Chesterfield County, Virginia
Internal Audit

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GREG L. AKERS
Director

DATE: February 23, 2018

TO: James F. Lane, Ed.D.
School Superintendent

FROM: Greg L. Akers
Director of Internal Audit

SUBJECT: School Employee Benefits – Supplemental Retirement Plan Audit

The Office of Internal Audit completed an audit of School Employee Benefits – Supplemental Retirement Plan.

We would like to thank Donald Fairheart and Christina Berta and their staff for their cooperation and assistance during this audit.

Attachment

Copy: Donald Fairheart, Chief of Staff
Christina Berta, Chief Finance Officer
Joseph P. Casey, Ph.D., County Administrator
Audit and Finance Committee

Providing a FIRST CHOICE Community through Excellence in Public Service

School Employee Benefits – Supplemental Retirement Plan

February 23, 2018

Chesterfield County Internal Audit Department

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February 2018

Highlights

Why We Did This Review

Internal Audit conducted this review as part of our FY18 audit plan approved by the County Administrator, School Board Superintendent and the Audit and Finance Committee.

The audit objectives were to evaluate compliance with the Plan document and policies as well as Internal Revenue Service and Virginia Retirement System guidelines, review trust fund oversight and investment compliance in addition to testing benefit processing operations and eligibility exceptions.

What We Recommend

- Designate a School operational lead for the Plan.
- Centralize eligibility and calculation data in ONESolution.
- Formalize operating practices into written procedures.
- Administrative Committee continue to formalize and work towards the requirements outlined in the revised Plan document.
- Advise the Administrative Committee of Sands Anderson communications relevant to their fiduciary duty.
- Obtain and document an expert's opinion and statement regarding IRS compliance for 2017 Plan revision.
- Document a Statement of Investment Policy.
- Complete the Trustee services procurement.
- Record fund activity in accounting records throughout the year.
- Document paygrade verification for SRP position to full-time position.
- Document time-off requirement tracking during SRP service year.
- Develop automated benefit calculation and FLSA adjustment.

For more information, please contact Greg L. Akers, at 804-748-1240 or akersg@chesterfield.gov

School Employee Benefits – Supplemental Retirement Plan (SRP)

What We Found

Background

The Chesterfield County School Board and Board of Supervisors approved changes to the Early Retirement Incentive Program for School employees effective July 1, 1995 that established the SRP. The Plan provides eligible employees with supplemental retirement benefits in two phases. Retirees return to serve 9 to 11 months in a temporary, part-time assignment paid through payroll. After completing the service requirement, remaining benefits are paid from the trust fund over several years. The Plan is closed to employees hired or rehired after June 30, 2013. There were significant 2017 Plan revisions to strengthen fiduciary oversight and help ensure future sustainability.

Plan Document and Policies

Between 1997 and the approved 2017 Plan revision, the School Board approved other changes without the Plan's required Board of Supervisors' review and approval. Most of the School Board approved changes were minor technical adjustments, other than closing the plan to new participants after June 30, 2013.

The plan has complied with audit and actuarial analysis requirements, and is reported in the County's Comprehensive Annual Financial Report (CAFR). While this reporting was available to management, fiduciary oversight was minimal prior to the 2017 Plan revision. Plan administration functions are spread between several school departments. Personnel are knowledgeable of their specific duties but there is no designated staff lead to monitor overall Plan position.

Schools engaged Sands Anderson PC to provide legal advice and opinions regarding the SRP program. Internal Audit was advised that this documentation was privileged and confidential attorney – client communications and would not be provided. Had we had access, our reported results and findings may have been different.

IRS and VRS Compliance

Schools have documented past Plan compliance with IRS and VRS requirements. However, there is not documentation for 2017 Plan revision IRS compliance.

Trust and Investment Compliance

The unfunded SRP liability and Trustee investment services and performance have not been actively managed. Investment purpose, objective, strategy and measurement parameters are not documented without a Statement of Investment Policy. Fund activity is only recorded annually in the accounting records, and does not provide ongoing financial information during the fiscal year for timely monitoring and reporting to decision makers.

