



REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE CITY OF SHREVEPORT PENSION OFFICE

INTERNAL AUDIT REPORT (IAR) 650017-03

June 21, 2017

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The Council
City of Shreveport

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June 21, 2017

Councilman James Flurry
Chairman, Shreveport City Council

Dear Councilman Flurry:

Subject: IAR 650017-03- Audit of the City of Shreveport Pension Office

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
AUDIT OF THE CITY OF SHREVEPORT PENSION OFFICE
INTERNAL AUDIT REPORT (IAR) 650017-03

Why We Did This Audit

We have completed a performance audit of the City of Shreveport Pension Office. This audit was conducted as a regularly scheduled audit included in the annual audit plan and includes a City Fraud Hotline (FHL) report that a pension beneficiary received pension payments more than a year after her death. Our objectives were to determine what controls are in place to protect City Assets and meet compliance with City procedures, ordinances and state laws, and to follow up on prior audit findings.

What We Recommended

To improve oversight of the pension office, we recommend the Finance Department:

- Review the status of the active pensioners utilizing the Social Security Number Verification System (SSNVS).
- Randomly select retirement fund payments and deposits and test for accuracy and reconcile Treasury Fund Accounts monthly.
- Develop a checklist and have Human Resources (HR) verify that what has been submitted has been processed.
- Train staff to perform pension manager duties in his absence.

To strengthen controls over pension payments, we recommend the Pension Office:

- Verify the status of each retiree using the SSNVS and immediately report anyone showing a deceased status to HR.
- Immediately follow-up with the retiree and communicate with HR to resolve discrepancies in identification.
- Make appropriate corrections to records for those failing the SSNVS identification match.
- Document and process deposits to the pension fund in a timely manner.

**Audit of the City of Shreveport
Pension Office**

What We Found

We found that the Pension Office lacks a system for discovering the deaths of its pensioners and does not have adequate controls over the process of discontinuing retirement benefits once the death of a retiree is discovered.

Using the Social Security Number Verification System, we ultimately found a total of eight active pensioners with a deceased status that were still receiving payments, costing the City \$26,000 for the period beginning April 30, 2015 and ending December 31, 2016. The City was able to recall one of the December 2016 payments prior to its posting to the pensioner's bank account and reverse a November 2016 payment. The City Attorney's office is reviewing options for recovering the additional inappropriate payments.

In addition to the deceased statuses, the SSNVS showed 22 failed (non-verified) matches where the social security numbers submitted from the City's database did not match the names and/or dates of birth in the SSNVS database.

We also found that 24 checks totaling \$1.1M issued to the City's Pension Office were deposited into the City's bank account anywhere from 18 days to 18 months after they were received. During the course of that time, the City made payments to other parties in anticipation of the deposit of these funds.

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Introduction

In December of 2016, the City of Shreveport Internal Audit Office received a Fraud Hotline (FHL) report that a pension beneficiary had died in December of 2015 and was still receiving pension payments. We then began an investigation into the validity of this report, the pension payment process, and the existing controls and their effectiveness.

With the assistance of the City Controller and the IT Department, we accessed the Social Security Number Verification System (SSNVS) and submitted the active pensioners list for verification. The SSNVS listed eight retirees as deceased, including the one reported on the fraud hotline. We followed up on the additional seven deceased pensioners and included those results as part of the scheduled performance audit of the Pension Office.

Throughout the course of our work, we identified financial costs to the City of Shreveport created by lack of controls and inadequate oversight that led to a failure to timely acquire knowledge of a pensioner's death and remove the pensioner from the active database used to process pension payments. We also discovered that Pension Office internal controls over its operations are weak or nonexistent in other areas.

*During the period beginning
April 30, 2015 and ending
February 28, 2017 the City
expended more than
\$26,000 in pension
payments to deceased
retirees and deceased
beneficiaries.*

This report provides the results of our audit of the City's Pension Office to determine the effectiveness of existing controls and the efficiency of operations.

The objectives of this audit are to:

- Determine if existing controls are adequate to protect City assets and provide operational efficiencies.
- Determine if the Pension Office is in compliance with City Ordinances and State Laws.
- Follow up on prior report findings of inefficiencies and errors in reporting and timeliness of reports and payments.



Recommendation Evaluation Risk Criteria

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains three findings with seven recommendations.

