CITY OF MIAMI
OFFICE OF INDEPENDENT AUDITOR GENERAL

AUDIT OF EMPLOYEES' BENEFITS –
PENSION PLANS, 401-A, 457,
AND OTHER BENEFITS

AUDIT REPORT NO. 010-002

Prepared By
Office of Independent Auditor General

Victor I. Igwe, CPA, CIA
Independent Auditor General

ELENA DOBREV, CPA, STAFF AUDITOR
August 19, 2010

Honorable Members of the City Commission
City of Miami
3500 Pan American Dr.
Coconut Grove, FL 33133-5504

Re: Audit of City Employees’ Benefits – Pension Plans, 401-A, 457 and Other Benefits
Audit No. 010-002

Pursuant to Section 48 of the City of Miami’s (City) Charter, the Office of the Independent Auditor General performed an audit of city employees’ pensions, including contributions to pension plans, 401-A, 457 and other benefits. The audit was performed to determine whether said employment benefits were disbursed in compliance with the provisions of Labor Union Agreements, applicable City Code provisions, and/or City Commission Resolutions.

Additionally, we examined the internal control policies and procedures of the City’s Employees’ Relations Department, Payroll Section, Risk Management Department, General Employees and Sanitation Employees Pension Trust, and the Fire and Police Pension Trust to determine whether they were adequate and effective in administering and monitoring the processing and disbursing of these benefits.

The audit covered the period October 1, 2007 through September 30, 2009, and selected financial transactions prior and subsequent to this period.

Victor I. Igwe, CPA, CIA
Independent Auditor General
Office of Independent Auditor General
CC: The Honorable Mayor Tomas P. Regalado
Carlos Migoya, Chief Administrator/City Manager
Members of the Audit Advisory Committee
Tony Crapp, Jr., Assistant City Manager/Chief of Operations
Larry M. Spring, Assistant City Manager/Chief Financial Officer
Johnny Martinez, Assistant City Manager/Chief of Infrastructure
Peter W. Korinis, Chief Information Officer, Information Technology Department
Julie O. Bru, City Attorney, City Attorney’s Office
Robert Nagle, Pension Administrator, Fire Fighters’ and Police Officers’ Retirement Trust
Captain Thomas Gabriel, Chair, FIPO Pension Board.
Sandra Elenberg, Pension Administrator, General Employees’ and Sanitation Employees’ Retirement Trust
Michelle Piña, Ph.D., Director, Employee Relations Department
Diana M. Gomez, CPA, Director, Finance Department
Gary Reshefsky, Esq., Interim Director, Risk Management Department
Priscilla A. Thompson, City Clerk
Audit Documentation File
# AUDIT OF CITY EMPLOYEES’ BENEFITS –  
PENSION PLANS, 401-A, 457 AND OTHER BENEFITS
AUDIT PERIOD – OCTOBER 01, 2007 THROUGH SEPTEMBER 30, 2009  
AUDIT # 10-002

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INTRODUCTION

Pursuant to Article IV, Sections 40-191 through 40-196 and Article IV, Sections 40-241 through 40-246 of the City Code and the verdict resulting from Court Case Number 77-9491 CA 04 (Gates Case) of the 11th Judicial Circuit of Miami-Dade County, the City provides the funding for the administration/operations of the Firefighters’ and Police Officers’ Retirement Trust (FIPO) and the General Employees and Sanitation Employees (GESE).

The FIPO and GESE Boards that manages the pension contributions have the following general goals:

- Provide a funding resource for pension assets and liabilities, thereby maintaining retirement income security for Trust participants and their beneficiaries;
- Maintain an overall level of financial adequacy;
- Fund the Retirement Trust's benefit payments while assuming a risk posture that is consistent with the Board's risk tolerance;
- Protect against loss of purchasing power by achieving rates of return above inflation;
- And, maintain a fully funded pension status at the lowest possible cost.

The Pension Administrators of FIPO and GESE pension Trusts reports to their respective Board of Trustees, which is comprised of members selected as follows:

- Trustees selected by the City Manager.
- Trustees selected by the fire fighters.
- Trustees selected by the police officers.
- Independent trustees selected by the City Commission.
- Trustees selected by the general employees.
- Trustees selected by the sanitation employees.
The Board of Trustees holds the fiduciary responsibility for the Retirement Trusts. However, the Boards employ the services of investment consultants and investment managers to assist in the discharge of their duties.

The Division of Labor Relations of the Employee Relations Department represents the City in all negotiations with the unions. This includes negotiating labor contracts, reviewing and analyzing major employment trends, fair employment practices, judicial opinions, and staying abreast of developments of national, state and federal regulatory agencies. In addition, the division is responsible for implementing new payroll codes/elements and/or modifying existing payroll codes/elements based on City Commission mandates, labor agreements, and federal and state and local legislation.

Effective March 2010, the City’s payroll function was transferred from the Employee Relations Department to the Finance Department. The Payroll Division (Payroll) is responsible for processing the City’s bi-weekly payroll and all related payroll disbursements. On June 21, 2009, the City implemented the Human Resources Management System (HRMS) Module in the Oracle financial accounting system, which facilitates the processing of all payroll related transactions.

The City partners with the International City/County Management Association (ICMA) to provide 401-A retirement products and services to City employees. The Labor Relations Section of the Employee Relations Department was responsible for administering 401-A and 457 plans until February 2008 when the benefit was transferred to the Risk Management Department (RMD). The RMD is responsible for managing the City’s health insurance coverage program, including the stop-loss re-insurance coverage.
SCOPE AND OBJECTIVES

This audit was performed in conformance with Section 48, of the City Charter, titled “Office of the Independent Auditor General”, and in conformance with the Fiscal Year 2010 Audit Plan. As part of our responsibilities, we provide the City Commission with financial, operational, compliance, single audit, and performance audits of city government, officials, and independent agencies. The audit included examinations of controls, procedures, transactions and records associated with certain City employees' benefits. The audit covered the period October 1, 2007 through September 30, 2009, and focused on the following broad objectives:

- To review the actuarially determined annual pension unfunded liabilities presented to the City for funding by all the Retirement Trusts.
- To ascertain whether City employees' contributions to GESE and FIPO Retirement Plans were properly assessed, deducted from payroll checks, and remitted to the appropriate agencies.
- To ascertain whether employees that received Retirement Plan 401-A and/or Retirement Plan 457 contributions were properly approved/authorized as required by the applicable City Codes, City Commission Resolutions and/or a letter signed by the City Manager or City Manager's designee.
- To ascertain whether Stop-loss health insurance coverage reimbursements claims are filed in a timely manner.
- To follow up on prior audit findings.
- Other procedures as deemed necessary.
METHODOLOGY

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States. The audit methodology included the following:

- Reviewing prior related audits, applicable laws, regulations and agreements.
- Interviewing and inquiring of applicable City and Retirement Trust staff about related procedures, and reviewing and observing procedures and controls. This is done primarily to gain an understanding of applicable controls, assess control risks, and plan substantive tests for the audit.
- Employing the use of analytical review procedures for purposes of planning substantive testing and confirming the reasonableness of audit conclusions and findings.
- Performing substantive testing consistent with the audit objectives as stated on page 3.
- Examining, on a test basis, applicable controls, procedures, transactions and records.
- Drawing conclusions and developing recommendations based on the substantive testing.
AUDIT CONCLUSION

Based upon various tests performed and the audit findings noted, we conclude that adequate internal controls were not in place to ensure that:

- All possible investment strategies are being explored to mitigate excessive investment losses that create unfunded liabilities for the GESE and the FIPO pensions Trusts that the City is required to fund.
- Investment Managers for the GESE pension Trust are promptly terminated for not achieving the established performance thresholds.
- Asset/liability study for the GESE pension Trust were performed in a timely manner.
- Only those payroll earnings designated as pensionable are processed as such.
- Biweekly contributions to the ICMA 401-A plan were terminated in a timely manner.
- Reimbursements for Stop-loss claims were filed in a timely manner.

Based upon various tests performed and the audit findings noted, we conclude that adequate internal controls were in place to ensure that:

- Asset/liability study for the FIPO pension Trust were performed in a timely manner.
- 401-A and 457 pension contributions were properly calculated.

Overall, we conclude that the internal controls policies and procedures in place at the FIPO and GESE Pension Trusts, Employee Relations, and the Risk Management Departments could be enhanced to address the deficiencies noted above.
SUMMARY OF AUDIT FINDINGS

FIRE FIGHTERS’ AND POLICE OFFICERS’ RETIREMENT TRUST

MATERIAL INVESTMENT LOSSES

The Investment Performance Analysis quarterly reports for the audit period October 1, 2007 through September 30, 2009 indicated that the Fire Fighters’ and Police Officers’ Retirement Trust (FIPO) lost approximately $214,551,906 of its investment asset value. Said investment loss created unfunded pension liability for the fiscal years ended September 30, 2008 and September 30, 2009 totaling $112,600,000 and $49,500,000 respectively. In accordance with Section 40-246 of the City Code, the City’s annual contribution to FIPO, among others, must include an amortized portion of the unfunded liability of the FIPO pension plan. The City’s total contributions to FIPO were $36,040,251 in 2008 and $36,993,395 in 2009. We are concerned that the Pension Administrator did not provide a written response by the date requested and/or accept an invitation for a meeting to discuss this important matter.

