

Retirement Matching Audit

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Internal Audit Division
Finance Department
City of Cincinnati

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Executive Summary

IAD conducted an audit of the Retirement Division to determine if they have the proper internal controls in place to prevent making pension payments to deceased retirees and beneficiaries. Additionally, IAD reviewed their files to determine whether they have adequate documentation to verify dependent eligibility for health care benefits.

IAD found weak internal and management controls in Retirement. They do not have an adequate policies and procedures manual for their staff. Their policies and procedures manual mostly defines policies and procedures for the City's Retirement System, not the operations within the division such as employee responsibilities, departmental goals and objectives. For example, the manual extensively describes investment objectives, fund allocation, and fund evaluation, but it does not define the day-to-day operations or Retirement's objectives and goals for their staff.

Additionally, IAD found that Retirement does not have proper internal controls to prevent them from making pension payments to deceased retirees and beneficiaries. In order to prevent improper pension payments, it is necessary for Retirement to match their retiree database with a national Social Security Death Index. IAD found that Retirement does not match their database with the death index, and because of this they have been sending monthly pension payments to 14 deceased retirees and beneficiaries, including a retiree who died as far back as 2000. Retirement made overpayments to deceased retirees and beneficiaries totally \$102,354.69; however, Retirement suffered a financial loss of only \$3,463.82. IAD recovered \$85,944.53 of the overpayments, Retirement recovered \$1,813.99 and \$11,162.35 was recovered from canceling returned and outstanding checks.

In reference to dependent eligibility, IAD found that Retirement's files do not have adequate documentation to verify dependent eligibility for health care benefits. IAD found that over 90% of the files did not have adequate documentation to verify eligibility. Specifically, the files lacked adequate documentation for guardianship and spousal dependents.

I. Introduction

Background

City employees are covered by one of three pension systems. The three pension systems are the Ohio Police and Fire Pension Fund (OP&F) and the Ohio Public Employees Retirement System (OPERS), which are both State pension systems, and the City of Cincinnati's Retirement System. The City of Cincinnati's Retirement System (CRS) was established in 1931. Retirement manages the CRS and is a division of the Finance Department. Cincinnati Municipal Code, Section 203, governs the CRS. Retirement administers monthly pension benefits and medical benefits to qualified retirees, survivors of retirees, retirees' dependents and disabled retirees.

Retirees and eligible beneficiaries receive monthly pension payments, which are distributed through direct deposit or the US Postal Service. Retirees and their dependents also receive health insurance benefits. In order to be eligible for health insurance benefits, the dependent must meet the dependent eligibility criteria, which can be found in the City of Cincinnati's health benefits booklet. In summary, *eligible dependents* have to be the retiree's spouse, unmarried child (including a stepchild), newborn child, legally adopted child or grandchild. Children are eligible until they turn 24 years old as long as the child is a full-time student (attending at least four classes) or if the retiree claims the child as a dependent on their IRS Form 1040. The City does not allow an employee or retiree to claim a parent, uncle or aunt as a dependent

When an active employee is approaching retirement, they meet with a member of the Retirement staff to fill out the appropriate paper work in order to receive their pension benefits. Upon the retiree's death, the City pays a reduced pension payment to the retiree's beneficiaries (surviving spouse and dependents). The surviving spouse is eligible to receive benefits until their death or until they remarry. If the beneficiary is a dependent child, the child is eligible until age 18.

Audit Scope and Methodology

IAD audited the City of Cincinnati's Retirement Division. The scope of the audit was to first determine whether the Retirement Division has the proper internal controls to avoid making pension payments to deceased retirees or beneficiaries. Secondly, IAD determined whether Retirement properly verified dependent eligibility for health insurance benefits. IAD's review was conducted between May 2005 and September 2005.

IAD's methodology included a review of internal policies and procedures for the Retirement Division and the City's health benefits booklet. IAD reviewed applicable City of Cincinnati Municipal Code and state law. IAD conducted interviews with Retirement personnel, Risk Management personnel and reviewed Retirement files and documentation.

Additionally, IAD conducted testing to determine whether Retirement improperly paid deceased retirees or beneficiaries. IAD conducted this test by matching a current 2005 pension payroll (over 4,280 retirees) with a national death records database. IAD also randomly tested Retirement files to determine if Retirement adequately verified dependent eligibility through supporting documentation.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS).

II. Findings and Recommendations

Policies and Procedures

All organizations need to define their goals and objectives through policies and procedures. The success of a department depends on the internal control system and organizational structure. A good internal control system helps management have a reasonable assurance that their procedures are being carried out. It also warns management when there is a breakdown in the system. Without clearly defined policies and procedures a department will perform inefficiently. Lines of reporting and employee responsibilities should be clearly defined by management.

