

**GENERAL EMPLOYEES'
PENSION FUND ADMINISTRATION**

July 22, 2002

REPORT # 548

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



July 22, 2002

Report No. 548

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we examined the activities of the General Employees' Pension Fund (GEPF) Administrative Office (Pension Office) and present this report thereon. The Pension Office is responsible for administering and directing the payments of retiree pension benefits; coordinating the transfer of employees from active to retired status; calculating the benefit payment amount for retired, disabled, inactive and terminated employees; assuring new employee enrollment in the plan; determining member costs for buy back of time service and providing services for the Board of Pension Trustees and the Advisory Committee.

The GEPF is overseen by the Board of Pension Trustees and the Pension Advisory Committee. The Board of Pension Trustees approves all applications for membership and retirement and reviews all cases in which there are unusual circumstances related to either the pensioner or the pension calculation.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine if the persons covered under the pension plan joined in accordance with and met applicable guidelines.
2. To determine that all time service connections have been properly calculated, paid and recorded.
3. To determine that all payments being made to plan participants have been properly calculated and paid.
4. To determine that benefits were properly stopped for persons terminated from the Pension Plan.
5. To determine that all refunds, returns, and corrected checks have been properly processed and paid.
6. To determine that all changes and access levels within the pension system are proper.

7. To determine that all Florida Statutes and Jacksonville Municipal Ordinance Code requirements are being met.

STATEMENT OF SCOPE

The audit period of our examination varied based on the audit objective. For objective 1 the scope was membership effective dates of October 9, 2000 through September 10, 2001. For objective 2 the scope was all of the Completed Payment files and Currently Making Payments files for time service connections. The period under examination for most of objective 3 was October 1, 1995 through September 30, 2001. For affidavit testing within objective 3 our scope was March 2, 2001 through January 18, 2002. For voided check testing within objective 3 our scope was voided checks during the period from January 2001 through December 2001. For Annual Certification Non-Responder Report (Non-Responders Report) testing within objective 3, we used the 10/13/01 and 1/12/02 Non-Responders reports. For age/death testing and duplicate address testing within objective 3, our scope was all pensioners receiving a benefit in February 2002. For objective 4 the period under examination was October 1, 1999 through September 30, 2001. The scope for objective 5 was October 1, 1999 through August 31, 2001. For objective 6 the scope was October 13, 2000 through September 28, 2001. And for objective 7 the scope was October 1, 1999 through February 28, 2002.

STATEMENT OF METHODOLOGY

The methodology also varied depending on the audit objective. All random starts, sample size needed and sample selections (except judgmental) were determined using the Stats v.1 program. Questionnaires were also developed to test compliance with the Florida Statutes and the Jacksonville Municipal Code requirements.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgements and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

OVERALL CONCLUSION

Because this was our initial audit of the Pension Office and is considered an area of high risk, we developed broad, encompassing audit objectives. In addition it should be noted that the current pensioners from which many of our samples were selected, led us to information and/or documentation from previous years outside what would be considered a normal scope for the audit. Even though many of the causes of our findings have already been corrected and in most cases are considered immaterial to the overall operation of the Pension Office, we have included them in the report. We believe our recommendations to these findings can be implemented to increase the efficiencies in the operation of the Pension Office.

AUDIT CONCLUSIONS BY OBJECTIVE

1. Persons covered under the pension plan joined in accordance with and met applicable guidelines; however, supporting documentation is not being properly maintained.
2. Except for the findings noted below, time service connections have been properly calculated, paid and recorded.
3. We were unable to determine that all payments being made to plan participants were properly calculated and paid based on the findings noted below.
4. Based on our testing, benefits were not properly stopped for 6% of the persons tested for terminating from pension, resulting in both overpayments and one underpayment.
5. Based on our testing, all refunds, returns and corrected checks were properly processed and paid; although one check was held nine months before being voided.
6. All changes tested within the pension system were proper; however, access levels and persons with access were not proper.
7. All Florida Statute requirements and Jacksonville Municipal Ordinance Code requirements are being met.

AUDIT OBJECTIVE #1

To determine if the persons covered under the pension plan joined in accordance with, and met applicable guidelines, we began by pulling each Membership Application (PA-1) form in our sample in the Pension Office and verifying that the application was properly completed, that each person passed the physical or obtained a waiver and that pensioners were approved by the Board of Pension Trustees (Board). Membership Applications were pulled from membership effective dates of October 9, 2000 through September 10, 2001. If the application was not signed by the Board's Secretary, then we verified that the pensioner was listed on the approved Board consent agendas. In addition, where the PA-1 could not be located in the Pension Office, we had the personnel file in the City's Human Resources Division examined for the documentation.

Our finding and recommendation for objective 1 is listed below:

Finding #1

All Membership Applications are not being properly maintained and filed in the Pension Office and signed by the Pension Board Secretary. Specifically, we found that of the 23 pensioners tested, one (4%) Membership Application could not be found and the personnel file could not be located in the Human Resources Division. In addition, three (13%) Membership Applications could not be found in the Pension Office, but the ESR in the pensioner's personnel file in the Human Resources Division has the date the pensioner passed the physical and the "on pension date". Nine (39%) of the 23 pensioners Membership Applications were not signed by the Pension Board Secretary, but the pensioner's names were located on the approved Consent Agendas.

Recommendation #1

We recommend that the Pension Office ensure that a membership application is received for each new member listed on the New Member Memorandum from Human Resources and that upon approval of membership by the Board, these applications are properly signed by the Board Secretary prior to being filed in the Pension Office files.

Auditee's Response to Finding #1:

Concur with recommendation which is part of Standard Operating Procedure (SOP). Most of the noted items occurred during a transitional period and shortage of trained staff. All noted PA-1's and applicable signatures have been secured.

