

Pension Management Consultant
Pension Operations and Internal Controls
Assessment – Report Findings

Presented to:



City of Portland

Bureau of Fire and Police Disability and Retirement

prepared by:



A Professional Corporation of Certified Public Accountants

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INTRODUCTION

Perkins & Company, P.C. (Perkins) is pleased to present this report to the management and Board of Trustees of the City of Portland, Bureau of Fire and Police Disability and Retirement (FPDR). We are available to discuss our work in greater detail if you wish.

SCOPE AND APPROACH

Perkins was engaged to conduct a comprehensive assessment of the existing policies, procedures, methodology and data collection tools used by FPDR for its Tier 1 and Tier 2 retirement programs. The research and analysis phase was conducted as follows:

- Clarified and confirmed scope, objectives and logistical details with FPDR staff and management.
- Reviewed various documents relating to FPDR, including:
 - Chapter 5 of the City of Portland's Charter, FPDR Administrative Rules, a sampling of police and fire union collective bargaining agreements, Board of Trustees minutes, internal policies/procedures and data reports provided by FPDR.
- Interviewed FPDR's director, FPDR finance team staff, and other City of Portland staff as appropriate.
- Reviewed a sampling of pension files representing the most common activities, including:
 - Basic retirement, disability retirement, Domestic Relation Orders (DROs), member's death prior to or after retirement and members pre-deceasing their spouses.
- Reviewed security and data integrity controls with FPDR Information Technology (IT) personnel.

Our analysis was not designed to express an opinion on FPDR's operations and internal controls, and we do not express such an opinion. As you know, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls.

In performing our engagement, we relied on the accuracy and reliability of certain information provided by FPDR personnel. We have not audited, examined, or reviewed the information provided by FPDR personnel, and express no assurance on it. This report is intended solely for the information and use of FPDR management. This report is not intended to be and should not be used by anyone other than those groups.

EXECUTIVE SUMMARY

We worked with FPDR staff throughout our comprehensive assessment of Tier 1 and Tier 2 retirement programs. Our analysis was forward-looking and included reviews of FPDR's operational processes, procedures, controls, data collection tools and methods. Below is a summary of our findings - including both strengths and weaknesses - and a list of recommendations. Our recommendations are grouped by assessed risk, which is intended to assist FPDR management in prioritizing the implementation of the recommendations.

Overall Strengths Identified

Board of Trustees Governance

The Board of Trustees (the Board) regularly reviews programs and services to ensure that they are tied to specific outcomes and FPDR's mission. We also found that the Board, through regular meetings, discussed and sought resolutions to all pertinent issues affecting FPDR. This clearly indicates that the Board is heavily involved with the Governance and Operations of FPDR. This tone at the top is a key strength of FPDR.

Business Operations Manager's understanding of the Plan's Charter and Administrative Rules

The Business Operations Manager at FPDR displays a very strong knowledge and understanding of the Plan's Charter and Administrative Rules. The Business Operations Manager is consistently relied upon for interpretation of the plan Charter and Administrative Rules and their application to varying situations created by members, future members and potential members (which include members' beneficiaries and alternate payees) of FPDR. We noted the Business Operations Manager consulting and communicating with the Senior Legal Assistant and the Deputy City Attorney to ensure an accurate interpretation of the Plan's Charter and Administrative Rules.

Business Operations Manager's review of details and involvement in the day to day operations of FPDR

The Business Operations Manager performs a detailed review of many types of supporting documentation, provides substantial oversight of employees and is heavily involved in the day to day operations of FPDR. This includes reviewing pension estimates for active members, pension benefit calculations for new retirees, DRO calculations, calculations of funeral and death benefits, calculations of terminated members' pension benefits, etc. The Business Operations Manager also reviews monthly reports and reconciliations prepared by the Pension Benefits Coordinator and others for accuracy and completeness. The reviews performed by the Business Operations Manager are key controls for ensuring the accuracy of pension benefit disbursement amounts and have detected errors in the past.

Manual controls implemented to compensate for the limitations posed by existing IT system

FPDR has implemented numerous manual processes and controls to ensure the accuracy of pension benefits paid to members. These controls include, amongst others, the use of Excel workbooks to track and reconcile changes within the FoxPro system, tracking new member retirements, tracking tax withholding changes and manually calculating pension benefits. These controls are performed by FPDR staff to compensate for the limitations posed by the existing database software system. The manual controls performed by FPDR staff are essential to prevent and detect errors related to pension benefit calculations and payments.

Education of members of Police and Fire Bureaus of retirement benefits and the supporting calculation

FPDR conducts pension workshops semi-annually for fire and police personnel. The purpose of these workshops is to educate fire and police personnel of their pension benefits and how they are calculated. These workshops are designed to help members within 20 years of retirement ease into the financial and psychological transition towards retirement. Each workshop includes presentations by FPDR detailing pension benefits and their calculations and gives fire and police personnel a chance to get answers to questions they might have. These workshops are avenues for educating members on key points of the Plan's Charter and Administrative Rules as well as a way to clarify questions and address and prevent any potential problems with members before they occur.

Business Process Breakdown

Estimates and Retirement Process

This process includes activities that arrive at the calculation of the pension benefit, the preparation of the pension application and other documents that are required when a member retires from active service. This process also includes activities that arrive at the preparation of pension benefit estimates at the request of bureau members who wish to learn of their future benefits while in active service.

Key Controls Identified

- The Pension Benefits Coordinator uses SAP pay rate information, confers with the bureaus when there are questions and, for retirees, reconciles the final pay estimate to pay reports received from the City's central payroll department for the purpose of the determination of final pay (**Key Control 1**)
- The Business Operations Manager reviews estimates, pension calculations and other reports prepared by the Pension Benefits Coordinator for completeness and accuracy (**Key Control 2**)

Weaknesses and Opportunities for Improvement Identified

MODERATE RISK

- At times, retirees/members find that the pension estimate spreadsheet is not user friendly and is difficult to understand (**Recommendation 1**)
- We noted certain instances of incomplete and/or incorrect member data within the FoxPro system and member paper files (**Recommendation 2**)

LOW RISK

- The documents requiring review by new retirees do not contain a document with frequently asked questions (**Recommendation 3**)

Termination Process

This process includes activities that arrive at the calculation of the estimated pension benefit and earliest date of retirement for members who are vested and have terminated their employment with the Fire or Police Bureau, after they have been vested in FPDR. The process also includes the calculation of the lump-sum benefit for members who have terminated their employment but are not yet vested in FPDR.

Key Controls Identified

- The Pension Benefits Coordinator uses SAP pay rate information, confers with the bureaus when there are questions and reconciles the final pay estimate to pay reports received from the City's central payroll department for the purpose of the determination of final pay (**Key Control 1**)
- The Business Operations Manager reviews estimates, pension calculations and other reports prepared by the Pension Benefits Coordinator for completeness and accuracy (**Key Control 2**)

Weaknesses and Opportunities for Improvement Identified

MODERATE RISK

- Certain terminated vested members waiting to reach their earliest retirement date have not been notified of the change to their future pension benefits because of the correction of the additional tax offset benefit (**Recommendation 4**)

LOW RISK

- Certain instances were noted where personnel orders notifying FPDR of terminations were not received on a timely basis from the Fire and Police Bureaus (**Recommendation 5**)

Member Death Process

This process includes activities that are performed upon the death of a member prior to or after retirement. These activities include the calculation of the funeral benefit and any final pension benefit payment of the deceased member and calculation of the surviving spouse or dependant minor child's (children's) first month and future pension benefits. The process also includes the preparation of the pension application of the surviving spouse or minor child (children).

