

**Metropolitan Government of Nashville
and Davidson County**

Internal Audit Section

**Report on the
Metropolitan Employee Benefit Board**

December 31, 2000



**Metropolitan Government of Nashville and
Davidson County**

Internal Audit Section

Report on the
Metropolitan Employee Benefit Board

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**Metropolitan Government of Nashville and
Davidson County**

Internal Audit Section

Report on the
Metropolitan Employee Benefit Board

Section I Report of Internal Audit Section

December 31, 2000

Members of the Metropolitan Employee Benefit Board
Room 102, Stahlman Building
Nashville, TN 37201

The Honorable Bill Purcell, Mayor
Metropolitan Government of Nashville and
Davidson County
Metropolitan Courthouse
Nashville, TN 37201

Mr. David L. Manning, Director of Finance
Metropolitan Government of Nashville and
Davidson County
Metropolitan Courthouse
Nashville, TN 37201

Report of Internal Audit Section

Dear Benefit Board Members, Mayor Purcell and Mr. Manning:

We have recently completed a performance audit of the Metropolitan Employee Benefit Board, excluding pension investment fund performance and deferred compensation performance, which were addressed in our report dated March 31, 2000. According to the *Government Auditing Standards* issued by the Comptroller General of the United States, “a performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.” A performance audit is different than financial statement audits, which are limited to auditing financial statements and controls, without

reviewing operations and performance. In performing this audit, we retained KPMG to work under our direction. Their Performance and Operational Review, which includes an overview of Benefit Board responsibilities, Board Office operations and benefit offerings, accompanies this report.

Internal Audit typically addresses audit reports to and obtains responses from the department head and the board or commission overseeing the department audited or, for departments without a board or commission, the department head and the mayor. The department head, the Executive Secretary to the Benefit Board, retired effective December 31, 1999. Therefore, this report is being addressed to the Metropolitan Employee Benefit Board. However, because the responsibilities for implementing some of the audit recommendations do not fall under the authority of the Benefit Board, they are directed to the parties with the authority to respond to and implement those recommendations, as appropriate.

Objectives, Scope, and Methodology

This audit is the concluding phase of a comprehensive audit of the Metropolitan Employee Benefit Board and follows an audit of the pension investment fund performance and deferred compensation fund performance issued in April 2000.

The overall objectives of this phase of the audit were to review and assess the following:

- Processes used to monitor, control and oversee benefits, policies and plan design.
- The accuracy and timeliness of benefit calculations and monitoring, including Project '87 implementation status (see page 21 of the KPMG Performance and Operational Review report for an overview of Project '87).
- Board Office structure, technology and systems.
- The cost of administering benefits, including contracted services.
- Board actions and practices.
- Customer service.
- Benefit program offerings.

The scope of the work was largely focused on events and transactions occurring during the time period January 1, 1998 through June 30, 2000. Several issues were uncovered during the course of work, however, that required investigation of events occurring outside of that time period.

The Benefit Board has overall responsibility for Metro's employee benefit delivery system. This includes responsibility for administering and monitoring pension investment funds through the investment committee and administering and monitoring service and disability pension benefits and medical, dental, life and other insurance benefits. These responsibilities are currently being discharged through the Metropolitan Employee Benefit Board Office. The office is staffed by an Executive Secretary, who is appointed by the Benefit Board and confirmed by the Metropolitan Council, and by 32 other employees. During the fiscal year ending June 30, 2000, the Board Office had responsibility for administering \$90,427,000 of expenditures related to pension benefits, medical claims and expenses related to running the Board Office. Expenses directly related to running the Board Office were \$7,248,000. The Board Office also had responsibility for administering \$36,418,000 of pension contributions made by Metro departments on behalf of employees and for administering \$90,994,000 of employer and employee insurance premiums.

The methodology employed throughout this audit was one of objectively reviewing Benefit Board actions and practices and Board Office policies, procedures and operations. This included interviewing various parties with responsibility for or interest in Benefit Board operations and reviewing various forms of documentation related to administering, monitoring and controlling Board Office operations. Results of the work of a third party involved in a project to recalculate individual pensions calculated by the Board Office subsequent to January 1, 1996 have been incorporated into this report. Additionally, certain operational characteristics, performance measures and benefit offerings have been compared to information available from other studies or to information obtained from other selected local governments, as referenced throughout the KPMG report.

We performed the audit procedures in accordance with generally accepted government auditing standards.

Findings and Conclusions

The KPMG Performance and Operational Review report addresses several specific issues and recommendations in detail. Following is an overview of the more significant findings, along with references to where the findings are explained in more detail in the KPMG report. Collectively, these findings indicate that the Board Office is not effectively executing the Benefit Board's responsibilities.

A. Disability pensions are not being adequately administered and monitored.

- There were 1,133 disability pensioners receiving \$17,653,000 in pension benefits for the fiscal year ending June 30, 2000. The Project '87 audit report issued in January 1998 recommended that the Board Office review the outside earnings of all disability pensioners to determine if those earnings were in excess of amounts allowed to continue to be eligible for a full disability pension. Although the Board Office had begun to gather the information necessary to implement the Project '87 recommendation, it had not been fully implemented. In limited testing of disability pensioners, KPMG noted seven disability pensioners whose outside earnings for certain years exceeded amounts allowed for them to continue receiving the full amount of their disability pensions, and the Benefit Board has overpaid those pensioners a total of \$154,105 since 1992. Two of those pensioners' earnings were so high in some of the years that the excess earnings would have offset 100% of their pension payments. Those seven pensioners, with annual disability pensions totaling \$159,447, are still receiving monthly disability checks. All of the information needed to determine this was available in the Board Office. (Finding III B-1)
- In 1995 the Board voted to discontinue the practice of including a listing of disability pensioners eligible to return to work as an agenda item. The Board Office did not have a current, comprehensive list of disability pensioners who were medically able to return to work. Of the 36 individuals on the list in 1995, the Board Office staff indicated that the current medical condition of six of those individuals with annual disability pension benefits totaling \$133,057 is such that they are still medically able to return to work. Further, a Board Office review identified seven other individuals who were medically cleared to return to work between 1986 and 1996 who are still receiving disability benefits that total \$118,917 annually. (Finding IV B-9)

B. IOD pay is not being adequately administered and monitored.

- Metro provides employees 100% of their base pay while on injured in-line-of-duty status, even though these payments are non-taxable by federal law. This results in an employee in an IOD status receiving significantly more

take-home pay than is received when the employee is working. This is out of line with other local governments' practices, which are to pay an average of 62% of base pay. Direct salary expense for employees in an IOD status during fiscal year 2000 totaled \$1,928,000, and Metro could have saved over \$700,000 had a more common IOD pay practice been in place. Additionally, since employees would not have earned more on IOD than on regular work status, the disincentive to return to work would have been neutralized. (Finding IV B-3)

- There is no central control over an employee being placed in an IOD pay status. The IOD pay status is determined by individual departments and is not monitored or verified centrally for the actual existence of a work-related injury. A review of the October 6, 2000 payroll identified 42 individuals on IOD, and one of those individuals had not been referred to the Board Office for case management as required. (Finding IV B-2)
- The Metro Code does not currently allow the Benefit Board to recover the cost of an IOD disability pension of an employee injured by a third party when the third party is found liable for the injury. This results in Metro incurring expenses that should be recoverable from others and results in the injured employee recovering more than his or her actual damages, since the employee would collect both a disability pension and damages from the third party.

C. The Board Office is not effectively discharging the financial reporting and accounting functions under its control.

- The transfer of pension investments from one custodian to another was not fully reconciled until one year after the transfer had taken place. As a result, there was no general ledger control over pension investments throughout the entire June 30, 2000 fiscal year. Pension fund investments exceeded \$1.6 billion at June 30, 2000. (Finding IV A-1)
- The current method of reconciling the total of insurance premiums contributed by departments and premium deductions withheld from employees to the total of insurance premiums paid to the carriers does not ensure that the appropriate amount of deductions were withheld from employees. Insurance premiums totaled \$90,994,000 during the 2000 fiscal year. (Finding IV D-7)

- Testing of insurance rolls identified 30 retirees over age 65 who were coded to receive primary medical coverage from the self-insured medical fund even though they were eligible for Medicare, which should be used as primary coverage. Self-insured medical claims for all service and disability pensioners and their dependents totaled \$10,110,000 for the 2000 fiscal year. (Finding IV D-6)
- There were several situations noted that pointed to weak financial controls in the Board Office. As an example, one pensioner was wired a check in error during Project '87, cashed the check, and owes the Board approximately \$9,900. A collection schedule developed for the pensioner to repay the Board was never executed. (Finding III F-1)

D. Pension calculations continue to have a high level of errors.

- The time period encompassed by Project '87 went through December 31, 1995. Because pension calculation error rates were so high throughout that period, a new recalculation effort was initiated. This new effort was called Project '96. Testing of these Project '96 files shows continued high error rates, including the files calculated after written procedures were developed in 1998. Of 153 Project '96 files with pension effective dates after January 1, 1998, 50 files had cumulative net overpayments totaling \$80,416, and 29 files had cumulative net underpayments totaling \$40,699. Additionally, recalculation of 107 new pensioners' files in January 2000 revealed errors in monthly benefits ranging from \$30.11 to \$91.09 for three of the retirees. (Finding III D-1)
- The Board Office has not prioritized the work that needs to be done to simplify benefit calculations and to take other steps necessary before pension calculations can be more automated and integrated with the personnel and payroll systems. Further automation and integration surrounding benefit calculations is critical to solve the long-standing problem of errors in pension payments. (Finding IV D-2)

E. Controls over pension payroll are not adequate.

- Currently the pension payroll system is administered by the Board Office. Changes can be made to the payroll system without appropriate review and

approval. Pension payroll for fiscal year 2000 totaled \$54,041,000. (Finding IV D-5)

- During the Project '87 work, an employee in the Board Office increased the monthly pension amount for a pensioner who had been overpaid and whose monthly pension amount had been reduced as a result of Project '87. The Project '87 report recommended an independent review of all payroll amounts that had been reduced as a result of Project '87 to ensure that the increase noted was an isolated incident. This has not been done. (Finding III C-1)

F. The Benefit Board has a history of making decisions outside of its authority.

- In 1995 the Board voted to allow 119 active participants in the closed City of Nashville and County of Davidson pension plans to transfer into the new Metro system in order to take advantage of the benefit enhancements under the newly created Division B. This action increased Metro's pension liability by \$10 million and was taken without adequate consideration of the cost implications and without prior approval from the Metropolitan Council. The Council is the body with the authority to appropriate the additional funding made necessary by this action. (Finding IV D-3)
- When the Metropolitan Council approved the Benefit Board proposal to allow employees meeting certain conditions to connect past service time for benefit purposes in 1995, it included a requirement that interest be charged for any amounts employees would have to repay to connect the time. The Board voted to not charge interest from January 1, 1996 until January 1, 1998, an action that was not authorized under the ordinance. (Finding IV D-3)
- In December of 1995 the Board voted to allow certain civilian employees of the Fire Department to transfer to the newly created Division B of the Police and Fire Pension Plan. While there had been some confusion regarding which Fire Department employees qualified to participate in Division A of the Police and Fire Pension Plan, Division B clearly excluded these individuals. The Board voted to "grandfather" these individuals into Division B, but there is no such provision in the ordinance. A lawsuit claiming that allowing civilian employees of the Fire Department into the Police and Fire Pension Plan while excluding civilian employees of the

Police Department performing similar types of jobs violates the U.S. Constitution is still pending. (Finding IV D-3)

G. The Board does not consistently obtain independent medical advice prior to deciding whether individuals are medically eligible for disability and other benefits.

- Although the Board has begun discussing this issue, there is currently no system in place requiring independent medical verification of an employee's medical condition prior to the Board granting or continuing medical disability pensions. In addition to the risk of putting the Board in a position of making benefit decisions without sufficient information, the current system has an increased risk of publicly disclosing confidential medical information. (Finding IV B-1, IV C-3)

H. The use of an autonomous Board Office fosters inefficiency and fragmentation.

- The pension plan includes a credited service calculation that is different than the method that the Civil Service Rules outline to determine employees' service time. Additionally, there are differences in how service time is connected under Civil Service and Benefit Board rules. These differences create administrative inefficiencies and employee confusion. (Finding IV C-6)
- Having a separate office to administer employee benefits diminishes the efficiency and effectiveness with which the Board executes its responsibilities, complicates efforts to return employees injured on duty to work and creates duplication of record keeping within the Board Office for employee personnel and payroll records. (Findings IV A-1, IV B-8)
- The use of a separate Board Office does not appear to be the norm, based on KPMG's survey of other local governments, and it is contrary to previous consultant recommendations. (Finding IV A-1)

I. There are inadequate resources in place to effectively execute the Board's responsibilities.

- The lack of priority the Board Office placed on basic controls, policies and procedures to ensure the accuracy of benefit calculations which gave rise to Project '87 is still evident in the conditions outlined at A through E above. Additionally, KPMG noted other conditions that illustrate the Board Office's inability to adequately fulfill the Board's responsibilities. These include loss of control over the connection of service project, heavy reliance on outside consultants and failure to maintain the office's policies and procedures manual to keep it current and in use. (Findings IV C-2, IV D-1, IV D-8)
- The Board Office does not have the equipment, technology and systems necessary to provide quality customer service to Metro employees and pensioners. Addressing callers' questions often necessitates manually pulling files and calling inquirers back, which is inefficient and is not adequately responsive. Additionally, the system of tracking calls and documenting conversations is manual and individualized, and incoming phone calls are sometimes unanswered. (Finding IV C-1)
- The Board has not established an employee wellness program as outlined in the Code; although, there have been recent efforts to establish such programs in the Police and Fire Departments. (Finding IV B-7)

J. Current benefit offerings have not recently been independently reviewed.

- The current language in the Metro Code does not provide the Board with the authority to provide medical benefits to retirees. (Finding IV D-10)
- Although Metro's employee benefits are generally in line with other local governments surveyed by KPMG, Metro's ten year vesting requirement is higher than average, and the fact that Metro does not require employees to contribute to the pension plan is not the norm for local governments. (Finding V C-1)

- The requirement that police and fire employees injured on duty be returned to work in essentially the same position is more restrictive than for other Metro employees. (Finding IV B-4)
- Metro currently requires all full-time and part-time employees working over 20 hours to sign up for medical insurance, regardless of the existence of other coverage. (Finding V C-3)
- There are currently eleven “voluntary” insurance products offered to employees through payroll deduction that the Benefit Board has not adequately monitored to ensure Metro employees are receiving the best value for the products offered. (Finding V C-2)

Recommendations to the Benefit Board

Following is a summary of the recommendations that fall under the responsibility and authority of the Benefit Board.

1. The Benefit Board should obtain advice from the Department of Law before implementing policies, interpreting plan provisions, taking actions on groups of employees or allowing exceptions to plan requirements. For Board actions having a financial impact, the Board should also consult with the Department of Finance. In addition, the Board should work with the Department of Law to resolve the issues surrounding the authorization to provide medical benefits to retirees. (Findings IV D-3, IV D-10)
2. The Benefit Board should implement a policy to require independent medical advice in granting or extending IOD or medical disability benefits. (Finding IV B-1)
3. The Benefit Board should give serious consideration to executing its staff functions through the Director of Personnel, as provided for in the Metropolitan Charter, Section 13.03. This recommendation was previously made in a 1979 study and was again recommended by the former executive secretary in 1987. Such an action would not diminish the Board’s authority and would enhance the Board’s ability to effectively fulfill its responsibilities to Metro’s employees and pensioners. (Finding IV A-1)

4. The Benefit Board should work with the Civil Service Commission, through the Director of Personnel, to eliminate conflicts between benefit plan provisions or Benefit Board policies and Civil Service Rules. (Finding IV C-6)
5. The Benefit Board should prioritize establishing an effective means to execute its responsibilities and ensure that basic policies and procedures are in place to correct all findings noted in the KPMG Performance and Operational Review report and ensure that the conditions that gave rise to Project '87 and to the current findings do not resurface in the future. (Section I above)
6. The Benefit Board should coordinate with efforts underway through the Police and Fire Departments to fulfill its obligation to establish an effective employee wellness program and should begin efforts to establish an employee wellness program for other Metro employees. (Finding IV B-7)

Recommendation to the Mayor

As discussed in Finding V C-1 of the accompanying KPMG report, Section 13.06 of the Metropolitan Charter requires the Mayor to appoint a “study and formulating committee to study benefits, contributions, extent of coverage, actuarial soundness and related matters in connection with the system of benefit plans and to submit to the employee benefits board such amendments as such study may indicate as necessary.” The Charter requires that a study and formulating committee be appointed at least once every five years. Based on information obtained from the Metropolitan Clerk, such a committee has not been appointed since 1992.

