DEPARTMENT OF REVENUE & FINANCE
GENERAL EMPLOYEES' PENSION FUND
AUDIT 22-13
JANUARY 13, 2023

City of Tampa
Jane Castor, Mayor

Internal Audit Department
315 E. Kennedy Boulevard
Tampa, Florida 33602
Office (813) 274-7159

January 13, 2023

Honorable Jane Castor
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: General Employees' Pension Fund, Audit 22-13

Dear Mayor Castor:

Attached is the Internal Audit Department's report on General Employees' Pension Fund, Audit, 22-13.

We thank the management and staff of the General Employees' Pension Office for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover
Internal Audit Director

cc: John Bennett, Chief of Staff
Dennis Rogero, Chief Financial Officer
Lee Huffstutler, Chief Accountant
Dana Blydenburgh, GE Pension Plan Supervisor
Carl Brody, Assistant City Attorney

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/s/ Echiemeze Ofili
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Senior Auditor

/s/ Stephen Mhere
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Senior Auditor

/s/ Christine Glover
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Audit Director

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BACKGROUND

The General Employees' Pension Fund (Fund) is a fiduciary pension trust fund of the City of Tampa (COT) established by a special act of the Florida State Legislature in 1945. The purpose of the Fund is to provide retirement benefits to regular full-time, part-time, and some temporary COT employees, as well as the Mayor and members of the City Council.

The Fund administers a pension plan made up of Division A (Plan A) and Division B (Plan B). Personnel employed before October 1, 1981, participate in Plan A, while personnel employed on or after that date are in Plan B. Plan A requires contributions by the COT and employees, and members are eligible for full retirement benefits at age 55 if vested. Plan B does not require employee contributions and the retirement age for full benefits, if vested, is 62 years. Plan B members are eligible for reduced benefits at the age of 55. Employee benefits available in both retirement plans include deferred retirement, disability retirement, early retirement, the Deferred Retirement Option Program (DROP), and monthly survivor benefits.

The Fund is administered by a seven-member board of trustees. The Mayor appoints three members, three are elected by the general employees, and the remaining member is the City's Director of Finance whose membership is stipulated by statute. The General Employees'(GE) Pension Office provides administrative support, implements the board of trustees' policies and instructions, processes benefit payments to retirees, and maintains all retirement records. The GE Pension Office consists of five staff members under the supervision of the GE Pension Plan Supervisor.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY 2022 Audit Agenda. The objectives were to determine if:

1. An adequate system of internal control is in place to help the department effectively and efficiently fulfill its stated responsibilities and obligations.

2. Monthly retirement benefits are calculated accurately.

3. Performance metrics are accurate, consistent, relevant, and verifiable.

STATEMENT OF SCOPE

The audit period covered activity that occurred October 1, 2020, through September 30, 2021. Original records as well as copies were used as evidence and verified through observation and physical examination.

STATEMENT OF METHODOLOGY

The following steps were performed to achieve the audit's objectives:

- Evaluated the Fund's internal controls, including policies and procedures, and reviewed

the applicable state statutes and COT ordinances for compliance.

- Interviewed staff and updated process flows.
- Discussed the potential for fraud in Fund operations with management.
- Assessed data reliability for the PensionGold Retirement System.
- Recalculated a sample of retirees benefit to verify accuracy.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

NOTEWORTHY ACCOMPLISHMENTS

On November 2, 2022, the Public Pension Coordinating Council (PPCC) awarded the Fund the Public Pension Standards Award for Funding and Administration. The award is an attestation that the Fund met professional standards for plan funding and administration as set forth in PPCC's public pension standards. These standards serve as a benchmark for defined public benefit plans.

The PPCC is a coalition of the National Association of State Retirement Administrators, the National Council on Teacher Retirement, and the National Conference on Public Employee Retirement Systems. “These associations represent more than 500 of the largest pension plans in the United States”.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. An adequate system of internal control is in place to help the department effectively and efficiently fulfill its stated responsibilities and obligations.

2. There are inconsistencies in the calculation of monthly retirement benefits, leading to variances in benefit amounts.

3. The GE Pension Office has identified and is in the process of developing three metrics to be used internally to monitor performance.

ACCURACY OF RETIREMENT BENEFITS

STATEMENT OF CONDITION: One of the responsibilities of the GE Pension Office is to calculate monthly pension benefits for retiring COT employees. Employees retire into either Division A or B pension plans, or they go into DROP. Calculating a retiree's monthly benefit involves an accurate determination of the employee's vesting status, their compensation, total time spent in continuous City employment, and whether they reached the appropriate age for reduced or full retirement. Calculations are currently performed in a commercial off-the-shelf retirement system. Prior to April 2022, they were done manually.

We randomly selected retirees in the pension system, analyzed their records, and calculated their monthly benefits. To verify accuracy of pension disbursements, we compared the monthly benefits we calculated to amounts in the retirement system. The GE Pension Office did a similar review of the retirees in our sample. Our observations were as follows:

- Some monthly benefit amounts in the system had minor differences from our calculation.

- Some monthly benefit amounts in the system had minor differences from the GE Pension Office recalculation.

- One part of a mathematical formulae in the member handbook incorrectly states that up to 30 years of service can be used in benefits calculations: in practice it is 15 years.

CRITERIA: Accuracy of benefit calculations is important for the benefit of both retirees and the Fund. Calculations should be able to be replicated with accuracy. Published information should be accurate.

CAUSE: Variances resulted from inaccurate compensation and service hours used in the calculations.

EFFECT OF CONDITION: Under or overpayment can result from inaccurate calculations and negatively affect either the retiree or the Fund. Inaccurate published information may be misleading.

RECOMMENDATION: GE Pension Office should consider to:

a) Perform an in-depth review of monthly benefit calculations to verify accuracy of payments.

b) Establish an effective quality control system to be used as a tool to provide reasonable assurance that retirement benefits are calculated accurately and consistently.

c) Edit the member handbook so that information is clear and accurate.

MANAGEMENT RESPONSE: As mentioned in the write-up above, the GE Pension Office has undergone a long and much needed upgrade to the GE Pension System. The old system was seriously antiquated and required quite a few manual processes, pulling in information from many sources to calculate benefits and other things. We can now happily report that the new state-of-the-art system is up and running and staff no longer need to calculate the pension benefits. These calculations are now handled by the software.

When the GE Pension Office converted from the old system to the new system, we used expert consultants to help with the process, which included a thorough scrubbing of the data found in the old system, including benefit amounts and many other pieces of information. During the monthly scrubbing of the data over a two-year period and the two-month parallel testing done before GO LIVE in the new system, some anomalies and inconsistencies were not-surprisingly identified, including IRS Form 1099 reporting, taxable amounts, tax withholdings, distribution codes, and more. These identified differences were typically minor, inconsequential, and not surprising, given the amount and age of the data held in the legacy system.

The GE Pension Office reviewed and discussed how and why there were some minor and inconsequential differences in the results between the old and new systems, and after vetting the identified differences with the expert consultants, the GE Pension Office concluded that the tolerances were acceptable, and in most cases historical (old) calculations were left in place, while new calculations and better coding defaulted to the new system (as we believe the new system is applying the rules more consistently and appropriately).

We appreciate that the Internal Audit Office found similar items in their efforts to recalculate results that the GE Pension Office also identified in their development and transition processes. Upon their recommendation, we will naturally continue to be mindful of providing the correct benefit to the City's General Employee retirees and we remain much more confident in our efforts now that we have the new system in place.

TARGET IMPLEMENTATION DATE: March 31, 2023