Management should create boundaries in which their employees can work. If the boundaries are not articulated in writing, the employees will be free to make decisions on their own and their decisions may not be consistent with the department's goals and objectives. Written policies and procedures allow management to determine whether an employee's improper action was due to poor judgment or a violation of established rules. If the policy does not exist, corrective action may not be possible or effective.

IAD found that the Retirement System's policies and procedures manual mostly defines policies and procedures for the City's Retirement System, not the operations within the division such as employee responsibilities, departmental goals and objectives. For example, the manual extensively describes investment objectives, fund allocation, and fund evaluation, but it does not define the day-to-day operations or Retirement's objectives and goals for their staff. Retirement's procedures manual should address issues that include, but are not limited to, the following:

- Mission statement, performance measures, goals and objectives.
- Employee job responsibilities, office hours, organizational structure.
- Procedures and laws on securing confidential information, including the destruction of confidential documentation, and storage of confidential documentation (i.e. social security numbers).
- Procedures for processing a public records request. For example, what information can and cannot be released to the public.
- Processes and procedures for making address or beneficiary changes to the PensionGold System.
- Processes and procedures for authorization levels within the PensionGold System.
- Processes and procedures for dealing with returned and outstanding (not cashed) pension checks, including how the mail is processed in the division.
- Processes and procedures for required supporting documentation in reference to determining dependent eligibility.
- Federal, state or local laws or regulations. HIPAA regulations.

Recommendation 1. IAD recommends that Retirement develop a policies and procedures manual for their division and require each employee to authorize in writing that they have read the policies and procedures manual.

Department Response: *Department Agrees.*

Management has established a Mission Statement and goals for the division for the next two years. In conjunction with division goals, strategies for accomplishment have been delineated. In addition, measurements of accomplishment of goals are included in the strategic plan.

One goal for 2007 is for the division to produce a workable, operational policies and procedures manual. It is planned to include desk procedures as a part of the manual. The CRS will implement a web-based version of PensionGold in 2007. Management's plan is to include a thorough analysis of the processes, procedures, and authorities regarding the new version of PensionGold. Following analyses, management will insure that the new version of PensionGold follows management's directions regarding processes, procedures, and authorities.

Management has implemented a process to deal with returned and outstanding checks.

The CRS Benefits Committee has been working to clarify the definition of eligible dependent. Subsequent to a clear definition of eligible dependent, the CRS will begin a thorough audit of all dependents and dependent documentation. The 2007 budget, approved by the CRS Board of Trustees, includes funds necessary for temporary employees, materials, and overtime to accomplish the audit.

The CRS Governance Committee was newly formed in January 2007. The work of this committee will include providing clear definitions for administrative ambiguities. The work of this committee should result in an administrative policy with consistencies among the Cincinnati Municipal Code, the CRS policies and rules, and the CRS administrative manual.

Internal Controls

In order to reduce the risk of paying benefits to deceased individuals, it is essential for Retirement to regularly perform matches of their database with the Social Security Administration Death Index. IAD determined that Retirement is not regularly performing matches. In June 2005, IAD matched the Retirement's June 2005 pension payroll (4,280 retirees and beneficiaries) to a national death record database, which includes information from the Social Security Administration Death Index and determined that Retirement has transmitted pension payments to 14 deceased retirees and/or beneficiaries (Table 1). Retirement has access to a national database research service, which can verify retirees and beneficiaries' deaths, but they are not utilizing the database service. Retirement informed IAD that they contracted with a consultant in the past to verify deaths among their retirees and beneficiaries, but Retirement is unable to produce a copy of any contracts, reports or invoices from this consultant. Due to the lack of documentation, IAD is unable to determine when the last death verification search was conducted.

As indicated in Table 1, Retirement made payments to deceased retirees and beneficiaries totaling \$102,354.69; however, Retirement only suffered a financial loss of \$3,463.82. IAD recovered \$85,944.53 of the overpayments, Retirement recovered \$1,813.99 and \$11,162.35 was recovered from returned and cancelled outstanding checks. IAD reported the financial losses (\$3,463.82) to the Cincinnati Police Department for investigation.

