

City of Providence

Independent Accountants' Report on Agreed Upon Procedures

City of Providence

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Independent Accountants' Report on Agreed Upon Procedures

We have performed the procedures included in Schedules A and B of this report, which were agreed to by the City of Providence (the specified party), solely to assist you with reviewing the files of disability pension recipients of the City of Providence as of August 15, 2011. The City of Providence's management is responsible to ensure that all necessary information for the test period has been provided to enable all agreed upon procedures to be performed completely and accurately. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Schedules A and B either for the purpose for which this report has been requested or for any other purpose.

Our agreed-upon procedures, related findings, and recommendations follow this report.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the files of disability pension recipients of the City of Providence. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Providence and is not intended to be and should not be used by anyone other than this specified party.

Sullivan & Company CPAs LLP
Providence, Rhode Island
February 14, 2012

CITY OF PROVIDENCE
Agreed-Upon Procedures and Related Findings
Schedule A

The following list identifies the agreed-upon procedures performed by Sullivan & Company CPAs LLP (“Sullivan”) and the related findings:

Initial Disability Approval Process

Procedure: On a sample basis, we reviewed disability pensioners’ files for the Application for Disability Retirement or Application for Accidental Disability Retirement.

Findings: The City of Providence provided Sullivan with a listing of 600 current disability pensioners as of August 15, 2011. In performing this procedure, we selected a sample of 154 pensioners. The following table is a summary of the sample population’s attributes:

Retirement Dates	Disability Type			Total
	Ordinary	Accidental	Beneficiary	
1/24/08 – 1/1/11	3	6	30	39
4/29/99 – 12/28/07	17	43	0	60
1/29/88 – 12/21/95	0	54	1	55
TOTALS	20	103	31	154

The City of Providence maintains two standard application forms for disability applicants. Form B is an application for ordinary disability, and Form C is an application for accidental disability. Any individual requesting consideration for disability is required to complete one of these two forms.

Among the population we observed, the employee files of 147 of 154 pensioners contained a disability application. The following table summarizes these results by retirement date category:

Retirement Dates	Application in File	Total Files	Percentage
1/24/08 – 1/1/11	39	39	100%
4/29/99 – 12/28/07	56	60	93%
1/29/88 – 12/21/95	52	55	95%
TOTALS	147	154	95%

Among the four files noted as missing from the April 29, 1999 to December 28, 2007 population, we noted that two pensioners’ files contained applications for accidental disability, but the individuals were

awarded ordinary disability pensions by the Retirement Board. Therefore, the files contained an application, but we have identified them as missing since the applications were for a different form of disability.

Procedure: For those disability pensioners in the sample with an accidental disability, we reviewed their files for documentation from the department indicating that the individual's injury was sustained while on duty.

Findings: Article VI, Section 17-189, paragraph 5 of the Code of Ordinances for the City of Providence states, in part:

“Medical examination of a member for accidental disability and investigation of all statements and certifications by him or on his behalf in connection therewith shall be made upon the application of the head of the department in which such member is employed, or upon the application of the member, or of a person acting in his behalf, stating that such member is physically or mentally incapacitated for the performance of the duties the member was performing at the time of the accident, as a natural and proximate result of an accident while in the performance of duty, and certifying the definite time, place and conditions of such duty performed by said member resulting in such alleged disability . . .”

As part of the application and approval process, the City's current policy is to require separate documentation from the department head certifying that the injury occurred while the applicant was on the job. While some departments complete and submit an *Injured on Duty* form, the City does not mandate that a specific form be used. As a result, many different forms and letters are used by departments to comply with this aspect of the ordinance.

The following results were observed in performing this procedure:

Retirement Dates	Documented Injury on Duty	Total Accidental Disability Files	Percentage
1/24/08 – 1/1/11	5	6	83%
4/29/99 – 12/28/07	29	43	67%
1/29/88 – 12/21/95	22	54	41%
TOTALS	56	103	54%

Since each department within the City has the discretion to use any form it chooses to certify that the injury occurred on duty, the search for this documentation within the 103 files we examined was time consuming. The use of a specific form, similar to those used for the accidental and ordinary applications, would provide a level of uniformity throughout all departments of the City and improve this process.

As illustrated above, the statistics indicate that the documentation was found more often in the files of pensioners with recent retirement dates. Among the six accidental disability pensioners with retirement dates between January 24, 2008 and January 1, 2011, 83% had documentation from the department indicating the injury occurred while the employee was on duty. For the population of accidental disability pensioners with retirement dates between April 29, 1999 and December 28, 2007, 67% of the files contained a notification from the department indicating the injury occurred while the employee was on duty. Finally, for the population of disability pensioners with retirement dates between January 29, 1988 and December 21, 1995, only 41% of the files contained documentation from the department that the injury occurred while on duty.

