Domestic Relations Orders Audit. Overall, SDCERS has domestic relations orders procedures in place and control strengths were identified during the audit. Opportunities for improvement were also identified that should be addressed to further strengthen controls.

I would like to thank SDCERS staff for all of the assistance and cooperation provided during this audit. Everyone involved was very helpful and willing to provide the information needed. Their patience, valuable time and efforts spent on this audit is greatly appreciated, especially during these pandemic times.

CC: Gregg Rademacher, SDCERS Chief Executive Officer
Marcelle Voorhies Rossman, SDCERS Deputy Chief Executive Officer
Johnny Tran, SDCERS Chief Compliance Officer/General Counsel



Internal Audit Report

Domestic Relations Orders (DROs)

**for the Period January 1, 2019 through
December 31, 2019**

**Prepared by:
Sarah Dickson, Chief Internal Auditor**

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	3
Background.....	3
Priority Rating Process	3
AUDIT RESULTS	4
Finding #1: Review and Approval of DRO-related Calculations	4
Finding #2: Recording and Displaying Withholdings	7
Finding #3: IRIS’ “Approved for Payment” Status	10
Finding #4: DRO Policies & Procedures [Management Self-Assessed]	11
Finding #5: DRO Calculation Errors	12
Finding #6: Excel versus IRIS	13
INHERENT LIMITATIONS	15
CONCLUSION	15
APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY	16
Audit Objectives	16
Audit Scope & Methodology	16

EXECUTIVE SUMMARY

A domestic relations order (DRO) is a type of court order typically found in a divorce case that entitles a former spouse to receive a predefined portion of a Member’s retirement benefit. DROs typically divide benefits between a member and former spouse. Since these documents are court orders, accurate interpretation and action on the content wording is an important consideration for SDCERS. SDCERS pays approximately 450 former spouses per month as compared to approximately 8,500 members.

The “typical” DRO process is as follows:



SDCERS’ DRO process involves three primary divisions including the Legal Division (“Legal”), the Benefits Administration Division (“BA”), and the Member Services Division (“MS”). Each division has a role in different tasks associated with the DRO process.

The audit objectives were to evaluate the operational controls used to calculate DRO benefits and verify the accuracy of DRO transactions. Control strengths identified during the audit period from January 1, 2019 through December 31, 2019¹ include:

- DRO authorization by the CEO
- Legal’s review and approval process within IRIS
- IRIS’ application control which disallows a user from approving his/her own transaction
- IRIS’ disbursements to former spouses, including applicable withholdings, once due

However, the following issues were identified that should be addressed to further strengthen controls over DRO processing.

1. Review and Approval Process of DRO-related Calculations – High Priority Rating

The review and approval process over community property split calculations and benefit calculations can be improved. Preparation and review evidence for validating IRIS’ community property split calculations are outside of IRIS, the system of record, and supervisory reviews are not always evidenced. Also, access within IRIS allows benefit calculations prepared by senior level

¹ Most of the DRO controls and transactions tested related to calendar year 2019; however, certain tests such as those relating to access were tested as of 2020.

staff to be reviewed and approved by lower level staff. Finally, guidelines as to whether benefit calculations require supervisory approval are not documented.

2. Recording and Displaying Withholdings – High Priority Rating

While the former spouse is not being paid, withholdings are recorded as reductions in expenses rather than a liability which slightly understates SDCERS’ expenses and liabilities. Separate from this observation but also relating to withholdings is the incomplete display of withholdings within the “Community Property Case” section of IRIS.

3. IRIS’ “Approved For Payment” Status – Medium Priority Rating

IRIS’ “Approved for Payment” Status is not monitored resulting in invalid and stagnant transactions remaining within the Status.

4. DRO Policies & Procedures – Low Priority Rating [Management self-assessed]

Legal’s *Community Property Documents* narrative is incomplete and in need of updating. BA’s *Community Property* narrative has not been reviewed or updated since 2017.

5. DRO Calculation Errors – Low Priority Rating

Internal Audit tested 24 community property split calculations and found two errors.

6. Excel versus IRIS – Low Priority Rating

An excel spreadsheet is used to track DRO information rather than extracting the information from IRIS, the system of record.

Based on this audit, there were 9 recommendations and SDCERS Management agrees with all but one of the recommendations. Their responses, including anticipated completion dates, are included within each respective finding.

