July 27, 2012

Honorable Members of the
City Commission
3500 Pan American Drive
Miami, FL 33133

Re: Audit of City Employees’ Pension Plan Benefit Calculations
Audit No. 12-012

Pursuant to Section 48 of the City of Miami’s (City) Charter, the Office of the Independent Auditor General performed an audit of the calculation of city employees’ pension benefits disbursed to retirees, including payroll data and related financial transactions and operations. The audit was performed to determine whether pension 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 Finance Department, Payroll Section, Human Resources 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, 2008 through September 30, 2010, and selected transactions prior and subsequent to this period.

Sincerely,

Theodore Guba, CPA
Independent Auditor General
Office of Independent Auditor General
The Honorable Mayor Tomas P. Regalado
Johnny Martinez, City Manager
Julie O. Bru, City Attorney, City Attorney’s Office
Priscilla A. Thompson, City Clerk
Janice Larned, Chief Financial Officer, Finance Department
Stephen Petty, Director, Department of Finance
Beverly Pruitt, Director, Department of Employee Relations
Calvin Ellis, Director, Risk Management
Cindy Torres, Acting Director, Information Technology Department
Robert Nagle, Pension Administrator, Fire Fighters’ and Police Officers’ Retirement Trust
Sandra Elenberg, Pension Administrator, General Employees’ and Sanitation Employees’ Retirement Trust
Members of the Audit Advisory Committee
Audit Documentation File

Audit conducted by: Mala Khilnani
Audit reviewed by: Robyn Sachs
Lewis R. Blake
AUDIT OF CITY EMPLOYEES’ PENSION PLAN BENEFIT CALCULATIONS
AUDIT PERIOD - 10/01/2008 TO 09/30/2010
AUDIT # 12-012

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DEPARTMENT OF HUMAN RELATIONS

PENSION BENEFIT OVERPAYMENTS TO MIAMI GENERAL EMPLOYEES AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, LOCAL 1907, AFL-CIO (AFSCME, LOCAL 1907) CAUSED BY PAY SUPPLEMENTS INCORRECTLY CODED AS PENSIONABLE IN MOORE/ORACLE PAYROLL SYSTEM

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

LACK OF UPDATED WRITTEN MANUAL DESCRIBING DETAILED POLICIES AND PROCEDURES
INTRODUCTION

Pursuant to Article IV, Sections 40-191 through 40-196 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).

FIPO is a single-employer, defined benefit plan established by the City pursuant to the provisions and requirements of Ordinance No. 10002 as amended. Participants are contributing police officers and firefighters with full-time employment status in the police or fire departments of the City. The payroll for employees covered by FIPO for the year ended September 30, 2010 was approximately $122.2 million; the City’s total payroll was approximately $299 million. For the fiscal year ended September 30, 2010, membership in the FIPO consisted of approximately 2,300 retirees and beneficiaries currently receiving benefits totaling approximately $101 million.

FIPO, which manages the pension contributions made by City firefighters and police officers, has the following goals:

- 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;
- Maintain a fully funded pension status at the lowest possible cost.

The Administrator of FIPO reports to a Board of Trustees, which is comprised of nine members selected as follows:

- One trustee selected by the City Manager.
- Two trustees elected by the fire fighters.
- Two trustees elected by the police officers.
- Four independent trustees selected by the City Commission.
The Board holds the fiduciary responsibility for the FIPO Retirement Trust and employs the services of an investment consultant and investment managers to assist in the discharge of its duties. It also employs the services of a consulting actuary to perform an actuarial valuation that determines the amount of the City’s annual contribution. Members of FIPO are required to contribute 7% (for police members) and 9% (for firefighter members - 8% prior to October 1, 2009) of their pensionable salary on a bi-weekly basis. The City is to contribute such amounts as are necessary to maintain the actuarial soundness of the Trust and to provide the Trust with assets sufficient to meet the benefits to be paid to the participants. Based on actuarial calculations, the City contributed approximately $59 million for the fiscal year ended 2010.

Pursuant to Article IV, Sections 40-241 through 40-266 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 General Employees’ and Sanitation Employees’ Retirement Trust (GESE).

GESE is a single-employer, defined benefit plan established by the City pursuant to the provisions and requirements of Ordinance No. 10002 as amended. The GESE Trust covers all City of Miami General and Sanitation employees except certain employees that are eligible to waive membership. The Payroll for employees covered by the GESE Trust for the year ended September 30, 2010 was approximately $90 million; the City’s total payroll was approximately $299 million. For the fiscal year ended September 30, 2010, membership in GESE consisted of approximately 2,200 retirees and beneficiaries currently receiving benefits totaling approximately $62 million.

GESE, which manages the pension contributions made by City General and Sanitation employees, has the following goals:

- Provide a funding resource for pension liabilities, thereby maintaining retirement income security for Trust participants and their beneficiaries;
- Maintain an overall level of financial adequacy;
The Administrator of GESE reports to a Board of Trustees, which is comprised of nine members selected as follows:

- One trustee selected by the City Manager.
- Two trustees selected by the general employees.
- Two trustees selected by the sanitation employees.
- Four independent trustees selected by the City Commission.

The Board holds the fiduciary responsibility for the Retirement Trust. and employs the services of an investment consultant and investment managers to assist in the discharge of its duties. It also employs the services of a consulting actuary to perform an actuarial valuation that determines the amount of the City’s annual contribution. Members of GESE are required to contribute 13% (10% prior to October 1, 2009) of pensionable salary to the Plan. The City is to contribute such amounts as are necessary to maintain the actuarial soundness of the Trust and to provide the Trust with assets sufficient to meet the benefits to be paid to the participants. Based on actuarial calculations, the City contributed approximately $24 million for the fiscal year ended 2010.

According to the Department Description, the Department of Human Resources (HR) serves over 4,000 City employees. HR consists of the Labor Relations (Labor) and Human Resources divisions. The Human Resources Division included the Payroll Section until March 2010. Labor is responsible for all activities concerning unions representing City employees. 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 introducing new payroll codes/elements and/or modifying existing payroll codes/elements based on City Commission (Commission) mandates, labor agreements, and federal and state and local legislation.