Procedures: We reviewed the pensioner's file for evidence of the disability approval process, including:

- Medical reports from three examining physicians
- Evidence of approval by the Retirement Board
 - NOTE: Per conversation with the Pension Administrator, Board approval is evidenced by minutes of the Retirement Board meeting. The pensioner's file did not contain a copy of the minutes when the respective pensioner was approved. Sullivan utilized approval letters issued by the Pension Administrator for each selected pensioner as evidence of this approval process.

Findings: Article VI, Section 17-189, paragraphs 3 and 5 of the Code of Ordinances for the City of Providence require that applicants for ordinary and accidental disability be examined by three physicians engaged by the Director of Personnel. If the examining physicians report and certify to the Retirement Board that the applicant is incapacitated for the performance of duty, the Retirement Board will retire the member for either ordinary or accidental disability. To verify that both the medical review and Board approval had occurred, we examined the disability pensioners' files for the required medical examination forms and the Board's authorization.

The following results were observed in reviewing the files for medical reports:

Retirement Dates	Medical Examinations Documented	Total Files	Percentage
1/24/08 – 1/1/11	39	39	100%
4/29/99 – 12/28/07	60	60	100%
1/29/88 – 12/21/95	51	55	93%
TOTALS	150	154	97%

Nearly all of the files observed contained copies of the medical reports performed by the three physicians retained by the Director of Personnel. For the sample population with retirement dates from January 29, 1988 to December 21, 1995, three of the 55 files did not contain the three medical examination reports, and a fourth file was not located so we were unable to examine the records.

In reviewing the pensioners' files for evidence of the Retirement Board's approval of the disability application, we noted the following:

Retirement Dates	Board Approval	Total Files	Percentage
1/24/08 – 1/1/11	37	39	95%
4/29/99 – 12/28/07	59	60	98%
1/29/88 – 12/21/95	39	55	71%
TOTALS	135	154	88%

In total, 88% of the 154 files examined contained documentation that the Retirement Board had approved the applicant's disability. While the files from April 29, 1999 to December 28, 2007 and those from January 24, 2008 to January 1, 2011 exhibited compliance rates above 95%, the files from January 29, 1988 to December 21, 1995 included the Board approval documentation only 71% of the time.

Benefit Calculation

Procedure: For a sample of disability pensioners, we reviewed the benefit calculation performed at the time of the pensioner's disability retirement. This will include:

- A review of the pensioner's file for wage documentation supporting the calculation.
- A review of the calculation to determine how the benefit was determined and that the calculation was consistent with the ordinance in place at the time of the pensioner's disability.

Findings: We reviewed documentation in a sample of the disability pensioners' files and we made inquiries of personnel in the retirement office to gain a better understanding of the procedures used to calculate final compensation. Based on those discussions and our review of the documents, we observed that the final compensation calculation is a manual process within the retirement office.

The process begins when the Assistant to the Pension Administrator is advised of an employee's approved disability application. As noted in the definition of final compensation, payments for overtime or extra duties are not included in the calculation. The two components of final

compensation are the employee's base pay, and any longevity pay the employee is entitled to, based on their years of service. The Assistant to the Pension Administrator obtains the employee's hourly wage information from Lawson, the City's payroll system. To this hourly wage amount, she applies an appropriate longevity factor based on years of service. The combined base hourly rate plus longevity is multiplied by the employee's standard weekly hours and the number of weeks from the effective date of that pay rate to the retirement date. For purpose of disability pensioners, the retirement date is the date the disability pension starts.

For example, if the employee received a pay increase six weeks before their disability was approved, then the current hourly wage plus longevity would be multiplied by the employee's standard weekly hours and multiplied by 6 weeks. If the previous pay rate was in effect for a full year, the Assistant to the Pension Administrator would use 46 weeks at that previous rate plus longevity to arrive at the average compensation for the last year of employment. For pensioners whose final compensation was to be based on three years, a similar calculation would be performed on the two preceding periods and the average of the total compensation for those three years would be determined.

The scenario described above is used when the final three years of compensation contain the employee's highest pay rates. If an employee worked out of rank in an earlier year, that pay rate may be used in determining the final compensation even if it wasn't during the last three years of employment. For example, if a city worker with a retirement date of 1/1/2011 worked at a higher step position for a three month period during 2005, the pay rate from those three months would be included in the calculation if that rate is higher than the pay rates during 2010, 2009 and 2008. Thus, the calculation is attempting to capture the highest 156 weeks of compensation and not necessarily the highest three years.

