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## HIGHLIGHTS

Highlights of City Auditor Report #1013, a report to the City Commission and City management

### WHY THIS AUDIT WAS CONDUCTED

This audit was conducted to evaluate disbursements of City funds. In addition to general disbursements, salary payments, and retirement benefits, the audit reviewed payments to terminating employees under the City's "voluntary separation incentive (VSI) program" and the City's layoff policy and approved layoff compensation package.

The audit addressed disbursements made during the period July 1, 2008, through June 30, 2009, as well as VSI and layoff program payments during the quarter ending September 30, 2009. Because of an issue identified during our routine audit testing, we also reviewed health insurance benefits paid on behalf of certain former employees during the past several years.

### WHAT WE RECOMMEND

To improve City disbursements process, we recommended the following:

- Electric Utility staff should make efforts to ensure future invoices for services are billed in accordance with the proper contract.
- The Retirement section should develop and implement procedures specifying the frequency at which the City's records of active retirees should be updated and uploaded into a vendor's database used to detect payments of retirement benefits to deceased retirees.
- The Retirement section should require independent and direct verification of non-City work service claimed/purchased by City employees for pension eligibility and benefit purposes.
- The Retirement section should establish written procedures providing for appropriate documentation of retiring/retired employee account balances on the effective date of their MAP payments.
- The Treasurer-Clerk's Office and Human Resources, with the assistance of the City Attorney's Office, should ascertain the appropriateness of allowing health insurance participation by certain classes of terminated employees and their families. An official policy on this matter should be adopted.

To view the full report, go to:

<http://www.tal.gov.com/auditing/index.cfm>

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April 30, 2010

## AUDIT OF CITYWIDE DISBURSEMENTS 2009

*Overall disbursements were proper, authorized, supported, correctly recorded, and in accordance with governing laws, rules, policies, and procedures. Issues were identified that indicated the need for enhanced procedures and controls. We also determined that certain former employees and retirees/annuitants were allowed to continue or commence participation in the City's health insurance program, although that participation was not clearly authorized by City policies.*

### WHAT WE FOUND AND CONCLUDED

Disbursements were proper, authorized, supported, correctly recorded, and in compliance with laws, rules, policies, and procedures. However, we did note instances where controls should be enhanced to help ensure proper, timely, and efficient disbursement of City funds in accordance with City policies and procedures. We also questioned participation by certain former employees and retirees/annuitants in the City's health insurance program. Those instances and circumstances included the following:

- An overpayment of \$486 was made when Electric Utility staff did not detect that the vendor mistakenly charged for labor maintenance services using the terms and conditions of a subsequent contract, which was not applicable at the time the services were acquired.
- Retirement section staff had not timely updated the list of active City retirees on a contracted vendor's database; thereby restricting the assurance that vendor would timely detect and report deaths of those retirees to the City.
- The Retirement section did not always obtain direct evidence of non-City time worked at applicable state, federal, and other entities that is "purchased" by City employees for pension eligibility and benefit purposes.
- Records documenting employees' Prudential account balances, necessary to demonstrate the appropriateness of City matched annuity program (MAP) payments to those accounts, were not always retained by the Retirement section.
- Although not clearly authorized, over the last several years certain former employees and retirees/surviving annuitants have been allowed to continue or commence participation in the City's retiree health insurance program.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and 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.

We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

# Audit Report



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City Auditor

## Citywide Disbursements 2009

Report #1013

April 30, 2010

### Summary

We found city disbursements to generally be proper, authorized, supported, correctly recorded, and in accordance with governing laws, rules, policies, and procedures. We also identified several issues that are indicative of the need for enhanced procedures and controls. We also determined that certain former employees and retirees/annuitants were allowed to continue or commence participation in the City's health insurance program, although that participation was not clearly authorized by City policies.

Our audit covered the period July 1, 2008, through June 30, 2009. Total disbursements for that period were \$732,492,146, which were segregated, for purposes of our audit, into three broad categories: general disbursements, salary payments, and retirement benefit payments. We also reviewed a fourth category, severance payments made to terminating employees during the quarter ending September 30, 2009, under the City's "voluntary separation incentive (VSI) program" and the City's layoff policy and approved layoff compensation package.