AUDIT OBJECTIVE #2

To determine that all Time Service Connections were properly calculated, paid and recorded, we examined each file in our sample obtained from all the Completed Payment files and Currently Making Payment files to verify that the person was eligible to connect their time based on the applicable guidelines. We also verified that the calculations of time and payment amount were performed correctly, that payments were properly received and deducted for the person connecting time, and the adjusted pension date was correct in the payroll system.

Our findings and recommendations for objective 2 are listed below:

Finding #2

For one of the eleven (9%) current payees tested, we found that the calculation of the time for connection was not performed correctly also resulting in the payment made being incorrect. The calculation of the time service connection was 97.67 months. The amount of time connected should have been 101.67 months based on the time periods listed in the letter for times eligible for connection at a cost of \$31,414.24, rather than the amount of \$30,179.06, which is currently being paid. The person requested that all eligible time be connected; however, a miscalculation in the time resulted in this error.

Recommendation #2

This person should be notified of the error in calculation and informed that the actual amount of time that may be connected is 101.67 months rather than 97.67 months. With the proper approval of the Board, the individual should be allowed to connect the additional time upon payment of the additional cost using the salary that was in effect when the time service connection was requested, since this was an error on the part of the Pension Office, not the employee.

Auditee's Response to Finding #2:

Concur with recommendation – employee has been contacted and extended the offer. The operating procedures contain an audit process to mitigate these occurrences. This finding occurred before the change in leadership.

Finding #3

We found that proper support and documentation is not always being maintained for individuals connecting their time. Specifically, we noted the following:

- For two of the 23 (9%) Completed Payments persons tested for time service connection, there was not enough information available to verify that the person was actually eligible to connect their time.

Recommendation #3

We recommend that proper documentation be maintained when performing time service connections. Documentation should be available to determine that a person is eligible to connect his time. This documentation may include copies of Employee Service Records (ESRs), or payroll documentation.

Auditee's Response to Finding #3:

Concur with recommendation which is part of the current SOP. These two findings occurred in 3/1/96 and 12/30/99 prior to the new SOP. The previous policy was to have Personnel Division staff record dates and types of employment without attaching substantiating documentation.

Finding #4

In the testing of Time Service Connections, it was noted that a complete refund of contributions was not received by one employee upon his termination. Through correspondence with JEA we verified that this participant terminated employment with JEA on 2/26/96, which was prior to completing his Time Service Connection payments. The total amount contributed through payroll deduction for Time Service Connection up to the point of termination was \$2,828.28. A refund was received for all other contributions made into the Pension Plan; however, the amount contributed for Time Service Connection was not included in that refund. The Pension Office relies on JEA to provide refund information.

Recommendation #4

We recommend that the participant be paid the additional money he is owed. In addition, we recommend that as a part of the termination procedure at all agencies participating in the Pension Plan, any person terminating that is a member of the Plan be required to contact the Pension Office to verify pension contributions and discuss the options available. See also Internal Control Weakness # 1 later in this report.

Auditee's Response to Finding #4:

Per documentation obtained and provided by City Council Auditor's Office, will process additional amount due, and locate the individual. In these circumstances, we rely on JEA to provide us with the information. We will continue to work with the JEA in obtaining accurate information from them.

AUDIT OBJECTIVE #3

To determine that all payments being made to plan participants have been properly calculated and paid, we recalculated benefits and agreed that amount to the amount the person was receiving. We also examined each file in our sample for proper documentation. We tested the affidavit process including the proper recording of checks, the validity of Social Security numbers and whether or not pensioners tested were deceased. In addition, we tested the appropriateness if more than one pensioner's check was going to the same address.

Our findings and recommendations for Objective 3 are listed below:

Finding #5

We found that some of the files tested for the period from October 1, 1995 through September 30, 2001 either contained no support for the determination of the average monthly salary and benefit amount, or the support available in the files for determination of the average monthly salary and benefit amount did not agree to the final benefit amount approved by the Board and being received by the beneficiary. Specifically, we found the following.

- 37 of the 128 (29%) files tested contained no support for the determination of the average monthly salary amount, they simply had the amount written in on the calculation of benefit sheet. All exceptions found were prior to the 2000/2001 fiscal year.
- For 21 out of 128 (16%) files tested, the support that was available in the files for determination of the average monthly salary and the benefit amount did not agree to the final benefit amount approved by the Board of Pension Trustees (Board), and being received by the beneficiary. This was because the support in the file was based on an estimation of benefits; however, updated support was not placed in the file when the actual benefit amount was determined for Board approval. All exceptions found were prior to the 1999/2000 fiscal year.

It should be noted that for a sample of the persons listed above, we pulled payroll records and manually recalculated the average monthly salary amounts. For all of those recalculated, the average monthly salary agreed within an immaterial amount (\$5.00 or less) to the amount that was used for determining the benefit the retiree is receiving.

Recommendation #5

We recommend that a checklist be developed that lists all of the required documentation that should be present in the file. This checklist should be signed off by the person creating the file and the person verifying the benefit calculations to ensure that all of the proper documentation is present in the file.

Auditee's Response to Finding #5:

Concur with recommendation and have developed checklist.

Finding #6

We could not agree the COLA amount being received by two out of 128 (2%) pensioners tested to our recalculations of the COLA or supplement they should be receiving. Both pensioners are surviving spouses and are receiving a lesser amount than the COLA we calculated. One pensioner is receiving a COLA of \$50.96 per pay period, but should be receiving a COLA per pay period of \$60.67, for a difference of \$9.71. The other pensioner is receiving a COLA of

\$30.82 per pay period, but should be receiving a COLA per pay period of \$46.36, for a difference of \$15.54 per pay period. Since the COLA calculations are system generated, this finding may indicate a system problem in calculating the COLA benefit for surviving spouses.

Recommendation #6

We recommend that the Pension Office pay these persons for the underpayments they have not received, and implement a periodic verification of the COLA and supplement amounts on a sample basis. In addition, the Pension Office should coordinate with ITD to determine if this is a system problem and if so determine if there are other persons affected.

