John A Lohse
INTERIM SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

May 25, 2017

ASSOCIATE VICE PRESIDENT ARRIVAS

RE: Final Report Project No. P17A010: New Pension Tier

Attached is a copy of the final report for: Audit Services Project No. P17A010 New Pension Tier. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Executive Vice President Nava
        Executive Vice President Brostrom
        Interim Senior Vice President Lohse
        Director Cheung Hill
        Senior Manager Delaney
        Manager Chen-Ok
        Manager Ruiz
        Manager Cataldo
        Contractor Seay
        Contractor Schneider
        Contractor Taylor

UNIVERSITY of CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

NEW PENSION TIER AUDIT

Audit No. P17A010

May 2017

Audit Conducted by:
Roy Taylor, Contractor
Rachel Seay, Contractor

Executive Summary

Introduction

In July 2016, the University of California implemented a new pension tier as part of changes to the University of California Retirement Plan (UCRP). As part of the new pension tier, eligible employees hired on or after July 1, 2016 choose which retirement option they will participate in at the time of hire. While the new pension tier election process was first effective in July 2016, further enhancements to the pension tier election process were implemented through November 1, 2016. Internal Audit (IA) performed a review of the new pension tier election process following the implementation of the process in July 2016 and subsequent changes effective November 2016.

Employees eligible for choice within the new pension tier have 90 days from their retirement option eligibility date to make an election of retirement options. To support employees in reviewing their retirement options, a self-service portal in the Fidelity Choice Tool provides calculators to estimate retirement options based on the specific employee's payroll data.

The employee's retirement option eligibility date is determined when a triggering event occurs (generally hire date). The UC Retirement System (UCRS) Data Exchange determines eligibility to choose between the Defined Benefit (DB) or Defined Contribution (DC) plans or assigns employees to a default plan based on payroll and demographic data transmitted from payroll systems. The eligibility decision from UCRS (i.e., whether a specific employee is eligible for a choice of retirement options) is transmitted back to the Payroll/Personnel System (PPS) where the election window start date is entered. The eligibility data (including the election window start date) is transmitted from PPS to the Fidelity Choice Tool. In the Fidelity Choice Tool, employees with choice eligibility can view retirement options and make elections. Once an employee makes an election, the election data is sent from the Fidelity Choice Tool back to PPS to update the employee's record with the election.

Objectives and Scope

The primary objectives of the audit review were to:

- Assess the design effectiveness of internal controls in place within the pension tier election process for changes effective July 1, 2016 and enhancements implemented November 1, 2016.

- Identify internal control gaps and opportunities to strengthen controls in place within the pension tier election process for changes effective July 1, 2016 and enhancements implemented November 1, 2016.

The scope of the review included:

- Pension tier election process (following phase 2 changes implemented by November 1, 2016) including determination of eligibility, employee choice election and employee communication.

- In-scope systems include: Fidelity Choice Tool, Payroll systems (PPS systemwide payroll system, Lawrence Berkeley National Laboratory payroll system), Data Exchange, Distributed Systems (e.g. Fidelity demographic file and election feedback file).

The scope of the audit did not include and was not intended to advise on:

- Operating effectiveness of internal controls within the pension tier election process.

- Accuracy of Fidelity Choice Tool logic and pension calculations.

- System development life cycle (SDLC) best practices or operating effectiveness of SDLC controls related to the implementation of the Fidelity Choice Tool.

- Completeness and accuracy of functionality delivered against business requirements defined by business.

- Internal controls in place at the campus around the pension tier election process.

- Accuracy of functionality for determining eligibility for UCRP membership and/or internal controls related to UCRP eligibility.

- UCPath was out of scope for the initial phase of this audit.

Procedures Performed

In order to accomplish the project objectives and scope, the following procedures were performed:

1. Obtained and reviewed existing documentation around the new pension tier implementation including:

    a. Functional Design Documents from implementation phases I and II, as well as other enhancements that have been implemented.

    b. Process flows documenting pre and post implementation process flows

    c. Business Requirements

2. Inquired with key stakeholders involved in the project to gain an understanding of the systems and data involved within the new pension tier election process. This included identifying data shared between systems (inputs/outputs), timing of the interfaces between systems, information used to determine eligibility for choice pension tiers and known issues with data requirements and/ or data transmission. Met with the following key stakeholders:

    a. Shaun Ruiz – Payroll Manger

    b. Esther Cheung – Director, Human Resources

    c. Kenneth Smith – Programmer Analyst, HRBIS

    d. Adam Chen-Ok – Retirement Savings Program Vendor Relations Management

    e. Larry Delaney – Manager, ITS

3. Further inquired with key stakeholders to understand the expected outcomes from transactions within the pension tier election process, specifically related to determining eligibility for choice, choice elections and employee communications. For each expected outcome, identified potential deviations to determine what risks exist within the process.

