



**City of Seattle
Office of City Auditor**

**Performance Audit of Seattle
City Employees' Retirement System (SCERS)
Retirement Benefit Calculations**

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Audit Objectives

The audit was conducted at the request of the SCERS Board of Administration.

Objectives:

- Determine whether retirement benefits are accurately calculated.
- Assess whether there are sufficient controls and oversight over calculations.
- Evaluate whether calculation processes are efficient.

Overview of Results

1. We identified a high error rate in our sample of 30 files, which we attribute to a lack of adequate controls and support.
 2. Most errors had very little impact on benefits, due to the diligence of the staff who calculate benefits and carefully check each other's work to reduce the impact of any errors.
- However, relying on staff as the central control over accuracy exposes the process to the risk of abuse or fraud.

File Review – Error Rate

We tested benefit calculations for 30 individuals who retired in 2011 and 2012, or over 10% of the retirements that occurred during the 12 months included in our review.

22 out of 30 files included an error or inconsistency.

Examples:

- data entry error
- error in interpretation of paper employment records
- error in a formula in an electronic worksheet

File Review – Impact of Errors

The majority of errors had **no impact or very little impact** on the member's final retirement benefit.

Two errors had an impact on benefits:

- An error led to an understatement of the nontaxable portion of a member's monthly benefit by about \$70.
- An error led to the underpayment of a different member's monthly benefit by about \$5 per month.

Calculation Process

We identified nine recommendations in four key areas of operations:

1. Guidance and Oversight
2. Data Limitations
3. Calculation Worksheets
4. Documentation

Additionally, we made a tenth recommendation to improve the management of the benefit calculation process as a whole.

Guidance and Oversight

SCERS management has not developed clear guidelines for calculating benefits.

Result: Staff are not always consistent in their practices, and the Board cannot ensure practices comply with the Seattle Municipal Code (SMC).

Recommendation 1 is for SCERS management to document the calculation processes.

Recommendation 2 is for the Board to regularly review and approve SCERS procedures.

Data Limitations

The data available to staff often requires significant interpretation or analysis before it can be used.

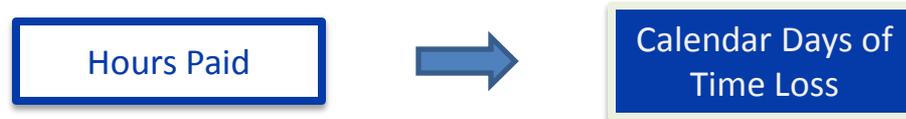
Result: The benefit calculation process is time consuming, complicated, and at risk of error.

SCERS has begun improvements in this area, and **Recommendation 3** is for SCERS to continue this work and improve access to the data necessary to calculate benefits.

Data Limitations (continued)

SCERS should consider a simpler approach to calculating service credit.

Current : Calculate length of membership and subtract time loss, or time for which there were no contributions. To calculate time loss, staff use payroll records.



Alternative: Total hours for which a member made contributions and divide by the number of hours in a year.

In **Recommendation 4**, we propose that SCERS consider a simpler approach to calculating service credit.

Calculation Worksheets

SCERS has not implemented the controls necessary to ensure the worksheets staff use to calculate benefits comply with policies, facilitate calculations, and minimize errors.

Example: There are no protected templates for the worksheets – each time staff need to use a worksheet, they edit one from a previous retiree’s file.

Recommendation 5 is to improve specific aspects of the worksheets, including how they are managed and reviewed.

Recommendation 6 is that SCERS work to reduce the number of worksheets used for each individual calculation.

Documentation

Several elements of retirement benefit calculations are not consistently documented in the member files.

Examples:

- source of information used in benefit calculations
- manual calculations
- details of time loss determinations
- information about portability or buy backs

Recommendations 7, 8, and 9 are aimed at improving documentation of calculations in order to improve transparency and reduce the work required to update, complete, or verify benefit calculations.

Management Improvements

Recommendation 10 is that SCERS improve the management of the benefit calculation function as a whole. This resulted from our observation that most of the specific issues we identified during the audit had been long standing problems.

Unless management's oversight of the benefit calculation process is enhanced and institutionalized, any improvements will be short lived.