



**MEMORANDUM  
OFFICE OF THE CITY AUDITOR**

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DATE: May 20, 2016

TO: Distribution List

FROM: Cathy Criswell, City Auditor *Cathy Criswell*

SUBJECT: Phase II Report – Special Project –  
Municipal Employees Retirement Plan Participant Data, Process and Control  
Review

Attached is the final report for Phase II of the subject project. This project was performed at the request of Finance and Human Resources management to assess the processes and controls in place to record and report Municipal Employees Retirement Plan (MERP) participant data.

Since Finance and Human Resources management requested this project, the City Auditor is not distributing copies to the MERP Board. We would recommend that the Personnel Director, acting in the MERP Administrator capacity specified by TRO Title 28, Chapter 10, Section 1003, share the results of this report with the full membership of the MERP Board. The City Auditor's Office would like to thank the Finance and Human Resources teams for their timely assistance and participation with this project. Please let us know if you have questions or comments.

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**Special Project – Municipal Employees Retirement Plan Participant Data,  
Process and Control Review  
March 2016**

**Subject:** Results of Phase II: MERP Process and Control Review

**Responsible Officers:** Mike Kier, Finance Director  
Erica Felix-Warwick, Personnel Director

**Auditors:** Mary Ann Vassar, CPA, CRMA, Internal Audit Manager

**AUDIT SCOPE:**

As agreed upon in our September 25, 2015 Engagement Proposal, the scope of Phase II for this project consisted of:

- Development of control review plan and related work programs for review of City pension data, processing and controls.
- An assessment of the reviewed controls' design and effectiveness.
- Identification of any noted gaps in control design/effectiveness.
- Assessment of compliance with Plan Administrator responsibilities/duties as identified by TRO Title 28.

**BACKGROUND:**

In September 2015, Finance and Human Resources management requested the City Auditor's Office to perform a two-phase review project of the Municipal Employees Retirement Plan (MERP) due to plan census data anomalies. The Phase I report issued in October 2015 identified data differences for research and resolution by Human Resources in order to provide accurate data for the annual actuarial valuation. These anomalies delayed the Plan's 2015 actuarial valuation process, ultimately delayed the planned issuance of the City's 2015 Comprehensive Annual Financial Report (CAFR), and resulted in significant additional plan administrative cost. This report encompasses Phase II of the MERP review project, and reports the results of our assessment of processes and controls used to manage Plan records, data, communication and administration.

The MERP is a cost-sharing, multiple-employer defined benefit pension trust which covers full-time non-sworn employees of the City, its component units, and four other governmental organizations. The City acts as the trustee, or fiduciary, for the Plan. The most recent City of Tulsa CAFR dated June 30, 2015, values MERP total pension liability as \$547.8 million, and its related fiduciary net position as \$422.5 million, resulting in a net pension liability of \$125.3 million. The June 30, 2015 CAFR indicates the Plan has 4,463 total members. The MERP occupies a unique position as both an entity with significant impact on the City's financial position AND a legal trust with substantial fiduciary obligation to its participants and beneficiaries. Processes and controls are necessary to ensure the Plan's substantial liability is complete and accurate, and that Plan fiduciary responsibility and legal obligations are met.

**SCOPE PARAMETERS:**

Our analysis identified control and compliance gaps in MERP processes observed and discussed with City personnel and four agencies which process MERP contributions for their employees (Metropolitan Tulsa Transit Authority, Port of Catoosa, Tulsa Airports Improvement Trust and Tulsa City-County Library). Verification of MERP assets, participants, contributions, data, and reports **was not part of this project**; our objective was to analyze processes and controls that produce these elements for efficiency, reliability, and compliance with TRO Title 28 Administrator requirements.

**SUMMARY AND CONCLUSION:****The Plan lacks clearly documented staff roles and responsibilities.**

This creates risk of inability to consistently administer the Plan in the event of staff changes. The Plan Administrator had not been formally appointed as required by TRO Title 28, Chapter 10, Section 1003. Additionally, Plan-dedicated personnel were not fully aware of the fiduciary responsibility inherent in the Plan Administrator role. Fiduciary responsibility is substantial and fixed – staffing changes and resource constraints do not reduce or alter it. This fiduciary responsibility should be clarified and defined. Please see details of all gaps noted in roles and responsibilities at Appendix 1, Finding 1.