Auditee's Response to Finding #6:

Concur with recommendations. Processing underpayments. Researching matter, discovered cause of problem, and working towards corrective measures with ITD.

Finding #7

We found that there were missing documents from some of the files tested for the period from October 1, 1995 through September 30, 2001. Specifically, we found the following:

- Three out of 128 (2%) persons tested were missing the form showing how the pension benefit was calculated.
- Three out of 128 (2%) persons tested were missing a copy of the W-4 form in their file.
- One out of 128 (0.7%) persons tested was receiving a survivor benefit, but the file did not contain a copy of the death certificate and marriage certificate. The death certificate and marriage certificate are the means of ensuring that the person is a valid surviving spouse.

None of the exceptions above occurred during the 2000/2001 fiscal year.

Recommendation #7

We recommend that a checklist be developed that lists all of the required documentation that should be present in the file. This checklist should be signed off by the person creating the file and the person auditing the benefit calculations to ensure that all of the proper documentation is present in the file. The Pension Office should obtain a copy of the missing death certificate and marriage certificate for the surviving spouse in our sample.

Auditee's Response to Finding #7:

Concur with recommendation and have developed checklist. Missing paperwork for referenced survivor located. Current procedures have allowed for no exceptions in the past fiscal year. These findings were prior to fiscal year 00/01.

Finding #8

We were not able to confirm that all pensioners receiving a benefit were actually still eligible to receive a benefit. Specifically, we found the following:

- Eight out of 128 (6%) persons tested were missing their 2001 affidavits. Subsequent to notification of this finding, affidavits were resent by the Pension Office and received back from the pensioner. It should be noted that some affidavits had not been received as far back as February 2000.
- Five out of 128 (4%) persons tested were missing their 2000 affidavits.

This shows that pensioners are not being properly terminated from receiving their benefits when affidavits are not returned.

Recommendation #8

We recommend that the Pension Office tighten their controls over the affidavit process. Currently, a monthly reconciliation of the Non-Responders Report should be occurring. This process needs to occur more consistently to ensure that benefits are properly terminated.

Auditee's Response to Finding #8:

Concur with recommendation which is part of SOP. Inconsistency occurred during transitional period and shortage of trained staff.

Finding #9

For one of the persons tested, the original retirement date on the time service application form was 4/9/97, making the number of years the employee worked 21 years and 0 months, which resulted in an accrual rate of 52.50%. However, the employee did not actually retire until 5/3/97, making the number of years worked 21 years and 1 month. This would make the accrual rate 52.70%. The accrual percentage was not updated when the retirement date was changed and the employee's benefit was calculated using the 52.50% accrual rate. This difference in benefit percentage causes the employee to receive a monthly benefit of \$1,121.56, rather than the amount she should be receiving of \$1,125.83, for a difference of \$4.27 per month.

Recommendation #9

We recommend that the Pension Office adjust the benefit amount that the pensioner is receiving to reflect the additional time worked and that the shortage that has accumulated be calculated and given to the pensioner. The Pension Office has currently implemented a process whereby a different Pension Office employee audits the calculations of other office employees. This audit process was not in place at the time this finding occurred, but should prevent the same type of error from occurring again in the future.

Auditee's Response to Finding #9:

Concur with recommendation which is part of SOP, and processing underpayment. This finding occurred in 1997 and procedures in place have allowed for no more recurring instances.

Finding #10

For three of 128 (2%) persons tested for the period from October 1, 1995 through September 30, 2001, we found that the benefit the individual is receiving per pay period is not the same as the benefit approved by the Board of Pension Trustees and recalculated in our audit. This was due to a retroactive pay increase, but there was no documentation present in the file to support this. All of these exceptions occurred prior to the 1999/2000 fiscal year.

Recommendation #10

We recommend that if adjustments in pension benefits are needed after Board approval of the benefit, that the reason for the adjustment be properly documented in the file and that the Board approve the adjusted amount for the pensioner. In addition, the Board should approve the amount of the benefit for each of these individuals in our sample.

Auditee's Response to Finding #10:

Concur with recommendation which is part of SOP. Again, current standard operating procedures are in place and working as these findings were prior to fiscal year 99/00.

Finding #11

For one employee tested, the effective retirement date was March 31, 2001. An estimation of benefits was calculated on January 16, 2001 using the actual salaries from January 1998 through December 2000. The salaries for January 2001 through March 2001 were projected salaries. Once the actual report was received from JEA, the actual salaries were not the same as the projected salaries. Although the calculation that was originally prepared was just an estimate, it was used to determine the actual amount of the daily and monthly benefit the pensioner would receive. In addition, the amount shown on the JEA payroll microfiche for his actual salary amount is not correct due to discrepancies in the treatment of the 1% refund of pension benefits that occurred during that year. Therefore, the amount of over or under payment that is occurring cannot be determined and needs to be further researched.

Recommendation #11

We recommend that the Pension Office adjust the amount of benefit being received to the correct amount as well as determine the total amount of under or over payment that has occurred in order to repay or recoup that amount to or from the individual. We further recommend that the Pension Office work with JEA to ensure that the JEA payroll records available to Pension have been corrected for the 1% refund errors.

Auditee's Response to Finding #11:

Concur with recommendations and have attempted resolution to same. JEA has responded partially to inquiries regarding the referenced individual. However, a couple of issues still remain outstanding. This also highlighted the additional matter of JEA incorrectly deducting a full biweekly pension contribution amount for employees leaving in the middle of a pay period. Although, per our inquiry, JEA has acknowledged same to Council Audit Staff, to our knowledge resolution and corrective measures have not been implemented.

Auditor's Note of Clarification:

Upon meeting with and talking to JEA Payroll representatives, we found that it is not the policy of JEA to deduct a full biweekly pension contribution amount for employees that leave in the middle of the pay period, and this was simply a mistake that occurred.