Key Controls Identified

- The Senior Legal Assistant reviews and verifies the death certificate and other legal documents prior to processing payment of death benefits (**Key Control 6**)

Weaknesses and Opportunities for Improvement Identified

LOW RISK

- We noted one instance of communication of an inaccurate final benefit calculation of a deceased member's beneficiary's benefit due to the benefit not reflecting a cost of living adjustment (**Recommendation 6**)
- FPDR does not have a formal, documented policy outlining consistent procedures to adhere to regarding payments for the month in which a member or beneficiary dies (**Recommendation 7**)

Other Processes Involved

- Special Run

Domestic Relations Order Process

This process includes activities that are performed when FPDR receives a draft Domestic Relations Order (DRO). Activities include the preparation of the estimated future pension benefit of an active member, review of the DRO to ensure it is in compliance with the Plan's Charter and Administrative Rules, calculation of the deduction from member's pension benefit based on the terms specified in the DRO and preparation of the pension application of the alternate payee.

Key Controls Identified

- The City Attorney's Office reviews all DROs to ensure compliance with Plan's Charter and Administrative Rules (**Key Control 9**)

Weaknesses and Opportunities for Improvement Identified

MODERATE RISK

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- Certain instances were noted where DROs were accepted that were not in compliance with the Plan's Charter, Administrative Rules and/or state statutes regarding Domestic Relations Orders (**Recommendation 8**)
- Certain instances of failure to correct tax offset benefit amounts for alternate payees resulting in an incorrect deduction from the members' pension benefit (**Recommendation 9**)
- Certain instances were noted where alternate payees delayed receipt of benefits past the time now allowed in the Plan's Charter and Administrative Rules (**Recommendation 10**)

Other Processed Involved

- Estimates and Retirement Process

Disability to Pension Transition Process

This process includes activities performed by the Disability Accountant to ensure that all members on permanent disability, who have attained the mandatory retirement age, are moved from the disability system into the pension system and begin to receive pension benefits.

Key Controls Identified

- Disability Accountant ensures all members on permanent disability who have attained mandatory retirement age are brought into the pension system (**Key Control 7**)

Weaknesses and Opportunities for Improvement Identified

No specific weaknesses were identified in this process.

Annual Processes

This process includes activities performed annually or periodically such as conducting pension workshops, applying the cost of living adjustment (COLA) to pension benefits, issuing IRS Form 1099-Rs to members and updating tax withholding tables for federal and state requirements.

Key Controls Identified

- The Business Operations Manager reviews COLA reports to ensure that the yearly COLA update to the FoxPro database is accurately carried out (**Key Control 8**)

Weaknesses and Opportunities for Improvement Identified

HIGH RISK

- Certain instances of incorrect computation and withholding of Oregon state income tax and lack of review of withholding tax table updates to the FoxPro database (**Recommendation 11**)

LOW RISK

- Lack of review of the reconciliation between the FoxPro database and FPDR's accounting records performed by the Financial Analyst for 1099-R production (**Recommendation 12**)

Monthly Processes

This process includes activities performed monthly such as the regular monthly pension payment run; the processing and payment of the first month's pro-rated pension benefit payment for new retirees, surviving spouses or minor child (children) and alternate payees, the funeral benefit and final pension benefit payment for deceased members; and processing and payment of unvested benefits to terminated members. This process also includes processing changes to deductions from pensions such as third party payments, medical insurance payments and tax withholding.

Key Controls Identified

- The Business Operations Manager reviews estimates, pension calculations and other reports prepared by the Pension Benefits Coordinator for completeness and accuracy (**Key Control 2**)
- The Pension Benefits Coordinator reconciles the pre-edit report from the FoxPro database to the manually maintained master control spreadsheet to ensure that member changes have been captured in the FoxPro database (**Key Control 3**)
- The Senior Legal Assistant receives, reviews and approves all legal documents for third party payment deductions from pension (**Key Control 4**)
- The COBRA Coordinator and Pension Protection Act Coordinator reviews deduction reports from the Pension Benefits Coordinator to ensure medical deductions from members' pension benefits are complete and accurate (**Key Control 5**)

Weaknesses and Opportunities for Improvement Identified

HIGH RISK

- Dependence on several manual paper based processes. These processes are generally not as efficient as automated, computer based processes and are susceptible to manual error (**Recommendation 13**)

MODERATE RISK

- The Business Operations Manager does not review a summary of check and direct deposit payments after they have been printed to ensure the accuracy of payments (**Recommendation 14**)

Information Technology

In addition to the key operational processes described above, through discussions with management we identified the FoxPro system within FPDR as a critical system that supports the estimation and distribution of pension benefits to its members. We performed a limited assessment of the design of the IT processes and controls in place to manage this system. Our assessment did not include a detail assessment or detail testing of IT key controls.

Our approach considered best practices established by the Institute of Internal Auditors (IIA), Information Technology Infrastructure Library (ITIL) and Information Systems Audit and Control Association (ISACA). It included interviews of personnel including the onsite Senior Management Analyst, as well as the Business Operations Manager and other staff.

Additionally, we gathered system and process documents such as policies and procedures, examples of database and programming components from the FPDR system, examples of system documentation, evidence of reporting capabilities, user access reports and forms and documentation related to business continuity planning and IT disaster recovery. We also observed specific activities in order to confirm our understanding of the followed processes and procedures. Through our procedures, we noted that the FPDR system is an integrated pension, disability and accounts payable system. Currently, as part of FPDR's overall IT strategy, it is noted that FPDR is anticipating a request for proposal for a new/enhanced disability system and that significant optional enhancements to the pension portion of the integrated system are on hold until the disability direction is known. Therefore, our recommendations below are focused on improvements to the existing FPDR system and IT environment, as the possibility of a change to a completely new system is an unknown at this time.

Our scope focused on the following areas related to the FPDR system:

IT Environment and Support

This includes items such as the organization structure and defined roles and responsibilities. This also includes system documentation, programming guidelines, quality and assurance tools and release management tools for ongoing support.

IT Controls

This includes items such as user security and access to the FPDR system, processes and procedures for authorizing and testing system changes and physical and environmental controls over the IT equipment that resides at the Bureau.

Data Integrity and Reporting

This includes items such as the tools and controls in place to facilitate accessibility, validity and completeness of end-user reporting.

IT Strengths Identified

The bureau has assigned a dedicated IT resource, the Senior Management Analyst, to manage the day-to-day responsibilities associated with managing the system. The Senior Management Analyst appears to have a strong understanding of the bureau's business requirements and the system functionality and limitations. In addition, the Senior Management Analyst appears to have a solid understanding of the bureau's IT dependencies on the City's Bureau of Technology Services.

Weaknesses and Opportunities for Improvement Identified

HIGH RISK

- FPDR has relied on the IT programming resources of DMC West for almost two decades without a contingency plan **(Recommendation 15)**
- We did not observe a comprehensive privacy and identity theft prevention program in place to address liability issues associated with Personally Identifiable Information (PII) data **(Recommendation 16)**
- User access to the FPDR system is not appropriately restricted **(Recommendation 17)**
- There is not a formal process to test and verify changes to the FPDR system **(Recommendation 18)**
- The FPDR system audit logging and reporting capabilities could be enhanced **(Recommendation 19)**
- Numerous end-user reports are used and no documentation exists that supports testing of these reports for accuracy at the time of creation and/or if they are still valid. We also noted that few users have the knowledge and training to use the reporting tools **(Recommendation 20)**

MODERATE RISK

- IT physical, environmental and security controls could be enhanced **(Recommendation 21)**
- Unprotected cells exist in key spreadsheets and access to critical spreadsheets is not sufficiently limited **(Recommendations 22 and 23)**
- The FPDR system does not include edit and validation controls **(Recommendation 24)**
- The database design does not conform with industry best IT practices **(Recommendation 25)**

OPPORTUNITIES FOR IMPROVEMENT – SECTION 1

Activity Level and General Processes:

ESTIMATES AND RETIREMENT PROCESS

RECOMMENDATION #1 (MODERATE RISK) – PENSION ESTIMATE SPREADSHEET

Background: FPDR prepares a pension estimate spreadsheet that details the underlying data that is used to calculate the pension benefit of a member/new retiree and performs the calculation of the estimated pension benefit. The spreadsheet is complex and detailed with several rows and columns of data that drive the pension benefit calculation. Members/new retirees are asked to review key inputs on the spreadsheet to ensure that the pension benefit is accurately calculated.