Generally, disbursements were proper, authorized, supported, correctly recorded, and in compliance with laws, rules, policies, and procedures. However, we did note instances where controls were not in place or operating effectively to ensure proper, timely, and efficient disbursement of City funds in accordance with City policies and procedures. Those instances, which are identified for management's review, resolution, and disposition, are as follows:

- An overpayment of \$486 was made when Electric Utility staff did not detect that the vendor mistakenly charged for labor

maintenance services using the terms and conditions of a subsequent contract, which was not applicable at the time the services were acquired.

- Retirement section staff have not timely updated the list of active City retirees on a contracted vendor's database, thereby restricting the assurance that vendor will timely detect and report deaths of those retirees to the City.
- The Retirement section did not always obtain direct evidence of non-City time worked at applicable state, federal, and other entities that is "purchased" by City employees for pension eligibility and benefit purposes.
- Records documenting employees' Prudential account balances, necessary to demonstrate the appropriateness of City matched annuity program (MAP) payments to those accounts, were not always retained by the Retirement section.
- Although not clearly authorized, over the last several years certain former employees and retirees/surviving annuitants have been allowed to continue or commence participation in the City's health insurance program.

Actions to address the noted instances have been identified and developed in conjunction with applicable City management. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

### Scope, Objectives, and Methodology

The objectives of this audit were to determine whether disbursements of City funds were: (1) for authorized and necessary purposes; (2) made in accordance with governing laws, rules, policies, and

procedures; (3) supported by appropriate documentation; and (4) properly recorded within the City’s financial records. The results of this audit are relied upon by the City’s external auditors and, as a result, increase assurance and reduce the costs associated with the City’s financial statement audit.

The scope of this audit included a review of disbursements made during the period July 1, 2008, through June 30, 2009. Severance payments made to terminating employees under the City’s “voluntary separation incentive (VSI) program” and the City’s approved layoff policy/compensation package, during the quarter ending September 30, 2009, were also included in the scope of this audit. To address the stated objectives, we selected samples of disbursements by category and reviewed the related supporting documentation, completed analytical procedures, interviewed applicable staff, and made observations as necessary.

In addition, our audit included a review of health insurance benefits paid on behalf of certain former employees during the past several years. Those “Other Post Employment Benefits” (OPEB) were addressed as we became aware of them during our routine audit testing.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and 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.

**Background**

During the period July 1, 2008, through June 30, 2009, the City disbursed funds totaling approximately \$732 million. For purposes of this audit we classified those disbursements into three areas as shown in the following table.

Disbursement Summary		
Category	Transactions	Amount
General	30,341	\$531,678,853
Salary	90,113	\$161,469,929
Retirement	14,510	\$39,343,364
Totals	134,964	\$732,492,146

Note: Excluded from general disbursements is \$58,659,446, which represents disbursements of salary and retirement payroll withholdings/deductions to applicable entities (e.g., IRS and insurance providers). This amount was excluded to preclude counting that amount twice as it is also included in the payroll and retirement amounts above.

Severance payments, a fourth category of disbursements addressed by our audit, were made to 107 terminating employees during the quarter ending September 30, 2009. Those payments totaled \$1,524,457.

For each of the disbursement categories we completed analytical procedures, selected samples, and applied test criteria designed to address our stated audit objectives. An overview of the testing performed for each category and the resultant findings are noted in the following sections of this report.

**General Disbursements**

General disbursements include all disbursements not specifically identified as part of another category (i.e., salary and retirement). Examples of disbursements audited as part of the general disbursement category included, but were not limited to:

- Payments for the acquisition of services, supplies, materials, parts, fuel, and equipment.
- Contractual payments.
- Purchases of natural gas for provision to customers and/or for generation of electricity at City power plants.
- Purchases of goods and services using City purchase cards.

- Payments to other governmental entities (e.g., federal income tax withholdings remitted to the Internal Revenue Service).
- Disbursements under City programs (e.g., rebate and grant programs).
- Payments of claims under the City's risk management program.