The Department of Finance (Finance) is responsible for administering all aspects of the payroll function including maintaining the City’s payroll system and processing the City’s bi-weekly payroll and related payroll disbursements. Until June 2009, the Payroll
Section (Payroll) utilized the Moore Payroll System, which had been in use since April of 1990. Due to the Moore system becoming antiquated and not allowing for the computerized processing of various complex personnel/payroll transactions, on June 21, 2009 the City discontinued its use and began using the HRMS Module in Oracle. Payroll was transferred out of HR and into Finance in March 2010.
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 2011 Audit Plan. As part of our responsibilities, we provide the City Commission with financial, operational, compliance, single act 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' retirement benefits. The audit covered the period October 1, 2008 through September 30, 2010, and focused on the following broad objectives:

- To assess the effectiveness of the Pension Plan’s internal control system relative to benefit calculations and payments.

- To ascertain whether City employees’ pension benefits under GESE and FIPO Retirement Plans were properly assessed as required by Labor Union Agreements, City Codes, City Commission Resolutions and/or a letter signed by the City Manager or City Manager’s designee.

- To determine whether creditable service, earnable compensation, benefit formula and maximum benefit are correctly calculated.

- To determine whether the benefit payments are made to eligible people and determine if controls are in place to verify that retirees and beneficiaries are still alive.

- To determine if the disability pension process is reasonable and administered in compliance with Labor Union Agreements, City codes and ordinances.

- Other audit 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. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our objectives. 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 risk, and plan substantive tests for the audit.
- Employing the use of analytical review procedures for purposes of both planning substantive testing and confirming the reasonableness of audit conclusions and findings.
- Performing substantive testing consistent with the audit objectives above. Examining, on a test basis, applicable controls, procedures, transactions and records.
- Drawing conclusions and developing recommendations based on the substantive testing.
- Confirming our understanding of key findings with the auditee.
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:

- Funds transferred to the Pension Plan match the contribution file and letter certifying the contributions taken from City Employees for each payroll.
- Discrepancies in the funds transferred to the Pension Plan were adjusted in a timely manner.
- Payroll earnings were correctly designated and processed as pensionable earnings for AFSCME, Local 1907 employees.
- Written comprehensive policies and procedures have been updated relating to FIPO pension benefit calculations.

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

- City employees’ pension benefits were properly calculated and paid by GESE and FIPO.
- The disability pension process is reasonable and administered in compliance with Labor Union Agreements, City Codes and ordinances.

Overall, we conclude that the internal controls policies and procedures in place at the FIPO Pension Trust, Department of Human Resources and Department of Finance should be enhanced to address the deficiencies noted above.
SUMMARY OF AUDIT FINDINGS

DEPARTMENT OF FINANCE

**PENSION CONTRIBUTIONS TRANSFERRED VIA WIRE TO PENSION PLAN TRUST ACCOUNTS DO NOT MATCH THE CONTRIBUTION AMOUNTS LISTED ON FILES SENT TO THE PLANS BY CITY PAYROLL**

Our review disclosed that, out of a total of 92 payroll files sent to the Plans, 57 (62%) files did not agree to the amounts transferred for pension contributions by the City’s Payroll Section (Payroll) to the GESE and FIPO trust accounts resulting in total overpayments of approximately $13,500 and total underpayments of approximately $71,100. Our audit determined that there were 101 discrepancies that occurred in the 57 files ranging from approximately $10 to $43,900.

See Detailed Audit Findings and Recommendations on pages 12 through 14.

**ADJUSTMENTS NOT BEING MADE ON A TIMELY BASIS BY CITY PAYROLL FOR DISCREPANCIES IN THE PAYROLL INTERFACE AND FUNDS TRANSFERRED TO THE PENSION PLAN**

Our review of 92 payroll interface (electronically transferred) files, disclosed that 57 (62%) files did not agree to the amount transferred by the City payroll to the GESE and FIPO pension plans. Our audit test disclosed that 33 of the 57 files (48%) were not corrected on a timely basis (i.e. in the ensuing pay period). Payroll took between two (2) to twenty-six (26) pay periods to manually adjust these errors ranging from overpayments of approximately $40 to $1,600 to the Pension Plan. Twelve of the discrepancies totaling approximately $2,600 have not been adjusted by Payroll as of the date of fieldwork (October 4, 2011).

See Detailed Audit Findings and Recommendations on pages 14 through 16.
Our review disclosed that, out of a total of 92 biweekly wire transfers for member contributions to GESE and FIPO trust accounts, 3 (3%) discrepancies were identified, ranging from underpayments of $348 to overpayments of $43,920, wherein funds transferred to the pension plan trust account did not agree to the amount certified in the letter from the City of Miami Payroll Section and the corresponding deduction report, as required in Section 40-246 of the City Code.

See Detailed Audit Findings and Recommendations on pages 16 through 17.
DEPARTMENT OF HUMAN RESOURCES

PENSION BENEFIT OVERPAYMENTS TO MIAMI GENERAL EMPLOYEES AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, LOCAL 1907, AFL-CIO (AFSCME, LOCAL 1907) CAUSED BY PAY SUPPLEMENTS INCORRECTLY CODED AS PENSIONABLE IN MOORE/ORACLE PAYROLL SYSTEM

Our review of 13 Miami General Employees American Federation of State, County, and Municipal Employees, Local 1907 pension benefit calculations for members retired during the period October 1, 2008 to March 31, 2011, disclosed that 5 (38%) pension calculations were incorrect because certain payroll supplements were coded as pensionable in the Moore and Oracle Payroll Systems, contrary to the provisions of Article 25.1 of the AFSME, Local 1907 agreement.

See Audit Findings and Recommendations on pages 18 through 19.
FIRE FIGHTERS’ AND POLICE OFFICERS’ RETIREMENT TRUST (FIPO)

LACK OF UPDATED WRITTEN MANUAL DESCRIBING DETAILED POLICIES AND PROCEDURES

Our audit determined that FIPO does not have an updated written manual of policies and procedures relating to the benefit calculations/payment process and reconciliation of contributions to the FIPO pension plan.