Observation: The pension estimate spreadsheet is not user friendly for people unfamiliar with the spreadsheet. Many members/new retirees often find the spreadsheet to be too detailed and find that they cannot understand how the information contained in the spreadsheet is used in the calculation of their monthly pension benefit.

Risk/Opportunity for Improvement: Several key fields used in the spreadsheet are required to be confirmed by the members/new retirees upon retirement or when an estimate of their pension benefit is requested. Difficulty in understanding the pension benefit calculation and the estimate spreadsheet can lead to members/new retirees missing inaccurate information within the estimate spreadsheet when they perform their review. This in turn can lead to incorrect pension benefits being paid or estimated.

Recommendation: We recommend that FPDR create and provide to members a supplemental document to the pension estimate spreadsheet that contains a summary of the key data within the spreadsheet that members/new retirees must review to ensure that the pension calculation is accurate. This document should also explain the sections within the spreadsheet and the details of the calculations within the spreadsheet. This will help members/new retirees concentrate on critical information that needs their review which will enhance the accuracy of the pension benefit calculation. This may also result in a clearer understanding of the pension benefit calculation for the members/new retirees.

RECOMMENDATION #2 (MODERATE RISK) – ACCURACY AND COMPLETENESS OF MEMBER INFORMATION IN THE SYSTEM AND MEMBER FILES

Background: Personal information of members, such as the member's birth date, date of death, date(s) of marriage and divorce, date of birth of dependants, date of joining the bureau, date of retirement, DROs received, disability claim information, time loss information and the backup documentation to substantiate this data is maintained by FPDR in the FoxPro database or in individual member paper files.

Some of this data is used by FPDR to calculate the member's pension benefit in accordance with the provisions contained in the Plan's Charter and Administrative Rules. Other data is used to calculate death benefits for a member's beneficiary.

Observation: During the course of our review and detail testing, we found certain instances where date fields in member profile forms within the FoxPro database were either blank or dated 01/01/1900. We also found certain instances of duplicate documentation within paper files and instances of requests for vital records (like marriage certificates and birth certificates) from members that were either not received or filed and have not been followed up upon.

Risk/Opportunity for Improvement: Since pension calculations are largely based on the contents of the information contained in the FoxPro database and the member paper files, duplicate and/or missing information makes it more difficult to review the accuracy of the pension benefit calculation and creates an increased risk of errors. This also creates a risk that the death benefits will not be paid to a member's beneficiary in a timely manner, or will be paid without the required supporting documentation.

Recommendation: We recommend that FPDR perform a reconciliation process to verify information contained in the FoxPro database back to member paper files. This process should include follow-up with members to ensure that all relevant and necessary support and authorization has been obtained and retained in member files. We also recommend that, on an ongoing basis, FPDR develop a process to ensure timely receipt, follow-up reminders, and tracking of member documents and information requests made to members. This could be accomplished through an electronic tickler system that monitors member document requests and file completion status, or through an annual process of mailing profiles that highlight missing information from members and serves as a reminder to keep FPDR updated of changes in any of this information.

RECOMMENDATION #3 (LOW RISK) – FREQUENTLY ASKED QUESTIONS DOCUMENT

Background: FPDR prepares a package of documents that new retirees are asked to review at the time of retirement. The package contains information that is key to calculating the retiree's pension benefit and contains information such as the pension application form, pension benefit calculation, member's personal data form, monthly tax withholding spreadsheet, etc.

Observation: The package of documents does not include a list of frequently asked questions. As such, the current process requires that the Pension Benefits Coordinator answer the majority of questions that a retiree might have.

Risk/Opportunity for Improvement: Most retirees have similar questions that relate to medical insurance, compensation on which pension is based, taxes, etc. The Pension Benefits Coordinator currently verbally explains the key aspects of the administrative rules and provisions in the Plan's Charter to each retiring member during a face to face meeting.

Recommendation: As part of the package of documents that is reviewed with new retirees at the point of retirement, FPDR should include a document containing frequently asked questions and answers. This document should also be made available on the FPDR website for future member access. This may allow

the retiree to gain a better understanding of the entire retirement process, administrative rules and the provisions of the Charter and answer common questions that arise. This may also result in the Pension Benefits Coordinator spending less time answering duplicative questions, allowing for more time to focus on critical tasks.

TERMINATION PROCESS

RECOMMENDATION #4 (MODERATE RISK) – CHANGE IN PENSION BENEFIT NOTIFICATION

Background: When a member is terminated and is vested in the pension plan, FPDR generally notifies the terminated employee of their estimated pension benefit and earliest date of retirement. Estimated pension benefit includes base pension benefit and the tax offset benefit.

Observation: In July of 2008, it was discovered that FPDR had miscalculated the tax offset benefit for many of its members. The miscalculation lead to members receiving a larger tax offset of their pension benefit than was authorized by statute. In September 2008, FPDR informed affected retired members and all active members of the change in their benefits because of the revision in the calculation of the tax offset. However, terminated vested members who were not actively receiving pension benefits because they had not reached the earliest retirement date were not informed of the change in their estimated pension benefits the change in the tax benefit offset.

Risk/Opportunity for Improvement: Terminated vested members waiting to reach their earliest retirement date will not be aware of the change in their benefits and may plan to retire based on inaccurate information that was presented to them by FPDR upon their termination.

Recommendation: We recommend that FPDR identify and notify terminated vested members who have not reached their earliest retirement date of any change in benefits because of the correction to the tax offset benefit.

RECOMMENDATION #5 (LOW RISK) – CREATION OF MONTHLY TERMINATION REPORT

Background: When an employee from the Fire or Police Bureau is terminated and is vested in the pension plan, FPDR generally notifies the terminated employee of their estimated pension benefit and earliest date of retirement shortly after the termination. The estimated pension benefit includes base pension benefits and the tax offset benefit.

Observation: During the course of our review we found instances where personnel orders notifying FPDR of terminations were not received on a timely basis from the bureaus. A timely notification would be considered within one month of termination. This resulted in delays in informing terminated fire and police personnel of their estimated pension benefit and earliest date of retirement.

Risk/Opportunity for Improvement: Delays in informing fire and police personnel of their retirement benefits results in poor service to members of FPDR for failing to inform terminated employees of their benefits and earliest retirement date.

Recommendation: We recommend that FPDR create and use a monthly report detailing terminated fire and police personnel from within the SAP interface. This will allow FPDR to pull the detail of terminated fire and police members in a timely manner and inform terminated members of their estimated pension benefits and earliest retirement date.

As a result of the findings noted above, we understand that FPDR has already implemented procedures consistent with this recommendation.

MEMBER DEATH PROCESS

RECOMMENDATION #6 (LOW RISK) – FINAL BENEFIT CALCULATION

Background: When a member dies, FPDR calculates any final benefit that is payable to the member or beneficiary upon death as well as the funeral benefit and any benefit that a surviving spouse or minor children will receive. If the member does not have a surviving spouse or any minor children, the funeral benefit and any final benefit is paid to the estate of the deceased member. The benefits are based on the rules contained in the Plan's Charter.

