



## **Federated City Employees' Retirement System**

### **Police and Fire Department Retirement Plan**

#### **Service Retirement Application Process and Benefits Recalculation Audit**

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## Executive Summary

As part of the FY 2019-2020 plan, the service retirement application process along with the recalculation of the benefit payments with objective of evaluating the operational procedures and controls in processing service retirement applications from the receipt of forms, board approval, pension administration set-up, calculation of benefits and first retirement check payment. This process is important as it directly supports part of the mission of the department which is “to provide ensure prompt, professional delivery of services and benefits to our members”.

The audit covers new service retirement payees from January 2019 to December 2019. Scope is limited to the process for normal service retirements only. Other types of retirement benefits such as deferred vested, disability and return of contributions will be covered in future audit projects.

In carrying out the audit, the retirement application process along with the documented policies and procedures involved was discussed with staff. Controls were evaluated all throughout the process to determine appropriateness and sufficiency. Furthermore, benefit payments were recalculated to ensure accuracy.

Overall, Internal Audit observed good practices with ORS’s administration of service retirement application process and benefits recalculation. Control strengths identified are listed below.

- Service retirement application transactions are supported by valid and adequate documentation. All related files are stored in paper and electronic forms.
- Policies and procedures in service retirement application process are well documented in a control workflow file.
- Proper segregation of duties is present in each stage of the process.
- There is appropriate review and approval process.
- Cross-checking and reconciliation of documents are being performed to ensure validity, completeness, and accuracy.
- Access to pension administration system functions is limited to authorized users only.
- The system provides prompts for errors and exceptions. It does not allow users to proceed without fixing the issue.
- In general, service retirement applications including payment of first retirement checks are processed timely.
- Benefit amounts are accurately calculated.
- Variances between counseling and set-up benefit estimates are resolved before activating the claims.

However, the following are the issues identified that should be addressed to further strengthen the controls and improve the process over the service retirement application process and benefit calculation.

- a. There was one sample where COLA is incorrectly calculated for a Tier 2 Federated plan retiree. It was also observed that there's no clearly defined method in calculating the prorated amount of COLA for Tier 2 members.
- b. There were four samples (Federated: 2; Police and Fire: 2) where the first pension checks were released later than the usual issuance time. Furthermore, the length of time to issue the first retirement check takes one to two months after the retirement date month.
- c. In inspecting the retirement application files, there was one sample where certain set-up documents are missing and cannot be located in neither the physical nor electronic data storage. It was also determined that the scanning process happens several months after the retirement application is completed.
- d. The group counseling survey is limited in scope and not tailored to address specific areas to properly gauge the quality of service rendered by the department.
- e. Option to receive payment advice for pension checks is not included in any of the standard files required for the retirement application.

Audit recommendations based on the findings have been made in order to improve internal controls. Details of the findings and recommendations are addressed in the Audit Results section of this report.

## Background

The Office of Retirement Services administers two separate defined benefit pension plans for the City of San Jose namely Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The department provides various services to active and retired members with regards to benefits that they are entitled to depending on the plan and tier.

Benefits processing starts with handling retirement applications – from receipt of forms, board approval, pension administration set-up, calculation of benefits and first retirement check payment. Summary of the process is detailed below.

### 1. Application Review

- Application form is received and reviewed.
- An analyst will be assigned to handle all the appropriate files to process the retirement application.
- An acknowledgement letter will be sent to the member to confirm receipt of the application along with the contact information of the assigned analyst as well as the group counseling session date.
- Packet of forms will be mailed to the member. These are the documents that are needed to proceed with the benefits set-up. Required documents will vary for each member.

### 2. File Processing

- Benefits estimate will be run through the pension administration system and will then be presented to the member during the group counseling session.
- File analyst will review the draft agenda to ensure correctness of applicant name, department, position, date of retirement, and years of service.
- Once all paperwork has been received, file analyst will review the necessary information for validity and completeness.
- Verified documents will be assembled per the control checklist.
- File analyst will turn over the benefits set-up process to another analyst.

