DEPARTMENT OF REVENUE AND FINANCE
ACCOUNTING DIVISION
GENERAL EMPLOYEE PENSION BENEFITS
AUDIT 13-02
AUGUST 16, 2013

CITY OF TAMPA

Bob Buckhorn, Mayor **Internal Audit Department**

August 16, 2013

Honorable Bob Buckhorn
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Department of Revenue and Finance, General Employee Pension Benefits, Audit 13-02

Dear Mayor Buckhorn:

Attached is the Internal Audit Department's report on General Employee Pension Benefits.

The GE Pension office has already taken positive actions in response to our recommendations. We thank the management and staff of the General Employee Pension Office for their cooperation and assistance during this audit.

Sincerely,

/s/ Gary Chapman

Gary Chapman, Senior Auditor/Reviewer

cc: Dennis Rogero, Chief of Staff
Sonya Little, Chief Financial Officer
Lee Huffstutler, Chief Accountant

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/s/ Thomas Sanchez

Auditor

/s/ Gary Chapman

Senior Auditor/Reviewer

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BACKGROUND

The City of Tampa provides general employees with one of two pension plans. Personnel employed before October 1, 1981 participate in Plan A, personnel employed after that date are in Plan B. Plan A requires contributions by employees, who are eligible for retirement at age 55 if vested. Plan B does not require employee contributions, but benefits are lower and the normal retirement age is 62 if vested. There are other benefits available in both plans. Standard benefits include disability retirements monthly survivor benefits. Optional benefits include deferred retirement, early retirement, and the Deferred Retirement Option Program (DROP)[1].

Another benefit available is for survivors of vested Plan B employees who die while employed by the City. They are entitled to a lump sum death benefit from the pension fund equal to his or her annual salary at the time of death. This generally occurs a few times each year. In 2012, a death benefit to the spouse of a deceased active employee had been paid out five times, resulting in an overpayment of $197,361. This situation brought into question the controls that exist over benefit payments.

STATISTICS

Number of participants[2]

Active employees	2,430
Terminated with vested benefits	459
Retirees and beneficiaries including DROP	1,969
Disability Retirement	71
Total Participants	4,929

STATEMENT OF OBJECTIVES

This audit was conducted at the request of the City's Chief Financial Officer in response to the multiple death benefit payment incident described above. The objectives of this audit were to ensure that:

1. Pension benefits were accurately calculated, authorized, and paid.

2. Adequate controls were implemented existed over disbursements.

3. Eligibility was verified and properly documented.

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[1] The DROP is a program in which eligible employees enter into an agreement to begin receiving retirement benefits and continue working. The benefits accumulate and are held by the City until actual retirement. The employee does not receive retirement credit for years worked following entry into the DROP.

[2] Source: AON Hewitt actuarial report as of January 1, 2012

STATEMENT OF SCOPE

This audit period covered persons entering, leaving, or transitioning into or between longevity retirements, disability retirements, the DROP, survivor benefits, death benefits for active employees, and early retirements (longevity or DROP) that occurred from January 1, 2012, through December 31, 2012. Original records as well as copies were used as evidence and verified through observation and physical examination.

STATEMENT OF METHODOLOGY

A judgmental sample of 31 items was taken from a universe of 128 personnel transitioning during calendar year 2012 of each of the categories of retirements enumerated above. The size of the sample in each category was proportional to each category's representation in the universe. To achieve the audit's objectives, reliance was placed on the City's Financial Accounting Management Information System (FAMIS), which was previously determined to be reliable.

STATEMENT OF AUDITING 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.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Pension benefits were accurately calculated and paid, except as noted below.

2. While additional controls were implemented over disbursements, there was a significant weakness in disbursements with respect to lump sum death benefits.

3. Eligibility was verified, but not properly documented.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Pension Office, they do present risks that can be more effectively controlled.

CONTROLS OVER THE TERMINATION OF DEATH BENEFIT PAYMENTS

AUDIT ISSUE

A one-time death benefit payment was paid multiple times, resulting in an overpayment of $197,361.

