



City of Phoenix

**Mission Statement**

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

**Project Team**

Aaron Cook  
City Auditor

Leigh Ann Mauger  
Deputy City Auditor

Ryan Richelson  
Sr. Internal Auditor

Elizabeth McMaken  
Internal Auditor

**Project Number**

1240064

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

---

## Retirement Office COPERS Service Credits

June 20, 2024

---

### ***Report Highlights***

**Service Credit Calculations**

*All Tier 1 members reviewed were calculated correctly. Some Tier 2 and Tier 3 members appeared to need recalculations.*

**Deferred Retirements**

*All deferred retirees reviewed met eligibility requirements.*

**Service Purchases**

*All service purchases reviewed were processed correctly.*

**Return To Work**

*Each employee reviewed followed City requirements regarding returned to work.*

---

***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 Retirement Office (Retirement) applied service credits in accordance with policy and that retirement eligibility was accurately calculated.

### **Background**

The City of Phoenix Employees' Retirement System (COPERS) is a single-employer, defined benefit pension plan established by the City Charter (Chapter XXIV) and administered by Retirement. Its purpose is to provide retirement, disability retirement, and survivor benefits for its members. The net asset value of COPERS as of January 31, 2024, was \$3.598 billion.

Retirement staff use a pension system, called PensionGold, to track all retirement activity, including employee and City contributions, benefit payments, purchases of eligible service credits, and refunds of employee contributions. Beginning January 1, 2024, Retirement began using an updated version of PensionGold, Version 3, along with its prior version. They switched to only using Version 3 starting March 1, 2024.

Members' retirement eligibility is determined by a combination of years of service and age at the time of retirement. The criteria governing when members earn credited service differs based on their tier, which is based on the hire date. Tier 1 members were hired prior to July 1, 2013, Tier 2 were hired between July 1, 2013, and December 31, 2015, and Tier 3 were hired after January 1, 2016.

*Administrative Regulation (AR) 2.92 – Contracts With or Reemployment of Retirees*, establishes the policies and procedures for contracting with, or rehiring, retired City employees. This states that retirees may not be rehired into pensionable positions and must have at least six months elapsed between their retirement date and the date of reemployment. If the retiree is rehired into a similar position that they retired from, they must not exceed 120 days or 1,000 hours per calendar year.

We reviewed the service credit calculations and retirement eligibility for a sample of members who had retired or initiated a purchase of additional service credits since January 1, 2022. We also reviewed previously retired City employees who returned to City employment, to validate that their current employment did not conflict with retirement rules.

## Results in Brief

**All Tier 1 members reviewed were correctly calculated. Some Tier 2 and Tier 3 members appeared to need recalculations. All sampled retirees were eligible at their retirement dates.**

We selected a sample of 25 new retirees from January 1, 2022, through March 1, 2024, and recalculated their service credits. We found five retirees who appeared to have been miscalculated, each from either Tier 2 or Tier 3. Retirement staff will review those calculations, and all other Tier 2 and 3 retirees, and will correct any miscalculations they discover. We also verified that eligibility requirements were met for each of the retirees selected. Each did meet at least one of the eligibility requirements.

**All deferred retirees reviewed met eligibility requirements.**

We selected a sample of ten retirees who had deferred retirements due to leaving City employment before being eligible for pension payments. For each retiree selected, we verified that they met the eligibility requirements for deferred pensions before receiving payments.

**All service purchases reviewed were processed correctly.**

We reviewed all seven employees who initiated service purchases from January 1, 2022, through March 1, 2024, to ensure that their purchase contracts were accurately processed and that payment schedules were correctly created in PensionGold. All service purchase contracts reviewed met requirements.

**Each employee reviewed followed returned to work requirements in AR 2.92.**

We selected a sample of five employees who returned to City employment after retiring to ensure that they were rehired in compliance with AR 2.92. Each of the five employees selected did meet the requirements.

## Department Responses to Recommendations

<b>Rec. #1.1:</b> Work with LRS and the Human Resources Department staff to identify and correct any service credit miscalculations.	
<b>Response:</b> COPERS will audit service credit for all Tier 2 and Tier 3 retirees and recalculate their pension if necessary.	<b><u>Target Date:</u></b> 9/18/2024
<b>Rec. #1.2:</b> Revise manual service credit calculation processes to incorporate any issues identified by LRS and Human Resources.	
<b>Response:</b> COPERS will revise our business process to include a leave without pay report from eCHRIS to audit PGV3 service credit.	<b><u>Target Date:</u></b> 7/15/2024

# **1 – Service Credits**

## **Background**

Service credits are earned differently depending on the member's tier. The COPERS Retirement Guide details how credits are earned. Tier 1 members (hired prior to July 1, 2013) earn one month of credit after 80 hours worked in that month, and one year of credit after 10 months of earned credit. Tier 2 (hired between July 1, 2013, and December 31, 2015) and Tier 3 (hired after January 1, 2016) members earn one month of credit after 160 hours worked in one calendar month.

Retirement eligibility is based on a combination of the member's age and total earned service credits at the date of their retirement. Eligibility criteria is detailed below:

- All members: Age of 60 plus at least 10 years of credited service.
- All members: Age of 62 with at least 5 years of credited service.
- Tier 1 members (hired prior to July 1, 2013): Age plus years of service equals 80.
- Tier 2 members (hired between July 1, 2013, and December 31, 2015): Age plus years of service equals 87.
- Tier 3 members (hired after January 1, 2016): Age plus years of service equals 87.

