



Washington State Auditor's Office

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Examination Report **Mason County**

For the period July 1, 2014 through June 30, 2015

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Washington State Auditor's Office

September 19, 2016

Board of Commissioners
Mason County
Shelton, Washington

Tracy Guerin, Director
Department of Retirement Systems
Olympia, Washington

Examination Report

The Washington State Department of Retirement Systems (DRS) administers eight public retirement systems, comprising 15 different retirement plans for state and local government employees. These systems serve nearly 700,000 current and former public employees. Both public employers and their eligible employees contribute to the retirement plans based on a percentage of the employee's pay.

State and local governments are responsible for reporting accurate and complete pensionable wage and contribution information to DRS in accordance with the applicable retirement plan's requirements set forth in Title 415 of the Washington Administrative Code. This information, which is referred to as "census data," is the basis for future determinations of retirement eligibility and payments for employees. It is also used to estimate the plan's pension liabilities to inform contribution rates and other funding decisions. Significant elements of census data may include: date of birth; date of hire or years of service; marital status; eligible compensation; class of employee; gender; date of termination or retirement; spouse date of birth; and employment status (active, inactive, or retired).

Please find attached our examination report on census data reporting by Mason County.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

INDEPENDENT ACCOUNTANT'S REPORT

Mason County **July 1, 2014 through June 30, 2015**

Board of Commissioners
Mason County
Shelton, Washington

Tracy Guerin, Director
Department of Retirement Systems
Olympia, Washington

We have examined the Mason County's management's assertion that pensionable wages and contributions reported to the Washington State Department of Retirement Systems (DRS) for the year ended June 30, 2015 are accurate and complete in accordance with applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

The County's management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, it included examining on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As described in the accompanying Schedule of Findings and Responses as Finding 2015-001, our examination disclosed that the County reported incorrect compensation amounts, hours worked, or both for 11 of 12 employees reviewed.

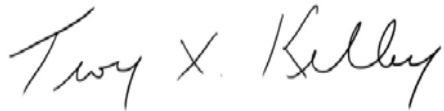
In our opinion, except for the deviations from the criteria described in the preceding paragraph, pensionable wages and contributions reported to DRS are fairly stated, in all material respects, for the year ended June 30, 2015, based on the applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the County's pensionable wages and contributions reported to DRS or management's assertion thereon; and any other instances that warrant the attention of those charged with governance, and noncompliance with provisions of contracts or grant agreements, and abuse that have a material effect on the County's pensionable wages and contributions reported to DRS or management's assertion thereon. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We

performed our examination to express an opinion on management's assertion and not for the purpose of expressing an opinion on the internal control over compliance and other matters; accordingly, we express no such opinions.

Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the accompanying Schedule of Findings and Responses as Finding 2015-001.

The County's response to the findings identified in our examination is described in the accompanying Schedule of Findings and Responses. The County's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 29, 2016

SCHEDULE OF FINDINGS AND RESPONSES

Mason County July 1, 2014 through June 30, 2015

2015-001 The County lacks internal controls to ensure accurate reporting of compensation and hours worked to the Department of Retirement Systems.

Background

Mason County provides pension benefits to its employees through participation in the Public Employee Retirement System (PERS) plans, Public Safety Employees' Retirement System (PSERS) plans, and Law Enforcement Officers' and Fire Fighters' (LEOFF) plans administered by the Department of Retirement Systems (DRS). It is the responsibility of the County to design and follow internal controls that provide reasonable assurance that member data reported to the Department is accurate and complete.

Specifically, it is the County's responsibility to ensure compensation and hours worked are correctly calculated and reported. This census data provided to Department of Retirement Systems (DRS) by state and local governments supports the calculation of employee retirement benefits, the total pension liability for each plan and the allocation of the pension related liabilities on the County's financial statements.

Description of Condition

The County's process for determining an employee's eligibility, calculating, and reporting compensation and hours worked to DRS contains the following control deficiencies:

- Individuals responsible for assigning employees to an appropriate pension plan were unaware of the eligibility requirements for all plans.
- No one performed a secondary review of the transmittals prior to submitting the information to DRS.
- Inaccurate data was submitted to DRS despite known errors with the hours calculation in the payroll system.

We consider these deficiencies in internal controls to be material weaknesses.

Cause of Condition

The County did not provide adequate training to staff determining employee pension eligibility. The County lacks policies and procedures that require monitoring over payroll and benefit reporting. Past audit findings in this area have not been fully addressed and the County has not made it a priority to follow up on all errors and discrepancies.

Effect of Condition

Without adequate oversight and monitoring, the County cannot ensure employee compensation and hours worked are reported accurately to DRS. Misreporting pension data to DRS could result in inaccurate calculation of pension related liabilities on the County's financial statements and potentially retirement benefits when employees retire.

The County did not correctly report information to DRS for 11 of 12 employees tested. The County over reported compensation in total by \$2,638 and hours were over reported by a total of 7,460. Based on our testing results, we project that this issue could potentially impact over 350 employees.

Recommendation

We recommend the County:

- Provide adequate training to staff determining employee pension eligibility to ensure compliance with documentation and reporting requirements
- Implement controls which include, at a minimum, performing a secondary review of all information before it is submitted to DRS.
- Develop an internal control process which ensures the accuracy of compensation and hours worked such as using a checklist.

County's Response

We appreciate the opportunity to work with the State Auditor's Office. The County will provide adequate training to staff determining PERS employee eligibility including a second review of files and develop a checklist. The County has already initiated a second review of the DRS submissions. The final bullet relates to a system implementation issue that the County has been working on with the County's vendor. We will continue to work with the financial software vendor in our scheduled software upgrade in an expedited manner to address these issues promptly.

Auditor's Remarks

We thank the County for its assistance throughout the audit, and the steps it is taking to address these issues.

Applicable Laws and Regulations

RCW 41.40.010, Definitions, states in part:

(8)(b) "Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Compensation earnable" for plan 2 and plan 3 members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided above, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation

earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

Government Auditing Standards, December 2011 Revision, paragraph 5.20 states:

5.20 When performing GAGAS examination engagements, auditors should report, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and (4) abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. Auditors should include this information either in the same or in separate report(s).

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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