See Audit Findings and Recommendations on pages 20 through 21..
DETAILED AUDIT FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF FINANCE

PENSION CONTRIBUTIONS TRANSFERRED VIA WIRE TO THE PENSION PLAN TRUST ACCOUNT DOES NOT MATCH THE CONTRIBUTION AMOUNTS LISTED ON FILES SENT TO THE PLAN BY CITY PAYROLL

Section 40-246 of the City Code, provides that "the proper authority or officer responsible for making up the payroll for members of the Plan, shall certify to the Board, on each payroll, the amounts deducted or picked up by the City for each member. Such amounts shall be deducted or picked up by the City, and when deducted or picked up, shall be paid to the Plan and credited to the active membership account for each respective member". The Payroll Section (Payroll) of the City’s Finance Department transfers pay data, such as employee pensionable earnings along with the pension deductions, for each payroll to the General Employees’ and Sanitation Employees’ Retirement Trust (GESE) and Fire Fighters’ and Police Officers’ Retirement Trust (FIPO) via an interface (internal system) to a pension accounting system maintained by a third party custodian. Best practices require that accurate pay data and pension contributions be transferred to the pension system for each payroll.

Our review disclosed that, out of a total of 92 payroll files sent to the Plans, 57 (62%) files did not agree to the amounts transferred for pension contributions by the City Payroll to the GESE and FIPO pension plans resulting in total overpayments of approximately $13,500 and total underpayments of approximately $71,100. Our audit determined that there were 101 discrepancies that occurred in the 57 files ranging from approximately $10 to $43,900 due to the following errors:

- **Extra Pension contribution for Service Buyback Program** - Section 40-254 and Section 40-202 of the City Code provides that “Members shall have the right to receive membership credit in the Plan in accordance with the provisions of this section”. Members receive membership credit by filling out an election form indicating the term of payment which cannot exceed 5 years. Payroll enters the
amount owed and the payroll deduction into the system. The system automatically calculates the number of payments. Our review identified 24 files with 38 instances of Extra Pension contributions that were deducted erroneously from 18 members. These members had completed their paybacks for membership credit or were separated from the City. However, Payroll continued the contributions to the pension plan in these instances. These contributions were wired to GESE/FIPO and subsequently refunded to the employee. In some instances, the entire amount of the paycheck or the entire accumulated leave balance payout was deducted for an employee who was terminated. Payroll incorrectly continued deductions for 16 out of the 18 employees who had service buyback contracts. In three instances, the employee was terminated and the Extra Pension was deducted from the accumulated leave balance payout or whatever the final check allowed. Two employees did not have buyback contracts but contributions continued for five to six pay periods.

- **System Errors** – We identified 19 files that were incorrect due to 31 deductions to Pension GESE Retro and FIPO Extra pension. An incorrect deduction took place whenever the Fire Injury Change of Attendance (COA) element was used. Fire Injury COA is an element used by payroll to make changes of attendance which will not affect the regular wages. Duplicate contributions were identified on the transmittal files in seven pay periods relating to five employees who were working in two locations. Upon audit inquiry, payroll staff indicated that whenever an employee works in two classifications in the same pay period, due to a system error, Oracle creates a duplicate deduction to the pension plan. The Pension Administrator, third party custodian, made the adjustments to the pension system for these duplicate contributions.

- **Terminated Employees** – Two terminated employees incorrectly received a crime prevention allowance totaling approximately $154, and contributions of $11 were transferred to the pension plan.
• **Timing differences** – Our audit disclosed that 23 errors occurred due to timing issues or correction of errors from prior pay periods. The interface runs for the pay period and the deduction report (funds are disbursed based on the deduction report) runs pay date plus one day to the next pay date. In most instances, manual adjustments are posted by the Pension Plan due to the timing issue or errors corrected by Payroll not identified by the interface.

**Recommendation:**

We recommend that the Payroll Section institutes the process of reviewing and reconciling the output files for pension deductions transmitted to the pension system for all pay periods. To the extent that many of the adjustments are due to system errors, we recommend that the Finance Department works closely with the Enterprise Information Systems Department in resolving the root causes. We also recommend that the transmittal and deduction report be synchronized since many of the adjustments made by the Pension Administrator are due to the fact that the interface runs for the pay period while the deduction report runs on one day’s lag from the pay date.

**Auditee’s Response and Action Plan**

The auditee concurred with the audit findings and recommendations. See written response on pages 22 through 27.

**ADJUSTMENTS NOT BEING MADE ON A TIMELY BASIS BY CITY PAYROLL FOR DISCREPANCIES IN THE PAYROLL INTERFACE AND FUNDS TRANSFERRED TO THE PENSION PLAN**

Section 40-246 of the City Code, provides that "the proper authority or officer responsible for making up the payroll for members of the Plan, shall certify to the Board, on each payroll, the amounts deducted or picked up by the City for each member. Such amounts shall be deducted or picked up by the City, and when deducted or picked up,
shall be paid to the Plan and credited to the active membership account for each respective member”. Payroll transfers pay data along with the pension deductions for each payroll to the General Employees’ and Sanitation Employees’ Retirement Trust (GESE) and Fire Fighters’ and Police Officers’ Retirement Trust (FIPO) via an electronic transfer (interface) to the pension system. Best practices requires that accurate pay data and pension contributions be transferred to the pension system, all manual adjustments be made in a timely manner, and all unresolved issues be researched and corrected prior to the ensuing payroll.

Our review of 92 payroll interface files, disclosed that 57 (62%) files did not agree to the amount transferred by Payroll to the GESE and FIPO pension plans. Our audit test disclosed that 33 of the 57 files (48%) were not corrected on a timely basis (i.e. in the ensuing payroll). Payroll took between two (2) to twenty six (26) pay periods to manually adjust these errors ranging from overpayments of approximately $40 to $1,600 to the Pension Plan. Twelve of the discrepancies totaling approximately $2,600 have not been adjusted by payroll as of the date of fieldwork (October 4, 2011) despite requests from GESE and FIPO.

