

INTERNAL AUDIT DEPARTMENT

Performance Audit Report of Pensions

Audit 17-02



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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.

Earl T. Jeter, CPA
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.

Statement of Auditing Standards

The Internal Audit Department (occasionally, “IAD”) conducted a performance audit of Pensions. The audit objectives were 1) to determine that operating procedures and internal controls provide adequate assurance that authorized transactions are processed completely and accurately, 2) to determine the computations for gross pay are accurate and based on authorized time and amounts, and 3) to ensure pension distributions and records are properly reviewed, approved, processed, and documented. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

An internal control system consists of many policies and procedures designed to provide management with reasonable assurance that organizational goals and objectives will be achieved. Management is responsible for establishing and maintaining an effective system of internal control.

Internal Audit Department
City of Wilmington
Wilmington, Delaware
November 28, 2016



PERFORMANCE AUDIT OF PENSIONS

Background

The City of Wilmington administers three plans for non-uniformed employees. These are referred to as Plan I, Plan II and Plan III. Standard benefits in all three plans include disability retirements and survivor benefits. The uniformed employees' plans include the Firefighter's Pension Plan and the Police pension plan. The City of Wilmington Firefighter's Pension Act of 1984 and the City of Wilmington's Police Pension Act of 1984 closed the City's

uniform pension plans to new participants on July 31, 1991. All Police officers and fire fighters hired after August 1, 1991 are covered under the Delaware State Retirement System. The City of Wilmington has two plans for its uniformed employees. They are referred to as the Old Plan and the New Plan.

The Police and Fire plans (both Old and New) are each administered by a Pension Secretary (an active Police Officer and an active Fireman).

The City of Wilmington has three plans for non-uniformed employees: Plan I, Plan II, and Plan III and uniformed employees' plans include the Firefighter's Pension Plan and the Police Pension Plan.

Plan I

Personnel employed before July 1, 1979 participate in Plan I (participants who have not elected to participate in Plan II or Plan III continue to participate in this plan). There are no employee contributions for this plan. Plan I benefits are paid for the participant's lifetime. Participants in Plan I may retire and receive normal retirement benefits after the earlier of: 20 years of service; or age 60 and 15 years of Service or age 65. The normal retirement benefit is 2.50% of final average earnings times years of service, but not less than \$1,800 annually. The maximum benefit is \$4,500. If a participant becomes disabled after 15 years of service, he is entitled to a disability benefit. Upon death of any retiree, his surviving spouse is entitled to 50% of the pension the participant was receiving. Such benefit continues to the spouse until the earlier of death and remarriage. Plan I has no provisions for termination prior to retirement eligibility.

Plan II

Personnel hired after June 30, 1979 and before December 31, 1990 participate in Plan II as of their hire date. There are no employee contributions for this plan. Plan II benefits for non-City Council employees

are paid for the participant's lifetime. Participants may retire and receive normal retirement benefits after age 65 and 5 years of service. The normal retirement benefit is 1.75% of final average earnings times years of service (maximum 25 years). The maximum benefit for this plan is \$11,000 annually. If a participant becomes disabled after 15 years of service, he is entitled to a disability benefit. If a participant is not married on his retirement date and dies before receiving 120 monthly payments his designated beneficiary continues to receive the monthly benefit, until a total of 120 payments are made. If a participant is married at the time of retirement, his surviving spouse will receive a benefit equal to 50% of the benefit the participant was receiving. Payment to the spouse continues until the earlier of death or remarriage. If a participant terminates employment after five years of service, he is entitled to a deferred vested benefit. The benefit, commencing on the normal retirement date, is the product of the benefit calculated for normal retirement using final average salary and credited service at termination date and the vested percent. The participant may receive a benefit for early retirement commencing after age 60. If a terminated vested participant dies after age 60 and is married, the surviving spouse receives a benefit equal to 50% of the benefit the participant would have received had he retired the day before he retired and elected a joint & 50% survivor annuity.

