

**PAYROLL VERIFICATION PROCEDURES –
PENSION AND DROP CALCULATIONS**

JUNE 2010



**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

June 29, 2010

TO: Audit, Finance and Legislative Committee
Mayor Craig Lowe, Chair
Mayor-Commissioner Pro Tem Jeanna Mastrodicasa, Member

FROM: Brent Godshalk, City Auditor

SUBJECT: Payroll Verification Procedures – Pension and DROP Calculations

Recommendation

The Audit, Finance and Legislative Committee recommend that the City Commission accept the City Auditor's report.

Explanation

In accordance with our Annual Audit Plan, the City Auditor's Office completed a review entitled Payroll Verification Procedures – Pension and DROP Calculations. The primary objective of this audit was to provide reasonable assurance to the City Commission that the processes established to calculate retirees' and DROP participants' monthly pension annuity payments are operating effectively. Our procedures included interviewing key personnel within the Risk Management and Finance Departments who are involved in calculating pension and DROP payment amounts, reviewing City ordinances related to pension and DROP benefit payment calculations, analyzing payroll information supporting benefit calculations and testing management controls.

The Risk Management Department oversees and coordinates all aspects of the retiree process, completing retiree maintenance forms, reviewing applications for pension, calculating pension benefit estimates, entering vested future employee records and forwarding retiree information to the Finance Department's Payroll Division for data entry. The Payroll Division is responsible for entering retiree records into the retiree payroll system, processing monthly pension checks and calculating retiree and DROP participants' final average earnings. We would like to acknowledge the management and members of the Risk Management and Finance Departments for their professional courtesy and cooperation during our review.

As for all of our audits, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusion based on our audit objectives.

Conclusion

Based on the results of our review, we believe the processes established to calculate retiree and DROP participants' monthly pension annuity payments are operating effectively.

We did note one isolated instance during our review, which was promptly corrected by management, where a cost of living adjustment was not properly implemented for a retiree's beneficiary. We also noted several issues related to the definition of earnings set forth in the City's Code of Ordinances, utilized to calculate pension annuity payments, which we believe should be evaluated in the future. Management has indicated that a thorough review of the City's pension earnings definitions and possible financial impacts will be conducted with the City's actuary over the next year and communicated to the City Commission. Any adjustments to the pension ordinance would likely require negotiations with affected bargaining units and were not within the scope of this review.