



City of Phoenix

**Mission Statement**

To improve the quality  
of life in Phoenix  
through efficient  
delivery of outstanding  
public services.

**Project Team**

Ross Tate  
City Auditor

Aaron Cook  
Deputy City Auditor

Cheryl Trujillo  
Associate Internal Auditor

**Project Number**

1230040

This report can be made  
available in alternate  
format upon request.

---

## Retirement Office Deferred Compensation Plan Management

April 17, 2023

---

### ***Report Highlights***

**Participant Data Accuracy**

*The deferred compensation plan vendor data was not updated to match current City employee data. The City should work with the vendor to ensure data is appropriately updated.*

**Contract Monitoring and Compliance**

*Retirement Office staff created a contract monitoring tool, received regular vendor reports, and met frequently with the vendor. However, the contract monitoring tool had not been used it since February 2022, and several of the performance standards were outdated.*

**Contribution Reconciliations**

*All contribution reconciliations tested were accurate and supported by documentation.*

---

***City Auditor Department  
140 N 3<sup>rd</sup> Avenue Phoenix, AZ 85003  
602-262-6641 (TTY use 7-1-1)***

## **Executive Summary**

### **Purpose**

Our purpose was to determine that the Deferred Compensation Plan (DCP) is appropriately managed, and that the contractor is sufficiently monitored.

### **Background**

The City's DCP offers eligible City employees three retirement savings options:

- Traditional and ROTH 457(b) plans in which employees may make pre or post tax contributions.
- Defined Contribution 401(a) plan consisting of three separate components:
  - Special Pay – Mandatory pre-tax deferrals of eligible accumulated sick leave payouts of retiring employees.
  - Non-Elective City Contribution (Fringe) – Automatic pre-tax employer contributions.
  - Supplemental – Voluntary irrevocable pre-tax employee contributions.
- Post-Employment Health Plan (PEHP) which is a health reimbursement arrangement.

#### **Total Participants and Plan Assets as of December 31, 2022**

<b>Plan Type</b>	<b>Total Participants</b>	<b>Plan Assets</b>
<b>457(b)</b>	18,303	\$1,743,003,955
<b>401(a)</b>	19,425	\$ 693,471,598
<b>PEHP</b>	18,787	\$ 222,957,699
<b>All Plan Types</b>	56,515	\$2,659,433,252

**Plans contain more than \$2.5B in assets.**

The City has contracted with Nationwide Retirement Solutions, Inc. (NRS) to provide administration and record-keeping services of DCP since August 20, 2004. The most recent contract, Agreement No. 153227-0 (Agreement), was executed on November 20, 2020, and is in effect for five years. The Agreement was amended in November 2021, to require NRS to ensure that participants in the 457(b) and 401(a) DCPs maintain a \$1,000 core account balance. The Agreement was amended again in March 2022.

That amendment changed some of the performance standards and performance guarantee requirements.

### NRS Administrative Functions by Plan Type

	457 Plan	401(a) Plan	HRA (PEHP)
Distribution requests	✓	✓	
Loan requests	✓		
Unforeseeable Emergencies (review and approval)	✓	✓	
Qualified Domestic Relations Orders (review and approval)	✓	✓	
Required Minimum Distributions	✓	✓	
Incoming rollovers	✓	✓	
Self-Directed Brokerage Option processing	✓	✓	
Claims Administration			✓

The Retirement Office (Retirement) began managing the DCP Program and NRS contract in December 2021, taking those functions over from the Human Resources Department.

## Results in Brief

### **The NRS system did not process all DCP participant updates that were transmitted by the Retirement Office.**

We evaluated 40 updates sent to NRS via the Daily Demographic File from Retirement over a 4-week period. The NRS system electronically receives and processes the files; however, the NRS system did not update 14 of the 40 Daily Demographic File updates that we tested. We also performed a full file comparison between the City's human resources data (eCHRIS) and NRS data and found numerous issues where NRS data did not agree with eCHRIS (see **Attachment A – NRS Data Mismatches**).

**Staff created a contract monitoring tool and normally updates the metrics quarterly. Several of the performance standards listed in both the tool and in the Quarterly Board Reports from NRS were outdated.**

We evaluated Retirement's contract monitoring of contractual performance standards for calendar years 2021 and 2022. We found that Retirement created a contract monitoring tool to monitor vendor performance. Retirement also used NRS quarterly Board Reports to monitor whether NRS was meeting the Performance Standards. We confirmed that Retirement had all NRS quarterly Board Reports for 2021 and 2022. However, both the contract monitoring tool and the quarterly Board Reports contained several outdated performance metrics.

