CITY OF PORTLAND

FPDR Pension Program Performance Evaluation

Final Report

July 17, 2015
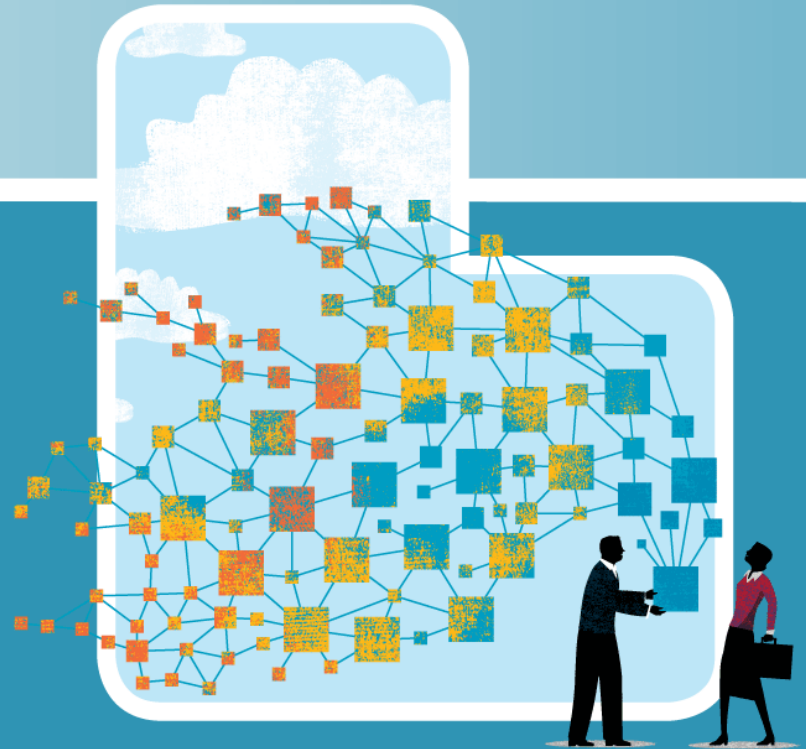
OVERVIEW

- Overview

- Findings and Recommendations

- Appendix

Overview

STUDY PURPOSE

- Evaluate FPDR's pension program processes, controls, customer service, metrics, and use of technology and provide recommendations for improvements. Areas of focus include:

  - Pension management practices

  - Internal policies and procedures

  - Personnel Competency and Training

  - Service Delivery

  - Information Technology

STUDY METHODOLOGY

- Interviews – conducted confidential interviews with FPDR staff, Board of Trustees, and liaisons

- Documents – reviewed a wide range of relevant documents regarding policies, procedures, and processes

- Analysis – evaluated efficiency and effectiveness against FPDR commitments and industry best practices

- Deliverables – prepared draft and final reports and presented the final report to the FPDR Board of Trustees

COMMENDATIONS – 1

- Retirement workshops provide significant value to members

- FPDR provides a high level of service to members, including:

  - Developing pension estimates for multiple retirement scenarios as requested

  - In-person orientation to benefits for new retirees

  - In-home walkthrough of benefits for survivors

- FPDR staff have a high level of knowledge, expertise, and experience

- We observed a positive, team-oriented environment, highly focused on providing excellent customer service

COMMENDATIONS – 2

- The FPDR database system is robust and stable.

- Proper software development lifecycle practices (SDLC) are being followed.

- Online Business Systems, a third-party application services provider, has been responsive to FPDR needs.

- The City's Business Technology Services group provides technology infrastructure support that meets FPDR needs.

- Employee access security controls are in place and being followed.

Findings and Recommendations

FINDINGS CATEGORIES

- Pension Management Practices (5)

- Internal Policies and Procedures (4)

- Personnel Competency and Training (1)

- Service Delivery (2)

- Information Technology (6)

MANAGEMENT PRACTICES – 1

Finding:

- ***FPDR provides limited communication to members prior to retirement.*** FPDR has tried a number of ways to communicate with active members, such as newsletters, workshops, and other forms of outreach. However, FPDR has received limited response from active members. As a result, FPDR has cut back on some outreach activities. For instance, member newsletters are currently published periodically for retirees only, since active members were not reading them. Bureau liaisons market retirement workshops to members. Unless members request a pension estimate or attend a retirement workshop, the charter is the primary communication document between FPDR and members who are eligible for the City's pension program.

