



## **Council Auditor's Office**

### **Jacksonville Retirement System Audit Follow-up Report**

*General Employees Retirement Plan  
&  
Corrections Officers Retirement Plan*

**Report #731A**

**Released on:** September 28, 2016

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



September 28, 2016

Report #731A

Honorable Members of the City Council  
City of Jacksonville

The purpose of this report is to document our follow-up review of past report #731, Jacksonville Retirement System Audit, to determine whether or not 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 Finance and Administration Department inquiring as to the status of the original audit report recommendations. 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 on a judgmentally selected sample of findings to verify that our recommendations have been implemented as stated in the auditee's responses. The following is a brief summary of the results of our follow-up inquiry and testing.

Based on the responses received from the audited department and our follow-up testing of a judgmentally selected sample, it appears that the department has complied with our audit recommendations with the following exceptions:

**Finding 1 – 1 \*Pension Benefit Calculation Errors\***

Finding 1-1 found that 33 out of 60 files had 52 different individual exceptions that caused errors in the pension benefits calculation and that these errors were in large part caused by manual calculations. The Finance and Administration Department's response to our follow-up was silent to the past issues so we inquired as to the approach. After a couple of emails back and forth, we received confirmation that the practice was only to go after large issues found. Since none of the errors we found were large, there were no actions directly taken. Therefore, there was no correction of past items.

We did perform testing of recent retirees to determine whether the issues are ongoing. Our findings from follow-up testing are summarized in the table on the next page.

<b>Exception Breakdown from Original Report with Current Status Based on Testing</b>		
<b>Original Issue</b>	<b>Root Cause</b>	<b>Corrected?</b>
Error with Early Retirement Penalty	System Error	No
Inaccurate Inclusion of Retro Pay Associated with Periods Outside of Final Compensation Period	System Limitation/ Management Decision	Yes
Wrong Pay Amounts and/or Periods Included in Final Compensation Calculation	System Limitation/ Manual Overrides	Yes
Inaccurate Benefit Percentage Due to Indeterminable Reasons	Unknown	-
Inaccurate Inclusion of Ineligible Period for Calculating Final Compensation for DROP Members	Manual Overrides	No
Inaccurate Amount of Credited Service due to Leave Without Pay	System Limitation/ Manual Processes	No
Wrong Interest Rate for BACKDROP Calculation	Manual Processes	Yes
Error with Switch from Active Payroll to Pension Payroll	Manual Processes	Yes
Error with DROP Participation Period	Manual Processes	No

***Finance and Administration Department Response to the Follow-Up of Finding 1-1***

Agree       Disagree       Partially Agree

*Allow us to update you on those which have a No on them above as of your last visit. Since then, No #1: The error with normal retirement penalties has now been fixed through partnership between the pension office and ITD. No #2: The pension office is now engaged with the auditor's staff, ITD, and accounting to resolve this issue. No #3: The system lacks the ability to handle this automatically. The pension office thoroughly reviews every pay cycle of the employment period for each retiree to capture these errors and will continue to do so going forward. No #4: A ticket was entered with ITD and has now been marked as closed. We will follow-up with ITD to determine whether or not this is now "fixed" and if not will re-open the ticket to complete this.*

**Finding 1 – 2 \*Legal Issues\***

Finding 1-2 found that there were multiple aspects of calculating pension benefits where the Municipal Code either contradicts current policy or is vague as to the intent of the law. The auditee response indicates the Pension Office is in the process of addressing language issues. It is silent to the retro pay issue. We found that the legal issues are only partially resolved and that there needs to be a clean-up bill. Based on our limited review of the calculations, it does appear that the Pension Office is applying retroactive pay in a materially accurate manner as it relates to the final average compensation calculation.

