

City of Austin



**A Report to the
Austin City Council**

Mayor
Lee Leffingwell

Mayor Pro Tem
Sheryl Cole

Council Members
Chris Riley
Mike Martinez
Kathie Tovo
Laura Morrison
Bill Spelman

**Office of the
City Auditor**

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AUDIT REPORT

Pension Contribution Audit

June 2013



REPORT SUMMARY

Overall, pension contributions to the three City of Austin pension systems appear to be properly calculated and applied in compliance with applicable requirements.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT TEAM

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June 2013



Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2013 Strategic Audit Plan.

What We Recommend

Given our audit results, recommendations are not applicable.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

PENSION CONTRIBUTION AUDIT

Mayor and Council,

I am pleased to present this audit on the Pension Contribution.

BACKGROUND

The City of Austin is the plan sponsor of three employee pension systems that administer a Defined Benefit Plan, which ensure a pre-determined benefit amount to their members upon a qualified retirement. These three funds, which are governed by State law, include:

- City of Austin Employees' Retirement System (COAERS),
- Austin Fire Fighters Relief and Retirement Fund (AFFRRF), and
- Austin Police Retirement System (APRS).

The Payroll Division of the Financial Services Department processes employees' pension deductions and the City's matching contributions and provides these figures to the three systems on a biweekly basis.

OBJECTIVE AND SCOPE

The objective of the audit was to determine if contributions to the City of Austin's three pension systems have been properly calculated and applied in compliance with applicable requirements.

The audit scope included employee contributions for FY 2012.

WHAT WE FOUND

Overall, pension contributions to the City's pension systems appear to be properly calculated and applied in compliance with applicable requirements. This includes:

- the City applying payroll deductions based on current employee base pay and approved employees' contributions;
- the City applying the approved matching contributions to each of the three pension systems; and
- the three pension systems applying the contributions to appropriate employees' accounts and to their overall funds.

We appreciate the cooperation and assistance we received from COAERS, AFFRRF, APRS, as well as from the Human Resources Department's and the Financial Services Department's staff during this audit.


Kenneth J. Mory, City Auditor

BACKGROUND

The City of Austin is the plan sponsor of three employee pension systems that administer a Defined Benefit Plan ensuring a pre-determined benefit amount to their members upon a qualified retirement. These three funds, which are governed by State law, include:

- City of Austin Employees' Retirement System (COAERS),
- Austin Fire Fighters Relief and Retirement Fund (AFFRRF), and
- Austin Police Retirement System (APRS).

The Payroll Division of the Financial Services Department processes employees' pension deductions and the City's matching contributions and provides them to the three systems on a biweekly basis.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Pension Contribution Audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2013 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objective

The objective of the audit was to determine if contributions to the City of Austin's three pension systems have been properly calculated and applied in compliance with applicable requirements.

Scope

The audit scope included employee contributions for FY 2012.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Interviewed City of Austin management and staff in the Human Resources Department and in the Payroll Division of the Financial Services Department
- Interviewed management and staff in each of the City's pension systems (COAERS, AFFRRF and APRS)
- Analyzed State and City requirements regarding each of the three pension systems
- Evaluated the controls in place concerning the accuracy of the contributions
- Selected a random sample of 60 employees from a population of 12,030 eligible City employees who were on the City payroll during FY 2012; the sample was selected using audit command language (ACL) and was calculated using a confidence level of 95% and a precision of 5%
- Tested the accuracy of employee and City matching contributions for two pay periods in FY 2012 (pay periods ending 12/3/2011 and 8/25/2012), including:
 - reconciling base pay to applicable Personnel Action Forms
 - recalculating employee contributions and City matching contributions according to membership requirements and applicable laws
 - tracing employee contributions to individual accounts in each of the three pension systems and
 - tracing City contributions to the three funds
- Selected a judgmental sample of 30 temporary employees from a population of 3,756 employees, who were on the City payroll during FY 2012 and should not qualify for City benefits, to confirm that they were not in the pension systems
- Considered risks related to information technology, and fraud, waste, and abuse

AUDIT RESULTS

Finding: Overall, pension contributions to the City's three pension systems appear to be properly calculated and applied in compliance with applicable requirements.

The City's Financial Policies require that the City provide its share of contributions to the City's three pension systems in accordance with the State statutes establishing each system. In addition, State law and City policies prescribe specific employees contribution amounts and the City contribution amounts for each of the three funds. Exhibit 1 summarizes, for each fund, membership requirements and contribution amounts approved for FY 2012.

Based on our work, we concluded that overall pension contributions to the three pension systems appear to be properly calculated and applied in compliance with applicable requirements. This includes:

- the City applying payroll deductions based on current employee base pay and approved employees' contributions;
- the City applying the approved City matching contributions to each of the three pension systems; and
- the three pension systems applying the contributions to appropriate employees' accounts and to their overall funds.

EXHIBIT 1
Pension System Membership Requirements and Contributions for FY 2012

Pension System	Membership Requirements	Contribution Percentage	
		Employee	City
COAERS	Regular City of Austin employee working 30 or more hours per week	8% of base pay	16% of base pay
APRS	All cadets upon enrollment in the Austin Police Academy and commissioned law enforcement officers employed by the Austin Police Department Full time employees of APRS (after serving a six month probationary period)	13% of base pay and longevity pay	20.63% of base pay and longevity pay
AFFRRF	All commissioned civil service and Texas state-certified firefighters with at least six months of service who are employed by Austin Fire Department	16.2% of base pay and longevity pay	20.05% of base pay and longevity pay of each plan participant

SOURCES: OCA Analysis of applicable City and State laws, including City Resolution 20100913-008, Legislative Session 82(R) SB 1286, SB 1285 and HB 2796, May 2013

Given our audit results, recommendations are not applicable.

APPENDIX A

MANAGEMENT RESPONSE

Management reviewed and provided comments regarding drafts of this report. Since we did not issue recommendations, management is not required to provide an action plan. Management concurred with the findings in this report and elected not to include a written response.