Refer to detailed audit findings and recommendations on pages 12 through 14.
GENERAL EMPLOYEES’ AND SANITATION EMPLOYEES’ RETIREMENT TRUST (GESE)

MATERIAL INVESTMENT LOSSES

The Investment Performance Analysis quarterly reports for the audit period October 1, 2007 to September 30, 2009 indicated that General Employees’ and Sanitation Employees’ Retirement Trust (GESE) lost approximately $111,803,754 of its investment asset value. Said investment loss created unfunded pension liability for the fiscal years ended September 30, 2008 and September 30, 2009 totaled $113,723,204 and $106,557,873 respectively. In accordance with Section 40-246 of the City Code, the City’s annual contribution to GESE, among others, included an amortized portion of the unfunded liability of the GESE pension plan. The City’s total contributions to GESE were $23,318,981 in 2008 and $23,815,990 in 2009. Among other measures being taken, the Pension Administrator noted that the GESE Board sponsored a City Commission agenda item that modified the Pension Ordinance to allow for investment in international equities.

Refer to detailed audit findings and recommendations on pages 15 through 17.

INADEQUATE MONITORING OF INVESTMENT MANAGERS

Our audit indicated that six (6) investment managers appeared on the watch and probation lists in the period October 1, 2007 to September 30, 2009. Two (2) of the six (6) were not properly monitored.

See Audit Findings and Recommendations on pages 18 through 20.
ASSET/LIABILITY STUDIES WERE NOT CONDUCTED IN A TIMELY MANNER

Our audit indicated that an asset/liability study was not performed during the period June 1999 through February 2010.

See Audit Findings and Recommendations on pages 21 and 22.
EMPLOYEE RELATIONS DEPARTMENT

PAYROLL CODES WERE INCORRECTLY DESIGNATED AND PROCESSED AS PENSIONABLE EARNINGS

Our audit determined that certain payroll earnings were incorrectly designated and processed as pensionable earnings.

See Audit Findings and Recommendations on pages 23 through 28.
DEPARTMENT OF FINANCE

CONTRIBUTIONS TO 401-A RETIREMENT PLANS WERE NOT TERMINATED IN A TIMELY MANNER

Our audit determined that the City’s biweekly contributions to the ICMA for 4 employees were not terminated in a timely manner resulting in an over-contribution totaling $6,069.94.

See Audit Findings and Recommendations on page 29.
DEPARTMENT OF RISK MANAGEMENT

INADEQUATE MONITORING AND FILING FOR STOP-LOSS INSURANCE CLAIMS

Our review disclosed that forty-three (43) claims exceeded the $200,000 threshold in the period January 1, 2005 through December 31, 2009; however, as of the end of our audit field work (July 2, 2010), only seven (7) claims have been fully reimbursed and thirty-six (36) claims were outstanding in the amount of $2,375,328.28.

See Audit Findings and Recommendations on pages 30 through 33.
AUDIT FINDINGS AND RECOMMENDATIONS

FIRE FIGHTERS’ AND POLICE OFFICERS’ RETIREMENT TRUST (FIPO)

MATERIAL INVESTMENT LOSSES

The Investment Performance Analysis quarterly reports for the audit period October 1, 2007 through September 30, 2009 indicated that the Fire Fighters’ and Police Officers’ Retirement Trust (FIPO) lost approximately $214,551,906 of its investment asset value. Said investment loss created unfunded pension liability for the fiscal years ended September 30, 2008 and September 30, 2009 totaling $112,600,000 and $49,500,000 respectively. In accordance with Section 40-246 of the City Code, the City’s annual contribution to FIPO, among others, must include an amortized portion of the unfunded liability of the FIPO pension plan. The City’s total contributions to FIPO were $36,040,251 in 2008 and $36,993,395 in 2009, respectively.

As part of the procedures for monitoring investment, the FIPO Board meets quarterly with its investment consultant and review investment managers’ monthly investment reports, investment strategy, market conditions, portfolio manager performance, the status of the Trust’s asset allocation, and compare the results reported by the managers to the respective benchmarks.

We are fully aware that all pension plans are long term obligations that require long term investments. Also, it is understandable that the global investment market conditions were largely unfavorable during the period that FIPO lost approximately $214,551,906 of its investment asset value as stated above. However, based on the records reviewed and audit inquiries made of the FIPO Pension Administrator, it is not clear what additional preventive or mitigating actions, if any, is being taken to reduce or minimize material unfunded pension liability for which the City is required to fund. In a written response
(see page 34) to our audit memorandum dated August 3, 2010, which requested the FIPO Plan Administrator to provide supporting records to evidence what actions he has taken to advise the FIPO Board of additional necessary measures to address and/or mitigate the material investment losses and the staggering unfunded liability, the Pension Administrator:

- Questioned the adequacy of the timeframe for providing a written response as requested in our audit memorandum.
- Characterized the audit inquiry as a naïve lack of understanding of the defined benefit pension investment management techniques and principles.
- Questioned the principles of GAAP (Generally Accepted Accounting Principles), GASB (Government Accounting Standard Board), and methodology used to reach our audit conclusions.

Although the above issues were addressed in a follow-up audit memorandum (see pages 35 through 36), including an invitation to the Pension Administrator to discuss our concern, no written response was provided by the date of this audit report relative to what actions are being taken by the FIPO Pension Administrator to advise the FIPO Board of additional necessary measures to address and/or mitigate the material investment losses and the staggering unfunded liability for which the City is required to fund.

It should be noted, as shown on pages 38 through 41, that the Pension Administrator for the General Employees and Sanitation Employees diligently provided a timely written response and also met and discussed our audit concerns. Therefore, given the magnitude of the decline in the value of FIPO’s investment assets totaling approximately $214,551,906 during the audit period, which created unfunded pension liability for which the City is required to fund, it would be prudent for the City and/or its auditor to inquire as to what additional “defined benefit pension investment management techniques” and/or actions are being taken by the Plan Administrator to properly assist
the Board in the performance of its administrative duties. It is the responsibility of the Plan administrator (who run the day to day activities) to demonstrate what additional preventive or mitigating actions are being taken to properly advise the Board to adopt more proactive investment strategies and/or options. We are concerned that the Pension Administrator did not provide a written response by the date requested and/or accept an invitation for a meeting to discuss this important matter.

**Recommendation**

The City should closely monitor and review all material unfunded pension liability, and implement policies and procedures that will address and/or mitigate the financial burden created by such obligation.

**Auditee’s Response and Action Plan**

The Pension Administrator did not provide a written response by the date requested and/or accept an invitation for a meeting to discuss this important matter. See pages 34 and 37.
GENERAL EMPLOYEES’ AND SANITATION EMPLOYEES’ RETIREMENT TRUST (GESE)

MATERIAL INVESTMENT LOSSES

The Investment Performance Analysis quarterly reports for the audit period October 1, 2007 to September 30, 2009 indicated that General Employees’ and Sanitation Employees’ Retirement Trust (GESE) lost approximately $111,803,754 of its investment asset value. Said investment loss created unfunded pension liability for the fiscal years ended September 30, 2008 and September 30, 2009 totaled $113,723,204 and $106,557,873 respectively. In accordance with Section 40-246 of the City Code, the City’s annual contribution to GESE, among others, must include an amortized portion of the unfunded liability of the GESE pension plan. The City’s total contributions to GESE were $23,318,981 in 2008 and $23,815,990 in 2009.

The GESE Board’s current policies and procedures include retaining an investment consultant that assesses the performance of each investment manager and compares the results to applicable benchmarks on a monthly basis. Said investment consultant presents a detailed report to the GESE Board on a quarterly basis. Also, we noted that GESE’s current Board policy provides that the Board will periodically consider modifying its policies if any of the following occur:

- Significant changes in expected patterns of the Trust’s liability stream,
- Impractical time horizons,
- Changes in applicable governing laws,
- Change in City’s priorities,
- Convincing arguments for changes presented by investment managers,
- Areas found to be important but not covered by the policy,
- Long-term changes in market trends and patterns that are materially different from those used to set the policy.
In a written response (see pages 38 and 39) to what additional preventive or mitigating actions, if any, is being taken to reduce or minimize material unfunded pension liability for which the City is required to fund, the Pension Administrator stated that:

- Pension plans are long term obligations and as such, assets are invested for long the term. For example, the GESE Pension Plan lost 10% of its value in 2001 and 2002; however, its earnings during the period 2003 through 2005 ranged from 11% to 17.7%
- The market conditions and environment during the audit period were very volatile.
- It would have been very difficult to anticipate the magnitude and duration of the decline in the market for the said period.

We are fully aware that all pension plans are long term obligations that require long term investments. Also, it is understandable that the global investment market conditions were largely unfavorable during the period the above investment losses were experienced.

The Investment Consultant is responsible for assessing the performance of each investment manager; however, it is not clear to what degree the Investment Consultant is held accountable for material losses incurred by those (investment managers) the Investment Consultant monitors. Periodic evaluation/assessment of the performance of the Investment Consultants and timely administrative actions necessary to mitigate future material losses would safeguard the City’s best financial interest by reducing unfunded liability for which the City is required to fund.
Recommendation

We recommend that the Board be more aggressive in applying its Investment Policies, and more specifically, in monitoring performance. Furthermore, since the investment consultant assists the Board in this process by providing quarterly reports and discussing the performance of investment managers, the Board should perform a formal periodic evaluation of the consultant’s work.

Also, we recommend that the City closely monitor and review all material unfunded pension liability and implement policies and procedures that will address and/or mitigate the financial burden created by such obligation.

Auditee Response and Action Plan

See auditee’s written response pages 38 and 39.
INADEQUATE MONITORING OF INVESTMENT MANAGERS

Pursuant to the Section titled: “Roles and Responsibilities” of the GESE’s Investment Policy, the Board of Trustees holds the fiduciary responsibility for the Retirement Trust. If deemed appropriate, the Board may delegate investment responsibility to qualified investment managers. Accordingly, the Board established the following minimum requirements to monitor the performance of investment managers:

- **Good Standing** – a manager will be considered in good standing if its returns during the most recent three year period are both equal to or better than ninety percent of the median (50th percentile) manager’s return in the appropriate peer universe and has met or exceeded the benchmark return.