As a part of the performance audit, KPMG compared certain operational characteristics, performance measures and benefit offerings to information available from other studies or to information obtained from other selected local governments. Although Metro’s employee benefits are generally in line with other local governments surveyed by KPMG, the survey and other work performed by KPMG indicate that certain aspects of Metro’s benefit offerings need further consideration, as outlined in the Internal Audit and KPMG reports.

We recommend that the Mayor appoint a study and formulating committee, and that the committee be directed to include consideration of the benefit offering matters included in the Internal Audit and KPMG reports. The committee’s work should encompass a review of the legal authority to offer all current and proposed benefits.

Recommendations to the Director of Finance

As a result of the Benefit Board audit, there are several findings concerning the appropriateness of payments and the adequacy of financial and accounting controls. Based on our understanding of various sections of the Metropolitan Charter and Metropolitan Code of Laws, the resulting recommendations should be addressed by the Department of Finance, since the underlying operations are ultimately the responsibility of the Department of Finance. Excerpts of applicable Charter and Code provisions are as follows.

- Charter Section 8.101 – The department of finance shall administer the financial affairs of the metropolitan government...
- Charter Section 8.103 – The director of finance or his designated divisional director shall...(f) Audit before payment all bills, invoices, payrolls and other claims, demands or charges against the metropolitan government and approve same only if proper, legal and correct...
- Charter Section 8.105 – He (the chief accountant) shall prepare disbursement warrants and conduct a thorough preaudit to all claims on all funds, including payrolls, before payment...
- Charter Section 8.106 – The metropolitan treasurer shall supervise and be responsible for the custody and disbursement of all funds belonging to the metropolitan government and all funds handled by the metropolitan government officers, agents or trustees...
- Charter Section 13.11 – The metropolitan treasurer shall keep a separate account for each such fund (assets of any fund maintained in connection with the system of employee benefit plans and retirement plans) and a separate record indicating each disbursement of such fund. Payments from such fund or funds shall be...countersigned by the metropolitan treasurer. The metropolitan treasurer shall submit to the board monthly financial reports and such other reports as the board may require.
- Code Section 2.24.090 – In the department of finance, division of accounts, a payroll section is created, headed by a payroll supervisor, who shall be responsible for the preparation of the metropolitan government payrolls and the issuance of all payroll checks.

As discussed in Finding IV A-1 of the accompanying KPMG report, collectively these provisions make the Department of Finance ultimately responsible for addressing the Benefit Board audit report findings and recommendations surrounding disability

pensions, IOD pay, financial reporting and accounting, pension investments, pension calculations and pension payroll. As a result, we are directing the following recommendations to the Director of Finance. The specific KPMG findings giving rise to each recommendation are referenced.

1. The outside earnings of all disability pensioners should be reviewed to identify earnings that exceed the amounts allowable, and the disability pension benefits should be offset accordingly. (Finding III B-1)
2. Each disability pensioner's file should be reviewed to ensure appropriate action has been taken with regard to annual disability questionnaires, social security disability verification and medical readiness to return to work. Any suspected instances of fraudulent action on the part of pensioners should be referred to the Department of Law to determine appropriate legal action. (Findings III B-2, III E-2, IV B-9)
3. The Department of Finance should take a lead role in working with the Benefit Board and Civil Service Commission to establish a standard worker's compensation program, including setting IOD pay at a reasonable percentage of earnings, allowing Metro to recover the IOD disability pension cost associated with injuries for which third parties are liable and creating more efficiency in IOD medical care. (Finding IV B-3)
4. The ability to place an employee in an IOD pay status on the payroll system should be centralized and should require appropriate documentation of a work-related injury. (Finding IV B-2)
5. Pension investment accounting and reporting should be assigned to the Division of Accounts, and quarterly reports to the Investment Board should be reconciled to the general ledger to ensure reports to the Benefit Board are supported by the central records that are the basis of Metro's financial statements. All investment activity should be recorded monthly. (Finding IV A-1)
6. The Metropolitan Treasurer should continue to serve in a staff support role to the Investment Board. The Treasurer should be the Investment Board's principal contact with the master custodian, the investment managers, and the investment consultant for the purpose of executing the Investment Board's instructions and in order to fulfill the Treasurer's reporting responsibilities mandated by the Metropolitan Charter. (Finding IV A-1)

7. Disbursements to insurance carriers should be administered in the Department of Finance, and all related reconciliations should be performed by the Division of Accounts. Additionally, the Finance Department should develop procedures to monitor the appropriateness of insurance coverage and premiums by periodically requesting downloaded reports of pensioners' and employees' health insurance coverage from insurance providers and administrators, then matching those reports to premium, election and other information in Metro's personnel, payroll and other records. (Findings IV D-6, IV D-7)
8. Given the continuing level of errors in pension calculations, the Department of Finance, through the third party currently recalculating pensions, should recalculate each pension before it is added to the pension payroll. In addition, pensions originating after 1984 that were not recalculated under Project '87 or Project '96 should be recalculated. Concurrently, the Department of Finance should take a lead role in efforts to automate and integrate benefit calculations, including assessing the potential benefits of outsourcing the pension calculation function. (Findings III D-1, IV D-2)
9. Pension payroll should be placed under the control of the Payroll Section in the Department of Finance. Changes to payroll amounts should only be made with authorized approval and after review for appropriateness and accuracy. Payroll records for all pensioners who had their pension amounts reduced as a result of Project '87 or Project '96 should be reviewed to ensure they were not subsequently increased. (Findings III C-1, IV D-5)
10. The Department of Finance should implement all KPMG recommendations that impact the disbursement or collection of funds, including collecting amounts due under the connection of service project, collecting any amounts outstanding as a result of Project '87 and collecting any other overpayments. (Findings III F-1, IV C-2)
11. Given that several of the Benefit Board or Board Office actions that exceeded legal authority have a direct or indirect impact on payments and on Metro's financial condition, the Department of Finance should take a lead role in working with the Department of Law and the Benefit Board to assess the impact of those actions and take appropriate corrective action. Additionally, consideration should be given to reviewing past Board actions to determine whether there are other actions that warrant further investigation. (Finding IV D-3, IV D-4)

The Benefit Board's, Mayor Purcell's and Mr. Manning's responses to the above recommendations follow this report.

We greatly appreciate the cooperation and help of the Board Office staff throughout the course of this audit. While the audit findings indicate that the Board Office is not effectively executing the Board's responsibilities, we observed that the employees in the Board Office are genuinely dedicated to serving Metro's employees and retirees. They have been working hard to try to be as effective as possible in the absence of sound management practices, clear policies and procedures and adequate technology.

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

Kim McDoniel
Internal Audit Manager

Copy: Karl F. Dean, Director of Law
Eugene Nolan, Associate Director of Finance
Metropolitan Council Audit Committee
Richard V. Norment, Director of County Audit
KPMG, Independent Public Accountant

**Metropolitan Government of Nashville and
Davidson County**

Internal Audit Section

Report on the
Metropolitan Employee Benefit Board

Section II Management's Responses

WHEREAS, the Internal Audit Section with the assistance of KPMG has prepared an audit report of the Employee Benefit Board;

AND WHEREAS, these types of reports are generally not considered final and available for public distribution until a management response is incorporated with the report;

AND WHEREAS, there is currently no permanent management in place at the Employee Benefit Board offices;

AND WHEREAS, the Internal Audit Section is addressing the report to the full Employee Benefit Board;

AND WHEREAS, the Internal Audit Section has requested the full Employee Benefit Board provide a management response to be incorporated in to the final report;

AND WHEREAS, copies of the draft report have been provided to all the individual members of the Employee Benefit Board for review;

NOW THEREFORE, the Employee Benefit Board does hereby resolve to adopt the following management response to be incorporated in to the final audit report:

The Employee Benefit Board acknowledges the receipt by each of its individual members of the draft audit report and we will consider the specific recommendations as soon as practical after the report is completed and made publicly available. Based on our review of the draft report, we generally concur with the report's findings but are not able to agree or disagree with specific findings or recommendations until such time as we have discussed the report in a public meeting. The Employee Benefit Board shall address the issues raised in the report in detail at subsequent meetings.

I certify that the above resolution was adopted by the vote of the Employee Benefit Board on the ___ day of _____, 2001.

Chair of the Employee Benefit Board

January 12, 2001

Kim McDoniel
Internal Audit Manager
222 3rd Avenue North, Suite 701
Nashville, TN 37201

Dear Ms. McDoniel:

I have received your report dated December 31, 2000, recommending that I appoint a study and formulating committee under Section 13.06 of the Metropolitan Charter. Shortly after I took office I became aware that this periodic study of Metro's benefits required by the Charter is overdue. In order to assure that the best possible information is available for this important study, I made the decision to wait until the results of the audit were available before appointing a committee.

I am in agreement with your recommendation, and I will proceed with appointing a study and formulating committee in the near future.

Sincerely,

Bill Purcell
Mayor

January 12, 2001

Ms. Kim McDoniel
Internal Audit Manager
222 3rd Avenue North, 7th Floor
Nashville, TN 37201

Dear Ms. McDoniel:

Based on the Department of Finance's responsibilities as outlined in your report dated December 31, 2000 and as represented to me by the Department of Law, it is my understanding that implementing the recommendations directed to the Department of Finance are required by the Metropolitan Charter and Code. Since the findings indicated some pervasive and significant discrepancies, you made me aware of these issues when they arose during the audit process. As a result, I began directing certain Finance personnel to develop a corrective action plan that could be implemented as soon as practical after completion of the audit.

Similarly, I agree that the Metropolitan Treasurer's responsibilities with regard to pension investments are clearly spelled out in the Charter, as outlined by the Department of Law in a November 10, 2000 memorandum. The Investment Board has already begun to comply with the related Charter requirements, and I have worked with the Treasurer to align her job responsibilities accordingly.

The Department of Finance staff and I will continue to work closely with the Benefit Board and with the Departments of Law and Personnel to implement the recommendations made by KPMG and by Internal Audit. The Department of Finance is committed to the financial integrity of the Metropolitan Government and to fulfilling its responsibilities outlined in the Metropolitan Charter.

Sincerely,

David L. Manning

Director of Finance

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KPMG

Metropolitan Employee Benefit Board Performance
and Operational Review



DECEMBER 2000

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I. Scope and Objectives of the Performance and Operational Review

This report presents the results of our review of the operations, policies and performance of the Metropolitan Employee Benefit Board (“Board”) of the Metropolitan Government of Nashville and Davidson County (“Metro”). The objectives of this review encompassed the following major areas:

- Board and Board Office processes used to monitor and control pension, disability, medical and other benefits and processes used to oversee and monitor policies and plan design
- Accurate and timely calculation of benefits in accordance with plan requirements, including payroll processing, disability monitoring and administration and medical benefits and including the status of specific recommendations made as a result of “Project ‘87”
- Board Office structure, technology and systems as compared to best practices for employee benefit delivery
- Appropriateness, effectiveness and efficiency of Board actions and practices
- Effectiveness, timeliness, and usefulness of Board Office customer service to employees, retirees and others
- Benefits offered in terms of adequate value and protection for employees and as compared to other selected government benefit packages

KPMG’s review consisted of interviews with the majority of Benefit Board members (all Benefit Board members were offered the opportunity to participate), interviews with Board Office and other personnel, observations of procedures in each of the Board Office operating divisions, discussions with consultants currently engaged by the Benefit Board, and review of pertinent documents relative to Board Office operations and to the offering and delivery of benefits to Metro employees. Other governments selected for comparison included Atlanta and Fulton County (GA), Charlotte and Mecklenburg County (NC), Denver, Indianapolis, Jacksonville, Milwaukee, and Memphis and Shelby County (TN).

The detail comparison of Metro’s benefits to other governments’ benefits is still in process. The results of that work will be provided to the Benefit Board and the Department of Personnel. Section V of this report includes some general observations made to date concerning Metro’s benefit offerings as compared to the offerings of other governments.

The results of our review are presented in the following pages, beginning with an overview of Board and Board Office operations, followed by specific findings and recommendations resulting from our review of the status of Project '87 recommendation implementation, our review of Board and Board Office operations and performance, and our comparison of benefits and the related cost to other governments. In developing our recommendations, KPMG utilized various publicly available information, internal KPMG publications and expertise, and data from a tailored benchmarking survey. Findings noted are based on the information provided to us by the Board Office staff and based on our review of various forms of documentation obtained from the Board Office and other sources.

Pension investment performance and deferred compensation performance were outside of the scope of this report; those issues were addressed in a report issued in April 2000. This report does, however, address organizational and financial reporting and internal control issues surrounding these functions.

II. Overview of the Benefit Board and Board Office Operations

A. Board Level Activities

The Benefit Board, consisting of ten members, was established by the Metropolitan Charter. The Metropolitan Code of Laws charges the Benefit Board with the following general responsibilities:

- a) The Board shall administer, manage, and coordinate the metropolitan employee benefit system in accordance with provisions of the system, including the following:
 - 1) Meet with legal counsel and actuarial consultants to coordinate and establish administrative details, forms and procedures to be followed in enrolling persons who are eligible to become members in the system,
 - 2) Select an insurer or insurers to underwrite and administer life insurance and medical care benefits and to execute any contract required,
 - 3) Direct the preparation of and approve a booklet explaining the metropolitan employee benefit system in full detail, and make available to metropolitan employees full information concerning a metropolitan employee's status and his/her rights concerning the system,
 - 4) Act promptly to secure Social Security coverage for all eligible employees, and
 - 5) Adopt actuarial and other necessary tables for the administration of the system.
- b) The Investment Committee is to employ the services of investment consultants and others as deemed necessary to maintain a soundly designed, administered, and financed system.
- c) The Board has jurisdiction over all voluntary benefit plans and flexible benefit plans under Section 125 of the Internal Revenue Code.
- d) The Board is to establish a medical case management program to encourage and assist in the rehabilitation and retraining of disabled members, whether on disability pensions due to in-line-of-duty injuries or non job-related medical problems.
- e) The Board is also authorized to administer to police and fire employees wellness testing and education programs and to implement programs to provide early intervention in areas that are causing, or have the potential of causing, medical or in-line-of-duty disability pensions.

- f) The Board shall administer, manage and coordinate the employee safety functions previously performed by the insurance and safety division of the Department of Law.

The Charter gives the Board the option of fulfilling the staff functions to support its responsibilities through the Director of Personnel or by employing an Executive Secretary with training and experience in pension and retirement administration. The Board has elected to employ an Executive Secretary although the position is currently vacant. The Executive Secretary is supported by the Board Office staff.

The Code of Laws requires the Board to authorize all payments of pension benefits from the trust fund. Metropolitan Code Title 3, Section 3.08.160, states: "Before any benefit payable from the trust fund can be paid, all conditions applicable to the payment of the benefit shall be met, written application for the benefit shall be presented to the Board in such form and manner as the board shall determine and the payment of the benefit shall be approved and authorized by the Board." The Board is currently fulfilling this obligation through committee and full Board review and approval of each new service pension, each disability pension, and any revisions to pension payments. In order to prevent the delay of routine service and survivor pension benefits, the Board has recently authorized the Board Office to issue such payments once the necessary process is complete, with such payments reported to the Board at the following meeting. The Board Office is required to re-review disability pensions on at least an annual basis using an annual questionnaire process.

The Board is currently meeting twice per month, with one meeting per month consisting of committee meetings. The Board has the following active committees:

- Board and Office Administration
- In-Line-of-Duty
- Medical and Life Insurance
- Payroll Deduction
- Pension
- Safety

There is also an Investment Committee, referred to as the Investment Board, that is responsible for pension fund investments. The Investment Board is required to meet quarterly but is currently meeting weekly. Investment Board actions do not require full Board ratification.

KPMG interviewed the majority of the Board members regarding their roles and responsibilities, reviewed the Board minutes for the period from January 1998 through April 2000, and attended one Board meeting in June 2000. A list of all individuals interviewed is included as an appendix to this report.

B. Benefits Offered

The Benefit Board is responsible for administering the following benefits:

- Service Pensions
- Injured on Duty Benefits and Disability Pensions
- Medical and Dental Insurance
- Life Insurance
- Flexible Spending
- Deferred Compensation
- Voluntary Options

An overview of each of these benefits is presented below.

Service Pensions

The Board administers the open and closed divisions of the Metro plan and the closed City and County plans. Key benefit features of each plan are discussed below.

Metro Plan

Division A (closed):

This plan (The Metropolitan Employees' Benefit Trust Fund) was established at the inception of the Government on April 1, 1963 and implemented on September 1, 1964. At that time, all employees of the former city and county governments were given the option of continuing as participants of the pension plans of those entities or transferring to the Metro Plan. Division A of the Metro Plan was closed to new members on July 1, 1995.

Normal retirement for employees other than police officers and firefighters occurs at age 65 and entitles employees to a lifetime monthly benefit of 1/12 of the sum of 1% of average base earnings, as defined by the Social Security Administration, plus 1.75% of average excess earnings multiplied by the years of credited service, with cost-of-living adjustments. Average earnings is the average earnings for the last 60 consecutive months in which earnings were highest. Benefits fully vest upon completion of 10 years of service.