We obtained a list of all new retirees from January 1, 2022, through March 1, 2024, that contained 699 retirees. We selected a sample of 25 retirees. We recalculated their years of service to validate that they were credited the correct amount of service. We also validated that they were eligible to retire based on the criteria applied.

## **Results**

**All Tier 1 members reviewed were correctly calculated. Some Tier 2 and Tier 3 members appeared to need recalculations.**

Our sample of 25 retirees contained: 12 Tier 1 members, 5 Tier 2 members, and 8 Tier 3 members. Each of the 12 Tier 1 members were calculated correctly. However, we found that two Tier 2 members and three Tier 3 members appeared to have been miscalculated.

We forwarded the list of potential miscalculations to Retirement for review. They had already started collaborating with HR staff to develop a report that would assist with their manual service credit calculations. They confirmed that at least one of the members did need to be recalculated. Calculations must be accurate to ensure that retirees get the correct benefit payment. Retirement staff stated they will work with LRS Retirement Solutions (LRS), the PensionGold vendor, to identify and correct any miscalculations.

**All sampled retirees were eligible at their retirement dates.**

We reviewed all 25 of the sampled retirees and compared them against the above criteria, to verify that they met at least one of the eligibility requirements. Each employees met at least one eligibility requirement, without exception.

**Recommendations**

- 1.1 Work with LRS and the Human Resources Department staff to identify and correct any service credit miscalculations.
- 1.2 Revise manual service credit calculation processes to incorporate any issues identified by LRS and Human Resources.

## **2 – Deferred Retirements**

### **Background**

The Phoenix City Charter, Chapter XXIV, Sec. 20 allows for any member with at least five years of credited service, who leaves employment with the City for any reason except retirement or death, to be eligible to receive a pension for their credited service upon reaching the age of 62, provided they did not have their contributions refunded. This is referred to as a deferred retirement. To receive pension payments, the member must apply for benefits and will only receive payments upon approval.

We selected a sample of deferred retirements and reviewed them to ensure they met the eligibility requirements prior to receiving pension payments.

### **Results**

#### **All deferred retirees reviewed met eligibility requirements.**

We reviewed all ten retirees who began deferred retirement between January 1, 2024, and March 1, 2024. For each of the retirees, we validated that they were at least 62 before they began receiving pension payments. We also verified that each of the employees had at least five years of experience and that none of them had received refunds for their prior service. No exceptions were noted.

### **Recommendations**

None

## **3 – Service Purchases**

### **Background**

The COPERS Retirement Guide states that members can purchase additional years of service credit provided they are actively contributing to COPERS, have at least five years of credited service with COPERS, and have eligible service from prior employment. A member meeting these conditions and wishing to purchase credit must submit an application to COPERS. On approval, the member has 60 days to either pay the full amount owed to cover the purchased service credits, or initiate a payroll/salary deduction.

We obtained a report of all seven members who entered into service purchase contracts between January 1, 2022, and March 1, 2024. We reviewed each of their purchases to validate that the contracts were accurately processed, the corresponding payment plans were correctly entered into PensionGold, and the service credit calculations were correct.

### **Results**

#### **All service purchases reviewed were processed correctly.**

We reviewed eight service purchases, due to one member having two separate purchase contracts. Each of the contracts was approved by the Retirement Board, as required. We also verified that each member began their purchase within 60 days of Retirement Board approval. Each of the payment schedules associated with the contracts was correctly created in PensionGold. No exceptions were noted.

### **Recommendations**

None



## **4 – Return to Work**

### **Background**

*Administrative Regulation (AR) 2.92 – Contracts With or Reemployment of Retirees*, establishes the policies and procedures for contracting with, or rehiring, retired City employees. This states that retirees may not be rehired into pensionable positions and must have at least six months elapsed between their retirement date and the date of reemployment. If the retiree is rehired into a similar position that they retired from, they must not exceed 120 days or 1,000 hours per calendar year.

We obtained a list of rehired employees from Retirement. We selected the five most recent rehired employees and verified that they had not been rehired into pensionable positions and that at least six months had elapsed between their original retirement date and rehire date. We also met with Human Resources employees to further review the process.

### **Results**

#### **Each employee reviewed followed returned to work requirements in AR 2.92.**

For each of the five employees selected, we verified that none of them were receiving credited service for their new positions. We also verified that each had waited at least six months before being rehired. No exceptions were noted.

We noted an additional requirement of AR 2.92 that any employee hired into a similar position as their final position at retirement could not work more than 1,000 hours per year. One person in our sample did return in a similar position. We verified that they only worked 459 hours in 2023, which complied with the AR.

### **Recommendations**

None

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

### **Scope**

We reviewed new retirees and service credit purchases processed between January 1, 2022 and March 26, 2024. We also reviewed employees who returned to work between January 1, 2020 through March 26, 2024.

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.
- Information & Communication
  - Management should use quality information to achieve the entity's objectives.

### **Methods**

We used the following methods to complete this audit:

- Interviewed Retirement staff.
- Interviewed Human Resources staff.
- Reviewed retirement application documentation.
- Reviewed eCHRIS data.
- Recalculated service credits and retiree eligibility.

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**

We assessed the reliability of PensionGold and eCHRIS data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that

produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

## **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.