Fairfax County Internal Audit Office

Retirement Administration Agency (RAA)
Retirement Benefit Payments Audit
Final Report

June 2016

"promoting efficient & effective local government"

Background Information

General

The Fairfax County Retirement Administration Agency (RAA) administers three separate defined benefit retirement systems: Employees', Uniformed, and Police Officers. Each retirement system has a Board of Trustees that is responsible for its general administration and operation. The retirement systems are governed by Fairfax County Code Chapter 3 Articles, 2, 3 and 7. The code defines the systems' policies, administration, eligibility criteria and benefit payment requirements. Each retirement system includes from two to five retirement plans. Each plan has unique eligibility rules and/or retirement benefit formulas as defined by county code. An employee's date of hire and position classification determine which retirement plan(s) an employee is eligible to join. The county's current defined benefit retirement plans are as follows:

Table 1 Retirement Systems and Plans

Retirement System	Plans
Employees'	A,B,C,&D
Uniformed	A,B,C,D,&E
Police Officers	A and B

Plan participants are county employees in positions that are deemed retirement eligible. In addition, Fairfax County Schools (FCPS) employees are also participants in the Employees' Plans A and B. Monthly benefits are paid to all retirees on the last business day of the month. Table 2 shows the retirement system total payments, active members, and retirees for FY 2015.

Table 2 Retirement Systems Payments, Members and Retirees

Retirement System	Annual Retirement Payments(FY 15)	Active Members as of June 30, 2015	Retirees as of June 30,2015
Employees'	$254,875,795	13,696	8,664
Uniformed	$84,440,939	1,892	1,358
Police Officers	$67,276,713	1,248	1,093
Total	$406,593,447	16,836	11,115

Source: FY2015 Comprehensive Annual Financial Report for each system

Since January 2007, RAA has utilized the Pension Gold retirement benefits administration computer application system to perform benefit calculations based on human resources data interfaced from various source systems. The Pension Gold system also serves as the data repository for both county and FCPS employees who are members of the county retirement systems. Retiree benefit information not included in the Pension Gold database and system tables, including hard copy supporting documents, is scanned and stored in the Pension Gold system for easy and secure access by RAA staff.

Benefit Calculation

Each retirement plan has a defined formula for calculating base retirement benefits paid to retirees. Non-disability base benefit payments for all plans are calculated using the following basic formula:

Table 3 Base Benefit Formula - Normal and Early Retirements
[Multiplier % defined to the plan] **X** [Average Highest Three Years' Salary] **X** [Benefit Service Years] **X** [1.03] **X** [Applicable Reduction Factors[1]]

Service-connected or duty disability base benefits for all plans are calculated using the following basic formula:

Table 4 Base Benefit Formula – Disability Retirement
[Multiplier % defined to the plan] **X** [Average Highest Three Years' Salary]

Base Benefit Adjustments
Depending on the retirement plan and retiree's age at retirement, base benefit amounts can be increased for temporary supplemental benefits[2] for early and normal retirees. Disability base benefits amounts can be reduced for workers compensation[3] and/or social security payments[4] received by the retiree as defined in the respective retirement plan. Additionally, all retirees and joint and last survivor beneficiaries receive an annual cost of living adjustment[5] (COLA) to base benefits effective on July 1 of each year.

Deferred Retirement Option Program (DROP) Supplemental Annuity
The optional DROP Program enables county retirees to continue working for a period of up to three years after the retirement date. During years worked after retirement, a retiree's monthly benefit payment is deposited into an account on their behalf, and upon exiting DROP, the balance in the DROP account is made available. The retiree has the option to receive DROP account funds as a tax deferred contribution to a deferred compensation account, or use either 100% or 50% of the balance to purchase a supplemental retirement benefit annuity amount. The amount of the supplemental annuity is determined by applying an age-based actuarial factor to the retiree's account balance. The actuarial factors, provided by RAA's actuarial consultant, are not gender differentiated, and are based on an investment rate of return (IRR) assumption of 7.5%, which is the IRR assumption used by the county for pension liability financial reporting purposes. The basic DROP account supplemental annuity purchase formula is:

Table 5 DROP Annuity Purchase Formula
DROP account balance **X** Age-Based Actuarial Factor

1 Reduction factors are applied for early retirements and for joint and last survivor spouse elections.
2 Employees' Plans have one supplement: Pre Social Security. Uniformed Plans have two supplements: Pre-62 and Pre Social Security.
3 A retiree's base benefit is reduced dollar for dollar for workers compensation benefits received.
4 A retiree's based benefit is currently reduced by 15% of the Social Security disability benefits received.
5 The COLA is based on the Consumer Price Index with maximum percentage of 4%.