Normal retirement for police officers and firefighters occurs upon reaching age 55 and completing 20 years of service. The lifetime monthly benefit is calculated as 1/12 of the sum of 2% of average earnings up to 25 years of credited service, plus 1.75% of average earnings for all years of credited service in excess of 25, reduced by the amount of primary Social Security

benefits at age 65 and increased by cost-of-living adjustments. In no event shall police and fire pensions be less than that due employees who are not police officers or firefighters. Benefits fully vest on completing 10 years of service.

Any employee who terminates after the completion of at least 10 years of service and before eligibility for normal retirement is eligible to receive a monthly deferred pension which commences on the first day of the month following the attainment of age 65, computed and payable in accordance with the Metro Plan. This plan also has provisions for early retirement with reduced monthly benefits.

Division B (open):

As of July 1, 1995, Division B of the Metro Plan was established. All employees with an effective hire date of July 1, 1995 or later are only eligible to participate in Division B of the Metro Plan. Also, Government employees as of June 30, 1995 who were qualified members of Division A were given the option to transfer to Division B as of January 1, 1996, subject to written application approved by the Benefit Board. Substantially all employees transferred to Division B of the Metro Plan.

Normal retirement for employees other than police officers and firefighters occurs at the unreduced retirement age which is the earlier of (a) the date when the employee's age plus the completed years of credited employee service equals 85, but not before age 60 and (b) the date when the employee reaches age 65 and completes 5 years of credited employee service. The lifetime monthly benefit is calculated as 1/12 of the sum of 1.75% of average earnings for all years of credited service. Benefits fully vest upon completion of 10 years of service.

Normal retirement for police officers and firefighters occurs any time after attaining the unreduced retirement age which is the date when the employee's age plus the completed years of credited police and fire service equals 75, but not before age 53 or after age 60. The lifetime monthly benefit is 1/12 of the sum of 2% of average earnings for each year of credited fire and police service not in excess of 25 years, plus 1.75% of average earnings for each year that the credited police or fire service exceeds 25 years. Benefits fully vest upon completion of 10 years of service.

An early retirement pension is available for employees if the termination occurs prior to the eligibility under normal retirement but after age 50 (45 for police and fire) and after the completion of 10 years of credited employee service. The pension is payable as either a monthly deferred early employee service pension beginning the month after the attainment of the normal retirement age or as an immediate monthly early employee service pension beginning on the first

day of the month following termination. The lifetime monthly benefit for the immediate monthly early employee service pension is reduced by 4% for each of the first 5 years by which the retirement date precedes the normal retirement age, and by 8% for each additional year by which the retirement date precedes the normal retirement age, provided, however, that the immediate monthly benefit shall not be less than the actuarial equivalent of the deferred pension benefit provided by the Metro Plan.

Any employee who terminates after the completion of at least 10 years of service and before eligibility for normal retirement or early retirement shall be eligible to receive a monthly deferred pension which shall commence on the first day of the month following the attainment of the unreduced retirement age, computed and payable in accordance with the Metro Plan.

Any employee with unused sick leave at service retirement shall receive 100% credit for the time, subject to an affirmative election at the time of retirement and in accordance with the Benefit Board's policies and procedures.

City Plans

These plans (collectively the Closed City Plan Fund) cover certain employees, other than teachers, of the former city of Nashville who elected to remain under these plans and not transfer to the Metro Plan. These plans are closed to new members.

County Plan

This plan (the Davidson County Employees' Retirement Fund) covers employees, other than teachers, of the former government of Davidson County who elected to remain under this plan and not transfer to the Metro Plan. This plan is closed to new members.

Injured on Duty Benefits and Disability Pensions

Benefits are available to all Metro employees injured in the line of duty (IOD), including disability pensions, if necessary. In addition, medical disability pensions are available to Metro employees who have at least 10 years of service and who experience an illness or injury that prevents them from working.

Injured on Duty

An employee injured on the job is entitled to up to 130 days of paid disability leave to recuperate and return to work. The IOD pay is at 100% of regular pay. Until 1992, this 100% payment was reduced by federal income and applicable employment taxes. In 1992, a legal ruling clarified that such disability payments were not taxable to the employee, and as a result, the payments continued at the 100% level, but were no longer reduced by federal income or other taxes.

An active employee can receive up to 30 additional working days of IOD leave in subsequent calendar years for surgery and recovery resulting from the same or a recurring injury. Coding employees' time as IOD into the payroll system is under each individual department's control.

In emergency situations, whether at the time of the incident or later, an injured employee can be taken to the nearest medical facility at Metro's expense. In non-emergency situations, Metro will pay 100% for services performed at General Hospital or for services referred elsewhere by General Hospital personnel. This is stipulated in Section 13.12 of the Metro Charter, which provides for non-emergency treatment to be furnished without charge to injured employees if provided by employees of the board of hospitals. In non-emergency situations, if an employee chooses alternative physicians or facilities, the employee is responsible for all charges not covered by the employee's medical insurance.

Metro utilizes an outside contractor for case management services for employees injured on duty. The case manager's role is to work with the Board Office, the employees, and the physicians to monitor each employee's progress and to help the employee through the system to facilitate a full recovery and a return to work in the shortest period of time. A case manager is involved in each case as needed (determined by the case manager) during the 130 days and thereafter. If it appears that an employee will not be returning to work, the employee can apply for a disability pension before the 130 days of injury leave is exhausted.

Disability Pensions

Applicants for disability pensions who have not already been under IOD case management must provide evidence of disability in order to obtain approval for a disability pension. While required for IOD, case management is not required for medical disability claims but is available if requested by an employee.

IOD and medical disability pensioners receive a tax-free pension of 60% (under Plan A) or 50% (under Plan B) of their prior 12 months' salary and are allowed to earn outside wages to bring their total earnings up to 100% of their pre-disability "frozen" earnings, as defined by the plan, before there is a reduction in the pension amount. Additionally, disability pensioners under Plan A have their pensions offset on a dollar-for-dollar basis for any Social Security medical

disability benefits received, and disability pensioners under Plan B have their disability pensions reduced to 30% of their prior 12 months' salary if they receive medical disability Social Security benefits.

Medical Reexaminations

A disability pensioner is subject to subsequent medical examinations at various intervals, depending upon the circumstances. The first review is generally scheduled based upon the pensioner's physician's recommendation, usually within one year. Once a pensioner obtains Social Security disability benefits, medical reexaminations are only required once every five years.

Annual Questionnaires

The Board Office is required by the Metro Code to review disability claims for continued qualification annually through the questionnaire process, unless the individual is retiring within the next year. This questionnaire requests information regarding the amount of wages a pensioner may be receiving from outside income, information regarding the pensioner's medical condition, and the status of the Social Security disability application process. Beginning with 1998 wages, all disability pensioners were required to complete an authorization for the Board Office to obtain Social Security wage information as additional verification of outside wages earned.

The Board Office is required to monitor the outside earnings of the disability pensioner and stop or offset disability pension payments to the extent those outside earnings exceed the "frozen earnings" level. Additionally, disability pension payments are reduced for Social Security benefits received, as discussed above.

Return to Work

Once an IOD or medical disability pensioner is medically able to return to work, the Metro Code requires that any department refusing to take an individual back to work will, after 60 days, have all costs of continuing the disability pension payments under Plan B charged to that department. For Plan B, the Metro Code also requires that the disability payments to the employee are discontinued after three offers to work are refused by the employee.

Since not all disability pensioners are able to return to their former positions, the Board instituted a "salary supplement" program in 1995. Under this program, the disability pensioner can return to work at a lower salary, and the Board will supplement the difference between the lower-paying job and what the pensioner was earning before going on disability.

Under Metro Code requirements, police officers and firefighters are required to return to work in the same department, at substantially the same rate of pay, and in a position that is not substantially less in authority or responsibility than the police or fire position held prior to their injury or illness.

Medical

Metro employees currently have three medical plan options as follows:

- Blue Cross Blue Shield PPO (self insured plan)
- Blue Cross Blue Shield HMO (HMO Blue)
- Cigna HMO

Metro requires employees to enroll in one of the three medical plans offered, even if they have other insurance coverage. Regardless of the medical plan chosen, employees have mental health care coverage under Magellan Mental Health Care.

Retirees are offered each of the above options. However, Medicare Part A and Part B is the primary coverage for the retirees over 65. Part A provides the primary coverage for hospitalization. Part B of Medicare, which is optional by the Federal Government, would be considered primary for professional medical services. Metro provides a discounted rate for medical coverage for those retirees who select Part B Medicare coverage.

Key coverages are as follows:

<u><i>PLAN FEATURES</i></u>	<u><i>BCBS PPO (in network)</i></u>	<u><i>HMO BLUE</i></u>	<u><i>CIGNA HMO</i></u>
Deductible	None	None	None
Coverage	80%/20% coverage	100% \$10 co-pay	100% \$10 co-pay
Out of Pocket Max	Individual - \$1,000 Family - \$2,000	NA	NA

Dental

Metro employees currently have two dental plan options as follows:

- Cigna Traditional Plan (PPO)
- Cigna Dental Care (CDC)

Metro requires employees to enroll in one of these programs, just as in the medical plans. Key coverages are as follows:

<u>PLAN FEATURES</u>	<u>PPO</u>	<u>CDC</u>
Deductible	\$50 per person	None
Coverage	Variable based on care	100%
Annual Maximum Benefit	\$1,000 per person	None

Life Insurance

Metro provides life insurance to its employees through Aetna Life Insurance Company. The life insurance is two times an employee's annual salary, with a maximum benefit of \$50,000. Upon reaching age 65 or retirement, the coverage becomes a \$7,500 death benefit.

Flexible Spending Accounts

Metro offers flexible spending accounts which are funded with participating employees' pre-tax income. This program has two separate accounts: one for out of pocket health care expenses and one for dependent care expenses incurred to care for eligible dependents. An employee can set aside up to \$5,000 for medical expenses and up to \$5,000 (single or married filing jointly) or \$2,500 (married filing separately) for dependent care expenses.

Currently Metro has 130 persons and 24 persons participating in the medical and child care flexible spending accounts, respectively.

Deferred Compensation

Metro offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all employees, permits deferral of up to \$8,000 annually. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Currently, employees must choose one of the following companies to participate in the 457 plan:

- Aetna
- Pepsco (now Nationwide)
- Hartford

The Board is currently in the process of issuing a request for proposal (RFP) for a deferred compensation administrator and for new providers.

Voluntary Options

Metro offers a voluntary long-term care benefit through Unum Life Insurance Company of America. The plan is designed to provide coverage for one or more necessary diagnostic, preventative, therapeutic, rehabilitative, maintenance or personal care services provided in a setting other than an acute care unit of a hospital, such as in a nursing home or in the home. The plan provides coverage in the form of a fixed dollar indemnity benefit if the policyholder becomes disabled.

Employees also have the option of participating in 11 other voluntary deduction programs. Current programs offered include:

- American Family Life Assurance Co. – Cancer and Intensive Care
- Capital American Life Insurance Company – Cancer and Intensive Care
- Life Insurance Company of Alabama – Cancer and Intensive Care Life Insurance
- American General Life and Accident Insurance Co. – Life Insurance
- American Income Life – Life and Dependent Life
- Metropolitan Life Insurance Company – Life Insurance
- Colonial Life and Accident Insurance Company – Universal Life Insurance
- Carolina Continental Insurance Company – Disability Income with Accident Benefits
- Citizens Security Life – Accident and Universal Life Insurance
- Benefit Planning – Disability Insurance
- Independent Order of Foresters – (Existing Clients Only) Life Insurance

C. Board Office Activities

The Board Office is organized into the following units:

- Administration
- Benefits Administration
- Information Services
- Disability Management
- Safety Division
- Accounting
- Information Systems (included with Accounting for budgetary purposes)

The responsibilities of each of these units is discussed below.

Administration

The administration unit is responsible for the following areas:

- Communications and Training
 - Assistance with drafting RFP's
 - Responsibility for newsletters to employees and pensioners
 - Attendance at pensioner meetings
 - Provide and complete training to benefit coordinators
- Investments
 - General support to the Investment Board
- Administration
 - Responsible for Board meeting agendas and minutes, notices and communications
 - Supports the Executive Secretary
 - Answers phones
 - Assists supervisors
 - Performs other support functions

Benefits Administration

The Benefits Administration unit is responsible for the following:

- New hire processing, including education and enrollment
- Performing training sessions on benefits with employees and departmental coordinators
- Processing and calculating pension benefits including service, disability, survivor, and terminated vested pensions
- Processing and calculating life insurance benefits
- Processing medical and dental benefits enrollments
- Working with Metro employees to maintain benefits by processing benefit elections and changes and serving as an advocate for employees with the different carriers to resolve employee claims and eligibility issues
- Providing on-site educational and enrollment services to employees
- Providing pension benefit estimates requested as employees approach their retirement date
- Determining eligibility for all pension and benefit types (flexible spending, cafeteria plan, life changing events, etc.)
- Preparing staff reports on benefit and pension issues to be addressed by Committees and the Benefit Board.

Per discussion with Board Office staff, this unit spends approximately 70% of their time working with employees in a customer service capacity. The customer service functions include leading benefits enrollment meetings at various locations, resolving changes in beneficiaries, eligibility for medical or dental coverage, insurance problems with employees, and related items. Most of the remaining 30% of their time is spent calculating service, survivor, and disability pensions.

Information Services

This area interacts with all the other units except for Safety. The Information Services unit handles all of the processing and input of benefits that are under the control of the Benefit Board.

Currently, a primary function of this unit is to assist other departments with their conversion of the payroll system to FASTnet. Other responsibilities of Information Services include:

- Batch enrollment of benefits in the FASTnet system
- Support of walk-in service to employees
- Benefits-related training on FASTnet for Board Office and other departments as necessary during the conversion transition period
- Generating forms and supporting the Benefits Administration and Disability Management units

- Monitoring and processing voluntary payroll deductions
- Preparing various staff reports
- Monitoring and verifying FASTnet changes and reports
- Maintaining the filing system
- Being the first line of customer service
- Maintaining the phone system
- Assembling new hire packets

Disability Management

Each of the three staff positions in this unit is assigned responsibility for one of three alphabetic ranges, these being A-G, H-N, O-Z. Disability Management is responsible for the following:

- Processing and reviewing IOD and Medical Disability Pension applications
- Monitoring IOD and Medical Disability cases and maintaining their files
- Monitoring contractual case management and reexaminations
- Preparing staff and committee reports which are submitted to the Committee and to the Board
- Performing various special projects
- Analyzing medical information in order to make recommendations to the Committee and to the Board for disability pensions
- Assisting with identifying injured employees that meet the case management criteria
- Preparing annual questionnaires to disability pensioners, including the 7004 form requesting the Social Security Administration to submit earnings information to the Board Office, and monitoring dependent child status
- Serving as the liaison between the employee pensioner, the employee's family, the medical community, department heads, safety coordinators, personnel staff and others, as necessary
- Assisting in educating Metro departments on disability issues

Safety Division Unit

The Safety Division performs periodic safety inspections, and coordinates with the State of Tennessee Occupational Safety and Health Administration (TOSHA) and federal Occupational Safety and Health Administration (OSHA) audits and is responsible for the coordination of safety measures of all Metro departments.

Related functions include:

- Monitoring compliance with TOSHA
- Maintaining all TOSHA and OSHA records
- Serving as the collection point for all reported Metro IOD and vehicle accident claims
- Maintaining records and collecting reported safety incidents (IOD claims), lost time/light duty, and vehicle accidents
- Reviewing all reported safety incidents for reasonableness and reporting follow up on selected reports
- Performing on-site inspections of Metro facilities
- Investigating reported instances of disability fraud (since March 2000)
- Conducting safety meetings with the departmental safety coordinators at least monthly, such as violence in the workplace, safety training requirements, accident investigation, Metro drug policy, etc.
- Assisting with the determination of dependent child status for disability pensioners

Accounting

The accounting unit of the Board performs numerous functions. These include:

- Processing pension payroll, which is currently being transitioned to the FASTnet system
- Determining and making the payroll withholdings related to benefits for pension recipients
- Initiating transfers and reimbursements to the contractor responsible for the payment of flexible spending account benefits (i.e., dependent care and medical expense reimbursements)
- Administration of pension refunds with appropriate tax withholdings and rollovers out of the Metro Plans to other qualified plans
- Processing pension payments
- Collecting overpayments, refunds related to the “connection of service” project, and other receipts
- Developing the operating budget for the Board and presenting the budget before the Metro Council
- Reimbursing departments for salary supplements for disability pensioners who return to work
- Monitoring the head counts of the number of participants for the Metro medical plans for calculation of the employer portions of premiums to be submitted to the various vendors
- Collecting premiums from employees and ex-employees on COBRA or FMLA status
- Reviewing service and disability pension files before a person comes into the pension system through an “Audit Checklist” used to review the integrity of the data keyed into the program that calculates the pension
- Assisting the external auditors and the actuaries with data gathering

The move to the FASTnet payroll system for all departments made the Accounting Unit responsible for processing payments to insurance carriers (previously done by the Finance Department). The Accounting Unit is now also responsible for one-time overrides, for arrearages and for reconciliations.

