



Cobb County...Expect the Best!

INTERNAL AUDIT DIVISION

Report Number 2013-010

***FINAL REPORT – Review of the Controls
Over Non-Vested Pension Refunds***

September 12, 2013

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COBB COUNTY INTERNAL AUDIT

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Division Manager

September 12, 2013

MEMORANDUM

TO: David Hankerson, County Manager

FROM: Latona Thomas, CPA, Manager 

SUBJECT: **FINAL REPORT** – Review of the Controls Over Non-Vested Pension Refunds

Attached for your review and comments is the subject draft audit report. The overall objective of this review was to determine if controls over non-vested pension refunds are adequate to ensure payments are accurate, distributed in accordance with the most current amended Pension plan, and properly reported, as necessary.

Impact on the Governance of Cobb County

Pension refunds for non-vested participants averaged \$902,462 annually for the last five calendar years 2008 through 2012. The findings in this report will strengthen the controls over the process of identifying, calculating, and paying refunds to former employees. Taxpayers and employees can be assured that non-vested participant payments from the Employee Retirement System Trust Funds¹ are properly monitored, accurate, and in accordance with the Pension plan's guidelines.

Executive Summary

At the request of the Human Resources Director, we reviewed the controls over non-vested Pension plan refunds. We also analyzed the impact of Human Resources (HR) using an incorrect calculation template. Our review found that refunds were processed in accordance with separation procedures; however, the current process is inefficient and does not provide adequate assurance that all persons requiring a refund were identified and completed. In addition, no written guidelines for processing refunds were noted and Human Resources staff needs additional education on the overall process. Our analysis of the inaccurate refund calculation template identified an average overpayment amount of 4%.

¹ Pension and OPEB Trust Funds.

Recommendations

We made recommendations to address the issues noted, including:

- Continue to use the revised refund calculation template and update annually or as necessary.
- Consult with the Pension Attorney regarding the County's interest obligation.
- Verify all refunds are completed, monitored, and are valid.
- Develop standard procedures to locate individuals with outstanding checks.
- Ensure reports are accurate.
- Document and educate employees on the refund process.
- Update authorization levels with the Plan Custodian.
- Increase involvement of the Pension Plan Board of Trustees.

Responding to This Report

The HR and Finance Directors provided a response to our draft report and concurred with 13 of the 14 recommendations, with corrective actions to be implemented by January 1, 2014. The HR Director disagreed with recommendation #13 regarding the Pension Board being familiar with and review of benefit administrative processes, disbursements, refunds, and other changes. His contention is that these duties are outside of the chartered responsibility of the Pension Board. The complete responses to the draft report are included in Appendices VI and VII.

We will perform a follow-up in six months on the implementation of corrective actions. In addition, the County Manager has requested that the Directors provide periodic updates on the status of each corrective action directly to his office. The updates are to include a discussion of the cost benefit analysis and determination of attempting to recover the overpayments. Please contact me at (770) 528-2559 if you have questions or Steven Harper, Auditor-in-Charge, at (770) 528-2557.

Background

The Cobb County Board of Commissioners (BOC) established a program for providing retirement income and other benefits for employees and their beneficiaries in 1971. On January 1, 2005, the name of the original Cobb County Board of Commissioners Retirement Income Plan was changed to the Cobb County Government Employees' Pension Plan (the Plan). The Plan has been amended and restated from time-to-time with the most current amended plan effective January 1, 2013. Per section 8.3 of the Plan, *Employee Contributions to the Fund*, any employee initially hired or rehired on or after April 1, 1998 is required to contribute a percentage of their compensation to the Plan, up to a maximum of thirty-five years. The percentage of compensation the employee is required to contribute is as follows:

- Traditional Participants:² an amount determined by the BOC, increasing over a 13 year period from 5% of compensation in 2009 to 8.75 % in 2023.
- Hybrid Participants:³ fixed at 5% of compensation for each Plan year.

100% of a participant's accrued benefit⁴ cannot be forfeited after seven years of service if hired or rehired prior to January 1, 2009, or after ten years if hired or rehired on or after January 1, 2009.

A non-vested participant is an employee who does not have sufficient service to be entitled to a 100% vesting percentage. Per section 5.5, *Non-Vested Participant's Benefit*, the amount of non-vested benefit shall be a refund of the employee's accumulation in a lump sum payable following their termination of employment. Non-vested participants will not be entitled to any further benefits under the Plan. Section 2.17, *Employee's Accumulation*, defines an employee's accumulation as the value of employee contributions made by a participant after April 1, 1998, plus interest, credited thereto at the effective annual rate of 5% compounded annually from the end of the plan year to which the employee contributions are attributable through the month preceding distribution. The annual interest rate was reduced to 2.5% for interest credited on or after January 1, 2013.

The HR Department is responsible for the benefit administration of the Pension plan. Responsibilities include identifying and monitoring non-vested participants requiring a refund, calculating the refund amounts due, communicating the distribution options available, and distributing the refunds in accordance with participant election. If a participant does not make an election within a designated time frame, the refund is distributed in accordance with the Plan and Internal Revenue Code sections 401(a)(31) and 411(a)(11). See Table 1 for distribution methods when no election is made.

² Traditional Participants are employees with seven or more years of vested service as of 12/31/2009 or had less than seven years service as of 12/31/2009 and did not elect to become a Hybrid Participant.

³ Hybrid Participants are new hires or rehires on or after 1/1/2010 or had less than seven years of vested service prior to 12/31/2009 and elected to become a Hybrid Participant.

⁴ Accrued benefit is pension payable at normal retirement date based on the participant's final average compensation and benefit accrual service at the date of determination. It includes both the employee and employer contribution portion.