**Needed Plan controls and processes are not fully developed or documented.** This weakness has been heightened by staff turnover/cuts; remaining staff lacked documentation to perform needed financial, data, administrative and monitoring tasks and controls. Notably, Finance personnel indicate that unperformed data/financial controls resulted in \$36,500 in added 2016 actuarial cost due to data error resolution. Recent control changes needed due to Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, also need to be implemented. Please see details of control and process gaps noted at Appendix 1, Finding 2.

**If specific roles, responsibilities, control and processes are not defined, the Plan's weaknesses will persist.**

**MANAGEMENT RESPONSE AND AUDITOR'S COMMENT:**

Human Resources agrees with the conclusion that staff roles and responsibilities regarding the MERP plan need to more clearly documented. An item will be added to an upcoming meeting of the MERP board to formally appoint a Plan Administrator as required in TRO Title 28, Chapter 10, Section 1003. The job description for the position of the newly created Retirement Coordinator position specifically will be reviewed and modified as needed to clearly indicate the MERP Plan fiduciary responsibilities of the position. Other job descriptions in the Insurance and Retirement Section of Human Resources will also be modified as needed to clarify staff responsibilities in regard to the Plan. Further, within the next year all employees within the Retirement area of the Insurance and Retirement section will be scheduled for training on fiduciary responsibilities in regard to public pension plans in general and the MERP in particular.

Human Resources agrees that needed Plan controls and processes are not fully developed or documented. Human Resources is currently in the process of implementing procedures to ensure the completeness and accuracy of all Plan related data including but not limited to the reduction of manual entry of data and the creation of a new supervisor position, Retirement Coordinator, to oversee the day to day work of the retirement staff. In implementing these

procedures, particular attention will be paid to Appendix 1, Special Project: MERP Process and Control Review Control Weaknesses and Recommendations as prepared by the Internal Audit Department.

**AUDITOR'S COMMENT:**

Human Resources and MERP Plan administration are strongly urged to implement recommended control improvements as soon as feasible. Without prompt corrective actions, the approaching 6/30/16 fiscal year end is at risk for the errors and weaknesses which occurred in Plan year 2015.

We would like to focus Human Resources and City management's attention on Finding 2, Financial Data Processes and Controls in the Weaknesses and Recommendations Summary of this report (Appendix 1). These controls are critical to full, successful implementation of GASB 68 and avoidance of the recent data accuracy issues. These are denoted with "Note 1" in Appendix 1.



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Ron Maxwell, CIA, CFE  
Chief Internal Auditor



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Cathy Criswell, CPA, CIA  
City Auditor

**APPENDIX 1:**

**SPECIAL PROJECT: MERP Process and Control Review  
Control Weaknesses and Recommendations**

<b>FINDING 1: UNCLEAR AND/OR UNDEFINED RESPONSIBILITIES LED TO ADMINISTRATIVE, INTERNAL CONTROL AND COMPLIANCE WEAKNESSES FOR MERP</b>		
<b>Control Weakness Areas</b>	<b>Recommendation</b>	<b>Department(s) Responsible</b>
<b>1. Compliance/administration/oversight</b>		
1a. No documented appointment of Administrator	1-1a. MERP Board approve Administrator appointment. Define/clarify and assign responsibility for compliance/administrative/monitoring tasks, including:	<b>Human Resources</b> Consult and collaborate with MERP Board/Legal (Administrator fiduciary responsibility)
1b. Poorly defined administrator role for fiduciary duties	1-1b. enhanced clarification of Administrator fiduciary role	
1c. No system or assigned responsibility for monitoring advisory firm policy compliance	1-1c. monitoring advisor, custodian, fund manager and legal firm compliance with contracts AND MERP policy	
1d. No assigned responsibility for RFP/bid retention	1-1d. retention of RFPs and related vendor bids	
1e. No assigned responsibility for legal contract approval/execution	1-1e. contract approval and execution	
1f. Plan improvement goal not compliant with ordinance	1-1f. monitoring operational and governance changes	
<b>2. Communication Program development</b>		
2a. Lack of defined communication program and responsibilities	1-2a. Define and assign responsibility for communication program development, including:	<b>Human Resources</b> consult and collaborate with Information Technology (statement development)
2b. No process for providing MERP summary info to agencies; no mechanism for consideration of service enhancements (example: hearing impaired)	1-2b. responsibility for providing MERP summary info to agencies; development of hearing impaired service ideas	
2c. No procedure to confirm entry of submitted data to agencies	1-2c. Responsibility for developing and furnishing confirm information to agencies	
2d. No responsibility for benefit statements/statement info creation	1-2d. Responsibility for benefit statement development and issuance.	
<b>3. Data and financial controls</b>		
3a. No procedure for performing: •verification of MERP data to employer payroll and personnel information •annual reconciliation of MERP employee census and contribution data to prior year	1-3a. Assign formal responsibility for periodic performance of verification and reconciliation controls.	<b>Human Resources</b> consult and collaborate with outside participant agencies (data submission standards) Information Technology (estimator tool access)
3b. No definition of agency data submission standards/requirements	1-3b. Assign responsibility for developing data submission standards for outside agencies.	
3c. Reliance on actuary review (rather than designated internal responsibility) for error detection	1-3c. Establish responsibility/purpose of verification/reconciliation controls (at 3a.) as detecting errors PRIOR to actuarial submission	
3d. Limited access to intranet calculator/ estimator data for agency participants	1-3d. Assign responsibility for establishing access to estimator tools for agency participants	