Information Systems

This unit is responsible for:

- Providing general information, including information for actuaries, accounting, budgets, etc.
- Supporting FoxPro (medical/dental database)
- Servicing and trouble shooting personal computers
- Maintaining all software applications
- Creating special reports
- Working with FASTnet as needed
- Training within the Board Office
- Working with Flexible Spending Account information

D. Financial Overview

The following pages summarize financial and other information related to benefits provided by the Metropolitan Government and Board Office operations.

The following is a breakout of the cost of the operations by expenditure type and by fund for the year ending June 30, 2000 (Unaudited – in thousands):

	Fund					Total for all Funds June 30, 2000 (Unaudited)
	Metropolitan Employees <u>Benefit Trust</u>	Employees Medical <u>Benefit</u>	General and Other Fund <u>Expenditures</u>	Davidson County Employees <u>Retirement Trust</u>	Closed City <u>Plan</u>	
Pension:						
Service pension payments and survivor payments	\$24,899			\$2,664	\$8,825	\$36,388
Disability pension payments	14,166			277	3,210	17,653
Total pension payments	39,065			2,941	12,035	54,041
Self insured medical insurance claims:						
Active employees	25	\$15,917				15,942
Retirees and disability pensioners		10,110				10,110
Employee injured on duty			\$2,591			2,591
Total self insured medical insurance claims	25	26,027	2,591			28,643
Other:						
Death benefits			100			100
Outsourced services	2,771	2,493				5,264
Benefit board employee salaries	57		1,468			1,525
Other general and administration costs	279		180			459
Operating transfer out/(in) to cover general administration costs	1,136	122	(1,258)			0
Termination refunds	395					395
Total cost of operations	\$43,728	\$28,642	\$3,081	\$2,941	\$12,035	\$90,427

Salaries and benefits and other general and administrative costs were allocated as follows among the divisions of the Board Office (dollars in thousands):

Board Office Unit	Number of Employees	FY 2000 Salary and Benefits Expenses	FY 2000 General and Administrative Expense	Outsourced Services	FY 2000 Cost of Outsourced Services	Total
Administration and information systems	6	\$341	\$315	Self insured plan administration	\$2,406	
				General consultants	1,386	
				Trust company fees	476	
				Investment performance study	214	
				Other	22	
Administration and information systems subtotal	6	341	315		4,504	\$5,160
Benefits administration	7	319	30	Audit firm – recalculation project	98	447
Disability management	4	167	6	Case management	483	656
Accounting	5	183	18	Actuarial services	179	380
Information services	7	307	82			389
Safety division	4	208	8	Surveillance	-	216
Total - board office	33	\$1,525	\$459		\$5,264	\$7,248

The following provides additional information on pension payments and medical claims for the year ending June 30, 2000 (Unaudited – in thousands):

	<u>Active Payroll</u>	<u>Employees on 130 day IOD</u>	<u>Service and Survivor Pensions</u>	<u>IOD and Medical Disability Pensions</u>	<u>Total</u>
Number of people on payroll	12,510	924	4,361	1,133**	18,928
Total annual payroll	\$343,399	\$1,928	\$36,388	\$17,653	\$399,368
Medical claims	\$15,917	*	\$10,110	*	\$26,027
Employer portion – service pension contributions	\$36,418	*	NA	*	\$36,418
Employer portion – medical insurance premiums	\$43,475	*	\$11,715	*	\$55,190
Employee portion – medical insurance premiums	\$14,491	*	\$11,715	*	\$26,206
Employer portion – dental insurance premiums	\$2,636	*	\$856	*	\$3,492
Employee portion – dental insurance premiums	\$1,643	*	\$278	*	\$1,921
Employer portion – life insurance premiums	\$3,278	*	\$907	*	\$4,185
Other Data Per Benefit Board Records					
IOD medical expenses paid	\$1,441		NA	\$1,150	\$2,591
Number of IOD hospital visits	1,561		NA	NA	1,561
New medical disability pensioners					30
New IOD pensioners					18
Medical and IOD pensioners returned to work					8

* Not tracked separately for IOD, disability and service and survivor pensioners

** Includes 569 IOD disability pensioners

III. Project '87 Implementation Status and Related Findings and Recommendations

A. Background of Project '87

As part of this engagement, KPMG was directed to follow up on the status of the Board Office's implementation of the recommendations issued by Internal Audit resulting from what is referred to as "Project '87." The following excerpt from the "Report on the Metropolitan Employee Benefit Board Pension Recalculation Project" dated January 15, 1998 written by Internal Audit provides the background for Project '87.

Before the City of Nashville and Davidson County were consolidated, the pension plans used base salary as the basis of pension calculations. This excluded overtime, out-of-class, and other pay. The Metropolitan Government pension plan (Plan) established September 1, 1964 states that total earnings are to be used to calculate pensions, with earnings defined as "total cash compensation paid." However, the Metropolitan Employee Benefit Board Office continued to calculate pension payments using base salary. The issue was addressed by the Benefit Board in 1987. In a discussion about contributions, the minutes interpreted total earnings as "all taxable earnings plus amounts deferred under the Government's Section 457 plan." The minutes stated that the interpretation was effective January 1, 1987, but the Board Office apparently did not notify Metro Information Systems (MIS) of the interpretation change until 1992. After 1992, MIS earnings summaries presented to the Board Office were to include total earnings, and the Board Office began using total earnings to calculate new pensioners' benefits. At that time the Board Office also began recalculating the benefits of any post-1986 pensioners whose files received attention (to change from a disability pension to a service pension, for example). Those pensioners' benefits were recalculated based on total earnings, their monthly pension benefits were corrected going forward, and lump sum checks were issued for past underpayments.

The continued use of base earnings instead of total earnings came to the Finance Department's attention during the 1993 external audit as a result of routine testing of pension calculations. Other exceptions noted included mathematical and other errors in benefit calculations, inadequate file documentation, failure to consider Social Security benefits in determining disability benefit amounts, inaccurate credited service calculations, and incorrect dependent child and survivor benefits. The absence of written policies and procedures was also noted.

Detailed written policies and procedures were to be presented to the Benefit Board for their review and approval before July 1, 1994, and during fiscal year 1994 all pension and disability applications from January 1, 1987 were to be reviewed to determine the accuracy of pension calculations. The recalculation project was named "Project '87" by the Board Office and was implemented in fiscal year 1994.

Because of the Board Office's lack of progress toward the goals of Project '87, the external auditors ultimately issued a material weakness in internal controls, and the Finance Department hired an outside firm to do the recalculation project. This recalculation project started in January 1996. Other issues came to light between 1994 and the time that the Project '87 report was issued, and Internal Audit issued findings and recommendations addressing the following areas:

- Disability Pensioner Monitoring
- Verification of Pension Payroll Adjustments Resulting from Project '87
- Benefit Processing Controls
- Correction of Specific Administrative Weaknesses Noted
- Resolution of Open Project '87 Issues
- Maintenance of Earnings Records

The following sections address the Board Office's status in implementing the recommendations issued in Internal Audit's Project '87 report, followed by KPMG's current findings and recommendations for each of those areas.

B. Disability Pensioner Monitoring

The lack of overall management of the population of disability benefits results in a situation where the individual problems noted below are the result of following up on individual situations and problems previously identified. Normally, testing would include statistical sampling of a population and extrapolation of the error rate over the population. However, the types of problems noted throughout this report, and the complexity of the resulting calculations contribute to a situation where sampling methodologies are not reliable and therefore, the error amount can not be extrapolated to quantify the overall impact of the findings noted. A review of each individual disability file will be necessary in order to determine the full extent of overpayments and other errors.

Project '87 Finding and Recommendation

The Board Office was not adequately monitoring outside earnings or taking action against pensioners who abused the disability pension system. Disability pensioner files were to be reviewed and tested by a party independent of the Board Office. Disability pensioners' outside earnings were to be verified and used to offset disability benefits in accordance with the Plan

through the annual questionnaires and through verification of information submitted with those forms.

Current Status

Other than requiring disability pensioners to submit authorization for the Board Office to obtain verification of their earnings from the Social Security Administration and obtaining Social Security earnings for the 1998 calendar year, the Board Office has not made substantial progress toward implementation of this recommendation.

Finding (III) B-1: The Board Office is still not adequately monitoring outside earnings and adjusting disability pension benefits as needed.

Information regarding frozen wages on disability questionnaires is not acted upon in a timely manner. As of September 30, 2000, only 665 Social Security Administration Forms 7004 (verification of earnings) had been received from pensioners out of 718 requested for calendar year 1998. Of the 665 forms received from the pensioners, earnings for only 375 pensioners had been received back from the Social Security Administration. As of September 30, 2000, none of the forms had been compared to earnings the pensioners submitted on their annual questionnaires. We reviewed the 375 forms noting pensioners with outside earnings in excess of \$15,000 reported from the Social Security Administration. We then selected 7 of those pensioners with earnings reported in excess of \$15,000 for testing. We reviewed each pensioner’s reported earnings, frozen earnings, and disability income for years in which their reported earnings were in excess of \$15,000. The total of the overpayments for these individuals was in excess of \$154,105, and these 7 pensioners continue to receive their full monthly disability benefits.

The following table is from data collected from testing.

Pensioner	Annual Disability Benefits	Number of Years Pensioner Understated Earnings on Questionnaire	Number of Years Pension Should Have Been Reduced for Excess Outside Earnings
A	\$ 18,227	1	1
B	31,524	1	1
C	20,720	1	1
D	22,663	2	1
E	18,018	2	3
F	12,988	5	5
G	35,307	3	0

Pensioners E and F should have had their disability pensions offset completely with outside earnings for 2 and 3 years, respectively.

Recommendation: Disability pensioners' outside earnings should be actively monitored.

Questionnaires received from disability pensioners and Social Security information should be reviewed immediately upon receipt and related pension payments adjusted in any instance in which outside earnings are higher than the allowable amount. Failure to return annual questionnaires and related documentation within the specified time frame should result in termination of disability pension benefits.

Finding (III) B-2: There is not an effective system in place to track receipt of annual disability questionnaires and monitor subsequent follow-up on non-responses.

The current process for monitoring questionnaires is manual and does not provide a triggering system for follow up on non-responses. Of 889 annual questionnaires sent for the calendar year ending December 31, 1998, five were returned late (two of which were never returned) and nine of the questionnaires sent were returned reporting the pensioners as deceased. For the five pensioners who returned the questionnaire late, beginning in October 1999, the pensioners' checks were held in the Board Office until the pensioner returned the questionnaire. For the two pensioners who never returned the questionnaire, pension checks are still being issued but have been physically held in the Board Office since October 1999. Checks totaling \$36,900 were being held as of December 2000. Of 905 annual questionnaires sent for the calendar year ending December 31, 1999, as of September 30, 2000, only 782 had been returned. No action had been taken against disability pensioners who had not returned required information.

Recommendation: The annual disability questionnaire process should be automated through the use of a database function, and pensioners who do not submit questionnaires within the required timeframe should automatically have their benefits suspended or terminated.

A database should be developed with a current listing of all disability pensioners which can be utilized for mailing questionnaires. Subsequent receipt of questionnaires should be logged into the database. Exception reports should be generated to indicate individuals who have not responded and are subject to discontinuance of pension benefits. The database should also include frozen earnings information for disability pensioners. Reported earnings per the questionnaire should be entered into the database upon receipt, along with Social Security earnings information that is received. Exception reports should also be generated to indicate any individuals with excess earnings that are subject to pension adjustment. Reasonable time lines should be established to monitor follow-up and to enact changes and suspend or terminate benefits where required. Pension checks should be terminated instead of issuing the checks then physically holding the check.

C. Verification of Pension Payroll Adjustments Resulting from Project '87

Project '87 Finding and Recommendation

A former member of Board Office management increased a pensioner's monthly benefit after it had been reduced as a result of Project '87. This was an unauthorized payroll transaction that Board Office's payroll controls should have detected and prevented but did not. An independent review of the earnings records of all pensioners whose benefits were reduced as a result of Project '87 was to be completed.

Current Status

The Board Office has not yet implemented this recommendation.

Finding (III) C-1: The Board Office has not yet reviewed payroll records for individuals whose payments were reduced as a result of Project '87 to ensure their monthly benefit amounts were not subsequently increased.

During our review, we noted that the Board Office has not yet implemented this recommendation.

Recommendation: This recommendation should be implemented as stated in the Project '87 report.

D. Benefit Processing Controls

Project '87 Finding and Recommendation

The Project '87 recalculation effort began in January 1996, was completed in January 1998, and included pension files calculated by the Board Office through December 31, 1995. The project revealed an unacceptable number of benefit calculation errors due to inadequate controls. As a result, all files calculated by the Board Office from January 1, 1996 through April 30, 2000 were to be recalculated by a party independent of the Board Office, and controls were to be put in place to ensure future benefit calculations would be accurate. This new recalculation project was called Project '96.

Current status

The independent third party provided the results to date of the benefit recalculations based on the listing of pensioners provided to them for the project. This recalculation project is still in process. Based on the results of their work, there continues to be an unacceptable number of errors in benefit calculations.

Finding (III) D-1: There is still an unacceptable level of errors in processing benefit payments.

The status reported below is based on files recalculated under Project '96 through June 30, 2000, as reported to KPMG and the Board Office by the independent third party. The total population of files to be recalculated was 1,071.

As of June 30, 2000, 725 of the 1,071 files had been completed. Of the 725 completed files, 693 files had at least one type of error. The following table indicates the financial impact of the payment errors.

Overall Project '96 Results

	Dollar Amount of Payment Errors	Number of Files with Payment Errors	Range of Dollar Errors for Individual Files
Cumulative net overpayments	\$342,503	205	\$12 - \$30,558
Cumulative net underpayments	\$330,279	185	\$11 - \$30,443

Of the 725 files, 153 files had effective pension dates after January 1, 1998. Of the 153 files with effective pension dates after January 1, 1998, 132 had at least one type of error. The significance of these errors is that pension calculation procedures developed during Project '87 were in place in the Board Office prior to 1998.

Project '96 Results – Effective Dates After January 1, 1998

	Dollar Amount of Payment Errors	Number of Files with Payment Errors	Range of Dollar Errors for Individual Files
Cumulative net overpayments	\$80,416	50	\$12 - \$10,978
Cumulative net underpayments	\$40,699	29	\$21 - \$13,013

Because of the perception that the Benefit Board was continuing to make errors in pension calculations, in January 2000 the Finance Department had the third party recalculate all files for pensioners who were retiring effective December 31, 1999 (a total of 107 files). That testing resulted in the following.

- Nine pensioners' monthly benefits were incorrect in amounts ranging from \$1.06 to \$9.55.
- Two pensioners' monthly benefits were reduced by \$30.77 and \$91.09, respectively.
- One pensioner's monthly benefit was increased by \$30.11.

Additionally, the third party performing the recalculation project noted the following benefit processing errors as a result of Project '96 testing. The number of files with each type of error is indicated:

■ Incorrect date of birth was used.	11
■ "Pop-up" adjustments were not applied when the "survivor" predeceased the pensioner.	1
■ Clerical errors resulted in incorrect benefit amounts.	152
■ COLA misapplied on benefit amount due to original amount being prorated or using the wrong original amount (disability amount vs. service amount).	14
■ Wrong earnings used – cash vs. accrual from 1/1/96 to 7/1/96.	4
■ Spouse's signature missing when normal form elected instead of survivors option.	18
■ Incorrect data input into credited service program.	140
■ Incorrect earnings used to calculate benefit (not due to earnings records).	97
■ Sixty months of earnings were not used.	16

The error rate is still abnormally high. In addition to being in violation of the pension plan and misstating pension benefit expenses, errors in benefit calculations and in benefit estimates create undue stress for pensioners. For example, there was a recent case of a pensioner relying on pension estimates provided by the Board to make financial decisions. Subsequent recalculations significantly reduced the actual pension amount and created a financial hardship for the individual.

Recommendation: In section V we recommend integration and automation of the calculation process and reorganization of the functions of the Board Office which should address the underlying problems giving rise to the above finding. However, recognizing that such changes may not be accomplished immediately, an immediate interim solution is necessary. To accomplish this, we recommend that the independent third party begin to recalculate currently retiring pensioner's information. This will serve as a control to ensure accuracy in the population of currently retiring pensioners. Additionally, Project '96 should be expanded to include all files of new pensioners through the time currently retiring pensioners begin to be recalculated.