Once the final compensation has been manually calculated by the Assistant to the Pension Administrator, a *Report of the Examiner-in-Charge to the Actuary* is completed and signed by the Pension Administrator. This form lists the employee's name, registry number, date of birth, sex, date of retirement and type of retirement. In addition, it contains the years, months and days of service, the average compensation (as manually calculated above), the total contributions by the employee into the plan, the amount of any outstanding loan balance, the employee's class and group, and the proposed beneficiary information.

This form is forwarded to the retirement plan's actuary for calculation of the appropriate benefit amount under the options available to the employee. The actuary returns two forms to the City: *Preliminary Report*

of Actuary and Preliminary Retirement Allowance Figures. The *Preliminary Retirement Allowance Figures* report contains the monthly payment amounts under each of the options available to the employee. The Assistant to the Pension Administrator examines the figures on the actuary reports against their calculation to determine if the amounts are in agreement. If the manual calculation does not agree to the actuary's reports, then the Assistant to the Pension Administrator will contact the actuary in an effort to determine the cause of the discrepancy. If the figures are in agreement the pensioner is presented with the figures and must select one of the payment options.

For the procedures listed above, we performed the following specific steps:

- Obtained supporting hourly wage documentation from Lawson or predecessor payroll systems, if necessary.
- Obtained the manual calculation contained in each disability pensioner's file.
- Matched the hourly wage documentation from the payroll system to the rates used in the manual calculation for each period.
- Assessed the accuracy of the longevity percentage and rate by comparing the longevity calculated by the Assistant to the Pension Administrator to the longevity table provided by the retirement office.
- Also assessed the longevity percentage against the employee's years of service as documented in the personnel file.
- Re-performed the manual calculation and agreed the resulting final compensation amount to the *Report of the Examiner-in-Charge to the Actuary.*

We attempted to perform these steps for the following sample population:

Retirement Dates	Total Files
1/24/08 – 1/1/11	9
1/29/88 – 12/21/95	55
TOTALS	64

The following results were observed when performing these procedures:

- The payroll information was not retained within the employees' files as evidence supporting the manual calculation. As a result, the calculation could not be independently re-performed from the files without obtaining this information from the payroll systems.

- For the sample of nine files with retirement dates ranging from January 24, 2008 to January 1, 2011, all of the calculations were based on three year average compensation, as described above. For each of the members of this population, the three highest years also corresponded with the last three years of employment.
- For the sample of 55 individuals with retirement dates between January 29, 1988 and December 21, 1995, the employee file could not be located for one of the pensioners. Therefore none of the procedures could be performed on that file.
- When observing the longevity rates used for the 54 available files in this population, we noted apparent errors in two of the calculations. For one of the pensioners, the longevity percentage applied appeared too low based on the rates supplied by the retirement office. For the other pensioner, the longevity rate appeared to be too high.
- We were unable to re-perform the manual calculation using the wage and other supporting documentation provided for four of the files in our sample.
- Sixteen of the 50 files included one week of compensation for a contractual raise from July 1, 1989 to July 10, 1989. We were unable to agree this contractual raise to supporting documentation for verification of these manual calculations.
- For four of the manual calculations, the number of weeks used at a given pay rate appear not to agree to the number of weeks the pay rate was effective according to the supporting payroll documentation.
- The manual calculations within the files did not contain any support for the weekly hours worked by the employee. We inquired of the Assistant to the Pension Administrator who advised us that the standard hours were 37.5 for Police Department employees and 40 hours for Fire Department employees. These hours were used in attempting to verify the accuracy of the manual calculations. In addition, employees of other City departments' hours ranged from 35 to 40 hours per week.

Annual Re-certification Process

Procedure: On a sample basis, review the disability pensioner’s file for evidence of the annual re-certification process.

Findings: Article VI, Section 17-189, paragraph (7) of the Code of Ordinances for the City of Providence states:

“Re-examination of members retired on account of disability: Once each year the Director of Personnel may, and upon the application by a disability pensioner shall, require any said pensioner if under the minimum age for service retirement to undergo a medical examination, such examination to be made at the place of residence of the pensioner or other place mutually agreed upon, by a physician or physicians engaged by the Director of Personnel.”