Distribution Method When No Election Is Made

Total Refund Amount	Distribution Method
\$5,000 or greater	Held in Cobb County Trust Account at SunTrust Bank
\$1,000 - \$4,999.99	Rolled over to an Individual Retirement Account (IRA) at an institution selected by the Plan Administrator (in the participant's name)
Less than \$1,000	Refund check (minus taxes) is sent to the last known address

Table 1 – Source: Cobb County Government Employees' Pension Plan, as amended and restated effective January 1, 2013, and Internal Revenue Code Sections 401(a)(31) and 411(a)(11).

SunTrust

SunTrust is the current custodian of the Plan's funds and has been since October 1, 1990. Plan funds are held in trust, managed, and disbursed as directed by the Employees' Pension Plan Board of Trustees (Plan's Board). Non-vested pension payouts are distributed by SunTrust as direction is received from HR staff. SunTrust is also responsible for reporting and remitting unclaimed payments in accordance with Georgia Code [§ 44-12-207](#), which states that benefit trust distributions are considered abandoned after five years from when the funds were payable if the owner has not accepted or indicated an interest in the distribution of funds. In addition, electronic reports of outstanding checks are available to the County at any time.

Great West Financial

Great West serves as the County's Individual Retirement Account (IRA) provider. Upon direction from the County, an IRA is established for each Plan participant subject to the automatic rollover provisions of Internal Revenue Code section 401(a)(31)(B). See Table 1 above for further details.

Employees' Pension Plan Board of Trustees

The Employees' Pension Plan Board of Trustees serves as the Plan Administrator and is charged with the responsibility for the selection and retention of investment managers and a custodian for the assets of the Pension Plan and Retiree Health Care (OPEB Plan). Their purpose is to invest the assets of the Plan in a prudent manner such that safety of the principal is preserved while providing reasonable returns, and in general, avoiding speculative investments. The Plan's Board may also appoint or employ any other agents it deems advisable, including legal counsel, actuaries, auditors, bookkeepers and/or record keepers to serve at its direction.

During discussions between HR and Cavanaugh Macdonald Consulting, LLC⁵ (the Actuary), concerns were raised that non-vested pension refunds were being incorrectly calculated. Specifically, the Microsoft Excel worksheet used to calculate the refunds was not consistent with the Plan stipulations. As a result, the HR Director requested that Internal Audit (IA) review their process for calculating the refunds due to the volume of activity, the dollar amount associated with refunds, and recent changes within the department. See Chart 1 below for non-vested pension refunds for the last five calendar years.

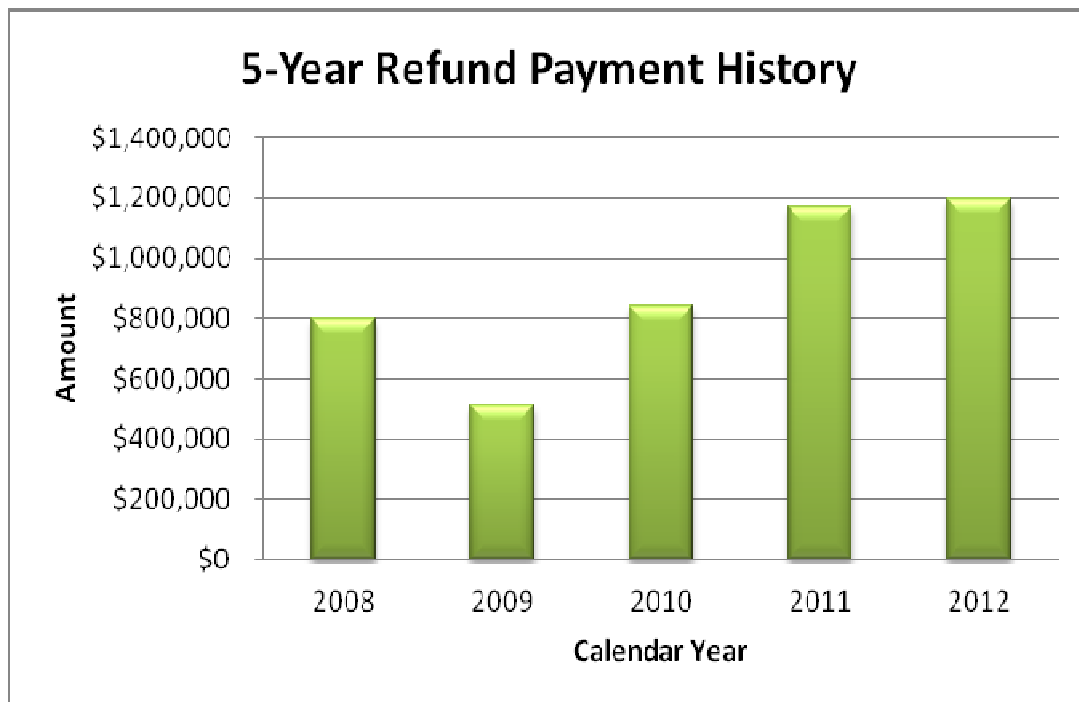


Chart 1 - Source: SunTrust check register of non-vested refunds for calendar years 2008 through 2012.

⁵ Cavanaugh Macdonald Consulting, LLC is the actuarial consulting firm retained by the Plan's Board.

Results of Review

The overall objective of this review was to determine if controls over non-vested pension refunds are adequate to ensure payments are accurate, distributed in accordance with the most current amended Pension plan, and properly reported as necessary. In the course of our assessment, we found that HR performed its operational functions in accordance with the overall Plan Administration. Specifically, refunds were in compliance with Internal Revenue Service (IRS) guidelines, checks were distributed per participant's elections, and outstanding checks were escheated to the State of Georgia appropriately.