The information in this report is intended solely for the use of SDCERS’ Audit Committee, Board of Administration, and management and is not intended to be, and should not be, used by anyone other than these specified parties.

INTRODUCTION

BACKGROUND

The SDCERS Board of Administration administers "defined benefit" plans for employees of three Plan Sponsors: the City of San Diego (City), San Diego Unified Port District (Port) and San Diego County Regional Airport Authority (Airport Authority). Generally, each employee of a Plan Sponsor must contribute a percentage of his or her salary to their SDCERS retirement account. Plan Sponsors also make contributions to their plan.

A domestic relations order (DRO) is a type of court order typically found in a divorce case that entitles a former spouse to receive a predefined portion of a Member's retirement benefit. DROs typically divide benefits between a member and former spouse. Since these documents are court orders, accurate interpretation and action on the content wording is an important consideration for SDCERS. SDCERS pays approximately 450 former spouses per month as compared to approximately 8,500 members.

The "typical" DRO process is as follows:



SDCERS' DRO process involves three primary divisions including the Legal Division ("Legal"), the Benefits Administration Division ("BA"), and the Member Services Division ("MS"). Each division has a role in different tasks associated with the DRO process. In general, Legal is responsible for interpreting content from legal documents and court cases into IRIS. BA is responsible for taking Legal's interpretation as documented in IRIS and applying it to the Member's retirement benefit. MS becomes involved when an active member with a DRO on file applies for retirement benefits.

PRIORITY RATING PROCESS

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, medium, or low priority as follows:

- High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.
- Medium - Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

- Low - Represents a finding for corrective action by management to mitigate risks with the process being audited.
- Informational – Represents a finding to educate/inform the Audit Committee or management.

AUDIT RESULTS

Based on detailed testing, many strengths were identified as well as issues that should be addressed. Below and on the following pages are issues that were identified and should be addressed.

Finding #1: Review and Approval of DRO-related Calculations

Preparation and review evidence for validating IRIS' community property split calculations are outside IRIS, the system of record, and supervisory reviews are not always evidenced. Also, access within IRIS allows benefit calculations prepared by senior level staff to be reviewed and approved by lower level staff. Finally, guidelines as to whether benefit calculations require supervisory approval are not documented.

Priority Rating: High

BACKGROUND:

BA is responsible for calculating how DROs impact the distribution of a Member's benefit. Before this calculation is possible, Legal works with the Member and the Member's former spouse on drafting the DRO and then once the DRO is finalized, interprets the document. Legal's interpretation is documented within IRIS, the system of record, via the "Community Property Case" section. IRIS systematically calculates the DRO's impact and also simultaneously creates a workflow to help both Legal and BA ensure each appropriate step in the process is completed. In many cases, SDCERS staff cannot "move forward" within the IRIS process unless workflow steps are marked as completed. Behind the scenes within IRIS is an audit log, which shows granular details about a Member's account, such as transaction dates and who approved the transaction.

Community Property Split Calculation²

Once BA is notified a community property split calculation validation is needed, BA utilizes the information Legal input into IRIS and also reaches out to Legal, when needed, to gain a better understanding of the DRO. A BA Senior Management Analyst ("Senior") calculates the community property split via an excel document and validates the calculation within IRIS is correct. In circumstances where the validation does not agree with IRIS or where unusual circumstances exist, the Senior will actively work with the BA Supervisor ("Supervisor") on the calculation. The Senior will evidence creation of the validation and the Supervisor will evidence review and approval via name and date on the excel document once this portion of the process has been completed.³

² This calculation is most often based on a time rule formula.

³ BA's validation process has changed over the years, but as of now excel is used to validate IRIS and used to signify who prepared and reviewed within BA.

Benefit Calculation

Once the former spouse submits his/her benefit application, the Senior will apply the split to the Member's retirement disbursement within IRIS and validate the calculation via the same excel document used to validate the community property split calculation (a different tab is used on the excel document). This process essentially "splits" the Member's disbursement between the Member and the former spouse as dictated by their DRO. For more complicated benefit calculations, the Senior will seek the Supervisor's approval (outside of IRIS). This supervisory review is not evidenced with a name and date on the excel document. Within IRIS, the Senior will send this calculation to an Associate Management Analyst ("Associate") for review and approval.⁴ This step must be completed within IRIS whether or not the Supervisor was consulted.