For this category we selected 47 sample items totaling \$15,384,317. Test criteria applied to these sampled items included:

- Verifying that disbursements were authorized, supported, and for reasonable purposes.
- Verifying that appropriate competitive acquisition procedures were followed.
- Verifying that payments were made in proper amounts and in accordance with contractual terms and conditions.
- Verifying that the disbursements were properly recorded in the City's accounting records.
- Verifying that the disbursements were otherwise made in accordance with established laws, rules, policies, and procedures.

Overall, we found that general disbursements were (1) supported and for authorized and reasonable purposes, (2) made in proper amounts, (3) properly recorded, and (4) made in compliance with established laws, rules, policies, and procedures. However, certain issues were identified as described in the following paragraphs.

**An overpayment of \$486 was made when Electric Utility staff did not detect that the vendor mistakenly charged for labor maintenance services using the terms and conditions of a subsequent contract, which was not applicable at the time the services were acquired.** The City executed a contract with a vendor for contract labor to accomplish mechanical, electrical, plumbing, civil, and structural work at the City's three electric power generation plants. The contract was in effect from July 1, 2003, through June 30, 2008. Under the terms of the contract, the vendor was allowed to hire and use

subcontractors in the provision of services. The contract provided the vendor could charge the City for those subcontracted services in an amount equal to the cost of the services plus a 4% mark-up. In addition, the contract provided the City a 3% discount in the event payment was made by means other than a City purchase card (i.e., paying by City check would save the vendor the standard credit card processing fee).

A subsequent contract was executed with the vendor for the same services. That contract covers the period July 1, 2008, through June 30, 2011. In regard to charging the City for subcontractor services, the subsequent contract provides for a 5% mark-up and does not provide a discount if payment is made by means other than a City purchase card.

One of our sampled disbursements was made to this contractor in the amount of \$12,390. While the check paying for the applicable services was dated October 1, 2008, the purchase order for the services was dated June 28, 2008, and was executed under the initial contract (i.e., covering the period July 1, 2003, through June 30, 2008). Accordingly, the services rendered were subject to the terms of that initial contract.

However, we found that the vendor mistakenly billed the City under the terms of the subsequent contract (which provided for a 5% instead of a 4% mark-up on subcontractor costs and did not provide a 3% discount when paying by a means other than City purchase card). As a result, the amount billed to and paid by the City (\$12,390) was \$486 too much. Electric Utility staff acknowledged this overpayment when we brought it to their attention. Appropriate Electric Utility staff also reminded applicable administrative staff to ensure future invoices are in accordance with the proper contract. We recommend the Electric Utility make efforts to ensure that corrective action is implemented. Additionally, the Electric Utility should recover the \$486 overpayment from the vendor.

### ***Regular Salary Payments***

Salary disbursements represent payments to individuals for services performed as employees of

the City. During the period July 1, 2008, through June 30, 2009, the City employed and paid 3,001 regular employees and 1,230 temporary employees.

We selected and tested a sample of 22 salary disbursements totaling \$34,170. These 22 disbursements pertained to 22 employees, of whom 17 were in full-time positions, and 5 were classified as temporary employees. Audit criteria applied to the salary disbursements included, but was not limited to:

- Verifying that the employees existed and were employed during the sampled pay periods.
- Verifying that the employees' gross and net pay were properly authorized, calculated, and supported by appropriate leave and attendance records.
- Verifying that payroll deductions were proper and supported by appropriate employee authorizations where applicable.
- Verifying that the disbursements were properly recorded in the financial records.

Overall, we found that the disbursements (1) were made to employees that existed and that were employed during the sampled pay periods, (2) were made in the proper amounts, (3) were authorized and supported by adequate documentation, and (4) were properly recorded in the financial records. No reportable issues were identified.

### *Severance Payments*

As part of the City's efforts to realize future and ongoing cost savings, the City Commission authorized management to implement a "voluntary separation incentive (VSI) program," whereby eligible employees could choose to voluntarily resign and receive a cash incentive and continued health insurance coverage. To be eligible, an employee had to meet the following criteria:

- In a regular position (i.e., not a temporary employee).
- Hired prior to January 1, 2009, and not in probationary status.

- Not covered by a collective bargaining agreement (i.e., general employees were eligible but not sworn police officers and firefighters).
- Current rate of pay must be within 10% of the maximum hiring rate for the employee's job classification (or for Electric Utility employees at the top step of an Electric Utility Step Pay Plan).