Non-Uniformed Employees' Retirement Act of 1979 for City Council Members has the same basic provisions as the Plan II for non-City Council members with the exception of the following:

- No maximum benefit
- Participants in this plan may receive benefits for reduced for early retirement or death prior to benefit commencement at an earlier age 55 instead of 60
- The normal retirement benefit is calculated at 3.00% of final average earnings times years of service

Plan III

Employees hired after December 31, 1990 participate in Plan III as of their hire date. Employees hired before January 1, 1991 participate as of their transfer date. Plan III benefits are paid for the participant's lifetime. Plan III requires a 2% employee contribution to participate. Participants in Plan III become eligible for normal retirement benefits after the earlier of: age 65 and five years of credited service; or when the sum of age and service is equal to or greater than 85 (Rule of 85). For transfers service from the participants' original date of hire is used to determine eligibility for Rule of 85. The normal retirement benefit for plan III is 2.00% of final average earnings times years of service (maximum 35 years for all members). For participants with less than 10 years of vesting service in Plan III, the Rule of 85 benefits is multiplied by the participant's vesting percentage. For transfers, service after the transfer date is used to determine vesting percentage. There is no maximum benefit for Plan III participants. If a participant becomes disabled after 15 years of service, he is entitled to a disability benefit. If a participant is not married on his retirement date and dies before receiving 120 monthly payments his designated beneficiary continues to receive the monthly benefit, until a total of 120 payments are made. If a participant is married at the time of retirement, his surviving spouse will receive a benefit equal to 50% of the benefit the participant was receiving. Payment to the spouse continues until the earlier of death or remarriage. If a participant terminates employment before five years of service, he is entitled to a refund of contribution plus interest. If a Participant terminates employment after five years of service, he is entitled to a deferred vested benefit. If a participant terminates with at least five years of service, the benefit, commencing on the normal retirement date, is the product of the benefit calculated for normal retirement using final average salary and credited service at termination date and the vested percent.

Uniformed Personnel Plans

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 provision for death benefits for both service and service related death, as well as provisions for both service related and non- service disability benefits.

Old

Participants in the Old Plan (*plan was effective January 1, 1947*) are employees who did not elect to participate in New plan. The annual normal retirement benefit is equal to 50% of final salary plus an additional 2% of final salary for each year of credited services exceeding 20 years (partial years are included). There is no maximum benefit under this plan. Under the Old plan there is no provision for early retirement. Employee contributions are 6% of pretax salary. Prior to July 1, 1979 employee contributions were 4% of pretax salary. When a retiree dies, the surviving spouse receives 50% of the pension the participant was receiving, but not less than \$1,344 annually for police survivors. If he participant does not have a surviving spouse, this benefit will be payable to his or her sole surviving dependent parent, if any.