The following manual adjustments had not been made as of the date of fieldwork (October 4, 2011):

- Due to six system errors, three employee contributions were overpaid to GESE and FIPO by approximately $800 and $1,600 respectively. Four of the six errors have been outstanding since November 2009.
- Two terminated employee contributions totaling approximately $10 have been transferred to GESE and have not been adjusted for more than one year.
- Three employee contributions for service buyback contracts totaling approximately $200 received by FIPO (even though the contract was paid in full) have not been adjusted since August 2009. In one instance, Payroll made an error for an employee that had a buyback contract; corrected the error twice which resulted in an underpayment of approximately $50 to FIPO; and, the error has not been corrected as of the date of fieldwork (October 4, 2011).
Recommendation:

We recommend that the Payroll Section institute the process of identifying and resolving erroneous items in a timely manner and process all corrections prior to the ensuing payroll. In addition, we recommend that the Finance Department implement an error tracking mechanism by creating an error aging schedule which is reviewed by senior management on an ongoing basis.

Auditee’s Response and Action Plan

The auditee concurred with the audit findings and recommendations. See written response on pages 35 through 36.

**FUNDS TRANSFERRED BY CITY PAYROLL TO THE PENSION PLAN TRUST ACCOUNT DO NOT AGREE TO THE LETTER CERTIFYING THE CONTRIBUTIONS TAKEN FROM CITY EMPLOYEES FOR EACH PAYROLL**

Section 40-246 of the City Code provides that "the proper authority or officer responsible for making up the payroll for members of the Plan, shall certify to the Board, on each payroll, the amounts deducted or picked up by the City for each member. Such amounts shall be deducted or picked up by the City, and when deducted or picked up, shall be paid to the Plan and credited to the active membership account for each respective member". The City’s Payroll Section (Payroll) transfers funds for member contributions to the General Employees’ and Sanitation Employees’ Retirement Trust (GESE) and Fire Fighters’ and Police Officers’ Retirement Trust (FIPO) trust accounts on each payroll and certifies to the GESE and FIPO Pension Boards the amounts deducted for each member. Best practices require that funds transferred to Pension Plan Trust accounts agree to the letters certifying the contributions taken from City employees for each payroll.
Our review disclosed that, out of a total of 92 biweekly wire transfers for member contributions to GESE and FIPO trust accounts, 3 (3%) discrepancies were identified, ranging from underpayments of $348 to overpayments of $43,920, wherein funds transferred to the pension plan trust account did not agree to the amount certified in the letters from the City of Miami Payroll Section and the corresponding deduction report.

**Recommendation:**
We recommend that the City’s Payroll Section ensure the amounts certified in the letters to the GESE and FIPO Pension Boards agree to the funds wired to the GESE and FIPO trust account on each payroll. As such, the Payroll Manager signing the letter certifying the contribution amounts taken from City Employees’ for each payroll should verify that the funds transferred agree to the employee deduction report and the amount wired to the Pension System.

**Auditee’s Response and Action Plan**
The auditee concurred with the audit findings and recommendations. See written response on pages 35 through 36.
PENSION BENEFIT OVERPAYMENTS TO MIAMI GENERAL EMPLOYEES
AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL
EMPLOYEES, LOCAL 1907, AFL-CIO (AFSCME, LOCAL 1907) CAUSED BY PAY
SUPPLEMENTS INCORRECTLY CODED AS PENSIONABLE IN
MOORE/ORACLE PAYROLL SYSTEM

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 provided by this agreement shall not be used in calculating
average earnings for pension purposes.

The Labor Division (Labor) of the Human Resources Department (HR) is responsible for
notifying the Payroll Section (Payroll) to add pension codes/elements to the City’s Oracle
payroll module based on the agreement between the City and Miami General Employees
American Federation of State, County, and Municipal Employees, Local 1907, AFL-CIO
(AFSCME, Local 1907). Payroll transfers pensionable earnings for each employee to the
General Employees’ and Sanitation Employees’ Retirement Trust (GESE) via an
interface (electronic transfer) to the pension system. Pensionable earnings are used in
calculating a member’s average final compensation and for computing a retired
member’s monthly pension benefits.

Our review of 13 AFSCME, Local 1907 pension benefit calculations for members retired
during the period October 1, 2008 to March 31, 2011, disclosed that 5 (38%) pension
calculations were incorrect because the following supplements were coded as pensionable
in the Moore and Oracle Payroll Systems.

- A1, GSA Auto Service Certification 1%;
- NAEMD, National Academy of Emergency Dispatcher;
- OT, Communications Operator Training;
- QP, Quality Assurance Proficiency;

The above-mentioned supplements were used in calculating the members’ average final
compensation for computing pension benefits. The pay records reviewed indicated that
Payroll incorrectly reported to GESE pay supplements as pensionable earnings totaling $25,783. The pay supplements were for 5 members who retired from the City during the period October 1, 2008 to March 31, 2011. The earnings related to the above pay supplements were incorrectly included in the average final compensation for the purpose of establishing pension benefits. As a result, pension benefits were overpaid for the 5 retired members ranging from $872 monthly to $10,463 annually. Also, we noted that the pay supplements were also included in the pensionable salaries reported to the actuary for the purposes of calculating the unfunded actuarial accrued pension liability and the required City contributions to the GESE Trust. Our audit determined that 10% to 13% of employees’ pension contributions were deducted from the above non-pensionable pay supplements and transmitted to GESE.

Recommendation:

We recommend that HR and Labor notify Payroll regarding the previously-listed payroll codes/elements that should have been coded as non-pensionable in Oracle. GESE should recover all overpayments from members, and adjust future benefit payments since pension is a lifetime benefit. In addition, we recommend that all contributions remitted to the GESE Pension Trust relative to the incorrectly designated earnings be recaptured.

Auditee’s Response and Action Plan

The auditee concurred with the audit findings and recommendations on pages 37 through 40.
FIRE FIGHTERS’ AND POLICE OFFICERS’ RETIREMENT TRUST (FIPO)

LACK OF UPDATED WRITTEN MANUAL DESCRIBING DETAILED POLICIES AND PROCEDURES

From October 1, 2008 to our testing date of March 2011, 450 Firefighters’ and Police Officers’ Retirement Trust (FIPO) employees separated from the City and received pension benefits of $3,596,337 monthly. Separated employees/retirees are set up in the FIPO pension system based on pension benefit calculations which are made by the Assistant Pension Administrator or a Pension Accountant. We noted that the said pension benefit calculations partially involve manual inputs and computations that are prone to human error. In order to mitigate the risk of such error, best practices recognize that FIPO should have updated/current written policies and procedures which govern the performance and supervisory review/approval of such calculations.

