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Mayor

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Metro Council

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Office of Internal Audit

Human Resources

Retirement Administration



Audit Report

Office of Internal Audit

Human Resources

Retirement Administration

December 2006



Human Resources

Retirement Administration

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LOUISVILLE, KENTUCKY
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA
CHIEF AUDIT EXECUTIVE

Transmittal Letter

December 21, 2006

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Re: Audit of Human Resources Retirement Administration

Introduction

The operating records and procedures of the retirement activity administered by the Department of Human Resources were examined. While the Kentucky Retirement System (KRS) administers the retirement plan, the Benefits Division of Human Resources is responsible for the administration of the retirement activity for all of Louisville Metro Government. This includes enrollment, setup of contributions, benefit changes, and payments to KRS. The primary focus of the audit was the operational and fiscal administration of the activity. This included how the Benefits Division processes, records, and monitors the activity.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating procedures for the administration of retirement activity for Louisville Metro Government were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed for transactions from fiscal year 2006 (July 1, 2005 to June 30, 2006). Activity reviewed included employee and employer deductions, payments to Kentucky Retirement System, and sick leave conversion costs. Analyses of Metro retirement activity as of July 2006 were also performed.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not reveal all non-compliance issues because it was based on selective review of data.

Opinion

It is our opinion that the administration of the retirement activity for Louisville Metro Government is weak. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

Opportunities to strengthen the administration of the retirement activity for Louisville Metro Government were noted in several areas. Examples of these include the following.

- **General Administration.** There are no documented desktop policies and procedures to guide Human Resource personnel in the administration and management of retirement activity for Louisville Metro Government. Also, there are no backup personnel trained to process retirement activity in the absence of key personnel.
- **Sick Leave Balance Conversion Cost.** Human Resources personnel have not been able to verify the costs associated with converting sick leave balances to service credit since January 2005. This increases Metro Government's risk of making inappropriate payments. Also, there are potential expenses associated with sick leave balance conversion costs that Metro Government needs to properly plan for to lessen the risk of unplanned expenses.
- **Retirement Data Analyses.** There were several issues noted during the analyses of retirement data.

- Employees new to Metro Government, that have prior service in a participating KRS agency, are considered “active” contributors and are allowed to contribute to retirement immediately upon hire instead of waiting a year. This could be an unnecessary expense for Metro Government.
- There were several cases where retirement contributions appeared inappropriate or inconsistent based on an employee’s status or standard hours. In some cases, it appeared the status or standard hours should be changed, while in other cases the retirement setup may need to be corrected.
- Hazardous retirement positions were not easily identifiable in Metro’s human resource system, as well as KRS support documentation. Higher contributions are made for hazardous positions so it is essential that these positions are periodically monitored.

Corrective Action Plan

Representatives from the Department of Human Resources have reviewed the results and are committed to addressing the issues noted. The department’s corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with Human Resources to ensure the actions taken are effective to address the issues noted.