Executive Summary

Our audit focused on validating the propriety and accuracy of retirement benefit payment calculations and subsequent adjustments, and RAA's compliance with applicable Fairfax County codes. We found RAA has generally designed and implemented effective internal controls to ensure retirement payments from the Employees', Uniformed, and Police Officers retirement systems were correct. We did note, however, five exceptions from our audit sample of the 102 retirement benefit payments tested. Two of the exceptions were errors in the base benefit amount calculated by RAA. The remaining three exceptions related to the incorrect application of the annual COLA. Additionally, we noted other opportunities to improve internal controls.

The following is a summary of our audit findings:

- Two of the 102 benefit payments we reviewed had errors in benefit calculations resulting in cumulative overpayments totaling $58,024 as of May 31, 2016, and March 31, 2016 respectively. Both errors were caused by each retiree being credited with more benefit years of service then they were eligible to receive.
- Three of the 102 benefit payments we reviewed had incorrect benefit payments resulting from COLA not being appropriately applied. The cumulative underpayments to these three retirees totaled $6,628 as of April 30, 2016. Two of the errors were caused by a failure to perform a manual first year COLA adjustment for joint and surviving spouse (J&S) benefits, and the other error was an omission of the first year COLA when RAA processed a retroactive benefit payment.
- RAA improperly implemented the COLA for members of Uniformed Retirement Plan C who retire before age 55. The incorrect application resulted in 44 of 100 total Uniformed C retirees not receiving their higher COLA adjusted benefit when eligible.
- Secondary review and approval of retiree benefit calculations policies and procedures were not formally documented, and there were inconsistencies in how performance of secondary reviews and approvals were documented.
- Historical information such as COLA amounts and benefit service conversions were not retained prior to the implementation of the current Pension Gold pension system in 2007. Annual COLA percentages and social security breakpoints were not retained prior to 1984 and 2004 respectively. The lack of information resulted in audit scope limitations for our testing.
- Benefit calculation formula information for a DROP annuity purchase, including the applicable actuarial factors and interest rate assumption, was not readily available to program participants.
- RAA staff had no direct access to FCPS source systems to verify key benefit calculation factors (sick leave, leave without pay, employment type) for FCPS employees.
- The <u>Retirement Administration Agency Manual</u> was not formally updated to reflect policies, procedures and internal controls since before the implementation of the Pension Gold System in 2007 or Fairfax County Unified System (FOCUS) in 2011.

Scope and Objectives

This audit was performed as part of our fiscal year 2015 Annual Audit Plan and was conducted 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 and conclusions based on our audit objectives. This audit covered all retirement benefit calculations related to the October 2014 monthly retirement benefit payments chosen for our audit samples. The monthly benefit payroll for the Fairfax County Retirement Systems for October 2014 was approximately $25.4 million for 10,096 retirees. In addition, we reviewed monthly reconciliation procedures performed by RAA staff and by Dept. of Finance during the period November 2014 through January 2015.

The objectives of our audit were to determine that:

- Benefit payments were processed timely, completely, and accurately.
- Benefit payments were properly supported and sufficiently documented.
- Benefit payments were properly authorized.
- Sufficient and timely reconciliations of payment postings in the county's financial system to RAA's accounting records and supporting documentation were performed.

The retirement plans Employees' C & D, Uniformed E, and Police Officers B did not have any active retirees, therefore those plans were excluded from our testing.

The scope of our audit was limited to information received by or directly accessed by RAA staff, we did not perform procedures on county or FCPS source systems that provided salary, service years, hours worked and sick leave balances.

Methodology

Our audit approach included on-site visits to the Retirement Administration Agency, interviewing and observing employees' work functions for those responsible for initiating or approving benefit payments; initiating the transfer of funds from the retirement systems' bank accounts to the county's pooled cash accounts; and reconciling the retirement systems' bank accounts. We also interviewed staff in the Department of Finance responsible for completing the transfer of funds; and for reconciling the county's pooled cash accounts. We validated the RAA's Benefit Calculation Worksheet by reviewing documents, pension system data, and payroll system data supporting the factors used in the benefit calculations. We performed recalculations of all benefit payment calculations. We also evaluated the benefit calculation and payment processes for compliance with internal controls, county ordinances, and departmental policies and procedures.