OBSERVATIONS

Prior to the discovery of the overpayments, death benefit payments were processed in a manner similar to regular monthly retirement payments. After death benefit payments had been made, Pension Office staff was supposed to remove the payment from the monthly processing schedule. As this did not occur, a check was generated every month from January through April 2012. The City Attorney's Office has advised that the case has been settled and the City will receive full recovery.

To address the deficiency in controls, the Pension Office implemented a programming change that requires payments to be coded as a one-time payment. While this was an improvement, the possibility for human error still exists – payments must be coded correctly.

CRITERIA

Legislature of the State of Florida: Chapter 23559, Special Act of 1945, Section 12, as amended, reads, in part:

> *1. Should an Employee in Division B having earned Pension Credit, die while in the active service of the Employer, the following benefits shall be paid:*
> *a. The deceased Employee's legal heirs shall receive in a lump sum, an amount equal to the Employee's annual salary at the time of death.*

RISK DESCRIPTION

Overpayment of benefits reduces funds available for benefit payments, and may increase the City's required pension fund contributions.

RECOMMENDATION 1

Pension Office staff should review the monthly disbursement journal, sorted in descending order by dollar amount, for unusual activity. There should be large dollar amounts for vendor payments (consultants, investment advisors, etc.), sometimes a retroactive disability payment, and occasionally, lump sum death benefits. Management should verify that all death benefits that appear in the disbursement journal were not in the previous month's journal.

MANAGEMENT'S RESPONSE

We agree with this recommendation. Controls were put into place prior to the commencement of this audit which substantially reduced the potential for a death benefit overpayment. On February 19, 2013, in coordination with our Technology and Innovation Department, a programming code change was instituted restricting a death benefit payment to be processed once. Previously there was no existing programming code for this type of payment.

In addition to the programming change, we modified our process to include a review of all payments $6,000 or greater to determine appropriateness. We will be making a check list of all death benefit payments to verify that all death benefits that appear in the disbursement journal were not previously processed. Utilizing the monthly pension listing report, staff will review to ensure the proper payment code was selected. Once the review is completed by one of the pension accountants, the monthly pension listing report will be verified by the pension plan supervisor and approved by the Accounting Operations Manager. Implementation of this process will allow for potential errors to be corrected prior to the check processing sequence. This written process is scheduled to be implemented with the August 2013 payment cycle.

POLICIES AND PROCEDURES

AUDIT ISSUE
Policies and procedures were unclear.

OBSERVATIONS
The policy and procedure documents obtained during the audit had numerous sections repeated. They were not dated or signed (or the author's name indicated), and it was difficult to determine what was in effect. Some were handwritten. Because of the lack of clarity, approval of retirements was inconsistent. Of the 31 sampled retirements, 9 did not have board approval, although it was unclear when such approval was required. Personnel who are no longer employed by the City were named in the policy documents as still being responsible for certain procedures.

CRITERIA
City Code, Section 2-46, Duties of department, requires departments to create and maintain all records with adequate and proper documentation of the organization, together with the functions, policies, decisions, procedures, and essential transaction of the department.

RISK DESCRIPTION
There could be unequal treatment of employees, possible errors, and the board may not be receiving all of the information it should be receiving.

RECOMMENDATION 2
The Pension Office should determine what policies should be in effect, revise as necessary, and specify which items require Pension Board approval, date all revisions, and have them signed by appropriate staff and/or Pension Board personnel.

MANAGEMENT'S RESPONSE
We agree with this recommendation. We are currently in the process of reviewing all items contained in the Pension Office Policy & Procedure Manual. The estimated date of completion is no later than March 31, 2014.

DROP TERMINATION PAYMENTS

AUDIT ISSUE
The cash custodian does not confirm disbursement upon terminations from DROP.

OBSERVATIONS
Upon separation from the City, DROP balances must be disbursed by JPMorgan Chase & Co., the cash custodian, in accordance with the quarterly disbursal schedule. A spreadsheet prepared by the Pension Office details employee and transfer data. Employees have the option to receive cash or rollover the balance into a tax advantaged account. Plan A employees may also receive the non-taxable portion and rollover the taxable portion.