MANAGEMENT PRACTICES – 1

Finding (continued):

■ The primary impact of this limited communication is a lack of awareness on the part of members regarding their responsibilities, benefits, and potential impacts to their pension.

MANAGEMENT PRACTICES – 1

Recommendation:

- ***Reinvigorate member engagement by providing proactive, accessible information to support retirement readiness.*** Examples include conducting retirement readiness workshops for members who are several years from retirement, which could include information about eligibility, how final pay is calculated, and planning for retirement; more effectively utilizing liaisons (see service delivery); establishing a regular newsletter schedule, with a minimum of annual updates with basic information and key dates sent to members; and performing outreach to members within five years of eligibility to help members prepare for retirement.

MANAGEMENT PRACTICES – 2

Finding:

- ***Electronic communications to individual Fire Bureau members are limited by a lack of email addresses.*** Fire Bureau employees do not have individual City email addresses. Instead, electronic communications from FPDR are sent to each station house and read at roll call during each shift. While this is not the responsibility of FPDR, this model limits the frequency and content of the information that can be shared with Fire Bureau members.

MANAGEMENT PRACTICES – 2

Recommendation:

- ***Facilitate expanded communications to Fire Bureau members by communicating via their personal email addresses or assign City of Portland email addresses to them.*** FPDR should seek to proactively communicate with members through email. Communicating through email to Fire Bureau members should enhance the amount of information they receive and, therefore, understanding of the pension program. Focus on personal emails if it is cost prohibitive to the Fire Bureau for the City to establish City emails for employees of the Fire Bureau.

MANAGEMENT PRACTICES – 3

Finding:

- ***The pension estimate process is primarily manual, since it is performed in spreadsheets, which creates the potential for errors.*** While the FPDR staff has proven that it has an accuracy rate of 99%, a manual process is inherently error prone. There is some resistance to automating the process due to errors discovered in the base data provided to the FPDR from the City. FPDR processes over 220 estimates per year, averaging 2.5 to 3.0 hours in duration for a total of approximately 550 to 660 hours per year for initial preparation of the estimate, excluding the review process. This is one of the most important processes for the FPDR.

MANAGEMENT PRACTICES – 3

Recommendation:

- ***Improve the efficiency of the pension estimate process by modifying SAP data extracts and using pivot tables.*** FPDR should request additional pay types to be established within the SAP data provided by the City, so FPDR does not have to spend so much time making adjustments. With minor adjustments to the SAP data and the use of Excel pivot tables, FPDR should be able to improve the estimating processes. In order to gain additional efficiencies, the process would require substantial interface enhancements/automation.

MANAGEMENT PRACTICES – 4

Finding:

- ***The process for moving a member from disabled status to retiree status could be more proactive.*** FPDR has one employee who tracks approximately 40 individuals that will be transitioning off of disability and moving to a retirement pay status due to attaining retirement age. The retirement staff is notified when an individual is three months from becoming eligible for retirement benefits. At that point, the retirement group begins the process of contacting the individual to start the transition.

MANAGEMENT PRACTICES – 4

Recommendation:

- ***Provide the retirement group at least six months notice prior to disabled members becoming eligible for retirement benefits.*** This will provide the retirement group more time to perform calculations, prepare documentation, and communicate with the members. Alternatively, FPDR could consider transferring the duties associated with tracking the retirement status of these disabled individuals to the retirement group.

MANAGEMENT PRACTICES – 5

Finding:

- ***There is no review of the quarterly payroll tax filings.*** The quarterly tax reporting forms prepared by a financial analyst do not have a second level review.

MANAGEMENT PRACTICES – 5

Recommendation:

- ***Review all federal tax forms prior to submission.*** All tax filings should receive a second-level review before being submitted.