However, controls over non-vested pension refunds need improvement to ensure refunds are:

- Accurately and efficiently calculated.
- Distributed in accordance to the Plan.
- Reported accurately.

In addition, other operational and administrative functions require improvement.

Refund Calculation Process Requires Changes to Ensure Accuracy and Efficiency

Accuracy of Calculations

As indicated previously, the Actuary noted that the template HR was using to calculate the non-vested pension refunds was not in accordance with the most recent amended Pension plan. The Microsoft Excel spreadsheets used to determine the amount of interest earned were incorrect. The Plan stipulates that interest is “compounded annually from the end of the plan year to which employee contributions are attributable through the month preceding distribution.”⁶ More specifically, the Plan requires that no interest is earned on employee contributions during year X1, but rather that year X1 total contribution amount at year-end be used to compute interest earned for year X2. At the end of year X2, the total contribution amounts for both years X1 and X2, and interest earned in year X2, is summed and used to compute interest earned for year X3. This methodology should continue for each year of the non-vested participant's service and through the month prior to the actual refund.

HR's template calculated interest from the beginning of the period or year in which the contributions were made through the month prior to the participant's termination date.⁷ In contrast to the Plan's guidance, HR's template used the total contribution amount for year X1 to compute the interest earned for year X1, even though the contributions occurred throughout the year. The same methodology was used for each of the subsequent years and concluded at the participant's separation from service date. In each instance, the incorrect template resulted in overpayments being made on refunds.

⁶ Refund check date as processed by SunTrust upon direction of HR staff.

⁷ Actual separation of service date.

Internal Audit recomputed 38 refunds processed during the first quarter (1Q) of FY2013⁸ and computed a total overpayment of \$11,192. See Table below for an example of how an overpayment is computed.

Example Comparison of Refund Calculations

PLAN's INTENDED CALCULATION				HR's OLD CALCULATION			
Plan Year	Contribution Amount	Annual Interest Earned	12/31/XX Balance	Plan Year	Contribution Amount	Annual Interest Earned	12/31/XX Balance
X1	\$100	\$0	\$100	X1	\$100	\$5	\$105
X2	\$100	\$5	\$205	X2	\$100	\$10.25	\$215.25
X3	\$100	\$10.25	<u>\$315.25</u>	X3	\$100	\$15.76	<u>\$331.01</u>

Table 2 – Example of non-vested pension refund overpayment calculation. Does not represent an actual calculation.

In the example above, the resulting balance at the end of year X3 is overstated by \$15.76 or 4.99% when using HR's erroneous calculation methodology.

We computed a margin of error using the sample from 1Q of FY2013 of 4.23% and applied it to the history of refund payments made from SunTrust Bank between calendar years 2008 and 2012 to calculate an estimate of overpayments. Applying this error rate to the five-year history resulted in an estimated \$183,067 in total overpayments.

The following chart is a summary of IA's calculations:

Calendar Year	Number of Refunds	Total Refund Amounts Paid	Applied Error Rate ⁹	Imputed Refund Total	Estimated Overpayment
2008	218	\$798,393.40	4.23%	\$766,002.11	\$32,391.29
2009	129	\$507,938.12	4.23%	\$487,330.77	\$20,607.35
2010	160	\$840,233.69	4.23%	\$806,144.91	\$34,088.78
2011	198	\$1,171,609.58	4.23%	\$1,124,076.69	\$47,532.89
2012	192	\$1,194,136.30	4.23%	\$1,145,689.48	\$48,446.82
Total	897	\$4,512,311.09		\$4,329,243.96	\$183,067.13

Table 3 - Source: SunTrust check register of non-vested refunds for calendar years 2008 through 2012 using IA's margin of error as described above. Number of refunds and amounts paid include refunds for vested deceased participants.

⁸ October 2012 through December 2012.

⁹ Rounded for ease of presentation. [Actual rate is 4.22861673905405%]

Efficiency of Calculation Process

In addition to being incorrect, the refund calculation process was inefficient. Data was manually input from various sources. HR staff had to manually search for, copy, and paste data from one worksheet to another in order to calculate the number of days to accrue interest for each plan year. Then, the accrued interest total for each year had to be copied and pasted into the main calculation table to determine the total amount of the refund. Worksheet formulas were not locked or monitored and could be altered by anyone using the template. This manual manipulation of data is inefficient, labor intensive, and increases the risk of errors. Using additional formulas within Excel and locking the calculation fields would make the process more efficient and less prone to errors.

During our fieldwork, HR engaged Cavanaugh Macdonald to develop a revised template based on the Plan. IA reviewed the template, verified that it was calculating the interest in accordance to the Plan, and confirmed the calculation fields were locked from editing with password protection. The revised template only requires the user to input participant information, various dates (hire date, separation date, etc.), and contribution amounts. The calculations for both interest and total refund were automatic and did not require copying data from one location to another of the template. It is our understanding that the password is maintained by Cavanaugh Macdonald and the HR Director only. Annual revisions to the template are required for use in subsequent years.

Inefficiency in the calculation process and delayed responses from participants also impacts the date of distribution and interest earned amount. As indicated in the background section, participant refunds include interest paid through the month prior to distribution. Because the actual date of distribution is not known when the calculation is prepared, a final refund calculation may be required to account for the additional months of accrued interest. As such, the paperwork supplied to the participant should reflect the refund amount as an estimate. An actual payout amount should be determined upon receipt of the participant's signed election form or in accordance with Plan provisions, when no response is received. We also recognize that the correct calculation of refunds will add further steps to the process, but recommend that further discussions be held with the Pension Attorney regarding refund options.