- **Watch List** – a manager will be placed on a watch list if its returns during the most recent three year period have not performed better than or equal to ninety percent of the median (50th percentile) manager’s return in the appropriate peer universe or has not met or exceeded the benchmark return for a period of six consecutive months. A manager will return to good standing if he/she achieves returns equal to or better than ninety percent of the median manager’s return and has exceeded its benchmark.

- **Probation List** – a manager will be placed on probation if he/she remains on the watch list for six months. A manager will return to good standing if he/she achieves returns equal to or better than ninety percent of the median manager’s return and has exceeded its benchmark. If a manager remains on probation for one year, he/she is subject to termination.

Our audit determined that six (6) investment managers appeared on the watch and probation lists in the period October 1, 2007 to September 30, 2009. Two (2) of the six (6) were not properly monitored as discussed below:
Atlantic Capital

Atlantic Capital (Atlantic) was placed on the watch list in September 2004 and moved to the probation list in March 2005. During the twelve month probation period April 2005 through March 2006, Atlantic did not achieve returns equal to or better than ninety percent of the median manager’s return (84th to 97th percentile) and also did not exceed its benchmark. However, Atlantic was not terminated at the end (March 2006) of the probation period as required but was allowed to continue to provide services to the Trust until April 2008 when it was terminated. In the eight quarters following the end of the probation period, Atlantic lost $4,346,554.

Upon audit inquiry, the Pension Administrator stated that: “The investment policy is an operating tool to be utilized by the Board and their investment professionals. It does not replace the City Ordinance. The section relating to watch and probation lists does not mandate that a manager be terminated. Likewise, the Ordinance does not contain language that results in an absolute termination, but rather provides guideline for the Board.” However, it is unclear why the Board should establish a minimum performance requirement that is not promptly enforced, particularly when such lack of performance results in over $4 million of loss that the City will be obligated to fund. Also, the Ordinance should be modified to require immediate termination.

BlackRock

BlackRock was placed on the watch list in December 2008 and moved to the probation list in June 2009. BlackRock has not achieved returns equal to or better than ninety percent of the median manager’s return (93rd to 96th percentile) and also has not exceeded its benchmark. In the three quarters following June 2009 (September 2009, December 2009 and March 2010), the company had lost a total of $3,809,032.00. Upon audit inquiry, the Pension Administrator stated that BlackRock is a real estate management
firm that placed a freeze on liquidating its assets during the third quarter of 2008. The GESE Board, the investment consultant, and the pension administrator were not informed prior to the implementation of the freeze, and therefore, cannot terminate the services of the investment manager (BlackRock) until said freeze is lifted. The fact that BlackRock could arbitrarily place a freeze on the liquidation of its assets without the consent and/or knowledge of the Board or the Investment Consultant is an indication of inadequate oversight.

Recommendation

We recommend that the GESE Board promptly enforce its minimum performance requirements. Also, we recommend that policies and procedures be implemented to prevent any investment manager from arbitrarily placing a freeze on the liquidation of its assets without the consent and/or knowledge of the Board or the Investment Consultant.

Auditee Response and Action Plan

See written responses on pages 39 and 40.
**ASSET/LIABILITY STUDIES WERE NOT CONDUCTED IN A TIMELY MANNER**

The Board of Trustees is designated as the fiduciary of the Trust and has the responsibility to control, manage and invest the assets of the Trust. In this capacity, the Board is responsible for providing a funding resource for pension liabilities, thereby maintaining retirement income security for Trust participants and their beneficiaries and maintaining an overall level of financial adequacy.

The common path toward accomplishing these goals would be through setting a diversified portfolio, which would be expected to appropriately fund the Trust’s liabilities and meet its basic investment objectives. The basis for such portfolio would be an asset/liability study, which identifies the Trust’s future cash flow requirements and then the investment portfolios that are most likely to meet these cash flow requirements while minimizing risk.

Our audit determined that an asset/liability study was performed in May 1999 and March 2010. The “Roles and Responsibilities of the Board” Section of the Investment Policy provide that an asset liability study is expected to be conducted at least once every five years. However, the “Development of Long Term Asset Allocation” Section of the Investment Policy provides that an asset liability study shall be conducted periodically. The Pension Administrator clarified that the Pension Policy was amended to require asset studies to be conducted periodically, and not once every five years, as had been the case.

Our audit determined that several asset allocation studies were performed in this period. However, asset allocation studies are considerably different from asset/liability studies. Asset allocation studies consider only the assets of the Trust, and are based on the idea that different assets perform differently in different years. Therefore, the said studies were performed in order to shift funds from one asset class to another, depending on market conditions, without considering the Trust’s liabilities. In light of the
approximately $202.7 million of underfunded actuarial accrued liability facing the City, it is crucial to conduct an asset/liability study at least every three to five years for the GESE Retirement Trust and the GESE staff Retirement plan.

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**Recommendation**

We recommend that the Board conduct an asset/liability study at least every three to five years for the GESE Retirement Trust and the GESE staff Retirement plan.

**Auditee’s Response and Action Plan**

See written responses on page 40.
PAYROLL CODES WERE INCORRECTLY DESIGNATED AND PROCESSED AS PENSIONABLE EARNINGS

Section 40-191 of the City Code provides that “Earnable Compensation” or “Pensionable Earnings” for the FIPO Retirement Trust, “shall mean an employee's base salary, including pickup contributions, for all straight time hours worked, plus assignment pay and payments received for vacation and sick leave taken, jury duty, and death-in-family leave taken, and any other items, if any, currently included in the calculation of average final compensation. Earnable compensation shall not include overtime pay; payments for accrued sick leave, accrued vacation leave, or accrued compensatory leave; holiday pay; premium pay for holidays worked; the value of any employment benefits or nonmonetary entitlements; or any other form of remuneration.”

Also, Section 40-241 of the City Code provides that Compensation or “Pensionable Earnings” for the GESE Retirement Trust shall mean “a member's base salary, including pick-up contributions for all straight time hours worked, assignment pay, pay supplements, vacation, and sick leave used while an active member, jury duty, and death in family leave taken or any other administrative leave approved pursuant to ordinance, labor agreement, or city personnel policy which is used as part of the member's base salary. Compensation shall not include overtime pay, payments for accumulated sick leave, accumulated vacation leave, or accumulated compensatory leave, premium pay for holidays worked, call back pay, uniform allowances, tool allowances, the value of any other employment benefit or non-monetary entitlement, or any other form of remuneration.”

However, our audit determined that the following payroll earnings were incorrectly designated and processed as pensionable earnings:
Pay Supplements

- Pursuant to Article 25.1 of the Agreement between the City and the Miami General Employees American Federation of State, County, and Municipal Employees, Local 1907, AFL-CIO (AFSCME, Local 1907) for the period October 1, 2007 to September 30, 2010, any pay supplements/tool allowance provided by this agreement shall not be used in calculating average earnings for pension purposes.

However, our audit disclosed that the following supplements/tool allowances were coded as pensionable in the City’s Moore and Oracle Payroll Systems.

- A1, GSA Auto Service Certification 1%
- A2, GSA Auto Service Certification 2%
- A3, GSA Auto Service Certification 3%
- A4, GSA Auto Service Certification 4%
- A5, GSA Auto Service Certification 5%
- FD, Fuel Tanker Driver – GSA
- GP, Garage On Call Pension Deduction
- MD, National Academy of Emergency Dispatcher
- OT, Communications Operator Training
- QP, Quality Assurance Proficiency
- T0, Emergency Vehicle Technicians 1%/10
- T2, Emergency Vehicle Technicians 1%/2
- T4, Emergency Vehicle Technicians 1%/4
- T6, Emergency Vehicle Technicians 1%/6
- T8, Emergency Vehicle Technicians 1%/8.

Our audit determined that 10% of employee’s pension contributions were deducted from the above non-pensionable pay supplements/tool allowance earnings and transmitted to the General Employees and Sanitation Employees (GESE). The records reviewed indicated that approximately $769,132.87 of employee pension contributions relative to non-pensionable pay supplements/tool allowance earnings were included in the pensionable earnings and were
incorrectly reported to the General Employees and Sanitation Employees Pension Trust during the audit period (October 1, 2007 through June 19, 2010). By including non-pensionable pay supplements/tool allowances:

- The average employee earnings for the purpose of establishing pension benefits were inflated/overstated.
- The pensionable salaries for the purposes of calculating unfunded actuarial accrued pension liability were overstated.
- The required City contributions to the GESE and FIPO Trusts were overstated.

