

September 10, 2002

Mr. John Kennedy, Acting Director of Human Resources
Members of the Metropolitan Employee Benefit Board
Metropolitan Government of Nashville and Davidson County
222 3rd Avenue North, Suite 200
Nashville, TN 37201

Report of Internal Audit Section

Dear Mr. Kennedy and Metropolitan Employee Benefit Board Members:

We have recently completed a review of disability pensioners. This review was a part of an ongoing monitoring process tracking implementation of the recommendations contained in our audit report on the Metropolitan Employee Benefit Board dated December 31, 2000 and issued January 16, 2001.

At the time our previous audit report was issued, the Benefit Board maintained a separate administrative office. In our report, we recommended that the Benefit Board assign the administrative functions of that office to the Human Resource and Finance Departments. Based on our recommendation and due to pervasive, severe and long-standing problems reported in the audit, the Board chose to eliminate the Benefit Board office. As a result, the Human Resource and Finance Departments assumed responsibility for Board administration functions.

It should be noted that a significant number of changes have taken place since our original audit report, and many of the recommendations in that report have been implemented. Improvements in the administration of the Benefit Board are continuing. The Human Resource and Finance Departments are now reviewing annual questionnaires on a timely basis and are following up on incomplete or outstanding questionnaires. If a pensioner does not return a questionnaire or if it is incomplete, his or her benefits are suspended until the issue is resolved. Additionally, reported earnings are compared to maximum allowable earnings, and adjustments to benefits are made if warranted. The Human Resource Department is also maintaining a listing of pensioners who have been cleared to return to work.

Our objectives for this review included: (1) Examination of specific cases identified as having a high risk of abuse that could result in disqualification for disability benefits, (2) Validation of the continued eligibility of selected disability pensioners, and (3) Identification of plan provisions contributing to the continuation of disability benefit payments beyond the period of actual functional disability.

In completing this review we retained the services of Kroll Background America, Inc. (Kroll). Working under our direction, Kroll conducted investigations utilizing their proprietary protocol for "Claims Integrity" examinations, and they issued a report of their findings and recommendations, which is attached to this report.

Scope and Procedures

At the beginning of this review on January 1, 2002, there were 1140 individuals collecting disability pension benefits at a total annual cost to Metro taxpayers of \$13.1 million. At June 30, 2002, the total annual cost for disability pensions had increased to \$13.9 million.

We established selection criteria to provide a group of disability pensioners to Kroll for their claims integrity investigations. Our criteria were designed to identify pensioners with the highest potential future benefit cost and the highest likelihood of recovery from disability and ability to return to work. Applying the criteria resulted in a group of 448 pensioners being reviewed by Kroll.

As a part of their investigation, Kroll reviewed the Metropolitan Charter and Code sections (Plan) pertaining to disability pensions and examined the pool of 448 pensioners using their proprietary protocol. Because the protocol ultimately focuses an in-depth review only on cases with the highest risk of abusing and/or defrauding the disability pension system, it is likely that other pensioners who are abusing the system did not come under review.

Findings and Recommendations

As a result of their investigation, Kroll issued a report of their findings and recommendations. The report contains a number of significant findings, most of which are the result of long standing problems with plan administration or design. Kroll has made recommendations for changes in the administration and application of the Plan and for modifications to the Plan to correct Plan provisions that can lead to abuse of disability benefits. The findings and recommendations contained in their report have the potential for significant financial impact and are intended to assist the Board in resolving problems that were identified in our original audit report.

Details of the findings and recommendations are contained in the Kroll report. Kroll identified twenty-one pensioners who, based on the plan and evidence discovered, should be disqualified from receiving disability benefits. The current annual cost of pension benefits to those twenty-one individuals is \$450,000.

Key among the recommendations are plan modifications to implement a medical review panel to determine if disability pensioners and applicants are medically disabled, plan modifications to make return to work policies in public safety departments less restrictive, and plan modifications to adopt a workers' compensation plan model. These recommendations were also made in our report issued January 16, 2001.

The Metro Department of Law is reviewing the Kroll report in detail and formulating advice on appropriate action for the Benefit Board and the Human Resource and Finance Departments with regard to the twenty-one pensioners identified by Kroll who they have concluded should be disqualified from receiving disability benefits. We also recommend that this report and the Kroll report be provided to the Mayor's Study and Formulating Committee for consideration as they recommend changes to the employee benefit system.

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Management's response to the audit recommendations is attached to this report.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

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Internal Audit Manager

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