We chose a separate judgmental audit sample for each of the county's retirement plans tested, and the sample size for each was either 1% of the total population of retirement benefit recipients as of October 2014, or a maximum of 30, whichever was less.

Additionally, for retirement plans with less than 500 active retirees, we chose a minimum sample size of 5. Our judgmental samples were designed to provide audit coverage for both county and FCPS retirees (applicable to Employees' Plan A&B only) across the following retirement types: normal, early, ordinary disability, service-connected disability, deferred vested retirement, J&S continuance, and DROP.

Table 6 Audit Population and Sample Selection

Retirement System Plan	Active Retirees as of October 2014	Sample Size	Sample Type
Employees' A:	3,631	30	Judgmental
Employees' B:	4,176	30	Judgmental
Uniformed A:	124	5	Judgmental
Uniformed B:	309	5	Judgmental
Uniformed C:	93	5	Judgmental
Uniformed D:	726	7	Judgmental
Police Officers A:	1,037	10	Judgmental
TOTAL:	**10,096**	**92**	
DROP[6]		10	Judgmental
Total Audit Sample:		**102**	

During our audit testing we reviewed documentation supporting initial hire dates; pension plan election; payroll history including scheduled hours and salary rates; final average salary (FAS); unused sick leave balance; and joint and last survivor (J&S) election, including verifying the legal marriage of covered spouse, and the covered spouse's birth date. In addition, for disability retirements we verified evidence of medical certification, or the Board of Trustees' approval of the disability benefit, as well as documentation of workers compensation benefit and/or social security benefit, to validate the appropriate county benefit offset amount. For our sample of DROP annuity supplements, we reviewed the annuity elections on the retirement application form, and reviewed date of birth documentation to validate the appropriate actuarial factor to re-compute the correct amount of the DROP supplemental annuity purchased.

We re-calculated and validated benefit amounts paid to retirees in our audit sample. Our re-calculations of the initial monthly benefit amount included all applicable factors unique to the retirement system plan and the retirement type. Additionally, we re-calculated any applicable benefit adjustments and cost of living adjustments made from the time of initial retirement through the October 31, 2014 pay date.

6 Sample selected for DROP were from 272 participants across all Retirement System Plans.

Our re-calculation included determining and verifying the following information, where applicable:

- Total benefit years of service (full time and/or full time equivalent),leave without pay, unused sick leave balance, and/or buy-back of prior eligible service years
- Final average salary/compensation based on average of the highest 36 consecutive months of compensation
- Percentage or multiplier applied in the retirement benefit calculation formula based on retirement plan and retirement year
- Pre-social security and pre-62 supplemental benefits based upon retirement age and social security benefit
- Early retirement and joint and last survivor reduction percentages based on retiree's age and when applicable spouses' age.
- Reduction to disability benefits based on workers compensation and social security benefits received by retiree.
- Annual Cost of Living Adjustments- additional increases to active retiree benefit payments enacted by applicable plan Board of Trustees.
- Out-of-cycle additional benefit increases for certain pension plans
- DROP supplemental annuity amount

Findings, Recommendations, and Management Response

1. Benefit Payment Calculation Errors

For two of the 102 retirement and/or disability benefit payments we reviewed, incorrect benefit overpayments cumulatively totaling $58,024 were made. The specific details of the two errors are as follows:

a. RAA erroneously included approximately 17 months of additional benefit service years in the benefit calculation for a retiree in Employees" Plan B (retired December 2002). The retiree had been credited with 5.07 benefit years of service instead of the correct, converted full time equivalent of 3.65 benefit years of service. The Department of Human Resources (DHR) determined that the retiree was eligible for retirement service years for the years employed in positions that had previously been categorized as non-retirement eligible. The five years of part-time service granted should have been converted to its full time equivalent of 3.65 benefit years of service for the benefit payment calculation. Since her retirement in December 2002, this retiree has been cumulatively overpaid approximately $47,784 as of May 2016. RAA management stated that this retiree's monthly benefit amount will be corrected in June 2016.