Recommendations

The Human Resources Director should:

Recommendation 1: Ensure the continued use of the template provided by Cavanaugh Macdonald but revise the correspondence to indicate the initial calculation is an estimate and may be revised pending final distribution date. Ensure updated templates are obtained from the actuary for use in successive years prior to the beginning of each new year.

Auditee Response (HR): Concur

Human Resources will update the template provided by the actuary with the current year date. HR will develop a standard operating procedure to have this review completed in January each year by the actuary and the form updated. An HR Coordinator will be assigned this task to complete by January 1, 2014.

Recommendation 2: Consult with Pension Attorney to determine the County's options or requirements to pay interest beyond the designated holding period. Consider revising the Pension Plan based on the outcome.

Auditee Response (HR): Concur

The HR Director will consult with Pension Attorney and revise procedure and/or plan document as recommended by January 1, 2014.

Changes are Needed to Identify, Monitor, and Ensure Only Eligible Distributions are Made

Identify and Monitor

During our observations of the refund process and interviews with HR staff, we noted that the identification of non-vested employees who were due a refund was accomplished through the normal processing of personnel actions; however, the process is labor-intensive and inefficient. There is no control to verify that all participants who had not met the requirements to be vested in the Plan at the time of their separation from service had been identified, refunds had been calculated, and the distribution option information supplied.

HR staff receives employee termination notifications from department representatives and inputs the information into a Microsoft Excel refund calculation template. The completed refund calculations are then input into a spreadsheet/log used to track the required distribution election correspondence and refund status. The log specifically includes information related to the participant's separation from service date, final paycheck date, non-vested pension refund amount, and other applicable correspondence. This process requires extensive manual input, the log is not reviewed for completeness, the data fields are not verified, and the log is maintained on a shared HR network drive and can be modified without knowledge. Unrestricted access and lack of review increases the risk of errors or potential for fraud and reduces HR's ability to rely on the accuracy of the information. In addition, we noted that participants are allowed to return their election forms via email to a specific HR staff email address. In cases of staff turnover and extended leave, the processing of information may be delayed or lost. A general email account with designated staff access will ensure ongoing business continuity.

In our testing of completeness, we judgmentally obtained a list of all non-vested employee terminations for the last five calendar years (2008 through 2012) and compared it to the list of refund checks written from SunTrust for the same period. The test was to ensure that each participant identified had received a distribution as elected or in accordance with IRS requirements. Of the 795 participants identified, we found two that had not been notified of their distribution options. One person separated from the County in 2010 and another in 2011. HR has since initiated the distribution process for both refunds.

As noted above, there are IRS guidelines regarding distributions when former participants do not choose a distribution option. Amounts of \$5,000 or greater are required to remain in the Cobb County Trust Account. There is one instance of a former employee in this category who has not made an election. The estimated refund was \$18,597 when he separated from the County in June 2010. There is no record of contact with the person since August 20, 2010.

Failure to process refunds allows liabilities to the Pension Fund to go undetected and increases the amount of interest due when the payments are ultimately made.

Eligibility

We also analyzed the comparison results to ensure that all distribution refunds were for qualified participants or their beneficiaries. First, we compared the register to a list of non-vested terminations that occurred from 2007¹⁰ through 2012. Second, we compared the register to a list of people who were rehired as their current active status excluded them from the termination list. Third, we worked with HR personnel to review the documentation that justified making the payment to the remaining individuals that were not verified from the first two steps. We were unable to substantiate the validity of 24 refunds totaling \$143,881 as the information was not readily available. Unsubstantiated refunds may be the result of theft or fraud, and not having information readily available further supports the inefficiency in the process.

Potential Duplicates

During our testing of the SunTrust check register, we noted there were instances where multiple transactions were processed for the same individual. We summarized these transactions by payee number and manually reviewed the transactions for potential duplicate payments and significant variances in check dates. We were unable to complete our test of seven refunds, totaling \$52,849, because the information was not readily available or HR staff was not available for follow-up discussions. Not having a process in place to validate that all checks were appropriately issued could lead to unauthorized transactions occurring and going undetected.

Recommendations

The Human Resources Director should:

Recommendation 3: Develop and implement a process to pull a periodic report of non-vested former participants from the County's payroll system and ensure the process for distributing refunds has been initiated for each person. Additional recommendations include, but are not limited to:

- Continue to monitor the progress of each distribution;
- Coordinate with Information Services on a more efficient tracking mechanism;
- Limit access to authorized HR staff only; and
- Designate an HR Manager to periodically review and initial results as evidence the process was properly completed.

Auditee Response (HR): Concur

Human Resources will develop and implement a process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. This task will be assigned to an HR Manager to set up by January 1, 2014.

¹⁰ To account for terminations in late calendar year 2007 that were paid in 2008.

Recommendation 4: Develop and implement a process to periodically reconcile the SunTrust non-vested refund check register to the report referenced in Recommendation 3 to ensure that only qualified participants or their beneficiaries receive a refund. An HR Manager review and approval of the results should also be included.

Auditee Response (HR): Concur

Human Resources will develop and implement process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. This task will be assigned to an HR Manager to set up by January 1, 2014.

Recommendation 5: Research and verify the accuracy of the discrepancies identified during our testing, as described previously.

Auditee Response (HR): Concur

An HR Manager and HR Coordinator will be assigned the task to complete this testing and review by December 1, 2013.

Recommendation 6: Establish a generic email account to handle participant responses and designate a primary Human Resources staff and backup. Update refund distribution correspondence and include this process in written procedures.

Auditee Response (HR): Concur

Human Resources already has a designated email for benefit inquiries, benefitshr@cobbcounty.org. A number of staff are assigned to check this email daily. The part-time employee assigned to support the refund of pension contributions will be assigned this task, and to develop an SOP for monitoring by an HR Manager, and an appropriate backup for this function will also be assigned by October 1, 2013.