Observation: Our testing revealed that in one case, FPDR had communicated an incorrect final benefit amount to the estate of a deceased beneficiary. However, the actual benefit was paid correctly due to the review process for the special run. The beneficiary died in the month of July 2009 and the final benefit amount was calculated based on the beneficiary's 2008 pension benefit before the application of the cost of living adjustment (COLA) increase for 2009.

Risk/Opportunity for Improvement: Incorrect communication of final benefit payments to the member's or beneficiary's estate can result in confusion and poor service to the survivors.

Recommendation: We recommend that FPDR implement a process to ensure that the Pension Benefits Coordinator reviews letters and forms the Senior Legal Assistant prepares to verify proper communication of benefit payments upon the death of members and beneficiaries.

RECOMMENDATION #7 (LOW RISK) – POLICY REGARDING OVERPAYMENTS TO MEMBERS AFTER DEATH

Background: When a member or beneficiary dies, the member's surviving spouse, the estate or authorized representative is required to inform FPDR of the member's death so that future benefit payments are stopped. In numerous cases, FPDR is informed of the member's or beneficiary's death after benefits for periods after the death have already been paid. FPDR then generally requests the member's surviving spouse or the authorized representative or estate to refund all such overpayments for full months following the death.

Observation: During the course of our review we found that FPDR follows an informal policy of not seeking to collect a partial month's benefit that was paid for the month the member or beneficiary died.

However, if FPDR is contacted before payment of the final month's benefit, the benefit is prorated to the date of the member or beneficiary's death. Thus, a family who contacts FPDR promptly is penalized.

Risk/Opportunity for Improvement: Inequitable distributions to members on account of the inconsistent application of an informal policy could create a legal vulnerability for FPDR.

Recommendation: We recommend FPDR institute a formal, documented policy and procedure to adhere to regarding the collection of all overpayments members after a member's or beneficiary's death. This policy should specifically address what is payable for the month of death.

DOMESTIC RELATIONS ORDER PROCESS

RECOMMENDATION #8 (MODERATE RISK) – COMPLIANCE ISSUES SURROUNDING DOMESTIC RELATIONS ORDERS

Background: The Plan's Charter and the Administrative Rules provide guidelines for the treatment and approval of a Domestic Relations Order (DRO). DROs are also governed by certain state statutes. These rules are complex and their interpretation often requires several rounds of review and revision by the member's legal counsel, the Deputy City Attorney, FPDR's Senior Legal Assistant and the Business Operations Manager. The final DRO and its interpretation set the basis for the amount to be deducted from the member's pension benefit.

Observation: In our testing we observed in one case that FPDR erroneously paid a member a higher benefit because of several miscalculations related to a DRO. These miscalculations occurred because of a misinterpretation of the DRO. In our testing we observed certain other cases where provisions contained in accepted DROs were not in compliance with the Charter and/or state statutes. Specifically:

- A board resolution authorizing the pop-up benefit was later determined to be illegal and so revoked, but at least one DRO contains that language and others were written with the members thinking this was legal; and
- A DRO was accepted that contained a provision that allowed an alternate payee to delay receipt of her benefit even after the member had started to receive his pension benefit. Previous DRO guidelines were silent on this point, and previous practice was to allow them to delay. However, current board resolutions have determined that this is not in accordance with the Charter and Administrative Rules.

Risk/Opportunity for Improvement: Approving DROs that are not in compliance with provisions of the Charter, Administrative Rules and/or state statutes could lead to poor service to members and/or future claims by the member against FPDR for failing to deduct and pay the accurate DRO amount. Although this risk is partially mitigated by DROs stating that anything due to the alternate payee that's paid to the member shall be paid to the alternate payee by the member, there is still a risk of overpayment to alternate payees.

Recommendation: We recommend that FPDR prepare a formal document that outlines the rules that relate to DROs that are contained within the Charter and Administrative Rules. This document could also be provided to the member and their attorney as support for conclusions reached and clarification of the Charter and Administrative Rules regarding DROs.

RECOMMENDATION #9 (MODERATE RISK) – FAILURE TO CORRECT TAX OFFSET BENEFIT AMOUNTS

Background: Oregon Revised Statutes 238.380 provides for additional pension benefits for members hired before July 14, 1995. These benefits were mandated by the Oregon State Legislature in 1991 and 1995 as a result of the State of Oregon’s decision to tax pension benefits beginning in 1991. In July of 2008, it was discovered that FPDR had miscalculated the tax offset benefit for many of its members. The miscalculation led to members receiving a larger tax offset of their pension benefit. In September 2008, FPDR informed all its active and retired members of the change in their benefits because of the revision in the calculation of the tax offset.

Observation: We found during the course of our testing that FPDR had failed to correct the tax offset benefit of an alternate payee who had delayed the receipt of pension benefits. This in turn resulted in an incorrect DRO deduction from the pension benefits being paid to the original member.

Risk/Opportunity for Improvement: Inequitable distributions to a member because of the failure to update tax offset benefits of alternate payees could create a legal vulnerability for FPDR.

Recommendation: We recommend FPDR identify accepted DROs of members not yet in pay status where the benefits were calculated with the incorrect tax offset. Once identified, FPDR should recalculate these members’ benefits and DRO deductions. FPDR should also notify the affected members and alternate payees of this change in benefits due to the incorrect tax offset benefit.

RECOMMENDATION #10 (MODERATE RISK) – NOTIFICATIONS TO ALTERNATE PAYEES

Background: On August 25, 2009 FPDR adopted resolution number 444 which amended the Administrative Rules. Amended Section 5.4.09(C)(1) of the Administrative Rules now requires, for a DRO where the member is not of retirement eligible age as of the benefit division date, the alternate payee begin payments no earlier than the earliest retirement date, and no later than the date that the member actually commences retirement benefits. Amended Section 5.4.09(C)(2) of the Administrative Rules now requires, for a DRO where the member is of eligible retirement age as of the benefit division date but has not yet commenced retirement benefits, the alternate payee may begin payments no earlier than the first of the month after the Director’s acceptance of the DRO, and no later than the date that the member actually commences retirement benefits.

Observation: We found during the course of our review two cases where alternate payees have delayed the receipt of their benefits. We also found that currently FPDR does not attempt to contact or inform the alternate payee of the member's retirement.

Risk/Opportunity for Improvement: Alternate payees may not be informed of the member's retirement and may therefore not begin receipt of their benefits. This could lead to future claims against FPDR for failing to inform alternate payees of their requirement to begin receipt of benefits.

Recommendation: We recommend that FPDR institute a process to inform alternate payees of their eligibility for pension benefits by sending out a pension application to the alternate payee upon retirement of a member. In addition, FPDR should design a process to ensure that all alternate payees begin receiving benefits at the required dates as defined in the Administrative Rules. FPDR should consider whether retrospective application is necessary for previously accepted DROs.

ANNUAL PROCESSES

RECOMMENDATION #11 (HIGH RISK) – UPDATE OF TAX WITHHOLDING TABLES

Background: FPDR withholds taxes on pension benefit payments to its members based on IRS and Oregon tax withholding tables. The IRS tables are updated every year, and consequently FPDR updates its FoxPro system for the latest updates.

Observation: We found that, in all three samples that were tested, the Oregon state tax withholding was incorrectly computed and over-withheld by the FoxPro system, because of the erroneously programmed logic. We also found that there is no process in place to test the logic being used by the FoxPro system in computing the federal and state tax withholding amounts. Finally, there is not a formal process to review rates after they have been updated in the system for accuracy.

Risk/Opportunity for Improvement: Failure to accurately withhold taxes on pension benefit payments could expose FPDR to penalties and fines by the IRS and the Oregon Department of Revenue.