The retiree had not made any contributions to the county's Employees' Retirement System for the period of part-time service. DHR staff sent an email communication to RAA indicating that the employee should be credited pensionable years of service credit for the five year period of part time employment. When IAO questioned why RAA credited the retiree for five years of full time equivalent (FTE) service, rather than converting the part time service to a lesser full time equivalent (FTE) number of years service, RAA management acknowledged an error was made, and that RAA's initial retirement benefit calculation had credited too many FTE years of service. We did not research or verify DHR's determination that the five years of part time service previously categorized as non-retirement eligible should be retroactively re-categorized as retirement eligible.

RAA further acknowledged that in calculating the retiree's cost to purchase the prior service years, the incorrect salary amount was used in calculating the buy-in payment amount. Subsequent to our initial inquiry, RAA has determined that its error in calculating the purchase of prior service amount resulted in the employee paying $9,976 less than what should have been required. The calculation of buy-in of prior service was done manually. The secondary review did not detect the errors in the benefit payment calculation or prior service buy-in cost. This retirement occurred prior to the implementation of Pension Gold, therefore the calculation was less automated and relied more on manual input of factors into the benefit calculation.

b. RAA erroneously included approximately 17 months of additional benefit service years in the benefit payment calculation for a Fairfax County Public Schools employee in Employees' Plan B (retired April 2004). The retiree had nine (9) years of employment properly converted to a full time equivalent of seven (7) benefit service years, but the adjusted years of service were not used in their benefit payment calculation. The retiree, who retired in April 2004, was cumulatively overpaid approximately $10,240 as of March 2016, after which time RAA corrected the monthly benefit amount.

The secondary review of the benefit payment calculation, which was evidenced on the County Employees' Retirement System Worksheet, did not detect the use of the incorrect benefit years of service. This retirement occurred prior to the implementation of Pension Gold, therefore the calculation was less automated and relied more on manual input of factors into the benefit calculation. The current automated system controls in place to prevent this type of error.

Recommendation: We recommend that RAA follow the County Code Section 3-2-7: *Errors in records; correction and adjustment* and **Retirement Administration Agency Manual (Revised 7/1/97)**[7]*: Interest Rates on Administrative Errors – Supplemental Retirement System* to correct the noted benefit payment errors and buy-in error and seek Board approval for the approach to use to seek repayment of overpaid retirement benefits from the retiree.

Management Response:
As of June 2016, both of these individuals' monthly benefit amounts have been adjusted to the correct amounts. Proposals for repayment of the overpayments will be presented to the Board of Trustees and, once approved, said payment plans will be implemented. Management anticipates completing this item by July 30, 2016.

7 Only applicable to Employees' Retirement System

2. Improper Application of Cost of Living Adjustments (COLA)

For three (3) of the 102 October, 2014 retirement benefit payments we reviewed, we noted incorrect benefit overpayments resulting from the improper application of annual COLA. The underpayments cumulatively totaled $6,628 as of April 30, 2016. The specific details of the three errors are as follows:

a. In our audit samples, two surviving spouses who started receiving joint and surviving spouse (J&S) benefit payments upon the death of their spouse did not have their COLAs applied correctly. For the first spouse, the first fiscal year (FY12) after she started receiving benefits, the COLA applied was prorated at 25%, rather than the full COLA she was entitled. For the other spouse, the COLA for FY11 was not properly added to her benefit amount when RAA processed a retroactive payment for the cumulative outstanding monthly benefits due to her. The first of the two noted retirees was underpaid a cumulative total of $4,364 from July 2011 to April 30, 2016, after which time RAA corrected the monthly benefit amount and paid the retiree the amount owed. The second retiree was underpaid a cumulative total of $575 from July 2010 to April 30, 2016, after which time RAA corrected the monthly benefit amount and paid the retiree the amount owed.

Retirement Plan	Initial Error Amount	Estimated Under-Payment as of April 30, 2016	Spouse Retirement Date
Uniformed Plan A	$73.76	$4,364	7/29/1988
Employees' Plan A	$7.78	$575	8/1/1998

The cause of these two errors in the application of annual COLA was due to the need for a manual adjustment for certain J&S benefits to correct the initial COLA amount applied by the annual automated Pension Gold COLA process. In Pension Gold, when a new retirement account is established, the system automatically prorates the COLA the first fiscal year after the account was created. J&S spouse benefits are set up as new retiree accounts in Pension Gold when they are eligible to start receiving J&S benefits. RAA implemented manual procedures to identify J&S spouses as new accounts, and manually processed adjustments to ensure J&S benefit payments were increased by 100% of the first applicable July 1st COLA. In the instance of the first spouse, the manual procedures did not properly identify the surviving spouse as a new account. The second spouse was added to the Pension Gold system after the start of the fiscal year, and the COLA should have been manually included in the initial payment. RAA's manual procedures did not properly detect the absence of the first annual COLA in the subsequent benefit payments.