<table>
<thead>
<tr>
<th>Item #</th>
<th>Code</th>
<th>Code Description</th>
<th>Oracle Element</th>
<th>Moore Amount</th>
<th>Oracle Amount</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A1</td>
<td>GSA Auto Service Certification 1%</td>
<td>GSA Auto Serv Cert</td>
<td>2,406.08</td>
<td>21,316.61</td>
<td>23,722.69</td>
</tr>
<tr>
<td>2</td>
<td>A2</td>
<td>GSA Auto Service Certification 2%</td>
<td>NA</td>
<td>6,928.70</td>
<td>NA</td>
<td>6,928.70</td>
</tr>
<tr>
<td>3</td>
<td>A3</td>
<td>GSA Auto Service Certification 3%</td>
<td>NA</td>
<td>9,000.15</td>
<td>NA</td>
<td>9,000.15</td>
</tr>
<tr>
<td>4</td>
<td>A4</td>
<td>GSA Auto Service Certification 4%</td>
<td>NA</td>
<td>15,617.58</td>
<td>NA</td>
<td>15,617.58</td>
</tr>
<tr>
<td>5</td>
<td>A5</td>
<td>GSA Auto Service Certification 5%</td>
<td>NA</td>
<td>10,170.39</td>
<td>NA</td>
<td>10,170.39</td>
</tr>
<tr>
<td>6</td>
<td>FD</td>
<td>Fuel Tanker Driver - GSA</td>
<td>Fuel Tank Driver</td>
<td>4,978.13</td>
<td>2,413.26</td>
<td>7,391.39</td>
</tr>
<tr>
<td>7</td>
<td>GP</td>
<td>Garage On Call Pension Deduction</td>
<td>Garage</td>
<td>20,474.92</td>
<td>0.00</td>
<td>20,474.92</td>
</tr>
<tr>
<td>8</td>
<td>MD</td>
<td>National Academy of Emergency Dispatcher</td>
<td>Natl Academy of Emergency Disp</td>
<td>131,786.14</td>
<td>64,120.04</td>
<td>195,906.18</td>
</tr>
<tr>
<td>9</td>
<td>OT</td>
<td>Communications Operator Training</td>
<td>Communications Operator Training</td>
<td>140,291.45</td>
<td>19,084.00</td>
<td>159,375.45</td>
</tr>
<tr>
<td>10</td>
<td>QP</td>
<td>Quality Assurance Proficiency</td>
<td>QA Proficiency</td>
<td>190,057.21</td>
<td>114,730.68</td>
<td>304,787.89</td>
</tr>
<tr>
<td>11</td>
<td>T0</td>
<td>Emergency Vehicle Technicians 1%/10</td>
<td>Emergency Vehicle Technician</td>
<td>1,252.79</td>
<td>6,774.92</td>
<td>8,027.71</td>
</tr>
<tr>
<td>12</td>
<td>T2</td>
<td>Emergency Vehicle Technicians 1%/2</td>
<td>NA</td>
<td>3,041.55</td>
<td>NA</td>
<td>3,041.55</td>
</tr>
<tr>
<td>13</td>
<td>T4</td>
<td>Emergency Vehicle Technicians 1%/4</td>
<td>NA</td>
<td>2,182.71</td>
<td>NA</td>
<td>2,182.71</td>
</tr>
<tr>
<td>14</td>
<td>T6</td>
<td>Emergency Vehicle Technicians 1%/6</td>
<td>NA</td>
<td>1,252.79</td>
<td>NA</td>
<td>1,252.79</td>
</tr>
<tr>
<td>15</td>
<td>T8</td>
<td>Emergency Vehicle Technicians 1%/8</td>
<td>NA</td>
<td>1,252.79</td>
<td>NA</td>
<td>1,252.79</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td>540,693.36</td>
<td>228,439.51</td>
<td>769,132.87</td>
</tr>
</tbody>
</table>

PAYROLL ELEMENTS WERE INCORRECTLY DESIGNATED IN ORACLE

- On June 21, 2009 the City implemented the Oracle Payroll System and discontinued the use of the Moore Payroll System, which had been in use since April of 1990. As part of the implementation of the Oracle System, the payroll
codes from the Moore Payroll System were converted to the Oracle payroll System. Our audit disclosed that “Holiday” (code “05”), a non-pensionable element in the Moore Payroll System, was incorrectly converted to a pensionable element titled “Holiday Worked” in the new Oracle Payroll System.

By incorrectly designating “Holiday” as pensionable earnings, approximately $2,303,737.43 may have been incorrectly included in the pensionable earnings reported to the General Employees and Sanitation Employees (GESE) and the Fire and Police (FIPO) Pension Trusts during the audit period (October 1, 2007 through June 19, 2010). As such:

- The average employee earnings for the purpose of establishing pension benefits were inflated/overstated.
- The pensionable salaries for the purposes of calculating unfunded actuarial accrued pension liability were overstated.
- The required City contributions to the GESE and FIPO Trusts were overstated.

**FURLOUGHS**

- In order to address the projected deficit in the 2010 fiscal year budget, the City Commission (Commission) passed Resolution #09-0475 on October 8, 2009, which ratified the Memorandum of Understanding (MOU) between the City of Miami (City) and the AFSCME (Local 1907). Said MOU amended Articles 24, 29 and 37 of the Agreement between the City and AFSCME (Local 1907) for the period October 1, 2007 to September 30, 2010. As a part of the MOU, AFSCME employees were required to take mandatory leave of absence. Said MOU indicated that “furlough days shall not affect seniority and shall not be counted as
‘without pay’ for pension purposes”. In an e-mail dated November 3, 2009, the former Director of the Employee Relations Department directed Information Technology Department to make the furlough payroll code element pensionable for all City employees. Furthermore, Administrative Policy Manual (APM) # 0209 dated November 24, 2009, issued by the City Manager, directed that furloughs be made pensionable for all employees.

However, in accordance with Section 18-502(10)(11) of the City Code, the City Commission has the sole authority to commit City resources or authorize obligation/expenditures in excess of $5,000 per transaction; therefore, it would be reasonable to expect that the City Commission should be responsible for deciding whether or not to authorize furloughs (un-earned payroll benefits totaling $277,502.25) to be pensionable for all City employees.

By incorrectly designating “Furlough” as pensionable earnings, a total of $277,502.25 was incorrectly included in the pensionable earnings reported to the General Employees and Sanitation Employees (GESE) and the Fire and Police (FIPO) Pension Trusts during the audit period (October 1, 2007 through June 19, 2010). As such:

- The average employee earnings for the purpose of establishing pension benefits were inflated/overstated.
- The pensionable salaries for the purposes of calculating unfunded actuarial accrued pension liability were overstated.
- The required City contributions to the GESE and FIPO Trusts were overstated.

We noted that in March 2010, the Assistant Administrator of the FIPO Retirement Trust requested that the furlough element be made non-pensionable for all fire and
police executives. Said request was approved and made effective as of April 2, 2010. However, as of the date of this audit report, furloughs are still considered a pensionable element for all employees except fire and police executives.

<table>
<thead>
<tr>
<th>Item #</th>
<th>Oracle</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Furloughs</td>
<td>277,502.25</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>277,502.25</td>
</tr>
</tbody>
</table>

**Recommendation**

We recommend that all payroll earnings incorrectly designated and processed as pensionable earnings be corrected. In addition, we recommend that all contributions remitted to the GESE and FIPO Pension Trusts relative to all incorrectly designated earnings be recaptured.

**Auditee’s response and Action Plan**

See auditee’s complete written response on page 42 through 52.
FINANCE DEPARTMENT

CONTRIBUTIONS TO 401-A RETIREMENT PLANS WERE NOT TERMINATED IN A TIMELY MANNER

The City’s compensation package provides for a 401-A plan (a defined contribution plan) as an alternative to the General Employees’ and Sanitation Employees’ Retirement Trust (GESE), a defined benefit plan. In each of the said plans the employee contributes ten (10) percent of his/her earnings and the City contributes an additional eight (8) percent. The City partners with the International City/County Management Association (ICMA) to provide 401-A retirement products and services to City employees.

In 2009, nine (9) employees switched from the ICMA 401-A plan to the GESE Retirement Trust. Our audit determined that the City’s biweekly contributions to the ICMA for 4 of the 9 employees were not terminated in a timely manner. As a result, a total of $6,565.52 was erroneously transmitted/contributed to the ICMA accounts. A total of $495.58 of the $6,565.52 has been recovered. The difference, $6,069.94, should also be recouped from the employees’ ICMA accounts.

Recommendation

We recommend that internal control procedures be enhanced to ensure that all City contributions to the 401A plan that are no longer necessary be promptly terminated.

Auditee’s Response and Action Plan

The auditee concurred with the audit finding and recommendation. See auditee’s complete written response on pages 53 and 54.
RISK MANAGEMENT DEPARTMENT

INADEQUATE MONITORING AND FILING FOR STOP-LOSS INSURANCE CLAIMS

The City of Miami (City) is a self-insured employer. On January 1, 2005, the City entered into an agreement with Connecticut General Life Insurance Company (CGLIC), a subsidiary of Cigna, for health care plan administration services. The purpose of the said agreement is for CGLIC to administer health insurance coverage benefits claims and expeditiously review said claims in order to determine the amounts allowable and due with respect to the terms and conditions of the City’s health plan. Section 3 of the agreement between the City and CGLIC, provides that on a weekly basis the City shall maintain an imprest balance in the City’s bank account at Citibank, N.A., New York (Citibank). The amount of the balance to be maintained should be derived by an agreed upon formula. Both parties agreed that the amount derived from this formula would be sufficient at all times to fund the checks issued for payment of plan benefits and other plan-related expenses as CGLIC and the City deem appropriate. The City electronically transfers funds from its Wachovia bank account into the Citibank account, and CGLIC disburses checks from this account to pay for insurance claims.