Recommendation: We recommend that FPDR correct the logic used by the FoxPro database in calculating the Oregon tax withholding to ensure that future tax withholding on pension payments are accurate. We also recommend that FPDR implement a process to test a sample of members' tax withholding amounts to ensure that the logic being used by the database is working correctly and the tax tables have been updated correctly each time a tax table update is made to the FoxPro system.

RECOMMENDATION #12 (LOW RISK) – MEMBER PAYMENT RECONCILIATION

Background: As part of the year-end 1099-R generation process, the Financial Analyst reconciles payments made to members per the FoxPro database and the accounting records. Once both set of records are reconciled the Financial Analyst updates the FoxPro database for variances between the two sets of records in order to ensure that each set matches the other.

Observation: We found that there is no process in place to review the reconciliation performed by the Financial Analyst. There is also no process to review and approve the changes made by the Financial Analyst to the FoxPro database.

Risk/Opportunity for Improvement: There is a risk that errors made by the Financial Analyst while performing the reconciliation may go undetected. There is also the risk of the FoxPro system being incorrectly updated with inaccurate information.

Recommendation: We recommend that a member of the FPDR staff review the reconciliation and updates made to the FoxPro database performed by the Financial Analyst for accuracy. Also refer to related recommendation under section 2, IT Controls (recommendation #1).

MONTHLY PROCESSES

RECOMMENDATION #13 (HIGH RISK) – IMPROVEMENT OF BUSINESS PROCESSES

Background: Employees of FPDR depend on manual, paper-based processes to accomplish the many information intensive tasks that go into the calculation and payment of member pension benefits. As with most manual processes, these processes often involve duplicate efforts, intensive review time and are inherently prone to errors.

Observation: During the course of our review we found several processes where member information was manually collected, computed and recorded into the FoxPro database. Examples of these manually processed activities include:

- Ensuring that new retirees are brought into the pension system upon their retirement and ensuring that all new retirees are paid their first month's pro-rated benefit;
- Ensuring that the surviving spouse, authorized representative or estate of deceased members are paid their pro-rated final pension benefit and funeral pay in the month following receipt of legal documents required to process such benefits;
- Ensuring all alternate payees are paid their first month's pro-rated benefit upon acceptance of a DRO by FPDR;
- Ensuring all payroll tax withholding change requests have been processed; and ensuring the Fire and Police Bureaus' terminated employees' personnel forms on the FoxPro database are updated upon their termination.

Risk/Opportunity for Improvement: Manually processing large amounts of information can diminish employee efficiency and is inherently susceptible to human error. Manual processing also makes it difficult to monitor when tasks are complete. As a result, the management of FPDR is forced to monitor that essential business processes are being accomplished by employees by instituting levels of manual review to verify that tasks have been completed correctly.

Recommendation: We recommend that FPDR consider either a complete replacement of their current FoxPro database system or update the existing FoxPro database system to automate certain manual

processes as much as possible in order to reduce the risk of errors and improve operational efficiencies. FPDR should also implement completeness checks to ensure that all monthly changes that have been received from members, as described above, have been processed. This could be accomplished through an electronic tickler system.

RECOMMENDATION #14 (MODERATE RISK) – REVIEW OF CHECK REGISTER

Background: The Pension Benefits Coordinator prepares monthly pension reports for the payment of pension benefits to FPDR members. This involves the creation of several reports, reconciliations, printing and mailing of checks and transmission of direct deposit information to FPDR's bank. The Business Operations Manager reviews and approves the reports and reconciliation created by the Pension Benefits Coordinator prior to check printing and the transmission of the direct deposit information.

Observation: We found during the process of our review that the Business Operations Manager did not review a summary of check and direct deposit payments once they were printed and ready to be mailed to members or finalized for transmission to FPDR's bank.

Risk/Opportunity for Improvement: Errors and omissions in processing information after the Business Operations Manager's initial review could go undetected. This in turn could lead to incorrect pension payouts to members.

Recommendation: We recommend that the Business Operations Manager retain a copy of the reports that have been approved and review and approve the check register prior to the mailing of checks and transmission of direct deposit information to FPDR's bank.

As a result of the findings noted above, we understand that FPDR has already implemented procedures consistent with this recommendation.

OPPORTUNITIES FOR IMPROVEMENT – SECTION 2

IT – General Controls:

IT ENVIRONMENT AND SUPPORT

RECOMMENDATION #15 (HIGH RISK) – IT CONTINGENCY PLANS AND SUPPORT

Background: The bureau has relied on the IT programming resources of DMC West for almost two decades. As such, DMC West’s understanding of the bureau’s system would be difficult to replace without sufficient redundant backup and documentation.

Observation: The bureau has an onsite Senior Management Analyst and is working to improve its in-house understanding of the programming code and system calculations. However, the system is complex, there is limited system documentation and consistent programming standards do not appear to be in place. It is unclear how long the bureau could operate in the event that DMC West were no longer able or willing to support the bureau. There are currently no contingency or transition plans in place should DMC West fail to support the bureau. In addition, upgrading the system with new features and functionality may also be difficult due to the lack of documentation of system functionality and business requirements.

Risk/Opportunity for Improvement: In addition to management having to scramble to find an adequate provider familiar enough with the programming environment, there would be a learning curve for a replacement provider. This situation represents a potential risk that the IT function would not be available in a crisis event, and/or the possibility of data integrity and confidentiality being compromised.

Recommendation: Management should investigate legal uncertainties and negotiate contracts with a backup FoxPro programmer or DMC West where appropriate. In addition, contingency plans that address business continuity in the event of the loss of critical data should be completed and periodically tested, possibly with assistance from DMC West as they may have this in place with their other clients.

RECOMMENDATION #16 (HIGH RISK) – DATA PRIVACY

Background: The general duty to provide security for personal information is being expanded and clarified within the government and the courts, and a legal standard for reasonable security is emerging from government enforcement activities and case law. The FPDR system contains Personally Identifiable Information (PII). This refers to information that can be used to uniquely identify, contact, or locate a single individual or can be used with other sources to uniquely identify a single individual.

Observation: PII information is necessary for FPDR to conduct their day to day operations. The bureau is in the process of moving from maintaining social security numbers (SSN) to unique employee numbers, and we noted other good practices such as requiring employees and contractors to sign non-disclosure agreements. However, we did not observe a comprehensive privacy and identity theft

prevention program in place to address liability issues associated with the PII data. For example, PPI data such as social security number (SSN), name and address is stored in clear text in the FPDR system. The servers are relatively unprotected in the Harrison Street offices, as a decision was made to keep this data separate from other City data. However, audit logs and monitoring controls are not in place and user access to the system has not been recently reviewed.

Risk/Opportunity for Improvement: Breaches of PII have increased dramatically over the past few years. Breaches of PII are hazardous to both individuals and organizations. Individual harms may include identify theft, embarrassment or blackmail. Organizational harms may include loss of public trust, legal liability or high costs to handle the breach.

