


## MEMORANDUM

**Date:** November 3, 2023

**To:** Leora Freedman  
Vice Chancellor, Human Resources

Steve Relyea  
Executive Vice Chancellor and Chief Financial Officer

**From:** Vlad Marinescu   
Vice Chancellor and Chief Audit Officer

**Subject:** **Audit Report 22-90, Employee & Payroll Data Reporting, CSU Office of the Chancellor**

We have completed an audit of *Employee & Payroll Data Reporting* as part of our 2022-2023 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which will be posted to the Audit and Advisory Services website. We will follow up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the chancellor's office personnel over the course of this review.

c: Mildred García, Chancellor  
Yammilette Rodriguez, Chair, Committee on Audit  
Jean Picker Firstenberg, Vice Chair, Committee on Audit

# **EMPLOYEE & PAYROLL DATA REPORTING**

**California State University  
Office of the Chancellor**

Audit Report 22-90  
November 3, 2023

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to evaluate the employee information and payroll data reporting process between the California State University (CSU), the State Controller's Office (SCO), and the California Public Employees' Retirement System (CalPERS) to confirm the presence of errors in employee data used by CalPERS, determine the nature of the errors, and determine their potential impact to employee membership records.

### CONCLUSION

Based upon the results of the work performed within the limited scope of the audit, we have determined that the controls in the areas reviewed need enhancement. In general, we confirmed that employee data in myCalPERS is not always consistent with CSU employee information and payroll data. Specifically, we noted inaccurate employee records related to service credit, payroll, and employee information, primarily due to data transmission errors between the Personnel/Payroll Information Management System (PIMS) and myCalPERS, the systems used by the SCO and CalPERS, respectively. We found that employee data is not always transmitted timely, and it was difficult to determine the accuracy of some employee data in myCalPERS due to access restrictions set by CalPERS. As a result of the data transmission errors, CSU payroll teams and the SCO spend significant time researching and correcting employee records. Additionally, if errors go uncorrected, these issues could result in employees receiving incorrect retirement benefits.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. EMPLOYEE INFORMATION AND PAYROLL DATA

#### OBSERVATION

Employee information and payroll data were not always posted timely or accurately to myCalPERS, which may have impacted enrollment membership, service credit, and compensation reporting.

Employee retirement benefits are determined based on key employee information transmitted from the SCO to CalPERS. The Background section below provides information on how employee information and payroll data is transmitted from the CSU, the SCO, and CalPERS. CalPERS calculates employee retirement benefits using a formula with three factors, as outlined in Table 1 below.

**Table 1**  
**Retirement Benefit Formula and Components**

Formula Factors	Description	Example
Service Credit (years)	Earned for each year or partial year an employee works for a CalPERS-covered employer.	20 years
Benefit Factor (percent per year)	The percentage of pay the employee is entitled for each year of service. It is determined by the age of retirement and formula based on membership date with each employer.	2.00
Final Compensation (monthly, dollars)	Highest average monthly pay rate for 12 or 36 consecutive months	\$5,000

For example, using the data in Table 1 above, the monthly retirement benefit would be calculated as follows:

$$\text{Service Credit} \times \text{Benefit Factor} \times \text{Final Compensation} = \text{Monthly Retirement Benefit}$$

$$20 \text{ years} \times 2.00\% \times \$5,000 = \$2,000$$

Systemwide Human Resources (SWHR) within the Office of the Chancellor (CO) was aware that issues with the transfer of employee information and payroll data from the SCO to CalPERS were sometimes causing the factors used in the retirement benefit formula to be incorrect. In a memo dated December 2021, SWHR stated that the SCO estimated that there were approximately 65,000 errors for the CSU and an estimated 300 errors accumulating each month, creating a backlog. If left uncorrected, these issues could result in employees receiving incorrect retirement benefits.

In addition, employees sometimes need information from CalPERS while still actively working; for example, some employees use the information to determine their retirement date. It is

essential that this information be accurate upon receipt by CalPERS from the SCO. Further, due to data transmission errors, campus personnel spend numerous hours performing membership reviews to validate employee information. For example, campuses have reported that it takes on average two hours to complete one membership review.

To confirm the presence of and quantify the scale of CSU employee data errors in myCalPERS, we selected a sample of 105 active, retired, and terminated employees and reviewed their myCalPERS records for accuracy. We found that 24, or 23%, appeared to have current or prior data errors. Table 2 below details the types of data errors identified and the potential impact of each one.