Finding #12

Child benefits are not always being properly terminated when the child turns eighteen. Specifically, we found the following:

- During our testing of voided checks, we found one of the pensioners tested turned eighteen on June 3, 1999, but her benefit was not terminated until February 2, 2001. The date of this person's last affidavit was June 30, 1998. Total overpayments due to non-termination of benefits are \$2,222.78. There was no documentation to support that the Pension Office attempted to recover the money.
- During our testing of persons receiving benefits that lived at the same address, we found a child receiving Orphan Benefits that turned eighteen on October 26, 1999. However, as of

the February 15, 2002 payroll register, the child was still receiving benefits. The date of this person's last affidavit was March 20, 2001. The total amount of overpayment to the child that has resulted from non-termination of the benefit at age eighteen is \$38,260.22.

Recommendation #12

We recommend that every effort be made to recover the funds. We also recommend that the Pension Office re-examine their procedures for termination of child benefits and consult with the Information Technologies Division to develop a monthly report that pulls from the Pension system and lists all children or orphan beneficiaries that turn eighteen during that time period. In addition, Pension Office personnel should examine the birth date on child benefit affidavits (since in one instance the child was still returning the affidavit with the correct birth date) to ensure that the child is not yet eighteen. The affidavit should also be modified to state that the person signing the affidavit understands that the benefit being received should terminate at the child's eighteenth birthday.

Auditee's Response to Finding #12:

Concur with recommendations. Have made contact and initiated repayment efforts – receiving scheduled payments from one; pending payments from second.

Finding #13

The Pension Office is not always properly withholding the tax amount requested from participants refund payments. For one of the two voided refund checks tested (50%) for the period from January 2001 through December 2001, we found that a person who received a refund from the Pension Fund due to termination prior to retirement did not receive the proper tax deduction as requested from the refund amount. The person requested that an additional \$1,500 be withheld from their pension refund for tax purposes; however, this did not occur.

Recommendation #13

The Pension Office should update its procedure on refund of pension contributions to include a step to examine the form to ensure that all of the terminated employee's information is processed properly. A different Pension Office employee should audit the refund application and amount after it is prepared.

Auditee's Response to Finding #13:

Concur. This is currently a part of SOP.

Finding #14

Through our testing of the 10/13/01 and 1/12/02 Annual Certification Non-Responders (Non-Responders) Reports, we found that the report is not completely reliable in terms of reporting those persons that have not returned their affidavit. Specifically, we found the following:

- Some pensioners were included on the Non-Responders report that were not yet due to have an affidavit as a result of errors in the report. The report includes some that are newly retired that have not been retired for at least one year, as well as some survivors where the report has used the date for the original pensioner, rather than the new effective date for the survivor.

- Of the 65 pensioners tested that were on the 10/13/01 Non-Responders report, 29 dropped off by the 1/12/02 report. Of those 29 that dropped off, 7 (24%) did not have a current affidavit or any other justification in the file for dropping off the report.

Recommendation #14

We recommend that the Pension Office consult with ITD to determine how a pensioner could be cleared off of the Non-Responders Report without receipt of an affidavit and correct this problem as well as the problem of persons being on the Non-Responders Report prior to having an affidavit due.

Auditee's Response to Finding #14:

Concur with recommendations and will begin implementation with ITD. Many of these ITD issues were put on hold in anticipation of the Oracle system.

Finding #15

Of the 65 pensioners tested that were on the 10/13/01 Non-Responders Report, 43 should have had current affidavits in their file. We noted the following problems based on this information.

- One (2%) of the 43 pensioners tested had a signed affidavit available in the file, but the affidavit was not properly notarized.
- Five (12%) of the 43 pensioners' affidavits were received on 6/15/01, but three were not entered into the system until 12/17/01 and two were not entered into the system until 2/14/02.

Recommendation #15

We recommend that the Pension Office adhere to its procedures and review all affidavits to ensure they are properly notarized. In addition, the Pension Office should enter affidavits into the system as they are received to ensure that a person is not terminated from receiving a pension benefit in error.

Auditee's Response to Finding #15:

Concur with recommendation which is part of SOP. Problems occurred during transitional period and shortage of trained staff.

Finding #16

We found that the process for terminations of non-responders to affidavits is not properly occurring. Specifically we noted:

- Nineteen (44%) of the 43 pensioners that should have had current affidavits did not have their benefit terminated within one year and three months of the due date of the last affidavit. Of those nineteen, ten (53%) have subsequently had their benefits terminated.
- One person listed on the 10/13/01 and 1/12/02 Non-Responders Reports died in April 1999, but as of the February 15, 2002 payroll was still receiving a pension benefit. The last affidavit available in the pensioner's file was dated April 1998. The total overpayment that has occurred as a result of this is a gross amount of \$24,239.76.

Monthly reconciliations of the Non-Responders Reports should be occurring that would prevent these problems; however, it does not appear that this has consistently been the case.

Recommendation #16

We recommend that the Pension Office pursue obtaining the funds for the overpayment made. The affidavit process is a high-risk area because this process is the only mechanism for ensuring that persons receiving pension benefits are not deceased. The Pension Office should place more emphasis on this process, and tighter controls should be enforced. The Pension Office needs to determine the reason that benefits are not being properly terminated in a timely manner. In addition to performing monthly reconciliations of the Non-Responders Reports, we recommend that the Pension Office utilize the Social Security Death Index Database and verify that those persons listed on the Non-Responders reports are not deceased.

Auditee's Response to Finding #16:

Concur with recommendation which is part of SOP. We are pursuing alternative death audits in addition to referenced Social Security Death Index – such as a one time service to review the entire retiree population being paid, and annual reviews thereafter. We have included in next year's budget to pay for this service.