b. Another retiree in Employees' Plan B (retired May 2011) was retroactively approved for non-duty disability retirement, which required RAA to retroactivity apply a COLA effective July 1, 2012. While RAA properly calculated the COLA for inclusion in the retroactive retirement payments, the actual benefit increase of $49.94 related to the

COLA was not posted to the Pension Gold system; therefore subsequent years' COLA(s) were not applied to the higher, adjusted benefit amount, and the retiree lost the benefit of the annual compounding related to the $49.94 adjustment amount. The retiree was underpaid a cumulative total $1,689 from July 2013 to March 31, 2016, after which time RAA corrected the monthly benefit amount and paid the retiree the owed amount.

Recommendation: We recommend that RAA follow the County Code Sections 3-3-8 and 3-2-7: *Errors in records; correction and adjustment and* Retirement Administration Agency Manual (Revised 7/1/97**)***: Interest Rates on Administrative Errors –Supplemental Retirement System* to correct the noted benefit payment errors.

We also recommend that as part of the annual automated COLA application and validation process in July, RAA implement a manual control which ensures that 100% of the annual COLA is applied to benefit payments for newly added joint & survivor (J&S) spouse beneficiaries. Finally, for future retirement systems, RAA should assess the cost/benefit of programming or enabling functionality to automatically apply annual COLA at 100% to all new J&S beneficiaries.

For retroactive retirement benefit payments, RAA should implement a manual control which ensures that all retroactive COLA(s) are properly added into the Pension Gold System. Finally, for future retirement systems, RAA should assess the cost/benefit of programming or enabling functionality to apply to the retiree benefit payment all applicable COLA(s) retroactively.

Management Response:
RAA will implement a manual control process to include documentation of the process by which each new J&S benefit that begins will get the proper COLA applied to that benefit payment. In addition, RAA will also implement a manual control to review all retroactive payments that have a COLA implication with documentation of the review will be added as policy to the procedural manual. Management anticipates completing these items by December 30, 2017. Lastly, RAA will consider as part of any future pension software the ability of the software to enable the proper application of COLA to J&S beneficiaries and the capability to apply retroactive COLAs. Management anticipates completion of this item by June 30, 2018.

3. Improper Application of Cost of Living Adjustment (COLA) Requirements for Members of Uniformed C Plan Who Retire Before Age 55

The application of Cost of Living Adjustment (COLA) for Uniformed Plan C participants, who retired before the age of 55, was inconsistent with the County Code. Under Uniformed Plan C, retiree benefit payments are not subject to COLA until the first of the month following a retiree's 55th Birthday. RAA has been applying the COLA on the next COLA effective date or July 1st after a retiree's 55th birthday.

One retiree (Uniformed Plan C #1) in our sample, who turned 55 in October 2004 did not receive the COLA to their benefit payment until July 2005, eight months after they turned 55. As of the completion of fieldwork there are no active employees in Plan C who will be impacted by this requirement in the future. There were 44 total number of Plan C retirees for whom the improper application of COLA was applicable.

Recommendation: We recommend that RAA research the implementation of County Code Section 3-3-33 (2) (c). If necessary RAA should consult with the County Attorney and/or the Uniformed Retirement System Board of Trustees in determining the appropriateness of the application of the code. If it is concluded that there was an error in the application of the code RAA should follow the County Code Section 3-3-8: *Errors in records; correction and adjustment and* Retirement Administration Agency Manual (Revised 7/1/97**)***: Interest Rates on Administrative Errors –Supplemental Retirement System* to correct the noted benefit payment error.