Recommendation: FPDR should take a risk-based approach to protecting the confidentiality of PII. First, FPDR should identify all PII residing in their environment. FPDR should then categorize their PII by the following PII confidentiality impact level:

- **Distinguishing characteristics:** FPDR should evaluate how easily PII can be used to distinguish particular individuals. For example, a SSN uniquely identifies an individual, whereas a telephone area code could map to many people.
- **Data field sensitivity:** FPDR should evaluate the sensitivity of each individual PII data field, as well as the sensitivity of the PII data fields when combined. For example, an individual's SSN or financial account number is generally more sensitive than an individual's phone number or zip code. Similarly, the combination of an individual's name and financial account number is more sensitive than the individual's name alone.
- **Context of Use:** FPDR should evaluate the context of use, which is the purpose for which the PII is collected, stored, used, processed, disclosed or disseminated. The context of use may cause identical PII data elements to be assigned different PII confidentiality impact levels based on their use. For example, suppose that an organization has two lists that contain the same PII data fields (e.g., name, address, phone number). The first list is people who subscribe to a general-interest newsletter produced by the organization, and the second list is people who work undercover in law enforcement. The potential impacts to the affected individuals and to the organization are significantly different for each list.
- **Obligations to Protect Confidentiality:** FPDR should assess what their obligations are to protect PII. These obligations should be considered when determining the PII confidentiality impact level. Obligations to protect generally include laws, regulations or other mandates (e.g., Privacy Act, OMB guidance). For example, some Federal agencies, such as the Census Bureau and the Internal Revenue Service (IRS), are subject to specific legal obligations to protect certain types of PII.
- **Access to and Location of PII:** FPDR should also take into consideration the nature of authorized access to and the location of the PII. When PII is accessed more often or by more people and systems, or the PII is regularly transmitted or transported offsite, then there are more opportunities to compromise the confidentiality of the PII.

Once this PII confidentiality impact level assessment is complete, FPDR will then need to apply the appropriate safeguards for PII based on the PII confidentiality impact level. Safeguards should include items such as creating policies and procedures, conducting training, de-identifying PII, implementing access control for in office and mobile devices, providing transmission confidentiality (encryption) and performing audits of controls. Also see related recommendation #17 (access management authorization), #19 (audit logs) and #21 (physical security and environmental controls) that should be part of this overall process.

IT CONTROLS

RECOMMENDATION #17 (HIGH RISK) – ACCESS MANAGEMENT AUTHORIZATION

Background: Authorization determines what the user is allowed to do in the system. FPDR grants and revokes user access to the IT system based on the information and approval in the Technology Services Request Form – Employee Setup. The access in the IT system has been set up using the following profiles (grouping of screens and transactions): 1) several profiles with the equivalent of full access to the pension system screens and transactions (includes temporary financial profile, admin profile, and full access profile), 2) financial access and 3) read only.

Observation: Users may have access in the IT system in excess of their job responsibilities.

- Nine users have profiles with the equivalent of full access;
- Three test accounts exist and two have profiles with the equivalent of full access;
- Numerous users have read-only access to the pension system;
- Given the sensitive nature of the data, access to certain fields and screens may need to be further restricted. Please refer to recommendation #16 (data privacy) for further detail.

Risk/Opportunity for Improvement: When an individual has access to system transactions and data in excess of their job responsibilities, there is increased risk to the integrity and security of data. In addition, limited segregation of duties increases the risk of fraud and/or unauthorized data changes.

Recommendation: FPDR should implement a periodic review of user access to ensure access is set up based on the “least privilege” needs consistent with the user’s job responsibility. Profiles may have to be re-configured to refine and limit user access.

RECOMMENDATION #18 (HIGH RISK) – CHANGE MANAGEMENT

Background: The change management process is initiated when the bureau requests a change from the third party, DMC West. The programming is performed by the third party, DMC West along with initial testing and implementation activities. The Senior Management Analyst and appropriate other staff are also involved with testing.

Observation: A formal client acceptance process and coordinated user acceptance testing procedures are not in place. The change log has not been updated since 2007. Sometimes changes are tested by users after implementation into the production environment.

Risk/Opportunity for Improvement: Changes that impact the FPDR system data or FPDR reports could be made without the knowledge of affected users. Some of the risk is mitigated because FPDR has limited the number and significance of changes to the IT system in recent years.

Recommendation: Define guidelines for significant changes and implement a practical procedure for logging all changes, user testing of changes and authorization of the change prior to implementation into the production environment. A reasonable amount of evidence should be retained of user testing results and the authorization.

RECOMMENDATION #19 (HIGH RISK) – AUDIT LOGS

Background: The IT system records and displays on the screen when a record was last changed and the user ID associated with the individual that made the change. A monthly audit report is produced related to the pension amounts, but the report information is limited, and the data is overwritten in the system the following month.

Observation: The IT system audit logging and reporting capabilities could be enhanced. For example, it does not record or display the data field on the screen that was changed, and it only records and displays the last change.

Risk/Opportunity for Improvement: Pension data may be inadvertently or fraudulently modified or lost. The bureau would have limited ability in the FPDR system to detect or substantiate the occurrence.

Recommendation: Review requirements around the ability to capture and report changes to sensitive payment and member master file data. For example, audit logs could be retained showing all changes to certain key payment and member master file data to ensure an appropriate audit trail is available to detect unauthorized or erroneous changes.

RECOMMENDATION #20 (HIGH RISK) – REPORTING TOOLS

Background: End-users have two options for reporting from the FPDR system. The FoxPro reports, where end-users can select report contents and ranges from pre-defined report criteria, and Microsoft Access Database reports developed by the Senior Management Analyst upon request.

Observation: Over time, numerous reports have been created by end-users using FoxPro. It is unclear if these reports were tested at the time of creation and if they are still valid. In addition, other users can and may have made modifications to the reports. We also noted that few users have the knowledge and training to use this tool. Regarding the Microsoft Access Database reports that are created by the Senior Management Analyst, they are subject to the risks and observations noted below under database design integrity (Recommendation #25)

Risk/Opportunity for Improvement: Reports may not be complete and accurate.

Recommendation: Consider defining the bureau's reporting requirements and priorities. Compare the results to the existing inventory of FoxPro and Microsoft Access Database reports and identify any gaps, duplications and obsolete reports. For reporting requirements considered high priority, consider implementing quality and assurance controls such as limiting changes and testing of reports for completeness and accuracy. Also, consider expanding the training and knowledge base on reports to the end-users.

RECOMMENDATION #21 (MODERATE RISK) – PHYSICAL SECURITY AND ENVIRONMENTAL CONTROLS

Background: The physical hardware supporting the IT system, spreadsheets and other electronic documents reside at the FPDR offices located in the Harrison Square Building. Typically, organizations have a secure data center (either located onsite or offsite through a third party co-location provider) designed to house IT equipment in a secure location with appropriate environmental protectors (e.g., fire, dust, power, excessive heat and humidity).

Observation: The IT equipment is currently located in the middle of the Harrison Square offices in a server rack that does not have any environmental controls. Some security controls are in place such as the use of security key cards to restrict access through the main door to authorized employees, and a receptionist is in place to greet visitors during work hours. However, good IT practices isolate and secure IT equipment in an environmentally controlled room that is only accessible to a small number of authorized IT users.

Risk/Opportunity for Improvement: The IT equipment is at risk of being stolen or damaged, disrupting system processing and risking the integrity and confidentiality of data. There is also a risk of non-compliance with existing and pending privacy related legislation if a breach were to occur.

Recommendation: Investigate solutions for a more suitable facility to house the IT equipment. Compare the cost/benefit of building a more secure environment or alternatives such as third party co-location providers. The solutions should consider:

- Ability to restrict physical security and access to the IT equipment – Physical security and access controls should address not only the area containing the system hardware, but also locations of wiring used to connect elements of the system, supporting services (such as electric power), backup media and any other elements required for the system's operation. Visitors to the data center area should be authorized, logged and escorted.
- Environmental threat and protection – Protection against environmental factors (e.g. fire, dust, power, excessive heat and humidity). Specialized equipment and devices to monitor and control the environment should be installed.
- Inspection – Regular inspection of the fire detection and suppression equipment, electrical warning and alarm procedures, air conditioning, ventilation and humidity control procedures.

- Low profile of the IT site – Signage should be consistent with insurance, local building code and regulatory requirements but should not identify sensitive areas.