Benefit Processing and Eligibility Exceptions

While benefit eligibility and processing was tested with minimal exceptions, ONESolution has not been configured and used to capture all required data for eligibility determination and identify eligibility exception approvals. Processing involves multiple departments and is performed outside of the personnel and financial systems through a mixture of handwritten forms, electronic files and separately maintained spreadsheets.

We requested Schools identify all participants from Plan start that were granted years of service exceptions, or temporary part time assignments different than their full-time position. School Benefits provided a list of eight known participants with years of service exceptions, that we matched to support. Schools did not provide a list for participants with different part time position assignments. Therefore, we selected all 33 Trust participants from 2007 through 2017 with estimated annual salaries exceeding $100,000 to compare work assignments. Three participants had different work assignments for their SRP service year, which had been approved.

Management concurred with 14 of 14 recommendations to be implemented from March 1, 2018 to July 1, 2018.

We appreciate the cooperation received from management and staff while conducting this audit.

INTRODUCTION

BACKGROUND

The School Employee Benefits – Supplemental Retirement Plan audit was a regularly scheduled audit on the FY18 audit plan approved by the County Administrator, School Superintendent and the Audit and Finance Committee.

Effective July 1, 1995, the Chesterfield County School Board adopted the Early Retirement Incentive Plan for Employees of Chesterfield County Schools as a retention incentive plan designed to provide a supplemental retirement income for long-term employees. Subsequently, the name of the Plan was changed to the "Supplemental Retirement Program for Employees of Chesterfield County Schools" (the "Plan"). Since that time, the Plan has undergone several revisions and amendments. Most changes through fiscal year 2016 were minor technical adjustments, other than closing the plan to new participants after June 30, 2013.

In fiscal year 2016, Schools made a prior period adjustment increasing the Plan's net pension liability by $26 million. This adjustment raised managements' awareness for the Plan's deficit financial position. During fiscal year 2017 the School Board and the Board of Supervisors requested analysis to identify changes to sustain and fully fund the Plan. This culminated in 2017 Plan revision approved by the Board of Supervisors on April 26, 2017. The revisions include:

- Tightening eligibility requirements, limit annual salary for benefit calculation to $95,000, and increase minimum payout period from 5 to 7 years;
- Strengthening oversight by requiring an Administrative Committee to perform fiduciary oversight and reporting, and
- Establishing minimum funding requirements.

The Plan provides supplemental retirement benefits for eligible employees. The Plan benefit is generally 175% of final annual compensation paid over several years. Benefits are distributed to participants in two phases. Retirees return to serve 9 to 11 months in a temporary, part-time assignment paid through payroll. After completing the service requirement, remaining benefits are paid from the trust fund. The Plan is closed to employees hired or rehired after June 30, 2013.

The operations of the Plan are conducted over several departments within the school system. School Benefits, Human Resources, Budget and payroll have various duties and responsibilities related to the plan.

OBJECTIVES

Objectives of the audit were to:

- Determine that Plan policies and procedures are followed.
- Evaluate compliance with Internal Revenue Service and Virginia Retirement System requirements.
- Review trust fund oversight and monitoring.
- Examine benefit processing and granting of exceptions.

SCOPE

Our audit work covered FY17 through the current operating environment and program history for granting of exceptions for temporary work assignments and years of service.

We considered the following code, policies, and school policies during our audit:

Code of Virginia §51.1-801 Counties, cities, and towns generally	County Code §2-78 Deferred income payment plan and trust fund for school board employees
IRC §401(a) Retirement Plan	IRC §414(d) Governmental Plan
Employee Retirement Income Security Act of 1974; §3(32)	County Code §6.12 Internal Auditor
Human Resources Policy 5210-Supplemental Retirement Plan	Supplemental Retirement Program for Employees of Chesterfield County Schools Plan Document
County Purchasing Procedures	

Schools engaged Sands Anderson PC to provide legal advice and opinions regarding the SRP program. During audit planning, Internal Audit requested access to results of this engagement. Internal Audit was advised that this documentation was privileged and confidential attorney – client communications and would not be provided. Therefore, we have been unable to obtain or review any material related to this engagement. Internal audit considers inability to access Sands Anderson's results a scope limitation.