Management Response:
The reference to Section 3-3-45 indicates that COLAs are applied each July 1st. RAA management asserts that the reference in Section 3-3-33 to the member age and COLA application are used to differentiate plans from one another, and not an indication that a COLA should be applied in any way different than that specified in Section 3-3-45, to which Section 3-3-33 actually refers, in which the COLAs are to be applied each July 1st. Based on RAA's additional research, it is clear that the Executive Director at the time that the Plan C Code changes were made directed staff to apply the COLAs in a manner consistent with how COLAs are applied to all other Plans. While it is clear that there is inconsistency between Sections 3-3-45 and 3-3-33, it is also clear from the author of the 3-3-33 Code changes (prior Executive Director) that this inconsistency was not intended. Thus, RAA asserts there is no benefit payment error. RAA staff will notify the Uniformed Retirement System Board of Trustees of the inconsistency and will seek their concurrence with how the COLA was applied for Plan C participants. Management anticipates completing this item by September 30, 2016

4. Secondary Approvals of Retirement Benefit Calculations

RAA did not have formally documented policy and procedures for performing and evidencing secondary review and approval of retiree benefit calculations. The RAA deputy director verbally indicated the secondary review and approval could be evidenced by either the secondary reviewer signature with date at the bottom of the "Benefit Calculation Worksheet", or on the "First Payment Letter," typically signed by either the RAA's Executive Director or Deputy Director. During our review of support for the benefit calculations, we did not consistently find signatures evidencing the performance of secondary review and approval of calculations on either the "Benefit Calculation Worksheet" or First Payment Letter." We were unable to determine the consistency or effectiveness of the secondary review. We noted two instances in our audit sample for which the secondary review did not detect errors in years of service being included in the benefit calculation (see finding number 1).

The absence of documented secondary review and approval process increases the likelihood that an error or irregularity in a retirement benefit calculation performed by RAA staff could go undetected and be compounded in future payments due to a retiree. RAA management acknowledged that RAA had not formally documented policies and procedures regarding the secondary review and approval process. In addition, RAA is not evidencing the secondary review and approval of retirement benefit calculations in the Pension Gold system, as it was not set up to require a secondary approval in the system.

Recommendation: We recommend that RAA develop a formally documented secondary review and approval process which clearly identifies the roles, expectations, and specific review procedures required by the staff. RAA should implement standard policies on how to evidence the manual secondary reviews. Consideration should be given to including a signature and date block on the Benefit Calculation Worksheet to evidence the review. Additionally for future retirement systems, RAA should assess the cost/benefit of programming or enabling functionality to require secondary review and approval prior to the finalization of any calculation in the system.

Management Response:
RAA has newly implemented procedures that require when a calculation is completed by a Retirement Counselor or a Payroll Specialist, or a change is made to a member record by the Membership Services section or the Retiree Services section, there will be a secondary review by a supervisor of the staff member that performed the calculation or made the change. The supervisor level secondary approval will be documented by the initials of the supervisor appearing on the document that shows the calculation or change. The initialed document will then be scanned to the member record. In addition, secondary and additional review may also be evidenced by the signature of a supervisory level employee on a letter to the member. In benefit calculation cases this practice has been in place since before Pension Gold was implemented in 2007. RAA in a memo has formally documented that a worksheet prepared by the Retirement Counselor will be initialed by the Manager of Membership Services, for further review by the Retirement Administrator, who will sign a "First Check Letter" that will be sent to the retiring member along with the initialed "Retirement Benefit Calculation" for scanning to the member record before mailing. These updated procedures will be included in the updated Retirement Agency Procedures Manual, which management anticipates completion by June 30, 2017.

5. Lack of Document Retention Standards for Retirement System Plans' Historical Information

Historical information needed to substantiate key factors used in retirement benefit calculations were not available or retained by RAA. The information applies to benefit calculations for all retirees. The lack of historical information limited IAO's ability to validate the accuracy of retirement benefit payments to retirees, and was a scope limitation on our audit testing.

The historical information not readily available or retained, included:

- Cost of Living Adjustments (COLA) percentage effective for fiscal years prior to July 1, 1984. COLA's percentages are applied annually to all retirement payments at the start of each fiscal year after retirement.

- Retirees' annual COLA benefit amounts for fiscal years prior to July 1, 2007. Due to RAA's decision to migrate only the cumulative years total COLA amount for each active retiree in the Pension Gold system, the annual COLA amount history for a retiree's payment history was not available for fiscal years prior to July 1, 2007. This limitation reduced IAO's ability to research and determine the cause and timing of certain retirement benefit amount errors during our audit testing.

- Social Security Breakpoints (SSB)[8] for calendar years prior to 2004. SSB is used to allocate a retiree's salary in benefit calculations for Employees' Plan A participants.

- Benefit Years of Service Conversion for employees of Fairfax County Public Schools (FCPS). Employment service years for FCPS employees must be converted to full-time equivalent benefit years of service. The details of the conversion were not consistently retained in employee files.