**Table 2**  
**Sampled CSU Employee myCalPERS Data Errors**

<b>Error Type</b>	<b>Potential Impact</b>	<b>% of Sample</b>
<b>Payroll posted late</b>	Campus assessed a late reporting penalty of \$200.	14%
<b>Incorrect service credit</b>	Over/under monthly retirement benefit payment.	2.8%
<b>Missing payroll posting</b>	Service credit under-reported and/or compensation not reported, leading to over/under monthly retirement benefit payment.	2%
<b>Incorrect employee date of birth</b>	Delay in employees' ability to receive retirement benefit.	2%
<b>Incorrect membership date</b>	Incorrect service credit and/or incorrect retirement formula, leading to over/under monthly retirement benefit payment.	1%
<b>Incorrect retirement code</b>	Incorrect retirement formula, leading to over/under monthly retirement benefit payment.	1%

It should be noted that when an error occurs, it is not immediately addressed by the SCO due to the large number of errors and the continued backlog. Many times, errors will continue until an employee asks about their myCalPERS information or until CalPERS requests a membership reviews. As such, errors can continue for months or years until addressed.

We did not perform steps to determine the root cause of the errors noted in the table above, as we needed additional information from CalPERS to make that determination, and obtaining that information would have caused a significant delay in completion of the audit. However, based on conversations with SWHR, the SCO and CalPERS are aware that many errors occur due to challenges with the interface between the SCO PIMS and myCalPERS systems, as data is consumed in different formats within each system. There may also be instances where errors are caused by campus personnel improperly entering information into the SCO PIMS system, such as an incorrect date of birth. The background section of this report discusses the CalPERS Retirement Reporting Enhancement Project, formally called the myCalPERS File Readiness project, which was initiated by the SCO and CalPERS to address the data reporting issues.

Accurate myCalPERS employee records ensure that employees will receive correct and timely retirement benefits and reduce the time campus personnel spend on reviewing and correcting employee records.

**RECOMMENDATION**

We recommend that the CO continue to work with the SCO and CalPERS to determine the root cause of employee information and payroll data reporting errors and systemically address those errors.

**MANAGEMENT RESPONSE**

We concur. The CO will continue working with the SCO and CalPERS to determine the root cause of employee information and payroll data reporting errors and systemically address those errors.

Expected completion date: The CO will provide an update to Audit and Advisory Services at six and 12 months after the report has been issued and will work with Audit and Advisory Services to determine whether sufficient progress has been made to close the recommendation.

**2. ACCESS AND AVAILABILITY OF INFORMATION**

**OBSERVATION**

Access and availability of information in myCalPERS made it difficult to determine the accuracy of employee records.

As noted above, we sampled 105 active, retired, and terminated employees and reviewed myCalPERS to determine whether employee records were accurate. For 17% of the employees sampled, we were unable to determine whether service credit was accurate without obtaining additional information from CalPERS. When accessing myCalPERS to perform an audit of employee records, campus personnel can view only the information related to the employee's records related to employment on that campus, with the exception of general employee information such as membership date and age. Many employees work for more than one CalPERS employer, including multiple CSU campuses, so it is difficult to audit the accuracy of some employee information and payroll data without access to the employment data reported to CalPERS by other employers. We also noted that in a few instances, an employee's initial membership date was before the SCO PIMS or myCalPERS implementation, and therefore, limited information was available in the systems for us to perform an accuracy review.

Additionally, the CSU must rely on this same data provided by CalPERS to determine the total pension liability, which is reported in the annual financial statements. However, CalPERS aggregates this information with other state entities and has stated that they cannot segregate CSU data. As such, the CSU pension liability is determined by allocating a proportionate share of the total state liability based on the salaries of employees, which is then audited by the California State Auditor (CSA). The external auditor then relies on the

calculated and CSA audited pension liability information to validate the CSU financial statements. Since the external auditors must rely on the CSA, and the CSU does not have access to its pension liability data with CalPERS, this has historically led to a delay in the issuance of the audited financial statements. For example, in fiscal year 2020/21, audited financial statements were not completed until June 2022; under the typical timeline, they would have been issued by November 2021. This was due to the fact that the CSA did not complete its audit of CalPERS data until May 2022. There are several entities, such as the Securities and Exchange Commission, Department of Education, and accreditation agencies, that require timely submission of audited financial statements, typically at the end of the calendar year.

Adequate access and availability of historical employee data records ensure that CSU personnel can accurately assess service credit and membership eligibility in a timely and efficient manner. Additionally, accurate employee information and payroll data allows the CSU to prepare the annual financial statements in a timely manner.

### **RECOMMENDATION**

We recommend that the CO:

- a. Work with the SCO and CalPERS to determine whether additional reporting is available to quickly identify and reconcile employee records and reduce the time needed to review and make corrections.
- b. Evaluate alternate business process opportunities, such as using multi-university collaborations, to streamline and standardize reconciliation and audit of employee information and payroll data.

### **MANAGEMENT RESPONSE**

We concur.

- a. The CO will work with the SCO and CalPERS to determine whether additional reporting is available to quickly identify and reconcile employee records and reduce the time needed to review and make corrections.
- b. The CO will evaluate and recommend for approval implementation of alternate business process opportunities, such as using multi-university collaborations, to streamline and standardize reconciliation and audit of employee information and payroll data.