<i>Risk Levels</i>	<i>Recommendations</i>
<p style="text-align: center;">High Risk</p> <p>Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.</p>	<ul style="list-style-type: none"> ➤ The pension office uses the SSNVS to perform a monthly verification of all active pensioners and immediately report those showing a deceased status to Human Resources for cancellation of payment. (Finding: Deceased Retirees/Beneficiaries Receiving Payments.) ➤ The pension office makes appropriate corrections to the pension files and communicates with HR to resolve any discrepancies between the SSNVS and payroll records for those names who fail the SSNVS identification match. (Finding: Deceased Retirees/Beneficiaries Receiving Payments.) ➤ The Finance Department provides oversight of the pension office by developing a continuous monitoring process. (Finding: Deceased Retirees/Beneficiaries Receiving Payments.) ➤ The City Attorney's Office is notified of all overpayments of pension benefits as soon as practical after their discovery so that he may assess the recovery potential and begin recovery efforts as soon as possible. (Finding: Deceased Retirees/Beneficiaries Receiving Payments.)
<p style="text-align: center;">Medium Risk</p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	<ul style="list-style-type: none"> ➤ Finance Office performs monthly reconciliation of Treasury Fund accounts, randomly test retirement fund deposits for accuracy and timeliness, and request that Municipal Police Employees Retirement System (MPERS) send payments/refunds via wire transfer. (Finding: Untimely Deposits of Funds Received by Pension Office.) ➤ Replace manual examination and calculation procedures with electronic data analytic and reporting tools such as Microsoft Excel and New World HR Management System. (Finding: Late Payments to Retirement Fund Agencies) ➤ Have someone in finance review pension reports and calculations after the Pension Manager has prepared them. (Finding: Late Payments to Retirement Fund Agencies)
<p style="text-align: center;">Low Risk</p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	<p style="text-align: center;">None</p>



Scope and Methodology

The scope of this audit includes the operating activities of the City of Shreveport Pension Office during the 2015, 2016 and first quarter of 2017 fiscal years. To answer our objectives, we reviewed internal controls and developed audit procedures including, but not limited to, the following:

- Interviewing personnel in the Pension Office, Benefits Office, Human Resource Department and Finance Department regarding controls and reporting.
- Reviewing City ordinances and administrative procedures.
- Utilizing the SSA tool (SSNVS) to determine life/death status of pensioners.
- Searching the web for obituaries and other information pertinent to this audit.
- Documenting a walkthrough of the pensioner death notification process.
- Examining Pension Office financial transactions and records.
- Performing other tests and procedures deemed appropriate in the circumstances.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

We thank the personnel in the various Offices and Departments identified above, as well as personnel in other City Departments, for their cooperation and assistance in gathering information provided to us in our work on this project.





FINDINGS AND RECOMMENDATIONS



Objective: Determine if existing controls are adequate to protect City assets and provide operational efficiencies

Deceased Retirees/Beneficiaries Receiving Payments

City Ordinance discontinues pension distributions with the last monthly payment preceding a retiree's or a beneficiary's death. During a fraud hotline investigation, we found that monthly pension payments were made to a retiree's beneficiary for one year after the beneficiary's death. Two more beneficiaries received payments (one for 21 months and one for 3 months) subsequent to their deaths. Five retirees received pension payments after their deaths (Chart 1 pg. 8). Inappropriate payments to these eight pensioners were made from April 30, 2015 to February 28, 2017 and totaled \$26,890, after insurance deductions of \$6,065 and the reversal of 5 payments by the payroll department. Payments to two of the pensioners were made in January and February 2017 even though Internal Audit made the Pension Office aware of our findings in December 2016.

To determine that the eight pensioners were deceased, we uploaded a file listing all active pensioners into the Social Security Number Verification System (SSNVS) at www.ssa.gov. The SSNVS returns the status of each person's social security number as one of three outcomes: **1) verified** - valid and alive; **2) deceased**; or **3) unverified** - name and/or date of birth do not match the social security number listed.

Along with the 8 deceased, the SSNVS returned 22 pension recipients whose names, social security numbers and/or dates of birth did not match Social Security Administration's records. Without proper identification, the Pension Office cannot determine a person's eligibility to receive pension payments. This is especially true for beneficiaries because their identities have not been verified through the City's initial employee hiring process. Furthermore, this creates the risk of being fined by the IRS for submitting wage reports (forms W2 and 1099-R) with incorrect information. The 22 failed recipients could generate a fine of \$4,290 or more.

City Ordinance

Sec. 66-62(c) Limits on distribution periods:

As of the first distribution calendar year, distributions, if not made in a single sum, may only be made over one of the following periods (or a combination thereof):

- (1) The life of the participant;
- (2) The life of the participant and a designated beneficiary;
- (3) A period certain not extending beyond the life expectancy of the participant;

Or

- (4) A period certain not extending beyond the joint and last survivor expectancy of the participant and a designated beneficiary.