POLICIES & PROCEDURES – 1

Finding:

- ***FPDR relies on paper master files that are not comprehensively backed up.*** FPDR's pension and disability programs rely on highly detailed paper "master files" containing some key employee and beneficiary information (e.g., contact information; birth, death, and marriage certificates). Some information is contained in the FPDR database, but much of it is only in the master file with no backup. Neither FPDR nor the City utilizes an enterprise document management system that would enable electronic storage of the full contents of these files. Without backups to these files, the City is at risk of losing vital information required for the ongoing operations of the pension program.

POLICIES & PROCEDURES – 1

Recommendation:

- ***Continue to work with the City's Bureau of Technology Services (BTS) to pursue a document management system or enhance the FPDR database to support electronic document management.*** A document management system would enable FPDR to ensure all critical data is captured, protect data security, and enhance data quality.

POLICIES & PROCEDURES – 2

Finding:

- ***FPDR relies on the bureaus or members to update information, limiting the accuracy of data that may be used in pension disbursement.*** Members and bureaus do not always update important information, such as changes in dependent status. For example, members may forget to update FPDR upon the birth of a child or a divorce. This could lead to issues for intended beneficiaries if a member dies.

POLICIES & PROCEDURES – 2

Recommendation:

- ***Annually solicit information updates from members.*** As recommended previously, increased member outreach should include an annual newsletter or report issued to members. That communication should include a solicitation for updated member information, which could be a form to mail back, a link to the FPDR website, and/or a staff phone number for more complicated updates such as divorces. Updating key information will enhance data accuracy and quality.

POLICIES & PROCEDURES – 3

Finding:

- ***FPDR performance measures are adequate for assessing operational performance, but the measures could be utilized more effectively as a management tool.*** FPDR has developed performance measures as part of the City's budget process. The measures (shown on the next slide) are grouped into efficiency, effectiveness, and workload categories. The current measures adequately report FPDR's organizational performance, customer satisfaction, and workforce efficiency. However, they are only reported annually, and they are not included in FPDR newsletters or reviewed during staff meetings.

POLICIES & PROCEDURES – 3

Finding (continued):

- FPDR measures that apply to the pension program include:

Effectiveness	Efficiency	Workload
Percentage of workshop participants who rated workshop helpful	Percentage of pension estimates processed within one week	Number of retirements from active service
		Number of pension estimates
Percentage of members whose final pay was 99% or more of last estimate	Administrative cost as a percentage of bureau budget (not a pension measure)	Number of FPDR 1 & 2 pension recipients
		Number of pre-retirement workshop participants

POLICIES & PROCEDURES – 3

Recommendation:

- ***Develop internal outcome measures related to FPDR goals and communicate performance.*** For example, if FPDR establishes a goal to increase communication to members, performance measures should be developed to monitor progress. Potential measures could include percentage of members eligible within two years of retirement who participated in a retirement workshop; a measure for number of pension estimates provided (e.g., number of scenarios); and average time prior to retirement that members initiated the estimate process. Communicate progress for all performance measures in member newsletters and provide regular updates in staff meetings.

POLICIES & PROCEDURES – 4

Finding:

- ***While policies and procedures continue to be updated, a number do not accurately reflect current processes.*** Policies and procedures have been prepared and show draft dates ranging from 2009 to 2014. Many, but not all, have been updated from 2010 through 2015. We identified 43 Finance Team procedures, which detail the work flow and procedures required for each task. We tested 11 of the procedures by using the documentation of the policy and without guidance from staff.

POLICIES & PROCEDURES – 4

Finding (continued):

❑ We were able to more easily follow the procedures that contained screenshots and step-by-step instructions. The Child Support Payments procedure is an example of a set of instructions that were clear and easy to follow.

❑ The most complicated procedure in this set was the Pension Calculation Estimate Procedure. The procedure includes screenshots. However, the calculation is complex and, even though there are templates available, the templates must be modified for each participant depending on the circumstances.

POLICIES & PROCEDURES – 4

Finding (continued):

❑ We identified several areas in nine of the processes reviewed where there were inapplicable steps or clarifications that needed to be documented.