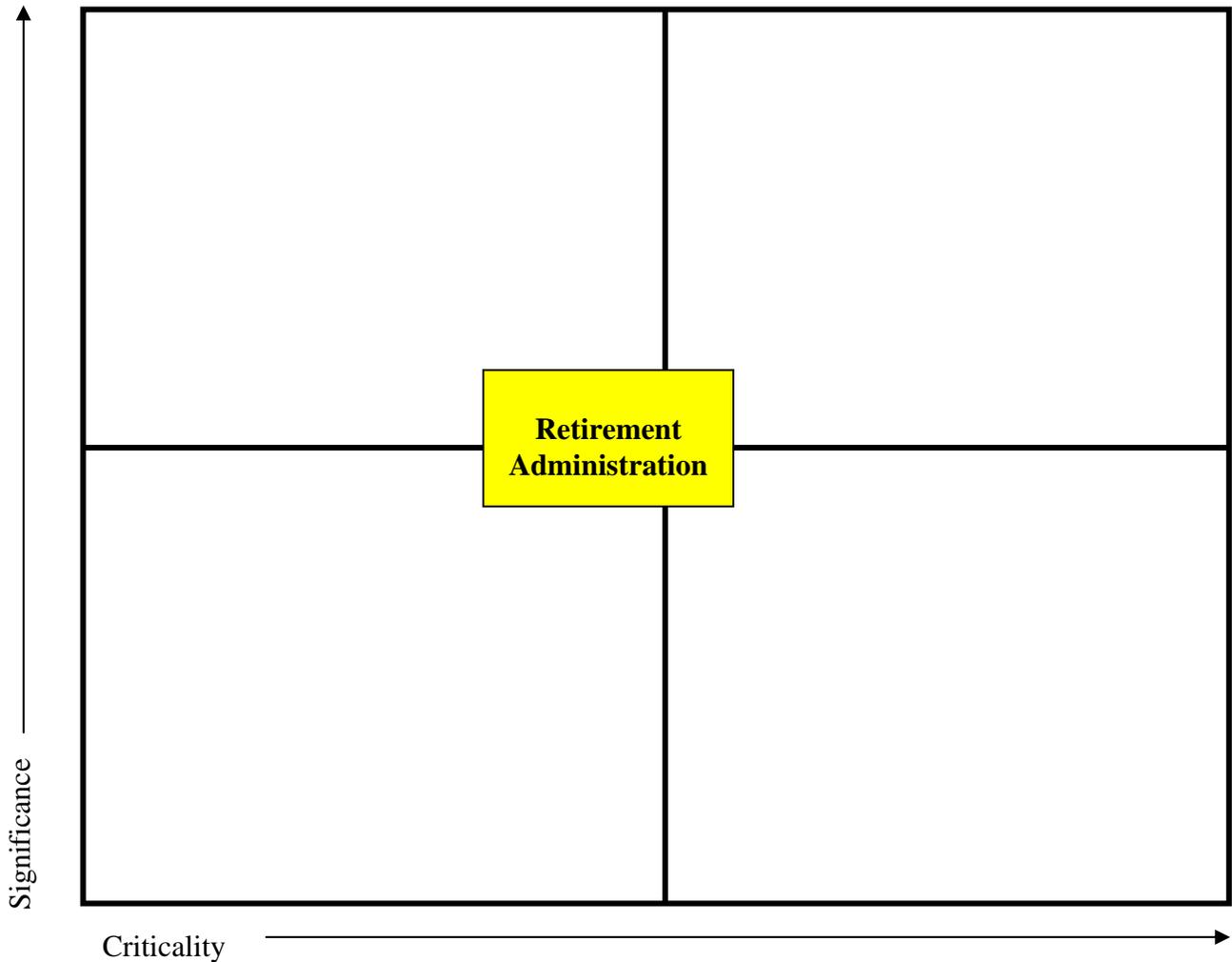
Sincerely,



Michael S. Norman, CIA, CGAP
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Finance and Administration
Director of Human Resources

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	Satisfactory Not likely to impact operations.	Weak Impact on operations likely contained.	Inadequate Impact on operations likely widespread or compounding.
Controls	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
Policy Compliance	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
Image	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
Corrective Action	May be necessary.	Prompt.	Immediate.

Background

Louisville Metro Government participates in the County Employees Retirement System (CERS) administered by the Kentucky Retirement System (KRS). The CERS is a qualified public defined benefit plan under Section 401(a) of the Internal Revenue Code.

Employers contribute at a rate determined by the KRS Board of Trustees to be necessary for the actuarial soundness of the retirement systems as required by KRS 61.565. CERS employer rates for fiscal year 2006 were 10.98% for non-hazardous and 25.01% for hazardous employees. Employee contribution rates are set by statute. For fiscal year 2006, CERS employee contribution rates for non-hazardous and hazardous employees were 5% and 8% respectively.

The Benefits Division of the Department of Human Resources processes retirement activity for Louisville Metro Government employees. Benefits personnel are responsible for processing the enrollment in retirement plans, to include the setup of employee and employer contributions; processing of all employee benefit changes; payments to KRS for retirement contributions and sick leave balance conversions; and the reporting on all benefit activity for Metro employees to KRS.