### 3. Benefits Set-up

- Set-up analyst will confirm if the Board approved the retirement application.
- Another set of documents review will be performed.
- Benefits estimate will be run again along with any exception verification and resolution (e.g., pay spikes in the average final compensation). It will be compared to the initial counseling estimate to ensure they match. If there is a difference, determine the reason and create a variance memo if necessary.
- Manual benefits calculation will be done to ensure accuracy of benefit amount.
- Benefits claim will then be initiated after making sure the last payroll for the member and the correct interest through the date of retirement has been posted.
- Once claim is set-up, update the federal withholding tax, state withholding tax (CA only), direct deposit, insurance premium, and any other deductions.
- Benefits summary will be compared to the manual calculation worksheet for consistency.
- Analyst will complete the set-up and forward the member file to the health care group and benefits division manager for review and approval. If approved, benefit claim is ready to be paid out.

The chart below shows the new benefit payments by type during calendar year 2019 for both plans.

***Federated City Employees' Retirement System***

Month	Continuance	Deferred Vested Early Ret	Deferred Vested	DRO Benefit	Duty Disability	Non-Duty Disability	Service Retirement	Survivor Annuity	Grand Total
Jan 2019	1	-	7	-	-	-	4	-	12
Feb 2019	5	-	7	-	-	-	14	-	26
Mar 2019	2	-	3	-	-	-	7	1	13
Apr 2019	1	-	2	-	-	-	18	1	22
May 2019	5	-	1	1	-	-	31	1	39
Jun 2019	2	-	8	-	-	-	3	-	13
Jul 2019	4	1	4	-	-	1	16	-	26
Aug 2019	2	-	4	-	-	-	8	-	14
Sep 2019	2	1	3	-	1	-	9	-	16
Oct 2019	4	-	4	-	-	-	6	1	15
Nov 2019	3	-	5	-	-	1	10	-	19
Dec 2019	2	1	4	-	-	-	6	-	13
<b>Total</b>	<b>33</b>	<b>3</b>	<b>52</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>132</b>	<b>4</b>	<b>228</b>

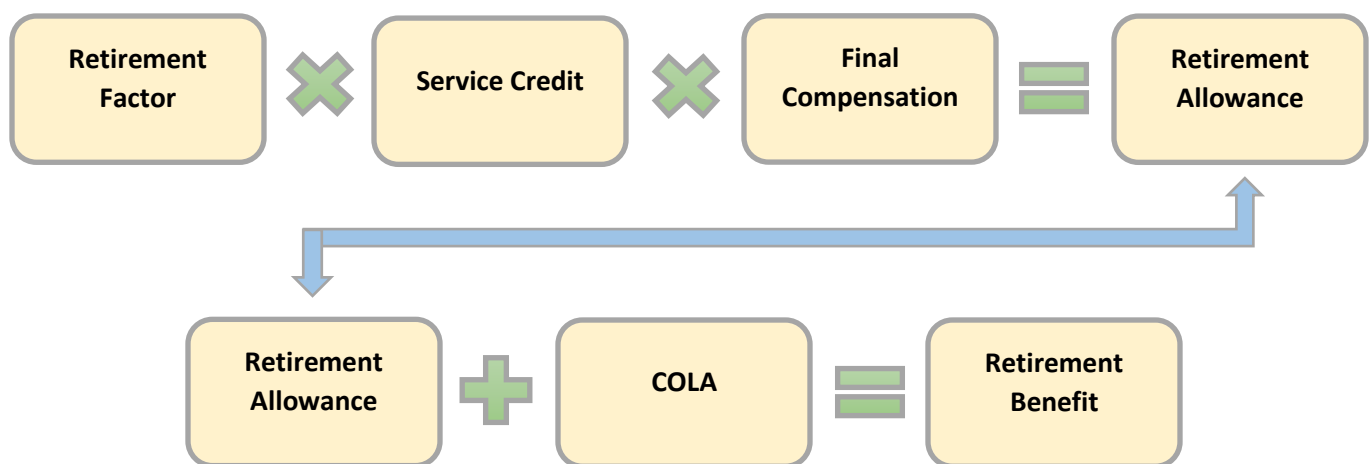
***Police and Fire Department Retirement System***