Following are the results of this procedure:

Retirement Dates	Re-certification Forms		Files requiring Recertification		Total Files Tested	Percentage on File	
	2009	2010	2009	2010		2009	2010
1/24/08 – 1/1/11	2	0	9	9	39	22%	0%
4/29/99 – 12/28/07	39	40	60	60	60	65%	67%
1/29/88 – 12/21/95	35	42	54	54	55	65%	78%
TOTALS	76	82	123	123	154	62%	67%

Of the original selection of 39 files, 30 pensioners are beneficiaries and not the original employee. Some of these individuals had re-certification forms from 2009, but none had them for 2010. Per inquiry of the retirement office, there is no requirement for a beneficiary to file a re-certification form when the original employee has passed. Based on the “retirement dates” for these individuals, it makes sense that there are no re-certifications in 2010. The retirement date for the beneficiaries is the date the original employee died and the benefit transferred to the beneficiary.

CITY OF PROVIDENCE
Report on Recommendations
Schedule B

Based on the findings in our report on the review of the files of disability pension recipients of the City of Providence (the "City"), we have developed the following recommendations for improving the City's administration of the pension process.

1. Due to the manual pension approval and ongoing maintenance processes that are currently in place in the Retirement Office, the City should implement a software system that will automate all processes. Through this implementation, processes will become streamlined, pensioners' files will become standardized, and the risk of human error will be substantially reduced. As an effect, the overall burden being placed on the Retirement Office will be lessened. In addition, all files will be electronic based, eliminating the hazard of misplaced or lost files. These files and system will also have the capability of being backed up each night or at the discretion of the network administrator. This IT based project could also allow for essential data to be made available to all current City workers on a real time basis. With a web based system featuring a secure login, City employees would no longer need to periodically review their future pension options with the Retirement Office; rather they could go online at any time to review their alternatives.

2. On a prospective basis, the City should immediately begin to scan all new pensioner files onto the City's network. As part of this process, the Retirement Office should develop a checklist of documents needed within each file. This would help to facilitate the standardization of pensioners' files. The consistency of the files is vital to ensuring a streamlined process in the Retirement Office. Standardized pension forms should also be instituted across all departments within the City. To be specific, we have found that some departments are completing and submitting an *Injured on Duty* form, while other departments are using other forms of documentation. This type of policy makes uniformity unattainable. In addition, while reviewing pensioners' files, we found that many source documents, such as payroll data, union contracts, or city ordinances were not retained within individual files. The Retirement Office should consider retaining all source documentation for the benefit calculation within each pensioner's file. This will make certain that all future examinations of a pensioner's benefit calculation be done timely and efficiently.

3. The City should create a central depository of all essential binding documents, including but not limited to, city ordinances, union contracts, memos of understanding, and arbitration awards. During the course of our procedures, we found that many documents required weeks to procure. This depository should remain in place even during changes in administration.
4. The City law department should seek to remove all ambiguity currently found in the city ordinances, etc. Clarification should be developed for terms such as "highest three years of compensation". Fundamental terms, such as this, should not be left for interpretation.
5. The City law department should prepare a written brief when changes in city ordinances or union contracts affect the Retirement Office. These briefs should outline the changes and be provided to the Pension Administrator on a timely basis. This process will ensure that changes go into effect at the appropriate point in time.
6. The Retirement Office should implement and adhere to the policy of two signoffs on all benefit calculations. When manual processes are in place, the risk of human error is especially prevalent; the review process is the key control to ensure that an error that does occur is identified and corrected prior to the calculation leaving the Retirement Office. We noted when we reviewed pensioners' files that certain benefit calculations had dual signoffs while others did not.
7. The Retirement Office should cross train all employees to further standardize the processes within the department. The current turnover in the department has made it the ideal time to start this process. Our review found that there was only one person within the department that could answer certain questions related to files that were created a number of years ago. Standardization and further training would alleviate this problem in the future.
8. The City should commission a more comprehensive internal review of previous benefit calculations. This retrospective review should include ordinary retirement benefit calculations and not just disability calculations. Although the error rate found within the sample was small, it would be prudent to expand on the sample to garner further confidence in the accuracy of the calculations.
9. A systematic ongoing review process should be established by the City's Internal Audit department to ensure benefit compliance as well as the accuracy of benefit calculations. This function will allow for continual monitoring without the burden of reviewing approximately 30 years of documents and 3,000 pensioners' files. A yearly audit will create a significantly smaller population, which in turn will allow for better sampling results.

10. In addition to further training in the Retirement Office, the department should create a formal policies and procedures manual to be followed by all employees. This would lessen the need for the requirement of internal institutional knowledge that was found to be necessary to complete our review.