



**Council Auditor's Office**

**Follow-Up on Police and Fire Pension Fund Audit**

**Report #736B**

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



October 5, 2020

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Honorable Members of the City Council  
 City of Jacksonville

The purpose of this report is to document our second follow-up review of our past audit report #736, Police and Fire Pension Fund Audit, and to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards.

We sent a follow-up letter to the Plan Administrator for the Police and Fire Pension Fund (PFPF) on April 9, 2019 inquiring as to the status of the remaining original audit report recommendations after the first follow-up. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing to verify the responses.

Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

Types of Issues	Original Number of Issues	Issues Cleared Prior to This Follow-Up	Remaining Issues Prior to This Follow-Up	Issues Cleared During This Follow-Up	Remaining Issues
Internal Control Weaknesses	0	0	0	0	0
Findings	9	6	3	0	3
Opportunities for Improvement	1	1	0	0	0
<b>Total</b>	<b>10</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>3</b>

The following is a brief summary of the remaining issues with responses from Kevin Grant, Finance Manager for PFPF, that we received on September 10, 2020.

**Finding 1 – 2 \*Error with Final Compensation Calculation\***

Finding 1-2 in the original audit found that 1 out of 58 final compensation amounts tested had an error resulting in an individual being paid \$1.76 too much per pay period due to the final compensation amount not including the last pay period worked. The first follow-up review found that there was still an issue with the Fund not always including the final pay period in the final average

compensation calculation. The first follow-up review also found that even when the last paycheck was included, it was related to pay for three weeks instead of only two weeks.

For the current follow-up review, we selected a limited sample of vested and time service retirements. Based on the results of this testing, there continues to be an issue with the final average compensation calculation due to the last paycheck including payment for three weeks, thus inflating the final average compensation calculation slightly. Municipal Code Section 121.201(a) requires that the final average compensation be based on “the 52 pay periods immediately preceding the time of retirement...” A pay period is regularly considered to be a two-week period. We believe that the inclusion of a paycheck containing three weeks to be in violation of the Ordinance Code. This practice is providing a larger pension benefit for life, purely because JSO is paying in one paycheck what would normally be paid in two separate paychecks. Also, we do not believe that the final pay period should be counted as two pay periods when it has more than two weeks because it could unfairly harm the employee. The final average compensation should be adjusted by the Fund to account for what period of work time is included in that paycheck. If legal counsel for the Fund states it cannot adjust the calculation, the Fund should reach out to JSO and the Administration to work out a plan that would treat the employee fairly and consistently with the intent of the code, which is clearly not to increase the pension benefit purely because of an administrative practice of JSO.

We recommend that the PFPF take immediate action to correct this calculation.

***PFPF Response to the Follow-Up of Finding 1-2***

Agree

Disagree

Partially Agree

*JaxPension, the system of record, automatically calculates the final average compensation by using the last 52 pay periods immediately preceding the date of retirement in accordance with the Ordinance Code. We will correct any past pension calculation based on the incorrect check at the end of the period, and any future corrections as they arise. Additionally, we may discuss this procedure with JSO to make them aware of the issue and to see if they could adjust the process on their end.*

**Finding 1 – 3 \*Issue with Effective Retirement Date\***

In the original audit, Finding 1 – 3 found that 88 out of 90 individuals tested had an issue with the Effective Retirement Date, which is when a member begins participation in DROP. In basic terms, the error allows participants to have a reduced pension contribution (DROP participants only contribute 2% instead of 10%) for one additional week (131 weeks instead of 130 weeks). The DROP accounts are not credited for more than the 130 weeks, which is the maximum allowable participation period. The first follow-up found that the effective date and reduction in pension contribution were still not consistent with each other. Our second follow-up found that this was still the case. Based on conversations with the Pension Fund, it is our understanding they believed the problem was fixed based on how they were inputting things into the system. However, the problem had not been solved since the system was not splitting the contribution rate within the pay period to have a 10% contribution for week 1 and a 2% contribution for week 2.

***PFPP Response to the Follow-Up of Finding 1-3***

Agree

Disagree

Partially Agree

*Concerning the extra week of the DROP pension deduction, past practice has been to enter the effective date of the DROP pension deduction as the effective DROP date (or retirement date). Upon review, even though the PFPP Staff ends the normal pension deduction as the day preceding the retirement date, and starts the DROP pension deduction on the retirement date, the JaxPension system does not apply both pension deductions to the member's final pay check preceding the retirement date. The JaxPension system applies the DROP deduction to both weeks of the pay period. PFPP Staff will work with ITD to implement the change to 'split' the final pay period to include two pension deductions.*

**Finding 4-1 \*Inaccurate COLA Payments\***

In the original audit, Finding 4-1 found that 5 out of 1,538 pension recipients tested had errors in their COLA calculation. The initial follow-up response indicated that the Fund had implemented a policy of manually checking the COLA calculations at the beginning of each calendar year. The first follow-up review found that 14 out of 1,936 or .72%, of pension recipients had errors in their COLA payments.

In this current review, we found that 15 of 2,211 (0.67%) pension recipients had inaccurate COLA payments due to an error in the calculation, which resulted in underpayments to pension recipients. We also found that three errors from the previous follow-up had not been corrected.

We recommend that these COLA errors be corrected as soon as possible, and additional review be performed of the COLA calculation each year.

***PFPP Response to the Follow-Up of Finding 4-1***

Agree

Disagree

Partially Agree

*The correction to the 15 out of 18 members has been taken care of as of 7/24/2020. Two members are deceased and one is out of the Drop we are working on his calculation and will update as soon as possible. We will check the cola manually at the beginning of each year. We have asked ITD why this is a problem and was said it was a software problem.*

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We would like to thank the Police and Fire Pension Fund for their cooperation in conducting this follow-up review.

Sincerely,

*Kim Taylor*

Kim Taylor, CPA  
Council Auditor