



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

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Project Number

1230065

This report can be made available in alternate format upon request.

Retirement Department Public Safety Personnel Retirement System

June 23, 2023

Report Highlights

Legislative Requirements

Overall, the Retirement Department administered services for its members as prescribed by State requirements. However, improvements can be made to the application process.

Pension Contributions

The pension contributions we selected for testing were either accurate or had exceptions that were explained and supported.

Invoice Review

For disability retirement applications, an independent medical evaluation is performed. We could not confirm the accuracy of 43% of the evaluation invoices we selected for review.

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Executive Summary

Purpose

Our purpose was to determine that the Retirement Department (Retirement) had adequate controls over the Public Safety Personnel Retirement System (PSPRS) processes they are responsible for managing.

Background

Before 1968, employees assigned hazardous duties for the State, or its regional governments, had their benefits administered under various retirement programs. In 1968, *Title 38, Chapter 5, Article 4* of the Arizona Revised Statutes consolidated these benefits under one group, PSPRS, which consists of three separate retirement plans for public safety employees, elected officials, and corrections officers. As of June 30, 2022, PSPRS held over \$17 billion in trust for its members, and it administered pension, disability, and retirement benefits for nearly 54,200 active and retired members and their surviving beneficiaries.

Retirement works with the Local Board to determine in-line-of duty death benefits, lump-sum distributions, and process disability retirements. PSPRS is responsible for processing normal retirements, survivor benefits, and calculating benefit estimates. Each Local Board is comprised of two elected sworn employees, one citizen member (who serves on both boards), the chairperson of the employer's civil service board (who serves on both boards), and a Mayoral appointee who acts as the chair of both boards. In February 2021, *House Bill 2381: Local Board and Employer Duties* (HB2381) attempted to add efficiency to the retirement application process by updating the roles and responsibilities allocated to PSPRS, employers, and Local Boards.

We reviewed Retirement's administration of benefits for its members. Specifically, we reviewed HB2381 to confirm that the Department followed processes and procedures as required by the new law. We tested the accuracy of payroll pension contributions to PSPRS for both Fire and Police employees. In addition, we tested the accuracy of invoices for medical services provided by the vendor Integrated Medical Evaluations, Inc. (IME, Inc.).

Results in Brief

Overall, Retirement administered services for its members as prescribed by State requirements. However, most regular retirement applications took longer than ten days to be forwarded to PSPRS.

HB2381 stipulates that employers must forward regular retirement and disability applications to PSPRS within ten days of receipt. The employee can retrieve applications online or a paper copy from Retirement or PSPRS; all applications require a signature from the Retirement Office. We selected a sample of nine personnel (Fire

and Police) who retired in 2022. Our tests found that the average turnaround for regular retirement applications was nearly 18 days; the shortest time observed was three days, and the longest was 52 days. Delayed applications do not prevent members from retiring or affect the total funds received; however, benefit payments may be delayed for a minimum of 30 days.

The pension contributions we selected for testing were either accurate or had exceptions that were explained and supported.

We ran payroll reports for 3,595 Police and Fire personnel for one pay period and selected three different pension tiers to recalculate contributed amounts based on employee and employer rates. Overall, most calculations were accurate. We selected an additional 23 employee records with exceptions. The Finance Department confirmed that all exceptions were properly supported.

For disability retirement applications, an independent medical evaluation is performed. We could not confirm the accuracy of 43% of the evaluation invoices we selected for review.

Retirement contracted with IME, Inc. to provide services for medical tests and physician evaluations for Police and Fire members of PSPRS that are applying for retirement based on a medical disability. We selected 14 invoices for testing and found that six (or 43%) were missing the physician's hourly rates or the number of hours they spent performing services. The IME, Inc. contract requires that these items are included in all invoices. In addition, we found that some invoices combined several services into a single invoiced amount. Therefore, we could not determine if the invoices matched the contract terms.