We observed that FIPO does not have an updated written manual of policies and procedures relating to the benefit calculations/payment process and reconciliation of contributions to the FIPO pension plan. Upon audit inquiry, we received an administrative manual dated November 1997 that listed job functions and internal controls; however, the manual does not describe detailed procedures that would ensure the accuracy and the appropriate review and approval of pension benefit calculations. Not having an updated policies and procedures manual increases the risks that job functions may be performed inconsistently and the transmission of knowledge during staff turnover or leave may be compromised.

Recommendation:

We recommend that FIPO management create a comprehensive written manual of current policies and procedures relating to the benefit calculation/payment process, developed with input from staff currently involved in the process. The policies and procedures
should be reviewed by the pension administrator, integrated into the department’s Standard Operating Procedures, and staff should be notified of the new policies in a timely manner. Said updated written policies and procedures should include responsibilities of all employees involved in the process, pension calculation review requirements, and should name persons cross-trained to handle benefit estimates in the even the primary person is out of the office.

**Auditee’s Response and Action Plan**

The auditee concurred with the audit findings and recommendations. See written response on pages 41 through 43.
Date: September 16, 2011

To: Diana Gomez, Director
   Department of Finance

From: Mala Khilnani, CPA, CISA, Senior Staff Auditor
      Office of Independent Auditor General

Subject: Audit of the City Employees’ Pension Plan Benefit Calculations
         Audit #11-012

Dear Ms. Gomez:

Pursuant to our ongoing audit of the City Employees’ Pension Plan Benefit Calculations for
the period October 1, 2008 through September 30, 2010, and selected transactions prior and
subsequent to this period, please confirm and/or clarify our understanding by: reviewing this
memorandum (memo); mark whether you agree or disagree with its contents and provide
your initials in the spaces provided; and, return this memo to us by September 26, 2011. In
the event that you disagree with any of the items listed below, please provide your
explanation and attach all supporting documents/records by the indicated date (by September
26, 2011).
PENSION CONTRIBUTIONS TRANSFERRED VIA WIRE TO THE PENSION PLAN TRUST ACCOUNT DOES NOT MATCH THE CONTRIBUTION AMOUNTS LISTED ON FILES SENT TO THE PLAN BY CITY PAYROLL.

Section 40-246 of the City Code, provides that "the proper authority or officer responsible for making up the payroll for members of the Plan, shall certify to the Board, on each payroll, the amounts deducted or picked up by the City for each member. Such amounts shall be deducted or picked up by the City, and when deducted or picked up, shall be paid to the Plan and credited to the active membership account for each respective member". City payroll transfers pay data such as employee pensionable earnings along with the pension deductions for each payroll to the General Employees’ and Sanitation Employees’ Retirement Trust (GESE) and Fire Fighters’ and Police Officers’ Retirement Trust (FIPO) via an interface (internal system) to the pension system maintained by third party custodian. Best practices require that accurate pay data and pension contributions be transferred to the pension system for each payroll.

Our review disclosed that, out of a total of 92 payroll files sent to the Plan, 57 (62%) files did not agree to the amount transferred for pension contributions by the City Payroll to the GESE and FIPO pension plans resulting in total overpayments of approximately $13,500 and total underpayments of approximately $71,100. Our audit determined 101 discrepancies that occurred in the 57 files ranging from approximately $10 to $43,900 due to the following errors:

- **Extra Pension contribution for Service Buyback Program** - Section 40-254 and Section 40-202 of the City Code, provides that “Members shall have the right to receive membership credit in the Plan in accordance with the provisions of this section”. Members receive membership credit by filling out an election form indicating the term of payment which cannot exceed 5 years. Payroll Department enters the amount owed and the payroll deduction into the system. The system automatically calculates the number of payments. Our review identified 24 files with 38 instances of Extra Pension contributions that were deducted erroneously from 18 members. These members had
completed their paybacks for membership credit or were separated from the city. However, Payroll continued the contributions to the pension plan in these instances. These contributions were wired to GESE/FIPO and subsequently refunded to the employee. In some instances, the entire amount of the paycheck or the entire accumulated leave balance payout was deducted for an employee who was terminated. Payroll incorrectly continued deductions for 16 out of the 18 employees who had service buyback contracts. In three instances, the employee was terminated and the Extra Pension was deducted from the accumulated leave balance payout or whatever the final check allowed. Two employees did not have buyback contracts but contributions continued for five to six pay periods.

- **System Errors** – It was identified that 19 files were incorrect due to 31 deductions to Pension GESE Retro and FIPO Extra pension. An incorrect deduction took place whenever the Fire Injury COA element was used. Fire Injury Change of Attendance (COA) is an element used by payroll to make changes of attendance which will not affect the regular wages. Duplicate contributions were identified on the transmittal files in seven pay periods relating to five employees who were working in two locations. Upon audit inquiry, payroll staff indicated that whenever an employee works in two classifications in the same pay period due to a system error Oracle creates a duplicate deduction to the pension plan. Pension Administrator, third party custodian made the adjustments to the pension system for these duplicate contributions.

- **Terminated Employees** – Two terminated employees incorrectly received crime prevention allowance totaling approximately $150 and contributions of $10 were transferred to the pension plan.
• **Timing differences** – Our audit disclosed that 23 errors occurred due to timing issues or correction of errors from prior pay periods. The interface runs for the pay period and the deduction report (funds are disbursed based off the deduction report) runs pay date plus one day to next pay date. In most instances, manual adjustments are posted by the Pension Plan due to the timing issue or errors corrected by City Payroll not picked up by the interface.

**Recommendation:**

We recommend that the Payroll Department institutes the process of reviewing and reconciling the output files for pension deductions transmitted to the pension system for all pay periods. To the extent that many of the adjustments are due to system errors, we recommend that the Finance Department works closely with the Enterprise Information Systems Department in resolving the root causes. We also recommend that the transmittal and deduction report be synchronized since many of the adjustments made by the Pension Administrator are due to the fact that the interface runs for the pay period while the deduction report runs on one day’s lag from the pay date.

