



## **Council Auditor's Office**

### **Police and Fire Pension Fund Audit Follow-up Report**

#### **Report #736A**

**Released on:** February 9, 2017

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



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Honorable Members of the City Council  
City of Jacksonville

The purpose of this report is to document our follow-up review of past report #736, Police and Pension Fund 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 Police and Fire and Pension Fund management inquiring as to the status of the original audit report recommendations. We also received a response from the Fire and Rescue Department in addition to the response from the plan administrator. 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 Fund and our follow-up testing of a judgmentally selected sample, it appears that the Fund has complied with our audit recommendations with the following exceptions:

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

Finding 1- 2 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. The initial follow-up response indicated that a correction had been made so that the preceding 52 pay periods would be used to calculate final average compensation. We selected a limited sample of vested and time service retirements. Of the sample selected, we found that there is still an issue with the Fund not always including the final pay period in the Final Average Compensation calculation. This could overstate or understate the final average compensation.

Also, we found an issue where the last paycheck was included, but it related to pay for three weeks instead of only two weeks which is the applicable period of time for a pay period. The reason the check includes three weeks instead of the standard two weeks is because JSO's standard practice is to catch-up the standard one week lag on the final paycheck. This issue erroneously overstates the final average compensation.

***Pension Fund Response to the Follow-Up of Finding 1-2***

Agree

Disagree

Partially Agree

*We agree with finding. We plan to research finding and correct. Likewise, we plan to monitor and document efforts to verify reliability of payroll data in JaxPension with City payroll.*

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

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 receive a reduced pension deduction (from 7% to 2%), for an extra week. The initial follow-up response indicated that outside legal counsel and an agreed upon procedures report by an external accounting firm had determined that the Fund is in compliance with Section 121 of the Municipal Code. Based on testing performed, we found that the effective date and reduction in pension contribution are still not consistent with each other. Here is an example of the current practice as it was applied to the January 2016 DROP class:

- Final Average Compensation based on pay as of 12/25/15.
- Reduced Contribution began 12/26/15
- Effective Retirement Date of 1/2/16

Practice should be such that the Effective Retirement Date should be the same date the reduced contribution rate takes effect. The Fund should also ensure that Section 121.209 (b)(3) of the Municipal Code is followed concerning when the effective retirement data can occur. The Section states:

*“The beginning date of the DROP period shall be the first full biweekly day period after the first day of January, April, July or October subsequent to the date of election to participate, or as soon as administratively practical thereafter and shall not exceed the DROP participation period as provided in (b)(1), above.”*

Based on the above facts and since the first full biweekly pay period in January commenced on January 9, 2016, it appears the applicable dates for the January 2016 DROP class should have been as follows:

- Final Average Compensation based on pay as of 1/8/16.
- Reduced Contribution began on 1/9/16.
- Effective Retirement Date of 1/9/16.

***Pension Fund Response to the Follow-Up of Finding 1-3***

Agree

Disagree

Partially Agree

*We agree with recommendation and plan to pilot to validate approach. The effective retirement date and reduction in pension contribution date should be the same. Executing in pilot mode will allow us to uncover any operability issues associated with the change.*

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

Finding 4- 1 found that 5 out of 1,538 members 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. We found that 14 out of 1,936 or .72%, of beneficiaries had inaccurate COLA payments due to an error in the calculation. While the frequency of instances is slightly higher, the dollar impact was significantly less than the prior audit. Also, nine of the issues relate to how the COLA was handled for individuals who retired after September 30, 2015 based on the Fund’s interpretation of the recent pension reform. The interpretation was a change in practice that does not appear to have been contemplated during the pension reform and resulted in a larger retirement benefit for individuals who retired from October 1, 2015 through December 31, 2015.

***Pension Fund Response to the Follow-Up of Finding 4-1***

Agree

Disagree

Partially Agree

*We agree with finding. We are working with ITD to review COLA calculations for sample members. COLA amounts are calculated automatically by JaxPension application. Further programmatic research is needed to determine what caused system error.*

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

Sincerely,

Kirk A. Sherman, CPA  
Council Auditor