4. For each risk identified above, inquired with key stakeholders to identify mitigating controls already in place to facilitate complete, accurate and timely transmission of data in order to achieve expected outcomes for transactions within the pension tier process.

5. Documented results of the internal control assessment via a risk and control matrix and observation log summarizing a walkthrough of the process, existing controls, and remediation implemented via the November 1, 2016 enhancements, and control gaps. Refer to Attachment A for the risk and control matrix.

Conclusion

Based on our review of the new pension tier election process and inquiry with key stakeholders involved in both the July and November implementation phases, we observed a number of internal controls in place to aid in the determination of an employee's eligibility and choice election. These controls were a combination of preventative controls (e.g., data validation for demographic and eligibility data transmitted between Payroll and UCRS to determine eligibility) and detective controls (i.e. data reporting from Fidelity).

Overall, we noted many internal controls in place are designed effectively, including review of weekly and daily exception reports generated from the Fidelity Choice Tool. An opportunity for improvement was identified within the new pension tier election process related to validation of the completeness of election window data transmitted to Fidelity. For employees deemed eligible for choice by UCRS, Payroll is responsible for entering the election period begin date in PPS prior to sending to Fidelity. Validating that all necessary data fields are complete before data is transmitted can facilitate accurate and timely communication of election data to employees in the Fidelity Choice Tool.

Opportunities for Improvement and Management Action Plans

1. Validation of completeness prior to data transmission

Employees eligible for choice under the new pension tier program have 90 days from their eligibility start date (generally hire date) to choose a retirement plan within the self-service portal of the Fidelity Choice Tool. UCRS determines whether employees are eligible for a choice of retirement options. Eligibility for choice is determined by UCRS based on payroll and demographic data transmitted from PPS. The choice eligibility data from UCRS is sent back to PPS where the election window start date is entered by Payroll for employees eligible for choice. The eligibility data, including election window start date, is then sent from PPS to the Fidelity Choice tool where eligible employees will have a 90 days election window, based on the election window start date, to choose a retirement plan (either DC or DB).

We noted that errors related to employee elections can occur because data files can be transmitted from PPS to Fidelity with an inaccurate or blank election window start date. This missing or inaccurate data causes election windows for employees eligible for choice to not open timely in the Fidelity Choice Tool so employees will not have the ability to view or make retirement plan elections. As a result, the impacted employees later appear on exception reports sent by Fidelity on a daily or weekly basis to Payroll or UCRS for review. Upon receiving and reviewing the exception reports, a valid election start date must be manually provided in order to open the employee's Fidelity election choice platform for them to make an election. Adding validation of payroll data record completeness prior to the initial transmission from PPS to Fidelity would allow for quicker processing time, increased timely notification of choice eligibility to qualified employees in a timely manner, and reduced manual corrections downstream.

Management Action Plan:

The pension tier implementation team agrees with the recommendation and believes that additional edits in the PPS system could reduce the risks of error and the rework. This edit was not in the system as of July 1, 2016, the effective date of the new pension tier. However, the implementation team identified that inaccurate or missing election window start dates were a defect and a change to the PPS system was made in December 2016 to add the edits to this field (release #R2554) to address the recommendations above.

The pension tier implementation team will continue to monitor areas of administrative errors and rework to add future edits in the PPS system and conduct user training to continuously improve the processes and reduce risk for the new pension tier in the future.