POLICIES & PROCEDURES – 4

Recommendation:

- ***Annually review all procedures to ensure they are up to date, and formally track the status of procedures that need to be updated.*** Specific procedural changes are summarized in the Appendix.

COMPETENCY & TRAINING – 1

Finding:

- ***The majority of FPDR personnel, including the Financial Manager, have a high level of expertise and institutional knowledge and will be eligible for retirement within five years.*** According to the FPDR Director, 65% of current FPDR employees will be eligible for retirement within five years. Most of the FPDR pension program employees have been with the organization for more than seven years, gaining invaluable expertise and knowledge of the program. In a small organization without junior staff or career ladders, succession planning can be especially difficult. Many positions in FPDR are sole contributors, with the Financial Manager serving as the primary backup for most of the pension program staff.

COMPETENCY & TRAINING – 1

Finding (continued):

- Of particular importance is the knowledge and expertise provided by the Financial Manager. While much of the day-to-day operations are routine, issues arise on a regular basis that require judgment and interpretation of the FPDR charter and administrative rules. This is the Financial Manager's role, and requires expertise that can only be gained through experience. A potential successor has been identified for the Financial Manager, but plans have not been developed for the succession of that position or the other positions held by employees who will be eligible for retirement in coming years, including the FPDR's only IT staff.

COMPETENCY & TRAINING – 1

Recommendation:

- ***Continue to strengthen cross-training.*** Develop formal training and succession plans for key positions, including the Financial Manager, ensure that institutional knowledge is captured and detailed procedures are documented, and focus training on routine processes and tasks that require interpretation.

- Continue efforts to prepare a competency/skills inventory for all positions to document what capabilities are needed for each role and support skills development to fill gaps. If applicable, identify one or more succession candidates (internal or need for external candidates) for each key position, and define a development/training program to prepare staff in a timeframe that maps to retirement plans.

SERVICE DELIVERY – 1

Finding:

- ***Fire and Police Bureau liaisons may be underutilized.*** Liaison positions are 50% funded by FPDR, and, per the interagency agreements, one of their primary duties is to ensure the flow of timely and accurate information between FPDR staff and members and beneficiaries. However, liaisons are not fully integrated into, and have limited knowledge of, FPDR operations. FPDR is working towards getting liaisons more involved and gaining better understanding of their roles.

SERVICE DELIVERY – 1

Recommendation:

- ***Continue to work with liaisons and bureaus to clarify roles and responsibilities.*** FPDR should determine how to more effectively utilize liaisons to improve communications and information sharing, while maintaining confidentiality. For instance, incorporate liaisons into staff meetings and email lists, provide orientation on FPDR processes, and offer continuing education relative to pension and benefits areas.

SERVICE DELIVERY – 2

Finding:

- ***While not all members retire as soon as they are eligible, the ability to plan for positions that will have to be replaced through succession planning and recruitment is critical to maintaining smooth operations in the Fire and Police bureaus.*** FPDR is the only source of estimated retirement date information that could be utilized by the bureaus. Upon request, FPDR has provided summary data to the Police Bureau to support retirement planning. New hires in both Fire and Police sworn positions require a long hiring process and significant training. An unexpected retirement can impact the Bureaus' abilities to meet minimum staffing requirements, increasing overtime utilization, and, ultimately, costs to the City.

SERVICE DELIVERY – 2

Recommendation:

- ***FPDR should suggest to the Fire Bureau that FPDR and Fire form a committee to focus on workforce planning.*** The committee could identify Fire's key information needs and associated reporting requirements. For instance, the committee could define a report that is produced by FPDR at specified intervals to project potential Fire retirements, while protecting any confidentiality requirements associated with pension estimate requests.

INFORMATION TECHNOLOGY – 1

Finding:

- ***There are several data inputs to the FPDR database that are manually entered.*** SAP payroll data and "final pay reports" are used to manually populate spreadsheet files that are used for the pension estimation process. This data is manually entered into the FPDR database for estimating pension payments. Inherently, manual data entry creates the potential for data entry errors.