Month	Continuance	Deferred Vested	DRO Benefit	Duty Disability	Early Retirement	Non-Duty Disability	Service Retirement	Survivor Annuity	Grand Total
Jan 2019	1	3	1	-	-	2	4	-	11
Feb 2019	1	-	-	1	2	1	24	-	29
Mar 2019	3	-	-	2	-	-	18	1	24
Apr 2019	5	-	1	-	-	-	4	1	11
May 2019	2	-	-	-	-	-	1	-	3
Jun 2019	4	-	1	1	1	-	3	-	10
Jul 2019	2	-	-	-	1	-	1	-	4
Aug 2019	1	-	-	-	-	-	8	-	9
Sep 2019	1	1	4	-	-	-	3	-	9
Oct 2019	1	-	-	-	-	-	3	3	7
Nov 2019	2	2	-	-	-	-	3	-	7
Dec 2019	1	-	-	-	-	-	1	-	3
<b>Total</b>	<b>24</b>	<b>6</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>73</b>	<b>5</b>	<b>127</b>

As discussed above, part of the retirement application process is to calculate the benefit amount that will be paid to retirees. Incorrect information and insufficient controls can lead to certain risks such as inaccurate benefit amounts, under/overpayment of benefits, and ineligible benefits paid.

The retirement benefit is comprised of several components such as retirement factor, service credit, final compensation, surviving spouse contributions, and cost of living allowance. Due to the factors mentioned, a member's benefit amount will vary. The member's plan, benefit tier, and age at retirement also affect the final benefit payment to a retiree.

In general, a member's retirement benefit can be calculated as follows:



- Retirement Factor – The percentage of the salary that a member will receive for each year of service credit once he retires.
- Service Credit – The time earned while being a contributing member of the plan. Time purchased is also included in this component. Service credit is typically expressed in years.
- Final Compensation – The highest rolling average pensionable salary of a member. Period in calculating the average salary generally varies from 12 to 36 months.
- COLA – Stands for cost of living adjustment which is added and compounded to the base retirement allowance annually. This is typically expressed in percentage of the retirement allowance. COLA is applied and compounded yearly (Federated: April; Police a Fire: February).

#### Retirement Benefit Example:

- John retired at 62 with 30 years of service credit.
- His 12-month average pensionable salary is \$100,000.
- Retirement factor is 2.5% based on his tier on the benefit plan.
- COLA is 3% of the retirement allowance.

$$\begin{array}{ccccccc} \mathbf{2.5\%} & \mathbf{x} & \mathbf{30} & \mathbf{x} & \mathbf{\$100,000} & \mathbf{=} & \mathbf{\$75,000} \\ \text{(Retirement Factor)} & & \text{(Service Credit)} & & \text{(Final Compensation)} & & \text{(Retirement Allowance)} \end{array}$$

$$\begin{array}{ccccccc} \mathbf{\$75,000} & \mathbf{+} & \mathbf{\$2,250} & \mathbf{=} & \mathbf{\$77,250} \\ \text{(Retirement Allowance)} & & \text{(COLA)} & & \text{(Retirement Benefit)} \end{array}$$

\$77,250 is the yearly benefit calculated for John. Payments are usually made on a monthly basis. In this case, the pension benefit that will be paid to John is \$6,437.50 per month.

#### Audit Objectives

The objectives of this audit are the following:

- a. Review the operational procedures in processing service retirement applications (i.e., receipt of application forms, board approval, pension gold set-up, calculation of benefits, etc.)
- b. Evaluate the operational controls used all throughout the process
- c. Determine if service retirement benefits are correctly calculated

#### Audit Scope

The audit was performed for the period from January 1, 2019 through December 31, 2019.

The audit specifically covers the following:

- a. Service retirement application process
- b. Documented policies and procedures
- c. List of new service retirement payees for calendar year 2019 for both Federated and Police and Fire plans

The audit is limited to the process for service retirements only. Other types of retirement benefits such as deferred vested, disability and return of contributions will be covered in future audit projects.