Finding #17

During our testing of pensioners with birth dates prior to January 1, 1925, we found that one pensioner is using a fictitious Social Security number to receive pension benefits. The person is eligible to receive her survivor's benefit, because proof of her marriage to the pensioner and the death certificate was available in the file. However, the Social Security number that she is claiming is hers, is actually that of her deceased mother-in-law. We also found that another pensioner had an incorrect Social Security number listed in the pension system because the pensioner gave the Pension Office an incorrect Social Security number.

Recommendation #17

We recommend that a copy of the Social Security card be required for all persons applying for survivor's benefits. This is already required for children that receive surviving child benefits, but is not being required for surviving spouses. This would help to alleviate the possibility of a person using a false Social Security number. Regular retirees would not need to provide a copy of their Social Security card, because this is required upon employment with the City or another agency.

Auditee's Response to Finding #17:

Concur with recommendation and have implemented requirement.

AUDIT OBJECTIVE #4

To determine that benefits were properly stopped for persons terminated from the pension within our sample selected from the period of October 1, 1999 through September 30, 2001, we recorded the date of the last check received by each pensioner using the payroll records. Then, we determined if the payment to the pensioner was correctly stopped.

Our finding and recommendation for objective 4 is listed below:

Finding #18

From our testing of 96 participants, we found that five (5%) were overpaid a total of \$2,327.60 based on the termination date from the pension system compared with the last payment made per the payroll system (consideration was taken into account to allow for payment of the last pay period in full if the pensioner was receiving a biweekly benefit). In addition, one (1%) participant was underpaid \$329.22 when comparing the same dates.

Recommendation #18

We recommend that the overpayments be recouped and that the underpayment be paid to the person it is owed. In addition, more attention needs to be placed on this area by the Pension Office when terminating persons from receiving benefits to prevent this from occurring in the future. The process for terminations needs to be examined and strengthened. The Pension Office should require the same audit process for terminations as for other areas so that another person within the office is also verifying the termination calculations.

Auditee's Response to Finding #18:

Concur with recommendation. Have attempted contact and initiated repayment efforts – pending repayment schedule from two; recouped partial amount from one and pursuing remaining repayment; unsuccessful with estate contact information for remaining two deceased survivors.

AUDIT OBJECTIVE #5

To determine that all refunds, returns, and corrected checks have been properly processed and paid for our sample selected from the period of October 1, 1999 through August 31, 2001, we obtained the supporting documentation to ensure that the proper action was taken. For refunds, we pulled the payment package from the refund file and verified that the amount paid, taxes deducted, and the payee were correct. For returned and corrected checks, we reviewed the records maintained by the Pension Office to determine the status of the returned or corrected check.

Our finding and recommendation for objective 5 is listed below:

Finding #19

For one of the nine returned checks tested (11%), we found that it took over nine months to void the check. Specifically, the check was issued on 10/29/99 and returned because the pensioner died on 11/2/99. The check was not voided until 8/4/00, over nine months after it was issued. In addition, the pensioner was eligible for both his benefit on 10/29/99 and 11/12/99. This results in a gross underpayment to the pensioner of \$622.14.

Recommendation #19

We recommend that all checks be voided upon return. If there is a reason for holding a check prior to voiding it, the reason should be documented in the pensioner's file. In addition, the amount of underpayment owed to the pensioner should be paid to his estate.

Auditee's Response to Finding #19:

Concur with recommendation which is part of SOP. Referenced incident under the purview of previous staff/Pension Administrator thus particulars are unknown.

AUDIT OBJECTIVE #6

To determine that all changes and computer access levels within the pension system are proper, we obtained a list from the Information Technologies Division (ITD) that listed the persons who had access to the pension system and determined whether it appeared that each person had proper access to the system. We also reviewed a sample of changes made by persons per the audit reports available for the period from October 13, 2000 through September 28, 2001 from the pension system to ensure that any changes made were supported by the appropriate documentation in the pensioners file. While doing this, we also examined the reports to ensure that persons other than those that should be authorized (Pension Office employees, Employee Benefits Office employees, and some JEA employees) were not making changes within the pension system.

Our findings and recommendations for objective 6 are listed below:

Finding #20

There has been no review of the persons that have access to the pension system to ensure that there is no unauthorized access. We found that there were numerous instances where the level of access for a person did not appear appropriate. Specifically, we found:

- Four persons have terminated employment from the City, but continue to have access to the system. One of these four employees is a former Pension Office employee and has a large amount of change access.
- Two persons at the Police and Fire Pension Office have change access to the system. One of the persons with change access within the City's pension system is actually a City retiree that currently receives a pension check from the City.
- A former Employee Benefits employee still has change access within the pension system although she now works within a different area.
- Three contract employees for the City have access to the pension system, two of which have change access; however, it is unclear as to whether these employees are actually working on any pension system projects.
- One former Pension Office employee is now with the Clerk of Courts Office but still has the ability to make changes to the pension system. Her access was never terminated.
- One employee within the Employee Benefits Office for the City has a large amount of change access; however, the only item that the Employee Benefits Office is responsible for concerning retirees is the processing of their insurance benefits. This employee actually has change access to the main pension set-up screen, PNPAY.
- Two of the persons with access to the system (other than contract employees) could not be located within the City payroll system as being City employees.

In addition to the above specific instances, there are numerous employees that have access to the system for reasons that are unclear, but those persons do not have change access to the pension system.

Recommendation #20

We recommend that the Pension Office immediately assess the necessary persons that need access to the pension system, and terminate access for all others. In addition, the Pension Office should periodically examine a list of those with access and ensure that all access is appropriate.

Auditee Response to Finding #20:

Concur with recommendation. Have started review and removal of inapplicable access and security levels.

Finding #21

The pension office allowed a terminated employee's access to the pension system to continue to be used by other Pension Office employees after the person left. We found 12 (11%) of the 110 transactions selected for testing were made under a terminated employee's access to the pension system. All transactions that were performed under the terminated employee's logon were tested and appeared to be appropriate changes supported by proper documentation.