INFORMATION TECHNOLOGY – 1

Finding (continued):

- Enhancements are underway to improve data handoffs to the FPDR system. These enhancements have two components:

  - Enhance the Personnel Administration interface to provide additional data elements already present in the Payroll system.

  - Develop an interface that provides wage and "final pay" information that the FPDR database will use to define an employee's payment scheme and compute the actual base pay and premium amounts.

- This information will be aggregated into a data store, which will be connected to the FPDR system. It will also equip internal staff to perform final pay calculations without having to rely on Payroll.

INFORMATION TECHNOLOGY – 1

Recommendation:

- ***Continue with enhancements to improve the flow of data and reduce manual entry of payroll data.*** Automation will reduce the potential for errors and increase the efficiency of pension payment calculations. The automation process will require an inventory of pension estimation spreadsheet templates to identify how best to standardize structure and layout (e.g., one template per job class).

INFORMATION TECHNOLOGY – 2

Finding:

- ***The process for obtaining and using payroll information for pension computations and processing in the FPDR system is cumbersome.*** A request must be submitted to the Payroll Department to obtain the information via "pay reports." These reports provide payroll hours and dollar totals. Interpretation is required to extract various pay components (e.g., premium pay amounts) in order to determine member final pay.

INFORMATION TECHNOLOGY – 2

Recommendation:

- ***Continue with enhancements to eliminate the manual extraction and entry of payroll data.*** In the interim, continue taking steps to improve pay history reporting.

INFORMATION TECHNOLOGY – 3

Finding:

- ***Complex pension computations are performed in spreadsheets, which creates the potential for errors.*** FPDR analysts perform roughly over 220 pension calculations each year, as requested by program participants. Each of these requests requires approximately 2.5 – 3.0 hours (excluding review) to complete, using spreadsheets derived from numerous distinct templates (depending on job classification). The processes are inherently complex, as there are a number of factors to consider given the numerous premiums that make up pay structures (e.g., COLA assumptions, numerous premiums, payroll rate changes, job classification, and longevity).

INFORMATION TECHNOLOGY – 3

Finding (continued):

- Final pay reconciliation is another constraint in this process. The amounts provided by the payroll team cannot be used "as is," since pension-able amounts have to be manually computed.

INFORMATION TECHNOLOGY – 3

Recommendation:

- ***Conduct an internal feasibility study to determine how much pension computations can be automated in the FPDR system and delivered in a "self service" model.*** Internally, conduct a cost-benefit analysis into the feasibility study to support the decision-making regarding how much automation to implement.

INFORMATION TECHNOLOGY – 4

Finding:

- ***Database administration (DBA) and support is not being provided in the current service model.*** SQL server administration and maintenance services have not been performed over the past three years. However, OBS helps FPDR perform database monitoring and indexing when needed, which only amounts to 2 to 3 hours per month due to the stability of SQL. FPDR wants to update from SQL v2012 to v2014, and the processes or services provided by BTS are not clear. There does not appear to be a DBA on staff at BTS to support the system.

INFORMATION TECHNOLOGY – 4

Finding (continued):

- Developer access restrictions have also been implemented by BTS that will limit OBS's ability to deploy system updates. This means that BTS will need to perform database deployments and updates to the FPDR database system moving forward. OBS will retain the ability to perform application deployments and updates.

INFORMATION TECHNOLOGY – 4

Recommendation:

- ***FPDR and BTS should continue to jointly develop an action plan to update the underlying SQL database platform.*** As part of this process, they need to define procedures, roles, and responsibilities going forward for deploying system updates.

INFORMATION TECHNOLOGY – 5

Finding:

- ***While backups of the FPDR system and the pension computation spreadsheets are being performed regularly, data recovery tests are not being performed on a regular basis.*** This places critical FPDR data at risk if backups are not working as expected.

INFORMATION TECHNOLOGY – 5

Recommendation:

- ***Consider taking steps to perform data restoration testing on a quarterly basis.*** Steps should include defining procedures and schedules, assigning resources, and documenting results and outcomes in order to provide an audit trail. According to industry best practices, restoration testing should be conducted on a quarterly basis.