Metro Government incurred an expense of approximately \$44.6 million for the employer share of retirement contributions for fiscal year 2006. There was also an additional expense of approximately \$707,600 in sick leave balance conversion costs.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of retirement activity for Louisville Metro Government.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International

Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

A formal study of the internal control structure was conducted in order to obtain a sufficient understanding to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to the Department of Human Resources on September 5, 2006. An exit conference was held at Human Resources administrative office on September 20, 2006. Attending were Bill Hornig, Lynne Fleming, and Greg Pike representing Human Resources; Mike Norman and Mary Ann Wheatley representing Internal Audit. Final audit results were discussed.

The views of Human Resources officials were received on December 20, 2006 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

Human Resources’ response was not provided within the required timeframe.

Observations and Recommendations

Scope

The Department of Human Resources procedures for administering retirement activity were reviewed. While the Kentucky Retirement System (KRS) administers the retirement plan, the Benefits Division of Human Resources is responsible for the administration of the retirement activity for all of Louisville Metro Government as it relates to enrollment, setup of contributions, benefit changes, and payments to KRS. The primary focus of the review was the operational and fiscal administration of the activity. This included the processing, recording, and monitoring of retirement activity. Applicable personnel were interviewed in order to gain a thorough understanding of the various processes.

A sample of retirement activity was judgmentally selected for review from fiscal year 2006. The review focused on information recorded on payroll records (i.e. retirement deduction queries / reports), Human Resources' sick leave balance conversion database, Kentucky Retirement System (KRS) sick leave balance worksheets and invoices, and the Louisville Metro financial system. The review consisted of examining employee / employer deductions for retirement, monthly payments to KRS for applicable deductions, and sick leave purchase costs for select employees. The focus of the reviews was to ensure employee and employer retirement deductions appeared appropriate, and to ensure payments to KRS for retirement deductions and sick leave conversions were appropriate.

Several analyses of Louisville Metro employees' retirement data as of July 2006 were also performed. The focus of the analyses was to ensure retirement data appeared appropriate based on an employee's status, retirement plan, and employee job title. The results are as follows.

Observations

There were some issues noted with the Department of Human Resources administration of retirement activity. As a result, the internal control structure is weakened and its effectiveness impaired. The observations are as follows:

- #1 General Administration
- #2 Sick Leave Balance Conversion Cost
- #3 Retirement Data Analyses

Details of these begin on the following page.

#1 – General Administration

Some issues were noted with the general administration of retirement activity for Louisville Metro Government. As a result, the internal control structure is weakened and its effectiveness is impaired. Examples include the following.

- There are no documented desktop policies and procedures to guide Human Resource personnel in the administration and management of Metro retirement activity (i.e. employee enrollment, reporting contributions, file maintenance, etc.). This increases the risk of noncompliance with intended policies and procedures. This can also lead to inconsistencies and inefficiencies with activity processing.
- Though there are a number of Kentucky Retirement System (KRS) contacts within Metro Government, the Employee Benefit Specialist is the only personnel associated with the day-to-day processing of retirement activity. There are no backup personnel designated or trained to process retirement activity in the Employee Benefits Specialist's absence.
- The Employee Benefits Specialist signs and submits some forms to KRS without having proper knowledge the forms are accurate. For example, a Hazardous Duty Coverage form is completed to acknowledge that an employee has taken a physical examination and is capable of working in a hazardous position. Though some departments complete and sign the form to indicate appropriateness, one agency does not sign the forms. As a result, the Employee Benefits Specialist signs the form without proper knowledge or support that an employee has met requirements for hazardous retirement benefits.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A written internal policies and procedures manual should be developed to guide Human Resources' personnel in the administration of retirement activity. This manual should include sufficient detail for each job duty performed, copies of forms used, eligibility requirements, and the policies followed in the processing of activity. The internal policy and procedures manual should be distributed to all applicable personnel. In addition, key personnel should be trained to help ensure consistent adherence to the requirements. The internal policy and procedures should reflect the most current information and be updated periodically.
- ✓ Backup personnel should be assigned to assist with the day to day processing of retirement activity in the absence of key personnel. Persons assigned as backup should be properly communicated to KRS so they are aware of all individuals authorized to process retirement activity for Metro Government.