## Audit Methodology

- a. Discussed with Benefits Division staff about the service retirement application process.
- b. Reviewed documented policies and procedures to complete retirement benefit calculations and set-ups.
- c. Attended and observed group counseling session for members who applied for service retirement.
- d. Evaluated survey satisfaction questionnaire.
- e. Evaluated sufficiency of controls throughout the process.
  - Ensured appropriate segregation of duties
  - Confirmed timeliness of processing service retirement application
  - Observed proper review and approval
  - Reviewed authorization of service retirements through Board approval
  - Verified complete documentation
- f. Reviewed the Plan, Board Rules, Municipal Code, 2019 Comprehensive Annual Financial Report and Actuarial Reports.
- g. Randomly selected 33 and 18 retirement applications processed for Federated and Police and Fire plans, respectively.
- h. Verified eligibility of members applied for service retirement.
- i. Recalculated the retirement benefit amount for consistency with the applicable retirement plan.
- j. Checked compliance with IRS benefit limits.

## Audit Results

Based on the audit procedures performed, control strengths were identified, as well issues that should be addressed in order to improve the current process. Overall, Internal Audit observed good practices with ORS's administration of service retirement application process and benefits recalculation.

### *Control Strengths Identified*

- a. Documentation
  - Policies and procedures in service retirement application process are well documented in a control workflow file. Some additional details can be updated to the actual tasks being performed by staff.
  - Generally, documentation for each service retirement application is well maintained. All related files are stored in both hard (paper file) and soft (electronic file) copies.
- b. Segregation of Duties
  - There is proper segregation of duties in processing service retirement applications. Pre-processor, file analyst, set-up analyst, and approver for each application consist of four different individuals. A separate staff is also assigned for the health insurance portion of the application process. Moreover, benefits team and accounting division separately handle the benefit claims set-up and payroll process.
- c. Supervisory Review and Approval
  - Thorough review and approval process is in place. With the number of persons involved in processing service retirement applications, reconciliation of documents for accuracy, completeness, and validity is enhanced.

d. Access and Authorization

- Access to Pension Gold processes associated to retirement applications are restricted to authorized persons (Benefits Division staff) only. For example, the Senior Auditor cannot make changes to the Benefits Estimates and Claims screens in the pension administration system.
- The system includes prompt messages for errors and exceptions. Users are not allowed to proceed in setting up the benefit claims until the issues are resolved.

e. Timeliness

- Overall, processing of service retirement applications along with the first benefit payouts are done in a timely manner per the current policy.

f. Service Benefits Accuracy

- Service retirement benefits are calculated accurately according to the municipal code. Service benefits are also in compliance with IRS ordinance regarding benefit limits.
- The pension administration system has built-in automated controls that serve as an aid in correctly calculating the benefit payments due to retirees. Staff also assist in the computation of benefits by manually identifying pensionable salary spikes, checking breaks in service, and recalculating the estimated gross benefit payments.
- Variances noted between counseling and set-up benefits estimates are resolved. Reason for such discrepancies are validated and supported with proper documentation.

Below are the issues identified that should be addressed to further strengthen internal controls over the cash disbursement process. Management was already made aware and a summary of their response on findings and recommendations will be documented separately.

***Priority Rating Process***

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed as high, moderate, or low as follows:

1. High – Finding that requires immediate action by management.
2. Moderate – Finding that requires timely action by management.
3. Low – Finding that requires action by management at the earliest convenience.

**Finding #1:** In calculating the service retirement benefit payments, it was observed that one sample from the Federated plan (Tier 2B) has an incorrect COLA amount (See figure 1.1).

**Background**

*For Tier 2B plan members, retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back-loaded 2% COLA per fiscal year. The back-loaded COLA shall be calculated as follows:*

i. Service at retirement of 1-10 years: 1.25% per year; ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5%; iii. Service at retirement of 11-20 years: 1.5% per year; iv. Service at retirement of 21-25 years: 1.75% per year; v. Service at retirement of 26 years and above: 2.0% per year

**The first COLA will be prorated based on the number of months retired.**

Department staff is currently manually computing the cost-of-living adjustment for Tier 2 retirees using the actual number of days divided by 365/366 as basis in prorating the first COLA amount.