INFORMATION TECHNOLOGY – 6

Finding:

■ ***While a number of data entry controls are in place, data entry controls in the pension database are not robust enough to prevent erroneous input.*** For example, a date of birth that has not occurred and a termination date prior to the birth date were able to be entered into the database.

INFORMATION TECHNOLOGY – 6

Recommendation:

- ***Implement additional controls in the pension database or utilize manual controls to prevent erroneous data entries.*** For example, controls to enforce valid entry of date values (e.g., date of birth, date of termination) are a cost-effective measure to help reduce the possibility of data integrity errors.

Appendix

PROCEDURES

Policies & Procedures – 4

- Master Member Changes Procedure:
  - Consider adding a step to ensure that the "Update" button is hit in order for any of the edits to be made.
- New Pension Application Procedure:
  - Step 5 for "Tier Two" members should read "Set the member up for the subsequent special run." The special runs are done on the 2nd Tuesday of the month.

PROCEDURES (CONT.)

- Prenote ACH Transaction:
  - Step 1e is no longer applicable – delete this step.
  - Step 3 should read "ACH Domestic Payments".
  - Step 8 should be changed to "Skip directly to 16".
  - Step 26 - the email should be sent to "Treasury All" and the step should be modified to say that approval is required before proceeding.
  - Step 30 – the email should be sent to "Treasury All".
  - A step should be added to document that the Direct Deposit Authorization Agreement notice should then be initialed, dated and provided to the Pension Coordinator.

PROCEDURES (CONT.)

- Prenote ACH Transaction (continued):
  - In addition, it was noted that any changes to the ACH template have to be approved by the Treasury department. In order to complete the change of a direct deposit account for a beneficiary, FPDR has to receive two separate approvals. One approval for the change in the account or new account and a second approval from the change in status from Prenote to Hold. This approval process does not seem necessary as the Treasury department does not have a copy of the Direct Deposit Authorization.

PROCEDURES (CONT.)

- Check Reconciliation:
  - This procedure requires an individual that is Excel savvy as the instructions do not detail how to perform certain functions such as create a Pivot Table. The instructions should provide an overarching goal of the procedure as it is not necessary to perform this step with Pivot Tables.
  - The references to Posting Keys are no longer applicable and should be deleted.
  - Consider adding a step to summarize the two check registers, Wells Fargo and SAP, on check date and compare the two to more quickly identify any variances

PROCEDURES (CONT.)

- Pension Calculation Estimate Procedure:
  - It was noted that the calculation of the pension estimate depends on the participant's job type (i.e. Firefighter, Policeman, Staff Lieutenant, and Captain). Each job type has its own template and there are more than 10. The pension estimate that was performed during the walkthrough of the procedures was performed for a firefighter who happens to be the FPDR liaison. The template selected was "Firefighter" however due to his job as the liaison, he is being paid as a Staff Lieutenant and a separate template should have been used. The various templates are set up with the different levels of pay based on the job type and the COLA for each.

PROCEDURES (CONT.)

- Pension Calculation Estimate Procedure (continued):

  - It appears that rather than having a separate template for each job type, this should be something that is incorporated into one template and then based on the job type selected the levels of pay are populated in the estimate.

  - Another challenge in performing the pension calculation is figuring out what level of pay the participant is being paid. It is the policy that payroll detail is not requested unless the estimate is performed for a participant that is retiring within the next six months.

PROCEDURES (CONT.)

- Pension Calculation Estimate Procedure (continued):

  - Therefore, the only information that is available to FPDR is the amounts posted to the general ledger. The journal entries are not always detailed enough to determine the participant's level of pay and premiums that are being paid. It was mentioned that having access to the payroll data for each participant that requests an estimate would simplify the process.

The material appearing in this presentation is for informational purposes only and is not legal or accounting advice. Communication of this information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although these materials may have been prepared by professionals, they should not be used as a substitute for professional services. If legal, accounting, or other professional advice is required, the services of a professional should be sought.