Summary of 14 Deceased Retirees/Beneficiaries

Summary of 14 Deceased Retirees/Beneficiaries								Table 1
Retiree/ Beneficiary	Date of Death	Last Payment	Amount of Overpayment	Amount of Checks Outstanding	Amount of Returned Check	Amount Recovered by IAD	Amount Recovered by Retirement	Amount Loss
1	3/22/2000	6/1/2005	\$41,345.27			\$41,345.27		\$0.00
2	7/29/2001	6/1/2005	24,882.36			24,882.36		0.00
3	6/03/2004	6/1/2005	18,910.00			18,910.00		0.00
4	6/07/2004	6/1/2005	1,572.90					1,572.90
5	6/13/2004	6/1/2005	10,632.57	\$3,831.70	\$4,909.95			1,890.92
6	12/01/2004	6/1/2005	3,227.60	2,420.70		806.90		0.00
7	4/15/2005	6/1/2005	548.64				\$548.64	0.00
8	4/18/2005	6/1/2005	1,265.35				1,265.35	0.00
9	5/03/2005	6/1/2005	0.00					0.00
10	5/05/2005	6/1/2005	0.00					0.00
11	5/09/2005	6/1/2005	0.00					0.00
12	5/11/2005	6/1/2005	0.00					0.00
13	5/17/2005	6/1/2005	0.00					0.00
14	5/17/2005	6/1/2005	0.00					0.00
Totals			\$102,384.69	\$6,252.40	\$4,909.95	\$85,944.53	\$1,813.99	\$3,463.82

*Referred to the Cincinnati Police Department, Fraud Squad

IAD found that some of Retirement's overpayments may have been avoided with internal due diligence. Retirement at times received indicators that there may have been problems with a certain retiree's pension check. Due to the lack of due diligence, Retirement did not identify or respond appropriately. For example, there was a pension check sent to a retiree in 2004, the pension check was returned to Retirement. This particular pension check was sent to a retiree who had died in 2000. Instead of investigating the returned check, monthly pension checks continued to be mailed. This particular retiree had his pension checks sent to his local bank and bank personnel automatically deposited the check into the retiree's account. Since the matter was not investigated by Retirement, the checks continued to be deposited in the deceased retiree's bank account.

IAD found another example where Retirement continued to send checks to a deceased retiree after several of the checks were returned in the mail and several more checks, for the same deceased retiree, were found to be outstanding (not cashed). Again, Retirement received some indication that there was a problem, but they did not have the proper policies and procedures in place to deal with returned and outstanding checks.

Recommendation 2. IAD recommends that Retirement utilize their national database service account to conduct quarterly death verification searches for retirees and beneficiaries.

Recommendation 3. IAD recommends that Retirement develop policies and procedures to deal with outstanding and returned checks.

Department Response: *Department Agrees.*

The CRS has implemented quarterly usage of Berwyn Company. Berwyn Company cross-references the CRS Social Security numbers with Social Security Administration death files. This should eliminate the possibility of long-term payments to deceased members or beneficiaries.

The CRS has been working with Treasury to develop a process for returned/lost checks. This process will be implemented by February 2007

Support Documentation

IAD reviewed a small sample (20 files) of randomly chosen Retirement files to determine what documentation existed in the file to support the dependent's eligibility for health insurance. It should be noted that this was not a statistical sample and that more testing would have to be conducted in order to obtain a statistical sample. IAD found that most of the files contained some eligibility documentation like birth certificates and guardianship papers, but over 90% of the files lacked sufficient documentation to verify eligibility.

IAD found that seventy-three percent of the files reviewed by IAD contained copies of birth certificates for the retiree and their dependents. However, in one of the files the names that appear on the birth certificate were not the same names as the retiree and his spouse. It appears as if the retiree and spouse changed their names, but Retirement did not have copies of the official name change in the file. In most cases, a child's dependent eligibility can be verified through the birth certificate; however, in some cases the retiree is claiming a grandchild, stepchild, niece or nephew as a dependent. When the birth certificate is not enough to verify eligibility, Retirement needs to obtain additional support documentation. IAD found some documentation in the files in reference to guardianship and custody issues, but there is no consistency as to what documents are required and no updating of the documentation. For example, in one file the retiree provided Retirement with a copy of a Hamilton County Probate Court Decision of Magistrate, in another file the retiree provided Retirement with a copy of a Hamilton County Probate Court Guardianship Letter, and still in another file the retiree provided Retirement with a Hamilton County Juvenile Court Magistrate's Order/Magistrate's Decision Judicial Entry.

IAD found that Retirement is not updating or verifying dependent eligibility on a yearly basis. In one particular incident, IAD reviewed court documents and determined that guardianship of a retiree's dependent was terminated in 2001, yet Retirement still has the individual listed as a dependent. Additional documentation should be obtained from the retiree to determine if the dependent continues to be eligible.

IAD found no documentation in Retirement's files to support the eligibility of a spouse as a dependent. IAD did not find copies of marriage licenses in any of the files reviewed.