The City, a self-insured employer, experiences higher risk of loss from health insurance coverage claims because of the limited amount of funds at its disposal. Therefore, in an attempt to mitigate said loss, the City entered into an agreement with United Benefits (Fringe Benefits Management Company), a third party administrator to assist the City in securing stop-loss insurance coverage. Stop-loss health insurance coverage limits the amount of a health insurance coverage claim that the City will be liable to pay to $200,000 annually for each person covered under the plan. Unless otherwise excluded (lasered), any amount in excess of the $200,000 threshold will be covered by the stop-loss insurance carrier up to the lifetime limit of $4.8 million per person. Every year, the City works with United Benefits to find an insurance carrier for that year. Once an
application for stop-loss coverage is completed and signed, the City provides enrollment information to the insurance carrier, which is used to calculate the premium to be paid for the first month. Subsequently, the amount is adjusted as the number of individuals’ enrolled (in medical insurance) changes. The City paid a total of $6,171,812.87 in stop-loss premiums for the period January 1, 2005 to December 31, 2009 as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Stop-Loss Insurance Carrier</th>
<th>Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Companion Life Insurance Company</td>
<td>$1,033,820.28</td>
</tr>
<tr>
<td>2006</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$1,128,471.56</td>
</tr>
<tr>
<td>2007</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$1,230,603.50</td>
</tr>
<tr>
<td>2008</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$1,323,649.74</td>
</tr>
<tr>
<td>2009</td>
<td>Chubb Group of Insurance Companies</td>
<td>$1,455,267.79</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$6,171,812.87</strong></td>
</tr>
</tbody>
</table>

In accordance with Section 9, “General Provisions”, under sub-title “Claims” of the policy with Madison National Life Insurance Company, Inc. (Madison), claims must be submitted within sixty (60) days after CGLIC has paid eligible expenses on behalf of any covered person. Also, said section stipulates that the insurance carrier is not obligated to reimburse a claim submitted after such period. In no event will Madison reimburse claims submitted more than a year after proof of the claim was otherwise due. According to Section 9, under sub-section “Legal Action” of the policy, no legal action to recover any benefits may be brought until sixty (60) days after the date that written claim for benefits has been given to the insurance carrier. No legal action may be brought more than five years after the incurred date of the loss for which benefits are claimed. In accordance with the 2009 stop-loss insurance policy, claims must be submitted by January 31, 2010. Furthermore, legal action to recover any payment due under this policy may not be brought until more than sixty (60) days following the date that all information requested by the Company has been provided. No legal action may be brought more than three (3) years after the date on which covered services were incurred.
Our audit indicated that during the period January 1, 2005 through December 31, 2009, there were a total of forty-three (43) claims that exceeded the $200,000.00 threshold. Our audit determined that, as of the end of our audit field work (July 2, 2010), only seven (7) of the thirty-three (43) claims have been fully reimbursed and thirty-six (36) claims totaling approximately $2,375,328.28 were outstanding. Of the $2,375,328.28 outstanding, approximately $766,486.53 may be related to health insurance claims that are not covered (lasered) in the stop-loss insurance coverage policy.

<table>
<thead>
<tr>
<th>Year</th>
<th>Stop-Loss Insurance Carrier</th>
<th>Reimbursable Amount</th>
<th>Amount Reimbursed</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Companion Life Insurance Company</td>
<td>$732,071.04</td>
<td>$325,586.82</td>
<td>$406,484.22</td>
</tr>
<tr>
<td>2006</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$665,114.91</td>
<td>$290,841.75</td>
<td>$374,273.16</td>
</tr>
<tr>
<td>2007</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$776,488.97</td>
<td>$558,810.18</td>
<td>$217,678.79</td>
</tr>
<tr>
<td>2008</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$933,835.18</td>
<td>$480,448.07</td>
<td>$453,387.11</td>
</tr>
<tr>
<td>2009</td>
<td>Companies Chubb Group of Insurance</td>
<td>$1,425,669.96</td>
<td>$502,164.96</td>
<td>$923,505.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$4,533,180.06</td>
<td>$2,157,851.78</td>
<td>$2,375,328.28</td>
</tr>
</tbody>
</table>

The Risk Management Department did not have the appropriate procedures in place to monitor and file claims in a timely manner. Based on the timelines for filing for reimbursements as stipulated in the re-insurance policies, it is questionable whether $1,451,823.28 of outstanding claims can be recovered. However, note that at least $724,784.61 of the $1,451,823.28 may be related to health insurance claims that are not covered (lasered) in the stop-loss insurance coverage policy.

<table>
<thead>
<tr>
<th>Year</th>
<th>Stop-Loss Insurance Carrier</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Companion Life Insurance Company</td>
<td>$406,484.22</td>
</tr>
<tr>
<td>2006</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$374,273.16</td>
</tr>
<tr>
<td>2007</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$217,678.79</td>
</tr>
<tr>
<td>2008</td>
<td>Madison National Life Insurance Company, Inc.</td>
<td>$453,387.11</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$1,451,823.28</td>
</tr>
</tbody>
</table>
Upon audit inquiry, the new Director of the Risk Management Department stated that he has initiated immediate steps to communicate with all the parties involved and to determine the correct amount owed to the City. Also, the Director noted that the monitoring and filing for stop-loss insurance claims has been formally assigned to a member of his staff.

**Recommendation**

We recommend that adequate internal control procedures be implemented to ensure that stop-loss insurance claims are properly monitored and claims due and payable to the City are collected in a timely manner.

**Auditee’s Response and Action Plan**

As noted above, the new Director of the Risk Management Department stated that he has initiated immediate steps to communicate with all the parties involved and to determine and collect all legitimate claims owed to the City.

See additional auditee’s response on pages 55 and 56.
August 11, 2010

To: Elena Dobrev, CPA  
Office of the Independent Auditor

From: Robert H. Nagle, Administrator

Re: Email (MoU) dated August 3, 2010

The Board at its meeting on Friday, August 6, 2010 after extensive discussion reached a consensus that five business days is a severely inadequate timeframe to properly respond to your memo.

The Board has directed that its advisors (Auditors, Actuary and Investment Consultant) prepare complete and thorough responses; this effort will require at least 30 days to complete.

The FIPO Board concluded that your memo demonstrates a naïve lack of understanding of the defined benefit pension investment management techniques and principles employed by the Board of Trustees and its team of professional advisors. Therefore, the Board has asked that you enumerate which principles of GAAP and GASB were used in your analysis; as well as the methodology used to arrive at your conclusions.

You can expect a comprehensive and studied response after the next FIPO Board meeting on September 3, 2010. This will allow the FIPO Board to properly review and give sufficient consideration to its responses prior to submission as is implicit in the Board’s fiduciary duties.
Date: August 10, 2009
To: Robert Nagle, FICO Pension Administrator
From: Victor I. Igwe, Independent Auditor General
Subject: Audit No 010-002 – Audit of Employees’ Benefits – Pension Plans, 401A, 457, and Other Benefits

We are in receipt of your written response to our audit memorandum dated August 3, 2010, which requested you (FICO Pension Administrator) to provide supporting records to evidence what actions has been taken to advise the FICO Board of additional necessary measures to address and/or mitigate the material investment losses and the staggering unfunded liability.

Section 40-203 (B)(1), page 13 of Ordinance # 10002 provides that the FICO Board shall employ a Pension Administrator to assist the Board in the performance of its administrative duties. One of the Board’s important administrative duties is to “establish and maintain such other functions as are necessary to administrate, manage and operate the retirement system.” Therefore, given the magnitude of the decline in the value of FICO’s investment assets during the audit period, which created unfunded pension liability for which the City is required to fund, it would be prudent for the City and/or its auditor to inquire as to what additional “defined benefit pension investment management techniques” and/or actions are being taken by the Pension Administrator to properly assist the Board in the performance of its administrative duties. The audit memorandum in question was addressed to the Pension Administrator and not to the FICO Board and as such, it is the responsibility of the Pension Administrator (who run the day to day activities) to demonstrate what additional preventive or mitigating actions are being taken to properly advise the Board to adopt more proactive investment strategies and/or options.
Please note that the Generally Accepted Accounting Principles (GAAP) that you cited in your response are standards, conventions, and rules that accountants follow in recording and summarizing transactions, and in the preparation of financial statements. Furthermore, the Governmental Accounting Standards Board (GASB) is the standard-setting body for government accounting standards used by State and Local governments. Therefore, those two standards are not relevant to our audit inquiry because our audit objective does to require verification of the accuracy of the amounts reported as investment losses and/or unfunded pension liability. However, GAGAS (Generally Accepted Government Auditing Standards) would be more appropriate in this context. GAGAS provide guidance for audit engagements relative to financial, performance and attestation audits. Said Standard require that auditors in planning and performing field work for a “performance audit” such as this audit, obtain sufficient and appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives.

Please be advised that the audit objective pertaining to our audit inquiry was to obtain an understanding and supporting records to evidence what additional “defined benefit pension investment management techniques” and/or actions are being taken by the Pension Administrator (who handles the day to day activities) to properly assist the Board (that meets once a month) in the performance of its administrative duties. Please note that we have not inquired as to the role of the Advisors and/or the Board but rather actions taken by the Pension Administrator to monitor investment losses. I am extending your response deadline to August 13, 2010. Also, I am available to meet with this week to further discuss this matter with you and the auditor assigned to the audit field work. Please be assured that all your written responses will be reflected (scrutinized) in the audit report.

Please advise.

Regards,

Cc: Capt. Thomas Giroel, Chair, FIPO Board.
    Elena Dobrev, CPA, Staff Auditor

OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 71, MIAMI, FLORIDA 33130-1910

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OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 71, MIAMI, FLORIDA 33130-1910
August 11, 2010

To: Victor Igwe, Independent Auditor General

From: Robert H. Nagle, Administrator

Re: Memo dated 8/10/2010

Thank you for the extension to provide an answer to E. Dobrev’s memo dated 8/3/2010.

We will attempt to speed up our response; however, we are unable to guarantee an earlier time frame that provided in my original response dated 8/9/2010 but will make a best effort.
August 10, 2010

Elena Dobrev, CPA
Staff Auditor
City of Miami
Office of the Independent Auditor General
444 SW 2 Ave, 7th Floor
Miami, FL 33130

RE: Response to Memorandum of Understanding –
Audit of City Employees’ Benefits - Pension Plans, 401-A, 457
and Other Benefits

Dear Ms. Dobrev:

This is in response to your Memorandum of Understanding dated August 3, 2010, of which the subject matter is stated as "Audit of Employees’ Benefits - Pension Plans, 401-A, 457, and Other Benefits." The memo covers many areas and this memo is in response to the subject matters covered.