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. Khara Lounsbury, Senior Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included the following: interviews, observations, data analysis, and documentation review.

INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

There are several opportunities for improvement to internal control procedures to better provide reasonable assurance to assist management in meeting its missions, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING

We would like to thank Chesterfield County Public Schools Benefits, Human Resources, Budget and Payroll departments for their cooperation and assistance during the course of this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Plan Document and Policies

(Point Sheet C-1.1)

CRITERIA:

Retirement plan documentation and procedures following best practices should identify the creation authority, amendment and termination process, fiduciary oversight, funding approach, eligibility and participation requirements, benefit calculation, and distribution options.

Virginia local government employee supplemental retirement plans (SRP) require governing body approval by ordinance (Code of VA §51.1-801). Chesterfield County ordinance §2-78 authorizes the School Board to establish and administer a plan for school employees that "shall be subject to review by and approval of the board of supervisors". §2-78 also requires an annual audit and bi-yearly actuarial analysis of the fund be submitted to the Board of Supervisors.

The plan document and School Board policy have been used to administer the School's SRP. The 1997 Plan document:

- Includes requirement for plan amendment approval by the School Board and Board of Supervisors (§7.01).
- Describes Plan Administrator shall establish operational procedures including participant eligibility, benefit determination and processing (§5.4).
- Allows Plan Administrator option to appoint a committee of not less than three persons for performing administrative functions.

The revised Plan in effect July1, 2017 (§5.4) makes the administrative committee a requirement with minimum duties to:

- compute and certify, at least annually, the necessary and desirable contributions to the Fund,
- consider short-and-long- term liquidity needs to exercise appropriate investment discretion,
- determine, in accordance with professional standards, that appropriate actuarial assumptions recommended by a professional actuary control if contributions are adequate and appropriate,
- advise on appropriate investment decisions and strategies to protect Plan sustainability,
- assist the Plan Administrator in reporting to the Employer and the Chesterfield County Board Supervisors, at least annually, on the financial health of the Plan, including recommendations on necessary and advisable financial contributions; and
- assist the Plan Administrator in developing and updating, at least annually, an overall funding plan, which will be submitted at least annually to the Employer and the Chesterfield County Administrator.

County Charter §6.12 and School Board Policy 2170 provide Internal Audit with access to all records or documents, subject to applicable law. In addition, the revised 2017 Plan (§5.9) also establishes "The Chesterfield County Internal Auditor shall have access to all records of the SRP Program to conduct audits".

FINDINGS, RECOMMENDATIONS, RESPONSES

Plan Document and Policies

(Point Sheet C-1.1, Continued)

CONDITION(S):

Effective July 1, 1995, the Chesterfield County School Board and Board of Supervisors approved changes to the Early Retirement Incentive Program for School employees that established the supplemental retirement plan (SRP). Internal audit obtained a summary of School Board amendments to the SRP from the School Board's Attorney. Internal audit traced amendment approvals to the meeting minutes of the School Board and the Board of Supervisors (if applicable). In 1997, the School Board and Board of Supervisors approved changes to the Plan document and policy. However, between 1997 and the 2017 Plan revision, the School Board approved changes to the Plan document and a related School Board policy without review and approval from the Board of Supervisors required by the Plan document. Most changes were minor technical adjustments to the policy required for IRS compliance. The primary change, in May 2013, closed the plan to new participants after July 1, 2013.

The School SRP fund has been reported as a pension trust fund in the County's audited Comprehensive Annual Financial Reports (CAFR) from fiscal year 1996 forward. Additionally, internal audit noted actuarial reports were performed on a regular basis and disclosed in the CAFR. Among other items, CAFR disclosures include actuarily determined contribution, actual contributions, total disbursements and funding status. Information from these reports disclosing the status of the plan have been available to the School Board and the Board of Supervisors throughout the duration of the Plan.