Eligible employees that chose to resign under the VSI program were eligible to receive a lump sum cash payment equal to:

- Three month's pay at the employee's current base pay, or \$13,000, whichever is greater, if they submitted a signed VSI program agreement no later than August 21, 2009, with a last day of employment no later than August 28, 2009.
- Two month's pay at the employee's current base pay, or \$9,000, whichever is greater, if they submitted a signed VSI program agreement no later than September 23, 2009, with a last day of employment no later than September 30, 2009.

Based on records provided by the Department of Management and Administration (DMA), 106 employees elected to resign under this program. Cash incentive payments to those 106 individuals totaled \$1,519,187.

In addition to the VSI Program, the City eliminated certain positions in further efforts to realize future and ongoing cost savings. Employees in those eliminated positions were subject to being laid off pursuant to the provisions of the City's layoff policy. Under a layoff compensation package as approved by the City Commission, laid off employees were entitled to a lump sum cash payment (severance payment). The amount of the severance payment was based on the laid off employee's years of service with the City. The amounts ranged from two weeks pay for an individual with up to 2 years of service to six weeks pay for an individual with over 10 years of service.

Based on records provided by DMA, an equivalent of 96.63 positions were eliminated. Because (1) many of those positions were vacant and (2) many of the employees filling the remaining positions

either voluntarily resigned (i.e., as VSI program participants or otherwise) or were transferred into other positions, only one employee was laid off. That employee's last day of work was September 30, 2009. The employee received severance pay in the amount of \$5,270.

Due to the infrequent nature of these severance payments (VSI program and layoffs), we selected and tested a sample to ensure the payments were appropriate in amount based on VSI program and layoff policy provisions. We also tested to ensure other related payments to the sampled employees were correct, including payments for unused personal and sick leave. Our sample was comprised of four severance payments under the VSI program and the one severance payment under the City's layoff policy and compensation package. Severance payments tested totaled \$73,035.

Overall, we found that the severance payments (1) were made to eligible employees, (2) were made in the proper amounts, (3) were authorized and supported by adequate documentation, and (4) were properly recorded in the financial records. No reportable issues were identified.

### ***Retirement Benefit Payments***

Retirement benefit payments represent pension disbursements to retired employees and their designated beneficiaries/annuitants. This category also includes disability and pre-retirement benefits, which are paid to disabled employees or to employees' designated beneficiaries in the event an employee is disabled or dies while employed with the City. In addition, refunds of pension contributions to terminating employees are included in the category.

For the retirement disbursements category, we selected and tested pension disbursements pertaining to 16 individuals during the period July 1, 2008, through June 30, 2009. The tested payments totaled \$343,006 and were comprised of:

- Payments from the City's defined benefit pension plan, totaling \$88,581, to four individuals that retired during the audit period.

- Payments from the City's defined contribution plan, totaling \$124,090, on behalf of two retired employees that elected to receive those payments during the audit period.
- Payments from the City's defined benefit pension plan, totaling \$14,603, to seven individuals that retired prior to the audit period.
- Pension refunds, totaling \$65,732, paid to two terminating employees.
- A pre-retirement benefit totaling \$50,000, paid to a deceased employee's spouse.

Test criteria applied to these sampled transactions included verifying that:

- Retirees had completed the minimum years of City service required to be eligible for retirement benefits (defined benefit and defined contribution plans).
- Pension/benefit payments were made in proper and accurate amounts based on the former employees' years of service, salary histories, pension plan types, payment options selected by the retirees, and other factors (defined benefit plan).
- Pension/benefit payments were made in proper amounts and to the appropriate accounts for employees entering and leaving the City's Deferred Retirement Option Plan (DROP) (defined benefit plan).
- Amounts contributed to eligible retiring employees' defined contribution accounts were correct in amount and based on the proper factors (defined contribution plan).
- Cost of living adjustments were properly determined and applied to retirement benefits (defined benefit plan).
- Deductions from retirees' pension payments were authorized and proper (defined benefit plan).
- Benefit payments were made only to the eligible retirees/disabled employees or their designated beneficiaries/annuitants (defined benefit and defined contribution plans).