Investment Gain/Loss

Any pension plan is a long term obligation and as such the assets are invested for the long term. The situation referenced throughout the audit letter focuses on a short time period in the life of a pension plan, fiscal years 2008 and 2009. The market condition and environment during that period were very volatile. It would have been very difficult to anticipate the magnitude and duration of the decline in the market for this period. As a reminder, the capital markets fell for a consecutive two year period back in 2001 and 2002, whereby the Plan lost over 10% per year. However, following those two years, by maintaining a constant asset allocation, the Plan earned 17.7% in 2003, 11.0% in 2004, 11.6% in 2005 and double digits for the next two years. In addition, it is important to note that during 2008 and 2009, the Plan performed as well as the market in general, not worse.

Investment Managers are hired and given full discretion to invest assets per their selected mandate and in compliance with the investment policy. Managers may or may not have stop/loss guidelines, but it has always been the opinion of the Board and legal counsel, that the manager has full discretion to manage assets. The Board and its professionals do not believe in market timing, and do not over react to short term market fluctuations.
Elena Dobrev, CPA
Response to Memorandum of Understanding –
Audit of City Employees’ Benefits - Pension Plans, 401-A, 457
and Other Benefits
Page 2 of 4

It should also be noted that the Board along with the investment consultant did attempt to make investment oriented changes to the Ordinance for well over a two year period beginning in 2007. The issues that we were trying to have modified related to the maximum exposure to international equities and maximum sector weightings. The Board felt that these changes would have improved performance. Those changes were finally approved by the City in 2010.

Watch/Probation List

The investment policy is an operating tool to be utilized by the Board and their investment professionals. It does not replace the City Ordinance. The section relating to watch and probation lists does not mandate that a manager be terminated at any point, but rather identifies situations that may result in manager termination. Likewise, the Ordinance does not contain language that results in an absolute termination, but rather provides guidelines for the Board.

Atlantic Capital

Atlantic Capital had a long history with the Plan beginning in 1998. The asset class that this manager invested in is small cap growth. This is one of the most volatile asset classes in the domestic equity environment. Managers in this asset class can produce large returns very quickly, and on the down side can lose return very quickly. This manager was no exception. In the ten years the manager was in place, in two of those they closely matched the index, in four they outperformed and in four they underperformed. From inception to termination, Atlantic earned 2.3% versus the benchmark return of 2.9%. Although these returns were not ideal, the Board and investment consultant had Atlantic attend quarterly meetings during the entire time the firm was on probation. During these meetings, all parties questioned the firm about their performance and outlook. After a period of time, the investment consultant recommended to the Board and the Board agreed that it was time to terminate.

The audit comments reference a loss of $4 million dollars by Atlantic. While this is correct, other managers in this asset class that met the benchmark returns would have had losses of nearly that amount.
BlackRock

The memo states that BlackRock is on the watch list and has been since December 2008. In fact, BlackRock was placed on probation following the June 2009 quarter end. The Board made the decision at its September 25, 2009 meeting. As such, BlackRock attends quarterly meetings with the Board.

Also, BlackRock implemented a freeze on liquidating assets effective during the third quarter of 2008. The Board, nor the Pension Administrator or the Investment Consultant was made aware of these plans prior to the implementation of the freeze. These freezes are a standard practice for managers in this asset class. The Board is currently awaiting the elimination of this freeze so that a determination can be made regarding these assets and this manager.

Asset/Liability Study

The Pension Plan is a long term obligation and as such asset allocation models are expected to be long term. As stated earlier, the Board nor its investment consultant believe it prudent to attempt to time the market. An asset liability study is one of many tools which may be used by the Board to determine long term allocation targets. The Ordinance does not call for an asset liability study to be conducted. The Investment Policy that was adopted in September 2007 calls for an asset liability study to be conducted periodically. One was completed in 2010.

The Board has required that their actuary and investment consultant attend all meetings. Thus, the Board continually reviews the asset allocation and liabilities of the Plan. In addition, as dictated by the Ordinance, an experience study is conducted every three years. These studies were conducted for the three year periods ending 2002, 2005 and 2008. These studies ensure that the actuarial assumptions remain reasonable based on past experience and future expectations of the Plan.

The asset/liability comments combine the GESE Retirement Trust, the Excess plan and the Staff pension plan. We would note that these are three separate plans and the asset/liability standards do not apply to the Excess and Staff plans. By law, the Excess plan is a pay-as-you-go plan with no assets in trust set aside for the future payment of benefits. The Staff pension plan is a small pension plan with less than 15 members. Given the relatively small size of the Staff pension plan we believe performing an asset/liability study for this plan would add little value and not be cost effective.
Elena Dobrev, CPA  
Response to Memorandum of Understanding –  
Audit of City Employees’ Benefits - Pension Plans, 401-A, 457  
and Other Benefits  
Page 4 of 4

We have endeavored to respond to your request on very short notice. If you have any additional questions please contact me. The response contained herein is requested to be made a part of any audit publication.

Sincerely,

[Signature]
Sandra Ellenberg  
Pension Administrator

c: Board of Trustees  
Ronald A. Silver, Esq.  
Victor Igwe

WBD#84891109/audit 2010 response
This memorandum contains responses to Audit #10-002. Please note that effective May 2010, the Payroll Section reports to the Director of Finance. The responses contained herein are restricted to the interpretation of the collective bargaining agreements (“CBA”) and related memoranda of understanding, Administrative Policies, etc.

**PAYROLL CODES INCORRECTLY DESIGNATED AND PROCESSED AS PENSIONABLE EARNINGS**

**Compensatory Time Used**

The Department of Employee Relations disagrees with the audit findings. Section 40-191 of the City Code (as it pertains to the FIPO Retirement Trust) and Section 40-241 (as it pertains to the GESE Retirement Trust) state that the definition of earnable compensation shall not include payments for *accrued* compensatory leave and therefore these payments are not pensionable earnings. The City is in compliance with the ordinance as it pertains to paying out *accumulated* compensatory time in lump sum increments. However, the “Compensatory Time Used” and “Compensatory Time for Illness” payroll codes do not indicate payment of accumulated compensatory time; they indicate a pay status used to complete an employee’s base hours within their normal pay period, in the same manner as when an employee takes a vacation or ill day. For example, if an employee’s regular work schedule is 80 hours, and they take 8 hours of compensatory leave, their payroll codes reflect 72 hours regular pay and 8 hours of compensatory leave time used so that the employee’s base hours total 80 for the pay period. Section 40-241 of the City Code includes in the definition of compensation, “any other administrative leave approved pursuant to ordinance, labor agreement, or city personnel policy which is used as part of the member’s base salary.” Similarly, section 40-191 of the City Code includes in the definition of earnable compensation, “an employee’s base salary, including pickup contributions, for all straight time hours worked, plus assignment pay and payments received for vacation and sick leave taken, jury duty, and death-in-family leave taken, and any other items, if any, currently included in the calculation of average final compensation.” See attached City Code excerpts (exhibits A and A1).

**Pay Supplements**

The Department of Employee Relations agrees in part and disagrees in part with the audit findings. The payroll codes listed in this section apply to positions under the AFSCME, Local 1907 bargaining unit, whose members belong to the GESE Retirement Trust. Therefore,
clarification is needed as to why the Office of the Independent Auditor General is referencing the FIPO Retirement Trust.

As it pertains to the GESE pension, the Department cites Article 25 of the 2007-2010 CBA between the City of Miami and AFSCME, Local 1907, which states that “Any pay supplements/toll allowance provided by this Agreement shall not be used in calculating average earnings for pension purposes...” The Article continues to list pay codes A1, A2, A3, A4, A5, National Academy of Emergency Dispatcher, Communications Operator Training, Quality Assurance Proficiency, Emergency Vehicle Technicians 1%, T2, T4, T6, and T8. It appears on its face that these pay codes should not be pensionable earnings, with the caveat that exceptions were granted for certain individuals holding certain positions in the attached memorandum of understanding dated March 12, 1997 (exhibit B). Our records indicate that some of the individuals listed in that memorandum of understanding are still employed with the City. In addition, the AFSCME, Local 1907 CBA states in Article 25.2 that “Only those employees holding permanent status within the occupation of Heavy Equipment Mechanic and who are permanently assigned to the Fire Garage shall receive a seven and one half percent (7 1/2%) pay supplement added to their base rate of pay...” This supplement becomes pensionable when it is added to the base pay rate.

PAYROLL ELEMENTS INCORRECTLY DESIGNATED IN ORACLE

The Department of Employee Relations agrees that the Holiday Worked element in the Oracle system incorrectly reflects a pensionable element. It is the understanding of the Department of Employee Relations that the Department of Finance is correcting this error. See attached e-mail (exhibit C). Further inquiry on this issue should be directed to the Department of Finance.

FURLOUGHS

As it pertains to the GESE Retirement Trust, please see the attached City Commission resolution with memorandum of understanding between the City of Miami and AFSCME, Local 1907 (exhibit D). The City Commission ratified this memorandum of understanding which contains language stating that “furlough days...shall not be counted as “without pay” for pension purposes.” The Department of Employee Relations agrees with the audit findings as it pertains to the April 2, 2010 agreement with the FIPO Retirement Trust.
Sec. 40-191. - Definitions.

Unless a different meaning is plainly required by the context, the following words and phrases as used in this division shall have the following meanings:

Accumulated contributions shall mean the sum of all amounts deducted or picked up from a member’s compensation plus all other amounts contributed to the retirement system by a member pursuant to this division, together with regular interest thereon as provided in section 40-197(6).

Active membership shall mean membership in the retirement system as an employee.

Actuarial equivalent shall mean a benefit having the same present value as the benefit it replaces.