**All contribution reconciliations for the period were accurate and supported by documentation.**

We reviewed DCP contribution reconciliations for all three paychecks in December 2022. We reviewed documentation from Central Payroll showing (1) the total dollar amount of contributions for each plan type, (2) NRS confirmation of the data file elements including the total dollar amounts and total number of records that were in the files, and (3) the total contribution amounts by plan type that Central Payroll requested Finance to wire to NRS. We also reviewed PEHP documentation showing the total dollar amount of funds that were sent via wire transfer to NRS for PEHP contributions. We then validated that PEHP funds were processed in arrears, in accordance with the Agreement. Contribution reconciliations appeared accurate based on the tests performed.

## **Department Responses to Recommendations**

<b>Rec. #1.1:</b> Work with NRS to implement controls to ensure all updates provided via the Daily Demographic File are completed.	
<b>Response:</b> Retirement is working closely with NRS to implement a control process is in-place to ensure all updates are completed as expected. Staff has updated procedures and will randomly verify a sampling of members with demographic changes each month to ensure updates are made. Recommendation is complete.	<b><u>Target Date:</u></b> Complete
<b>Rec. #1.2:</b> Work with NRS to resolve data accuracy issues between NRS and eCHRIS and within the NRS system for all participants.	
<b>Response:</b> Retirement is working with NRS to resolve the data accuracy issues within their system for all participants. Several system enhancements have been scheduled with NRS Technology. Staff will monitor and ensure compliance. Recommendation is complete.	<b><u>Target Date:</u></b> Complete
<b>Rec. #2.1:</b> Update the contract monitoring tool to the current metrics from the March 2022 contract amendment.	
<b>Response:</b> Retirement has updated the contract monitoring tool to the current metrics from the most recent contract amendment. Recommendation is complete.	<b><u>Target Date:</u></b> Complete
<b>Rec. #2.2:</b> Work with NRS to ensure that the Quarterly Board Reports reflect the updated contract terms from the March 2022 amendment.	
<b>Response:</b> Retirement worked with NRS to ensure the quarterly board reports reflects the SLAs from the most recent contract amendment. Recommendation is complete.	<b><u>Target Date:</u></b> Complete

# **1 – Contractor Data Accuracy**

## **Background**

The City's Retirement Office regularly sends updated participant information to NRS. Retirement's procedures require NRS to update their records with the information provided. Retirement sends a Daily Demographic File to NRS that contains updates related to:

- New employee DCP deductions/fringe;
- Terminated employees with DCP deductions;
- Name and address changes;
- Rehired employees;
- Employees who are newly eligible for 401(a) fringe contributions; and,
- Employees with 401(a) eligibility changes.

Retirement also sends a Quarterly Census File to NRS that contains the following participant data:

- Department ID
- Department Description
- Ben Cat Code
- Employee ID
- Name
- SSN
- Birthdate
- Deduction Code
- Flat Amount
- Rate/Percentage
- Deduction End for the 457(b)

The files are processed systematically by the NRS system. The system performs a health check. If errors are detected, NRS works with Retirement to address the issue(s) and then reruns the file.

We reviewed the Daily Demographic Files for four dates: 12/2/22, 12/6/22, 12/14/22, and 12/19/22. We evaluated whether the NRS system updated the participant data with the information included in the files.

We also performed a full file review comparing active participant data from the City's human resources system (eCHRIS) to active participant data from the NRS system to validate whether NRS is updating participant records. NRS data contains multiple accounts for some participants. This occurs when a participant has more than one DCP account. For these participants, we also validated that each account in the NRS system had the same data.

## Results

### **The NRS system did not accurately and/or fully process participant updates received via the Daily Demographic Files.**

We evaluated a total of 40 updates. The sample included selections from the following update categories:

- New Employees – 10
- Terminated Employees – 3
- Name and/or Address Changes – 13
- Newly Eligible Employees – 8
- Eligibility Changes – 6

NRS provided screen shots to show that the updates were processed as required by Retirement's operating procedures. We found the following:

- New Employees – Department numbers were not captured in 7 of 10 new employee accounts tested.
- Terminated Employees – The termination status was not reflected for 1 of 3 terminated employee accounts tested; 1 of the 3 also had an incorrect termination date.
- Name and/or Address Changes – All name and address changes were reflected on the accounts tested.
- Newly Eligible Employees – All updates were reflected on the accounts tested.
- Eligibility Changes – The unit number was not updated in 5 of 6 accounts tested.