Additionally, documentation such as the Employees' Retirement Handbooks for each of the three retirement systems were not readily available or retained in a consistent manner. These documents contain key details such as retirement benefit formulas and retirement formula factors applicable when individuals retire. The absence of these documents impacted IAO's ability to validate the accuracy of retirement benefit payments to retirees. While RAA did provide its summary document, *Chronology of Retirement System Changes*, to support changes to retirement formulas or factors, that information lacked formula and eligibility details that handbooks contained. In addition, the document was not provided until significantly after the information was requested.

According to the Commonwealth of Virginia records retention policy (p. 4 of the Records Retention and Disposition Schedule, General Schedule No. GS-03, series number 010233), which is applicable to municipal governments in the Commonwealth, any retirement benefits information should be retained for a period of 50 years after separation. It is important for RAA to comply with the records retention policy so that the relevant records and data are readily available to be able to verify accuracy of payments in case of disputed benefit amounts, and for

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8 Social Security Breakpoint is the average of the annual Social Security Maximum Wage Bases for the last 35 years before a retiree reaches age 65. The Social Security Administration issues a new table annually.

potential review by auditors or other parties. The County's ability to respond or resolve a disputed benefit amount is limited by the lack of information retained supporting the benefit calculations and adjustments. Incomplete or missing information limits a potential reviewer's ability to recalculate and verify the accuracy of retirement benefit amounts paid to retirees.

For example, for a retiree in Uniformed Plan A, we noted a variance of approximately $168 between our recalculation of the October 2014 monthly benefit amount of $3,394, and the amount actually paid by RAA, which was $3,563 (before netting a social security offset amount). In FY 1992, when the retiree's workers compensation benefit had expired, RAA made an adjustment to the monthly benefit beyond the required workers compensation benefit offset amount. However, the additional benefit amount was not supported, and there was no explanation included in the file.

Another example was a retiree benefit in the Police Officers Retirement Plan A, for which we noted a variance of approximately $50 between our recalculation of the October 2014 monthly benefit amount of $4,512.90, and the amount actually paid by RAA, which was $4,562.60. Due to the lack of historical data retained on the yearly individual COLA from 1984 to 2006[9,] IAO was unable to determine when the variance first occurred or the root cause.

Recommendation: We recommend that RAA establish its own formal written departmental record retention policy. It should include requirements for the length of time and method(s) to retain key documents and information to ensure a complete library of key historical information is centrally maintained by the department. The policies and procedures should identify information to be retained; staff responsible for capturing information; and how information is retained. In developing the plan, consideration should be given to documentation needed to support payments made during the life of each retirement plan. Lastly, the implementation plans for future computer information systems should include procedures to retain key data from the legacy system(s) that will not be imported into new system.

Management Response:
RAA's records retention policy has been documented by memorandum that requires the retention of scanned documents that include member records and the retirement benefits information of an individual is not limited to 50 years after separation by this policy, but is of unlimited duration, and any future software system designed in succession of current records should have the capability to retain all prior documents that have been retained by past scanning systems. Management completed this action on May 22, 2016. These updated procedures will be included in the updated Retirement Agency Procedures Manual, which management anticipates completion by June30, 2017.
In addition, RAA will document thoroughly and retained in perpetuity the plan

9 Pension Gold was implemented in 2007, starting with July 1, 2007 the yearly individual COLA increase to benefit payments are captured for each retiree.

changes effective January 1, 2013 and, if approved, plan changes effective July 1, 2016. Management anticipate completion of these items by August 30, 2016. Lastly, RAA will continue to update central documentation and the "Chronology of Retirement System Changes" by scanning, retaining, and disseminating the new information.

6. Controls Over Deferred Retirement Option Program (DROP) Annuity Calculations

Applicable actuarial factors and the Board of Trustee's approved rate of return, which are needed to convert Deferred Retirement Option Program (DROP) account balances to supplemental annuity amounts were not readily available from RAA. The information was not available to DROP participants to perform their own conversion calculations, which is inconsistent with other retirement plans for which formulas and factors to calculate benefit payments are easily available for plan participants. RAA implemented the DROP account annuity conversion calculations in Pension Gold in 2010, and made revisions to the Pension Gold DROP conversion calculations in 2012.