Outstanding Plan Refund Checks

HR does not have written guidelines or procedures regarding the monitoring of outstanding non-vested pension refund checks. In addition, there are no guidelines on what search efforts staff should pursue when attempting to locate participants with outstanding checks. Correspondence from SunTrust indicated the Department of Labor (DOL) advised that plan sponsors must attempt to locate participants who have outstanding checks and document their efforts.

The Department of Labor (DOL) Field Assistance Bulletin 2004-02 outlines procedures that plan sponsors should take in an effort to locate missing individuals. They include the following:

- Use certified mail
- Check related plan records – i.e. health plans
- Check with designated beneficiaries
- Use a letter forwarding service – both the IRS and Social Security Administration (SSA) offer one.

In addition to steps suggested by the DOL, SunTrust offered the optional use of a locator service for finding people with outstanding checks. An annual report of outstanding checks is received from SunTrust and the information is available electronically at any time, but no monitoring or follow-up is performed to determine the status of outstanding checks. Initial efforts to contact the participant are made using information from the personnel file, searching the internet, or on the Social Security Administration's website.

We obtained a list of outstanding and escheated¹¹ checks for non-vested pension refunds from SunTrust to determine the County's compliance with outstanding check regulations. As of March 27, 2013, there were 13 un-cashed checks totaling \$19,994, of which nine had been escheated to the State as unclaimed property, as required. We found that search efforts are not consistent between participants and are not documented.

A process needs to be developed that will ensure the County is in compliance with regulations and help minimize the amount of funds that are escheated to the State. This process should also be used to locate people when refund paperwork and/or checks are returned unopened by the post office.

Recommendation

The Human Resources Director should:

Recommendation 7: Develop written procedures and implement a process for monitoring outstanding checks and locating individuals to whom they are payable. The process should define the time frame for performing searches and determine what documentation is needed to verify the outcome of each search effort. The HR Director should also consider the use of a locator service such as that offered by SunTrust, if deemed cost beneficial.

Auditee Response (HR): Concur

Human Resources will develop and implement process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. Sun Trust will be contacted as soon as possible regarding locator service. This task will be assigned to an HR Manager to set up by November 1, 2013.

Activity Report Data Requires Analysis

HR creates a summary report of the retirement activity on a quarterly basis based on information obtained from the SunTrust check register; however, we noted errors in the report. The 'Retirement Activity Report' is posted on the County's intranet and presented for employee/retiree information purposes only. The quarterly activity report includes the number of retirees/beneficiaries; benefit payment information; non-vested pension refunds; and Hybrid Plan and Deferred Compensation enrollment data. We reviewed the supporting documentation for 3rd quarter 2012¹² non-vested refund data and found the information, as presented, was incorrect.

¹¹ The reverting of property to the state or some agency of the state when there is a failure of persons legally qualified to inherit or to claim. [Source: www.dictionary.com]

¹² Fiscal Year 2012.

The number of checks written during the quarter was included instead of the number of people receiving refunds; checks written and voided/re-issued were counted twice; rollover directives were incorrectly added to the number of checks written; and a buy-back payment received was counted as a disbursement payment. Each instance resulted from employees' lack of understanding regarding how to appropriately analyze report information. Data used for reporting purposes needs to be accurate in order to be reliable for reporting and decision-making purposes.

Recommendations

The Human Resources Director should:

Recommendation 8: Develop, document, and implement a process to analyze source documentation and make appropriate adjustments accordingly to ensure summary reports are accurate. Management level review of information should be required prior to publishing.

Auditee Response (HR): Concur

Human Resources will develop a standard operating procedure for the development of the quarterly activity report to ensure that summary reports are accurate, identify source data and accurately reflect source documentation used to create the report. An HR Coordinator will be assigned this task to complete by January 1, 2014.

Recommendation 9: Provide quarterly 'Retirement Activity Report' to the Plan's Board and periodically review for continued appropriateness and applicability.

Auditee Response (HR): Concur

Human Resources converted this from a monthly report to a quarterly report in 2012. This report is provided to the Board of Trustees without request and published on the Board of Trustees website. The HR Director will ask the Board of Trustees to review and comment on the report and whether it is desired by the Board to continue to receive and publish on their website by January 1, 2014.

Other Operational and Administrative Functions Require Improvement

Basic Internal Control Practices

Written documentation

During our preliminary survey, we noted there were standard forms for calculating and informing former participants of refunds; however, the end-to-end process was not documented. Several HR staff are involved in the calculation and distribution process, and one staff person is responsible for tracking the refunds, but neither could produce written procedures.

In addition, current HR employees lacked adequate knowledge of the overall process. HR staff was not able to explain why dollar threshold limits were used for distribution purposes or what role external vendors performed in the process. Specifically, there was limited knowledge of IRS regulations regarding Pension plan disbursements, and information on the agreement with Great West wasn't readily available.

Written procedures should be documented to ensure refunds are handled consistently, in accordance with the Plan, and for business continuity. Having employees periodically review the process for current applicability would enable them to proactively answer questions and adapt to changes as regulations are modified.

Check Handling

During our review of the SunTrust check register for refunds paid during calendar year 2008 through 2012, we noted six checks that were payable to the former participant but mailed to the County in care of an HR employee or the County HR Department. Having checks mailed in the care of HR employees increases the risk of theft or fraud. It also increases the County's liability of handling checks of former participants without any tracking or transfer of responsibility.

Recommendations

The Human Resources Director should:

Recommendation 10: Document the procedures for the refund process to include management approval required. HR staff should be familiar with the various steps and parties involved. The process should also include time frames for following up with former participants when no response to the distribution election form is received.