**APPENDIX 1:**

**SPECIAL PROJECT: MERP Process and Control Review  
Control Weaknesses and Recommendations**

<b>FINDING 2 : OPERATIONAL AND CONTROL PROCESSES ARE NOT FULLY DEVELOPED AND DOCUMENTED FOR MERP</b>		
<b>Control Weakness Areas</b>	<b>Recommendation</b>	<b>Department(s) Responsible</b>
<b>1. Financial/data processes and controls</b>	Establish data verification processes and controls to detect and resolve data errors prior to submission to Plan actuaries. Processes and controls should include: 2-1a. Verification of census data to personnel data 2-1b. Verification of contribution data to payroll data 2-1c. Reconciliation/roll-forward of census records to previous year records 2-1d. Procedures for resolution and correction of errors.	<b>Human Resources</b> consult and collaborate with Finance. <b>NOTE 1: These controls are critical to GASB 68 implementation and the timely, accurate issue of the City's Comprehensive Annual Financial Report (CAFR).</b>
1a. No periodic verification of employee census data to personnel data		
1b. No periodic verification of employee contribution data to payroll data		
1c. No current annual reconciliation and/or rollforward of census records to previous year records		
1d. No procedure for resolution and correction of errors prior to actuary data submission		
1e. No confirmation of submitted data to agencies		
1f. No formal submission formats and timelines developed with agencies and actuaries	2-1f. Develop data submission format and timeline protocols with actuaries & agencies which recognize time needs caused by GASB 68	<b>Human Resources (SEE Note 1, above)</b> consult and collaborate with outside participant agencies, actuarial firm personnel
<b>2. Administrative &amp; monitoring processes</b>		
2a. No monitoring for process &/or control changes caused by ordinance and/or financial standards	2-2a. Create process/control to monitor changes required by such developments	<b>Human Resources</b>
2b.No apparent retained RFP/bid documentation	2-2b. Establish RFP/bid retention process and requirements	<b>Human Resources</b> consult & collaborate w/Finance &/or Purchasing
2c. No monitoring process for advisory firm compliance with Investment Policy requirements	2-2c. Create process and documentation to monitor advisory firm compliance	<b>Human Resources</b>
2d. Vendor contract execution controls not in place/functioning	2-2d. Create process/control specifying responsibility for vendor contract execution	<b>Human Resources</b> consult & collaborate w/Finance &/or Purchasing
2e. No development of MERP Mission Statement communication program: <ul style="list-style-type: none"> <li>•protocol/format</li> <li>•contact parties</li> <li>•communication method and timeframes</li> <li>•Plan explanatory materials for agencies - limited access to benefit estimator</li> <li>•consistent benefit statements</li> </ul>	2-2e. Develop a communication program with: <ul style="list-style-type: none"> <li>•communication protocol &amp; specified formats</li> <li>•specified contact parties</li> <li>•specified communication methods and timeframes</li> <li>•explanatory materials for outside participant agencies</li> <li>•consideration/development of improved access to benefit estimator</li> <li>•consistently produced and formatted statements</li> </ul>	<b>Human Resources</b> consult and collaborate with Information Technology (statement development and benefit estimator access)
2f. No agreements defining responsibility and procedures between MERP & agencies	2-2f. Develop agreements/detail defining responsibilities and processes between agencies	<b>Human Resources</b> consult and collaborate with outside participant agencies & Legal