**Figure 1.1**

Staff Calculation (Using Actual Number of Days Retired/365)

<b>Member XXX</b>	
Federated - Tier 2B	
Retirement Date	11/24/2018
Retirement Factor	2.00%
Monthly FAS	8,600.32
Service Credit	5.14566
Retirement Allowance	<u>885.09</u>
70% Limit on FAS	6,020.22
Exceeded Limit?	NO
Unadjusted Retirement Allowance	885.09
Annuity Designation	Automatic Continuance
Adjusted Retirement Allowance	885.09
COLA Percentage	1.50%
COLA Date	4/1/2019
Number of Days	127.00
COLA Amount	4.62
Retirement Benefit	<u>889.71</u>

Audit Calculation (Using Actual Number of Days Retired/365)

<b>Member XXX</b>	
Federated - Tier 2B	
Retirement Date	11/24/2018
Retirement Factor	2.00%
Monthly FAS	8,600.32
Service Credit	5.14566
Retirement Allowance	<u>885.09</u>
70% Limit on FAS	6,020.22
Exceeded Limit?	NO
Unadjusted Retirement Allowance	885.09
Annuity Designation	Automatic Continuance
Adjusted Retirement Allowance	885.09
COLA Percentage	1.50%
COLA Date	4/1/2019
Number of Days	128.00
COLA Amount	4.66
Retirement Benefit	<u>889.74</u>

As can be seen in Figure 1.1, the staff's calculation for the COLA amount is off by one day. Although the difference is immaterial, it is still important to accurately compute each portion of the retirement benefit since any variance caused by this issue can accumulate over time as COLA is compounded annually.

It was also observed that the basis in calculating the prorated portion of COLA for Tier 2 employees is inconsistent with COLA design currently in place. According to the fact sheets and the Measure F implementation documents, the first COLA amount for Tier 2 plan members should be prorated based on the number of full months retired. It is also worth noting that the partial month is not included in the calculation. For example, if a member retired 7/11/2019, his first COLA would be effective on April 1, 2020. Prorated months would be from August 2019 to March 2020 or 8 months. The partial days in July 2019 when he retired is excluded in the computation.

For consistency purposes, Internal Audit believes that the monthly proration approach should also be applied in the calculation of COLA for Tier 2 members instead of the current daily proration approach using the actual number of days the member is retired over 365/366.

As an example, kindly see Figure 1.2 (Monthly Approach) and compare it to Figure 1.1 (Daily Approach).

**Figure 1.2**

Using Number of Full Months Retired	
<b>Member XXX</b>	
Federated - Tier 2B	
Retirement Date	11/24/2018
Retirement Factor	2.00%
Monthly FAS	8,600.32
Service Credit	5.14566
Retirement Allowance	885.09
70% Limit on FAS	6,020.22
Exceeded Limit?	NO
Unadjusted Retirement Allowance	885.09
Annuity Designation	Automatic Continuance
Adjusted Retirement Allowance	885.09
COLA Percentage	1.50%
COLA Date	4/1/2019
<u>FULL MONTHS</u>	
Number of Full Months	4.00
COLA Amount	4.43
Total COLA Amount	4.43
Retirement Benefit	889.51

**Priority Rating: High**

**Recommendation 1.1:** Management should coordinate with the pension administration system's vendor to automate the calculation of COLA for Tier 2 members of both Federated and Police and Fire plans.

Currently, manual procedures in determining the COLA amounts are as follows:

1. Comparison of year to year CPI index to the percentages stated in the municipal code
2. Computation of COLA amounts in an excel file including review and approval
3. Input of COLA figures in the pension administration system

Automation can lead to better internal controls. It can prevent calculation inaccuracies due to human error and therefore provide more reliable outputs and information. Process will also be more efficient and productivity will be increased since time spent in manual procedures can be significantly reduced.

**Recommendation 1.2:** Management together with the staff should discuss and implement a consistent methodology in computing the prorated COLA amount for Tier 2 members. Although difference in the calculation approach is immaterial, it would still be beneficial if there is a clearly defined way of doing so. Furthermore, since the San Jose Municipal Code (SJMC) is silent about whether partial months should be included in the proration of COLA amount for Tier 2 members, it would be worth to clarify the interpretation and calculation methodology.