E. Correction of Specific Administrative Weaknesses Noted

Project '87 Finding and Recommendation

There were several Board Office operational areas where critical procedures were either not in place or were not operating effectively. Weaknesses were noted in the following areas:

- Disability Benefit Monitoring
- Plan Compliance Monitoring

- Computer Software
- Pensioner Understanding of Benefits
- File Maintenance

Operations were to be revised to correct the weaknesses to ensure that the Board Office is adequately carrying out its responsibilities to administer Metro's benefit plans.

Current Status

The independent third party provided results for Project '96 files recalculated through June 30, 2000. Following is a summary of the errors that continued to occur, along with an indication of the number of files recalculated that had each type of error.

- Disability Benefit Monitoring
 - A Receipt of Social Security Administration (SSA) was not reported timely by pensioner resulting in an overpayment. 41
 - B Disability questionnaires, if applicable, were not in the pension file. 24
 - C Disability questionnaire was not returned timely and benefits were not terminated. 31
 - D Required documentation, such as SSA application and denial letters, was not submitted with the disability questionnaire or was not in the file. 58
 - E Reported outside earnings on the disability questionnaire did not match SSA earnings report. 1
 - F Dependent child school verification was not in file. 7
 - G Benefit amount was not correctly or timely reduced by the primary SSA benefit. 23

- Plan Compliance Monitoring
 - A Pensioner was working over 20 hours per week for Metro. 7
 - B Survivor benefits did not convert timely. 27
 - C Disability was not converted timely to a service pension on reaching age 65. 52
 - D Vested pension not processed timely. 3

- Computer Software
 - A Payroll Earnings Record generated by Metro Employee Benefit Board, if applicable, was not accurate. 23
 - B Credited Service calculation was incorrect because the wrong software program was used. 12
 - C The software program calculated benefit incorrectly due to rounding problem. 6
 - D Payroll Earnings Records generated by MIS for MBOE was not accurate. 3
 - E Credited Service calculation was incorrect due to policy change in determining full time vs. part-time status (80/40 rule). 22
 - F Pencil was incorrect due to program not being updated. (Should have been updated 01/01/96. Was not updated until 6/05/98.) 55
 - G Bencalc calculation was incorrect due to a late program update. 71

■ File Maintenance

A	Incomplete checklist was in the pension file and work was not complete.	143
B	Original earnings documentation from outside departments/agencies (i.e., MBOE, Airport Authority, Register of Deeds, and Circuit Court Clerk) was not in the file.	5
C	Other required documentation was not in the pension file.	147
D	Information in the pension file was misfiled.	10
E	Pension file could not be located.	13
F	Documentation of sick leave accrual was not in the pension file.	9
G	Project '87 workpapers not in the file, if applicable.	3

Finding (III) E-1: The administrative and financial controls recommended in the Project '87 report have not been fully implemented.

The errors noted in conjunction with the ongoing recalculation project indicate that the Board Office has not adequately addressed the weaknesses identified during Project '87. These types of weaknesses contribute to errors in processing benefits, could have legal implications, can create hardships for pensioners and survivors, and result in inefficiency and ineffectiveness in Board Office operations.

Recommendation: Operations should be revised to correct the weaknesses which allow the types of conditions enumerated above in order to ensure that pension plans are being adequately administered.

Finding (III) E-2: Disability benefits are still not monitored appropriately.

In one example we noted a pensioner who continued to receive a medical disability pension after she was determined to be medically able to return to work and after she was terminated from Metro for making fraudulent statements on her application for employment. This pension has recently been terminated, but only after the individual received \$21,177 in benefits over a 40 month period after she was no longer eligible for benefits

Recommendation: IOD and medical disability pensioners should be more closely monitored for continued eligibility for benefits, and any benefits paid to ineligible pensioners should be terminated timely.

Finding (III) E-3: The Board Office did not appropriately review earnings records provided by a department for use in benefit calculations.

The Board Office was using downloaded earnings from a department for use in benefit payment calculations, and used the earnings without adequately testing them to ascertain what was received in downloaded data. Later it was determined by a third party that the earnings submitted were not in accordance with the requirements defined in the benefit calculation procedures. This ultimately resulted in the procedures being modified so that the benefits could be calculated correctly - given the data supplied - but only after the third party persistently pushed the Board Office to do so.

Recommendation: Data provided by other departments should be more closely reviewed in order to ensure the accuracy of benefit calculations.

F. Resolution of Open Project '87 Issues

Project '87 Finding and Recommendation

The following open Project '87 issues had not been resolved by the Board Office at the time the Project '87 report was issued.

Project '87 Finding

In November, 1996 the Metropolitan Council adopted Resolution No. R96-540 authorizing the Benefit Board to waive repayments of past overpayments under certain circumstances. In conjunction with the results of the recalculation of pensioner files, the Board Office was charged with reviewing the following files to determine if repayment or waiver of repayment was warranted:

- 110 files that had recalculated overpayments totaling \$335,096 resulting from errors other than the Board Office using incorrect earnings or miscalculating credited service.
- 155 files with more than one error had errors resulting in overpayments that were larger than errors resulting in underpayments.
- 59 files that had previously established repayment plans that were discontinued when recalculated under Project '87.

Current Status

The Board Office had determined that an independent third party should review the files above under item one to determine the basis of the errors. Because the recalculation project addressed under D above is still in process, this review has not begun.

Project '87 Finding

One pensioner was receiving a disability pension without having completed the required 10 years of service, and the pension had not been terminated by the Board Office in accordance with adopted Project '87 procedures.

Current Status

The pensioner noted above has been converted to a service pension and receives a \$351 monthly benefit.

Project '87 Finding

During Project '87, a \$19,831 payment was wired to a pensioner in error, and the money had not been recovered.

Current Status

The payment noted above was investigated by the Board Office. The Board Office was able to collect one half of the payment from the bank. The Board Office had also initiated discussions with the payee for repayment of the funds. A collection schedule was completed, but there was no follow up by the Board Office to collect the funds. The pensioner continues to receive her full monthly pension check of \$546 or \$6,552 per year.

Project '87 Finding

There were 16 Project '87 files remaining to be completed, including one dependent child who was owed \$23,440. These files either could not be located, were missing information, or had unusual issues that needed to be resolved.

Current Status

The information necessary for the remaining 16 files was located, and the files were completed. The money owed to the dependent child was paid.

Finding (III) F-1: The Board Office has not addressed most of the issues related to the above items.

The majority of the above issues originally noted during Project '87 are still outstanding. The timeliness of follow-up on these issues directly impacts the probability of collection of the overpayments.

Recommendation: Metro should follow up and resolve the open issues.

G. Maintenance of Earnings Records

Project '87 Finding and Recommendation

The Board Office had not been obtaining actual earnings records from certain Metro departments that are not included in the central payroll system. The recommendation was that the Board Office continue to require copies of actual earnings records to calculate pensions.

Current Status

Currently Metro has hired a third party to work with MBOE's manual earnings records to create an electronic version for future use. The Board Office continues to require copies of actual earnings records from all departments. As addressed above, the third party recalculating pension files noted five files that did not have copies of actual earnings records. However, the effective pension dates were prior to pension calculations procedures requiring that earnings records be utilized in the calculation of pension benefits. We noted no other errors related to lack of earnings records after these procedures were in place.

IV. Performance and Operational Review Findings and Recommendations

As a result of our review of the Benefit Board Operations, we identified several areas where improvements should be made to increase the effectiveness and efficiency of operations. Recommendations are presented for the following areas:

- A. Organizational Structure
- B. In-Line-of-Duty and Medical Disability Management
- C. Customer Service
- D. General Management and Administration

A. Organizational Structure

Finding (IV)A-1: The current organizational structure fosters an inefficient delivery of service and is susceptible to internal control weaknesses.

The Charter establishes a Department of Finance, a Civil Service Commission (which includes a Director of Personnel), and the Employee Benefit Board. In general, the Charter assigns the responsibility for administering the financial affairs of Metro in accordance with the provisions of the Charter and applicable ordinances to the Department of Finance, more specifically the Director of Finance. The Civil Service Commission is generally responsible for developing and fostering the effectiveness of personnel policy and appointing a Director of Personnel responsible for administering the Personnel Department. The Employee Benefit Board is responsible for administering, managing and coordinating the employee benefit plans as well as the retirement plans.

The Director of Finance is responsible for the administration of the financial affairs of the metropolitan government, and shall supervise the division of budgets, the division of accounts, the division of collections, the division of treasury, the division of purchases, and other units established by ordinance. The responsibilities of the Director of Finance include:

- Maintain accounting systems, keep accounting records, and exercise financial and budgeting control
- Prescribe the accounts to be kept, the form of receipts, vouchers, bills or claims, warrants, requisitions, purchase orders or any financial stationery to be used, and provide procedures for their use
- Prescribe the times and the manner in which moneys received by any department, office or agency shall either be paid to the metropolitan treasurer or deposited in a bank
- Examine and approve all contracts, purchase orders and other documents
- Audit before payment all bills, invoices, payrolls and other claims, demands or charges and approve only if proper, legal and correct, and duly authorized by appropriations or allotments of appropriations

- Instruct the treasurer to invest the moneys of any fund in securities of the metropolitan, state or federal government and/or place them on interest bearing deposit in a bank or banks
- Provide for a central records retention program

Some of the duties of the Director of Personnel include:

- Direct and supervise the Personnel Department
- Establish and maintain a roster of all employees of all departments, commissions and agencies of the metropolitan government which shall reflect such data and information as may be deemed necessary regarding personnel organization and administration
- Prepare and maintain an up-to-date record of the authority, duties and responsibilities of each position in the classified service
- Develop, in cooperation with the appointing authorities of the metropolitan government, training and educational programs for employees

By Charter, the Board includes the Director of Finance and the Director of Personnel. The Board's responsibilities include (see Section II (A) for details):

- Administer, manage, and coordinate the metropolitan employee benefit system
- Maintain a soundly designed, administered, and financed system
- Manage all voluntary benefit plans and flexible benefit plans
- Establish a medical case management program
- Administer police and fire employees wellness testing and education programs and implement programs to provide early intervention in areas that are causing, medical or in-line-of-duty disability pensions
- Administer, manage and coordinate the employee safety functions

As noted in Section II (A), the Charter gives the Board the option of fulfilling the staff functions to support its responsibilities through the Director of Personnel or by employing an Executive Secretary with training and experience in pension and retirement administration. The Board has elected to employ an Executive Secretary and staff in order to fulfill the responsibilities of the Board.

The current organizational structure has created a situation in which the administration of benefits is completely segregated from other personnel and finance related functions within Metro, reducing the overall efficiency and effectiveness of services and controls. This structure has been problematic to the fulfillment of the Board's responsibilities since at least 1979 when a consultant recommended that the staff of the Board Office be merged with the classification and pay division of the Personnel Department in order to create a more coordinated compensation system.

Furthermore, in 1987 the prior Executive Secretary, who was at the time the Deputy Director of Law, recommended that the Board Office functions be merged with the Personnel Department, citing significant savings, better customer service, and reduction of duplication of efforts including storage of documentation and information system maintenance.

The current structure has the effect of reducing the communication across what is more typically set up as a centralized Human Resources (HR) function. As an example, under the mainframe payroll system the Board Office is responsible for establishing retirees on pension payroll while the Personnel Department is responsible for removing them from the active payroll. There has not been a control procedure for coordination between the two to ensure a retiree does not receive two checks. The third party doing the pension recalculation project noted 9 pensioners who received active earnings after receiving their first pension checks, which total \$9,845.

Another example of difficulties encountered under the current structure includes the control of pension assets. On July 31, 1999, the Investment Board transferred all pension assets from Northern Trust to State Street Bank. However, as of August 2000, the reconciliation of this transfer from one custodian to the other had not yet been completed for the assets held by 7 of 30 investment managers. Additionally, because of the incomplete status of the reconciliation process, the general ledger did not reflect any activity related to pension investments – totaling in excess of \$1.6 billion at June 30, 2000 - for the entire June 30, 2000 fiscal year. Furthermore, the June 30, 2000 quarterly performance report provided to the Investment Committee had net pension investment assets which were \$927,000 less than the final net pension assets balance obtained from the master custodian by the Finance Department to report pension investment assets in Metro's financial statements. The Finance Department is ultimately responsible for proper internal controls to protect Metro's assets and for all aspects of Metro's financial accounting and reporting activities and should not be in a position of dependence on another department to completely and accurately account for such a significant asset balance.

Recommendation: Board Office functions should be realigned functionally with Metro's Personnel and Finance functions.

As recommended by previous consultants and by the prior Executive Secretary, we also recommend the Board merge the non-financial staff functions with the Personnel Department. The Board should take advantage of the option to utilize the office of the Personnel Director as provided by the Metro Charter to provide as many staff functions as possible. Additionally, the accounting and other financial functions of the Board Office including investment reconciliations, payroll disbursements, collections, and all other general ledger functions, should be performed by the Metro Finance Department. All of these functions fall within the scope of responsibilities outlined for the Finance Department in the Charter, and while the staff functions may be executed by the Personnel Director or through employment of an Executive Secretary to the Benefit Board, the responsibilities of the Finance Department clearly encompass many

financial activities which have historically been performed by Board Office staff. In addition, the Finance Department has the responsibility to gather and analyze any needed information to ensure the accuracy or payments. Ultimate responsibility for these functions continues to be with the Finance Department. Although the Finance Department may delegate functions to the various departments, it remains ultimately responsible for carrying out its duties under the Metro Charter. These functions would generally include all items listed in Section II. C. of this report under Accounting. Further, we recommend all staff functions related to pension investments be transferred to the Metropolitan Treasurer, as described under “H” in section 3.08.120 of the Metropolitan Code. By making these recommended changes, the authority and responsibilities of the Benefit Board itself are not changed, only the units within the government that are responsible for executing the related functions. This reorganization would be consistent with the organizational structure of many of the benchmark cities surveyed.

Based on the review of benchmarked cities/counties, the trend for those not having a state sponsored benefit program was for the non-pension functions currently being performed by the Board Office to be performed under the umbrella of the Human Resources and/or the Finance Function. Traditional Pension Administration had an equal percentage handled by a separate board and handled under Human Resources/Finance. The following table illustrates the location of the various functions within the ten cities/counties surveyed:

	SEPARATE BOARD	HR/ FINANCE	STATE FUNCTION	SEPARATE RISK MGMT.	INFORMATION UNAVAILABLE
Active Payroll	1	7	0	0	2
Pension Payroll	2	3	3	0	2
Pension Admin.	3	3	3	0	1
Pension Admin.-Police/Fire	4	4	2	0	0
Benefit Deductions-Active	1	8	0	0	1
Benefit Deductions-Retiree	1	5	1	0	3
Disability Pension	1	3	3	0	3
Injured on Duty	1	6	1	1	1
Safety/Risk Management	0	7	0	2	1

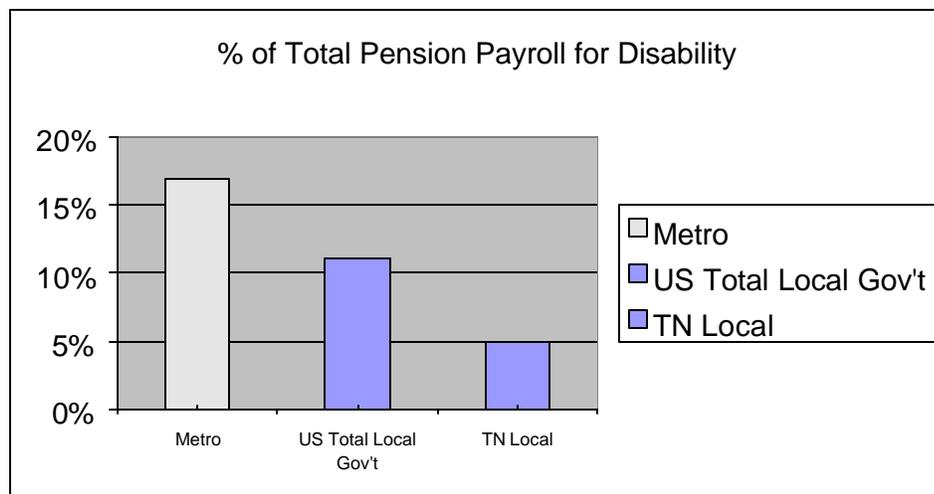
The locations having a separate board for pension administration for either pension or fire and police were Denver, Jacksonville, and Shelby County. It was noted that certain other locations had an oversight Pension Board which was responsible for overall plan administration, but the daily functions were performed by Human Resources and/or Finance as listed above.

The realignment and merging of the Board Office functions with the Finance Department and the Personnel Department would allow for greater control over investments and disbursements, improved communication throughout Metro government, more effective integration of employee information for benefits administration by reducing the number of separate departments involved in benefits administration, better customer service, and savings through reduction of duplication of efforts.

B. In-Line-of-Duty and Medical Disability Management

In addition to the continuing problems noted resulting from our follow up of the implementation status of Project '87 recommendations, we noted several other problems surrounding disability management.