**Auditee Response and Action Plan:**

☐ I agree; ☐ I disagree. Please initial: ________________

Explanation________________________________________

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___________________________________________________

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___________________________________________________
Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records.

If you have any questions, please feel free to contact me at 305-416-2049 or by email at lkhilnani@miamigov.com.

Thank you for your attention to this matter.

__________________________________________  __________
Diana Gomez, CPA, Director                      Date

CC: Audit Documentation File
CITY OF MIAMI, FLORIDA
INTER-OFFICE MEMORANDUM

TO: Mala Khilnani, Senior Staff Auditor
    Office of Independent Auditor General
FROM: Diana Gomez
    Finance Director

DATE: October 4, 2011

SUBJECT: OIAG Audit# 11-012
REFERENCES:
ENCLOSURES: 1

The Department of Finance is in receipt of your memorandum, dated September 16, 2011, regarding the Auditor General’s ongoing audit of the City’s Employees’ Pension Plan Benefit Calculations (Audit #11-012). Below is the response to your inquiries and findings:

Transmittal file-client copy
PENSION CONTRIBUTIONS TRANSFERRED VIA WIRE TO THE PENSION PLAN TRUST ACCOUNT DOES NOT MATCH THE CONTRIBUTION AMOUNTS LISTED ON FILES SENT TO THE PLAN BY CITY PAYROLL

- Extra Pension contribution for Service Buyback Program – This has been acknowledged as a prior operational deficiency that has now been corrected by stopping the extra pension element when “primary” or “main” element is stopped. Once the Payroll Team identified the root cause, corrective processes were deployed.

- System Errors – This was an element issue than when used it incorporated other non-pertinent elements, such as extra pension FIPPO and pension GESE retro, which caused anomalies in reporting compilation. Fire injuries COA element has been corrected effective pay period January 29, 2011, check dated February 4th, 2011.

- Terminated Employees – Validation process has been strengthened, knowledge gap filled and efficiency of revamped process has been validated in view of fewer similar items being discussed in 2010-2011 bi-weekly meetings with GESE.

- Timing differences – This deficiency was a direct result of divergent variables being used to compile post production submissions. To clarify, for example, the interface file ran from pay date check plus one (day) to the following pay check date; while the Deduction Register ran from pay period end to pay period end. In other words, they (the reports), where not “looking” or “pulling” the data compiled using the same parameters. This deficiency has now been corrected by changing the scripts or parameters for both the Interface File and the Deduction Register. They both now both compile date on a pay period basis.
Date: September 16, 2011

To: Diana Gomez, Director
    Department of Finance

From: Mala Khilnani, CPA, CISA, Senior Staff Auditor
    Office of Independent Auditor General

Subject: Audit of the City Employees’ Pension Plan Benefit Calculations
        Audit #11-012

Dear Ms. Gomez:

Pursuant to our ongoing audit of the City Employees’ Pension Plan Benefit Calculations for the period October 1, 2008 through September 30, 2010, and selected transactions prior and subsequent to this period, please confirm and/or clarify our understanding by: reviewing this memorandum (memo); mark whether you agree or disagree with its contents and provide your initials in the spaces provided; and, return this memo to us by September 26, 2011. In the event that you disagree with any of the items listed below, please provide your explanation and attach all supporting documents/records by the indicated date (by September 26, 2011).
ADJUSTMENTS NOT BEING MADE ON A TIMELY BASIS BY CITY PAYROLL FOR DISCREPANCIES IN THE PAYROLL INTERFACE AND FUNDS TRANSFERRED TO THE PENSION PLAN

Section 40-246 of the City Code, provides that "the proper authority or officer responsible for making up the payroll for members of the Plan, shall certify to the Board, on each payroll, the amounts deducted or picked up by the City for each member. Such amounts shall be deducted or picked up by the City, and when deducted or picked up, shall be paid to the Plan and credited to the active membership account for each respective member". City payroll transfers pay data along with the pension deductions for each payroll to the General Employees’ and Sanitation Employees’ Retirement Trust (GESE) and Fire Fighters’ and Police Officers’ Retirement Trust (FIPO) via an interface to the pension system. Best practices requires that accurate pay data and pension contributions be transferred to the pension system, all manual adjustments be made in a timely manner, and all unresolved issues be researched and corrected prior to the immediately following payroll.

Our review of 92 payroll interface files, disclosed that 57 (62%) files did not agree to the amount transferred by the City payroll to the GESE and FIPO pension plans. Our audit test disclosed that 33 of the 57 files (48%) were not corrected on a timely basis i.e. in the immediately following payroll. City Payroll took anywhere between two to twenty six pay periods to manually adjust these errors ranging from overpayments of approximately $40 to $1,600 to the Pension Plan. Twelve of the discrepancies totaling approximately $2,600 have not been adjusted by payroll as of this date despite requests from GESE and FIPO.

The following manual adjustments have not been made to date:

- Three employee contributions due to system errors resulting in overpayments to GESE of approximately $800 and to FIPO of approximately $1,600. Two of the three errors have been outstanding since November 2009.

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33126
• Two terminated employee contributions totaling approximately $10 have been transferred to GESE and have not been adjusted for more than one year.
• Three employee contributions for service buyback contracts totaling approximately $200 received by FIPO even though the contract was paid in full have not been adjusted since August 2009. In one instance, payroll made an error for an employee that had a buyback contract. Payroll corrected the error twice which resulted in an underpayment of approximately $50 to FIPO and the error has not been corrected as of this date.

Recommendation:

We recommend that the Payroll Department institutes the process of identifying and resolving erroneous items in a timely manner and process all corrections prior to the subsequent payroll. The Payroll Department investigate all errors prior to the subsequent payroll and funds be adjusted on the following payroll for all over/underpayments. In addition, we recommend that the Finance Department implement an error tracking mechanism by creating an error aging schedule which is reviewed by senior management on an ongoing basis.

Auditee Response and Action Plan:

☐ I agree; ☐ I disagree. Please initial: __________________

Explanation
________________________________________
________________________________________
________________________________________
________________________________________
Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records.

If you have any questions, please feel free to contact me at 305-416-2049 or by email at kkhilnani@miamigov.com.

Thank you for your attention to this matter.