Overall, pension benefits were properly and accurately calculated and properly paid to the sampled retirees. We did identify the following issues for which enhancements are recommended.

**Retirement section staff have not timely updated the list of active City retirees on a contracted vendor's database, thereby restricting the assurance that vendor will timely detect and report deaths of those retirees to the City.** In accordance with good business practices and internal controls, the Treasurer-Clerk's Retirement section contracted with a vendor to search national and state death files for the purpose of identifying deceased City retirees and deceased surviving annuitants. City staff use the periodic reports of deceased City retirees/surviving annuitants provided by the contractor to ensure retirement benefits are/were appropriately terminated upon the deaths of those individuals. This control serves to preclude continued payment of retirement benefits when the applicable retiree/annuitant dies and the family does not inform the City.

The City started using the services of the current vendor in May 2009. At that time, the City uploaded the list of active City retirees/annuitants into the vendor's database on the applicable secured website. As of the date of our review in early January 2010, the City had not provided an update to that initial list. Accordingly, the vendor's periodic matches of active retirees/annuitants against national and/or state death files did not include individuals that became active retirees/annuitants since May 2009. In the event any of those individuals retiring (or commencing receipt of benefits as a surviving annuitant) after May 2009 died, the vendor would not have identified them as "matches" that warranted the City ensuring the retirement benefits are/were terminated.

The Retirement section should develop and implement procedures specifying the frequency (e.g., weekly, monthly, quarterly) at which the City's records of active retirees should be updated and uploaded into the vendor's database. If implemented, such procedures should help preclude

inappropriate continuation of retirement benefits to deceased individuals.

**The Retirement section should obtain direct evidence of non-City time worked at applicable state, federal, and other entities that is "purchased" by City employees for pension eligibility and benefit purposes.** Section 14-2.330 of the City's pension ordinances allows eligible employees with prior non-City service at state, federal, and certain other entities (including the armed forces) to "purchase" up to five years of such service to be credited toward their pension accrual and retirement eligibility. The cost of the non-city work time varies depending on different factors including, for example, the number of years being purchased, the period of that service, and the employee's salary. The purchased non-City time allows the individual to receive a greater pension benefit and/or to retire earlier than he/she otherwise would receive or be entitled.

We found the Retirement section's process for determining and applying non-City service to pension eligibility and benefit determinations to be generally appropriate and correct. Retirement section staff could strengthen that process by directly verifying with applicable entities the non-City service claimed and purchased by City employees. Specifically, the Retirement section currently allows the entity, at which eligible non-City service was worked, to provide the applicable service records to the employee. The employee, in turn, provides those records to the Retirement section. The Retirement section does not independently verify with the applicable entity the authenticity of those records. Accordingly, it is feasible that an employee could provide falsified records of prior service time to the Retirement section, and use that time to fraudulently enhance his/her pension benefits and/or retire upon inappropriate circumstances.

We are not aware of any circumstances where prior non-City service was fraudulently claimed and purchased by a City employee. However, to preclude such instances from occurring, we recommend the Retirement section revise its processes to require independent and direct

verification of claimed/purchased non-City service with the applicable non-City entity.

**Records documenting employees' Prudential account balances, necessary to demonstrate the appropriateness of City "MAP" payments to those accounts, were not always retained by the Retirement section.**

The City operates a defined contribution pension plan in addition to the traditional defined benefit plan. Under the defined contribution plan for general employees (i.e., employees other than sworn law enforcement officers and firefighters), the City contributes an amount equal to 5% of an employee's salary into an account established for the employee. Those funds, along with additional funds contributed by the employee, are invested with the intent of providing the employee supplemental income upon his/her retirement. The accounts are maintained at a contracted third party administrator, currently Prudential Financial, Inc. (Prudential).

Section 14-5.104 of the City's pension ordinances provides for an additional City contribution to eligible retiring/retired employees. Specifically, an amount equal to 50% of a "defined amount" will be paid to the eligible employee's Prudential account when the employee retires and elects an appropriate payment option. The defined amount equals the sum of (1) the 5% paid by the City during the employee's career with the City, (2) an amount up to 5% of salary as contributed by the employee during his/her career, and (3) the accumulated investment earnings on those amounts. That additional contribution is termed the matched annuity program (MAP) payment.