Metro's cost for disability pensions appears to be significantly higher than the local government average, as noted in the chart below. The chart information is extrapolated from U.S Census Bureau reports, "Beneficiaries and Monthly Payments of State and Local Government Employee Retirement Systems by State and Local Government Fiscal Year 1996-1997" and "Finances of Individual State and Local Government Employee Retirement Systems with Cash and Investment Holdings of \$20 Million or More Fiscal Year 1996-1997".



Our specific findings and recommendations are as follows:

Finding (IV) B-1: The Board makes medically related decisions without the benefit of independent medical expertise.

The Board is charged with the responsibility for determining whether an injury qualifies as an in-line-of-duty (IOD) injury and whether a person is truly disabled and unable to work as a result of an IOD injury or, in the case of vested employees, for other injuries or medical conditions. Currently, there is no functional medical consulting process to assist the Board with medical determinations. Although the Board occasionally requests independent medical exams, generally they rely on staff summaries of employees' physician reports, any case management reports, and/or any documentation of independent medical examinations that may have been ordered. Because of the subjectivity of disability determination, the process is prone to extensive debate and discussion among the Board members and with the affected employees/families. This is an inefficient process for the Board, and there is a risk that Metro incurs unnecessary cost by granting disability benefits beyond what is factually warranted.

One recent example of this situation is the case of a police officer permanently disabled as a result of a motorcycle accident. In this case the Board was required to make long term health care decisions for the individual, including appropriate treatment and facilities. Another example is an individual on IOD disability pension who has conflicting doctors' statements in her file as to whether she is able to return to work. Since there is no independent source to resolve this conflict, it remains unresolved, and the individual has received IOD disability payments of \$77,972 since one doctor said she was able to return to work in December 1996.

Recommendation: The Board should employ the services of an independent panel of physicians to assist in making medical disability decisions.

It is standard practice for governmental entities to utilize one or more independent physicians who report directly to the authority responsible for approving disability decisions. KPMG recommends a panel of physicians from the Nashville area be utilized to advise the Board. Use of a panel of physicians would help to eliminate bias towards either the employees or Metro in making a medical determination. It would also provide access to multiple opinions when necessary. This method is used in Memphis and the State of Tennessee with reported satisfactory results.

Finding (IV) B-2: There is not adequate control over approval of individuals who receive in-line-of-duty pay

The individual departments are currently responsible for coding an individual as IOD into the payroll system, allowing him/her to receive tax-free IOD pay. Board Office staff is only involved with individuals for whom the departments refer the case to the Board Office. Because individual departments are responsible for this coding, the authorization and control of these

payroll costs currently have no central monitoring and control. As a result, there does not appear to be any overall control to ensure that all individuals receiving IOD benefits have work-related injuries, and are being managed to minimize the period for which IOD benefits will be necessary. Furthermore, if a department initially codes an employee as IOD, and he/she is subsequently determined to be ineligible, there is no provision for the previously received tax free income to be corrected and reported as taxable income.

We reviewed the October 6, 2000 payroll to review individuals who were currently receiving IOD pay. We noted that of 42 individuals whose entire pay was coded as IOD for that pay period, one individual was not receiving case management. Upon further review, we noted that although the Board has the authority to require case management for all individuals receiving IOD pay, the employing department had determined case management was not necessary for the individual's recovery and had coded the pay IOD without informing the Board Office. As such, the individual received IOD pay of \$124 per week without case management from September 29, 2000 through November 17, 2000.

Recommendation: Specific review and approval controls should be put in place over receipt of IOD pay. The ability to code an individual as IOD should be limited to the Personnel Department, which should only code an individual's pay as IOD based on appropriate documentation.

Finding (IV) B-3: The entire IOD process is overly complicated, prone to inconsistent interpretation, and at significant risk of abuse.

Several problems with the current IOD benefits structure were noted, as follows.

- Metro stopped withholding federal income taxes from IOD pay in 1992, in compliance with federal regulations excluding workers' compensation pay from federal income tax withholding. However, Section 4.8 of the Civil Service rules, which state: "During the period of time an employee is on injury leave he shall be entitled to receive his pay as established by the pay plan..." was never amended to reflect this change. As a result, individuals injured in-line-of-duty receive tax free salary payments at 100% of their regular compensation during the 130 day IOD leave period. This effectively provides a greater net pay than what the individual would receive on active duty and can serve as a disincentive to return to work quickly.
- There are no formal guidelines regarding the criteria for in-line-of-duty benefits, or what standards should be utilized to judge a particular case. As an example, KPMG reviewed the file for one individual who was receiving IOD benefits until October 1997 when the individual was approved to return to work with restrictions. The individual was not returned to work because the employing department was reluctant to return her to her prior position

due to psychological issues. The individual has applied for a non-IOD medical disability pension, but is not qualified because she does not meet the 10 year credited service requirement. It would not appear that the psychological problems should be considered in-line-of-duty. Largely because of a lack of clear guidelines, the Board has effectively continued to grant IOD disability benefits and she has received \$46,405 in IOD disability payments over a 35 month period and continues to receive benefits.

- Generally employees on IOD must utilize General Hospital to be eligible for 100% coverage of their medical expenses. However, there are instances where pensioners have not been able to obtain an appointment in a timely manner, resulting in disability pension payments being extended beyond the review date pending receipt of information needed for the Board to perform its review.

The majority of cities/counties benchmarked provide injured-on-duty benefits through a workers' compensation program, either purchased, or self insured and administered by a third party. The long-term disability pension was frequently handled through the regular pension plan, with the short term portion under the workers' compensation program. For the six cities/counties for which detail benefits information was available, all provided a reduced benefit equal to 50-66% of predisability earnings. Only Metro was noted as providing a full 100% of pay as an IOD benefit.

For the benchmarked cities/counties, approvals for short term/long term disability were typically one of the following:

- Approved for Social Security disability
- Certification by two employer selected physicians
- Meet insurance company/workers' compensation plan criteria, which typically has option for company selected medical exam.

In certain cases where the long-term disability pension related to an injury incurred in-line-of-duty through a state sponsored pension plan, approval was under the authority of the state plan. At least two of the plans provided disability benefits for a specified period (average of 2 years) for disability preventing the pensioner from working in his or her own occupation. After that period, disability preventing the pensioner from working in any occupation was required.

Recommendation: Consider replacing the current IOD benefit with a program modeled on a standard workers' compensation benefit program. At a minimum, Metro should modify its plan to specify that the percentage of pay provided to IOD benefit recipients should be consistent with a percentage that will not increase the net pay over the amount of non-IOD net pay. This will eliminate what is currently an incentive to maximize the time a beneficiary receives IOD benefits. As noted

previously in this report, the current practice of paying 100% of pre-disability earnings resulted from a 1992 legal ruling which determined IOD benefits to be non-taxable. However, no action was taken to reduce the level of salary paid to reflect the tax-free nature of the benefit.

Metro should review policies of governments that utilize standard workers' compensation programs and structure Metro's benefits and policies in a similar fashion. Formal policies and criteria should be established to reduce the amount of judgment involved in evaluating disability cases. Metro should establish specific criteria to be utilized in determining whether an injury qualifies as in-line-of-duty. Additionally, the Civil Service Rules should be changed so that salary for employees on IOD are set at a percentage that will ensure the net pay does not exceed regular pay. According to the Employee Benefit Research Institute (EBRI), for state and local governments with a long term disability insurance benefit, 90% of those benefits are calculated as a fixed percentage of earnings. The average fixed percentage of earnings was 61.9%.

Finding (IV) B-4: Return to work policies in the police and fire departments are more restrictive than in other areas of the government.

Police and fire employees are not required to return to work in any position other than, essentially, the same position in which they were employed when they became disabled. This makes it difficult to reemploy police and fire employees who are medically able to return to work but who are not able to resume the same duties previously held. In finding (IV) B-10, we noted the Board Office does not have a current return to work listing and therefore it is unknown how many police and fire employees are currently able to return to work.

Recommendation: A less restrictive return to work policy for fire and police employees should be implemented.

Metro should consider implementing changes in this area and modify the Metro Code accordingly. For police and fire employees, programs should be established for retraining, and acceptable lighter duty functions should be defined which could be utilized to return employees to work in a more timely fashion. For example, police officers could be assigned to areas such as monitoring downtown parking or working through the office of secondary employment, and firefighters could be assigned to inspections. Such enhancements to the current system would be beneficial from a cost standpoint and beneficial to the morale of the disabled employee.

Finding (IV) B-5: Case management is only required for IOD claims.

Under the Metro Code, case management is allowed for all medical disabilities; however, case management is currently optional for non-IOD medical disabilities.

Recommendation: All disability claims should utilize some level of case management.

Case management should be mandatory for all disability claims. The Metro Code gives the Board the right to terminate a disability pension for someone eligible for case management who refuses case management or who fails to follow through with the case management program. Mandatory case management would provide the Board with an ability to ensure that medical disability pensions are awarded and continued appropriately.

Finding (IV) B-6: The method for tracking reports for in-line-of-duty injuries does not facilitate efficient control, review, and management of these injuries.

The form used to track IOD claims is prepared and filed manually. While they are logged into a database, the current program does not provide any way of easily sorting information for various uses, including determining what types of safety programs may be needed to prevent future occurrences.

Recommendation: An improved tracking system for injured-on-duty claims should be implemented.

Metro should utilize a computer-based reporting and tracking system which would allow the reporting of the injury and relevant details to be sorted. For example, information should be obtainable by types of injury, department, individual, date of injury, etc. This would allow Metro to analyze trends, better quantify costs of various types of injuries and design safety programs to reduce injuries that are most prevalent.

Finding (IV) B-7: The Metro Code authorization for establishment of wellness and related programs has not been fulfilled.

The Board has not established a system of wellness or intervention programs to help minimize illnesses and injuries within the Police and Fire Departments, although the Police and Fire Departments are currently establishing a general wellness program based on other cities' programs.

Recommendation: Specifically targeted wellness and intervention programs should be established for all employees.

In addition to Police and Fire Departments, the Board should establish a regular program of wellness and selected intervention programs, as determined necessary based upon the history of illnesses and injuries, for all Metro departments. For police and fire employees, regular physical fitness checks should be included, and participation in improvement programs should be required to the extent that basic fitness levels are not maintained and achieved. Such programs

should result in a reduction in costs associated with illnesses and injuries and should help to ensure police and fire employees are able to effectively fulfill their public safety function.

Finding (IV) B-8: The current process for locating alternative positions for returning employees is manual, requiring significant time and effort.

The Board Office manually reviews available jobs and contacts departments directly for each individual job to determine whether available jobs are within the capabilities of disability pensioners medically able to return to work.

Recommendation: Case managers should make use of electronic and other information readily available to identify potential jobs for returning disability pensioners. They should make use of standard job descriptions that include the physical requirements of each job, to identify possible positions for returning disability pensioners.

This is by nature a personnel function, and coordination with Personnel is logical and would be much more efficient in a realigned staff function within the Department of Personnel.

Finding (IV) B-9: the Board Office does not maintain a listing of disability pensioners who have been released to work.

We noted that the Board Office does not maintain a current list of individuals available to return to work. Prior to April 1995 the Board Office maintained a listing of disability pensioners released to work. In April 1995 the Board changed its policy to require only individuals that had been certified by a case manager **and had an opportunity to return to work** be placed on the agenda. However, the contract with the case manager does not specify this as a responsibility.

We had the Board Office review the return to work list that was applicable as of 1995 to determine the current status of the individuals on the list at that time. Of the 42 individuals who were on the list in 1995, two individuals converted to service pensions, four individuals are deceased, and the remaining 36 individuals still remain on disability pensions. The Board Office reviewed the files of each of these individuals noting that of the 36 individuals still on a disability pension, six individuals' conditions have remained the same or improved, and the remaining 30 individuals' conditions have worsened. The total annual disability pension benefits for those six individuals is \$133,057.

We also had the Board Office review the Board minutes for actions taken after April 1995 and create a return to work list. The return to work list created included seven individuals. Of these individuals, none were in the process of returning to work.

Pensioner	Department	Date of Disability Pension	Date Cleared to Return to Work	Annual Disability Pay	Disability Pay Received Since Released
A	Police	11/3/94	File Missing	24,134	File Missing
B	Police	12/27/93	4/22/98	22,865	57,432
C	Police	10/23/86	3/31/00	13,608	7,938
D	Bordeaux	6/2/96	12/2/96	12,816	52,641
E	Police	9/1/92	4/6/00	7,875	4,463
F	Police	7/19/88	7/17/97	20,040	65,854
G	Police	12/12/88	10/7/96	17,579	71,438

Recommendation: Metro should maintain a listing of all individuals who are available to return to work. All of the employees receiving disability pay should be reviewed to determine if any of them have been released to return to work. Any such cases should be actively worked with the employing department to minimize the number of disability pensioners who are medically able to return to work within the limits of the plan’s restrictions.

C. Customer Service

The current customer service delivery is not as effective as it should be, as addressed in the following findings and recommendations:

Finding (IV) C-1: There is not an effective customer service system in place.

Although customer service has improved somewhat in recent years through communication to employees through the ME Newsletter, the Board Office’s approach to addressing employee and retiree inquiries is still not effective, as the following illustrate:

- Tracking of incoming calls is on manual logs. Documentation of employee/retiree contact is also manual.
- Employee and retiree information is maintained in manual files, often requiring Board Office employees to call inquirers back after pulling the files, which delays providing answers to employees and retirees and is an inefficient process for staff.
- Sometimes incoming calls are not answered. This observation was made directly by KPMG on several occasions.

- There is a general lack of readily available, comprehensive and clear information about benefits available for employees and others. As an example, in reviewing correspondence letters to new pensioners, it was noted that the language was highly technical, unnecessarily verbose and generally confusing.

Without adequate customer service systems, Board Office staff does not have the means to substantiate customer service actions. To illustrate, one employee reported that she contacted the Board Office to add her newborn to her medical coverage. While policy requires that an employee come in to the Board Office to complete the appropriate paperwork, the employee alleged that she was told that the necessary changes would be made based on her phone call and that no further action was necessary. The newborn was not added to the insurance, and the omission was not discovered until after the 30 day timeframe for making the change. As a result, the employee had to obtain supplemental insurance to cover her baby until the next general open enrollment period. Because the Board Office does not have an effective customer service system in place, the Board Office had no evidence as to whether or not the employee called and, if so, what information she was given.

Recommendation: To adequately fulfill the obligation to respond to employees and retirees, an effective customer service plan should be developed and implemented and consideration should be given to outsourcing parts of this function.

Following is a summary of the areas that should be considered in developing an effective customer service plan surrounding employee benefits.

- The Internet should be used to the fullest extent possible to provide information to employees and retirees and to facilitate benefit changes and sign-ups. All benefit information should be presented in clear, non-technical language, and should point out all pertinent coverages and requirements in a manner that will be easily understood by the average pensioner. Additionally, information surrounding each individual's benefits, such as beneficiaries named and medical benefits selected, should be accessible. Consideration should be given to initiating and/or processing beneficiary changes, life-changing events and, during open enrollment periods, medical and dental benefit changes through the Internet. Physician, dentist, and other health care facility information should be available on the Internet, and employees should be able to project pension and other retirement benefits on the Internet.

- An automated phone system with answers to frequently asked questions should be implemented, including routing callers to appropriate individuals based on the nature of their questions. Such a system should track incoming calls for various pertinent customer service measures, including recording calls as a means to ensure the quality of service.
- Employees who receive calls should be thoroughly trained and should be actively supervised while taking calls.
- All pertinent information surrounding individual employee and retiree files should be available electronically. A caller's file should be retrieved before any questions are answered so that the customer service representative will have all pertinent information and so that an adequate log of the question and response can be incorporated into the file.

Given that the necessary telephone system and electronic files are not currently in place, Metro should consider whether there are costs and other benefits associated with outsourcing a benefit customer service function.

Finding (IV) C-2: The Board Office has not controlled the "Connection of Service Project".

In our review, we noted the following regarding the Connection of Service Project:

At the Board's recommendation, Council passed a resolution in 1995 to allow current employees to connect prior service time for periods they were previously employed by Metro. Employees were allowed a specified period of time to determine if they wished to connect their time. There were 1,101 employees that elected to connect prior service time. The Board Office was charged with the responsibility for calculating the cost for these individuals to connect their time.

Following is a summary of events associated with this project.

- Through the period ending August 1999 the Board Office had completed approximately 900 files.
- For the period from August 1999 through August 2000, the Board Office completed approximately 25 files as employees retired but made no substantive progress on the project.
- At an August 2000 Board meeting, a board member inquired as to the status of the connection of service project, and a Board Office staff member indicated that they had been unable to complete the project because a former employee had removed needed information from the Board Office.
- It was subsequently determined that the Board Office had not done anything to try to recover information allegedly removed. Further, it was also determined that all information necessary to complete the project had been in the Board Office all along, and that no original documentation had been removed from the Board Office.