DATA INTEGRITY AND REPORTING

RECOMMENDATION #22 (MODERATE RISK) – PROTECTION OF CELLS WITHIN THE PENSION ESTIMATE SPREADSHEET

Background: FPDR prepares a pension estimate spreadsheet that details the calculations and underlying data that is used to calculate the pension benefit of a member/retiree. The spreadsheet is complex and very detailed with several rows and columns of data.

Observation: Several key formulas and cells within the spreadsheet are not protected. Also the password used to protect cells and formulas on the spreadsheet is noted on the spreadsheet itself.

Risk/Opportunity for Improvement: Several key cells and formulas used in the spreadsheet may be erroneously deleted or changed. This can lead to a miscalculation of estimated pension benefits and/or a miscalculation of the pension benefit amount to new retirees.

Recommendation: We recommend that all important cells and formulas of the pension estimates spreadsheet be protected. We also recommend that the password used to protect the pension estimates are restricted to only the necessary users and are not listed on the spreadsheet.

RECOMMENDATION #23 (MODERATE RISK) – ACCESS TO SPREADSHEETS USED IN THE PENSION PROCESS

Background: FPDR uses several spreadsheets in the calculation and payment of pension benefits to its members. Several pieces of key data entered into the FoxPro database are calculated using these spreadsheets. These spreadsheets are therefore a very important resource used by FPDR in the pension calculation and payment process. These spreadsheets are stored on the FPDR internal network in a separate drive called the “Finance Drive”. Access to this drive and these spreadsheets is largely limited to the finance team members of FPDR.

Observation: We observed that individual spreadsheets are not password protected. Most spreadsheets used in the calculation and payments of pension benefits are used by the Pension Benefits Coordinator and the Business Operations Manager. The job functions of other members of the finance team do not require them to use, review or edit these spreadsheets.

Risk/Opportunity for Improvement: Granting all FPDR finance team members access to critical spreadsheets that calculate and provide several pieces of key data in the pension benefit calculation and payment process could lead to the erroneous deletion or change of the information on these spreadsheets and/or key formulas within these spreadsheets. This could potentially result in inaccurate

calculations and generation of data by these spreadsheets that could have an impact on the pension calculation and payment process.

Recommendation: We recommend FPDR ensure that access to key spreadsheets is restricted so that only the employees who actually use the spreadsheets have access to them. We also recommend that the passwords that are used to protect the read/write access to the spreadsheets are restricted to only the necessary users of the spreadsheet.

RECOMMENDATION #24 (MODERATE RISK) – EDIT AND VALIDATION CONTROLS

Background: The IT system was developed by, and has evolved over FPDR’s 20-year relationship with a third party, DMC West.

Observation: The IT system does not include edit and validation controls. For example, important fields can be left blank and dates such as birthdates do not have to be within a range.

Risk/Opportunity for Improvement: The FPDR system data is primarily manually entered and inherently subject to human error. Data within the system may not be complete and accurate.

Recommendation: Perform an audit of high risk data fields within the FPDR database and ensure they are correct. This would include reviewing all existing high risk data within the database. High risk fields would be any fields with information that could affect a member’s or beneficiary’s pension benefit. Also, perform an assessment of the future requirements for the design of application controls.

RECOMMENDATION #25 (MODERATE RISK) – DATABASE DESIGN

Background: Older databases sometimes lack the design and structure of more recently designed technology due to advances in development tools and methodologies and to modification anomalies that may have occurred over the years in order to add data and functionality beyond the original requirements.

Observation: We noted examples in the data that appear to indicate problems with data integrity possibly due to modification anomalies and normalization issues. For example, we noted a widow assigned to a member in one screen and the same member without an associated widow in another. We also noted that the member database lacked specific fields that would help FPDR better track members with accepted DROs.

Risk/Opportunity for Improvement: If the database design is not consistent and structured according to good practices for database normalization and referential integrity, it is more difficult to create complete and accurate reports.

Recommendation: Identify from a business perspective all high-risk data relationships, and review the data and reports for relationship issues. A field should be created within the FPDR database to track DROs.

CONCLUSION

The services of this engagement were performed in accordance with the Statement on Standards for Consulting Services (SSCS) issued by the American Institute of Certified Public Accountants (AICPA). Consulting services differ fundamentally from attestation services. In an attest service, the practitioner expresses a conclusion about the reliability of a written assertion that is the responsibility of another party, the asserter. In a consulting service, the practitioner develops the findings, conclusions, and recommendations presented. The nature and scope of work is determined solely by the agreement between the practitioner and the client. The scope of this engagement was agreed upon by both parties as described in the Pension Management Consultant contract with the City of Portland, contract number 30000550. This work was performed only for the use and benefit of management of the City of Portland, Bureau of Fire and Police Disability and Retirement. Accordingly, our services under the engagement letter do not constitute an audit, compilation, review, or attestation service of FPDR's financial statements or any part thereof, as described in the pronouncements on professional standards of the AICPA. Our services also did not include an examination of management's assertions concerning the effectiveness of FPDR's internal control systems; or an examination of compliance with laws, regulations, or other matters. Therefore, our performance of the procedures do not result in the expression of an opinion, or any other form of assurance, on FPDR's financial statements or any part thereof; nor an opinion or any other form of assurance on FPDR's internal control systems or its compliance with laws, regulations, or other matters. We do not express an opinion or any other form of assurance with respect to management's system of internal control over financial reporting.

As noted, the purpose of our engagement was to assist you by providing recommendations for improving internal controls. Internal controls are intended to limit, not eliminate, fraudulent activities. These are only a list of suggestions and it is management's responsibility to determine which controls will be implemented and how they will be implemented. A control will only be as effective as management's support of the process.

Perkins & Company, P.C.

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PERKINS & COMPANY

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EXHIBIT A – SUMMARY OF KEY CONTROLS

Key Control Identifier	Process	Description
Key Control 1	Various	The Pension Benefits Coordinator uses SAP pay rate information, confers with the bureaus when there are questions and, for retirees, reconciles the final pay estimate to pay reports received from the City’s central payroll department for the purpose of the determination of final pay
Key Control 2	Various	The Business Operations Manager reviews estimates, pension calculations and other reports prepared by the Pension Benefits Coordinator for completeness and accuracy
Key Control 3	Monthly run - Sub-processes	The Pension Benefits Coordinator reconciles the pre-edit report from the FoxPro database to the manually maintained master control spreadsheet to ensure that member changes have been captured in the FoxPro database
Key Control 4	Monthly run - 3rd party payments	The Senior Legal Assistant receives, reviews and approves all legal documents for third party payment deductions from pension
Key Control 5	Monthly Run - Medical	The COBRA Coordinator and Pension Protection Act Coordinator reviews deduction reports from the Pension Benefits Coordinator to ensure medical deductions from members’ pension benefits are complete and accurate
Key Control 6	Tier 1 and Tier 2 - Death	The Senior Legal Assistant reviews and verifies the death certificate and other legal documents prior to processing payment of death benefits
Key Control 7	Tier 1 and Tier 2 - Disability	The Disability Accountant ensures all members on permanent disability who have attained mandatory retirement age are brought into the pension system
Key Control 8	Annual Process - COLA	The Business Operations Manager reviews COLA reports to ensure that the yearly COLA update to the FoxPro database is accurately carried out
Key Control 9	Tier 1 and Tier 2 - DRO	The City Attorney’s Office reviews all DROs to ensure compliance with Plan’s Charter and Administrative Rules

EXHIBIT B – RISK BASED SUMMARY OF RECOMMENDATIONS

High Risk

Recommendation 11: We recommend that FPDR correct the logic used by the FoxPro database in calculating the Oregon tax withholding to ensure that future tax withholding on pension payments are accurate.

Recommendation 13: We recommend that FPDR consider either a complete replacement of their current FoxPro database system or update to the existing FoxPro database system to automate certain manual processes in order to reduce the risk of errors and improve operational efficiencies.