***Finance and Administration Department Response to the Follow-Up of Finding 1-2***

Agree

Disagree

Partially Agree

*The items which were determined to be fix-able through board interpretation have been fixed. Most of the identified issues however require collective bargaining as determined by OGC. The board along with staff have compiled a list of legal issues to be addressed during collective bargaining. Given that collective bargaining did not result in any action during the past administration, no changes were allowed to be made with the exception of the calculation for DB to DC switches. On this matter, the Board received an outside legal opinion that it could interpret it's rules in this area to fix the problem. The Board did so and voted unanimously to terminate the actuarial calculation for DB to DC conversions for employees with less than 5 years of service, instead favoring a refund of employee contributions only in alignment with our interpretation of code.*

**Finding 3 – 1 \*Issues with Calculation of Time Service Connections\***

Finding 3-1 found that 6 of the 54 (or 11.11%) sampled time service connections had errors caused by human error and/or miscalculation through manual processes that were utilized rather than JaxPension (the City's Pension Payroll and Information System). The follow-up response indicated that the Time Service Connections are now almost solely performed in JaxPension. Based on the response, we reviewed the calculation of four people that recently initiated time service connections. We found that there was nothing in the system regarding the calculation so this item is not resolved. We still feel that the system should be calculating the salary to utilize for the purchase of time service connections and that all reoccurring pensionable elements need to be considered in the salary to be utilized for the purchase price. We understand that for certain participants a manual calculation of final average calculation may be required, but for at least the City members it should be able to be done in the system like it is for Police and Fire Pension Fund members. Also, there needs to be research done into whether the JEA members can have their salary automatically calculated since their salary information does already get imported in report form for the final average compensation calculations for retirees.

***Finance and Administration Department Response to the Follow-Up of Finding 3-1***

Agree

Disagree

Partially Agree

*One of the two pension coordinators has been using JAXPENSION to perform the calculations but has not been saving that calculation in the system. Going forward, both coordinators will be using JAXPENSION and will be saving the resulting calculation in the system. We find that due to the various HR software systems from the past, full reliance on the system is not practicable at this time. Every effort has been made to calculate these correctly, but some manual work is still required due to systems limitations and multiple employers participating in the City Retirement System.*

**ICW 5 – 1 \*Failure to Implement Proper Controls Relating to the Detection of Deceased Members\***

Internal Control Weakness 5-1 found that the Pension Office did not actively utilize the Death Master File of the Social Security Administration. The department responded that a trial subscription was purchased based on the recommendation in the original report, but that Pension Office staff found that the database was often inaccurate, was time consuming to use, and that this, along with the expense, outweighed the potential benefit. Based on this, we followed up to get more detail. Upon further inquiry we did find out that one person was confirmed to be dead using this search. The pension was going to a nursing home, which once notified immediately returned the payments (approx. \$18,000). The cost of the service was approximately \$2,000 per year. A version with more capabilities would be about \$5,000 per year. Based on the information provided and practices utilized by the Florida Retirement System, we still believe this to be a beneficial process to explore further. If this could reduce or eliminate the other manual processes that take up staff time, there could be additional savings. Even if none were discovered or confirmed using this process for a trial period, it does not seem prudent to simply cease the practice and/or to not look into other alternatives.

***Finance and Administration Department Response to the Follow-Up of Internal Control Weakness 5-1***

Agree                       Disagree                       Partially Agree

*In addition to the pre-existing annual affidavit process to confirm the state of each pensioner or beneficiary, the Pension Office also implemented the death master file service after your initial audit. During the 18 months of using this service, the office found little value-add in helping to identify decedents. The one case that you mention as having been caught by the death master file would have also been caught through our current annual affidavit process and would have been returned by the assisted living facility in the same manner. The Florida Retirement System is a plan that is many times larger than ours with a much larger budget and IT team to handle the price of the service and administrative burden on staff. To gain the full value of the service, we would need to subscribe to the highest level of data syncing that this program offers, but this version is cost and time prohibitive. The board was advised of the decision to cease operation of this service and did not object. However, given that you bring it back up, we will present the option to the board again and, if the board votes to approve the subscription, we will re-engage this service.*

**Supplemental Finding 1 \*Related Party Transactions\***

Supplemental Finding 1 found errors with time service connections and retirement benefit calculations for current and former employees of the Pension Office. The response indicated that the Treasurer signs off on these types of transactions now. We only found one related party transaction and upon review there was no indication that there was review by the Treasurer.