- ✓ All forms submitted to KRS should be completed and signed by individuals that can properly support the accuracy of the forms. Ideally, departmental personnel with access to pertinent records should be on file with KRS as authorized signers. If it is determined that KRS will only accept HR personnel as authorized signers, then adequate support documentation (e.g. proof of physical examination) should be submitted to HR to substantiate accuracy.

#2 - Sick Leave Balance Conversion Cost

Louisville Metro Government is a participant in the Kentucky Retirement System's (KRS) Standard Sick Leave Plan. Under this plan, Metro employees have the option to convert sick leave balances in order to receive additional service credit upon retiring. The cost associated with the sick leave conversion is paid by Metro government. For the first six months of calendar year 2006, the cost associated with sick leave balance conversion was approximately \$527,100 for seventy-five employees. Some issues were noted with the administration of sick leave balance conversion costs. As a result, the internal control structure is weakened and its effectiveness impaired. Issues include the following.

- Human Resources (HR) personnel have not been able to verify the costs associated with converting sick leave balances to service credit since January 2005. At that time, KRS changed the manner in which the cost was calculated. They began using an actuarial factor in the cost calculation. Though HR personnel inquired about the change in the calculation, it does not appear they obtained guidance on how to calculate the factor for verification and reconciliation purposes.

- It should be noted that Internal Audit was able to obtain the KRS methodology for the actuarial factor used in the sick leave cost calculation. Though the calculations were rather complex, and some additional data had to be obtained from KRS (i.e. service credit had to be verified with KRS because service purchases are not reflected in Metro records), it was possible to recalculate costs.

There were a few discrepancies noted during the review of sick leave cost calculations. The discrepancies pertained to the information noted on the KRS sick leave cost calculation worksheet versus Metro records.

- In one case, the employee's birthday on the calculation worksheet differed slightly. This did not appear to effect the cost calculation since the difference only involved the day, not the month or year.
- In another case, the retirement date and sick leave balances differed. The retirement date difference was minor (differed by one day). The sick leave balance difference was due to the employee becoming a part of an external agency (i.e. County Attorney Office) upon merger. As a result, leave balances were no longer tracked in the Metro system.

The discrepancies noted indicate the importance of an independent verification and recalculation of conversion costs to ensure appropriateness.

- There are potential expenses associated with sick leave balance conversion costs that Metro Government should properly plan for. Under the KRS Standard Sick Leave Plan, a former employee that terminated employment with Metro Government but remained in the County Employee Retirement System (CERS) retirement plan may request service credit for unused sick leave balances. For example, an employee that left the City five years ago, but remained in the CERS system via another organization, could request credit for their sick leave balance under the City. Metro

Government is responsible for the entire cost. There is a budget for sick leave purchases that is monitored and adjusted based on current and potential retirees in the Metro workforce. Though the task may be difficult, it is essential that consideration is also given to the potential costs as it relates to “past” terminated employees in order to lessen the risk of unplanned expenses.

- HR personnel authorize sick leave balances for Metro employees prior to KRS submitting a bill for sick conversion costs. HR personnel also sign the authorization forms for an agency external to Metro Government (County Attorney Office) though they do not have direct knowledge that balances are appropriate. The external agency’s employees are paid through the Metro’s payroll system, but the leave balances are managed and maintained by the external agency. Since KRS does not recognize personnel from the external agency as authorized reporters, HR personnel must request balances from the agency and authorize based on balances provided.
- There were a couple of discrepancies noted with the HR database used to record sick leave conversion data. Though payments to KRS appeared to be appropriate, the reliability and integrity of the data is weakened when information is not completely accurate.

Recommendations

Appropriate personnel should take corrective actions to address the concerns noted. Specific recommendations include the following.