In conjunction with the Project '96 recalculation project, the independent third party noted the following errors related to connection of service files they encountered during the pension recalculation project:

- Documented benefit calculation with pensioner's signature showing what the pensioner would receive if he or she elected to connect service time was not in the file. 81
- Documentation of repayment of contributions to reconnect prior credited service time was not in the file. 13
- Pension benefits were paid before contributions related to past service time were repaid. 13
- Incorrect earnings were used to calculate the connection of service. 55
- Interest was calculated incorrectly on refunded contributions repaid to reconnect service time. 30

Recommendation: This project should be managed to its completion. This includes assignment of responsibilities to staff, establishment of deadlines for information and calculations, having status meetings, and using any other tools necessary to monitor and complete the project expeditiously.

Finding (IV) C-3: Confidential information has been included in publicly accessible documents.

Board agendas, minutes, and related staff reports, which are all public documents, have included confidential information such as Social Security numbers and detailed personal medical information.

Recommendation: Confidential information should be specifically excluded from Board agendas and minutes, and documents containing such information should not be incorporated into the minutes or other publicly accessible Board reports.

Social Security numbers and personal medical information should be treated as confidential and privileged information and should not be included in any publicly accessible documents. The previous recommendation for the use of a medical panel to provide guidance to the Board would also eliminate the need for specific medical information to be made available directly to the Board during public meetings.

Finding (IV) C-4: The benefit enrollment process is burdensome to both employees and the Board Office.

Currently the Board Office requires each new employee to provide birth certificates and marriage licenses as proof of dependents. Often this information is not readily available to the employee, and the Board Office has to follow up with the employee until documentation is received.

Recommendation: Metro should consider changing the current policy to allow employees to sign an affidavit that the information is “true and correct” and not require copies of documents such as marriage licenses and birth certificates.

This approach is used at the State of Tennessee and most large corporations for new hires. Personal documentation is only required for qualifying events which would change medical coverage. Implementing this approach will enhance customer service and reduce the administrative burden associated with requesting and maintaining such records.

Finding (IV) C-5: The current practice of using calendar year’s earnings in the calculation of the five year highest earnings causes an end of year peak in retirements.

The current process to determine the five years of highest earnings is through the most recent year ending December 31, as opposed to working backward from the employee’s retirement date. This causes many individuals to wait until December 31 to retire. As a result, the Board Office receives a peak of pension applicants at the end of the calendar year. In addition to being potentially inconvenient to pensioners who wait until year end in order to maximize their pension amount, this practice creates an administrative burden on the staff calculating pensions. Furthermore, the peak period of retirees also causes a management issue related to departmental staff levels.

Recommendation: The calculation of highest years’ earnings should be changed to utilize the most recent months of active employment.

Finding (IV) C-6: Differences in policies between the Civil Service Commission and the Benefit Board should be eliminated.

During our review we noted differences in policies between the Personnel Department and the Board Office which causes confusion to employees. Specifically, we noted differences between how credited service time is calculated and how breaks in service time are connected.

For purposes of calculating the credited service time for employees, the Personnel Department tracks a “continuous service date” to account for leave without pay during employment. The

Board Office uses a formula to analyze every month of employment to determine an employee's service time, as required by Metro Code. Use of the formula involves a manual calculation to determine the credited service allowed for each month and is labor intensive and prone to error.

For purposes of connection of service, the Personnel Department automatically applies prior service time in determining the employee's vacation, sick leave accruals and other benefits, while the Metro Code defines a window of time for persons to connect their prior service for benefit purposes.

Recommendation: Policies and procedures which affect employee service time should be consistent throughout Metro.

Consistent policies and procedures throughout Metro would allow for clearer understanding by employees. Metro should consider adopting the Civil Service Policies and Procedures for benefits to simplify benefits administration. The actuarial impact of any changes should also be determined.

D. General Management and Administration

We noted several management and administrative weaknesses as follows:

Finding (IV) D-1: The Board Office places excessive reliance on “General Consultants”.

General consultant fees include payments to one consultant under two different contractual agreements with two different firms to provide for attendance at all Board meetings, preparation of the quarterly “ME” newsletter, RFP development and general consultation as requested by the Board on specific issues as they arise. The services and fees paid during the fiscal year ended June 30, 2000 are summarized below:

<u>Project/Services Performed</u>	in thousands
General Consulting	\$ 338
Systems Project	230
Sourcing Study	214
Communication	181
Expense Reimbursement	117
Healthcare	111
Reengineering	48
Retirement	35
Deferred Compensation	26
Planning and Benefit Strategy Analysis	23
Administrative	18
Case Management RFP	10
Disability Study	10
Other items under \$10	25
Totals	\$ <u>1,386</u>

Based on the above, it would appear that the Board places an inordinate reliance on the consultant and is using the consultant for tasks that could be performed by qualified employees.

Furthermore, recently the general consultant had a conflict of interest with regard to developing an RFP for 457 plan providers. The general consultant was going to preclude a related party from bidding on the services in order to resolve the conflict of interest. This could have been detrimental to the employees, as the product offered by the related party could have been one of the more desirable products proposed.

Recommendation: Metro should consider the activities performed by the general consultants and determine if the activities are cost beneficial. Furthermore, the resolutions of any conflicts of interest surrounding consultants should be reviewed in light of the potential impact on employees.

Metro should carefully consider the consultant's past role and the deliverables provided over the past fiscal year in light of the fees paid and as compared to what it would cost to employ competent management level staff in-house. Consideration should be given to employing staff with education and experience in employee benefits. Furthermore, the impact on employees should be considered in determining the assignments of consultants.

Finding (IV) D-2: Information to process pension benefit calculations is not integrated with pension calculation software.

In two instances the Board attempted to begin automation of pension calculation functions, but neither attempt was successful. There are several plan provisions and other conditions that would have to be resolved before full automation would be possible. We noted that in March 2000, the Board received a report from the general consultant detailing plan changes that would have to be made and data cleanup that would have to occur in order for various pension calculation activities to be fully automated. This report was presented as informational without focusing the Board's attention on the need to resolve the issues in order to prepare for future automation. From this report, there were a total of 74 issues of which 23 could be resolved by programming an automated system. As of October 15, 2000, only a few of the remaining issues have been resolved or are in process of being resolved. Several issues should be in process to prepare for automation, including: data cleanup, procedural research and modification, and certain Board actions necessary to simplify and/or clarify calculations..

Recommendation: A high level of priority should be placed on doing what is necessary to automate benefit calculations.

In order for Metro to eventually automate and integrate the pension benefit calculation process, resolution of the issues noted in the report will need to be prioritized. After resolving these issues, the Board may consider the purchase of a pension administration program. A more automated process for obtaining the data needed for benefit calculations would reduce the potential for clerical errors and make the benefit calculation process more efficient. It would also provide additional opportunities for review of payments before they are made and improve the timeliness and accuracy of information provided to pensioners and employees considering retirement options.

Finding (IV) D-3: The Benefit Board currently makes decisions that are more appropriate for legal counsel review and decision.

In our review, we noted instances of the Board considering actions which were essentially questions of law that were more appropriate for the Legal Department to resolve. For instance, we noted the following examples of the Benefit Board making decisions which should have been reviewed by legal counsel first.

- One example includes the Board's decision to allow the transfer of the 119 members of the closed City of Nashville and County of Davidson pension plans to the Metro system. Although Section 13.08 of the Charter allows participants in those plans to transfer to the Metro system, the Board action ignored the Metropolitan Council's express directive as outlined in the Metro Code that no such transfers occur after December 31, 1971. Further, the Board did not consider the actuarial impact, and the Metropolitan Council could have refused to fund the increased cost of \$10 million, which would have then jeopardized the actuarial soundness of the plan required under section 13.10 of the Charter.
- Another example is that although civilian fire department employees were specifically excluded from the police and fire plan under Division B, in December of 1995 the Board allowed them to transfer to the Police and Fire Plan. A lawsuit ensued to allow civilian employees of the Police Department into the Police and Fire Pension Plan.
- Furthermore, another example includes the Benefit Board delaying accruing interest on the contribution necessary for the connection of service. In 1995, the Metropolitan Council amended the provisions of the Metro Code dealing with credited service under the pension system for prior service, allowing certain individuals to connect prior service time by making written application and repaying any refunded pension contributions. The amendment stated the employee must repay the contributions to the system with interest at percent per year from the date of the refund. In January 1997, although outside the Board's authority, the Board voted to suspend the payment of interest during the "connection of service" project.

Recommendation: The Benefit Board should utilize the Department of Law when legal issues arise or when attempting to interpret the plan.

Use of legal counsel to address legal issues will ensure appropriate actions are taken and reduce the risk of future problems.

Finding (IV) D-4: The Board Office inappropriately allowed transfers of disability pensioners from Division A to Division B.

During our review, we noted two disability pensioners in Division A who were placed on "active" payroll for one day in December 1995 and then transferred to Division B. Neither individual was paid for the time they were on "active" payroll, and each retired on a service

pension in January 1996. The ordinance which created Division B states (Metro Code section 3.12.031(B)):

Each person who is a metropolitan employee as of June 30, 1995, and who qualifies to be a member of Division A of the system, may voluntarily elect in writing to transfer his participation from Division A to Division B as of January 1, 1996, subject to written application approved by the board

Because the pensioners were receiving a disability pension at June 30, 1995, they were not considered to be employees (Metro code section 3.28.010(B)) and, therefore, were not eligible to transfer to Division B.

Recommendation: Metro should further investigate these transfers to determine appropriate action.

The circumstances surrounding the two transfers noted should be further investigated to determine whether there was any fraudulent action surrounding them, and the Legal Department should be consulted regarding available remedies. Depending on the results of the investigation and research, a determination should be made as to whether other transfers from Division A to Division B should be reviewed.

Finding (IV) D-5: Segregation of duties regarding additions, deletions, and changes in the pension payroll system does not exist.

During our review, we noted that the Board Office has two staff persons who are responsible for the input of changes to the payroll system. Although these changes are to be reviewed by the Board Office management, we noted the staff could process changes without the knowledge of management.

Recommendation: Metro should segregate incompatible payroll duties.

The authorization for additions, deletions, and changes related to payroll should be segregated from the ability to make changes in the payroll system. The Department of Finance should be responsible for maintaining the pension payroll system, as addressed in finding (IV) A-1.

Finding (IV) D-6: Retirees can receive medical coverage that exceeds what is allowable.

Employees are given the option to continue medical coverage for themselves and dependants with Metro's insurance providers upon retirement. Before age 65 the medical plans cover retirees and dependants as primary coverage for both hospital and other medical services. Upon reaching age 65, the retiree is automatically granted Medicare Part A with the receipt of Social Security and has the option to obtain Medicare Part B by paying a premium. The retiree must

inform Metro of the receipt of Medicare Part A or B coverage, which reduces the retiree's insurance premiums and results in the Board Office notifying the insurance provider to begin paying as secondary coverage after Medicare, consistent with the Board's intent and standard industry practice.

As part of the review, we tested pensioners receiving medical coverage through the self-insured plan, which includes 4,719 pensioners, plus dependents. We reviewed pensioners who retired from Division A or Division B and were older than age 65 to determine the extent of medical coverage received and the premium structure paid. We identified 30 pensioners who were coded by Blue Cross/Blue Shield in such a manner that they could be receiving primary coverage for all services from the self-insured plan when they were eligible for both Medicare Part A and Part B. Upon further investigation of 4 of those pensioners, we determined that BC/BS had in fact paid claims as the primary insurer for 3 of those 4 pensioners.

Further, we noted one pensioner was being charged a premium as though she did not have Medicare Part A and B when she did have Medicare, resulting in her monthly premium being \$28 too high.

Recommendation: Metro should periodically review all pensioners and active employees to determine whether the benefits provided and premiums paid are consistent with Metro's policies and procedures and should establish procedures to automatically change retirees' coverage when they reach age 65.

Premium structures, insurance expense to Metro, and benefits paid from the self-insured fund are all based on proper premiums collected from employees and on proper payment of eligible claims for employees. Overpayments of claims result in unauthorized excess expenses to the self-insured fund and affect future premium structures for all medical plans provided to Metro employees, increasing premiums charged to employees and the Metro matching portion of insurance premiums.

Metro should immediately, then on a periodic basis going forward, determine what insurance plans all employees and retirees and their dependants are in, determine whether they are receiving the proper benefits they are eligible for and determine whether they are paying the proper premiums. For retirees and their dependants, procedures should be changed so that when an individual reaches age 65 he or she is automatically moved into the medical plan that pays as secondary to Medicare Parts A and B in order to eliminate the potential for unauthorized payments. As an audit of claims paid by BC/BS through the self-insured fund has not been done in at least five years, Metro should consider doing a claims audit for the self-insured medical fund.

Finding (IV) D-7: There is a lack of formal reconciliations between deductions for medical insurance withheld from employees and amounts submitted to insurance carriers.

Metro currently uses insurance reports produced by the G/L system or the mainframe to calculate the payment to insurance carriers. This produces an accurate payment to carriers but does not ensure Metro collected the employee's portion of the payment.

Recommendation: A formal reconciliation and review process should be implemented between amounts paid to insurance carriers and amounts collected from employees to ensure the accuracy and completeness of amounts paid and collected.

Metro should develop standard reports from the payroll system which detail all persons enrolled as well as identify all additions, deletions, and others changes (i.e. persons on family leave, etc.). Such reports would serve as a tool to ensure that requested changes have been properly processed. Another report should be developed which indicates the amounts actually deducted from payroll. An exception report should be developed to match these two reports and indicate any differences. These reports could be used as the basis for verifying the completeness and accuracy of payments to insurance carriers and others.

Finding (IV) D-8: There are no formalized policies and procedures manuals to direct the day to day operations of the Board Office.

There is currently extensive crossover among the various units within the Board Office as processes are completed, and with no formal policies and procedures manuals to ensure consistency and clarity of responsibilities across the units. There are numerous memos issued by the former Executive Secretary on specific topics, but there is no current, comprehensive central policies and procedures manual to ensure consistency in application of policy, or to provide guidance to Board members or new Board Office staff. Lack of formalized manuals creates inconsistent processing and confusion. KPMG obtained a procedures manual from a Board member and, upon inquiry, only the Benefits Administration unit had a copy of the manual and few staff members were even aware of its existence. The manual had not been kept current. Most policies and procedures were dated 1993 or 1994.

Recommendation: A formal policies and procedures manual should be developed, kept current, distributed to all staff and utilized.

A current policies and procedures manual should be developed and followed by the staff carrying out the responsibilities of the Board. All personnel should be trained and required to use the policies in such a manual. Such a manual should be reviewed by the legal department prior to implementation to ensure that planned procedures and processes will be consistent with all

legal requirements. Furthermore, these procedures and policies should be maintained on the intra-net so that each employee could ensure they had the most recent policies and procedures.

Finding (IV) D-9: The Board Office staff is extensively involved with the details of the case management program.

Board Office staff indicated that a significant portion of their time is spent on coordination with case management and employing departments during the 130 day IOD disability period. While specific types of issues handled by Board Office staff cannot be quantified, it appears that there may be functions currently handled by Board Office staff that are more appropriately handled by the case management provider. Per review of the case management contract, there should be initial contact with the employer (Board Office staff or employing department as appropriate) to verify basic information about the employee and his/her job requirements, and interaction at the time the employee is ready to return to work. Furthermore, we reviewed the contract and noted the responsibilities of the case manager were not readily determinable.

Recommendation: Metro staff involvement in the case management function should be carefully analyzed against the responsibility of the outsourced case manager. Duplications of effort should be eliminated.

Metro staff should have a “log” function or perform a time study to determine what types of inquiries, follow-ups, etc. are commanding significant amounts of time in the communication portion of the disability process. This would allow focused changes in procedures or policies to allow streamlining of the process. Functions that are duplicating services more appropriately performed by case management should be discontinued, as should any functions which are included under the case management contract.

For the more complex cases, the case management provider should continue to be involved in some manner with disability cases throughout the term of care and assist Board Office staff to monitor continued propriety of care.

Finding (IV) D-10: Metro Code does not provide the authority for medical benefits to be provided to retirees.

When the Metropolitan Employee Benefit System was created in 1964, it contained an explicit provision making pensioners eligible for medical benefits. This provision was codified in the Metropolitan Code (using the former numbering system) in Section 32-1-40 and provided “The medical care contract shall provide medical care benefits for retired members of the system, who are receiving pension benefits provided by the system...” In 1973 Bill No. 73-624 deleted the entire Metropolitan Code provision dealing with medical care benefits and replaced it with new provisions which were silent on medical care benefits for pensioners.

The new provisions (which are still in effect and codified at Section 3.24.010A) provide that “Each member shall be covered for medical benefits during all times that he is an eligible employee...” In the absence of any provisions extending coverage to pensioners, it appears that there is no longer any authorization in the Metropolitan Code to extend medical benefits to pensioners because they are no longer “eligible employees.”