Average final compensation shall mean the annual earnable compensation of a member during either the last one year or the highest year of membership service, whichever is greater. For any member who became an employee before March 8, 1984, but whose active membership in the retirement system ceased before May 23, 1985, average final compensation shall mean the average annual earnable compensation of such member during either the last two years or the highest two years of membership service, whichever is greater.

BACDROP shall mean Benefit Actuarially Calculated Deferred Retirement Option Program.

Beneficiary shall mean any person receiving a retirement allowance or other benefit from the retirement system.

Benefit shall mean a retirement allowance or other payment provided by the retirement system.

Board or board of trustees shall mean the board of trustees of the retirement system.

City employee shall mean any person employed by the city.

COLA shall mean cost-of-living allowance.

Creditable service shall mean membership credit upon which a member’s eligibility to receive benefits under the retirement system is based or upon which the amount of such benefits is determined.

DROP shall mean Deferred Retirement Option Program and shall include a Forward DROP and a BACDROP.

DROP account shall mean the account established for each DROP participant.

DROP participant shall mean a beneficiary participating in the DROP.

Early service retirement shall mean a member’s withdrawal from service under circumstances permitting payment of a retirement allowance before such member is eligible for normal service retirement.

Earnable compensation shall mean an employee’s base salary, including pickup contributions, for all straight time hours worked, plus assignment pay and payments received for vacation and sick leave taken, jury duty, and death-in-family leave taken, and any other items, if any, currently included in the calculation of average final compensation. Earnable compensation shall not include overtime pay; payments for accrued sick leave, accrued vacation leave, or accrued compensatory leave; holiday pay; premium pay for holidays worked; the value of any employment benefits or nonmonetary entitlements; or any other form of remuneration.
Sec. 40-241, - Definitions.

The following words and phrases as used in this division shall have the following meanings:

Accumulated employee contributions shall mean the sum of all amounts deducted from a member's compensation or picked up on behalf of a member, together with regular interest as provided in this division. Accumulated employee contributions shall also mean any amounts paid by a member for the purchase of military service credits or other paybacks permitted in this Plan.

Active membership shall mean membership in the Plan as an employee.

Actuarial equivalent shall mean a benefit having the same present value as the benefit it replaces based upon the actuarial table adopted by the board of trustees.

And shall have a conjunctive meaning.

Average final compensation shall have a meaning dependent upon the date of hire and the date of termination of service of the member. The two periods of time for which average final compensation is determined are:

(a) For members who became employed before May 24, 1984, and whose active membership in the Plan did not cease before May 23, 1985. In the case of such members, average final compensation shall mean the highest compensation of that member during any one year of membership service. The highest one year of compensation shall not exceed the second highest year of compensation by more than 15 percent excluding any difference due to longevity, anniversary and negotiated cost of living increases. The term "year" shall be calculated using the highest 12 months of compensation, but the months need not be consecutive.

(b) In the case of a member who becomes an employee on or after May 24, 1984, or for an employee whose service has previously ended or who is not a member absent from service, but recommences on or after May 24, 1984, average final compensation shall mean the average annual compensation of the member during the last two years of membership service, or the highest two years of membership service, whichever is greater. In the case of the highest two years of membership service, the years need not be consecutive. The term "year" shall be calculated using the highest 12 months of compensation, but the months need not be consecutive.

BACDROP shall mean Benefit Actuarially Calculated Deferred Retirement Option Program.

Beneficiary shall mean any person receiving a retirement allowance or other benefit from the Plan.

Benefit shall mean a retirement allowance or other payment provided by the Plan and made to a member, retiree or beneficiary.

Board or board of trustees shall mean the board of trustees of the Plan.

Child shall mean the natural or adopted child of a member, but shall not include foster children or stepchildren.

City shall mean the City of Miami, Florida.

City commission or commission shall mean the Miami City Commission.

COLA shall mean the cost of living adjustment provided under the terms of the Plan.

Compensation shall mean a member's base salary, including pick-up contributions for all straight time hours worked, assignment pay, pay supplements, vacation, and sick leave used while an active member; jury duty, and death in family leave taken or any other administrative leave approved pursuant to ordinance, labor agreement, or city personnel policy which is used as part of the member's base salary. Compensation shall not include overtime pay, payments for accumulated sick leave, accumulated vacation leave, or accumulated compensatory leave, premium pay for holidays worked, cell back pay, uniform allowances, tool allowances, the value of any other employment benefit or non-monetary entitlement, or any other form of remuneration.
March 12, 1997

Charlie Cox, President
AFSCME, Local 1937
4011 West Flagler Street, Suite 405
Miami, FL 33144

Dear Charlie:

This is in response to your inquiry regarding the issue of pension deductions for Heavy Equipment Mechanics receiving Garage On-Call pay.

While we both recognize that pay supplements are not pensionable in accordance with the AFSCME labor agreement, I am willing to make exception for those employees who previously received or are presently receiving this pay supplement, By my authorization to Angel De Pedro, a separate earnings code will be established to effect pension deductions from those employees identified below. Pension deductions for this purpose shall only be applicable for those persons listed below and shall not be applicable to any persons who receive Garage On-Call pay subsequent to the date of this agreement.

Gary A. Riosillon
Luis M. Casasnuja
Ricardo R. Del Busto
Robert Forbes
Daniel J. Gregory
Robel Hernandez
Kenneth P. Johnson
Dwayne D. Linder
Rafael Peña
Roberto Restilliez

Hy-Eq Equip Mech/Fire
Hy-Eq Equip Mech/Fire
Hy-Eq Equip Mech/Fire
Hy-Eq Equip Mech/Fire
Hy-Eq Equip Mech Supv
Hy-Eq Equip Mech Supv
Hy-Eq Equip Mech/Fire
Hy-Eq Equip Mech/Fire
Hy-Eq Equip Mech/Fire
Hy-Eq Equip Mech/Fire

In the event those employees holding Heavy Equipment Mechanic supervisory level positions as identified below are rolled back to their former classification as Heavy Equipment Mechanic, upon being included on the rotating list, the Garage On-Call pay supplement will be pensionable.

Alan R. Savarese

Garage Asst Supv

OFFICE OF LABOR RELATIONS
P.O. Box 308708 Miami, FL 33233-0708 (305) 416-2005 Fax (305) 416-2006
If you agree with the application of this issue as stated above, please return this letter with your signature on the space provided below. Implementation will be effected on the first full pay period following your dated signature.

Charles Cox 3/23/97

Sincerely,

R. Sue Weller
R. Sue Weller
Labor Relations Officer
RSW/MCE/sw

cc: Angel De Pedro, Payroll Supervisor, Finance Department
Giallorenzo, Frank

From: Gomez, Diana
Sent: Thursday, July 29, 2010 12:29 PM
To: Altamirano, Moralinda
Cc: Voora, Mohan; Michel, Leon; Kolackovsky, Roxanne; Inclan, Isabel; De Armas, Isabel; Gonzalez, Dolores; Ferrer, Alfredo; Giallorenzo, Frank; Vega, Georgia; Barbarino-Torres, Cindy
Subject: RE: Mapping of Elements from Kronos to Oracle

Approved.

Diana M. Gomez
Finance Director
City of Miami
Ph: 305-416-3324
Fx: 305-400-5254
dgomez@miamigov.com

From: Altamirano, Moralinda
Sent: Wednesday, July 28, 2010 4:12 PM
To: Gomez, Diana
Cc: Voora, Mohan; Michel, Leon; Kolackovsky, Roxanne; Inclan, Isabel; De Armas, Isabel; Gonzalez, Dolores; Ferrer, Alfredo; Giallorenzo, Frank; Vega, Georgia; Barbarino-Torres, Cindy
Subject: Mapping of Elements from Kronos to Oracle

Diana,

As per our meeting today in reference to the Holiday Pay/Worked Kronos to Oracle mapping the following conclusion was reached:

- **RH Hol No Wk**: will be mapped to Holiday off (no pension) will be mapped although a decision was made to make it: Not
- **RH Pol Hol No Wk**: will be mapped to Holiday off (no pension)
- **RP Pol Hol WK Reg**: will be mapped to Holiday Pay (pensionable)

Upon your approval I will make the preceding changes.

Thanks,

Moralinda Altamirano
Acting Payroll Manager
City of Miami
Master Report
Enactment Number: R-09-0475

File Number: 09-01141
File Type: Resolution
Status: Mayor's Office for Signature
Version: 1
Reference:
Controlling Body: City Commission
File Name: Memorandum of Understanding AFSCME Local 1907
Introduced: 10/8/2009
Requester:
Cost:
Final Action: 10/8/2009

Title: A RESOLUTION OF THE MIAMI CITY COMMISSION WITH ATTACHMENT(S), RATIFYING THE MEMORANDUM OF UNDERSTANDING, BETWEEN THE CITY OF MIAMI AND THE EMPLOYEES ORGANIZATION KNOWN AS MIAMI GENERAL EMPLOYEES AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, LOCAL 1907, AFL-CIO, IN ORDER TO ADDRESS PROJECTED DEFICIT IN THE 2010 FISCAL YEAR BUDGET, INCLUDING AMENDING ARTICLES 24, 29 AND 37 OF THE 2009-2010 COLLECTIVE BARGAINING AGREEMENT.

Sponsors:

Notes:

Indexes:

Attachments: 09-01141-Submittal-Memo-City Manager.pdf, 09-01141-Exhibit.pdf

History of Legislative File

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A RESOLUTION OF THE MIAMI CITY COMMISSION WITH ATTACHMENT(S), RATIFYING THE MEMORANDUM OF UNDERSTANDING, BETWEEN THE CITY OF MIAMI AND THE EMPLOYEE ORGANIZATION KNOWN AS MIAMI GENERAL EMPLOYEES AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, LOCAL 1907, AFL-CIO, IN ORDER TO ADDRESS PROJECTED DEFICIT IN THE 2010 FISCAL YEAR BUDGET, INCLUDING AMENDING ARTICLES 24, 29 AND 37 OF THE 2007-2010 COLLECTIVE BARGAINING AGREEMENT.