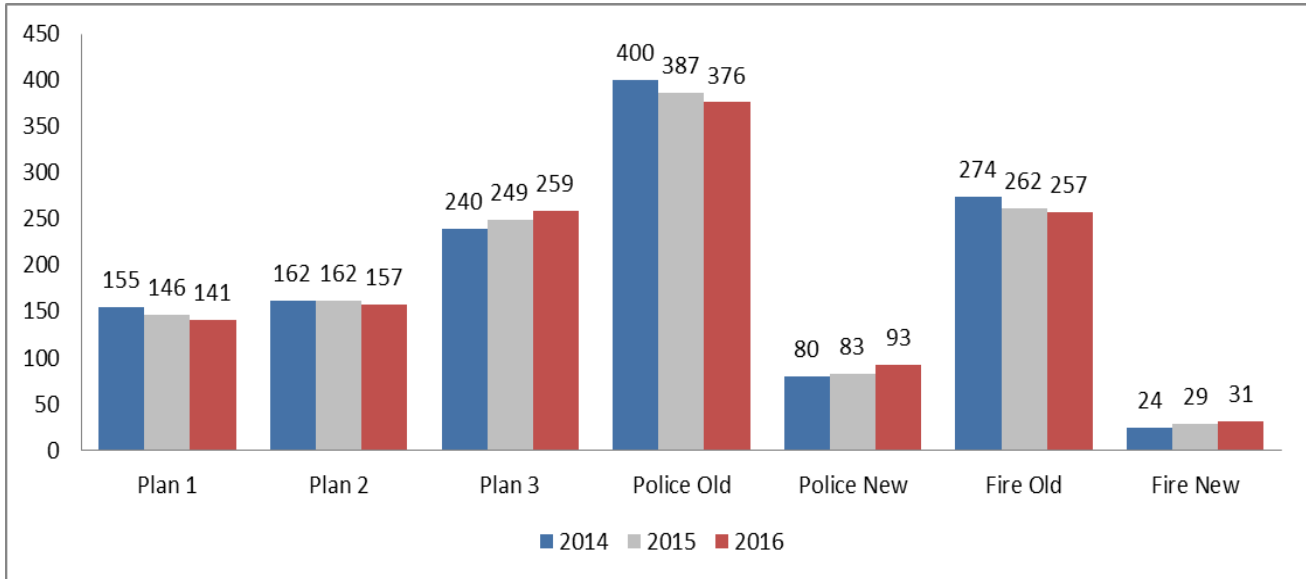
New

Participants in the New Plan are employees hired after June 30, 1984 and before August 1, 1991 and employees hired before June 30, 1984 who elected to transfer into this plan on July 1, 1984. Participants are eligible to retire and receive normal benefits after completing 20 years of service under both the Old and New plans. The annual normal retirement benefit is equal to 50% of final salary plus an additional 2.5% of final salary for each year of credited services exceeding 20 years. The maximum benefit allowed under this plan is 75% of the employee's pay. Under the New plan employee may retire and receive early retirement benefits after completing 15 years of service. The annual early retirement benefit is equal to 2.5% of final salary for each year of credited service reduced 0.4% for each month by which the actual retirement date precedes the employee's normal retirement date. Employee contributions are 6% of pretax salary. When a retiree dies, the surviving spouse is entitled to 50% of the pension the participant was receiving.

Pension Benefit Recipients

The number of participants receiving benefits is decreasing in all plans with the exception of the Police and Fire Old plans. As of December 1, 2016, there are 1,314 recipients of City pension benefits.

FIGURE 1 CITY OF WILMINGTON PENSION BENEFIT RECIPIENTS BY PLAN CY 2014- CY 2016



Significant Trends

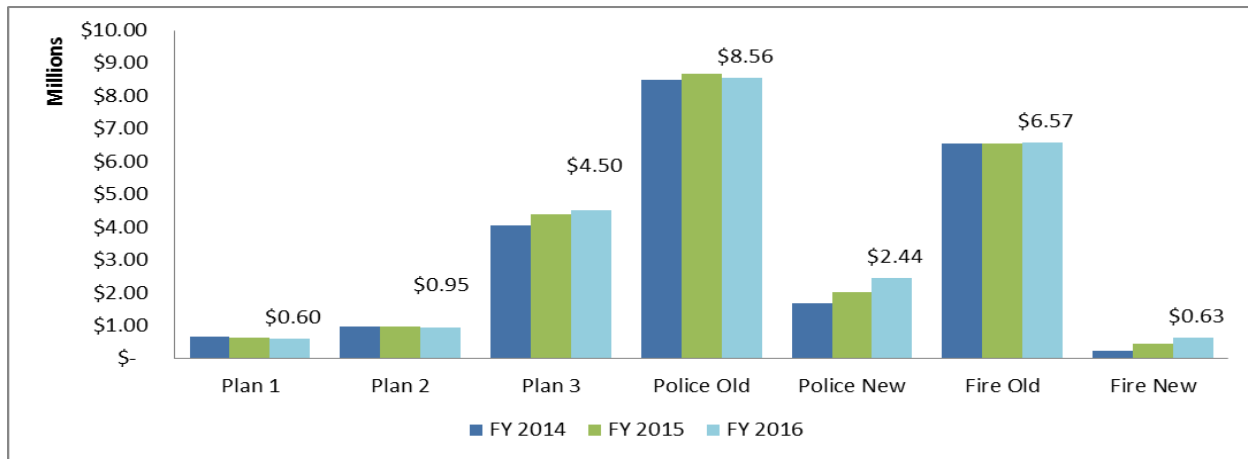
The City of Wilmington’s pension plans have been frozen to new entrants since 1991 for the uniformed plans and 2011 for the non-uniformed plans. In 2011, City Council passed an ordinance that required all full-time City employees hired on or after July 1, 2011, including all appointed employees and full-time and part-time elected officials, to participate in the Delaware County and Municipal Pension plan described in Chapter 55A of Title 20 of the Delaware Code. The City’s decision to the move to the State’s Pension plan allowed the City to reduce the costs of plan administration and liability funding contributions.

As reflected in Figure 2, the City’s annual pension disbursements continue to increase despite the diminishing number of recipients in Plans 1 and 2 of the non-uniform plans. This trend is attributed to higher annual benefit amounts², increased retirement rates of Fire and Police in both the Old and New Plans, and lower mortality rates for pension recipients.

In FY 16, the City disbursed a total of \$24,259,658 in pension benefits.

Figure 2 city of Wilmington annual pension benefits disbursements FY 2014 to FY 2016.

² Due to a lack of maximum benefit amounts for Plan 3 and the Fire & Police Old Plans, higher wage earnings of individuals retired, and contractually agreed COLA increases to uniform plans.



Statement of Objectives

The audit objectives were 1) to determine that operating procedures and internal controls provide adequate assurance that authorized transactions are processed completely and accurately, 2) to determine the computations for gross pay are accurate and based on authorized time and amounts and 3) to ensure pension distributions and records are properly reviewed, approved, processed, and documented.