Expected completion date: The CO will provide an update to Audit and Advisory Services at six and 12 months after the report has been issued and will work with Audit and Advisory Services to determine whether sufficient progress has been made to close the recommendation.

## GENERAL INFORMATION

### BACKGROUND

#### Employee Information and Payroll Data Reporting Process

The CSU is the nation's largest four-year public university system, with 23 campuses and seven off-campus centers. It employs more than 56,000 faculty and staff. Pursuant to the Public Employees' Retirement Law (PERL), membership in the California Public Employees' Retirement System (CalPERS) is compulsory for CSU employees who meet membership eligibility. CalPERS is a defined benefit plan and provides retirement benefits based on the employee's applicable retirement formula, age at retirement, years of service credit and final compensation. The PERL and the California Code of Regulations (CCR) establish membership data reporting requirements for employers, including the CSU. Employee information and payroll data is used to determine the retirement benefits provided by CalPERS.

Employee information and payroll data processing for CSU employees is a joint responsibility between the campuses and the SCO. Campuses are responsible for maintaining staff and faculty employment records and providing accurate and timely payroll for all employees of the campus. The SCO's Personnel and Payroll Services Division (PPSD) is responsible for the issuance of payroll warrants and providing employee information and payroll data to CalPERS that determines retirement eligibility and benefits. Most campuses use PeopleSoft, a systemwide enterprise resource planning system, which includes a human resources module that is used to store and manage employee information and data. When an employee is hired, the employee's personal and appointment information is entered into PeopleSoft by a campus employee. Campus personnel must also manually key in employee information into PIMS, the SCO database that contains personnel-, payroll-, and retirement-related information for most CSU employees, to create an employment history record. The employment history record includes employees' personal information, current position, classification, salary, and retirement rate code. The SCO processes payroll monthly, which is generated based on the employment history record. An automated process is run nightly to create a file of the daily employment history transactions. This file is made available to CalPERS, which uses the information to create or modify employee member information. Additionally, the SCO runs an automated process monthly to create a payroll information file that includes hours worked and pay rate. This file is also made available and processed by CalPERS.

#### Data Errors

Due to the implementation in 2011 of myCalPERS, the system used by CalPERS for managing member enrollments, benefits, and contributions, and subsequent system enhancements since that time, there have been challenges with the PIMS and myCalPERS systems interfacing, as data is consumed in different formats within each system. PIMS is a mainframe database created over 60 years ago to generate payroll for state agencies and, in some cases, cannot be easily programmed to fully satisfy the CalPERS data requirements. As such, not all employee information and payroll data transfers appropriately to CalPERS, resulting in errors in employee information and payroll data that is used to determine retirement benefits. PPSD must manually resolve errors in employee records.

SWHR has been working with the SCO and CalPERS to try to resolve these issues. CalPERS and the SCO have made four efforts over several years to incrementally address enrollment and payroll reporting. Most recently, in January 2022, the SCO and CalPERS initiated the



myCalPERS File Readiness (MCFR) data enhancement project, with the primary objective of analyzing the root cause of errors and providing a permanent fix. The MCFR project was underway at the time of this review and earlier this year was renamed the CalPERS Retirement Reporting Enhancement Project to reflect the ongoing commitment between the SCO and CalPERS.

## SCOPE

The audit focused on procedures in effect at the time of our review. However, we sampled employees who were considered active as of October 2021 and employees who retired or were terminated between July 2018 and December 2021. Our audit and evaluation included the audit tests we considered necessary in determining whether operational controls are in place and operative. Our review was limited to gaining reasonable assurance that essential elements of employee information and payroll data reporting were in place and did not examine all aspects of the process.

To meet the audit objectives, we requested that the SCO provide reports detailing the known errors related to the transmission and posting of CSU employee records to myCalPERS. This would have allowed us to gain an understanding of the severity and breadth of the errors. However, the SCO was unable to provide this information. Although the SCO receives an error report from CalPERS, it contains information for all state employees, and the SCO stated that they were unable to separate CSU employees from the report. Additionally, due to the complex nature of how retirement service credit and membership eligibility are determined, we deemed it necessary to rely on SWHR personnel, who are trained in this area, to perform testing.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology, which was designed to provide a review of key operational and administrative controls, included interviews, walkthroughs, and detailed testing on certain aspects of employee information and payroll data reporting. Our review was limited to gaining reasonable assurance that essential elements of employee information and payroll data reporting were in place and did not examine all aspects of the program.

## CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance, Trustee policy, Office of the Chancellor directives, and campus procedures, as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- California Code of Regulation Title 2 §550 through §589, *Employees' Retirement System Regulations*
- California Government Code Title 2, Division 5, Part 3, *Public Employees' Retirement System*
- *California Public Employees' Retirement System State Reference Guide*

## AUDIT TEAM

Senior Manager, Advisory Services: Jennifer Rethwisch  
Senior Advisory Consultant: Christina Fennell