Target Date: N/A - Action completed prior to report issuance

Process	Sub Process	Risks	Process Description/Walk through	Control Description	Notes	Findings
Payroll (PPS)	Data Entry into payroll system	Incomplete or inaccurate data may not be detected prior to being sent from the payroll system to UCRS.	The Pension Tier 2016 election process is triggered when a newly eligible employee is entered into PPS. Newly eligible employees include new hires, rehires, appointment changes, 750/1000 Hrs and Eligibility change dates. Employee data entered into the payroll (PPS) system is then sent through the UCRS Data Exchange. The following data fields are sent to aid in the eligibility decision: - Caller ID: Derived from CICS - SSN - Employee ID - Location - Bargaining Unit Code: Derived from employee relations code and employee's current month appointments or, if no current appointments exist, the first future month appointment. Noted that this field can be overridden. - Bargaining Representative Code: Derived from employee relations code and employee's current month appointments or, if no current appointment exists, the first future month appointment. Noted that this field can be overridden. - UCRP Eligibility Date: Derived from when PPS determined that the employee is eligible for a UC retirement plan, however, this field can be overridden. - Safety Indicator : Derived from the employee's current month appointment, or the first future month appointments.	Certain validation checks exist at the point of data entry to ensure complete and accurate data is being entered into the system: - The PPS system will issue a warning message at the time of entry when a retirement code is inconsistent with an assigned BELI. - If a zero is entered into the 'SSN' data field, then the system will search for a previously assigned Fidelity ID. If no Fidelity ID exists, then zeros are entered. - The user has the option to override the value within the 'Bargaining Unit Code', 'Bargaining Representative Code' and 'UCRP Eligibility Date' data fields.	Noted that at the time a real-time call from Payroll to UCRS occurs, the process validates the completeness of the data being sent. Per further discussions, it was noted that at the time of entry, the user has the option to override the value within the 'Bargaining Unit Code', 'Bargaining Representative Code', and 'UCRP Eligibility Date' data fields. Due to this override ability, it is possible for inaccurate information to be entered for an employee. In addition, it was also noted that although an error message, "Inconsistent with an assigned BELI," will be triggered, these warnings are not hard coded stops. The user is then able to still update a record after the warning message is issued.	N/A
UCRS Data Exchange	Data sent through the UCRS Data Exchange from Payroll	Data received from payroll is incomplete and inaccurate.	Daily, data is received from the payroll system to be integrated and updated within the UCRS system. The following data fields are received from payroll (PPS): - Caller ID - SSN - Employee ID - Bargaining Unit Code - Bargaining Representation Code - UCRP Eligibility Date - Safety Indicator	The UCRS system will make an eligibility decision by using the data received from payroll.	Noted that once the data is received from PPS, UCRS does not perform any validation checks to confirm the accuracy of the data prior to making a decision, however, the completeness of the data being sent is verified. The UCRS Data Exchange relies on data from PPS to make a pension eligibility decision. When PPS makes a real time call to UCRS to inquire about Choice Eligibility, the process validates that all required information from payroll is populated and has one of the expected values. The data being sent are unknown to UCRS and therefore cannot be further validated by UCRS. In addition, when a real-time call from payroll occurs, the process writes a row into an audit table that stores the identification of the call from Payroll including the following information: date, time, all information sent by payroll, all UCRS data that was examined in deciding the eligibility, and all the information that was sent back to payroll. Noted that although this is not fully a control in itself, it provides a full history and audit trail for all requests made.	N/A
UCRS Data Exchange	Data sent back to PPS from UCRS	Eligibility decisions made by UCRS based off of inaccurate or incomplete data.	Once data is received by the UCRS system from payroll, the employees record is entered into the system and validated against existing users to determine if the employee is already in the system. Once employee information is entered into the system, a decision of eligibility is made based on the approved ruleset within the UCRS system. Once the UCRS Data Exchange has determined an employees eligibility, data is sent back to payroll to be updated in PPS. All eligibility decision data received back from UCRS is accepted as is and no further validation is performed.	The UCRS system will make a decision based off data received from payroll, existing UCRS data and UCOP pre-determined rules of eligibility. The retirement code is set to blank and a data override message is issued if the UCRS Data Exchange is unable to come to a conclusion based on the Tier, Retirement Option and Prior Election data available.	Noted that once the decision information is received back from UCRS system, there is no validation check done to ensure that an employees eligibility is consistent with expected eligibility based on data within the payroll database. In the case that UCRS was unable to make an eligibility decision, an override message is issued, which prompts users to manually enter necessary information.	N/A
Payroll (PPS) /AYSO	Data sent through AYSO to Fidelity	Inaccurate or incomplete data is sent to Fidelity.	Nightly, data is sent through AYSO to be updated within the Fidelity system. AYSO is responsible for generating the Fidelity demographic interface. Payroll is responsible for setting the election period begin date as either the current date or the UCRP eligibility date (whichever is later), however, users can also enter an election period begin date. The election period end date automatically set as 90 days after the begin date. Once determined, these dates, along with other choice eligibility data is sent to AYSO to be included in the Fidelity Demographic Interface.	There are currently no controls within payroll that would prevent them from transmitting data to Fidelity (via AYSO) with incomplete or incorrect election window dates. Refer to "Findings" AYSO uses data provided by PPS to create a Daily Demographic File which is then provided to Fidelity to be entered into their system.	Fidelity is not permitted to edit any data received from UCOP. Missing or incomplete fields must then be updated by Payroll or UCRS, and sent back to Fidelity.	In certain instances, if employee data files are sent from PPS to Fidelity (via AYSO) with blank or invalid choice election window start dates, Fidelity will not be able to open an eligible employees election window. There are currently no controls within payroll that would prevent them from transmitting data with incomplete or incorrect election window dates.
Fidelity	Fidelity Exception Reports	Election data is not reconciled with UCOP data, allowing discrepancies in election data to go unnoticed.	After data is sent to Fidelity, employees are notified once their election window has been opened. At this point eligible employees are able to log into the Fidelity election portal and have 90 days to make their election, either 'DB' or 'DC'. If no election is made within 90 days, Fidelity defaults the employee into 'DB'. Fidelity generates exception reports based on UCOP election data within its system both daily and weekly. Some reports directly related to this process are 'Choice Error Report', which is sent UCOP daily Monday- Friday, and the 'Ineligible Status - Disable Portal Report' which is sent to UCOP weekly, on Mondays.	Fidelity provides exception reports to UCOP on a weekly and daily basis in order to catch and bring to light any discrepancies in the data.	UCOP team reviews all users that appear on these listings in order to resolve discrepancies. The 'Choice Error Report' lists employees set as choice eligible, but have other missing or inconsistent data which is preventing their election portal form being opened. The 'Ineligible Status - Disable Portal Report' lists employees whose election portal is open, but subsequently UC has changed their status code in a manner that makes the employee no longer choice eligible.	N/A