Statement of Scope

The IAD performed a limited scope performance audit of Pensions for City Treasurer’s Office. The audit covered new pensioners and deceased/ terminated pensioners as of July 01, 2015 to June 30, 2016.

Statement of Methodology

In order to achieve the objectives of the engagement, IAD performed the following steps and procedures:

1. Reviewed the previous years’ audits of Pension Transactions (2011 to 2016), pertinent City code, internal controls and procedures/policies for the processing of pension transactions, pension board minutes for all three pensions and the Experience Study.
2. Reviewed the results of the annual social security number search obtained by the Pension Administrator.
3. Reviewed a sample of 30 new pensioner files added in the last fiscal year for all mandated information and recalculated the new pensioners’ gross pay to determine amount accuracy and compare to amount disbursed.
4. Reviewed sample of files of 25 deceased and terminated pensioners in the last fiscal year for all mandated information and timely terminations of pension payments and recalculated beneficiary disbursement for accuracy, where applicable.
5. Reviewed the most recent listing of stale-dated pension checks to determine whether reasonable action has been taken.

Findings and Recommendations

Finding 1: Repeat Finding: Lack of Comprehensive Policy and Procedure Manual

Responsible party: Treasurer's Office

Discussion and Background

Policies and procedures are designed to influence and determine all major decisions and actions, and all activities take place within the boundaries set by them. Procedures are the specific methods employed to express policies in action in day-to-day operations of the organization. Together, policies and procedures ensure that a point of view held by the governing body of an organization is translated into steps that result in an outcome compatible with that view.³

Since fiscal year 2011, the Internal Audit Department has reported as an audit finding that the Pension process lacks a comprehensive policy and procedure manual. IAD recommended that the Treasurer's department create and implement a procedure manual that delineates the specific, day-to-day methods employed by secretaries and other pension employees to carry out the pension policy as described in City Code. It was also recommended that the department document other activities that are included in plan administration but not described in City Code such as:

- 1) 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.
- 2) Scanning pension files to electronic records, and
- 3) COLA increases.

As of the date of this report, the department does not have a policies and procedures manual that meets GFOA best practices.

IAD reviewed GFOA best practice, City Code, and the Treasurer's Department policy and procedure manual (current as of date of this report). See the comparative results in Exhibit 1.

Issue

Repeat Finding: Lack of Comprehensive Policy and Procedure Manual

Cause

Management did not implement action plans as stated.

Effect

1. Inconsistent application of City Code for calculation of pension benefits.

³ Businessdictionary.com

2. Pension records are not updated timely.
3. Lack of continuity in the data collected for pensioner documentation.

Recommendation

A procedure manual is implemented that does the following:

1. Identifies the roles and functions of each employee included in the pension process, including detail of daily duties, training, compliance requirements, and how to document the results of administrative interpretations and decisions,
2. Describes the steps administrators must take to resolve calculation and payment disbursements that are not clearly addressed by City Code,
3. Interprets decisions made during Pension Board meetings,
4. Outlines the steps taken by plan administrators when on-boarding new pensioners and terminating benefits. Procedures should address required documentation, timeframes, and required approvals, and
5. Each pension secretary should have a copy of the manual.

Management Response

1) *State your position of the findings and recommendations:*

Treasurer's Office: The Pension Division does have a procedures manual in which many of the functions of the Division are documented step-by-step. However, we concur that it is not as comprehensive as we would like. The City Code (Chapter 39) is a separate document that is used in tandem with the procedures manual. It includes the laws that govern the administration of the various pension plans. The Treasurer's Office and the Pension Secretaries refer to the Code for guidance as needed.

Wilmington Police Department (Chief Cumming): I agree that there should be a Policy & Procedure Manual.

Wilmington Fire Department (Chief Donahue): I agree there should be a policy manual or by-laws.

2) *Action Plan – State specific actions you will take to mitigate the findings:*

Treasurer's Office: The Treasurer's Office fiscal year 2018 budget includes a request for funds to allow us the resources needed in order to update and complete the procedures manual.

Wilmington Police Department: The Pension Secretary of WPD should meet with person(s) who have similar responsibilities to work on the guidelines.

Wilmington Fire Department: A committee should be established to draw up the policy and by-laws.

3) *Provide date your plan will be implemented by your department:*

Treasurer's Office: It is an ongoing process, but will see significant progress by September 2017.

Wilmington Police Department: ASAP.

Wilmington Fire Department: This should happen in a timely manner.