Auditee Response (HR): Concur

Human Resources will develop and implement process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. This task will be assigned to an HR Manager to set up by November 1, 2013.

Recommendation 11: Ensure that all checks are mailed directly to the payee or their designated financial institution. No HR employee should take physical control of a refund check on behalf of a former participant. This should be documented in desk procedures and included in employee education as outlined in the previous recommendation.

Auditee Response (HR): Concur

Human Resources will develop and implement process with a standard operating procedure. This task will be assigned to an HR Manager to set up by November 1, 2013.

Untimely Updates to Authorization Changes

The most recent contract addendum with SunTrust Bank (signed September 17, 2012) included authorizations for former HR employees or had not been updated to include reassigned duties within the HR Department. The addendum included a Certificate of Incumbency which attested to the current Plan Board members who have the authority to sign agreements, and an 'Affirmation and Appointment of Agents to Give Instructions to the Bank' section which granted certain Board members and HR employees the authority to give the bank direction. Two Plan Board members, Plan Chair and Secretary, have the authority on all matters, and HR employees are limited to providing directions regarding benefit payments, address and contact changes, and other administrative matters. We found the addendum had not been changed to remove a recently retired HR employee or to account for recent changes of staff responsibilities within the HR Department. Contract addendums need to remain current to prevent unauthorized transactions from occurring.

Recommendation

The Pension Plan Board of Trustees should:

Recommendation 12: Update the SunTrust Bank contract addendum to reflect the current authorization levels of both Plan Board members and HR staff. These authorizations should be changed immediately upon notification of changes in Plan Board or HR staff members. Authorizations should also be reviewed periodically and updated as needed.

Auditee Response (HR): Concur

Current authorization levels were updated in May 2013 with the retirement of a Senior HR Specialist and the reorganization of the pension administration in the Human Resources Department. Authorization levels have historically only been reviewed and updated when there is a change in assigned staff. Human Resources will add a review date to their database to review authorization levels with the Chair of the Board of Trustees in January of each calendar year.

Auditee Response (Pension Board Chair): Agreed

Document will be updated per any changes in Plan Board and upon notification from the HR Director on relevant changes within his department.

Pension Board Oversight

On November 10, 1992, the BOC adopted a resolution confirming the Plan Board's administrative and fiduciary responsibility and authority. Specifically, the Plan's Board has 'the authority to administrate fully and to manage financially the Pension Fund, including the necessity to hire financial and legal experts from time to time.' Currently, the Plan's Board is not involved in the overall benefit administration, pension disbursements, or HR processes regarding non-vested pension refunds. Periodic review of Plan benefit administration, including disbursements and refunds, is necessary for the Plan's Board to fulfill its responsibility.

As stated above, the Plan's Board is responsible for selecting and retaining investment managers and a custodian for all assets of the plan. During the course of our audit, we became aware of two agreements that should be reviewed for the current applicability of contract provisions. The current Master Custodian Agreement with SunTrust Bank dates back to October 1, 1990, and the Great West contract was executed on November 10, 2006. We were unable to determine if any reviews of either contract had been performed since inception. In addition, the Plan's Board should research and ascertain whether it is required to comply with the County's purchasing policies.

Recommendations

The Pension Plan Board of Trustees should:

Recommendation 13: Familiarize themselves with the benefit administration processes and periodically review disbursements, refunds, and other administrative changes to ensure the Plan's administration remains consistent with the Pension Plan's design.

Auditee Response (HR): Disagree and recommend alternate solution.

The Board of Trustees is not chartered with responsibility for plan administration or benefit design. Those responsibilities rest with the Board of Commissioners and the County Manager.

Human Resources recommends that Internal Audit be charged with a periodic audit of these processes and report findings and recommendations to the County Manager.

Auditee Response (Pension Board Chair): Agreed

Internal Audit Comment: We believe the Pension Board needs a general understanding and review of administrative processes impacting the Plan assets in order to effectively fulfill its fiduciary responsibility.

Recommendation 14: Periodically review the current applicability of existing contract provisions. Also, research and document whether the Pension Plan Board is required to comply with County purchasing policies.

Auditee Response (HR): Concur and recommend alternate solution.

Human Resources concurs and since the contract for services serves the Board of Trustees and Benefit Administration, Human Resources recommends that there be a periodic review or marketing of these services that meet Purchasing guidelines.

Auditee Response (Pension Board Chair):

It is my assessment that the resolution of 11/10/92 confirmed the Pension Fund Board of Trustees fiduciary responsibility and authority to enter into contracts specific to the administration and management of the Pension Plan.

“The Board of Trustees is charged with administering fully and managing financially the Pension Fund for County employees, including the necessity of hiring financial and legal experts from time to time to assist with the administration of said funds; the Board has the responsibility of selecting and retaining investment managers and a custodian for all assets of the Pension Plan.”

Previous Board actions have confirmed this authority when entering into contracts with financial and legal experts.

Internal Audit Comment: While we understand the authority of the Pension Board, we believe a discussion and review regarding the current applicability of contract provisions should be included in the overall oversight of the Plan.

Detailed Objectives, Scope, and Methodology

We conducted our review at the request of the Human Resources Director. Our review period covered refunds initiated between calendar years 2008 through 2012. Detailed testing focused on transactions that occurred during 1Q of Fiscal Year 2013.

Internal Audit's objective was to determine if controls over non-vested pension refunds were adequate to ensure payments were accurate, distributed in accordance with the most current amended Pension plan, and properly reported, as necessary.