**Recommendation 1.3:** After agreeing on the best approach to calculate the prorated COLA figures, benefits division staff should revisit the COLA calculation for Tier 2 retirees and make changes as applicable.

Internal audit has recalculated the Tier 2 COLA amounts for normal service retirements within the audit period using the present approach of daily proration (number of days retired/365). It was determined that there's no other errors aside from the one retiree chosen as a sample if based on the current method.

This doesn't mean that there will be no changes that should be amended. Audit scope only includes normal service retirees who were first paid in the calendar year 2019. There are other Tier 2 retirees that were not covered in this audit such as deferred vested and early retirees. Furthermore, if management decided to change the current methodology to the monthly proration approach, COLA figures for all Tier 2 members must be changed. With this, it is recommended to revisit COLA amounts applied to all Tier 2 retirees.

**Finding #2:** There were four samples (Federated: 2; Police and Fire: 2) where the first pension checks were released later than the usual issuance time. Furthermore, the length of time to issue the first retirement check takes one to two months after the retirement date month.

Several factors largely drive the date of the first pension check. These include retirement date, board agenda/approval date, application submission date, payroll balancing schedule, set-up process, and receipt of complete documents. Final regular payroll must be posted in the pension administration system before staff can process the benefit claim for retirement. Once a pay period ends, the final regular payroll check and receipt of payroll transmittal take another week or two (mid-pay period) to be issued. There is also a deadline for benefits staff to complete the new set-ups in order for the accounting team to process the payroll. Timing of all the aforementioned factors is the main driving force of the first pension check

release. Currently, the first pension check cannot be processed within the same month of retirement effective date.

A simple example is presented below to show how timing affects the issuance date of the initial retirement check.

*\*\*\*Consider documents are also complete and there's enough time for staff to do the required procedures such as group counseling, documents review, and benefits set-up in the system.*

#### **Scenario A**

<b>Description</b>	<b>Date</b>
Application Submission	2/3/2020
Earliest Board Agenda for Approval	2/20/2020
Retirement Effectivity	3/6/2020
Payroll Transmittal	3/12/2020
Final Regular Payroll Check	3/13/2020
Set-up Deadline for March	3/11/2020
Retirement Payroll Balancing	Starts on 3/17/2020
First Pension Check	4/30/2020

*\*In this case, staff has enough time to process and review the set-up before the start of the payroll balancing and release of the April monthly retirement payments.*

#### **Scenario B**

<b>Description</b>	<b>Date</b>
Application Submission	2/3/2020
Earliest Board Agenda for Approval	2/20/2020
Retirement Effectivity	3/27/2020
Payroll Transmittal	4/9/2020
Final Regular Payroll Check	4/10/2020
System Set-up Deadline for April	4/10/2020
Retirement Payroll Balancing	Starts on 4/16/2020
First Pension Check	5/29/2020

*\*In this scenario, since the deadline for April set-up is a day after the payroll transmittal is received, there won't be enough time to complete the application for April. The first pension check would then be paid in May.*

#### **Scenario C**

<b>Description</b>	<b>Date</b>
Application Submission	3/12/2020
Earliest Board Agenda for Approval	4/16/2020
Retirement Effectivity	3/13/2020
Payroll Transmittal	3/26/2020
Final Regular Payroll Check	3/27/2020
System Set-up Deadline for April	4/10/2020
Retirement Payroll Balancing	Starts on 4/16/2020
First Pension Check	5/29/2020

*\*Although it may seem like there's enough time to process the payment in April since retirement date is mid-March, it can't be done since Board approval is needed. In this case, the member submitted the application late so it can only be included in the Board Agenda for April. Set-up deadline is past due and payroll balancing has already started before the retirement application approval, so benefit set-up and check release will be completed in May.*

As can be seen the above examples, the date of the first pension check date vary even though the retirement dates are within the same month. This is due to the timing of the processes and procedures required to complete the benefits set-up and payment. Overall, first pension check date timing is on a case by case basis. Generally, if a member retires early in the month, it will take one month after the retirement date month to issue the payment. On the other hand, if the retirement effective date is later in the month, payment will be released two months after. Here's the summary for the samples taken in the audit.