Recommendation #21

We recommend that access to the pension system be terminated when an employee leaves the office and that each person responsible for making changes to pensioners' information be given and use their own access to the pension system.

Auditee's Response to Finding #21:

Concur with recommendation which is part of SOP.

AUDIT OBJECTIVE #7

To determine that all Florida Statutes and Ordinance Code requirements are being met, we developed two questionnaires based on the Florida Statutes and the Ordinance Code and completed them through the testing of our other audit steps, through examination of additional documentation, and through discussion with the Pension Coordinator. The period examined for testing purposes was October 1, 1999 through February 28, 2002.

We did not have any findings for this audit objective.

INTERNAL CONTROL STRENGTHS

Internal Control Strength #1

Strong documentation is available for policies and procedures of the office, as well as specific procedures on how to perform processes.

Internal Control Strength #2

Good checklists are available for preparation for Advisory Committee and Board of Pension Trustee meetings.

Internal Control Strength #3

Good documents have been developed for completion for various processes. Some examples of documents developed include: Application for Membership in the General Employees' Pension, Purchase of Time Service Credit Form, Notice of Election to Apply for Time Service Connection

Benefits Form, Retirement Information Request Form, Retirement Appointment Checklist, Retiree Payroll Maintenance Form, Disability Retirement Application Package, Time Service Retirement Application Package, and Survivor's Benefits Application Package.

Internal Control Strength #4

For City employees the process of calculating the amount of benefit to which a retiree or other person is entitled is performed by the computer system as well as manually by a Pension Office employee, and is then audited by a separate Pension Office employee. For JHA and JEA the system does not calculate a benefit amount; however, the amount is calculated manually by one Pension Office employee, and then verified/audited by a different Pension Office employee.

Internal Control Strength #5

The actuary that the City uses performs numerous edit checks for reasonableness and accuracy on the data that is provided by the City.

Internal Control Strength #6

The Board of Pension Trustees reviews and approves or disapproves all cases in which there are unusual circumstances related to either the pensioner or the pension benefit calculation.

Internal Control Strength #7

After a disability application is completed with the physician's statement, the information is sent to an occupational health specialist for evaluation and recommendation.

Internal Control Strength #8

The agency collecting the pension payroll checks for mailing purposes and the post office provide a total of the number of checks they have processed, which is agreed to the manual record the Pension Office maintains.

INTERNAL CONTROL WEAKNESSES

Internal Control Weakness #1

There is no communication between the computer systems for the City, JEA and JHA. Therefore, there is no way of automatically knowing if an employee is receiving a pension retirement benefit from the City, and has also returned to employment with either JEA or JHA. It is also not possible to determine if an employee has transferred between the organizations, but remains on the pension plan. The lack of communication between the systems makes it difficult for the Pension Office to determine the amount of refund an employee would be due if the employee had worked at other agencies besides the City. There is no opportunity provided to the employee to disclose these items to the Pension Office because refunds are automatically calculated from the City system and sent to an employee upon termination. Unless the employee was tracking every amount ever paid into the fund, the employee would not know that the refund amount was incorrect.

Recommendation for Internal Control Weakness #1

A possible solution to this weakness is to incorporate a requirement into the exit process rules that if a person is covered under the pension plan at any agency and is leaving that agency, then

the person must communicate with the Pension Office prior to leaving. This would allow the pension office to “flag” any persons that would be transfers. It would also allow any persons not transferring to another agency to learn what options are available to them and the process for obtaining their refund, as well as give the employee the opportunity to disclose any time worked at another agency. Another component of the solution is to allow the Pension Office to access necessary information from the JEA and JHA systems.

Auditee’s Response to Internal Control Weakness #1:

Concur with recommendations for which we have been seeking solutions over the long term. Have previously requested that active databases be created with the implementation of Oracle pension Module to accommodate JEA, JHA, JSA, and JAA data on a biweekly basis for full integration into our active pension systems – and have budgeted for same.

Internal Control Weakness #2

The pension date for an employee can be changed by anyone in the Pension Office who has change access to the FNPEN3 screen. In addition, an employee’s pension contribution can be changed by anyone with access to the FNDED6 screen. Therefore, a member of the pension plan could have their date and/or contribution changed without being eligible for more time and without making the necessary payments. There is currently no audit report that lists the changes made to these two screens. This compromises the integrity of the Pension Fund.

Recommendation for Internal Control Weakness #2

We recommend that the Pension Office coordinate with the Information Technologies Division to create an edit report that lists all of the changes made to the FNPEN3 and FNDED6 screens. This report should be audited monthly to ensure that all changes have been properly made.

Auditee’s Response to Internal Control Weakness #2:

Concur with recommendation, and have submitted computer requests to ITD affecting the change and reports creation.

Internal Control Weakness #3

There is not a mechanism in place for tracking persons out on Worker’s Compensation benefits. When an employee retires, it is the responsibility of the employee to let Pension know that they were on Worker’s Compensation for a certain period of time. Pension can then research it further to determine the time period and if payments for pension contributions were made. However, if the employee does not report that they were on Worker’s Compensation and it occurred more than 10 year ago, there is no mechanism for revealing this. The pension date and employment dates are not adjusted for time out due to Worker’s Compensation. However, when pension calculations are performed to determine a retiree’s benefit, the last ten years of payroll information is pulled. This information is scanned by the Pension Office to ensure that there were not any pay periods where a smaller than usual check or no check was received. This would be a “red flag” for the pension office that they would need to research further to ensure there was not any Worker’s Compensation time. If the Worker’s Compensation occurred more than 10 years ago, there is not a way to catch the Worker’s Compensation time unless it is reported by the retiree. This could cause the number of years of service to be inflated and cause

the accrual percentage to be incorrect, possibly allowing an employee to get a 2.5% accrual rate, rather than a 2.0% accrual rate.