__________________________________________  ____________________________
Diana Gomez, CPA, Director                  Date

cc:    Audit Documentation File
City of Miami

Date: September 16, 2011

To: Diana Gomez, Director
Department of Finance

From: Mala Khilani, CPA, CISA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the City Employees' Pension Plan Benefit Calculations
Audit #11-012

Dear Ms. Gomez:

Pursuant to our ongoing audit of the City Employees' Pension Plan Benefit Calculations for the period October 1, 2008 through September 30, 2010, and selected transactions prior and subsequent to this period, please confirm and/or clarify our understanding by; reviewing this memorandum (memo); mark whether you agree or disagree with its contents and provide your initials in the spaces provided; and, return this memo to us by September 26, 2011. In the event that you disagree with any of the items listed below, please provide your explanation and attach all supporting documents/records by the indicated date (by September 26, 2011).
Funds transferred by City Payroll to the Pension Plan Trust Account do not agree to the letter certifying the contributions taken from City Employees' for each payroll.

Section 40-246 of the City Code, provides that "the proper authority or officer responsible for making up the payroll for members of the Plan, shall certify to the Board, on each payroll, the amounts deducted or picked up by the City for each member. Such amounts shall be deducted or picked up by the City, and when deducted or picked up, shall be paid to the Plan and credited to the active membership account for each respective member. City payroll transfers funds for member contributions to the General Employees' and Sanitation Employees' Retirement Trust (GESE) and Fire Fighters' and Police Officers' Retirement Trust (FIPQ) on each payroll and certifies to the Pension Board the amounts deducted for each member. Best practices require that funds transferred to the Pension Plan Trust account agree to the letter certifying the contributions taken from City Employees' for each payroll.

Our review disclosed that, out of a total of 92 bi-weekly wire transfers to GESE & FIPQ for member contributions, 3 (3%) discrepancies were identified ranging from underpayments of $348 to overpayments of $43320 whereby funds transferred to the pension plan trust account did not agree to the amount certified in the letter from the City of Miami Payroll Dept. and the corresponding deduction report.

Recommendation:

We recommend that the Payroll Department ensure the amount certified in the letter to the Pension Board agrees to the funds wired to the General Employees' and Sanitation Employees' Retirement Trust (GESE) and Fire Fighters' and Police Officers' Retirement Trust (FIPQ) account on each payroll. Payroll Manager signing the letter certifying the contributions taken from City Employees' for each payroll should verify that the funds transferred agree to the employee deduction report and the amount wired to the Pension System.
Audit Response and Action Plan:

I agree; I disagree. Please initial: ____________

Explanation: ____________________________________________________________________________
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Please confirm our understanding by signing in the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records. If you have any questions, please feel free to contact me at 305-416-2049 or by email at kkhilani@miamigov.com.

Thank you for your attention to this matter.

Diana Gomez, CPA, Director

Date

cc: Audit Documentation File
The Department of Finance is in receipt of your memorandum, dated September 16, 2011, regarding the Auditor General’s ongoing audit of the City’s Employees’ Pension Plan Benefit Calculations (Audit #11-012). Below you will find responses to your inquiries and findings:

**Discrepancy in funds transferred — client doc**

Funds transferred by City Payroll to the Pension Plan Trust Account do not agree to the letter certifying the contributions taken from City Employees for each Payroll.

- On this particular finding, it cannot be disputed that corrections were made late. However, it must be noted that the two pay periods tested happened immediately subsequent to the ORACLE implementation - a period of time that challenged the Payroll Team beyond its capabilities and resources - there simply were not enough hands on deck to efficiently conduct the necessary root-cause analysis and deploy corrective measures. If you look at the third identified adjustment, you'll note that it was promptly addressed and corrected because the knowledge base had expanded due to continued operational experience and increased resources in the Payroll Section.

**Timely Adjustments — client doc**

Adjustments are not being made on a timely basis by City Payroll for discrepancies in the Payroll Interface and Funds Transferred to the Pension Plan.

There are three components or sub-headings to this issue:

- "XPension Contribution continue to GSEF/WPO in error" [four records] - Payroll will "manually" adjust the cover transmittal letter by the noted adjustments listed therein. This will correct the four records and complete the resolution of same - Please know that this type of "corrective adjustment approach" has been used to reconcile outstanding Pension GSEF issues.

- "X10 retirement component causes pension GSEF retro contribution and X10 pension to F1/O in error" [six records] - this particular item is currently undergoing an in-depth analysis by staff that should be finalized shortly.
"Termed employee receiving allowance and contribution incorrectly sent to pension. This is a non-material issue that can be resolved in the same manner as the first component listed above."
Date: November 3, 2011

To: Beverly Pratt, Director
    Department of Human Resources

From: Mala Khilani, CPA, CIA, Senior Staff Auditor
    Office of Independent Auditor General

Subject: Audit of the City Employees' Pension Plan Benefit Calculations
         Audit #11-012

Dear Ms. Pratt:

Pursuant to our ongoing audit of the City Employees' Pension Plan Benefit Calculations for the period October 1, 2008 through September 30, 2010, and selected transactions prior and subsequent to this period, please confirm and/or clarify our understanding by: reviewing this memorandum (memorandum); mark whether you agree or disagree with its contents and provide your initials in the spaces provided; and, return this memo to us by November 10, 2011. In the event that you disagree with any of the items listed below, please provide your explanation and attach all supporting documents/records by the indicated date (by November 10, 2011).

PENSION BENEFIT OVERPAYMENTS TO MIAMI GENERAL EMPLOYEES
AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES
LOCAL 1907, AF1-CIO (AFSCME LOCAL 1907) CAUSED BY PAY SUPPLEMENT
INCORRECTLY PID AS PENSONABLE IN MOORE/ORACLE PAYROLL SYSTEM

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, AF1-CIO

OFFICE OF INDEPENDENT AUDITOR GENERAL
441 S. 2nd Ave., Suite 710, Vero Beach, FL 32960-3308

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(AFSCME, Local 1907) for the period October 1, 2007 to September 30, 2010, any pay supplements provided by this agreement shall not be used in calculating average earnings for pension purposes.