*First pension check timing after the retirement date month*

	Federated Plan	Police and Fire Plan	Total
1 month	18	8	26
2 months	15	9	24
7 months	-	1	1

In determining the timeliness of releasing the first pension check, the factors mentioned in the above discussion were considered. Internal Audit observed three samples where payment could have been made earlier based on the current policies and procedures. The fourth sample is a valid late payment due to pending documents.

Sample A (Federated Plan) – Member retired on 12/1/2018 but first pension check was released on 2/28/2019. Application was submitted on time and approved by the Board in December. Considering the time of the processes, the retirement check could have been issued in January 2019. Reason for delay is because of account transaction adjustments which were completed in January 2019. Staff mentioned that there was not enough time to get the corrections in time due to holidays and year-end furlough.

Sample B (Federated Plan) – Member retired on 12/14/2018 but first pension check was released on 2/28/2019. Similar to the first sample, retirement check could have been issued in January 2019 but was delayed due to holiday and furlough closure.

Sample C (Police and Fire Plan) – Member retired on 12/15/2018 but first pension check was released on 2/28/2019. Like the first two samples, retirement check could have been issued in January 2019 but was delayed due to holiday and furlough closure. Furthermore, this was also the time where parallel set-ups are being done in both the old and new version of the pension administration system.

Sample D (Police and Fire Plan) – Member retired on 11/3/2018 but first pension check was issued on 6/28/2019. Reason of delay is due to pending divorce. Final legal documents were only received in May 2019.

**Priority Rating:** High

**Recommendation 2.1:** Improve the planning process for anticipated operation closures. The benefits department should allot time for expected disruption in operations so that retirement payments can still be made on time.

For example, the reason for the payment delays discussed above was due to yearly holiday and furlough closure. This event is already known to staff beforehand since it's a recurring occasion. Internal Audit believes that if there was a plan in place (e.g., arranging available staff, managing time, prioritizing things, checking which procedures can be done without waiting for other documents, etc.), first pension checks could have been processed earlier.

**Recommendation 2.2:** Enhance the communication of the application process timeline to plan members. If members are aware of the deadlines of the processes that will affect the release of their first pension check, they will know what to expect and will act accordingly based on the circumstances involved.

Currently, the department has a guide in choosing a retirement date which can be found in the retirement website. It includes suggested retirement dates based on the payroll deadlines along with the expected first retirement check date. Internal Audit suggests to include the following information to improve the guide.

1. It would be helpful if staff will include a statement encouraging members to submit their application at least 2-3 months before the retirement effective date. This will ensure timely collection of required documents and set-up of benefit claims.
2. The board agenda date each month can also be included in the guide so members know right away when to expect the approval of their retirement application.
3. Stress that pension checks are paid on the last business day of each month. Internal Audit has observed that members, even after months/years of retiring, often ask the staff of when will they receive the pension check.

Putting these timelines in the guide will assist members to connect all relevant dates and their interdependency with each other leading to a better understanding of the process and a more careful retirement planning.

Lastly, although the guide is available in the website, this should also be communicated to all members of the plan in other platforms such as internal email and newsletters at least once a year. It's always good to have frequent reminders. This will encourage members to look at the guide before making a decision on their retirement. It may also potentially reduce questions about retirement benefit payment dates.

**Recommendation #2.3:** Reevaluate the current procedures and timeline of the set-up and payroll processes to see if there is room to extend the process deadlines in order to accommodate for more benefit claim set-ups. This can lead earlier set-ups and timelier release of first pension checks. Internal Audit believes ORS should strive to issue first retirement checks no later than one month after the retirement date month.

**Finding #3:** In inspecting the retirement application files, there was one sample where certain set-up documents are missing and cannot be located in neither the physical nor electronic data storage. It was also observed that the scanning process happens several months after the retirement application is completed.



Data is an essential asset for all organizations, so the need for proper data storage is important. Just like any other entity, ORS functions depend heavily on information from several sources including data directly from plan members. As a result of this reliance on information, the significance of appropriate data storage is apparent as it protects and retrieves data whenever you need it.