Excerpts from the Senior's and Associate's job description are as follows:

Senior	Associate
• <u>lead professional and clerical staff</u> and perform complex accounting and financial reporting projects	• <u>Lead and/or supervise the work of a subprofessional and/or clerical staff</u>

FINDINGS & RISK STATEMENTS

The BA review and approval process over community property split calculations and benefit calculations (collectively referred to as "DRO-related calculations") can be improved:

- A. BA's validation of IRIS' community property split calculations is evidenced outside of IRIS, the system of record, including preparer and supervisory review evidence. Furthermore, supervisory review is inconsistently evidenced in excel. See examples below:

SDCERS ID	Community Property Split Calculation	
	Preparer Per Excel	Reviewer Per Excel
299	Senior	Blank
6902	Senior	Supervisor

This increases the risk approval records are incomplete. Furthermore, this increases the risk of inefficiencies in SDCERS review and approval process.

- B. Access within IRIS allows benefit calculations to be prepared by a Senior and reviewed and approved by an Associate, a lower level position. See examples below:

SDCERS ID	Benefit Calculation	
	User Who Submitted for Approval Per IRIS	User Who Approved Per IRIS
299	Senior	Associate
6902	Senior	Associate

This is outside review and approval best-practices and outside SDCERS' job description for the Associate.

⁴ IRIS does not allow a transaction preparer to approve the transaction he/she created.

C. BA has not specified within policies and procedures what characteristics require benefit calculations to be reviewed and approved by a Supervisor. This increases the risk that calculations are not elevated appropriately and are ultimately erroneous.

The combination of all of these findings ultimately increases the risk erroneous DRO-related calculations will be approved and paid.

RECOMMENDATIONS

- A. Revise the BA supervisory review and approval process to ensure actual approvals are recorded within IRIS.
- B. Either revise IRIS access or reconfigure IRIS to disallow lower level users the ability to approve a higher level user's transactions.
- C. Specify within policies and procedures what characteristics require benefit calculations to be reviewed and approved by a Supervisor rather than solely an Associate.

MANAGEMENT OWNER 1A: Benefits Administration and Legal

MANAGEMENT'S RESPONSE 1A: Management agrees with this recommendation. SDCERS' pension system prior to IRIS, PensionGold, did not have a robust Community Property module. All calculations to determine the percentage split and amount to be withheld and paid were completed in an Excel worksheet. After go-live of IRIS, staff continued to prepare this worksheet to confirm the calculations in IRIS were correct. Initially this assisted with identifying deficiencies in IRIS which have been corrected. There are two scenarios where staff will continue to use the Community Property Excel worksheet to determine the community property split of a benefit:

- Instances where the date of marriage or the date of dissolution is in a partial pay period where service credit has already been prorated. This is a rare occasion and there is a validation in IRIS to identify this circumstance.
- Members who retired prior to IRIS go-live may have prior periods of service credit as a lump sum rather than recorded in each pay period. These transactions were not adjusted because the member's benefit had already been calculated. Any deferred or active members with similar records were adjusted to place the service credit in each appropriate pay period.

The Community Property workflows are currently under review as part of the SDCERS Action Plan item to review all workflows. This review will result in system updates to identify and notify BA when one of the two scenarios listed above occur. Outside of these two exceptions, staff will discontinue the use of the Community Property Excel worksheet, as it duplicates the calculation in IRIS. The exception process will provide for preparer and reviewer documentation in Excel and IRIS and will be documented in the Community Property Procedures.

MANAGEMENT'S ESTIMATED COMPLETION DATE 1A: December 31, 2021

MANAGEMENT OWNER 1B: Benefits Administration

MANAGEMENT'S RESPONSE 1B: Management agrees with the recommendation. Prior to the implementation of IRIS a significant number of activities were peer reviewed rather than prepared by staff and reviewed/approved by a supervisor. This provided both staff and supervisors with the ability to approve activities and was carried forward to IRIS. All rights and access by roles in IRIS

is currently underway as part of the annual security access review. The BA Processor and BA Reviewer will be updated to restrict the ability to approve activities in the BA Reviewer Role. Only supervisors will have the BA Reviewer role.