The Labor Division of the Human Resources Department is responsible for notifying the Payroll Division in the Finance Department to add pension credits/elements based on the agreement between the City and Miami General Employees American Federation of State, County, and Municipal Employees, Local 1907, AFL-CIO (AFSCME, Local 1907). City payroll transfers pensionable earnings for each employee to the General Employees' and Sanitation Employees' Retirement Trust (GESE) via an interface to the pension system. Pensionable earnings which include pay supplements are used in calculating the member's average final compensation for computing the monthly pension benefits when a member retires from the City.

Our review of 12 Miami General Employees American Federation of State, County, and Municipal Employees, Local 1907 pension benefit calculations for members retired during the period October 1, 2008 to March 31, 2011, disclosed that 5 (18%) pension calculations were incorrect since the following supplements were coded as pensionable in the Oracle and Oracle Payroll Systems:

- A1, GSA Auto Service Certification 1%
- NAFMD, National Academy of Emergency Dispatcher
- QT, Communications Operator Training
- QP, Quality Assurance Proficiency

The above-mentioned supplements were used in calculating the member's average final compensation for computing the pension benefits. The pay records reviewed indicated that approximately $25,783 was included as pay supplements to the pensionable earnings reported by City Payroll to the General Employees and Sanitation Employees (GESE) for the 5 members retired from the City during the period October 1, 2008 to March 31, 2011. The earnings related to the above pay supplements were incorrectly included in the average final compensation for purpose of establishing pension benefits. As a result, pension benefits were overpaid to 5 retired...
members by $872 monthly and $10,463 annually. Also, we noted that the pay supplements were also included in the pensionable salaries reported to the actuary for the purposes of calculating the unfunded actuarial accrued pension liability and the required City contributions to the GESJI Trust. Our audit determined that 10% to 13% of employees' pension contributions were deducted from the above non-pensionable pay supplements and transmitted to the General Employees and Sanitation Employees (GESJI).

Recommendation:

We recommend that the Department of Human Resources, Labor Relations Division notify the Payroll Division in the Finance Department that the previously-listed payroll codes/elements should be coded as nonpensionable in Oracle. General Employees and Sanitation Employees (GESJI) should recover all overpayments from members, and adjust future benefit payments since pension is a lifetime benefit. In addition, we recommend that all contributions remitted to the GESJI Pension Trust relative to the incorrectly designated earnings be recaptured.

Auditee Response and Action Plan:

I agree; I disagree. Please initial: ☐ ☐

Explanation:

Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records.
Supporting schedules are attached for your reference. If you have any questions, please feel free to contact me at 305-416-2849 or by email at kcbillaac@miami.gov.

Thank you for your attention to this matter.

Beverly Pruitt, Director

Date: 1/4/2011

CC: Audit Documentation File
    Sandrin Elenberg, Administrator, CASB
Date: October 13, 2011

To: Robert Nagle, 
Pension Administrator, Fire Fighters' and Police Officers' Retirement Trust

From: Mala Khilnani, CPA, CISA, Senior Staff Auditor 
Office of the Independent Auditor General

Subject: Audit of the City Employees' Pension Plan Benefit Calculations 
Audit #11-012

Pursuant to our ongoing audit of the City Employees' Pension Plan Benefit Calculations for the period October 1, 2008 through September 30, 2010, and selected transactions prior and subsequent to this period, please confirm and/or clarify our understanding by: reviewing this memorandum (memo); mark whether you agree or disagree with its contents and provide your initials in the spaces provided; and, return this memo to us by October 20, 2011. In the event that you disagree with any of the items listed below, please provide your explanation and attach all supporting documents/records by the indicated date (by October 20, 2011).
LACK OF UPDATED WRITTEN MANUAL DESCRIBING DETAILED POLICIES AND PROCEDURES

From October 1, 2008 to our testing date of March 2011, 450 Firefighters' and Police Officers' Retirement Trust (FIPO) employees separated from the City and received pension benefits of $3,596,337 monthly. Separated employees/retirees are set up in the FIPO pension system based on pension benefit calculations which are made by the Assistant Pension Administrator or a Pension Accountant. We noted that the said pension benefit calculations partially involve manual inputs and computations that are prone to human error. In order to mitigate the risk of such error, best practices recognize that FIPO should have updated/current written policies and procedures which govern the performance and supervisory review/approval of such calculations.

We observed that FIPO does not have an updated written manual of policies and procedures relating to the benefit calculations/payment process and reconciliations of contributions to the FIPO pension plan. Upon audit inquiry, we received an administrative manual dated November 1997 that listed job functions and internal controls; however, the manual does not describe detailed procedures that would ensure the accuracy and the appropriate review and approval of pension benefit calculations. Not having an updated policies and procedures manual increases the risks that job functions may be performed inconsistently and the transmission of knowledge during staff turnover or leave may be compromised.

Recommendation:

We recommend that FIPO management create a comprehensive written manual of current policies and procedures relating to the benefit calculation/payment process, developed with input from staff currently involved in the process. The policies and procedures should be reviewed by the pension administrator, integrated into the department's Standard Operating Procedures, and staff should be notified of the new policies in a timely manner. Said updated written policies and procedures should include responsibilities of all employees involved in the process, pension
calculation review requirements, and should name persons cross-trained to handle benefit estimates in the event the primary person is out of the office.

Auditee Response and Action Plan:

☐ I Agree  ☑ I Disagree  Please Initial  

With conditions as stated here:


There is provided a specific, step-by-step procedure for all capabilities of the program and is available to all staff. The LRS (Pension Gold PE) staff provides full-time support and all are fully trained so that a novice can be readily walked through the procedures for all functions, to include, benefit calculations, payroll entry and processing, claim setup, reporting, etc. Cross training is scheduled to begin upon completion of this year’s outside audit in Dec/Jan.

Please confirm our understanding by signing off the space provided below and returning this memorandum to us by the date requested above—October 20, 2011. In the event you disagree with any of the items listed above, please provide your explanation and attach all supporting documentation/records.

If you have any questions, please feel free to contact me at 305-416-2849 or by email at kbilmanik@miamigov.com.

Thank you for your attention to this matter.

Robert Nagle, Pension Administrator  10/25/2011  Date

cc:  Audit Documentation File
     Lewis R. Blake CPA, CIA