**Priority Rating:** Medium

**Recommendation #3:** Perform the scanning procedures in a timely manner. Whenever possible, as soon as the retirement application is processed and completed, this step should follow shortly after.

This can prevent risks associated in storing paper files such as loss, damage, misplacement, or theft. Storing information electronically likewise results to the following benefits.

- a. Better protection for unforeseen disasters such as fire, flood, and earthquake
- b. More secure
- c. Increased visibility in terms of reporting and streamlined audits
- d. Data is more accessible

**Finding #4:** The group counseling survey is not tailored to address specific areas to properly gauge the quality of service rendered by the department. Questionnaire is limited in scope. Currently, it has two questions – one that depicts the overall satisfaction and two open-ended questions.

Organizations use customer and program surveys to assess customer satisfaction regarding the service provided by the company. It allows firms to gather information about positive and negative insights which can be used for further analysis. It is important to get inputs and feedbacks from the members of the plan in order to know where to improve. Utilizing this tool can assist staff to identify new ideas and do their jobs better. Listening to plan members along with the collection, interpretation, and response to feedbacks will ultimately help in the mission of the department which is “to ensure prompt, professional delivery of services and benefits to members”.

**Priority Rating:** Low

**Recommendation #4:** Expand the current survey questionnaire to include customer satisfaction metrics on timeliness, reliability, relevance, accuracy, communication, service quality, etc. Widen the scope to include member’s experience all throughout the retirement application process.

Develop clear and concise questions that will fulfill your objectives. Establish a consistent rating scale to avoid confusion and inaccurate responses.

After gathering the data, analyze the results, and address any issues that may come up.

Here’s a sample of questions that can be used by the department.

*Rating Scale*

5 = Strongly Agree	4 = Slightly Agree	3 = Neutral	2 = Slightly Disagree	1 = Strongly Disagree
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- Do you think that the information provided is clear and accurate?

- Is communication timely?

*Yes or No Questions*

- Did our staff answer your questions?
- Are you confident that your application will be processed timely?

*Open-ended questions*

- How can we improve your experience with the application process?
- What can our staff do better?

**Finding #5:** Option to receive payment advice for pension checks is not included in any of the standard files required for the retirement application. At this time, for applicants opting to accept payments via direct deposit, staff is asking the retirees to provide a signed letter requesting to receive direct deposit advice (payment stub/receipt) through mail.

**Priority Rating: Low**

**Recommendation #5:** Create a standard file that will incorporate the payment advice option. This can be done separately or it can be included as part of the direct deposit authorization form which the department currently has.

This way, applicants won't have to write a letter independent of all the required forms needed to process the retirement application. People, in general, also have the tendency to forget things not laid out directly, especially if they are already dealing with large amount of information. By implementing this simple step, that gap can be bridged. Furthermore, information collection will be easier and more efficient allowing retirement application process to flow smoothly.

## Appendix A - Control Risk Reassessment

### Control Risk Scoring Scale

<b>1</b> <b>Strong</b>	<b>2</b> <b>Reasonably</b> <b>Strong</b>	<b>3</b> <b>Adequate</b>	<b>4</b> <b>Marginally</b> <b>Adequate</b>	<b>5</b> <b>Weak or</b> <b>Nonexistent</b>
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**Initial Assessment** – Control risk for service retirement application process and benefit payment calculation was rated 3 in the planning phase of the audit based on the assumption that internal control design is present but there's not enough evidence to conclude its effectiveness and proper implementation.

**Reassessment** – After performing test of controls in the audit execution, it was determined that controls for service retirement application process and benefit payment calculation are adequate and reasonably strong, respectively. If recommendations will be implemented, internal controls will be categorized under strong (1) or reasonably strong (2) classification.

Division	Audit Activity	Control Risk Score (Initial Assessment)	Control Risk Score (Reassessment after Audit Testing)	Control Risk Score (If recommendations will be implemented)
Benefits	Service Retirement Application Process	3	3	1

Division	Audit Activity	Control Risk Score (Initial Assessment)	Control Risk Score (Reassessment after Audit Testing)	Control Risk Score (If recommendations will be implemented)
Benefits	Benefit Payment Calculation	3	2	1