In addition, Metropolitan Code Section 3.12.050 provides:

Upon a member’s termination in the metropolitan government, he shall continue to be a member, but in no case shall he be entitled to be covered for benefits provided in Chapters 3.20 (medical care benefits), 3.24 (life insurance) and Sections 3.28.010 through 3.28.080 (Division A disability pensions) and Sections 3.29.010 through 3.29.080 (Division B disability pensions)...”

All service pensions (and disability pension as was noted above) provide benefits only after “termination” (see Metropolitan Code Sections 3.28.010, 3.29.010, 3.32.010, 3.33.010, 3.36.010 and 3.37.010). Thus, the Metropolitan Code not only fails to authorize medical care benefits for pensioners, it contains an express prohibition on providing such benefits.

Recommendation: Metro should resolve the issue of providing retirees with medical benefits but not having the legal authority to do so.

Metro should determine whether to continue to provide retirees direct medical coverage, then work with the Legal Department to take any actions necessary to legitimize benefits provided. Should Metro decide to continue to provide retirees with direct medical coverage, Metro should only provide secondary coverage to all pensioners eligible for Medicare Parts A and B, as is standard industry practice.

Finding (IV) D-11: The process of Board and committee agenda development and tracking is inefficient and prone to error.

Items to be decided at Board meetings, including individual pensions to be approved and disability pensions requiring review, are manually tracked and placed on Board agendas prior to each meeting. This agenda is maintained on a commonly accessible file on the Board Office network. This manual process is ineffective.

For example, a recent Board agenda failed to include three individuals who in the prior meeting had been granted a 30 day continuance of their disability pensions while awaiting additional medical information. Failure to include these individuals could have effectively granted them an indefinite extension of their disability pensions without Board approval. Another example

included instances in which the staff reports given to the Board members had discrepancies in pension amounts given on the Board agenda leading to confusion as to which amount was correct.

Recommendation: Formal Board agendas should include items generated from a carefully controlled and tracked automated database of cases requiring Board action, and staff reports presented to the Board should be checked for accuracy.

Finding (IV) D-12: Access to documents is not adequately controlled.

Currently, benefit-related forms and other important original documents are maintained in Word documents in a common folder such that any individual within the Board Office could have access to change or delete them.

Recommendation: A single, password protected database for all forms and other critical documents should be utilized.

Finding (IV) D-13: The Service Pension Checklist is not serving as an effective review and control tool.

The “Service Pension Checklist” is a list of documents required to be sent or received in order to process a request for pension benefits. In its current use, it does not serve as a control over the completeness or accuracy of the information obtained, nor does it serve as documentation of approvals obtained to complete the process.

Recommendation: Expand the use of the Checklist to establish a more comprehensive control.

The checklist should be expanded to be a step by step process checklist requiring signoffs for certain reviews by supervisors.

V. Comparison of Metro’s Benefits to Other Governments’ Benefits and Related Findings and Recommendations

A. Benchmarking Overview

As discussed in Section I, Scope and Objectives of the Performance and Operational Review, the detail comparison of Metro’s benefits to other governments’ benefits is still in process. The results of that work will be provided to the Benefit Board and to the Department of Personnel when the work is completed. Section V of this report includes some preliminary general observations made to date concerning Metro’s benefit offerings as compared to the offerings of other governments.

In preparing an evaluation of the Benefit Board and Board Office roles and the overall package of benefits offered by Metro, KPMG assembled selected data to utilize as a benchmarking tool for Metro. The data collected included publicly available reports published by the Department of Labor, the Employee Benefits Research Institute, and the Government Finance Officers Association, surveys previously conducted by KPMG on health benefits and retiree benefits, and specific data from selected other city and county governments comparable to Metro in size and operation. The specific city and county data was obtained through website information regarding the specific city/county, comprehensive annual financial reports, new hire employee benefits packages obtained upon request from the city/county, and detail questionnaires completed by responding cities/counties. Ten cities/counties were considered for the comparisons as follows: Atlanta and Fulton County (GA), Charlotte and Mecklenburg County (NC), Denver, Indianapolis, Jacksonville, Memphis, and Shelby County (TN), and Milwaukee. KPMG utilized the information gathered in preparing an evaluation of the Benefit Board and Board Office roles in Sections I through V above. In this Section, we present benchmark information regarding the overall package of benefits offered by Metro.

B. General Benefit Offerings

General benefit offerings and premium costs to the employees appeared in line with other cities, national averages, and KPMG surveys. The most notable differentiation in product offering relates to the “voluntary deductions” offered by Metro. KPMG noted very few “other” offerings in new hire packets received from the benchmark cities/counties. In instances where they were offered, they seemed to be grouped with one to two carriers only. For example, Atlanta offers cancer, hospital intensive care, hospital indemnity, personal short term disability and accident/disability all through AFLAC in their supplemental flexible benefits plan.

The chart on the following pages compares the benefits offered by Metro to those by the benchmarked cities.

	<u>METRO</u>	<u>Atlanta</u>	<u>Charlotte</u>	<u>Denver</u>	<u>Fulton County</u>	<u>Indianapolis</u>	<u>Mecklenburg County</u>	<u>Memphis</u>	<u>Milwaukee</u>	<u>Shelby County</u>	<u>% FT Participating EBRI Survey</u>	<u>%FT Participating Med/Lg Private Co.'s</u>	<u>1994 DOL Survey (Gov't) (5)</u>	<u>KPMG 1998 Health Benefits Survey</u>	<u>Notes</u>
MEDICAL															
Medical Coverage	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	87%	76%	87%		
Type Medical Plan:															
Traditional		Y		Y		Y					38%	27%	38%	38%	6
PPO/POS	Y	Y			Y	Y	Y	Y	Y	Y	30%	40%	32%	61%/55%	6
HMO	Y	Y		Y	Y	Y	Y	Y	Y		30%	33%	30%	65%	6
Nonspecified			Y												
Self Insured Medical	Y - PPO		Y		Y - Partially	N	Y	Y	Y- Basic Only	Y					
DISABILITY															
STD	N	Y	Y	Y (FT only)	N	N	Y	Y	N	Y	21%	55%			
LTD	Y, PP	PP	Y	Y	Y	PP	PP	PP	Y	Y	30%	43%	30%		
Long term care	Y		N			N	N		N	N		7% (4)			
In line of duty	Y	(*3)	Y		Workmens' Comp (SI)	Workmens' Comp (SI)	Y	Workmens' Comp (SI)	WC						

	<u>METRO</u>	<u>Atlanta</u>	<u>Charlotte</u>	<u>Denver</u>	<u>Fulton County</u>	<u>Indianapolis</u>	<u>Mecklenburg County</u>	<u>Memphis</u>	<u>Milwaukee</u>	<u>Shelby County</u>	<u>% FT Participating EBRI Survey</u>	<u>%FT Participating Med/Lg Private Co.'s</u>	<u>1994 DOL Survey (Gov't) (5)</u>	<u>KPMG 1998 Health Benefits Survey</u>	<u>Notes</u>
OTHER															
Dental	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	62%	59%	62%		
Vision	N	(1)	Y	Y (FT only)	Y	Y	N	N	N		35%	26%			
Life	Y	Y	Y	Y	Y	Y	Y - Term	Y	Y	Y	87%	87%	87%		
Dependent Life	Y	Y	Y	Y	Y	Y	Y	Y	N	Y					
FSA	Y	Y	Y	Y	N	Y	Y				64%		64%		
Cancer	Y	Y			N			Y		N					
Hosp Intensive Care	Y	Y			N	N		Y		N					
Hospital Indemnity		Y			N	N				Y					
Accident/Disability	Y	Y			N	N		Y		Y		42%(4)			
DB Pension	Y	Y	Y	Y	Y - frozen	Y	Y	Y	Y	Y	91%	50%	91%		
Deferred Comp	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	9%	57%	9%		
PT Benefits	Y	Y	Y	Y	Y		Y	N	Y	Y				46%	
Retiree Benefits	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	75%				

NOTES:

- (1) Available through certain medical plans only
- (2) Bureau of Labor Statistics, Department of Labor, Employee Benefits in Medium and Large Private Establishments
- (3) Workmens' Comp for short-term portion; pension; long-term portion covered through pension plan
- (4) Represents percentage of full time employees in medium and large private establishments offered benefit
- (5) Bureau of Labor Statistics, Department of Labor - Employee Benefits in State and Local Governments 1994
- (6) Percentage of State and Local Government employees for whom option was available

* Included in supplemental plan

Blanks indicate that the information was not available.

WC – workers compensation program, SI – self insured, FT – full time

Part-Time Benefits

Metro offers benefits to part-time workers who work more than 20 hours per week, of which medical coverage and participation in the retirement program are mandatory. Two of the benchmark cities were noted as offering benefits to part-time employees at 20 hours per week, one at 30 hours per week, and one prorates benefits available based on hours worked. Only one city specifically indicated it does not offer benefits to part-time individuals. Others did not specify.

KPMG's 1998 Survey of Health Benefits noted that 46% of state and local governments provided benefit eligibility to part-time workers. This compared to 40% of all employers in the South, and 65% of all employers with greater than 5,000 workers.

Retiree Medical Benefits

Seven of the ten city/county units researched indicated that they do offer retiree medical benefits. (The other three did not specify.) This is consistent with KPMG's 1998 Survey of Health Benefits which noted the following percentages of employers surveyed offering retiree benefits, grouped by type of employer:

<u>% of ER offering Retiree Health Benefits</u>	
Large Firms (>5,000 employees)	64%
South	37%
State and Local Government	74%
Overall	40%

Most of the employers also adjusted medical benefits to be secondary coverage at the date of Medicare eligibility where applicable. Rates are generally consistent with those for active employees. Various funding methods were noted, including the following:

- Employer pays 75% of least expensive plan,
- Employer pays 50% of Single coverage rate or 33% of Family coverage rate,
- Retirement plan contributes specific dollar amount toward premium based on age,
- Employer pays 75-90% of basic health premium and 90% of Medicare supplement premium,
- Employer pays 100% until 65 if retiree meets age/service requirements, and then 75% of Medicare supplement.

Current practice for Metro is to pay approximately 75% of premium costs.

Pension Benefits

Offered

Each of the benchmark cities/counties offered defined benefit plans, though Fulton County has frozen its plan and transferred the majority of the participants into a defined contribution plan. This is consistent with KPMG's 1998 Survey of Retiree Benefits that indicated that approximately 90% of state and local governments offered a defined benefit retirement plan.

Vesting

The average vesting period per KPMG's 1998 survey was five years. For the benchmark cities/counties, there were three entities with five year vesting, one with seven and one-half year vesting, one with ten year vesting, and one with a five to fifteen year graduated vesting schedule among the ten cities/counties surveyed. Metro currently has a ten year vesting period.

Retirement Age

Metro has a retirement age of 60 for general employees, The average retirement age per KPMG's survey was 65. The other common age noted was age 60. Most plans provided for earlier unreduced retirement, typically between ages 50 to 55, if specified years of service criteria were met. Four other cities/counties were noted as having lower age/service requirements to qualify for unreduced pension for police and firefighters, similar to Metro's plan. Early reduced retirements were also generally available, with the reduction amount for early retirement being a percentage based on actual age and/or years of service.

Cost of Living Adjustments

Of the cities/counties reviewed by KPMG, Atlanta, Milwaukee, and Shelby County specifically provide for cost of living adjustments in their defined benefit plans. Charlotte and Mecklenburg County, as participants in a state plan, have adjustments only as approved by the General Assembly, but they have had one annually since 1971. The GFOA 2000 Survey noted that 77% of respondents had some type of adjustment, either as specified by the plan or through ad hoc legislative action.

Employee Contributions

The Employee Benefit Research Institute indicates that 72% of state and local governments with defined benefit retirement plans require employee contributions of some sort. Approximately 85% of the respondents to the GFOA 2000 Survey had contributory plans. For those entities reviewed by KPMG which require employee contributions, most required a contribution of

between 6%-8% of salary, with one noted as requiring a 3% of salary contribution. Plan member contributions for the respondents to the GFOA 2000 survey averaged 5.41% of salary. This average represents averages of approximately 6.85% for teachers and police/fire employees, and 4.2% for general and other employees.

C. Findings and Recommendations

Finding (V)C-1 Metro has not formally reviewed its benefits offered to employees as required by the Charter.

Although Metro currently has problems in administering its benefits offerings, the number, type, and nature of those benefits are similar to those offered by the benchmarked cities/counties. However, we noted the Charter requires the Mayor to create a task force to review the benefits offered to Metro employees every five years and Metro has not done so within the last five years.

Recommendation: A benefits task force should be created by the Mayor to review the current benefits offered to Metro employees, as required by the Charter.

The Mayor should create a task force to review the benefits offered to Metro employees. The task force should utilize information provided by this review, information included in previous reports of general consultants, feedback from employees, and any other information the task force believes is appropriate to the decision making process.

We noted per the benchmarked cities/counties that benefit formulas for state and local governments are commonly based on a specified percentage multiplied by a final average earnings amount (77% of state and local governments use this type of formula, per KPMG's 1998 Survey of Retirement Benefits).

According to the Employee Benefit Research Institute, the most common earnings amount used is the three highest years' earnings in the last ten years prior to retirement.

Examples of the definitions for average compensation noted in the cities/counties reviewed:

- Highest consecutive 48 months
- Highest 20 calendar quarters - quarters not required to be consecutive, but must be in blocks of 4 consecutive quarters
- Highest 36 months (three entities)

Further, as noted above, five years appears to be the average for the number of years to vest, and many pension plans require employee contributions.

Finding (V) C-2: The voluntary deductions currently made available to Metro employees represent a diverse group of sparsely utilized benefits which have not been systematically reviewed and monitored for value by the Board.

While the Board is technically responsible for approving voluntary benefit offerings for which payroll deduction is allowed, it has not adequately evaluated the offerings currently made available. This has resulted in an unusually high number of offerings which are not highly utilized, and which are time consuming to administer. It is recognized that the general consultant and the Board have discussed this issue; however, it has not yet been fully resolved as of the date of this report.

Recommendation: Voluntary deductions should be revised to include a limited number of options, provided by vendors selected through a formal procurement process. The benefits offered should be evaluated on the basis of value to the government and employees, and should include a cost benefit analysis of the costs to administer such offerings.

The Board should perform an assessment of the types of voluntary deductions that should be made available for payroll deduction. Once the types of options available have been identified, a procurement process should be followed to obtain a high quality product offering for Metro employees. The proposal process should consider the reputation of the vendor, the quality of product, the level of coverage provided, and the level of cost to the employee and the cost to the government for administration.

Current offerings that will not continue to be available under a revised package of offerings described above should be closed to future enrollment, and efforts should be taken to eliminate these products from payroll deduction. Ongoing evaluation of the voluntary deduction products should include the required annual reporting by offering companies as outlined in the Metro Code, and a periodic repeat of the procurement process, as considered necessary by the Board to ensure employees are receiving the best coverage available.

Finding (V) C-3: Mandatory medical coverage for all full-time and many part-time individuals may be generating unnecessary costs for Metro and its employees.

Metro may be incurring unnecessary costs by making medical coverage mandatory for all full-time and a significant number of part-time personnel (those working greater than 20 hours), as some portion of this population might elect to have coverage through other sources rather than utilize Metro's offerings. EBRI (the Employee Benefits Research Institute) reports that for a typical state and local government benefit package, only 87% of full-time employees participated in a medical care plan.

Recommendation: Metro should consider making all coverage optional.

Absent evidence that the additional employee contributions received more than offset the additional claims and administrative costs incurred for coverage, mandatory coverage requirements should be eliminated. To ensure that the employee base understands the implications of electing no coverage, appropriate warnings should be communicated during enrollment, and specific waivers should be obtained from employees making such an election. In addition, some employees may achieve savings through reducing what might currently be double coverage if they are also covered through another plan.

APPENDIX

The following is a list of individuals who were included in planning for this work. We met with several other individuals during the course of this work:

Name	Title	Department
Larry Ashworth	Chairman of the Benefit Board	
Leighton Bush	Former Benefit Board Member	
James Cardwell	Benefit Board Member	Police Department - Retired
Chris Cathey	Interim Executive Secretary	Board Office
Joe Holzmer	Assistant Director of Finance	Finance Department
Edna Jones	Disability Management Supervisor	Board Office
Jeralyn Keeter	Benefit Board Member	Police Department
John Kennedy	Acting Director of Personnel	Personnel Department
Herb Majors	Payroll Supervisor	Finance Department
David Manning	Director of Finance	Finance Department
Kim Mason	Information Services Supervisor	Board Office
Christi Mayo	Benefits Administration Supervisor	Board Office
Kim McDoniel	Internal Audit Manager	Internal Audit
Corey Lee Sherman	Consultant to Benefit Board	
William Snodgrass	Benefit Board Member	
Micheal Wall	Accounting Supervisor	Board Office
Phyllis West	Benefit Board Member	Bordeaux Hospital
Robert Wiseman	Safety Division Director	Board Office