Management told IAD that they recently started to request copies of marriage licenses for new retirees. Due to the newly passed Marriage Protection Amendment (Issue 1), the state of Ohio does not recognize any legal relationship between unmarried individuals.¹ This is a fairly new amendment to the constitution. Therefore, it is important for Retirement to verify a spousal dependent through obtaining a certified copy of their marriage license.

Recommendation 4. IAD recommends that Retirement create policies and procedures describing the required support documentation to verify dependent eligibility and how often the documentation should be updated.

Department Response: *Department Agrees.*

The CRS Benefits Committee has been working to clarify the definition of eligible dependent. Subsequent to a clear definition of eligible dependent, the CRS will begin a thorough audit of all dependents and dependent documentation. The 2007 budget, approved by the CRS Board of Trustees, includes funds necessary for temporary employees, materials, and overtime to accomplish the audit. The determination of frequency of updating documentation has not been made.

When examining a report from the PensionGold system, IAD noted that Retirement does not have Social Security numbers for all retirees' dependents. This information should be maintained in the Pension office for purposes of verification, reporting and analyzing data.

IAD was informed that Retirement is in the process of gathering Social Security numbers for all dependents. Due to the recent changes in Medicare, it will be necessary for Retirement to have Social Security numbers on all dependents. Retirement management estimated that they will need to obtain approximately 200 Social Security numbers of dependents. They plan on obtaining all the needed Social Security numbers by the end of 2006.

Recommendation 5. IAD recommends that Retirement continue to update their files with Social Security numbers.

Department Response: *Department Agrees.*

The CRS will document all dependent Social Security numbers in 2007. This is in conjunction with the audit of dependents.

Training

The Retirement Division uses a pre-packaged software program named PensionGold. This software package was not specifically designed for the City's Retirement Division and they are sometimes limited by the software's capabilities. With annual upgrades and enhancements to the software package, Retirement is able to achieve the most benefit from the package.

¹ Marriage Protection Amendment (Issue 1), Article XV, Section 11 of the Ohio Constitution.

The PensionGold software is an adequate program for Retirement, but staff needs to receive additional training on its capabilities. In particular, IAD found that Retirement staff has to rely on their RCC analyst to run reports from PensionGold. According to Retirement management, three years of citywide cuts in travel and training budgets have prevented staff from receiving needed training. Retirement said that they would like to send a staff person to yearly upgrade and enhancement training offered by PensionGold. IAD determined that Retirement provided PensionGold training for their RCC analyst in July 2005. Retirement told IAD that they had to send an RCC analyst to training because of technical issues with the software that could not be handled by Retirement staff. Retirement staff, specifically management, will need to be trained on the software so that they can run monthly or quarterly reports from PensionGold without the assistance of RCC. The reports would serve as an effective management and monitoring tool for the division.

Recommendation 6. IAD recommends that Retirement provide additional training to management and staff so that they can properly utilize the PensionGold system without the assistance of RCC.

Department Response: *Department Agrees.*

A significant portion of the 2007 budget is designated for staff training on PensionGold. This training will be on the new web-based version of PensionGold. Management anticipates that implementation of PensionGold PE will be complete in 2nd quarter 2008. The new version will include a reporting module. All division personnel will obtain appropriate training on PensionGold PE. The reporting module for the current version of PensionGold was not purchased and was never installed.

Separation of Duties

Although this was not part of our audit scope, IAD determined that there is no separation of duties for calculating pension benefits, authorizing, and entering that data into the Pension Gold system. Retirement should not allow one person to have responsibility for all aspects of calculating benefits and entering that data into the PensionGold system. The functions of calculating benefits, verifying data and authorizing pension benefits should be separated in order to ensure accuracy. Retirement staff indicated that they would be more comfortable if someone was verifying their calculations before it was entered into the PensionGold system. Retirement management said that due to the lack of staff it has been difficult to separate duties. Management indicated that they have not been fully staffed for the last three years. Management said that decreased staff levels have made it difficult to provide cross-training on software systems so that they can separate duties.

Recommendation 7. Retirement should develop policies and procedures that separate the duties of calculating, verifying and authorizing monthly pension benefits.

Department Response: *Department Agrees.*

One goal of management for 2007 is to analyze the duties of all personnel with the intent to distribute duties effectively, efficiently, and with appropriate separation of duties. Until October 2006, the CRS was not fully staffed. Even fully staffed at nine FTEs, it is difficult to provide for adequate separation of duties.