In many cases, JPMorgan Chase sends the funds to other financial institutions with their account numbers and designation of investments (i.e., specific mutual funds). Ultimately, the responsibility to ensure the transaction is properly processed is with the retiring employee. The Pension Office does not monitor this last phase of City's custody. Since the transfer data is input manually, human error is possible. Also, the activity level is relatively low – there were only 11 separation disbursements to other financial institutions made during the last quarter of 2012.

CRITERIA
It would be a good business practice and enhance the City's fiduciary duty to monitor assets until transferred to retirees' designated accounts.

RISK DESCRIPTION
Errors could create financial and tax complications for the employee if not detected early.

RECOMMENDATION 3
The Pension Office should request disbursement detail from JPMorgan Chase and reconcile it to employees' written requests.

MANAGEMENT'S RESPONSE
We agree with this recommendation. Once the Drop Payout Schedule has been submitted, a copy of the JP Morgan Check Register is requested from the Benefit Payment Team of JP Morgan no later than the last business day of each quarter. Pension staff will reconcile the DROP payout schedule with the JP Morgan check register. This process will be implemented for the next quarter's payout in September 2013.

DEFERRED RETIREMENT BENEFITS

AUDIT ISSUE
Deferred retirement files were often incomplete resulting in an understatement of pension liability and funding requirements and some data was not provided to the actuary.

OBSERVATIONS
After vesting in the pension plan, personnel who have left the City's employment must wait for normal retirement age before they can draw pension benefits, unless they qualify and choose to take a reduced early retirement. Benefits are frozen at the time of separation, as additional credits or cost of living increases are not applicable to deferred retirement benefit calculations. Accordingly, benefit calculations could be done at the time of separation, when employees are still able to raise questions and resolve possible errors. For some employees, it may be decades before they, or their survivors, become eligible for benefits.

Five (5) items in the sample were for deferred retirements. None of these were up to date. There were approximately 200 items in the universe of deferred retirements that had not been completed or audited by Pension Office personnel. Thirty had not been entered into the pension system. Twelve (12) had not been provided to the actuary, so they were not included in the actuarial valuation, resulting in a relatively minor (12 out of 4,900 participants) understatement of the pension liability.

CRITERIA
It would be a good business practice to complete file documentation before the employee separates from active service. In order to obtain a proper actuarial valuation, accurate data needs to be provided to the actuary.

RISK DESCRIPTION
Delay of calculating deferred retirement benefits could create problems when the employee reaches normal retirement age. There may be unresolved questions or missing documentation when a retiree, or his/her survivor, become eligible for benefits.

RECOMMENDATION 4
The Pension Office should clear the backlog of files, calculate benefits, and perform the normal in-house review and approval process. Future deferred retirements should be processed at the time of separation.

MANAGEMENT'S RESPONSE
We agree with this recommendation. We are currently in the process of reviewing these files. The estimated date of completion is February 28, 2014.

FILE DOCUMENTATION

AUDIT ISSUE
Documents supporting eligibility, pension benefit calculations, and employee options were missing in individual retirement files.

OBSERVATIONS
In our sample of 31 files, 30 documents were missing[3]. Each file requires between 14 and 20 documents that support participant eligibility, pension benefit calculations, and employee options, depending upon the type of retirement and the marital status of the retiree.

CRITERIA
Documentation of eligibility and employee options should be on file to support eligibility, pension benefit calculations, and employee options.

RISK DESCRIPTION
The lack of supporting documentation could result in disputes should any problems or questions arise.

RECOMMENDATION 5
Determine what documentation should be obtained to support eligibility, pension benefit calculations, and employee options. Retirement files should be reviewed for missing documents and obtain them as needed.

MANAGEMENT'S RESPONSE
We agree with this recommendation. As of April, 2013 eight checklists were developed for each action caused by a change in the retiree's status (for example: an employee entering the DROP program, an employee going from DROP to longevity, death of a retiree or retiree's spouse, etc.). These checklists stipulate which document(s) must be included in the retiree's file folder. The checklist is completed by one of the pension accountants, audited by the other pension accountant, and verified by the pension plan supervisor. Existing files will be reviewed and the checklist will be added during the Electronic Content Management Scanning Project.

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[3] This does not include documents missing from deferred retirement files, as previously addressed.