Department Responses to Recommendations

Rec. 1.1: Develop a process to track and forward retirement applications to PSPRS to ensure compliance with the ten-day turnaround time.	
Response: Staff has developed a tracking spreadsheet to better track the status of each application received and ensure compliance with the 10-day turnaround.	<u>Target Date:</u> Complete
Rec. 3.1: : Develop processes and procedures to ensure that invoices are reviewed for compliance with contract terms prior to authorizing payment. Train staff on the new invoice reviewing procedures.	
Response: Staff updated the existing invoice verification standard operating procedure to include independent medical examination invoices.	<u>Target Date:</u> Complete
Rec. 3.2: Review IME, Inc. invoices and obtain revised invoices where hourly rates and/or hours charged were not included. Confirm that revised invoices match contract terms and seek credit adjustments from IME, Inc. for services not billed correctly.	
Response: Staff will work with IME, Inc. to review and revise the reviewed invoices to ensure billing is accurate and complies with the contract.	<u>Target Date:</u> July 31, 2023
Rec. 3.3: Review IME, Inc. invoices and obtain revised invoices where services were combined into a single invoiced amount. Confirm that invoices match contract terms and seek credit adjustments from IME, Inc. where invoices were not correct.	
Response: Staff will work with IME, Inc. to review and revise the reviewed invoices to ensure billing is accurate and complies with the contract.	<u>Target Date:</u> July 31, 2023

1 – Legislative Requirements

Background

Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes provides the legal authority to administer the benefits of sworn public safety members. Employers, PSPRS, and the Local Board work together to ensure services are promptly and accurately provided. In 2021, HB2381 updated the roles and responsibilities of the three stakeholders to bring efficiency to the system. Overall, PSPRS assumed most activities that were previously under the jurisdiction of employers. The Local Boards now determines in-line-of-duty death, disability, and lump-sum death benefit distributions for members. Employers forward all completed applications to PSPRS, which calculates benefit amounts using service and contribution records.

Some additional changes mandated by HB2381 include:

- Local Boards determine membership eligibility of new (re)hires and vote on actions for benefits and disability applications;
- Employers submit completed disability and retirement applications to PSPRS within ten days;
- Local Boards must obtain independent legal counsel; and,
- New board members must complete required training within 180 days of their appointment or election.

Appendix A provides an aggregate list of all the retirement application processes affected by HB2381, and which entity is responsible for their completion.

We wanted to confirm that Retirement was meeting its obligations to PSPRS members by following the new procedures outlined in HB2381. Therefore, we interviewed PSPRS and Retirement staff regarding the disability and retirement processes they followed for PSPRS members. We then tested disability and regular retirement applications to ensure Retirement forwarded these documents to PSPRS within 10-days as required. Finally, we confirmed that Retirement was completing additional tasks stipulated by HB2381.

Results

Overall, Retirement met most of its procedural obligations to its members as outlined by HB2381.

The primary goal of HB2381 was to introduce efficiency in administering benefits for PSPRS members. Therefore, many procedures that employers initially handled were reallocated to PSPRS. We wanted to ensure that both Retirement and the Local Board met the objectives outlined in the statutes. So, we reviewed the following three mandates:

- Training for newly elected board members;
- Hiring independent legal counsel; and,
- Processing and forwarding retirement and disability applications to PSPRS within ten days of receipt.

We reviewed email exchanges between Retirement and PSPRS. We confirmed that two members, elected for the Local Boards after December 31, 2021, completed their mandatory training on open meeting laws, ethics, legal reviews, and fiduciary responsibilities and duties within 180 days. These trainings are on the PSPRS YouTube channel. The members completed the training and emailed the Local Board secretary confirming that they viewed the videos. The board secretary then forwarded the emails to PSPRS as a record of completion.

An additional requirement of HB2381 is that attorneys hired by the Local Boards must be independent of the employer, system members, and other beneficiaries, and have no conflicts of interest. During the last competitive Request For Proposal (RFP), one law firm, Rapp, Underwood, and Pacheco, responded to the City's request for bids for an attorney to provide legal services as independent counsel to the Local Board. The firm signed a contract that included a section on Conflict of Interest to assert its independence.

Retirement forwarded most disability applications to PSPRS within the ten days as mandated by HB2381. However, most regular retirement applications took an average of nearly 18 days to be forwarded.

HB2381 stipulates that employers must forward normal retirement and disability applications to PSPRS within ten days of receipt. The employee can retrieve applications online or obtain a paper copy from the Retirement Office or PSPRS; all applications require a signature from Retirement.

We selected a sample of nine personnel (Fire and Police) who retired in 2022. PSPRS provided the dates when they received the employees' applications, and we compared this date to the documentation provided by Retirement. Our tests showed that the average turnaround for regular retirement applications was nearly 18 days; the shortest time observed was three days, and the longest was 52 days. Delayed applications do not prevent members from retiring or affect the total funds received; however, benefit payments may be delayed for a minimum of 30 days. While the implications to employees are minimal, if applications are received outside of the ten-day window, HB2381 does allow the PSPRS Board of Trustees to act on behalf of Local Boards, if they are consistently noncompliant with mandates.