MANAGEMENT’S ESTIMATED COMPLETION DATE 1B: December 31, 2020

MANAGEMENT OWNER 1C: Benefits Administration

MANAGEMENT’S RESPONSE 1C: Management agrees with the recommendation. As part of the workflow review of Community Property, additional activities are being added to send appropriate calculations to a BA supervisor for review. This will also be updated in the Community Property procedures.

MANAGEMENT’S ESTIMATED COMPLETION DATE 1C: December 31, 2021

Finding #2: Recording and Displaying Withholdings

While a former spouse is not yet being paid, withholdings are recorded as a reduction in expenses rather than a liability, which slightly understates expenses and liabilities. Separate from this observation but also relating to withholdings is the incomplete display of withholdings within the “Community Property Case” section in IRIS.

Priority Rating: High

BACKGROUND:

In certain circumstances, for example if a Member is retired and SDCERS has been joined in a divorce proceeding, amounts are withheld from the Member’s benefit payments to eventually pay the Member’s former spouse when due. Withholdings are typically based off a time rule formula, which SDCERS often refers to as the “Brown Formula:”

$$\frac{\text{service credit earned during marriage}}{\text{total years of service credit}} \times \frac{1}{2} = \text{percentage of Former Spouse’s community property share}$$

Recording Withholdings in IRIS

While the former spouse is not yet being paid, withholdings are recorded as a reduction in expenses and an increase in cash. See below for an example:

Member’s Base Pension Amount: \$2,810 (before withholdings)		
Member’s Taxable COLA: \$1,044 (before withholdings)		
Community Property Split: 50%		
Former Spouse’s Share of Base Pension Amount: (\$2,810 X 50%): \$1,405		\$1,927
Former Spouse’s Share of Taxable COLA: (\$1,044 X 50%): \$522		
Expense – Member’s Base Pension + Taxable COLA Annuity	\$2,810	\$1,927
Expense – Member’s Taxable COLA {split applied already}	522	
Expense – Former Spouse’s Base Pension + Taxable COLA Annuity	(1,405)	
Cash – Member’s Base Pension + Taxable COLA Annuity	\$2,810	\$1,927
Cash – Taxable COLA {split applied already}	522	
Cash – Former Spouse’s Base Pension + Taxable COLA Annuity	(1,405)	

Once the former spouse starts being paid, cumulative withholdings are paid to the former spouse and the correlating expense is recorded (for the full amount withheld).

Displaying Withholdings in IRIS

Within the “Community Property Case” section of IRIS, withholding information is displayed. The withholding information shows the monthly “DRO with COLA & Corbett” withheld, and then once the former spouse is paid, the cumulative balances relating to base pension, taxable COLA, Supplemental Benefit (where applicable) and Corbett (where applicable). See table below for an example of the information displayed in the “Community Property Case” section of IRIS:

Withholding Date	Withholding Type	Item	System Amount
8/31/2018		DRO with COLA & Corbett	\$1,405
9/30/2018		DRO with COLA & Corbett	1,405
10/31/2018		DRO with COLA & Corbett	1,405
11/5/2019	AP Payment	Base Pension	(4,215)
11/5/2019	AP Payment	Taxable COLA	(1,566) ⁵
TOTAL			(8,566)

FINDINGS

A. Recording: While the former spouse is not yet being paid, withholdings are recorded as reductions in expenses rather than a liability which slightly understates expenses and liabilities. In the example above, the withholdings for one month should be recorded as follows:

Expense – Member’s Base Pension + Taxable COLA Annuity	\$1,405
Expense – Member’s Taxable COLA	522
Expense – Former Spouse’s Base Pension + Taxable COLA Annuity	1,405
Expense – Former Spouse’s Taxable COLA	522
Cash – Member’s Base Pension + Taxable COLA Annuity	\$1,405
Cash – Taxable COLA	522
Liability – Former Spouse’s Base Pension + Taxable COLA Annuity	1,405
Liability – Former Spouses’ Taxable COLA	522

B. Displaying: The “Community Property Case” display within IRIS is not showing all amounts withheld. More specifically, withholdings associated with a former spouse’s Taxable COLA, Corbett (where applicable) or Supplemental Payment (where applicable) are missing entirely from the display. The table below summarizes the Taxable COLA, Corbett and Supplemental Payment amounts that were not displayed yet should have been for 12 out of 14 Members tested who had withholdings.

⁵Represents Taxable COLA for three months, or \$522 X 3 = \$1,566.