Sec. 66-100 Payments of retirement allowances:

...the retirement allowance shall terminate on the last monthly payment preceding his death



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<u>Deceased</u>	<u>Date of Death</u>	<u>Date of Last Pension Payment</u>	<u>Total Amount Received</u>	<u>City Health Insurance Deductions</u>	<u>Payroll Reversals</u>	<u>Net Pension Received</u>
Beneficiary 1	April 13, 2015	February 28, 2017	\$ 7,855	\$ -	\$ -	\$ 7,855
Beneficiary 2	September 29, 2016	December 31, 2016	\$ 5,500		\$ (1,375)	\$ 4,125
Beneficiary 3	December 12, 2015	December 31, 2016	\$ 15,949	\$ (5,653)	\$ -	\$ 10,296
Retiree 1	November 18, 2016	December 31, 2016	\$ 69	\$ -	\$ -	\$ 69
Retiree 2	November 3, 2016	January 31, 2017	\$ 2,063	\$ (380)	\$ (688)	\$ 995
Retiree 3	September 27, 2016	February 28, 2017	\$ 5,673	\$ -	\$ (3,404)	\$ 2,269
Retiree 4	December 18, 2016	December 31, 2016	\$ 869	\$ (32)	\$ -	\$ 837
Retiree 5	December 23, 2016	December 31, 2016	\$ 444	\$ -	\$ -	\$ 444
Totals			\$ 38,422	\$ (6,065)	\$ (5,467)	\$ 26,890

Chart 1: Schedule of Payments Made to Retirees after Death

Auditor's Note: City health insurance deductions were excluded from total pensions received because the premiums were paid to City of Shreveport self-insured funds.

Recommendation 1: The Pension Office uses the SSNVS to perform a monthly verification of all active pensioners and immediately report those showing a deceased status to Human Resources for cancellation of payment and notify payroll office in case of any payments in progress that can be reversed.

Recommendation 2: The Pension Office makes appropriate corrections to the pension files and communicates with HR to resolve any discrepancies between the SSNVS and payroll records for those names who fail the SSNVS identification match.

Recommendation 3: The Finance Department provides oversight of the Pension Office by developing a continuous monitoring process that includes the following:

1. Reviewing the SSNVS for active pensioners.
2. A checklist of retirement activation/termination procedures that requires HR to verify that what has been submitted to their department by the pension office has been processed.
3. Randomly selecting retirement fund payments and testing for accuracy.
4. Training other staff to perform Pension Manager's duties in his absence.

Recommendation 4: The City Attorney's Office is notified of all overpayments of pension benefits as soon as practical after their discovery so that he may assess the recovery potential and begin recovery efforts as soon as possible.



Management Response:

Recommendation 1: Management agrees and has started to check our current active pension payment files against the SSN files.

Due Date: Less than 6 Months

Recommendation 2: Management agrees and will provide updated information to HR on any changes or corrections to SSN that may be discovered in test file matching.

Due Date: Less than 6 Months

Recommendation 3:

1. City Controller is the person who performs the SSN match.
2. A PAF is completed for each person who retires and is sent to HR. A PAF is also sent to HR for each deceased pensioner and their surviving spouse for input by HR.
3. Pension payments will be randomly selected and checked for accuracy.
4. There is a new administrative assistant in the office and they are being trained to handle the various duties.

Due Date: Less than 6 Months

Recommendation 4: City attorney will be notified of any overpayments so they may assist in the collection of funds.

Due Date: Less than 6 Months



Untimely Deposits of Funds Received by Pension Office

Lack of management oversight and weak controls over the receipt of funds that are directed to the Pension Office are the cause of untimely pension deposits.

The Municipal Police Employees Retirement System (MPERS) withholds City benefits and some other third party deductions from retirees’ pension checks and then remits the monthly payment of those withholdings to the Pension Office each month. In turn, the City of Shreveport remits payment to the appropriate third parties for which the deductions are withheld. MPERS also periodically issues refunds of any overpayments made by the Pension office.

Five of seven withholding remittance checks issued by MPERS between February and September 2016 totaling \$1.1M were not deposited until October 2016. The sixth check was deposited in November 2016, and the seventh was deposited in December of 2016. See Chart 2. Of that \$1.1M that was not deposited, the City paid \$390,000 to the Police Officers Credit Union on retirees’ behalf. Health insurance premiums totaling \$568,000 were also included in the batch of un-deposited checks, creating the risk that the City would pay claims on policies for which monthly premiums had not been received.

Check No.	Check Date	Deposit Date	Deposit Amount
203950	2/1/2016	10/17/2016	\$ 156,482
204779	4/1/2016	10/17/2016	158,896
205580	6/1/2016	10/17/2016	159,350
205176	5/2/2016	10/17/2016	159,453
206452	8/1/2016	10/17/2016	161,184
206850	9/1/2016	11/17/2016	161,016
205981	7/1/2016	12/01/2016	158,300
Total			\$ 1,114,681

Chart 2: Schedule of Untimely Deposits of MPERS Withholding Remittance Checks

Eight checks refunding MPERS overpayments that were issued between April 30, 2015 and April 27, 2016 were not deposited until October 2016. These checks totaled \$13,450.