Finally, we tested a sample of 34 disability applications (Fire and Police) to confirm that Retirement forwarded the paperwork within ten days, per HB2381. Results showed that Retirement sent all but two (or 94%) applications within ten days; one late application took 19 days, and the other 40 days. Part of the issue with the turnaround time for applications is that the process remains largely manual, with staff recording and tracking applications on an Excel spreadsheet as they receive and process them. Thus, the

possibility of error is high. For example, an application with one of the longer turnaround times, had been misplaced, located, and then forwarded to PSPRS.

Recommendation

- 1.1 Develop a process to track and forward retirement applications to PSPRS to ensure compliance with the ten-day turnaround time.

2 – Pension Contributions

Background

The Finance Department (Finance) is responsible for calculating pension contributions for all City employees. The process is automated and based on unique pay codes attached to wages. Since all pay codes are not pensionable, Finance staff rely on system controls to calculate pension contributions only from those specific pay codes. These contributions are then transferred to PSPRS every pay period.

We reviewed the pension contribution of one pay period, December 11, 2022, for all PSPRS employees. We selected three contribution tiers for both Police and Fire (six total) and recalculated payment percentages to ensure the accuracy of collected pensionable contributions for employees and employer.

Results

Pension contribution calculations for the period reviewed were accurate and exceptions were supported.

We retrieved the calculated pay for 3,595 PSPRS employees for one payment period. Three contribution tiers for both Police and Fire were randomly selected for testing. The totals for each paycheck were then recalculated for the employer and employee pension contribution amounts using the benefit codes and percentages provided by Finance. We determined that most of contributions accurately reflected the benefit rates.

Each tier of contributions had exceptions where the percentage of pensionable amounts did not correlate to paycheck totals. Therefore, we selected a sample of 23 employees with exceptions and sent them to Finance for additional review. Finance confirmed that all noted exceptions were adequately supported. In our sample, most exceptions were due to industrial, or retirement pay split during the pay period. For example, several members of the Police Department entered Deferred Retirement Option Plan (DROP), which meant not all their earnings were eligible for retirement contributions; thus, the contributed amounts to their pensions would be less than the percentage of the stated benefits denoted by their retirement tier.

Recommendations

None

3 – Invoice Review

Background

In February 2022, Retirement contracted with IME, Inc. to provide services for medical tests and physician evaluations for PSPRS Police and Fire members who are applying for retirement based on a medical disability. Some of the duties outlined in the scope of work included the following:

- Prepare a “summary of medical record” for each applicant for the examining physicians based on chronological order.
- Confirm the medical specialty required to accurately review and assess an applicant’s claimed disability (or disabilities).
- Supply invoices free of mathematical error that include the dates and hours worked, hourly rates charged, and a detailed description of the services provided.
- Schedule appointments with regularly practicing, examining physicians licensed as an M.D. or D.O. with the Medical Board of the State of Arizona.
- Schedule medical appointments.
- Prepare correspondence to provide to the Local Boards staff and applicant.
- Reschedule missed or canceled appointments as needed.

IME, Inc. provides a fee schedule that identifies the contracted rates for individual medical reviews/summaries, physician fees and schedules, medical chart reviews by specialty, and any additional or addendum reports as needed. The contract’s total value is \$500,000 over a five-year term, with options to extend if necessary. Retirement exercised the contract and is responsible for reviewing payment applications for accuracy to facilitate timely payments and ensure adherence to terms and budget.

We wanted to ensure that Retirement adequately monitored IME, Inc. to ensure accurate billing. Therefore, we interviewed Retirement staff and obtained policies and procedures related to payment applications. In addition, we reviewed the contract and recalculated a sample of invoices for mathematical accuracy, quantities charged, unit prices, and price reconciliation.

Results

We could not confirm the accuracy of 43% of the tested IME, Inc. invoices as they did not contain certain billing information that was required by the contract.

Retirement staff reviews and processes invoices received from IME, Inc. for medical services. Although the contract provides a fee schedule, Retirement also keeps individual schedules for physicians employed by IME, Inc., since fees differ according to specialty. A staff member reviews each invoice before a supervisor approves it.

