

INTERNAL AUDIT DEPARTMENT

Performance Audit Report of Pensions

Audit 17-02



CITY AUDITOR EXECUTIVE SUMMARY

As part of our audit plan, we conducted a performance audit¹ of Pensions for the period commencing July 1, 2015 and ending June 30, 2016. Our objective was to determine whether operating procedures and internal controls provide adequate assurance that authorized transactions are processed completely and accurately, to determine the computations for gross pay are accurate and based on authorized time and amounts, and to ensure pension distributions and records are properly reviewed, approved, processed, and documented.

During the audit process it was noted that the City Treasurer's Office has implemented preventative and detective procedures for the purpose of mitigating the risk of errors and under/overpayments in benefit disbursements. The procedures include a dual review process for new pensioner files, a file checklist, and the annual cross check between the City's listing of active employees and pensioners with a computerized death information and social security number validation system. These procedures and other Treasurer activities are discussed in the body of this report.

The Internal Audit Department (hereinafter, occasionally, "IAD") examined a sample of 30 new pensioner files, 25 deceased and terminated pensioners in the last fiscal year, and 42 stale-dated checks. Our examination revealed significant internal control deficiencies within the pension administration process. The following summary provides management with an overview of conditions requiring attention:

1. Repeat finding: Lack of Comprehensive Policy and Procedure Manual
2. Inconsistent follow-up action
 - a. Two deceased pensioners overpaid
3. Errors and inconsistencies in new pensioner files
 - a. Files are missing pertinent documentation
 - b. Pensioner records contain demographic errors
 - c. Not all Police files are electronically scanned
 - d. One Police pensioner received \$1,679.08 in overpayments due to an error in benefit calculation
 - e. One Plan II pensioner was paid \$2,008.84 posthumously
 - f. Three Police pension files are missing
4. Lack of follow-up on stale-dated pension checks

In our opinion, the operational and administrative controls for pension activities in effect as of November 28, 2016, taken as a whole, are sufficient to meet the objectives stated in the report. Specific limitations that may hinder effectiveness of an otherwise adequate system of controls include, but are not limited to: (a) a lack of automation, (b) resource constraints, (c) faulty judgments, (d) unintentional errors, (e) circumvention by collusion, and (f) management overrides. An audit may not always detect the presence of these limitations or the extent of the adverse effect that such limitations may have on the process and procedures under study. Moreover, establishing a system of controls that would be competent to effectively address and remediate all of these limitations may not be cost effective.

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City Auditor
February 17, 2017

¹ A performance audit is a study of an organization's internal controls and the efficiency and effectiveness of its procedures and processes with due regard for economy and the express aim that it leads to improvements.