In order to accomplish our objectives, we performed the following steps:

- I. Ensured payments were accurate.
 - A. Reviewed agreements between the County, SunTrust and Great West Financial.
 - B. Recalculated the refunds from 1Q of FY2013 in accordance with the retirement plan guidelines and compared results to actual payouts.
 - C. Verified IA's calculation methodology agreed with the Actuary's revised methodology.
 - D. Agreed a list of non-vested employees who separated from service between 2008 and 2012 to a list of refunds paid by SunTrust during the same time period to ensure refunds were processed.
 - E. Extrapolated the sample result error rate across the five-year population received in I.D. above.
- II. Ensured payments were distributed in accordance with the most recently amended retirement plan and the participant Distribution Option Election Form.
 - A. Verified payments were made in accordance to the former participants chosen option on the Distribution Option Election Form.
 - B. Determined the distributions were in compliance with IRS guidelines.
 - C. Reviewed the quantity and status of outstanding checks from the pension fund.
- III. Ensured payments were properly reported to the respective agencies in accordance with state law or Pension plan requirement.
 - A. Agreed the supporting documentation for refunds processed in 3Q 2012 to the quarterly Retirement Activity Report.

Abbreviations

DOL	Department of Labor
HR	Human Resources
IA	Internal Audit
IRA	Individual Retirement Account
IRS	Internal Revenue Service
OPEB	Other Post Employment Benefits
SSA	Social Security Administration

Major Contributors to This Report

Latona Thomas, CPA, Internal Audit Division Manager
Steven Harper, Auditor-in-Charge

Final Report Distribution List

Tony Hagler, Human Resources Director
Jim Pehrson, CPA, Finance Director/Comptroller
Cobb County Audit Committee
Internal Audit Division File

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective action(s) will have on County governance. These benefits will be incorporated into our annual report to the County Manager and Board of Commissioners.

Type and Value of Outcome Measure:

- Increased Pension Fund Revenue/Revenue Protection – Actual; \$36,613¹³ annual average in the elimination of overpayments. (See page 5).

Methodology Used to Measure the Reported Benefit:

We recalculated the non-vested pension refunds that were initiated in 1Q FY2013 due to errors in the calculation template HR was using. We applied the calculated error rate to a five-year history to determine the potential overpayments made during that time.

Type and Value of Outcome Measure:

- Reliability of Information – Recommendations, when implemented, will provide assurance of the completeness and accuracy of non-vested pension refunds. (See pages 4 - 12)

Methodology Used to Measure the Reported Benefit:

Based on fieldwork, we estimated the average amount of refunds paid to be \$902,462 annually over the past five calendar years of 2008 through 2012.

Type and Value of Outcome Measure:

- Reliability of Information – Recommendations, when implemented, will provide assurance that data is accurate for reporting and decision making purposes. (See page 10)

Methodology Used to Measure the Reported Benefit:

Audit reviewed the source documentation used to compose the contribution refund data on the 3Q FY2012 Retirement Activity Report.

¹³ Average overpayments over the last five calendar years of 2008 through 2012.


Human Resources Director Response



Anthony B. Hagler
Director

MEMORANDUM

DATE: September 6, 2013

TO: Latona Thomas, CPA, Manager, Internal Audit 

FROM: Tony Hagler, Human Resources Director

SUBJECT: Response to the Internal Audit Division's Draft Report – Review of the Controls Over Non-Vested Pension Refunds

This memo is in response to the subject report dated August 16, 2013. The review determined the process for calculating and processing refunds is inefficient, does not provide adequate assurance that all persons due a refund are identified, and is not documented. You made several recommendations and our response to those recommendations are provided below.

The Human Resources Director should:

Recommendation 1: Ensure the continued use of the template provided by Cavanaugh Macdonald but revise the correspondence to indicate the initial calculation is an estimate and may be revised pending final distribution date. Ensure updated templates are obtained from the actuary for use in successive years prior to the beginning of each new year.

Response: Concur

Human Resources will update the template provided by the actuary with the current year date. HR will develop a standard operating procedure to have this review completed in January each year by the actuary and the form dated. An HR Coordinator will be assigned this task to complete by January 1, 2014.

Recommendation 2: Consult with Pension Attorney to determine the County's options or requirements to pay interest beyond the designated holding period. Consider revising the Pension Plan based on the outcome.

Response: Concur

The HR Director will consult with pension attorney and revise procedure and/or plan document as recommended by January 1, 2014.

Recommendation 3: Develop and implement a process to pull a periodic report of non-vested former participants from the County's payroll system and ensure the process for distributing refunds has been initiated for each person. Additional recommendations include, but are not limited to:

- Continue to monitor the progress of each distribution;
- Coordinate with Information Services on a more efficient tracking mechanism;
- Limit access to authorized HR staff only; and
- Designate an HR Manager to periodically review and initial the results as evidence the process was properly completed.

Response: Concur

Human Resources will develop and implement process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. This task will be assigned to an HR Manager to set up by January 1, 2014.

Recommendation 4: Develop and implement a process to periodically reconcile the SunTrust non-vested refund check register to the report referenced in Recommendation 3 to ensure that only qualified participants or their beneficiaries receive a refund. An HR Manager review and approval of the results should also be included.

Response: Concur

Human Resources will develop and implement process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. This task will be assigned to an HR Manager to set up by January 1, 2014.

Recommendation 5: Research and verify the accuracy of the discrepancies identified during our testing, as described previously.

Response: Concur

An HR Manager and an HR Coordinator will be assigned the task to complete this testing and review by December 1, 2013.

Recommendation 6: Establish a generic email account to handle participant responses and designate a primary Human Resources staff and backup. Update refund distribution correspondence and include this process in written procedures.