4) *Follow-up date: Provide date you will follow up with your staff to ensure the action plan has been implemented.*

Treasurer's Office: Process is currently taking place.

Wilmington Police Department: 30 days

Wilmington Fire Department: I will be in touch with the WFD pension secretary with-in 30 days

Finding 2: Incomplete Follow-Up Action

Responsible party: Treasurer's Office - Pension Staff

Discussion and Background

“Comserv Death Information System Search” Report

On a semi-annual basis the Treasury department hires Comserv⁴ to perform a cross check between the City's listing of active employees and pensioners with a computerized death information and social security number validation system. The results of the cross check is a report that lists the pensioners that were identified as being deceased (date of death is provided) or having an unidentifiable or incorrect social security number.

Once the Comserv report is received, Treasury takes action on each pensioner's account, correcting social security numbers and/or updating Munis records with the pensioner's date of death. The pension record is also deactivated to cease further payments from being disbursed.

The Internal Audit Department reviewed the results of the Comserv report dated June 13, 2016. The report identified a total of 37 records with discrepancies: 31 had a new match for a death record in the third party's validation system, 4 had an improper social security number, and 6 had been previously reported. Of the 37 records identified with errors, 30 were pensioners. The remaining 7 were employees that were identified as having social security numbers that had not yet been issued by the Social Security Administration.

As part of the review, IAD also examined the payment history of each of the identified pensioners to ensure that Treasury took appropriate action. The review revealed two pensioners received payments posthumously, hereby discussed as "pensioner A" and "pensioner B".

⁴ Comserv, Inc specializes in fraud, waste and abuse prevention. They also offer death validation and social security number validation service.

“Pensioner A”

Pensioner A began receiving spouse-beneficiary payments in June of 1974. The annual benefit amount was \$970.62, received in bi-weekly disbursements.

In June of 2016, Treasury received the results of Comserv’s cross check which included Pensioner A as a first time match for a death record of 11/12/1997. There was no information within the Comserv report to indicate why the pensioner had not appeared in the report prior to June 2016.

On June 13, 2016, Treasury updated Pensioner A's MUNIS record to reflect the date of death as June 13th, 2016 and to stop further payments from being disbursed. No other actions were taken by the Treasurer's office.

Based on the contents of the pensioner's file and the data available in MUNIS, IAD determined that Pensioner A erroneously received posthumous beneficiary payments for the period May 10, 1996 to June 10, 2016 [20.25 years]. The amount of overpayments total \$72,966.60.

“Pensioner B”

Pensioner B began receiving spouse-beneficiary payments in December of 1983. The annual benefit was \$1,924, received in monthly disbursements.

In June of 2016, Treasury received the results of the Comserv’s cross check which included Pensioner B as a first time match for a death record of 5/28/15.

On June 16, 2016, Treasury updated Pensioner B's MUNIS record to reflect the date of death as May 28, 2015 and to stop further payments from being disbursed. No other actions were taken by the Treasurer's office.

IAD reviewed the file of Pensioner B and discovered that the pensioner was paid posthumously for the period of May 28, 2015 to June 1, 2016. The amount of overpayments total \$1,920.84.

Issue

Follow-up action on two deceased pensioners was incomplete.

Cause

In this unique situation Treasury staff was unaware of how to follow-up on this unprecedented matter.

Effect

Pensioners received benefit payments posthumously and the City may not be able to recoup the funds.

Recommendation

The purpose and procedures for performing a review of potentially deceased pensioners and invalid social security numbers should be included in the Department's policies and procedures. The procedures should include a full review of each pensioner's account for potential overpayments, calculating the overpayment and contacting the law department for assistance and guidance for possibly recouping disbursed overpayments. It is recommended that the department follow-up with the third party vendor, Comserv, to gain insight as to why there was 20 year lag in Pensioner A appearing on the report. It is also recommended that the Department annually mail correspondence in order for pensioners to verify their contact information. (This is especially important as we move to paperless delivery of direct deposit forms which will eliminate returned mail that sometimes helps the department to identify pensioners who have become deceased.)

Management Response

1) *State your position of the findings and recommendations:*

Treasurer's Office: The Pension Division is customarily notified of the death of a pension recipient by a relative, at which time pension payments are transferred to the surviving beneficiary or discontinued. The Pension Division proactively seeks to identify deceased pensioners by weekly review of obituary records in local newspaper and audit of inactive Social Security numbers through a third party on a semi-annual basis. The purpose of this is to identify pensioners who are deceased and notification was not received in our office.

