



## **Council Auditor's Office**

### **Jacksonville Retirement System Audit Follow-up Report**

*General Employees Retirement Plan  
&  
Corrections Officers Retirement Plan*

**Report #731B**

**Released on:** November 21, 2019

**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



November 21, 2019

Report #731B

Honorable Members of the City Council  
City of Jacksonville

The purpose of this report is to document our follow-up review of our past report #731, Jacksonville Retirement System Audit, to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards.

We sent a follow-up letter to the City's Chief Administrative Officer on September 4, 2018 inquiring as to the status of the remaining original audit report recommendations. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing to verify the responses.

Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

Types of Issues	Original Number of Issues	Issues Resolved Prior to This Follow-up	Remaining Issues Prior to This Follow-up	Issues Resolved During This Follow-up	Remaining Issues
Internal Control Weaknesses	4	0	4	0	4
Findings	7	3	4	2	2
Opportunities for Improvement	0	0	0	0	0
<b>Total</b>	<b>11</b>	<b>3</b>	<b>8</b>	<b>2</b>	<b>6</b>

The following is a brief summary of the remaining issues with responses from Randall Barnes, City Treasurer, which we received on November 4, 2019.

**Finding 1 – 1 \*Pension Benefit Calculation Errors\***

Finding 1-1 found that 33 out of 60 files tested had 52 different individual exceptions that caused errors in the pension benefits calculation and that these errors were in large part caused by manual calculations. In the original follow-up, there were still several errors found which were caused by the use of manual calculations and system limitations. The Pension Office's response to the current follow-up stated that it had worked with ITD to solve a number of circumstances that required

manual work in the past. We performed testing of recent retirees to determine whether the issues are ongoing. Our findings from follow-up testing are summarized in the table below:

<b>Exception Breakdown from Prior Follow-up with Current Status Based on Testing</b>			
	<b>Original Issue</b>	<b>Root Cause</b>	<b>Corrected?</b>
1	Error with Early Retirement Penalty	System Error	Yes
2	Inaccurate Inclusion of Ineligible Period for Calculating Final Compensation for DROP Members	Manual Overrides	Yes
3	Inaccurate Amount of Credited Service due to Leave Without Pay	System Limitation/ Manual Processes	No
4	Error with DROP Participation Period	Manual Processes	No

Item 3 relates to us finding in the original audit and prior follow-up that the adjusted pension date was incorrect due to the manual nature of its calculation. Although our limited testing for this follow-up did not find any issues, the adjusted pension date still continues to be a manual calculation.

Item 4 relates to there still being an issue with the switch of contribution rates when Corrections Officers enter the DROP plan. For the most part, no adjustments are made to the contribution until the next pay period even though employees enter the DROP halfway through a pay period. Either the process needs to be changed so that no adjustments are needed, or the Office needs to make the adjustments within the pay period.

We recommend that the Pension Office continue to work with ITD to automate these calculations as much as possible.

***Finance and Administration Department Response to the Follow-Up of Finding 1-1***

Agree                       Disagree                       Partially Agree

*Item 3: The automation of adjustments to the pension date are not possible with the current data and system limitations. The Pension Office will continue to work with ITD to automate all calculations as feasible.*

*Item 4: Starting and stopping deductions is an administrative timing issue that is best performed on a pay period basis. As a practical matter, making manual adjustments to change deductions for half a pay period is administratively burdensome and introduces additional opportunity for error. The Pension Office will review this process and determine if there is a procedure change that can assist with the timing concerns.*

**ICW 5 – 1 \*Failure to Implement Proper Controls Relating to the Detection of Deceased Members\***

Internal Control Weakness 5-1 found that the Pension Office did not actively utilize the Death Master File of the Social Security Administration. The original follow-up found examples where the Death Master File saved the City money in excess of its cost and recommended its continued use. However,

the Pension Office stated that in the 18 months of using the service, they found little added value in helping to identify deceased persons.

We continue to recommend that the Pension Office utilize the Death Master File. Note this does not mean the City needs to contract directly with the Social Security Administration, but instead may use a vendor who accesses the Death Master File directly, which is how the Police and Fire Pension Fund operates.