Response: Concur

Human Resources already has a designated e-mail for benefit inquiries, benefits@cobbcountry.org. A number of staff are assigned to check this e-mail daily.

The part-time employee assigned to support the refund of pension contributions will be assigned this task and to develop and SOP for monitoring by an HR Manager and an appropriate backup for this function will also be assigned by October 1, 2013.

Recommendation 7: Develop written procedures and implement a process for monitoring outstanding checks and locating individuals to whom they are payable. The process should define the time frame for performing searches and determine what documentation is needed to verify the outcome of each search effort. The HR Director should also consider the use of a locator service such as that offered by SunTrust, if deemed cost beneficial.

Response: Concur

Human Resources will develop and implement process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. Sun Trust will be contacted as soon as possible regarding locator service. This task will be assigned to an HR Manager to set up by November 1, 2013.

Recommendation 8: Develop, document, and implement a process to analyze source documentation and make appropriate adjustments accordingly to ensure summary reports are accurate. Management level review of information should be required prior to publishing.

Response: Concur

Human Resources will develop a standard operating procedure for the development of the quarterly activity report to ensure that summary reports are accurate, identify source data and accurately reflect source documentation used to create the report. An HR Coordinator will be assigned this task to complete by January 1, 2014.

Recommendation 9: Provide quarterly 'Retirement Activity Report' to the Plan's Board and periodically review for continued appropriateness and applicability.

Response: Concur

Human Resources converted this from a monthly report to a quarterly report in 2012. This report is provided to the Board of Trustees without request and published on the Board of Trustees website. The HR Director will ask the Board of Trustees to review and comment on the report and whether it is desired by the Board to continue to receive and publish on their web site By January 1, 2014

Recommendation 10: Document the procedures for the refund process to include management approval required. HR staff should be familiar with the various steps and parties involved. The process should also include time frames for following up with former participants when no response to the distribution election form is received.

Response: Concur

Human Resources will develop and implement process with a standard operating procedure to be performed by the HR Coordinator and reviewed by the HR Manager. This task will be assigned to an HR Manager to set up by November 1, 2013.

Recommendation 11: Ensure that all checks are mailed directly to the payee or their designated financial institution. No HR employee should take physical control of a refund check on behalf of a former participant. This should be documented in desk procedures and included in employee education as outlined in the previous recommendation.

Response: Concur

Human Resources will develop and implement process with a standard operating procedure. This task will be assigned to an HR Manager to set up by November 1, 2013.

The Pension Plan Board of Trustees should:

Recommendation 12: Update the SunTrust Bank contract addendum to reflect the current authorization levels of both Plan Board members and HR staff. These authorizations should be changed immediately upon notification of changes in Plan Board or HR staff members. Authorizations should also be reviewed periodically and updated as needed.

Response: Concur

Current authorization levels were updated in May 2013 with the retirement of Senior HR Specialist and the reorganization of the pension administration in the Human resources Department. Authorization levels have historically only been reviewed and updated when there is a change in assigned staff. Human Resources will add a review date to our database to review authorization levels with the Chair of the Board of Trustees in January of each calendar year.

Recommendation 13: Familiarize themselves with the benefit administration processes and periodically review disbursements, refunds, and other administrative changes to ensure the Plan's administration remains consistent with the Pension Plan's design.

Response: Disagree and recommend alternate solution.

The Board of Trustees is not chartered with responsibility for plan administration or benefit design. Those responsibilities rest with the Board of Commissioners and the County Manager. Human Resources recommends that Internal Audit be charged with a

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periodic audit of these processes and report findings and recommendations to the County Manager.

Recommendation 14: Periodically review the current applicability of existing contract provisions. Also, research and document whether the Pension Plan Board is required to comply with County purchasing policies.

Response: Concur and recommend alternate solution.

Human Resources concurs and since the contract for services serves the Board of Trustees and Benefit Administration, Human Resources recommends that there be a periodic review or marketing of these services that meet Purchasing guidelines.

Pension Board Chair Response



COBB COUNTY FINANCE DEPARTMENT

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James Pehrson, CPA
Director/Comptroller

DATE: September 9, 2013

TO: Latona Thomas, CPA, Manager, Internal Audit

FROM: Jim Pehrson, Director Finance/Comptroller

SUBJECT: Response to the Internal Audit Division's Draft Report - Review of the Controls Over Non-Vested Pension Refunds

You provided two recommendations that require our action and our response to those recommendations are provided below.

The Pension Plan Board of Trustees' should:

Recommendation 12: Update the SunTrust Bank contract addendum to reflect the current authorization levels of both Plan Board members and HR staff. These authorizations should be changed immediately upon notification of changes in Plan Board or HR staff members. Authorizations should also be reviewed periodically and updated as needed.

Response: Agreed. Document will be updated per any changes in Plan Board and upon notification from HR Director on relevant changes within his department.

Recommendation 13: Familiarize themselves with the benefit administration processes and periodically review disbursements, refunds, and other administrative changes to ensure the Plan's administration remains consistent with the Pension Plan's design.

Response: Agreed.

Recommendation 14: Periodically review the current applicability of existing contract provisions. Also, research and document whether the Pension Plan Board is required to comply with County purchasing policies.

Response: It is my assessment that the resolution of 11/10/92 confirmed the Pension Fund Board of Trustees fiduciary responsibility and authority to enter into contracts specific to the administration and management of the Pension Plan.

"The Board of Trustees is charged with administering fully and managing financially the Pension Fund for County employees including the necessity of hiring financial and legal experts from time to time to assist with the administration of said funds; the Board has the responsibility of selecting and retaining investment managers and a custodian for all assets of the Pension Plan."

Previous Board actions have confirmed this authority when entering into contracts with financial and legal experts.



James O. Pehrson