In the particular case cited above, the Social Security Administration was not notified until a number of years after the pensioner passed away. Social Security Administration records identified the pensioner as deceased The Pension Division's June 2016 audit. This was an isolated incident in which Social Security was not notified of the death, no family contact information was on file and none of the other anecdotal 'indicators' that The Pension Division observes to prompt investigation of the pensioner status were evidenced – such as returned mail. The Pension Division staff immediately discontinued payments, but was unsure on how to proceed with regard to Prior payments made given the extraordinary circumstances; therefore, the City Auditor was notified of the situation.

Wilmington Police Department: I agree.

Wilmington Fire Department: I agree with the recommendations.

2) *Action Plan – State Specific actions you will take to mitigate the findings:*

Treasurer's Office: Beginning in fiscal year 2018, the Pension Division will begin conducting the audit of Social Security records quarterly to reduce the risk and minimize overpayments.

Wilmington Police Department: The pension secretary of WPD will assist.

Wilmington Fire Department: The pension secretary and the treasures office should work together on this issue along with the president of the board.

3) *Provide date your plan will be implemented by your department:*

Treasurer's Office: September 2017

Wilmington Police Department: ASAP

Wilmington Fire Department: 30 days.

4) *Follow-up date: Provide date you will follow up with your staff to ensure the action plan has been implemented.*

Treasurer's Office: September 2017
Wilmington Police Department: 30 days.
Wilmington Fire Department: 30 days.

Finding 3: Errors and Inconsistencies in New Pensioner Files

Responsible party: Treasurer's Office- Pension Staff, Police Pension Secretary, Fire Pension Secretary

Discussion and Background

Pension files contain up to ten required documents. The required documents vary because not all documents are applicable to all pensioners. Pension files may include:

1. A pension application
2. Evidence of Pension Benefit Calculation
3. Copy of pensioner/beneficiary Birth certificate
4. Copy of marriage certificate (if applicable)
5. Completed health insurance form
6. Complete beneficiary form
7. Completed W-4P (tax withholding)
8. Completed Direct Deposit Form
9. Death certificate (if applicable)
10. And surviving spouse form (if applicable)

However, the file documents required to initiate payments include the pension application, a birth certificate, and a signed W4P. Surviving spouses and beneficiaries provide a death certificate and documentation that proves their relationship to the deceased. Such documentation may include a surviving spouse form, marriage certificate, and a birth certificate. These documents are also electronically scanned into Tyler Content Manager (TCM) and attached to the employee record in Munis. It is part of each pension secretary's standard practice to have a dual review of each new pensioner's file prior to the first disbursement of the benefit payment. The same dual process is not followed for deceased/terminated pensioners.

The internal audit disclosed documents supporting eligibility and/or required to initiate payment were missing in individual retirement files. In our sample of 30 new pensioner files and 25 deceased/terminated pensioners:

- Five required documents were missing (Fire, Police, Non-Uniform Plan 3);

- Three non-uniform Plan 3 pension records contained errors in demographic information and key personnel dates;
- Three Police pension files are missing (each of the 3 pensioners is deceased, however one file may contain private data for a surviving spouse);
- And three Police pensioners did not have their documentation scanned into TCM

Additional testing identified one Non-Uniform Plan II pensioner was paid \$2,008.84 posthumously, one Police pensioner did not have a signed application, and one Police pensioner was overpaid by \$1,679.08.

Issues

Errors and inconsistencies exist in pensioner files:

1. Files are missing pertinent documentation (Fire and Non-Uniform Plans II and III)
2. Pensioner records contain demographic errors (Fire, Police, and Non-Uniform Plan III)
3. Not all Police files are electronically scanned (Police)
4. One police pensioner received \$1,679.08 in overpayments due to an error in benefit calculation (Police)
5. One pensioner was paid \$2,008.84 posthumously (Plan II)
6. Three Police pension files are missing (Police)

Cause

1. A dual review did not occur for the benefit calculation of the Police pensioner that was overpaid by \$1,679.08.
2. Benefit payments are initiated without all required documentation.
3. Lack of follow-up action on deceased/terminated accounts by pension administrators.
4. The Police pension secretary does not keep a record that identifies the location of pension files when they are temporarily and permanently removed from the file room.

Effects

1. Increased risk that benefits are paid to ineligible pensioners or beneficiaries.
2. Overpayments to deceased and/or terminated pensioners.
3. Errors in demographic data may impact actuary projections.
4. Errors in key personnel dates may lead to errors in benefit calculations.
5. Loss of critical pensioner data.
6. Private pensioner data exposed.