After inquiry of school personnel, we understand the Plan's operating procedures are not documented. Therefore, to gain an understanding of rules and procedures followed by participants in filing applications for benefits and detailed progression through the program, internal audit interviewed various school personnel in budget, payroll, human resources and benefits who work with the plan's daily operations. We also inquired of operating practices with the third-party Trustee. The daily operations of the plan involve many departments within the school system and as well as an outside third-party over the course of several years. The application and approval process for participants involves many forms and approvals throughout the school system. Data is a mixture of electronic and manual documentation outside of ONESolution which is filed in various departments throughout the system. Understanding of procedures by personnel is limited to the department responsibilities.

Since the 2017 Plan revision, various school departments are reviewing and updating application and approval forms. They have also developed a spreadsheet to help determine eligibility and calculate benefits.

Prior to 2017 there has not been routine oversight to ensure fiduciary responsibilities are being met. Although, previous Plan versions described an administrative committee, the formation of one was optional and never utilized.

FINDINGS, RECOMMENDATIONS, RESPONSES

Plan Document and Policies

(Point Sheet C-1.1, Continued)

Schools engaged Sands Anderson PC to provide legal advice and opinions regarding the SRP program. During audit planning, Internal Audit requested access to results of this engagement. Internal Audit was advised that this documentation was privileged and confidential attorney – client communications and would not be provided. Therefore, we have been unable to obtain or review any material related to this engagement.

CAUSE(S):

- Coordination did not occur between 1997 and 2017 to obtain Board of Supervisors approval for School Board amendments to the Plan and policy.
- Procedures were in place to complete Plan audit and actuarial requirements.
- The plan does not require written policies and procedures related to the daily operations, only that they are established. ONESolution has not been configured to capture all data elements necessary to manage the Plan. There is not a designated School operational lead to coordinate Plan activities across various departments.
- Prior to the 2017 Plan revision, the optional administrative committee in previous versions was not established.
- Sands Anderson's work was categorized by Schools as privileged and confidential attorney – client communications.

EFFECT(S):

- School Board did not comply with Plan requirement to have amendments approved by Board of Supervisors.
- The plan has complied with the audit and actuarial analysis requirements of Chesterfield County Code §2-78.
- The flow of paperwork as well as maintenance of files is spread between several departments in the school and involves many personnel over several years that participants are in the SRP program. Documentation is a mixture of handwritten forms, electronic files and separately maintained spreadsheets. Personnel are knowledgeable of their specific duties but there is not one person that leads operations of the plan.
- Fiduciary oversight was minimal prior to the mandatory formation of the Administrative Committee in the 2017 Plan revision.
- Internal audit considers inability to access Sands Anderson's results a scope limitation. Had we had access, our reported results and findings may have been different.

FINDINGS, RECOMMENDATIONS, RESPONSES

Plan Document and Policies

(Point Sheet C-1.1, Continued)

ACTION(S) TAKEN:

- Plan document in effect July 1, 2017 approved by the Board of Supervisors states in the introduction that the "revision incorporates prior amendments to the Plan" and removed reference to School Board Policy 5210. The School Board subsequently updated Policy 5210 to describe the "SRP is administered and governed in accordance with the plan document".
- Administrative Committee appointments have been made by the Superintendent and the County Administrator. During fiscal year 2018 the committee has developed a work plan, approved a short-term investment strategy and are scheduled to act on a long-term investment strategy. Two solicitations are in process related to actuary and investment management services.

RECOMMENDATION(S):

We recommend:

1. Chief Financial Officer (CFO) designate a School operational lead to coordinate Plan activities across various departments including human resources, benefits, payroll and budget as well as liaison with the Trustee and the newly formed Administrative Committee.
2. CFO assess current plan and processes to centralize data in ONESolution for benefit calculation and eligibility verification.
3. CFO formalize operating practices into written procedures for approval by the administrative committee, which are subsequently reviewed on a regular basis. The procedures should define the responsible departments for processing applications, benefit calculations, form maintenance, supervisory approvals, position and payroll authorizations, participant data provided to Trustee for benefit payment, and the reconciliation and recording of monthly investment activity.
4. CFO coordinate with Administrative Committee to continue to formalize and work towards the requirements outlined in the revised Plan document.
5. School Board Attorney make Administrative Committee aware of relevant Sands Anderson communications that may impact their fiduciary responsibilities.