Employees sometimes have funds in their Prudential accounts that are not part of the "defined amount" explained above. For example, an employee may contribute more than 5% of their salary to the account. Such contributions and the related earnings are not included in the amount on which the MAP payment is based. Accordingly, when determining the MAP payment to a retiring/retired employee's Prudential account, it is important for the Retirement section to maintain records clearly demonstrating the account's composition (i.e., what portions are and are not

eligible for the MAP payment). As third party administrator, Prudential must provide those records to the Retirement section.

We found the Retirement section does not always retain records from Prudential demonstrating the composition of individual retiring/retired employees' accounts. When such records are not retained, the Retirement section cannot demonstrate the correctness of the MAP payment contributed to the applicable employees' accounts. This circumstance was applicable to one of our sampled MAP payments. That sampled payment was for \$31,700. In response to our inquiry on this instance, Retirement section staff requested Prudential to retroactively provide the necessary records. Prudential provided records that allowed a close approximation of the account composition on the date of the MAP payment. Accordingly, we were able to ascertain the payment was materially correct.

To ensure appropriate records are available to demonstrate the correctness and propriety of future MAP payments, we recommend the Retirement section establish written procedures providing for the documentation of retiring/retired employee account balances on the effective date of their MAP payments. That documentation should be retained in the City's Electronic Data Management System along with other critical retirement records.

### ***Other Post Employment Benefits***

Other Post Employment Benefits (OPEB) are provided to retired City employees. The most significant OPEB benefit available to City employees is participation in the City's health insurance program as a retiree. Making that participation available to former employees who commence receiving pension benefits immediately upon their retirement is required by state statute.

During our audit of retirement benefit payments, we became aware of an issue regarding participation by certain former employees and retirees/surviving annuitants in the City's health insurance program. That participation, which occurred over several years, was not authorized by state statute or by



existing City policies or procedures. This issue is explained below.

**Although not clearly authorized, certain former employees and retirees/surviving annuitants were allowed to continue or commence participation in the City's health insurance program.** During our testing of retirement benefits, we became aware that certain individuals were submitting personal checks to the City for payment of the "retiree's" share of health insurance. This was contrary to normal circumstances where the retiree/employee's share of health insurance premiums was withheld from the retiree/employee's gross retirement or salary payment (i.e., via automated payroll deduction). Our review of the circumstances disclosed that certain individuals were allowed to participate in the City's health insurance program although they were not current employees or retirees. Specifically:

- Nine former employees that terminated their employment after more than 10 years of service were *allowed to continue their participation in the City's health insurance program after they terminated their employment but before they started receiving pension benefits.* Those nine employees worked for the City for periods ranging from 10 to 23 years. Their terminations occurred during the 17-year period 1993 through 2009 (one terminated in 2007 and three terminated in 2009). Although not active retirees, those nine employees are paying, or paid, the "retiree share" of the health insurance premium through the submission of personal checks to the City. The City is paying, or paid, the "City share" of those premiums (i.e., the City share represents the amount paid by the City for active retirees). As of the date of our review:
  - o Four of those nine employees had started receiving their pension benefits and continued to participate in the City's health insurance program as "current retirees." Those four employees participated in the City's health insurance program as former employees for periods ranging from 4 to 16 years prior to the dates they "retired" and commenced receiving their pension benefits.

- o One of those nine former employees had been participating in the City's health insurance program, although not an active retiree, for 17 years. (This employee terminated employment in 1993.) Another one of those nine former employees had been participating, although not an active retiree, for 2.5 years. (This employee terminated employment in 2007.)
- o Three of those nine employees recently terminated their employment (i.e., in 2009) and were allowed to participate in the health insurance program as former employees not yet receiving pension benefits.