### **The full file review revealed numerous data mismatch issues between eCHRIS data and NRS data for active participants.**

We compared data for all active, eligible participants that are in eCHRIS to active participant data in the NRS system to verify that NRS had a record for each active participant identified in eCHRIS and that data fields in both systems matched. We found that some employees in eCHRIS were not listed in the NRS data provided. We also found numerous differences in department, benefit category, and address data fields. There were some differences in name data fields. We also found that when a person had multiple accounts with NRS, the data between the two NRS accounts were sometimes different. See **Attachment A – NRS Data Mismatches** for a description of

each test performed, the purpose for the test, the methodology we used, and the results of each test performed. Retirement is actively working with NRS to address data discrepancies.

## **Recommendations**

- 1.1 Work with NRS to implement controls to ensure all updates provided via the Daily Demographic File are completed.
- 1.2 Work with NRS to resolve data accuracy issues between NRS and eCHRIS and within the NRS system for all participants.

## **2 – Contract Monitoring and Compliance**

### **Background**

*Administrative Regulation 3.10 – General Procurement Procedures* specifies that the department/function is responsible for monitoring its contracts. Since taking ownership of the contract in December 2021, Retirement is responsible for monitoring NRS compliance, including the Performance Standards outlined in Amendment #2 of Agreement No. 153227-0, which became effective in March 2022.

The contract is currently being monitored by the Retirement Program Administrator (Administrator). NRS submits Quarterly Board Reports and Retirement reviews the outcome of each Performance Standard included in the reports. The Administrator also created a spreadsheet to monitor and track NRS compliance to the Performance Standards. Further, NRS and the Administrator meet biweekly to discuss all items related to DCP/PEHP.

We reviewed Quarterly Board Reports and Retirement's contract monitoring spreadsheet for calendar years 2021 and 2022 to verify that Retirement was monitoring NRS compliance to the Performance Standards.

### **Results**

**Retirement monitors contractor performance. However, the Performance Standards did not reflect updated contract terms from Amendment #2 of Agreement No. 153227-0, dated March 2022.**

The Administrator created a spreadsheet to monitor significant Performance Standards. The administrator normally updates the performance metrics quarterly. The Performance Standards and metrics in the tool were not updated with the revised metrics from the March 2022 Amendment.

**Retirement receives and reviews Quarterly Board Reports provided by NRS to confirm vendor compliance to contract terms. Retirement provided all Quarterly Board Reports for calendar years 2021 and 2022.**

Retirement reviews Quarterly Board Reports provided by NRS to monitor NRS compliance to various contract terms. Retirement provided the NRS Quarterly Board Reports for each quarter in calendar years 2021 and 2022. However, the Performance Standards section of the reports for April 2022 through December 2022 were not updated with the revised metrics stated in the March 2022 Amendment.

Retirement actively monitored the reports NRS submitted. For instance, one of the Performance Standards in the Agreement requires that participant telephone calls to NRS home office Client Service Representatives be answered within 20 seconds on average at least 75% of the time. The metric is measured annually (January – December). Based on the December Quarterly Board Reports, NRS did not meet the

metric in calendar years 2021 or 2022. In 2021, the average speed of answer was 72.6% and in 2022 it dropped to 45.7%. Retirement reported that NRS was not assessed the fee in 2021 because (1) NRS had never missed the requirement before, (2) the response time was close, and (3) high market volatility during that time lead to much higher call volumes. Retirement stated it will assess the fee for 2022.

## **Recommendations**

- 2.1 Update the contract monitoring tool to the current metrics from the March 2022 contract amendment.
- 2.2 Work with NRS to ensure that the Quarterly Board Reports reflect the updated contract terms from the March 2022 amendment.

### **3 – Contribution Reconciliation**

#### **Background**

The contract requires NRS to process DCP/PEHP plan deferrals and employer contributions consistent with the terms of the plans and the City's payroll system. NRS also must reconcile contribution amounts. The City sends employee and employer DCP contributions and contribution data biweekly via wire transfer. The City sends employer PEHP contributions monthly, in arrears, via wire transfer.

Central Payroll is responsible for transmitting contribution data for all plan types to NRS and for providing Finance with the wire transfer amounts to be sent to NRS for 401(a) and 457(b) plans. Retirement is responsible for preparing the wire transfer data and submitting the wire request to Finance for PEHP.