MANAGEMENT'S RESPONSE(S):

1. *Concur. Christina Berta, CFO is responsible for implementing 3/1/18. Ms. Berta will serve as the operational lead for schools to coordinate activities across departments. Ms. Berta also will serve as the liaison with the Administrative Committee.*
2. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta is currently in the process of determining the capability of OneSolution to handle the capturing of eligibility information. We are also working on an alternative digital benefit calculation since OneSolution is not capable of this process.*
3. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta is working on the development of operating procedures and will present to the Administrative Committee for review and approval. The goal would be to have these in place at the start of the next fiscal year.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Plan Document and Policies

(Point Sheet C-1.1, Continued)

4. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta is working on a work plan and calendar to ensure the Administrative Committee is performing the work and reviews as outlined in the plan document.*
5. *Concur. Christina Berta, CFO and Wendell Roberts, School Board Attorney are responsible for implementing 7/1/18. Ms. Berta will add Mr. Roberts to a future Administrative Committee meeting to ensure that the relevant Sands Anderson communication is reviewed as necessary and to the extent possible.*

FINDINGS, RECOMMENDATIONS, RESPONSES

IRS and VRS Compliance
(Point Sheet C-1.2)

CRITERIA:

The Plan document introduction describes that it shall meet all applicable Internal Revenue Code (IRC) requirements and, whenever possible, IRC terms and all formal regulations and issued rulings. The Plan is qualified under IRC Section 401(a) and is a "governmental plan" under IRC Section 414(d) and Employee Retirement Income Security Act (ERISA) of 1974 section 3(32).

Under IRC Section 414(d), a governmental plan is an IRC Section 401(a) retirement plan established and maintained for the employees of:

- the United States or its agency or instrumentality;
- a state or political subdivision, or its agency or instrumentality; or
- an Indian tribal government or its subdivision, or its agency or instrumentality.

ERISA 3(32) defines "governmental plan" as established or maintained for employees by the Government of the United States, by the government of any State of political subdivision thereof, or by any agency or instrumentality of any of the foregoing.

Recently, Revenue Procedure 2016-37 eliminated the 5-year remedial amendment cycle for individually designed plans and restricted when these plans could submit for a determination letter. Effective January 1, 2017, a plan sponsor can request a determination letter only if any of these apply:

- The plan has never received a favorable determination letter.
- The plan is terminating.
- The IRS makes a special exception. The IRS will consider additional circumstances based on program capacity and other factors. No additional circumstances apply for applications in calendar year 2017.

The Virginia Retirement System (VRS) requires a bona-fide separation in service as a prerequisite to a valid retirement. Once retired, an employee may return to work in a part-time or non-VRS covered position under the Supplemental retirement plan without interruption in the payment of VRS benefits.

FINDINGS, RECOMMENDATIONS, RESPONSES

IRS and VRS Compliance

(Point Sheet C-1.2, Continued)

CONDITION(S):

- We reviewed an IRS favorable determination letter Schools received for the Plan on June 14, 2017 which covers cumulative plan qualification requirement changes prior to the 2017 Plan revision.
- Internal Audit observed the VRS April 4, 2004 letter to Schools describing the Plan complies with the bona-fide separation from service requirement.
- As noted earlier, Schools engaged outside legal expertise to provide legal advice and opinions regarding the SRP program. We understand Schools were advised that a technical
- adjustment may be needed to the 2017 Plan revision for IRS compliance. We requested additional information, however the details were not provided to us.
- There has not been a documented evaluation of the 2017 Plan revision for IRS compliance.

CAUSE(S):

- Schools have made on-going Plan amendments to comply with IRS and VRS requirements.
- Schools have evaluated past IRS compliance through combination of subject matter experts and previous IRS determination letters.

EFFECT(S):

- Schools have documented past Plan compliance with IRS and VRS requirements.
- Internal audit considers inability to access Sands Anderson's results a scope limitation. Had we had access, our reported results and findings may have been different.

RECOMMENDATION(S):

6. Since an IRS determination letter is no longer required, we recommend the CFO work with Administrative Committee to obtain and document an expert's opinion and statement regarding Plan compliance with IRS requirements.