#	SDCERS ID	Taxable COLA Amount Not Displayed	Supplemental Payment Amount Not Displayed	CORBETT Amount Not Displayed	TOTAL Amount Not Displayed
1	540	\$152	\$177	-	\$329
2	2573	1,566	-	-	1,566
3	6902	85	-	-	85
4	7409	238	205	-	443
5	8568	5,485	768	-	6,253
6	8642	174	227	-	401
7	9081 ⁶	685	275	-	960
8	9091	394	-	-	394
9	9880	1,595	297	-	1,892
10	10243	6,070	1,510	-	7,580
11	10463	168	209	-	377
12	18333	3,191	165	631	3,987

RISK STATEMENTS

- A. The current recording methodology increases the risk expenses and liabilities will be misstated.
- B. Displaying withholdings as is in the “Community Property Case” section of IRIS increases the risk SDCERS’ will miscommunicate actual withholding amounts to an inquiring Member since the display is incomplete.

RECOMMENDATIONS

- A. Management should modify IRIS to record a liability for withheld amounts when the former spouse is not yet being paid instead of reducing expenses.
- B. Management should modify IRIS to ensure actual withholdings are displayed in the “Community Property Case” section of IRIS. This includes adding amounts actually withheld, such as Taxable COLA, Corbett and Supplemental Payment and excluding amounts that are **not** actually withheld, such as DRO with COLA & Corbett for the one Member called out in Footnote 6.

MANAGEMENT OWNER 2A: Benefits Administration

MANAGEMENT’S RESPONSE 2A: Management respectfully disagrees with the recommendation. Benefit payments are recorded on a cash basis and are not recorded as an expense until paid. Unpaid benefits are not recorded as a liability in IRIS or the SDCERS general ledger; they are included in the reserve balances.

MANAGEMENT’S ESTIMATED COMPLETION DATE 2A: N/A

MANAGEMENT OWNER 2B: Benefits Administration and Legal

⁶For this Member, Taxable COLA and Supplemental Payment withholdings were understated, but “DRO with COLA & Corbett” withholdings were overstated on the “Community Property Case” section of IRIS. A change in disbursement methodology triggered IRIS to begin withholding again within the “Community Property Case” section of IRIS when in fact, the withholdings were **not** occurring. This further supports incorrect displays within the “Community Property Case” section of IRIS. This Member is also called out in Finding No. 3’s footnote.

MANAGEMENT’S RESPONSE 2B: Management agrees with the recommendation. IRIS withholds from the member properly and, once approved for payment, pays the former spouse properly. The change in presentation on the Community Property Withholding tab and the change in the payee accounts will require significant programming in IRIS.

MANAGEMENT’S ESTIMATED COMPLETION DATE 2B: December 31, 2021

Finding #3: IRIS’ “Approved for Payment” Status

IRIS’ “Approved for Payment” Status is not monitored resulting in invalid and stagnant DRO transactions remaining in the Status.

Priority Rating: Medium

BACKGROUND:

Various stages within the DRO process correlate to one of seven statuses within IRIS:

- Pending
- Withholding
- DRO Approved
- Approved for Payment
- Payments in Progress
- Closed
- Cancelled

A DRO’s status within IRIS is “Approved for Payment” after a final DRO has been served on SDCERS, the Member has retired, and the former spouse received an application for benefits from Legal. The former spouse must fill out this application and submit it to SDCERS in order to begin receiving payments. After the former spouse’s application is received, the transaction’s status within IRIS will move from “Approved for Payment” to “Payments in Progress.” Therefore, the “Approve for Payment” Status is a holding status used until the former spouse submits his/her application for benefits.

DROs typically move through the different statuses based on workflows completed by either Legal or BA. In cases where the status is incorrect, only Legal has the ability to reclassify the DRO’s status within IRIS.

FINDING

Management does not have a control in place to monitor DRO transactions included within the “Approved for Payment” Status. As a result:

- Ten transactions tested out of 18 in this status were invalid.⁷ Most of the 10 invalid transactions resulted from erroneous conversions from the old pension system to the new and

⁷ One Member included within the 10 had withholdings occur, then stop, then begin again once the Member decided to take a lump sum DROP payment instead of annuitize. The change in disbursement method triggered withholdings to begin again because the Member’s status was changed from “Payments in Progress” to “Approved for Payment.” This miss-displays withholdings, which also relates to Finding No. 2.

will no longer occur.