Afterward, invoices are added to the Local Board's monthly agenda and voted on before they are submitted for final payment.

We selected 14 invoices for testing and found that one invoice was missing Current Procedural Terminology (CPT) codes used to ensure uniform billing for medical procedures. Further, six of the 14 tested invoices (or 43%) were missing the physician's hourly rates or the number of hours they spent performing services. These items are required in the IME, Inc. contract. In addition, we found that some invoices combined several services into a single invoiced amount. Therefore, we were unable to determine if the invoices complied with contract terms. Retirement staff indicated that they did not have a formalized process to compare invoices to the contract to ensure all required items were included prior to authorizing payment.

Retirement did not assign IME, Inc. payments to the contract within the City's accounting system.

Finally, we selected nine invoices that Retirement paid and traced them to payments in the City's accounting system, SAP. There were no exceptions. Each invoice was added to a Local Board agenda and voted on for payment. Additional research found \$3,955 of medical services performed by IME, Inc. were not billed to the contract; therefore, the amount of funds left on the contract was overstated. Retirement staff confirmed with Finance that correcting this issue would require action from multiple teams. Therefore, Retirement staff advised that they will manually account for these funds on their monthly contract utilization report to ensure the accurate tracking of IME, Inc. expenditures.

Recommendations

- 3.1 Develop processes and procedures to ensure that invoices are reviewed for compliance with contract terms prior to authorizing payment. Train staff on the new invoice reviewing procedures.
- 3.2 Review IME, Inc. invoices and obtain revised invoices where hourly rates and/or hours charged were not included. Confirm that revised invoices match contract terms and seek credit adjustments from IME, Inc. for services not billed correctly.
- 3.3 Review IME, Inc. invoices and obtain revised invoices where services were combined into a single invoiced amount. Confirm that invoices match contract terms and seek credit adjustments from IME, Inc. where invoices were not correct.

Attachment A – HB2381: Local Board and Employer Duties

Process Review Table

BENEFIT APPLICATIONS AND ACTIONS	MEMBER	LOCAL BOARDS	RETIREMENT OFFICE	PSPRS
Notifying employer of intent to retire	X			
Member submits retirement application to*			X	
Submitting retirement/benefit application to PSPRS*			X	
Forwarding retirement/disability/LDD application to PSPRS within 10 days of receipt		X	X	
Confirm member's record with employer				X
Provide retiring members benefit estimates				X
Process normal retirements				X
Process deferred annuity				X
Process survivor benefits				X
Determine in line-of-duty death benefits		X		
Determine death benefits - lump sum distribution		X		X
Review request to remain in ASRS/CORP		X		
Process disability retirements		X		
Calculate benefit estimates				X
Determine whether position is a CORP-designated position		X	X	
Determine if return-to-work retirees are still eligible to receive pension		X	X	

BENEFIT APPLICATIONS AND ACTIONS	MEMBER	LOCAL BOARDS	RETIREMENT OFFICE	PSPRS
Determine if return-to-work retirees are in a PSPRS-designated position and ACR is required		X	X	
Determine if return-to-work retirees are in a CORP-designated position and ACR is required		X	X	
Determine new hire eligibility		X		
Notify PSPRS within 10 days of new Local Board members, secretary, and attorney		X		

** Members submit directly to their employer; PSPRS will accept applications from members and local boards.*

Scope, Methods, and Standards

Scope

We reviewed Retirement's processes and procedures for PSPRS members from FY21-FY23. We also tested invoices from IME, Inc. for billing accuracy.

The internal control components and underlying principles that are significant to the audit objectives are:

- Monitoring Activities
 - Management should identify, analyze, and respond to risk related to achieving the defined objectives.
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.

Methods

We used the following methods to complete this audit:

- Interviewed Retirement and PSPRS staff.
- Attended joint Police and Fire Local board meeting on February 7, 2023.
- Obtained documentation regarding Retirement and Local board processes.
- Tested transactions for pension contribution accuracy.
- Tested documents to ensure retirement and disability applications forwarded to PSPRS within ten days.
- Reviewed HB2381 for updates to retirement process and responsibilities.
- Reviewed IME, Inc. contract and invoices.
- Tested invoices against schedule of fees for accuracy and completeness.
- Reviewed SAP reports to confirm payments.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

The reliability of eChris and Pension Gold data was previously determined through an independent audit review, Project #CA1130092.

Standards

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. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.