- ✓ HR personnel should verify the costs associated with converting sick leave balances to service credit. Due to the complexity of the formulas used to obtain the costs, HR should contact the Metro Information Technology department for assistance. It may be possible for an electronic worksheet to be created based on the methodology provided by KRS. Ideally, HR could input values associated with a conversion and the cost could be generated based on the values input. Any discrepancies between HR’s calculations and what KRS reports as the cost should be researched until an agreement is made as to the appropriate cost. The significance of the costs associated with sick leave balance conversions justifies all efforts made toward verifying accuracy.
- ✓ Discrepancies between data noted on KRS documentation and Metro records should be thoroughly researched. KRS should be contacted when inaccurate data is indicated on their records. Any corrections should be properly noted so that source documents are reporting accurate information and appropriate costs.
- ✓ HR should work with Metro Finance in order to properly plan, prepare, and record expenses associated with sick leave balance conversion costs. It is vital that Metro is prepared from a budgetary standpoint for potential costs. A change in retirement benefits that will take effect in January 2009 could result in a large number of

employees retiring in 2008. This could potentially have a major impact on the Metro's budget for sick leave balance conversion costs. It may also be beneficial to acquire third party assistance (e.g. actuarial services) in determining the best method to account for costs associated with terminated employees with sick leave balances.

- ✓ HR should work with KRS to determine the possibility of adding additional authorized reporters to their listings. Ideally, any agencies external to Metro Government should have a representative designated to authorize information (e.g. sick leave balances for conversion to service credit) for their employees. This would increase the reliability and timeliness of information reported to KRS. If KRS will not allow representatives from external agencies to authorize information, then HR should obtain sufficient documentation from these entities to allow them to authorize information based on support documentation.

- ✓ Care should be taken by HR personnel to ensure internal records used in documenting sick leave conversion costs are appropriate. Periodic reviews of the sick leave database should be performed to ensure information is in agreement with actual activity. This will help ensure transactions were processed as intended and properly recorded. It will also help strengthen the reliability of the activity reports.

#3 - Retirement Data Analyses

Several analyses of Louisville Metro employees' retirement data as of July 2006 were performed. The focus of the analyses was to ensure retirement data appeared appropriate based on an employee's status, retirement plan, and employee job title. Results are presented in the following order:

- A. Employee Status
- B. No Retirement Plan
- C. Hazardous Positions
- D. Retirement Plans

A. Employee Status

- Current Metro practice is that employee new hires must wait one year before retirement contributions (employee and employer) can be made. However, if an employee is a Metro rehire, or had prior employment with a participating Kentucky Retirement System (KRS) agency and is active in the retirement system, then contributions begin immediately upon hire with Metro Government.
 - There were eight cases noted where an employee was setup for retirement contributions immediately upon hire with Metro Government. It was noted that the employees had prior employment with a participating KRS agency and were active contributors. The total employer cost for retirement contributions for the fiscal year for these employees was approximately \$13,600.
- KRS requires that employees working an average of 100 hours or more per month on a consistent basis contribute to retirement. Based on a review of employees' hours worked over the past year (July 2005 - June 2006), some problems were noted with employees setup in a retirement plan and thus having contributions made.
 - There were cases where some employees were *not* working an average of 100 or more hours a month consistently. Therefore, the employees should not have been setup in a retirement plan and should not have been contributing.
 - In two cases, the employees had a status of temporary / full-time.
 - In one case, the employee was regular / part-time, with standard hours less than twenty-five hours per week.
 - There were a few cases where the employees' status or standard hours were not representative of an eligible contributor or of actual hours worked. It appears the employees were working an average of 100 or more hours a month consistently. Therefore, retirement contributions were appropriately made.
 - One employee had a status of temporary / full-time (no break in service).
 - Four employees had standard hours less than twenty-five hours per week.

- The Metro position of Crossing Guard is categorized in many different ways (e.g. regular / part-time and regular / full-time, standard hours vary, and retirement setups vary). This makes it very difficult to monitor whether an employee with this job title is setup appropriately for retirement contributions.
 - There was one case where it could not be determined whether the Crossing Guard's contributions to retirement were appropriate (i.e. based on 10 months worked, the average is greater than 100 hours per month; based on 11 months worked, the average falls below 100 per month).