Communication between Divisions

The Treasury Division is responsible for balancing the Retirement Division's monthly pension check bank account. After balancing the pension bank account, Retirement knows which checks are outstanding (not cashed). IAD determined that Treasury is not reporting this information to Retirement. In one case, IAD found that Retirement continued to issue several months of pension checks to a deceased retiree when several of those checks were found to be outstanding. It is important for Retirement to know when checks are outstanding so that they can investigate the situation and determine whether the retiree is deceased.

Retirement told IAD that they were developing new reporting procedures with Treasury to address this issue.

Recommendation 8. Retirement should continue to work with Treasury to develop policies, procedures and reporting requirements for outstanding checks.

Department Response: *Department Agrees.*

Management has opened lines of communication with Treasury regarding stop payments, returned checks, lost checks, filing of withholdings, and tax reporting. Processes have been or will be developed for each item.

Files and Documentation

IAD found it very difficult to obtain documentation from Retirement, which indicates to IAD that there are insufficient management controls over Retirement's files and documentation. For example, IAD made several requests for information such as: copies of previous audit reports, vendor contracts, vendor invoices, vendor reports, dependent eligibility support documentation, follow-up on deceased retirees, and any new procedural changes made during the IAD audit process. Management had difficulty obtaining and producing this documentation in a reasonable amount of time. This indicates to IAD that there is a lack of management control over retirement files and information. Due to the fact that IAD could not review all the necessary documentation, IAD cannot determine the nature of the control weakness, only that a weakness does exist. Retirement indicated that the lack of management control over the files is partly due to the division being relocated twice in the last nine years and decreased staff levels.

Recommendation 9. IAD recommends that the Director of Finance work with Retirement Management to establish an adequate management control environment.

Department Response: *Department Agrees.*

Management is currently working to establish and document lines of control of division files.

III. Response from Retirement

Response to Finding 1

Management has established a Mission Statement and goals for the division for the next two years. In conjunction with division goals, strategies for accomplishment have been delineated. In addition, measurements for the accomplishment of goals are included in the strategic plan.

One goal for 2007 is for the division to produce a workable, operational policies and procedures manual. Desk procedures are to be included as part of the manual.

The CRS will implement a web-based version of PensionGold in 2007. Management's plan is to include a thorough analysis of the processes, procedures, and authorities regarding the new version of PensionGold. Following analyses, management will insure that the new version of PensionGold follows management's directions regarding processes, procedures, and authorities.

Management has implemented a process to deal with returned and outstanding checks.

The CRS Benefits Committee has been working to clarify the definition of *eligible dependent*. Subsequent to a clear definition of *eligible dependent*, the CRS will begin a thorough audit of all dependents and dependent documentation. The 2007 budget, approved by the CRS Board of Trustees, includes funds necessary for temporary employees, materials, and overtime to accomplish the audit.

The CRS Governance Committee was formed in January 2007. The work of this committee will include providing clear definitions for administrative ambiguities. It should also result in an administrative policy with consistencies between the Cincinnati Municipal Code, the CRS policies and rules, and the CRS administrative manual.

Response to Finding 2 & 3

The CRS has implemented quarterly usage of Berwyn Company. Berwyn Company cross-references the CRS social security numbers with Social Security Administration death files. This should eliminate the possibility of long-term payments to deceased members or beneficiaries.

The CRS has been working with Treasury to develop a process for returned/lost checks. This process will be implemented by February 2007

Response to Finding 4

The CRS Benefits Committee has been working to clarify the definition of *eligible dependent*. Subsequent to a clear definition of *eligible dependent*, the CRS will begin a thorough audit of all dependents and dependent documentation. The 2007 budget, approved by the CRS Board of Trustees, includes funds necessary for temporary employees, materials, and overtime to accomplish the audit. The determination of frequency of updating documentation has not been made.

Response to Finding 5

The CRS will document all dependent Social Security numbers in 2007. This is in conjunction with the audit of dependents.

Response to Finding 6

A significant portion of the 2007 budget is designated for staff training on PensionGold. This training will be on the new web-based version of PensionGold. Management anticipates that implementation of PensionGold PE will be complete in 2nd quarter 2008. The new version will include a reporting module. All division personnel will obtain appropriate training on PensionGold PE. The reporting module for the current version of PensionGold was not purchased and was never installed.

Response to Finding 7

One goal of management for 2007 is to analyze the duties of all personnel with the intent to distribute duties effectively, efficiently, and with appropriate separation of duties. Until October 2007, the CRS was not fully staffed. Even fully staffed at nine FTEs, it is difficult to provide for adequate separation of duties.

Response to Finding 8

Management has opened lines of communication with Treasury regarding stop payments, returned checks, lost checks, filing of withholdings, and tax reporting. Processes have been or will be developed for each item.

Response to Finding 9

Management is currently working to establish and document lines of control of division files.