



Retirement Services:

Interim Report on the Alignment of Controls Between the City and the Office of Retirement Services

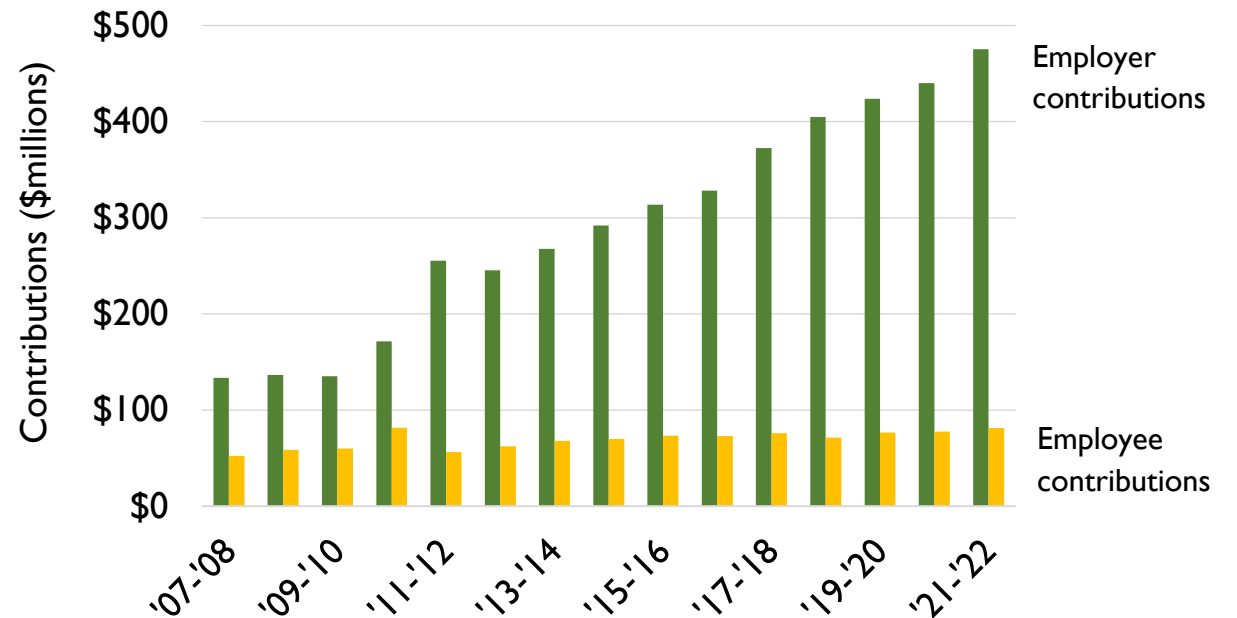
A Report from the City Auditor
Issued October 2023

<http://www.sanjoseca.gov/auditor>

Background

- The City has two retirement plans: Federated and Police & Fire.
- Two independent boards oversee the plans with fiduciary duties.
- The Office of Retirement Services (ORS) administers the plans.
- The City is the plan sponsor and contributes to the plans.

Total Annual Contributions for Pension and Retiree Health and Dental Benefits



Audit Direction

Direct the City Auditor to prioritize an audit of the Office of Retirement Services in his workplan. This audit should cover, at minimum, the following areas:

- 1. Identifying internal process controls for financial activities such as accounting, purchasing and contracting;*
- 2. Identifying policies and procedures around information systems and security;*
- 3. Compliance with City policies for financial activities, information systems and security, and other relevant administrative functions;*
- 4. A comparison of the governance structures of other pension plans, including board oversight of management's administrative functions and responsibilities.*

Finding I: Alignment of ORS and City Policies Would Strengthen Internal Controls over ORS Operations

- ORS staff are City employees, and the boards adopted the City's Code of Ethics.
- There is not clear agreement between the City and ORS on whether ORS staff should follow all administrative policies and procedures.
- Many ORS internal procedures back to the 1990's or 2000's and staff in some cases were unaware of them.

ORS relies on the City for:

- information systems, such as financial management and payroll systems along with email.
- support services, such as Finance, HR, and ITD, for payroll, paying invoices, employee benefits, and maintaining information systems.

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- Not having clear direction or up-to-date procedures is an internal control weakness.
- This could expose the retirement system and the City to unnecessary risks.
- Other retirement systems in California are similarly staffed by employees of the plan sponsor, and staff generally follow the administrative policies of the sponsor or their own stricter policies.

RECOMMENDATION:

To strengthen its internal control system, ORS and the Retirement Boards should work with the City to either:

- Adopt City policies and procedures related to information technology, procurement, and other administrative functions, or
- Develop a set of internal policies and procedures that align with the City's in these areas.

Conclusion

This report has one recommendations to align controls between the City and the Office of Retirement Services.

We would like to thank the Office of Retirement Services, the City Manager's Office, the City Attorney's Office, the Information Technology Department, the Finance Department, and the Office of Employee Relations for their time and insight during the audit process.

The audit report is available at www.sanjoseca.gov/auditor

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