Payroll (PPS) / UCRS	Internal Payroll Exception Reports	Election data is not reconciled, allowing discrepancies to go unnoticed.	UCOP runs reports to determine any discrepancies in employees choice eligibility between payroll, UCRS and Fidelity systems.	UCOP generated reports are run on wither a monthly or ad-hoc basis and reviewed to determine inaccuracies on data.	In addition to the exception reports that Fidelity send to UCOP on a daily and weekly basis, additional reports have been created internally to be used to further analyze exceptions. Since the July 1 go-live, these reports have been run on an ad-hoc basis in order to screen for additional discrepancies that may have been overlooked. An example of one such report checks for employees whose 90 day window has passed and no election has been selected, nor has a default has been received. This report developed by UCOP has been run on an ad hoc basis, however, as of phase II changes that recently went into effect, this report will now automatically run. The automated version of this report is called 'PPP778'. There are 3 additional exception reports created once a month by UCRS when it processes data files received by payroll. The first report captures CCL inconsistency. The second is for staff and faculty who reach the PEPRA Limit and transition to the DC Plan. And finally, the third report is for staff and faculty who are on LOA immediately after they are offered choice. Reports are examined to determine the cause of the discrepancy as well as an appropriate solution.	N/A
Payroll (PPS) / PIP	Data sent through PIP back to payroll	Election data within Fidelity is not consistent with data within PPS.	PPS receives election data and results from Fidelity on a daily basis. Once employee elections are made, or defaulted, within the Fidelity election portal, the PIP application is used to send election and/or default results back to PPS.	Data received from Fidelity is then updated within PPS before being sent to all downstream applications.		N/A
Payroll (PPS)	PPS Override Ability	Data overrides within PPS are not sent through to be updated in the UCRS and/or Fidelity systems.	Payroll administrators have access to override certain fields after data has been entered and sent through the UCRS Data Exchange and to Fidelity. Administrators have access to override the following fields: - UCRP Eligibility date - Election Period Begin Date - Retirement Code - Covered Compensation Limit Code - FICA Eligibility Code - Benefits Eligibility Unit Code - Benefits eligibility representation Code - Fidelity election/default result (DC or DB)	Access to screens containing data that is able to be overridden are limited to specific used determined by each location. Noted that the 'Fidelity election/default result (DC or DB)' data field is only able to be overridden to clear the value if the election should not have been allowed.	Noted that access to make these overrides to the data is determined by each individual location with the purpose of allowing errors to be corrected. Noted that if updates are made to data fields that would normally then be sent to UCRS or to Fidelity via AYSO, then any changes to this data will also be sent as they occur. Per further discussions with management, it was noted that initially, after implementation, there were instances were manual updates made in PPS were not flowing through to Fidelity, causing discrepancies in employee choice eligibility. The three specific instances that were causing discrepancies in data were: - 'WOS (without salary)' indicator blocking access to the choice election site, - Where the system utilized the begin date of the Safe Harbor position to determine tier placement when the employee should have been choice eligible - Future dated appointment issue that incorrectly gave some represented employees choice who were in bargaining units excluded from choice. Noted that as of updates that were released on 9/8/2016 and 11/15/2016, all of the these issues have been resolved. In addition, confirmed that all of the above issues and their resolutions were contained entirely within PPS. There were no effects noted within AYSO or Fidelity daily demographics file processes and no programming changes within these applications were needed to resolve these issues.	N/A