Recommendation for Internal Control Weakness #3

We recommend that the Pension Office communicate with the Risk Management Area when processing a retiree to determine whether the person had any Worker's Compensation time. ITD or Risk Management may be able to provide a report to Pension that the Pension Office could monitor.

Auditee's Response to Internal Control Weakness #3:

Concur with recommendations for which we have been seeking solutions over the long term. Have previously requested interactive reports from the active payroll system, as well as a specific code for persons out on Worker's Compensation. However, these items are outside of our purview. Currently, we rely on contact with the Risk Management area to obtain information on an individual basis. This has mixed results, and they often report that they do not have the older records, etc. Will continue to pursue alternative methods.

Internal Control Weakness #4

JEA payments are made via a wire transfer biweekly, with supporting payroll documentation sent via File Transfer Protocol (FTP) to the City, which is converted by the City to microfiche. This information includes a total cumulative total payroll amount deducted for pension benefits. Currently there is no reconciliation by the Pension Office between this total and the amount sent over in the wire transfer from JEA to the City.

Recommendation for Internal Control Weakness #4

We recommend that the Pension Office reconcile each wire transfer to the payroll microfiche received from JEA to ensure that the City is receiving all pension contributions.

Auditee's Response to Internal Control Weakness #4:

Concur with recommendations for which we have been seeking solutions over the long term. Have previously requested such reports and to date have not received. Also, confirmation email has once again stopped. Will continue pursuit of resolution to this matter.

Internal Control Weakness #5

We noted numerous internal control problems in the process for handling non-response to affidavits. Checks are being pulled from the pension payroll checks received from Treasury without any log being maintained of the checks pulled. The Pension Office contracts with an outside agency to prepare the checks/direct deposit slips for mailing and to deliver them to the post office. A reconciliation is performed to ensure that the post office mails all checks/direct deposit slips originally delivered to the agency. A reconciliation between the check register from Treasury and the number of checks/direct deposit slips delivered to the agency and ultimately mailed reveals the number of checks pulled by the Pension Office. There is currently no audit performed over the process of pulling the checks for non-response to affidavits. In addition, one person is solely responsible for this entire process including pulling checks for purposes of stopping the benefit, sending the voided checks to Treasury, reconciling the number of checks delivered to the mailing agency and post office, terminating the benefit the pensioner is

receiving, and reconciling the monthly Non-Responders Report. This person can also make changes within the pension system to a pensioner's information, and is also the person that reconciles the Pension system Audit Report listing all changes made.

Recommendation for Internal Control Weakness #5

We recommend that the Pension Office review its process for affidavit non-responders. Stronger controls need to be implemented in this area including segregation of duties. We recommend that the Pension Office consider eliminating the step of pulling checks, and converting direct deposits to checks, and simply terminate benefits immediately for non-response. If the pulling of checks is occasionally necessary, we recommend that the Pension Office log these checks. The log of checks pulled should be reconciled each month by someone other than the person pulling the checks to ensure that all checks were properly voided, or the pensioner received the checks when the affidavit was returned. We further recommend that the Pension Office establish audit checks to be performed by a person other than the person originally processing the item.

Auditee's Response to Internal Control Weakness #5:

Concur with recommendations. Have implemented policy of checks being picked-up by mailing company directly from Treasury; have ceased practice of converting direct deposit to checks for non-responders – will turn-off; any checks that need to be pulled for special handling will require an explanatory email/memorandum to Treasury.

OPPORTUNITIES FOR IMPROVEMENT

Opportunity for Improvement #1

Because of the difficulty encountered locating files during our audit, we recommend that a system be developed for pulling files whereby the person that pulls the file signs it out. Using a system where a file place holder is inserted in place of the file with the name of the person that has pulled the file would be beneficial.

Auditee's Response to Opportunity for Improvement #1:

Concur with opportunity for improvement and have implemented.

Opportunity for Improvement #2

The Pension Office is not able to download information from JEA and JHA's computer systems into their computer system. This information is needed to calculate the employee's pension benefit. Because this information is not in the Pension Office's computer system, they have to manually calculate the pension benefits for JEA and JHA employees. In addition, the Pension Office has to rely on the information sent to them by JEA and JHA, which may contain errors. The Pension Administrator states that the number of JHA employees under the Pension Plan is so low that it is not a problem to manually calculate their information. However, JEA has numerous employees under the City Pension Plan. In addition, Airport Authority and Seaport Authority employees are under consideration for being added to the Pension Plan. These persons also work under a different system and may have to be calculated manually. Consideration needs to be taken by the Pension Office, ITD and other agencies covered under the City's Pension Fund to determine a method of easily obtaining reliable data.

Auditee's Response to Opportunity for Improvement #2:

Concur with opportunity for improvement. We continually work with the other agencies to improve the automation of the flow of information.

Opportunity for Improvement #3

The pension payroll system does not communicate or work in coordination with the payroll system for the City, causing the need to duplicate forms such as a Direct Deposit form upon retirement. The City should consider the benefits of a system that would allow these two areas to communicate and eliminate the need for duplication of information upon retirement. Further consideration should also be given to the idea of allowing the Payroll Office to provide Pension payroll services, in an effort to eliminate any duplication of information and functions between the Payroll Office and the Pension Office. This would allow for better controls over the payroll process if confined to the Payroll Office and better segregation of duties within the Pension Office when vacancies are present in the position responsible for payroll processing.

Auditee's Response to Opportunity for Improvement #3:

Concur with opportunity for improvement. Effective July 2002 the pension payroll process and related active pension payroll matters will be integrated with City Payroll, and under the purview of a separate City Division. It is anticipated that the GEPF will transfer a full-time funded position to coincide with a transfer of full-time duties and responsibilities.

AREAS NEEDING FURTHER STUDY

During the course of our audit, we noticed a consistent problem between the Pension Office and JEA. We feel that an audit of the JEA payroll and benefits area in the future would be beneficial to resolving some of these problems and issues.