Recommendations

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Appropriate Human Resource personnel should evaluate the practice of allowing employees with prior KRS active service to immediately contribute in a Metro retirement plan. Some factors to consider in the evaluation of the practice include the cost to Metro Government for allowing early contributions, the potential of creating benefits inequity since new hires can not contribute for one year, and the impact on recruitment.
- ✓ Care should be taken by HR personnel to ensure Metro employees contributing to retirement are truly eligible. It may be beneficial for HR to work with Metro IT in order to create an edit report that would indicate any changes to employees' statuses. This would help identify potential new contributors or employees that should no longer be contributing to retirement.
- ✓ HR personnel should work closely with department representatives to inquire about employee statuses and ensure they are appropriate (i.e. standard hours, regular or temporary status, full or part-time status). Depending on a department's intentions as to an employee's work schedule, it may be necessary to make changes to an employee's status to properly reflect their true work schedule. This will also help ensure an employee is receiving all benefits for which they are eligible.

B. No Retirement Plan

- There were three cases where an employee was *not* setup for retirement contributions though standard hours would indicate he / she was eligible to contribute (i.e. standard hours were equal to or greater than twenty-five, thus averaging 100 hours per month). Based on a review of the employees' hours worked over the past year (July 2005 - June 2006), it appears the employees *were* working an average of 100 or more hours a month consistently. Therefore, retirement contributions should have been made but were not.

Recommendations

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ HR personnel should perform periodic reviews of retirement data to ensure that employees without a setup in a retirement plan are appropriate. As previously mentioned, HR should contact Metro IT for assistance with creating edit reports so that a review or audit of retirement data can be performed periodically. The reports can help identify employees not setup in a plan, and their applicable statuses. Further review of a sample of employees should be performed to determine the appropriateness of employees contributing or not contributing to retirement.

C. Hazardous Positions

For employees in a hazardous position, the employee and employer retirement contribution rates are 8% and 25.01% respectively; non-hazardous position contribution rates are 5% for the employee and 10.98% for the employer. Hazardous retirement positions were not easily identifiable on the Metro's human resource system, as well as KRS support documentation. Specific issues noted with regards to hazardous positions include the following.

- There were two cases where an employee was promoted to a position that is approved for hazardous retirement contributions. However, it appears the retirement date was setup too early based on the effective date of promotion. This resulted in two pay periods where hazardous contributions were made to KRS but should not have been.
- There were nine cases where the employee job title reflected an Arson Investigator position (I, II, or Chief). Though the job title is a valid Metro hazardous position, there was no support documentation to indicate that KRS approved the position as hazardous for retirement purposes.

Recommendations

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Care should be taken by HR personnel to ensure retirement plans are properly setup for Metro employees. This is especially important when dealing with hazardous positions since their contribution cost is much higher than non-hazardous positions. Corrective action should be taken for the cases where retirement contributions were made too early, including requesting a refund from KRS.

- ✓ HR personnel should work with KRS to ensure all necessary documentation has been provided to Metro Government to document approved hazardous positions. In cases where KRS position descriptions may be somewhat vague, additional documentation should be obtained from KRS for clarification.
- ✓ HR personnel should explore the feasibility of having a field designated in the Metro's human resource system to indicate hazardous positions. This would allow for the ability to query the system for all hazardous positions so they can be routinely monitored for appropriateness. The costs of hazardous positions warrants close monitoring efforts. Metro IT should be consulted regarding this recommendation.

D. Retirement Plans

Retirement plans are an in-house field used in Metro Government's human resource system to help distinguish between hazardous and non-hazardous retirement contributions. Employees are assigned to a specific plan based on their position / job title. The amount of employee and employer contributions is dependent on the plan that an employee is assigned. Some issues were noted with the retirement plans that some employees were assigned.

- There were numerous cases where the retirement plan did not appear appropriate based on the employee's department name and / or job title.
 - Two County Attorney employees and one EMS employee were in the Commonwealth Attorney retirement plan. In the case of the EMS employee, employee contributions were underpaid since the employee should have been in a hazardous instead of a non-hazardous plan. Employer contributions were also underpaid in that they were not made at all (Commonwealth Attorney pays employer portion directly to KRS so Metro does not make an employer deduction).
 - One Fire employee was setup in a retirement plan for hazardous employees but not the plan designated for Fire.
 - Several EMS employees (formerly a part of Fire) were still noted as being in a Louisville Fire Department retirement plan.
 - Numerous former County employees were setup in a specific non-hazardous retirement plan and have not been updated to reflect the standard non-hazardous plan used for all other Metro employees.
 - Former County Police employees were setup in a retirement plan for hazardous employees but not the plan designated for Police.