Documentation supporting the calculation of benefit payments should be retained and available to support current payments to plan participants. Key calculation information that is unavailable impacts an internal or independent reviewer's ability to recalculate and/or verify the accuracy of retirement benefit amounts paid to retirees, increasing the risk of fraud or error.

Recommendation: We recommend that RAA be able to readily provide all key information and calculation factors from all third-party service providers, including actuarial consultants. RAA should assess the cost/benefit of making the applicable actuarial factors and the Board of Trustee's approved rate of return available on line for program participants to use to perform their own conversion calculations. Lastly, RAA should periodically perform testing of the conversion calculation process to ensure the calculation has remained accurate.

Management Response:
RAA staff will work with the actuary to update and test calculations based upon changes effective July 1, 2016 if approve by Retirement Boards. Management anticipates completion of these actions by December 15, 2016 and January 1, 2017 respectfully. RAA will as part of the annual actuarial valuation test the calculations. Lastly, RAA will consult with the systems actuary and the County Attorney to determine the feasibility and advisability of providing an online annuity calculator for the members to use. Management anticipates completion of this item by December 30, 2016.

7. Controls Over Fairfax County Public Schools Retirees Benefit Calculations

For county employees RAA had direct access to human resources systems and/or received reports from the systems to support all the key benefit calculation factors used in benefit calculations. However for FCPS employees, we noted that key benefit calculation factors, such as sick leave hours, leave without pay (LWOP) hours, and periods of part time employment, were provided by memorandum or email from FCPS to RAA without any other supporting documentation. The inability to verify key data factors used in benefit calculations to proper source documentation increases the risk of data manipulation and error. RAA does not have inquiry access to the FCPS' human resource system (i.e., Lawson) to verify information provided by the school system. Furthermore, RAA also does not require FCPS to provide actual documentation from source systems to support certain key data.

Recommendation: We recommend that RAA strengthen internal controls over the verification of key benefit calculation factors for FCPS retirees. RAA should work with FCPS for the appropriate RAA staff to obtain inquiry access to applicable FCPS systems, or else establish a formal policy requiring specific supporting documents from FCPS source systems. Inquiry access to the FCPS payroll system would increase the efficiency of RAA staff's efforts in resolving potential issues with a FCPS retiree's benefits. The system access or documentation should be used to sufficiently support components of the retirement benefit calculations performed by RAA for the applicable retirees of FCPS. For FCPS employees participating in the Employees' retirement system, FCPS is the employer responsible for providing RAA with all the data and documentation needed to calculate the correct and appropriate benefit amount.

Management Response:
RAA agrees that electronic access to FCPS records similar to the access that HCM provides and PRISM provided to member records would be an improvement in the documentation of FCPS member retirement calculations. It is also likely to be more efficient in the long run to have Retirement Systems staff become familiar with read only access to the FCPS active member data so that staff at FCPS do not have to manually convert FCPS systems data to memo format to submit to the Retirement Systems office. RAA staff have requested this access from FCPS a number of times, but have to-date not been granted such access. Based on this audit, staff will again contact FCPS to request this access. Management anticipates completion by December 30, 2016.

8. Outdated Agency Policy and Procedures

The <u>Retirement Administration Agency Manual</u> has not been formally updated to reflect policies, procedures and internal controls in operation with the implementation of the Pension Gold System in 2006 or Fairfax County Unified System (FOCUS) in 2011. RAA provided a copy of its manual in which the last updates and revisions were from calendar year 2000. While the majority of policies and procedures have remained the same with the implementation of two new systems, procedures in areas such as retiree payroll, sick leave, benefit service years, leave without pay conversions and retirement data cards have not been updated to reflect new or revised procedures.

The absence of updated documented policies, procedures and internal controls increases the likelihood of staff operating outside of current agency guidelines and internal controls not operating effectively to prevent or detect errors or irregularities.

Recommendation: We recommend that RAA formally update the Retirement Administration Agency (RAA) Manual to ensure it reflects all current systems, processes and internal controls.

Management Response:
RAA is in the process of updating the RAA Manual, specifically with documentation of updated procedures recommended in this audit. As additional needed updates are identified, they will be added or changed in the Manual in a timely manner. A complete review of the Manual is underway which will ultimately result in a completely new Manual. Management anticipates completion of this item by June 30, 2017. Upon completion of the new/updated Manual, RAA staff will present it in summary to each of the Retirement Boards, which management anticipates completion of this item by December 30, 2017.