MANAGEMENT'S RESPONSE(S):

6. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta will add the need for review by an expert regarding plan compliance with IRS requirements to a future Administrative committee agenda.*

Trust and Investment Compliance

(Point Sheet C-1.3)

CRITERIA:

Section 4(b)(1) of ERISA provides that Title I fiduciary responsibilities do not apply to employee benefit plans that qualify as governmental plans. Therefore, another source for proper fiduciary responsibilities must be determined. The 1997 Plan document allowed for creation of an administrative oversight committee, however, the 2017 revision mandates committee formation. Fiduciary best practices related to investment selection and monitoring include; setting overall objectives and investment strategies for the plan, selection of appropriate investments considering objectives and strategies, monitor investment performed on a regular and ongoing basis and adjust investments as warranted over time. Other responsibilities include oversight of plan funding and compliance with related laws and rules. Additional best practices include documentation of the plan's Statement of Investment Policy.

A Statement of Investment Policy (Statement) defines the purpose, objectives, and success measures for the plan; it summarizes the plan's investment strategy; and it describes the process for evaluating trustees. This Statement should detail performance measurement and the frequency of reviews. Parameters also should be established to determine when the committee should consider eliminating investments or trustees. Oversight committees should review this Statement annually to ensure that it continues to reflect the plan's objectives and meets the plan's participants needs.

Chesterfield County purchasing policy states "When the estimated sum of an individual purchase or the estimated aggregate or sum of all phases reaches or exceeds $50,000, competition must be sought, in writing, utilizing an Invitation for Bid or a Request for Proposal".

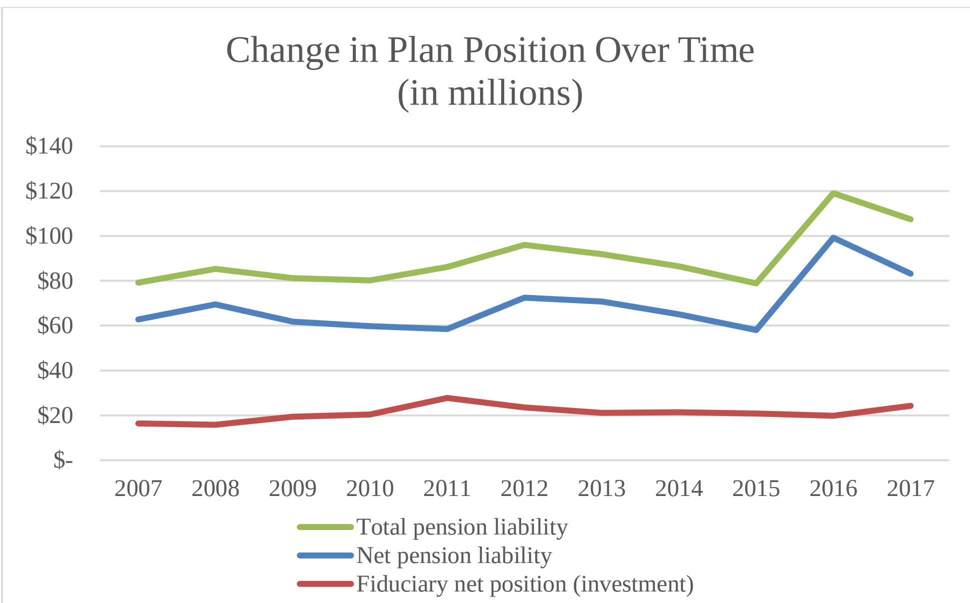
A fundamental accounting concept is the systematic recording of transactions to provide useful information to decisions makers. The School's SRP fund investment activity should be recorded by Schools in the accounting system and reconciled to trust statements on a regular basis.

FINDINGS, RECOMMENDATIONS, RESPONSES

Trust and Investment Compliance
(Point Sheet C-1.3, Continued)

CONDITION(S):
As described earlier in our report, the 2017 Plan revision requirements strengthen fiduciary oversight by requiring an Administrative Committee with established minimum responsibilities. However, prior to the School Board's and the Board of Supervisors' fiscal year 2017 initiatives to evaluate and adjust the School SRP, fiduciary oversight for Plan has not been consistently performed.