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Recommendation 5: In addition to the continuous monitoring steps listed in Recommendation 3, the Finance Office further provides oversight by doing the following:

1. Monthly reconciliation of Treasury Fund accounts
2. Randomly selecting retirement fund deposits and testing for accuracy and timeliness
3. Make a request to MPERS to send payments/refunds via wire transfer

Management Response:

Recommendation 5:

1. Checks will be deposited monthly. All Treasury Fund accounts are to be reconciled monthly per office procedures. Checks are to be deposited even if there is a discrepancy between report and check.
2. Accounting will follow up that all deposits are made in timely manner.
3. The City has made several requests for payment to be made by wire or ACH. Thus far the state has not agreed to do so.

Due Date: 6 to 12 Months





Objective: Follow up on prior report findings of inefficiencies and errors

Late Payments to Retirement Fund Agencies

In a December 2014 limited scope audit (IAR 050014-06) the Internal Audit Office reported findings related to the timeliness and accuracy of pension office reporting and retirement fund payments. Of the fifteen monthly reports reviewed, eight were submitted and/or paid late. Three reports were submitted to pension agencies with incomplete information. Based on the results of these reports, the Pension Office is still having similar issues.

In addition to the overpayments discussed in the previous finding, the Pension Office also processed the following late payments:

Pension Fund

Due Date

Firefighters Retirement System
 Municipal Police Employees
 Retirement System

20th of month after full month of contributions

 10th of month after full month of contributions

Name of Payee	Amount of Transfer	Due Date	Date Transfer Requested by Pension Office	Date Approved by Director of Finance	Date of Transfer
MPERS	\$ 963,257	01/10/16	01/19/16	01/20/16	01/20/16
MPERS	\$ 952,832	02/10/16	02/17/16	02/18/16	02/18/16
MPERS	\$ 957,487	03/10/16	03/11/16	03/17/16	03/17/16
MPERS	\$ 965,130	05/10/16	05/13/16	05/19/16	05/19/16
MPERS	\$ 958,280	06/10/16	06/14/16	06/14/16	06/14/16
FRS	\$ 932,568	06/20/16	06/14/16	06/28/16	06/28/16
MPERS	\$ 950,060	07/10/16	07/18/16	07/20/16	07/20/16
MPERS	\$ 1,006,648	08/10/16	08/05/16	08/25/16	08/25/16
FRS	\$ 904,977	08/20/16	08/05/16	08/25/16	08/25/16
MPERS	\$ 1,039,206	09/10/16	09/13/16	09/16/16	09/16/16
MPERS	\$ 1,017,400	10/10/16	10/19/16	10/20/16	10/20/16
MPERS	\$ 1,021,055	12/10/16	12/19/16	12/20/16	12/20/16

Chart 3: Schedule of Late Payments to Firefighters Retirement System and MPERS



Funds are not received and posted timely to employees' accounts and do not earn additional interest during the periods they are late. Late payments, to the FRS and MPERS pension systems could impact the timeliness and/or amount of a retiree's initial retirement payment.

Information provided by MPERS affirms that monthly reports are not only late, but also contain errors that require time and effort to correct. Because the Pension Manager manually reviews and calculates the pensioners' pay amounts, there is ongoing potential for errors. Insufficient management oversight is also a contributing factor. No one else reviews the reports prior to their submissions to the retirement systems.

Recommendation 6: Replace manual examination and calculation procedures with electronic data analytic and reporting tools such as Microsoft Excel and New World HR Management System.

Recommendation 7: Have someone in finance review pension reports and calculations after the Pension Manager has prepared them.

Management Response:

Recommendation 6:

It is our hope that the payroll system that is being implemented will allow us to post not only regular retirement contributions but also those required while a person is on the DROP or has reached 30 years of service and no longer has to make contributions but the City is required to continue.

Due Date: 6 to 12 Months

Recommendation 7:

As was reported earlier we have hired a new administrative assistant who is continually learning how to perform the various activities of the office.

Due Date: 6 to 12 Months



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Prepared by:

A handwritten signature in blue ink that reads "S. Ben Hebert".

S. Ben Hebert, CPA, CFE, CMA, CISA, CLEA, CLAA, CGMA
Staff Auditor III

A handwritten signature in blue ink that reads "April M. Jordan".

April M. Jordan, CFE, CLEA
Staff Auditor II

Approved by:

A handwritten signature in blue ink that reads "Leanis L. Steward".

Leanis L. Steward, CPA, CIA
City Internal Auditor

aj:bh:kh

- c: City Council
- Clerk of Council
- Mayor
- Director of Finance
- Chief Administrative Officer
- Carr, Riggs & Ingram

