



# CITY OF WILMINGTON

## Pension Process

### Internal Audit Review

July 19, 2018

## City Auditor's Office

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City Auditor  
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## Highlights

### *Why We Did This Audit*

The Internal Audit Department (IA) performed a scheduled Performance Audit of the City's Pension Process. The audit was in accordance with the 2018 Internal Audit Plan.

### *Methodology*

The objectives were met by reviewing prior year audits and other pertinent pension documents, reviewing a sample of new pensioner and deceased and terminated pensioners' files, and recalculating the pensioners' gross pay and beneficiary disbursement for accuracy, where applicable.

### *Audit Review Committee:*

Robert C. Johnson, Chair

Ciro Adams  
Marchelle Basnight  
Angelique Dennis  
Bud Freel  
Ronald Pinkett  
Tanya Washington

### *Objective and Scope*

Internal Audit (IA) conducted a Performance Audit of the City's Pension Process. The audit objectives were to determine whether the operating procedures and internal controls associated with the City's pension plan(s) provide adequate assurance that all transactions were authorized, processed completely, and processed accurately. IA also sought to determine whether the computations for gross pay were accurate and checked to ensure they were based on authorized time and amounts. In addition, IA verified whether pension distributions and records were properly reviewed, approved, processed, and documented within the City's financial system as well as the pensioners' personal file. The scope of the audit includes new and terminated pensioners within the period July 1, 2016 through February 12, 2018. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

### *Background*

The City of Wilmington manages three (3) plans for the Non-Uniformed employees as well as four (4) plans for the Police and Fire Departments. The non-uniformed plans are referred to in the City Code as Plan I, Plan II, and Plan III. The uniformed plans include the Firefighter's Pension Plan, the Police Pension Plan (often referred to as the "Old" plans in the Code), along with the City of Wilmington Firefighter's Pension Act of 1984 and the City of Wilmington Police Pension Act of 1984. These last two uniformed plans, as well as the Non-Uniformed Plan III, were all closed on July 31, 1991. Effective August 1, 1991, all employees hired on or after this date are covered under the Delaware State Retirement System. This audit review only pertains to these seven (7) plans.

Currently the Treasury Department serves as the administrator for the Non-Uniformed Plans. The Fire and Police Departments each have their own Pension Secretaries to handle their respective Plan requirements. These persons by Code have to be active employees to serve in these positions. The Fire Department Board of Pensions is currently considering Code which would allow retired employees to serve on their Board of Directors. The current Fire Secretary indicated there weren't a sufficient number of "qualified" active employees remaining within the Plans to choose a viable candidate to serve the Board.

Fire and Police pension participants are eligible to retire and receive normal benefits after completing 20 years of service under both the **Old** and **New** plans. Both plans also have similar provisions for death benefits for both service and service related death, as well as provisions for both service related and non-service disability benefits. Refer to Chapter 31 in the City Code for a more detailed explanation and understanding of any of the above referenced plans.

**Key Statistics:**

<b>Uniformed and Non Uniformed Plans</b>	<b>2014</b>	<b>2016</b>
Participant Count	2,167	2,105
Actuarial Valuation of Assets	\$194.5M	\$215.3M
Unfunded Liability	\$151M	\$140M
Actuarial Liability	\$345.4M	\$355.2M
Funding Basis	56.3%	60.6%

**What we found**

**Key Findings**

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

<b>Risk Ranking:</b>		<b>(See Attachment B for full rating definitions)</b>			
<b>Process / Area</b>	<b>Process / Area Owner</b>	<b>1 Strong Controls</b>	<b>2 Controlled Effectively</b>	<b>3 Controlled - Improvement Required</b>	<b>4 Significant Improvement Required</b>
Compliance	Crystal Colon				✓
Policies and Procedures	Gregory Ciotti, Paul Merrill and Crystal Colon			✓	
Record Retention	Gregory Ciotti, Paul Merrill and Crystal Colon			✓	
Review and Approval	Gregory Ciotti and Paul Merrill			✓	

**Compliance**

1. Noncompliance exists with the execution of the beneficiary designation stated on the deceased pensioners form. For example, a pensioner, who recently passed away, was a single parent at the time of her death, which gave her sole beneficiary the right to collect 50% of the pension payout. The Treasury Department allowed the designated beneficiary to split the benefit with her sister, which was a violation of the signed benefit form.