Recommendation

Pension secretaries should follow the file checklist and review pension data entered into the MUNIS system. In conjunction with the Fire and Police pension secretaries, the Treasurer's department should implement a quarterly quality review process. The quality review should be conducted of all new and deceased/terminated pensioners from the prior quarter. Each review should include a comparison of the department's pension file checklist with file contents. Where documentation is missing and the

department is not reasonably able to obtain it, a note should be placed in the file describing the missing contents and the efforts to acquire it. As part of the quarterly review process, the payment history of each deceased/terminated pensioner should be reviewed to ensure that no payments were made beyond the effective date of benefit termination. The entire quality review should be documented and available for pension board and management review as needed.

A centralized list of all pensioners that receive COLA increases should be maintained electronically and made available for reference as needed. The list should identify the name of the pensioner, the amount of the increase, and the date the increase is effective. A copy of the COLA increase should be placed in each affected pensioner's file. Alternatively, when the pensioner's benefit amount is updated in MUNIS, a note should be added to the pensioner's text file, detailing the reason for the increase and its effective date.

Management Response

1) *State your position of the findings and recommendations:*

Treasurer's Office:

Wilmington Police Department: I agree.

Wilmington Fire Department: I agree with the findings.

2) *Action Plan – State Specific actions you will take to mitigate the findings:*

Treasurer's Office: The Pension Division is in the process of updating the pension application process in its entirety and in collaboration with the Human Resources Department. The goal is to improve information gathering and streamline the process for pensioners. This process will involve updating all forms and will include the scanning of documents on the checklist to ensure all pertinent information is captured in MUNIS.

Wilmington Police Department: Update and Create new forms to capture the necessary data along with person(s) who have similar responsibilities to work on the guidelines

Wilmington Fire Department: In the new policy guidelines a check off sheet should be developed and they would have to be checked by more than one individual.

3) *Provide date your plan will be implemented by your department:*

Treasurer's Office: July 1, 2017

Wilmington Police Department: 30 Days

Wilmington Fire Department:

4) *Follow-up date: Provide date you will follow up with your staff to ensure the action plan has been implemented*

Treasurer's Office: Process is currently taking place.

Wilmington Police Department:

Wilmington Fire Department: 30 days.

Finding 4: Lack of Follow-Up on State-Dated Pension Checks

Responsible party: Treasurer's Office

Discussion and Background

Stale-dated pension checks are disbursed benefit payments that have not been cashed by the benefit recipient. It is the standard practice of the Treasurer's department to void and reissue checks that are still outstanding after 180 days of issuance. Stale-dated pension checks are not monitored by the pension secretaries or the pension coordinator. Oversight of the stale-date process is the role of the Analyst II who is not involved in the pension process but oversees bank reconciliations, ACH clearances, and other tasks.

IAD reviewed the stale-dated check list for all outstanding pension checks as of August 31, 2016. A total of 42 checks were reviewed within an issuance date range of 4/4/2014 to 6/26/16. Treasury actions were considered reasonable when a check was voided or reissued within 180 days of the initial check date.

The results of IAD's review are as follows:

- Treasury did not perform reasonable action on 34 of 42 checks (80.95%).
 - The combined value of the 34 checks was \$3,772.48
 - The timeframe between the initial date of issuance and Treasury's follow-up action was between 223 days and 930 days (7.43 months to 2 years and 7 months)
 - 12 of the 34 checks were stale-dated for more than 2 years
 - Of the 34 checks, only 7 pensioners were deceased. The remaining 27 were still actively receiving benefit disbursements

Issues

Lack of follow-up on stale-dated pension checks with some pension checks stale-dated for more than 2 years.

Cause

The persons charged with taking action are not notified of stale-dated checks in a timely manner.

Effects

Impacted pensioners and benefit recipients are not receiving valid disbursements timely.

Recommendation

The Treasurer's department should include the stale-dated check process within its Pension policy and procedures. The process should include the timely notification of stale checks to the appropriate department personnel so that follow-up action can occur. (This means the report produced by the Analyst II to identify stale-dated checks should be produced monthly.) For all pensioners that do not receive direct deposit, it should be a standard practice to annually verify all contact information, including address

verification, especially when sent mail is returned. However, it is recommended that all pensioners be required to use direct deposit. It is recommended that a monthly reconciliation process be implemented (This process will help to facilitate a monthly stale date process). Monthly reconciliations should be shared with the Finance Department.

Management Response

1) *State your position of the findings and recommendations:*

Treasurer's Office: The Treasurer's Office agrees that there are weaknesses in the stale-dated check process. We are currently in the process of addressing this issue.

Wilmington Police Department: I agree.