The Retirement section indicated these employees were allowed to participate in the City's health insurance program because they had at least 10 years of service with the City at the time they terminated their employment. *However, we were not shown where this benefit is addressed in current City policy.*

- One former employee that terminated employment in 2001 after 8 years of service was also *allowed to continue participation in the City's health insurance program after terminating employment but before starting to receive pension benefits.* The employee commenced receiving pension benefits 10 months after terminating employment (i.e., in 2002) and has continued to participate in the City's health insurance program as an active retiree. During the 10-month period the individual participated as a former employee but not yet receiving pension benefits (i.e., not an active retiree), the individual paid the "retiree share" of the health insurance premium through the submission of personal checks to the City. The City paid the "City share" of those premiums (i.e., the City share represents the amount paid by the City for active retirees). *This benefit is not addressed in current City policy.*
- Twenty-two spouses of former retirees were *allowed to continue participation in the City's*

health insurance program when the retirees died and there was no continuing pension benefit to those surviving spouses (i.e., the retiree did not elect a pension option that provided continuing pension benefits to their spouses). The spouses of those retirees were covered as family members under the health insurance coverage elected by the retirees. Those 22 surviving spouses are paying the “retiree share” of the health insurance premium through the submission of personal checks to the City. The City pays the “City share” of those premiums (i.e., the City share represents the amount paid by the City for active retirees). *While this appears fair and reasonable, this benefit to surviving spouses is not addressed in current City policy.*

In addition to the above-described instances, we also found the following:

- Two former employees who terminated their employment after more than 10 years of service (i.e., one terminated in 1996 and the other one in 1999) were *allowed to commence participation in the City’s health insurance program after they started receiving their pension benefits several years after their employment termination.* Those two former employees did not participate in the City’s health insurance program during the periods between their employment termination and commencement of pension benefits (7.5 and 13 years). One of the two employees started receiving pension benefits in 2007 and the other one in 2009. *Allowing former employees, that do not immediately receive pension benefits upon their employment termination, to participate in the City’s health insurance program at the time they start receiving pension benefits several years later is not addressed in current City policy.*

As noted above, the described instances of health insurance participation are not addressed in City policy. We reviewed the City’s contract with Capital Health Plan for the last two years and found no definitive language that specifies that coverage will be extended to terminated employees who are not yet receiving pension benefits. Capital Health

Plan has nonetheless agreed to allow the described instances of participation. We did note that the contract with Capital Health Plan does allow for continued participation by the spouses of deceased retirees who participated in the plan with family coverage.

**Conclusion:** There currently is no City policy that addresses and allows former employees, that are vested in the City’s pension plan and who terminated employment prior to their “retirement date” (i.e., date at which they will commence receiving pension benefits), to continue participation in the City’s health insurance program, either (1) prior to receiving their pension benefits or (2) after they start receiving their pension benefits. We questioned the Retirement section allowing those benefits under the described circumstances. To our knowledge and as confirmed in response to our verbal inquiry of the Retirement section staff, this opportunity to participate under the noted circumstances is not explicitly explained and provided to all terminating employees that are vested in the City’s retirement system at the dates of their termination.

Additionally, there is both a direct (explicit) and implied cost to the City for allowing participation in the City’s health insurance program by former employees vested in the City’s pension plan but not yet receiving pension benefits. The direct cost is the premiums paid by the City for those individuals for the “City share” of retiree premiums. That cost for each former employee on an annualized basis is reflected in the following table.

Annual "Direct" Costs Per Former Employee (Note 1)		
Type Coverage (Note 2)	Cost paid by former employee	Direct cost paid by the City
Retiree Only	\$2,849.04	<b>\$1,979.76</b>
Retiree plus one family member	\$6,085.44	<b>\$3,574.08</b>
Retiree plus two or more family members	\$8,186.64	<b>\$5,017.68</b>
NOTE 1: These costs are based on 2009 rates		
NOTE 2: These are for non-Medicare eligible retirees		

In regard to implied costs, it can be expected that overall plan costs will increase upon additional participation by individuals who are older than the average participant. The average age of the 10 participants, described in the first two instances of this issue, at the dates they started participation in the City's health insurance program as terminated employees was 48.9 years. The average age of active City employees participating in the City health insurance program is 45 years.

Lastly, while apparently allowed pursuant to the contract with Capital Health Plan, City policy does not specify that surviving spouses of deceased retirees, who do not receive pension benefits as a surviving spouse but who were covered through the City's health insurance program as a family member of the retiree, are entitled to continue participation in the City's health insurance program.