BE IT RESOLVED, BY THE COMMISSION OF THE CITY OF MIAMI, FLORIDA:

Section 1. The Memorandum of Understanding, between the City of Miami and the employee organization known as Miami General Employees American Federation of State, County, and Municipal Employees, Local 1907, AFL-CIO, in order to address projected deficit in the 2010 Fiscal Year budget, including amending Articles 24, 29 and 37 of the 2007-2010 collective bargaining agreement, is ratified.

Section 2. This Resolution shall become effective immediately upon its adoption and signature of the Mayor. [1]

Footnotes:

[1] If the Mayor does not sign this Resolution, it shall become effective at the end of ten calendar days from the date it was passed and adopted. If the Mayor vetoes this Resolution, it shall become effective immediately upon override of the veto by the City Commission.
MEMORANDUM OF UNDERSTANDING
BETWEEN THE CITY OF MIAMI, FLORIDA
AND
AFSCME, LOCAL 1907

This Memorandum of Understanding is entered into this _______ day of ________, 2009 between the City of Miami, Florida ("City") and the Miami General Employees, American Federation of State, County, and Municipal Employees Local 1907, AFL-CIO ("AFSCME Local 1907") (jointly "Parties") to modify the 2007-2010 Collective Bargaining Agreement ("CBA") as follows.

NOW THEREFORE, the Parties agree as follows:

A. **Across-the-Board (Article 24 of CBA)** - Effective October 1, 2009, employees shall receive an across-the-board wage increase of 3% as outlined in Article 24 of the CBA. However, employees who entered the DROP as of October 1, 2009, shall not receive the 3% across-the-board wage increase set forth in the CBA until September 30, 2010.

B. **GESE Pension Contribution** - Effective October 1, 2009, and ending September 30, 2010, employee contributions to the GESE pension plan shall increase from 10% to 13%. Effective September 30, 2010, employee contributions to pension shall revert back to 10%.

C. **Uniforms and Safety Shoes (Article 29 of CBA)** - Effective October 1, 2009, and ending September 30, 2010, employees shall not be entitled to or be issued uniforms and safety shoes, unless an emergency, as determined by the City Manager, warrants issuance. However, the City agrees that, no disciplinary action will be taken against employees for failing to wear uniforms if they are unfit for wear, and the City has not replaced them after reasonable notice to the respective department director that replacement is necessary.

D. **Vacation (Article 37 of CBA)** - Effective October 1, 2009, and ending September 30, 2010, employees shall not be entitled to or permitted to cash out any accrued vacation hours. This provision shall not prohibit employees from cashing out accrued vacation hours upon separation. All hours accrued above 200 ("excess vacation") shall not be forfeited, but shall be carried over to the 2010-2011 Fiscal Year.

E. **Furlough Days** - Effective October 1, 2009, and ending September 30, 2010, employees shall take two (2) unpaid furlough days. The employee must request the furlough date(s) from the respective department director at least 14 days prior to the absence, and the request shall not be
unreasonably denied. The two (2) furlough days shall not affect seniority for any purpose, including bid purposes and shall not be counted as "without pay" for pension purposes.

P. Lay-Offs - The City identified a potential of two hundred ten (210) lay-offs of bargaining unit members. In consideration for the above concessions and efforts from both Parties, the City agrees NOT to lay-off more than eighty six (86) bargaining unit members; however, if the City lay-offs any of the 86 bargaining unit members, Local 1907 retains the right to grieve the lay-offs under the terms of the CBA, or to file any other action or appeal available, and this right is not forfeited or affected by entering into this MOU. The Parties agree that by entering into this MOU, they do not waive any arguments or defenses that they may make in any grievance or other proceeding regarding the up to 86 layoffs.

NOW THEREFORE, this MOU shall become effective upon ratification by the Parties.

ON BEHALF OF THE UNION

Charlie Cox, President
AFSCME, Local 1907

ON BEHALF OF THE CITY

Pedro G. Hernández, P.E. City Manager

52
OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910
City of Miami

Date: July 27, 2010

To: Diana Gomez, CPA, Director
Department of Finance

From: Elena Dobrev, CPA, Staff Auditor
Office of the Independent Auditor General

Subject: Audit of Employees’ Benefits – Pension Plans, 401A, 457, and Other Benefits
Audit # 010-002

Dear Ms. Gomez,

Pursuant to the ongoing audit of Employees’ Benefits – Pension Plans, 401-A, 457, and Other Benefits for the period October 1, 2007 through September 30, 2009, and selected transactions prior and subsequent to this period, please confirm or clarify our understanding of the following and provide any additional records by August 3, 2010.

401-A RETIREMENT SAVINGS PLAN

The City’s compensation package provides for 401-A plan (a defined contribution plan) as an alternative to the General Employees’ and Sanitation Employees’ Retirement Trust (GESE), a defined benefit plan. In each of the said plans the employee contributes ten (10) percent of his/her earnings and the City contributes an additional eight (8) percent. The City partners with the International City/County Management Association (ICMA) to provide 401-A retirement products and services to City employees.

In 2009 nine (9) employees switched from ICMA 401- A plan to the GESE Retirement Trust. Our audit determined that City’s biweekly contributions to the ICMA for 4 of the 9 employees were not terminated in a timely manner. As a result, a total of $6,565.52 was erroneously
transmitted/contributed to the ICMA accounts. A total of $495.58 of the $6,565.52 has been recovered. The difference, $6,069.94, should also be recouped from the employees’ ICMA accounts.

☑ I agree. ☐ I disagree. Please initial: [Signature]

Explanation: Finance is unable to provide an explanation as to the cause of the above as the responsibility of Payroll was moved to Finance in May 2010, well after the stated occurrences. Finance will put controls in place to mitigate this item occurring in the future.

Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with the item listed above, please provide your explanation and attach all supporting documents. In order for us to meet our audit deadline, a response by August 3, 2010 would be greatly appreciated.

If you have any questions, please feel free to contact me at 305-416-1796 or by e-mail at odobrev@miamigov.com.

Thank you for your attention in this matter.

[Signature]
Debra Gomez, Director

[8/9/10] Date

CC: Victor I. Igwe, CPA, CIA, Auditor General
    Audit Documentation File

OFFICE OF INDEPENDENT AUDITOR GENERAL / 444 S.W. 2nd Avenue, Suite 711/Miami, FL 33130-1910

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OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910
Dobrev, Elena

From: Reshefsky, Gary
Sent: Wednesday, August 04, 2010 6:10 PM
To: Dobrev, Elena; Spring, Larry
Cc: Igwe, Victor; Morales, Denise M; Rodriguez, Glasia
Subject: RE: Memorandum of Understanding - Audit of City Employees’ Benefits - Pension Plans, 401-K, 457 and Other Benefits - Stop-Loss Insurance

Elena:

Thank you for taking the time to review your audit with me today. You have identified a very important issue that the City needs to address. A number of steps were taken before I joined the City to collect the funds owed to the City. Those efforts are ongoing and reimbursements continue to be made to the City. That said, it is clear to me that we need to do more to expedite these reimbursements.

I would like to do the following:

1. Seek confirmation that the numbers in your report are accurately based on amounts the City (Risk Mgt Dept) believes we are entitled to receive. I spoke with CIGNA late today on this point.

2. Confirm that your report reflects up to date reimbursements received by the City.

3. Provide you with an action plan to expedite the collection of these funds.

If possible, I would like to give you an update on Monday August 9th where we stand. I have some key people out sick, so a few more days beyond that may be needed.

I appreciate your hard work on this audit.

Best regards,

Gary

Gary Reshefsky, Esq
Vice President
Risk Management Department
(305) 416-1757 Phone
(305) 416-1760 Fax
greshefsky@miamigaram.com
I just wanted to update you on my progress today.

-I spoke to AJ Benefits and they believe the laser language is on our 2008 policy. I have not located the full 2008 policy yet, but I hope to have it tomorrow. I suspect that it is an endorsement to the policy rather than evidenced on the Dec page. For example, our 2009 policy lists the exclusion by endorsement and not on the dec page. I will try to advise you tomorrow on this. I would be very surprised if this is not the case.

-We spoke with CIGNA today and explained to them the laser language on the claims we discussed. CIGNA stated that they had not seen the laser language in the past. We are sending CIGNA copies of the laser language since it varies slightly by year. They agreed to review the laser language and analyze if we have actually satisfied our deductible. I will need to be guided by CIGNA on this subject since they are the experts on the types of treatments performed.

-CIGNA is going to update the spreadsheet created by Elena to add an additional column for their response to each of the comments made by AJ Benefits regarding the need for additional documentation or notice of the claims. CIGNA believes they have put the carrier on notice for all of the claims. I await their response. We will use those comments in our next conversation with AJ Benefits which I anticipate will occur next week.

-I confirmed that reimbursement checks are made payable to the City, but mailed to United Benefits before remitted to the City. I understand this has caused a long lag time in the past before funds were received by the City. AJ Benefits agreed today to send the funds directly to the City. We will be providing AJ with written instructions how we want the funds sent (i.e. check, wire, etc).

-As discussed today, we are developing the procedures on a go forward basis for tracking claims data and remittances from our stop loss carrier. I will provide you with those procedures. One objective of the procedure is to ensure that follow up is not dependent on one person, but is instituted as a department procedure.

Thanks again for your help on this matter.

Best regards,
Gary

Gary Reshefsky, Esq.
Interim Director
Risk Management Department
(305) 416-1716 Phone
(305) 416-1760 Fax
greshefsky@miamigov.com