- One transaction tested out of 18 in this status had been included in this status for well over a year. The Member retired on 9/8/2018 and an application for benefits was sent to the former spouse on 10/22/2018 and 2/5/2019. The former spouse has not yet submitted her application and management has not followed-up with the former spouse regarding her application in over a year.

RISK STATEMENT

Without a monitoring control in place, transactions are at risk of being invalid or becoming stagnant.

RECOMMENDATION

Management should implement a control to monitor community property related transactions included within the "Approved for Payment" Status.

MANAGEMENT OWNER: Legal

MANAGEMENT'S RESPONSE: Management agrees with the recommendation. Effective immediately, staff will run a quarterly query for cases in "Approved for Payment" status to determine if any action is necessary.

MANAGEMENT'S ESTIMATED COMPLETION DATE: August 1, 2020

Finding #4: DRO Policies & Procedures [Management Self-Assessed]

DRO-related narratives used by Legal and BA are in draft format or are outdated.

Priority Rating: Low

BACKGROUND:

SDCERS utilizes Legal's *Community Property Documents* narrative and BA's *Community Property* narrative to help facilitate the Community Property Process, including processing DROs. Both narratives include specific IRIS workflow and process flow information for Legal and BA. The various Community Property scenarios are each explained in the documents, such as when a Joinder is received by SDCERS.

FINDING

Management Self-Assessed:⁸ The *Community Property Documents* narrative is incomplete and in need of updating. We noted tracked changes in addition to highlighted information, indicating the document is not final. The *Community Property* narrative appears to be final, but has not been reviewed or updated since 2017.

⁸ At the onset of the DRO Internal Audit, SDCERS Management indicated they were working on revamping the DRO workflow process within IRIS. Management, during the reporting phase of the audit, indicated they are waiting to revise narratives until the workflow revamping is completed.

RISK STATEMENT

Incomplete and obsolete narratives increase the risk SDCERS will not be able to continue operationally in the event of staff changes and for disaster recovery.

RECOMMENDATION

Legal and BA Management should work together to update the *Community Property Documents* narrative and the *Community Property* narrative then periodically review the documents for appropriateness.

MANAGEMENT OWNER: Legal and Benefits Administration

MANAGEMENT’S RESPONSE: Management agrees with the recommendation. Staff will update the narratives once staff overhauls the IRIS workflows. Then, staff will review the narratives at least every three years.

MANAGEMENT’S ESTIMATED COMPLETION DATE: December 31, 2021

Finding #5: DRO Calculation Errors

Internal Audit tested 24 community property split calculations and found two errors.

Priority Rating: Low

BACKGROUND:

BA is responsible for calculating how DROs impact the distribution of a Member’s benefit. Once BA is notified a community property split calculation validation is needed, BA utilizes the information Legal inputs into IRIS and also reaches out to Legal, when needed, to gain a better understanding of the DRO. A Senior calculates the community property split via an excel document and validates the calculation within IRIS is correct.

FINDING

Internal Audit tested all DROs that started paying former spouses during 2019, or 24 DROs, and two community property split calculations tested had errors.

Member #1’s service credit included a partial pay-period at the end and beginning of the service period. IRIS pro-rated these two pay periods erroneously and the error was not caught by BA during their review process. The error resulted in an under-allocation of approximately \$4 per month to the former spouse.

Member #2 had a pay period of missing contributions that were erroneously included in the split calculation. BA did not catch this during their review process. The error resulted in an over-allocation of approximately \$2 per month to the former spouse.

RISK STATEMENT

N/A

RECOMMENDATION

Management should correct the errors for the two Members noted above.

MANAGEMENT OWNER: Benefits Administration

MANAGEMENT'S RESPONSE: Management agrees with the recommendation. Staff will correct the member and former spouse payee accounts prospectively and send letters to the member and former staff to correct retroactively. In addition, staff will review our records to determine if there are other accounts with the same fact pattern to determine if additional corrections are needed.

MANAGEMENT'S ESTIMATED COMPLETION DATE: August 31, 2020 – correct specific errors and December 31, 2020 – complete review of accounts.

Finding #6: Excel versus IRIS

Excel is used to track DRO characteristics rather than utilizing reporting functionality within IRIS, the system of record.