Wilmington Fire Department: I agree with the recommendations.

2) *Action Plan – State Specific actions you will take to mitigate the findings:*

Treasurer's Office: We will meet internally to develop a process to more efficiently handle stale-dated checks.

Wilmington Police Department: The WPD Pension Secretary to work with person(s) who have similar responsibilities to work on the guidelines

Wilmington Fire Department: This should also be in written the policy guidelines.

3) *Provide date your plan will be implemented by your department:*

Treasurer's Office: Fully implemented by December 2017

Wilmington Police Department: ASAP

Wilmington Fire Department: ASAP

4) *Follow-up date: Provide date you will follow up with your staff to ensure the action plan has been implemented.*

Treasurer's Office: January 2018

Wilmington Police Department: 30 days

Wilmington Fire Department: 30 days

CONCLUSION

In our opinion, the operational and administrative controls for the Pensions process in effect as of November 28, 2016, taken as a whole, were sufficient to meet the objectives stated in the report.

We would like to express our appreciation to the City Treasurer's Office for their assistance during this audit.

Audit Team:

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Audit Manager

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Exhibit 1

Best Practices Comparative Analysis

| GFOA Best Practice Attribute {June 2012, OPEB Governance and Administration} | Application | Present in City Code? (Y/N) | Location in City Code | Present in Procedure manual? (Y/N) |
|---|--|-----------------------------|-----------------------|------------------------------------|
| Clearly delineate the governance responsibilities of fiduciaries and plan administrators in a comprehensive manual and the appropriate plan and trust documents. | A document that clearly delineates all responsibility of the Treasury department and each Pension Secretary that includes day-to-day operational duties. | N | N/A | N |
| Keep plan documents current and ensure that they reflect the substantive plan (see Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions). Administrative decisions and interpretations that accumulate over time should be formally documented and incorporated in any plan summaries and, when appropriate, in the plan document; doing so will help avoid legal issues regarding variations between the substantive plan and the official plan documents. | Documented pension procedures are updated to include administrative decisions for referencing during pension calculation and payment disbursement. | Y | Chapter 39 | N |
| Provide participants with a summary plan description, a document that describes plan benefits and the plan's significant features (see the GFOA best practice, Preparing an Effective Summary Plan Description). Conduct periodic educational sessions to review the summary plan description and answer participant questions (see the GFOA best practice, Communicating Health-Care Benefits to Employees and Retirees). Plan summaries and other documents can be construed as legally binding, so the plan sponsor, governing body, legal counsel, and administrative staff should review them carefully to avoid conferring rights and benefits that the plan sponsor did not intend and that are not included in the official plan documents. | Documented requirement that Pension secretaries meet with employees prior to retirement to educate them on the retirement process. Documentation is shared with employees for reference. | N | n/a | N |

| GFOA Best Practice Attribute {June 2012, OPEB Governance and Administration) | Application | Present in City Code? (Y/N) | Location in City Code | Present in Procedure manual? (Y/N) |
|---|---|-----------------------------|-----------------------|------------------------------------|
| <p>Maintain all participant and beneficiary records necessary for administration of the plan, in accordance with state and local privacy laws: Participant and beneficiary names. Demographic information on each participant and beneficiary. Dates such as hire dates, for computing vesting, and birth dates, for determining Medicare eligibility. Any other information needed for actuarial valuations or required by the plan document.</p> | <p>A record of pension files is maintained and pertinent documents are scanned into TCM. This is a requirement that is documented and distributed to all pension personnel.</p> | N | n/a | N |
| <p>Maintain any information necessary for legal and tax compliance (e.g., labor contracts, Internal Revenue Service determination letters).</p> | <p>Legal and tax compliance requirements are documented and includes a description of the personnel responsible for ensuring the requirements are met and the appropriate parties are informed.</p> | N | n/a | N |
| <p>Develop and maintain a comprehensive policy and procedures manual, and distribute updates on a timely basis. The manual should include: Current plan documents, Internal Revenue Service determinations, and administrative interpretations and decisions. Policies, guidelines, and procedures regarding governance; administration; accounting, budgeting and financial reporting; and legal compliance and reporting. Policies and procedures for the professional and technical training of fiduciaries and administrative management and staff, particularly in the areas of governance and fiduciary duties and responsibilities; plan compliance and legal issues; and best practices in OPEB plan administration and all relevant areas of responsibility.</p> | <p>Up to date Policies and Procedures manual that provides detail on daily duties, training, compliance requirements, and results of administrative interpretations and decisions. Each pension secretary has a copy.</p> | N | n/a | N |