***Finance and Administration Department Response to the Follow-Up of Internal Control Weakness 5-1***

Agree                       Disagree                       Partially Agree

*The Pension Office has now budgeted for and is currently working toward bringing the use of an outside service to review for additional retiree deaths before the Board of Trustees. This will include working with PFPF and ITD as necessary.*

**Supplemental Finding 1 \*Related Party Transactions\***

Supplemental Finding 1 found errors with time service connections and retirement benefit calculations for current and former employees of the Pension Office. In the original follow-up, a related party transaction was found with no indication there was a review by the Treasurer. The Office's follow-up response indicated that the Treasurer signs off on these types of transactions now. We only found two related party transactions during our most recent follow-up testing and upon review, there was no indication that there was approval by the Treasurer for one of them.

We recommend that the requirement of Treasurer approval of Pension Office employee transactions be added to the office procedures or Board Rules.

***Finance and Administration Department Response to the Follow-Up of Supplemental Finding 1***

Agree                       Disagree                       Partially Agree

*The Treasurer reviews and approves transactions for current pension office employees. Previously the review was limited to financial payments made to members. Going forward all activity will be reviewed.*

**Supplemental ICW 1 \*Segregation of Duties\***

Supplemental ICW 1 found that user rights within JaxPension were not maintained in a manner consistent with good internal controls. The original follow-up found that the Pension Office was still attempting to implement our recommendation due to employee turnover and training. The current follow-up response indicated that the Pension Office has attempted to meet this requirement as best it can at current staffing levels. We reviewed the listing of current employees with their job roles and there appear to still be segregation of duties issues.

We recommend that the Pension Office review the abilities of the roles contained in JaxPension to ensure that Pension Office duties are segregated as much as possible.

***Finance and Administration Department Response to the Follow-Up of Supplemental ICW 1***

Agree                       Disagree                       Partially Agree

*The Pension Office has access rights and procedures in place to limit changes to payroll and ensure an appropriate level of segregation of duties. The Pension Office continually works to monitor any changes and make improvements to controls wherever feasible.*

**Supplemental ICW 2 \* Failure to Remove Former Employee Access Rights \***

Supplemental ICW 2 found two former employees still had user rights within JaxPension. In the original follow-up, the procedures to remove access rights to the JaxPension system for employees who transferred to a different office and/or separate from employment were still not functioning properly. The City indicated in its response to the current follow-up that the Pension Office reviews all user access on a quarterly basis and takes action accordingly. Based on our testing performed for the current follow-up, we found there is no documentation showing a quarterly review of access rights for JaxPension. Also, 10 users of JaxPension were found to have inappropriate access or roles in which they shouldn't have access. We recommend that the Pension Office remove the access rights for these 10 users. We also recommend they review and document the quarterly review of access rights and work with ITD to create a report to assist in documenting this review.

***Finance and Administration Department Response to the Follow-Up of Supplemental ICW 2***

Agree                       Disagree                       Partially Agree

*Access rights were updated for the users in question. Additionally, the Pension Office worked with ITD to develop a user report which will be used going forward to document the quarterly review process.*

**Supplemental ICW 3 \* Inadequate Policy and Procedures \***

Supplemental ICW 3 found that the policy and procedures of the Pension Office were inadequate, outdated, and disorganized. The original follow-up found that the procedures still needed to be enhanced to incorporate all aspects of the office and maintained in a more formal and secure manner. The City's response to the current follow-up indicated that the policy and procedures had been updated. Although the Pension Office appears to have updated their procedures since the last follow-up, the procedures still need some additional attention. There were a few policies still marked as "draft" and a few others that were incomplete or outdated (e.g. procedures on time service connections need to be updated to be based on the calculation being performed in Jax Pension).

We recommend that the Pension Office review the updated procedures to ensure that they are correct and complete.

***Finance and Administration Department Response to the Follow-Up of Supplemental ICW 3***

Agree

Disagree

Partially Agree

*Process procedures require constant review and maintenance and this is now incorporated into the annual processes of the Pension Office. The Pension Office has updated procedures in response to recent inquiries and is working on a full update of procedures and that work will be continuing during FY 2020.*

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We would like to thank the Finance and Administration Department for their cooperation in conducting this follow-up review.

Sincerely,

*Kyle S. Billy*

Kyle S. Billy, CPA  
Council Auditor