Auditee's Response to Areas Needing Further Study:

We concur with the recommendation, and believe that an initial audit, along with periodic follow-up audits, for all outside agency members with proprietary payroll systems (including JEA and JHA) will prove beneficial in ensuring accuracy of data reported to us. Such accuracy is vital to providing active and retired member services and the actuarial soundness of the fund. Should you embark on such audits, we will happily outline areas of concern and provide documentation for same.

In conclusion to our report, we would like to thank the Pension staff for their cooperation throughout the course of our audit.

Respectfully Submitted,

Robert O. Johnson, CPA
Council Auditor

Audit Performed by:

Sarina Wiechens, CPA

Jennifer Spinelli

DEPARTMENT OF ADMINISTRATION AND FINANCE

Office of the Director



July 19, 2002

Honorable Members of the City Council
City of Jacksonville

Response to Audit Report No. 548

The Department of Administration and Finance General Employees' Pension Fund (GEPF) Administrative Office (Pension Office) offers the attached responses to Audit Report No. 548. In general, the Department concurs with the recommendations and has implemented those that were new and stressed the importance of those that were already included in Standard Operating Procedures.

Please let me know if you have any questions.

Sincerely,

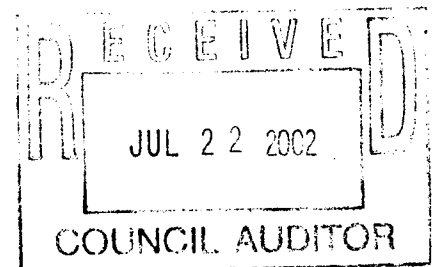
A handwritten signature in cursive script that reads "Shari Shuman".

Shari A. Shuman
Deputy Director

A handwritten signature in cursive script that reads "Calvin C. Ray".

Calvin C. Ray
Director

Attachment



Finding #1

RESPONSE: Concur with recommendation which is part of Standard Operating Procedure (SOP). Most of the noted items occurred during a transitional period and shortage of trained staff. All noted PA-1's and applicable signatures have been secured.

Finding #2

RESPONSE: Concur with recommendation – employee has been contacted and extended the offer. The operating procedures contain an audit process to mitigate these occurrences. This finding occurred before the change in leadership.

Finding #3

RESPONSE: Concur with recommendation which is part of the current SOP. These two findings occurred in 3/1/96 and 12/30/99 prior to the new SOP. The previous policy was to have Personnel Division staff record dates and types of employment without attaching substantiating documentation.

Finding #4

RESPONSE: Per documentation obtained and provided by City Council Auditor's Office, will process additional amount due, and locate the individual. In these circumstances, we rely on JEA to provide us with the information. We will continue to work with the JEA in obtaining accurate information from them.

Finding #5

RESPONSE: Concur with recommendation and have developed checklist.

Finding #6

RESPONSE: Concur with recommendations. Processing underpayments. Researching matter, discovered cause of problem, and working towards corrective measures with ITD.

Finding #7

RESPONSE: Concur with recommendation and have developed checklist. Missing paperwork for referenced survivor located. Current procedures have allowed for no exceptions in the past fiscal year. These findings were prior to fiscal year 00/01.

Finding #8

RESPONSE: Concur with recommendation which is part of SOP. Inconsistency occurred during transitional period and shortage of trained staff.

Finding #9

RESPONSE: Concur with recommendation which is part of SOP, and processing underpayment. This finding occurred in 1997 and procedures in place have allowed for no more recurring instances.

Finding #10

RESPONSE: Concur with recommendation which is part of SOP. Again, current standard operating procedures are in place and working as these findings were prior to fiscal year 99/00.

Finding #11

RESPONSE: Concur with recommendations and have attempted resolution to same. JEA has responded partially to inquiries regarding the referenced individual. However, a couple of issues still remain outstanding. This also highlighted the additional matter of JEA incorrectly deducting a full biweekly pension contribution amount for employees leaving in the middle of a pay period. Although, per our inquiry, JEA has acknowledged same to Council Audit Staff, to our knowledge resolution and corrective measures have not been implemented.

Finding #12

RESPONSE: Concur with recommendations. Have made contact and initiated repayment efforts – receiving scheduled payments from one; pending payments from second.

Finding #13

RESPONSE: Concur. This is currently a part of SOP.

Finding #14

RESPONSE: Concur with recommendations and will begin implementation with ITD. Many of these ITD issues were put on hold in anticipation of the Oracle system.

Finding #15

RESPONSE: Concur with recommendation which is part of SOP. Problems occurred during transitional period and shortage of trained staff.

Finding #16

RESPONSE: Concur with recommendation which is part of SOP. We are pursuing alternative death audits in addition to referenced Social Security Death Index – such as a one time service to review the entire retiree population being paid, and annual reviews thereafter. We have included in next year's budget to pay for this service.

Finding #17

RESPONSE: Concur with recommendation and have implemented requirement.

Finding #18

RESPONSE: Concur with recommendation. Have attempted contact and initiated repayment efforts – pending repayment schedule from two; recouped partial amount from one and pursuing remaining repayment; unsuccessful with estate contact information for remaining two deceased survivors.

Finding #19

RESPONSE: Concur with recommendation which is part of SOP. Referenced incident under the purview of previous staff/Pension Administrator thus particulars are unknown.

Finding #20

RESPONSE: Concur with recommendation. Have started review and removal of inapplicable access and security levels.

Finding #21

RESPONSE: Concur with recommendation which is part of SOP.

Internal Control Weakness #1

RESPONSE: Concur with recommendations for which we have been seeking solutions over the long term. Have previously requested that active databases be created with the implementation of Oracle pension Module to accommodate JEA, JHA, JSA, and JAA data on a biweekly basis for full integration into our active pension systems – and have budgeted for same.

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