We reviewed contribution data for 3 paychecks: 12/2/22, 12/16/22, and 12/30/22. We verified that Central Payroll requested the correct contribution amounts by comparing the dollar amounts in the DCP Reports to the wire requests that were sent to Finance. We also verified that the total amount of PEHP contributions included in each of the three DCP Reports agreed with the total contribution amount in the December PEHP Report. Lastly, we reviewed emails from NRS confirming receipt of the data in the DCP Reports including the number of records and total dollar amounts for each of the pay periods.

#### **Results**

**All controls were functioning properly to confirm that correct dollar amounts were sent for DCP and that reconciliations took place.**

We reviewed DCP contributions for all three December 2022 paychecks. The contribution amounts requested by Central Payroll for all three paychecks agreed with the dollar amounts in the DCP Reports and to the wire requests that were sent to Finance. The total amount of PEHP contributions included in each of the DCP Reports agreed with the total contribution amount in the December 2022 PEHP Report processed by Retirement. NRS confirmed receipt of the data. The dollar amounts and record totals confirmed agreed with the dollar amounts and record totals provided in the DCP Reports.

**Retirement appropriately directed PEHP contributions, which are sent to NRS on a monthly basis, in arrears, via wire transfer.**

We reviewed PEHP contributions for December 2022. On January 4, 2023, Retirement sent an email to Finance requesting PEHP funds be wired to NRS. Finance provided evidence that the amount of PEHP funds requested by Retirement were wired to NRS on January 4, 2023. PEHP funds were sent to NRS, in arrears, via wire transfer as required by the Agreement. No exceptions were noted.

## Recommendation

None

## **Attachment A – NRS Data Mismatches**

### **eCHRIS to NRS Data Comparison**

<b>Test Description</b>	<b>Purpose</b>	<b>Results</b>
Active Account In eCHRIS But Not Found in NRS	Verified that eligible participants in eCHRIS were also in NRS.	105 eligible employees were in eCHRIS but were not in NRS.
NRS Employee Number is Blank	Verify that all participants in NRS had an Employee Number (empid).	The empid field was blank on 1,257 accounts in the NRS file.
Name is Different	Verify participant Last Name matched in eCHRIS to NRS.	Last name did not match for 35 Participants.
Address is Different	Verify that participant Address matched in eCHRIS to NRS.	545 participant addresses did not match.
Unit # is Different	Verify that the participant Bargaining Unit (aka Class Type in NRS) matched in eCHRIS to NRS.	1,801 bargaining units did not match.
Department is Different	Verify that the participant Department ID matched in eCHRIS to NRS.	13,138 Department IDs (some participants had more than one plan and both accounts had a different department).

### **NRS to NRS Data Comparison**

(the individual has multiple accounts with NRS, i.e., a 457(b) and a 401(a))

<b>Test Description</b>	<b>Purpose</b>	<b>Results</b>
Department is Different	Verify that the NRS Department data for participants with multiple accounts was the same on both accounts (comparing NRS to NRS).	14,024 Department IDs for 7,012 participants had different or blank Department IDs.
Unit # is Different	Verify that the NRS Unit # data for participants with multiple accounts is the same on both accounts (comparing NRS to NRS).	5,480 Employee Class Types for 2,740 participants had different or blank Employee Class Types or Bargaining Unit.
Address is Different	Verify that the NRS Address data for participants with multiple accounts is the same on both accounts (comparing NRS to NRS).	1 participant had two different addresses.
Name is Different	Verify that the NRS Name data for participants with multiple accounts is the same on both accounts (comparing NRS to NRS).	No exceptions, all Names were the same on each account.

## **Scope, Methods, and Standards**

### **Scope**

We reviewed Daily Demographic Files for December 2022 and conducted a full file review comparison as of December 16, 2022. We reviewed contract monitoring for calendar years 2021 and 2022. We also reviewed contribution reconciliations for December 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
  - Management should design the entity's information system and related control activities to achieve objectives and respond to risk.
  - Management should design control activities to achieve objectives and respond to risks.
- Monitoring Activities
  - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

### **Methods**

We used the following methods to complete this audit:

- We interviewed Retirement and observed processes.
- We interviewed NRS staff.
- We reviewed the contract and amendments.
- We reviewed the Plan documents.
- We reviewed and observed Retirement demographic update processes.
- We reviewed NRS Administrative Manual.
- We tested the NRS system demographic updates.
- We tested contribution reconciliation process.
- We verified contract monitoring processes.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

## **Data Reliability**

The reliability of eCHRIS data was previously determined through an independent audit review. We used this data to test the accuracy of NRS data.

## **Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.