Priority Rating: Low

BACKGROUND:

SDCERS must interpret how DROs impact the distribution of a Member's benefit. Legal interprets DRO-related documents, such as joinders or finalized DROs, and documents this interpretation within IRIS, the system of record. Legal will also enter any new cases into an excel spreadsheet owned by BA, which is saved on the network drive. The spreadsheet is used to track DRO information such as:

- Member's name
- Member's SDCERS' ID
- Member's retirement date
- Member's case ID
- Status of a Member's case ID
- Notes

The spreadsheet allows easy access to search historical DROs for unique terms.

FINDING

An excel spreadsheet is used to track DRO information rather than extracting the information from IRIS, the system of record.

RISK STATEMENT

Using excel spreadsheets instead of the system of record increases risk of human error and inefficiencies.

RECOMMENDATION

Management should program IRIS to run reports that will provide the information available on the excel spreadsheet.

MANAGEMENT OWNER: Benefits Administration

MANAGEMENT'S RESPONSE: Management agrees with the recommendation. This is a legacy document from the previous pension system which did not have a robust Community Property module. It is no longer needed and will be discontinued.

MANAGEMENT'S ESTIMATED COMPLETION DATE: August 1, 2020

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls and because samples were selected, errors or irregularities may occur and may not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

I have concluded work on the DRO Audit. Based on the audit work performed, I have determined the following:

SDCERS is meeting objectives in the following areas:

- DRO authorizations
- Legal's review and approval process
- IRIS' application control which disallows a user from approving his/her own transaction
- IRIS' disbursements to former spouses, including applicable withholdings, when due

SDCERS is not meeting objectives in the following areas:

- BA's review and approval process
- Completeness of liabilities associated with withholdings
- Withholdings displays within IRIS
- Monitoring "Approved for Payment" Statuses within IRIS
- Updating policies and procedures
- Utilizing reporting functionality in IRIS instead of excel

Implementation of the recommendations contained in this Audit Report should assist SDCERS in improving the DRO process.

APPENDIX A - AUDIT OBJECTIVES, SCOPE & METHODOLOGY

AUDIT OBJECTIVES

The objective of the audit was to evaluate the operational controls used to calculate DRO benefits and verify the accuracy of DRO transactions.

AUDIT SCOPE & METHODOLOGY

The scope of the audit included DROs that began paying former spouses for the period beginning January 1, 2019 through December 31, 2019 and the related operational controls in place during this period. Status of DROs within IRIS were tested as of the first quarter in 2020. Access related controls were tested as of the second quarter in 2020. The following methods were used:

- Obtained Board Policies over SDCERS' DRO process.
- Obtained any written policies and procedures utilized by staff to process DROs. Reviewed the policies and procedures provided to determine if they are adequate and to determine if they accurately reflect the current procedures used to process DROs.
- Interviewed staff responsible for DROs to ascertain what job duties they perform, records they have access to, and authorization they have in order to determine if there are any issues that should be addressed.
- Selected DROs that started paying former spouses from January 1, 2019 through December 31, 2019 and determined:
 - The final DRO agreed with the templates developed by SDCERS' Legal (compliance)
 - The DRO was appropriately authorized by the CEO (authorization)
 - The DRO was authorized before former spouse payments began (timely)
 - The DRO calculations were accurate (accuracy); more specifically the community property percent/split was accurately calculated
 - IRIS DRO initiations were appropriately approved (approval):
 - By a party that didn't initiate and
 - By a party of equal or greater level
 - Withholdings occurred, when necessary (completeness).
 - Former spouse's initial disbursement of base pension and DROP funds (where applicable) were accurate (accuracy). [Note: we relied on management's calculation of the base pension and DROP amounts and then agreed this amount into the former spouse's first payment]
- Ran reports of all Community Property cases/DRO-related calculations within IRIS as of the first quarter of 2020 and their correlating statuses and determined:

- If any duplicates existed between each status
 - If the status was appropriate (e.g. that the status isn't 'stagnant')
- Reviewed screen-shots from IRIS showing that the same person cannot approve DRO-related transactions he/she created.
- Reviewed IRIS access reports and ensured DRO-related transaction creation, calculations and payments were segregated.
- Reviewed disbursements for selected Members to ensure the correct cumulative amount (through the end of 2019 and including withholdings) was paid to the former spouse.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes the evidence obtained provides a reasonable basis for the findings and recommendations.