



City of Phoenix

**Mission Statement**

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

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**Project Number**

1230064

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

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## Retirement Department Retirement Functions – Investment Transaction Approvals and Reconciliations

June 1, 2023

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### ***Report Highlights***

**Approvals**

*The transactions we reviewed were properly supported, and the requested amounts matched the processed amounts. The Retirement Department performed the required reconciliations.*

**Tracking**

*The Retirement Department properly reported transactions to the Retirement Board. Transactions did not appear to exceed agreed-upon commitment amounts.*

**Approval Controls**

*Bank account controls appeared sufficient to prevent unauthorized transactions.*

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## **Executive Summary**

### **Purpose**

Our purpose was to determine that Retirement Department staff were appropriately approving and reconciling transactions made to investment fund managers (managers).

### **Background**

The City of Phoenix Employees' Retirement System (COPERS) is dedicated to administering a retirement plan that prudently invests assets and delivers comprehensive support to meet the needs of past, current, and future COPERS' members and their beneficiaries. As of March 31, 2023, the total market value of all COPERS funds was \$3.3 billion.

City of Phoenix Retirement Office (Retirement) staff work with multiple managers and coordinate various investment-related transactions. These transactions include, but are not limited to, issuing money to the managers based on agreed-upon commitment amounts (capital calls). Information is reported, at least quarterly, to the Retirement Board (Board).

We reviewed the processes for reviewing, approving, processing, and reconciling the investment transactions from July 1, 2022, through January 31, 2023.

### **Results in Brief**

**The transactions we reviewed were properly supported, and requested amounts matched processed amounts. Retirement staff performed monthly reconciliations, as required.**

We obtained supporting documentation for a sample of nine transactions processed between July 1, 2022, and January 31, 2023. We also obtained bank transaction information for August 2022 and November 2022 and validated that the amounts processed were correct for six of the sampled transactions. Finally, we verified that Retirement staff performed monthly reconciliations, as required.

**Retirement staff reported transactions to the Board correctly. The transactions we reviewed did not exceed agreed-upon commitment amounts.**

The transaction amounts listed in the quarterly reports presented to the Board agreed to the transactions processed. We also validated that transactions did not exceed agreed-upon commitment amounts. The amounts were correct and within the contracted amounts.

**Bank account controls appeared sufficient to prevent unauthorized transactions.**

We reviewed the controls over online transactions through COPERS' bank. Controls appeared sufficient to prevent unauthorized transactions. We also verified that the signature card, which lists everyone authorized to approve transactions, was accurate.

# **1 – Transaction Approvals and Tracking**

## **Background**

Retirement entered into agreements with multiple managers. Each agreement has a total commitment amount that the managers could draw from for investment purposes. The managers will issue a capital call to Retirement staff, which the staff will process by transferring funds from the main COPERS account to accounts set up for each investment manager. Retirement staff compare the amounts of the transactions against the agreed-upon total commitment amounts and track the funding levels during the life of the investment fund.

We reviewed the processes used by Retirement staff to approve and reconcile the transactions. We selected a sample of transactions, validated their accuracy, and compared the amounts against the agreed-upon total commitments. We also performed a high-level review of the banking systems to determine if controls were in place to prevent unauthorized transactions.

## **Results**

**Transactions calls reviewed were properly supported, and requested amounts matched processed amounts. Retirement staff performed monthly reconciliations, as required.**

We obtained a list of transactions processed from July 1, 2022, through January 31, 2023. During that period, there were 26 calls for \$16.75 million. We requested supporting documentation for nine sample calls, each from a different investment fund account. All documentation was provided and was accurate.

We also received bank transaction information for both August 2022 and November 2022. Six of the nine transactions selected fell in one of these months. We compared the calls to the bank information and verified that the correct amounts were processed.

Reviewing the transaction documentation, we noted that not all managers provided the same information when requesting funds. Retirement staff mentioned working with some managers to improve their documentation. To help ensure consistency, Retirement staff could implement internal tracking sheets for each transaction request. However, their current processes did appear to provide consistent results.

Retirement staff were required to reconcile the bank transactions monthly. We reviewed the August and November 2022 reconciliations and found that reconciliations were performed as required.

**Retirement staff reported transactions to the Board correctly, and transactions did not appear to exceed agreed-upon commitment amounts.**

We obtained quarterly investment reports for Q2 2022 (April 2022 through June 2022) and Q3 2022 (July 2022 through September 2022). The reports showed the total commitment amount for each investment fund. We compared the amounts reported for three investment funds and found that those reported in Q3 2022 accurately reflected the transactions processed during that quarter.

We also reviewed the quarterly investment reports to validate that managers were not receiving more transactions than the originally agreed-upon total commitments. The transaction totals for six of the eight reviewed investment funds were lower than the total commitment; however, two were greater. Retirement staff explained that they occasionally call back capital from an investment for a period and add it back to the amount available. The amount of transactions reported could be higher than the total commitment because of the back-and-forth transactions, but the net transactions should not exceed the total commitment. Retirement staff provided documentation showing that the actual net of transactions was being tracked.

Retirement staff explained that each investment manager must report the net amount of transactions quarterly. The reports were regulated by the US Securities and Exchange Commission's rules and were audited annually by outside agencies. Additionally, Retirement hired two firms to track and report the quarterly figures to the Board.

**Bank account controls appeared sufficient to prevent unauthorized transactions.**

Retirement staff can initiate transactions through paper requests or through their bank's website. We performed a high-level review of the online system's security controls over processing transactions. Retirement staff accounts had limited access and required at least two additional people to approve transactions. We validated that the signature card, which lists who is allowed to authorize transactions, was current, and the individuals performing the transaction approvals were listed on the signature card. No concerns were noted.

## **Recommendation**

None

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

### **Scope**

We reviewed transactions and investment fund commitment tracking from July 1, 2022, through January 30, 2023.

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

- Control Environment
  - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- Control Activities
  - Management should design control activities to achieve objectives and respond to risks.
  - Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
  - Management should implement control activities through policies.

### **Methods**

We used the following methods to complete this audit:

- We interviewed Retirement staff.
- We reviewed department procedures.
- We reviewed transactions and validated information.
- We reviewed procedures for tracking investment fund commitments.

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**

Bank account transaction data was previously determined to be reliable through an independent audit review.

### **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.