## **Policies and Procedures**

2. Based on a review of the prior year's audit report, it was noted that a comprehensive policy and procedures manual did not exist. Although some progress has been made by the Treasury Department since the last audit, the manual still was not complete at the time of this review. In addition, a manual for the Police and Fire pension process still does not exist.

## **Record Retention**

3. Inconsistent controls exist with how employee records were being maintained within the TCM filing system or missing key fields on the documentation. Eighteen out of 60 (30%) samples tested had one or more of the following employee records missing documents such as the certificate of death, pension election form, and calculation. Seven were for the Non-Uniformed P3, five were for the Police Department's Old Plan, three were for Non-Uniformed P2, two were for Non-Uniformed P1, and one involved the Fire Department's Old Plan.

## **Review and Approval Process**

4. Controls need strengthening with regards to ensuring the accuracy of pension calculations. For instance, 10 out of 60 (17%) samples tested had errors due to the lack of a secondary review being performed on the initial benefit calculation. Five were related to the Police Department's Old Plans, and five were related to the Police Department's New Plans.

The Fire Department has established a secondary review process with the Treasury Department. However, the review is limited and doesn't provide authentication of the calculations because the City Code does not grant Treasury the authority to do so.

## Management Responses to Audit Recommendations

### Summary of Management Responses

**Recommendation #1:** Management should ensure the directive stated by the Determination of Beneficiary form is followed, unless they are advised by the City's Legal Department to do otherwise.

Agree

**Treasurer's Office Management response & action plan:** It should be noted this was a singular isolated occurrence. Going forward, there will be no deviation from the directive stated by the Determination of Beneficiary form. The Determination of Beneficiary form shall be strictly adhered.

**Completion Date:** May 23, 2018

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**Recommendation #2:** The completed manual should be implemented with training for those employees that are not familiar with a particular work process. Further, these standards should be shared with both the Fire and Police Secretaries to promote continuity between the various Pension Plans.

Agree

**Treasurer's Office Management response & action plan:** Following the last Pension Audit and as a result of the longstanding finding of failure to have a Pension Manual, the Treasurer's Office provided an action plan to complete documentation of a Pension Policy and Procedure Manual by the end of calendar year 2018. The Treasurer's Office has made significant progress and the completed manual will be implemented with training as necessary by December 31, 2018; and shared with the Police and Fire Secretaries.

**Completion Date:** December 31, 2018

**Police Department Management response & action plan:** Management responses were not received at the time of audit publication but will be provided by management at a later date.

**Completion Date:** TBD

**Fire Department Management response & action plan:** Management responses were not received at the time of audit publication but will be provided by management at a later date.

**Completion Date:** TBD

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**Recommendation #3:** Management should standardize the process that all groups (Treasury's office and the Police & Fire Secretaries) use when collecting, scanning, and maintaining pensioner files. The work flow should include identifying the required documents and how they should be maintained, both on file and within TCM.

Agree

**Treasurer's Office Management response & action plan:** The Police, Fire and Non-Uniform Pension Plans are established by City Code to be separate and distinct, each with its own administrator and secretary accountable to its

own Pension Board. Although procedures are similar among the plans, they are separate with no 'cross plan' accountability or authority. For these reasons the Treasurer's Office can only address its process and cannot respond to standardization for all groups. The Treasurer's Office will ensure that its procedures clearly define and adhere to the records requirements as part of the completion on the procedure manual.

**Completion Date:** December 31, 2018

**Police Department Management response & action plan:** Management responses were not received at the time of audit publication but will be provided by management at a later date.

**Completion Date:** TBD

**Fire Department Management response & action plan:** Management responses were not received at the time of audit publication but will be provided by management at a later date.

**Completion Date:** TBD

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**Recommendation #4:** Due to the diminishing number of potential participants in the Police and Fire pensions, management of the various pension plans should consider transitioning the pension process over to the Treasury Department. If this does not occur, the secondary review for the Police and Fire calculations should be conducted by a different person other than the individual who performed the calculation.

Agree

**Police Department Management response & action plan:** Management responses were not received at the time of audit publication but will be provided by management at a later date.

**Completion Date:** TBD

**Fire Department Management response & action plan:** Management responses were not received at the time of audit publication but will be provided by management at a later date.

**Completion Date:** TBD

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**Audit Team**

Allen G. Egner, Senior Auditor  
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