Subsequent to our identification of this issue, we became aware the Treasurer-Clerk's Office, in conjunction with Human Resources, is currently in the process of developing a City policy addressing "Other Post Employment Benefits" (OPEB), including provision of health insurance to terminating and retired employees. In development of that policy, we recommend the Treasurer-Clerk's Office and Human Resources, with the assistance of the City Attorney's Office, ascertain the appropriateness of these "sometimes offered" benefits to (1) terminated employees who are vested in the City's pension plan but not yet receiving pension benefits and (2) terminated employees who did not start receiving pension benefits until several

years after their employment termination and did not participate in the City's health insurance program during those years after employment termination. We also recommend an official policy be adopted that addresses which terminated employees, and family members of terminated employees, will be allowed to participate in the City's health insurance program. That policy should, among other things, specify the eligibility requirements and circumstances for that participation.

### Conclusions

It is our opinion that, overall, City disbursements during the period July 1, 2008, through June 30, 2009, as well as severance payments made during the quarter ending September 30, 2009, were (1) for authorized and necessary purposes; (2) made in accordance with established laws, rules, policies, and procedures; (3) supported by appropriate documentation; and (4) properly recorded in the City's financial records. Given the complexities and diversity of City business, we commend City staff for their efforts in ensuring that disbursements of City funds were proper.

We did identify several issues that are indicative of the need for improvements to ensure City funds are properly expended in accordance with governing laws, rules, contractual terms, policies, and procedures. The most significant of those issues was the lack of a clear authority for the participation of certain former employees and retirees/surviving annuitants in the City's health insurance program.

We recommend that management review each issue in this report and take appropriate corrective action. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

## *Appointed Officials' Response*

### **City Manager:**

We have reviewed the City Auditor's report related to the Citywide Disbursements 2009 Audit and are pleased to see that citywide disbursements are properly authorized, supported, correctly recorded and in compliance with laws, rules, policies and procedures. We have taken note of the action plan comments and staff will work on addressing the concerns. We are also pleased to see that no issues were identified with payments related to the voluntary separation incentive program and that all severance payments were done in accordance to City Commission directives as approved during the FY10 budget process. We would like to thank the City Auditor's staff for their time and effort on this audit.

### **City Treasurer-Clerk:**

We are very pleased that the audit of Citywide Disbursements 2009 found that the Retirement Division properly and accurately calculated pension benefits for the City Retirees. The recommended procedural enhancements have been or are currently being implemented.

## Appendix A - Action Plan

Action Steps	Responsible Employee	Target Date
<b>A. Objective: To ensure that disbursements are made in accordance with governing laws, rules, policies, and procedures</b>		
<i>Electric Utility</i>		
1. Appropriate efforts will be made to recover the \$486 overpayment for labor maintenance services.	Diane Blanton	May 31, 2010
<i>Retirement Section</i>		
2. Procedures will be implemented specifying the frequency (monthly) at which the City's records of active retirees will be updated and uploaded into the vendor's database.	Darrell Thompson, Jr.	June 30, 2010
3. Procedures will be implemented that require direct verification by Retirement section staff of non-City service claimed and purchased by City employees for pension credits.	Darrell Thompson, Jr.	June 30, 2010
4. Procedures will be implemented that require the Retirement section to retain documentation from Prudential of retiring/retired employee account balances on the effective date of their MAP payments.	Darrell Thompson, Jr.	June 30, 2010
<b>B. Objective: To ensure the City funds health insurance benefits only for authorized individuals</b>		
<i>Treasurer-Clerk's Office/ Human Resources/City Attorney's Office</i>		
1. The appropriateness of allowing terminated employees, certain retirees, and certain family members of deceased retirees to participate in the City's health insurance program under the circumstances described in this audit will be reviewed and determined. For any instances determined not appropriate, that participation will be terminated.	Gary Herndon	June 30, 2010
2. A City policy will be developed and adopted that addresses which terminated employees, and family members of terminated employees/deceased retirees, will be allowed to participate in the City's health insurance program.	Gary Herndon	June 30, 2010

Copies of this Audit Report #1013 may be obtained from the City Auditor's web site (<http://www.talgov.com/auditing/auditreports.cfm>), by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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