Recommendation 15: Management should investigate legal uncertainties and negotiate contracts with a backup FoxPro programmer or DMC West where appropriate. In addition, contingency plans that address business continuity in the event of the loss of critical data should be completed and periodically tested.

Recommendation 16: FPDR should take a risk-based approach to protecting the confidentiality of PII by performing a confidentiality impact level assessment.

Recommendation 17: FPDR should implement a periodic review of user access to ensure access is set up based on the “least privilege” needs consistent with the user’s job responsibility.

Recommendation 18: Define guidelines for significant changes and implement a practical procedure for logging all changes, user testing of changes and authorization of the change prior to implementation into the production environment.

Recommendation 19: Review requirements around the ability to capture and report changes to sensitive payment and member master file data.

Recommendation 20: Define the bureau’s reporting requirements and priorities. Compare the results to the existing inventory of FoxPro and Microsoft Access Database reports and identify any gaps, duplications and obsolete reports.

Moderate Risk

Recommendation 1: We recommend that FPDR create and provide to members a supplemental document to the pension estimate spreadsheet that contains a summary of the key data within the spreadsheet that members/new retirees must review to ensure that the pension calculation is accurate.

Recommendation 2: We recommend that FPDR perform a reconciliation process to verify information contained in the FoxPro database back to member paper files.

Recommendation 4: We recommend that FPDR identify and notify terminated vested members who have not reached their earliest retirement date of any change in benefits because of the correction to the tax offset benefit.

Recommendation 8: We recommend that FPDR prepare a formal document that outlines the rules that relate to DROs that are contained within the Charter and Administrative Rules.

Recommendation 9: We recommend FPDR identify accepted DROs of members not yet in pay status where the benefits were calculated with the incorrect tax offset.

Recommendation 10: We recommend that FPDR institute a process to inform alternate payees of their eligibility for pension benefits by sending out a pension application to the alternate payee upon retirement of a member.

Recommendation 14: We recommend that the Business Operations Manager retain a copy of the reports that have been approved and review and approve the check register prior to the mailing of checks and transmission of direct deposit information to FPDR's bank.

Recommendation 21: Investigate solutions for a more suitable facility to house the IT equipment. Compare the cost/benefit of building a more secure environment or alternatives such as third party co-location providers.

Recommendation 22: We recommend that all important cells and formulas of the pension estimates spreadsheet be protected. We also recommend that the password used to protect the pension estimate are restricted to only the necessary users and are not listed on the spreadsheet.

Recommendation 23: We recommend FPDR ensure that access to key spreadsheets is restricted so that only the employees who actually use the spreadsheets have access to them.

Recommendation 24: Perform an audit of high-risk data fields within the FPDR database and ensure they are correct. This would include reviewing all existing high risk data within the database.

Recommendation 25: Identify from a business perspective all high-risk data relationships, and review the data and reports for relationship issues. A field should be created within the FPDR database to track DROs.

Low Risk

Recommendation 3: As part of the package of documents that is reviewed with new retirees at the point of retirement, FPDR should include a document containing frequently asked questions and answers.

Recommendation 5: We recommend that FPDR create and use a monthly report detailing terminated fire and police personnel from within the SAP interface.

Recommendation 6: We recommend that FPDR implement a process to ensure that the Pension Benefits Coordinator reviews letters and forms the Senior Legal Assistant prepares to verify proper communication of benefit payments upon the death of members and beneficiaries.

Recommendation 7: We recommend FPDR institute a formal, documented policy and procedure to adhere to regarding the collection of all overpayments members after a member's or beneficiary's death. This policy should specifically address what is payable for the month of death.

Recommendation 12: We recommend that a member of FPDR staff review the reconciliation and updates made to the FoxPro database performed by the Financial Analyst for accuracy.

EXHIBIT C – GENERAL PERFORMANCE MANAGEMENT

Introduction

Performance management should be an important cornerstone of FPDR’s pension operations and internal controls. Performance metrics should be constructed to encourage performance improvement, effectiveness, efficiency and appropriate levels of internal controls. They should incorporate "best practices" related to the performance being measured and cost/risk/benefit analysis, where appropriate.

FPDR operational performance metrics should lead to a quantitative assessment of gains in:

- Member Satisfaction
- Organizational Performance
- Workforce Efficiency

The key elements of the performance metrics to these guidelines should address:

- Alignment with FPDR Charter and Administrative Rules
- Cost Reduction and/or Avoidance
- Meeting Bureau and Member Requirements
- Accuracy of Pension Benefit Payments and Estimates
- Processing Time Reduction
- Meeting Commitments
- Timely Delivery of Member Benefits and Requested Information
- Member Satisfaction

The Process

The first step in developing performance metrics is to involve the people who are responsible for the work to be measured because they are the most knowledgeable about the work. Once these people are identified and involved, it is necessary to:

1. Identify critical work processes and customer requirements.
2. Identify critical results desired and align them to customer requirements.
3. Develop measurements for the critical work processes or critical results.
4. Establish performance goals, standards, or benchmarks.

The establishment of performance goals can best be specified when they are defined within three primary levels:

Objectives: Broad, general areas of review. These generally reflect the end goals based on the mission of a function.

Criteria: Specific areas of accomplishment that satisfy major divisions of responsibility within a function.

Measures: Metrics designed to drive improvement and characterize progress made under each criteria. These are specific quantifiable goals based on individual expected work outputs.

The SMART test is frequently used to provide a quick reference to determine the quality of a particular performance metric:

S = Specific: clear and focused to avoid misinterpretation. Should include measure assumptions and definitions and be easily interpreted.

M = Measurable: can be quantified and compared to other data. It should allow for meaningful statistical analysis. Avoid "yes/no" measures except in limited cases, such as start-up or systems-in-place situations.

A = Attainable: achievable, reasonable and credible under conditions expected.

R = Realistic: fits into the organization's constraints and is cost-effective.

T = Timely: doable within the time frame given.

Types of Metrics

Quality performance metrics allow for the collection of meaningful data for trending and analysis of rate-of-change over time. The standards may come from either internal or external sources and may include benchmarks. *Yes/No* metrics are used in certain situations usually involving establishing trends, baselines, or targets, or in start-up cases. Because there is no valid calibration of the level of performance for this type of measure, they should be used sparingly.

Determining the Quality of Metrics

The following questions serve as a checklist to determine the quality of the performance metrics that have been defined.

1. Is the metric objectively measurable?
2. Does the metric include a clear statement of the end results expected?

3. Does the metric support member and Plan Charter and Administrative Rule requirements, including compliance issues where appropriate?
4. Does the metric focus on effectiveness and/or efficiency of the system being measured?
5. Does the metric allow for meaningful trend or statistical analysis?
6. Have appropriate external comparable standards been applied?
7. Does the metric include milestones and/or indicators to express qualitative criteria?
8. Are the metrics challenging but at the same time attainable?
9. Are assumptions and definitions specified for what constitutes satisfactory performance?
10. Have those who are responsible for the performance being measured been fully involved in the development of this metric?
11. Has the metric been mutually agreed upon by all parties responsible for achieving the metric?

FPDR Specific Metrics

It is our understanding that FPDR had two performance metrics outlined in their fiscal year 2008-2009 budget, as outlined below:

Effective

Percentage of workshop participants who rated workshop helpful

Efficiency

Percentage of pension estimates processed within one week

We recommend that FPDR add a metric for accuracy of estimates produced in the upcoming budget. This metric should address the accuracy of pension estimates compared to actual pension benefits paid upon retirement. If an estimate is prepared for a member's retirement date within one year of that date, the goal would be for the difference between the estimate and actual benefit paid upon retirement to be a very small percentage.