It should be noted that contribution reporting to KRS is by retirement *codes* that distinguish between hazardous and non-hazardous. The issues noted with the Metro retirement plans do not effect the reporting to KRS, except in the case where the EMS employee should have been in a hazardous plan.

Recommendations

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ HR personnel should review the various retirement plans used for Metro employees. A determination should be made as to what plans are currently being used and what plans are no longer needed. The human resource system used to manage retirement benefits should be updated to reflect only valid retirement plan options, to include individual employee setups.
- ✓ Care should be taken to ensure all employees are properly reflected in an appropriate retirement plan. Corrective action should be taken for any employees not in the proper retirement plan, to include action for those that resulted in an error in contribution rates (i.e. refund or catch up payments).

Department of Human Resources Corrective Action Plan

Human Resources' corrective action plan begins on the following page.



LOUISVILLE METRO
OFFICE OF INTERNAL AUDIT

LOUISVILLE, KENTUCKY
2006 DEC 20 PM 2:00
DEPARTMENT OF HUMAN RESOURCES

JERRY E. ABRAMSON
MAYOR

WILLIAM J. HORNIG
DIRECTOR

TO: MIKE NORMAN
INTERNAL AUDITOR

FROM: BILL HORNIG, DIRECTOR
HUMAN RESOURCES

DATE: DECEMBER 20, 2006

SUBJ: RETIREMENT AUDIT RESPONSES

Below, I have prepared responses to the Audit Report written concerning the administration of the KRS Pension Plans:

1. General Administration:

- We have secured the assistance of a consultant to assist in the writing of a policies and procedures manual for the administration of the state pension plans. We anticipate completion by the middle of February 2007.
- Once the Policies and Procedures Manual is completed, we will cross train other employees within the department on the administration of the state pension plans.
- We will work with our Human Resources representatives to develop a procedure whereby Department Directors will sign off on all documentation submitted to KRS. This procedure will be incorporated in our P&P Manual.

2. Sick Leave Balance Conversion Costs:

- HR will work with IT to determine whether software can be developed to assist in calculating the cost associated with converting sick leave balances per the formula used by KRS.
- HR will incorporate a procedure in within the P&P Manual to deal with discrepancies noted between information received from KRS and information held within HR so as to be able to resolve discrepancies quickly.
- HR will work with outside agencies to determine who within each such agency should be designated as the contact person authorized to receive and submit any appropriate information concerning the administration of the pension benefits for the agencies' personnel.

3. Retirement Data analysis:

A. Employee status:

- HR will review Metro's current practices of allowing employees who have previously participated in KRS to immediately participate in KRS after rehire and will make the appropriate recommendations.
- HR will work with Metro IT to determine what types of eligibility reports may be developed to ensure participants are in fact eligible to participate.
- HR will work with department HR Representatives to develop methodology to, on a regular basis, insure that participants are in fact eligible to participate and that all personnel who are eligible based on hours actually worked are enrolled.

B. No Retirement Plan:

- HR will work with Metro IT to develop a report for the purpose of verifying appropriate participation in KRS.

C. Hazardous Positions:

- HR will investigate situations sited where premature contributions made to the Hazardous KRS plans were made to the KRS to determine the reasons for these contributions being made. Following this, HR will determine what corrective actions or procedures would be necessary to prevent this from happening in the future.
- HR will work with Metro IT in developing a field within an employee's data base which would indicate whether the employee participates in either the hazardous or non-hazardous plan. This will assist in assuring appropriate participation status.

D. Retirement Plans:

- Benefit personnel will work with HRIS to update the Pension Plan codes contained within our HRIS System to properly reflect the current plans.

I trust I have responded appropriately to each of the issues identified within the audit report written concerning the administration of our pension plans. If you have questions, please do not hesitate to contact me.

Thank you for your continued support and assistance.

WJH/ml