***Finance and Administration Department Response to the Follow-Up of Supplemental Finding 1***

Agree                       Disagree                       Partially Agree

*The related party transaction in question was reviewed by the Treasurer, however you are correct that there is nothing in the file evidencing such review. Going forward, a signature will be placed in the employee's file upon each such review for audit trail purposes showing that such occurred.*

**Supplemental ICW 1 \*Segregation of Duties\***

Supplemental ICW 1 found that user rights within JaxPension were not maintained in a manner consistent with good internal controls. One employee had the capability to perform the payroll function and retirement function, which enabled them to process everything for a pensioner without any review by a third party. Additionally, we found that employees that could process the payroll or the annual affidavits were also able to update the pensioners' addresses in the system allowing them to divert payments from a deceased pensioner by changing their address and forging the annual affidavit. The follow-up response indicated that the Pension Office has attempted to meet this requirement as best it can. We requested a listing of current employees with their job. Based on the information provided, it appears this is a work in progress due to employee turnover and training. Therefore, we will follow-up on this in the future.

***Finance and Administration Department Response to the Follow-Up of Supplemental ICW 1***

Agree                       Disagree                       Partially Agree

*The pension office has experienced a large degree of turn-over in the past 5 years and has been trimmed to 5 FTEs. The lower staffing level results in challenges to segregation of duties while also insuring lack of interruptions due to an absence of an employee. In addition, one team member is out due to health issues. Once our new employee is trained and our employee who is out of the office returns, we will turn off the payroll function of the employee who also has retiree setup functions. Until then, the pension administrator will review each retiree set up in the system by the employee with both systems rights to verify that the employee exists and that it is not a fraudulent record.*

**Supplemental ICW 2 \* Failure to Remove Former Employee Access Rights \***

Supplemental ICW 2 found two former employees still had user rights within JaxPension. One was a former employee of the City's IT Department and had a Developer role and the other was a former employee of JEA and had a JaxPension JEA role. The City indicated in its follow-up response that new procedures had been put in place to terminate access. Based on our testing performed, we found more issues, some of which were related to former Pension Office employees. The procedures to remove access rights to the JaxPension system for employees who transfer to a different office and/or separate from employment still does not appear to be functioning properly.

***Finance and Administration Department Response to the Follow-Up of Supplemental ICW 2***

Agree                       Disagree                       Partially Agree

*As of the time of this follow-up you are correct that employees who should not have had access still, did indeed have access. For those whom have terminated, we were protected by their Citrix access being terminated but for those whom were still active employees there was no such added protection. Since the follow-up, we have reviewed all accesses and removed all of those whom should not have access. In addition, the pension administrator will begin reviewing accesses quarterly, which includes reaching out to ITD, accounting, and JEA to verify employees with access are still employed in a position which requires such access.*

**Supplemental ICW 3 \* Inadequate Policy and Procedures \***

Supplemental ICW 3 found that the policy and procedures of the Pension Office were overall inadequate, outdated and disorganized. The City's follow-up response indicated that policy and procedures had been updated. We requested the updated policies and procedures. While there are overall guidelines dictated by the Municipal Code and there are fairly detailed procedures for the JaxPension system, we still feel that the procedures aspect of the manual is inadequate. Overall the procedures need to be cleaned up, enhanced to incorporate all aspects of the office and maintained in a more formal and secure manner.

***Finance and Administration Department Response to the Follow-Up of Supplemental ICW 3***

Agree                       Disagree                       Partially Agree

*Upon completion of the On-Base scanning project, which is currently in progress, certain processes will have been updated as the office moves toward more electronic processing and record-keeping. As such, we will update the impacted processes and review other unrelated policies and procedures to ensure they are still up-to-date and if not will update accordingly.*

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We would like to thank the Finance and Administration Department for their cooperation in conducting this follow-up review.

Sincerely,

Kirk A. Sherman, CPA  
Council Auditor