The School SRP fund has been reported as a pension trust fund in the County's audited CAFR from fiscal year 1996 forward. CAFR disclosures have provided management with the basic information necessary, including actuarial estimates, to manage the Plan's funding and evaluate sustainability annually. A growing liability identifies a need to either secure funding or reevaluate the benefit. The chart below illustrates the reported estimated liability from 2007 to 2017, along with the Trustee investment balances (i.e. fiduciary net position).



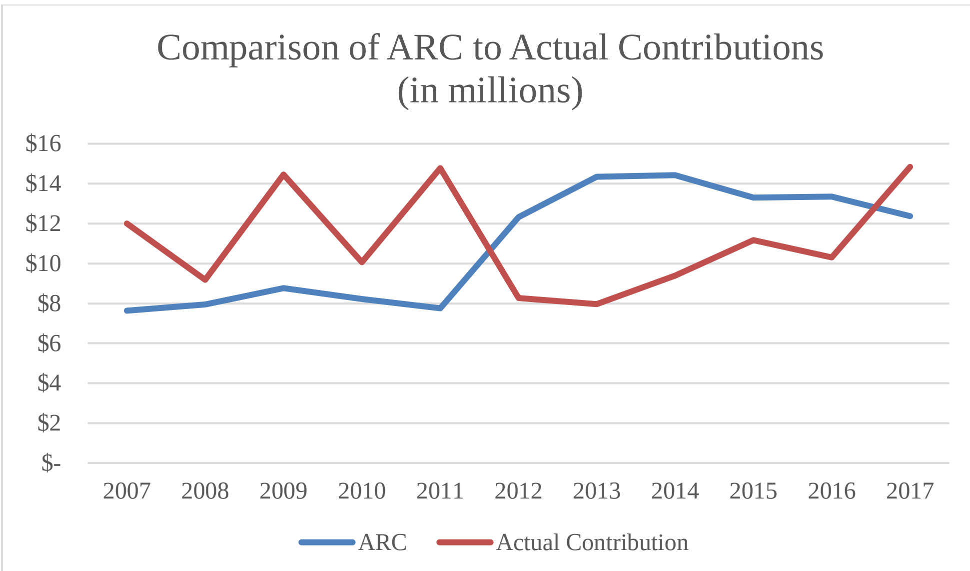
Note – Impact of 2017 plan amendments will be reflected in future CAFRs.

FINDINGS, RECOMMENDATIONS, RESPONSES

Trust and Investment Compliance

(Point Sheet C-1.3, Continued)

The Actuarial Required Contribution (ARC) is a targeted annual amount to fund the estimated total pension liability. The ARC and pension liability computations have multiple inputs including assumptions for investment return, inflation, mortality rates and prior contribution history. Not funding the ARC annually results in a larger unfunded liability. Between 2007 and 2011, Schools contributions to the Plan exceeded the computed ARC by $20 million. During those years the average ARC was $8.1 million. In 2012, the ARC increased to $12.3 million. Between 2012 and 2016, School contributions were $21 million less that ARC. The chart below illustrates ARC and contributions from 2007 to 2017.



We were unable to find a documented investment policy. The 2016 and 2017 CAFR discloses Plan investments are managed in accordance with a Statement of Investment Policy which authorizes and sets targets for allocations as 40% - 60% equities, 30% - 60% fixed income and 0% - 10% cash and cash equivalents. These percentages are not consistent with School approved objectives, in place since 2012, for Trustee investment allocation of 45%-70% equities, 30% - 55% fixed income and 0% - 5% cash.

We did not find documentation of competitive procurement for Trustee Services. Annual trustee fees exceed $50,000 per year ($85k for FY 2017) and the current trustee has served the Plan since 2002.

Trust and Investment Compliance

(Point Sheet C-1.3, Continued)

Fund activity for the Plan is entered into the accounting system annually and reconciled to the trustee statements by the County's accounting department during year end close. Also, the School budget department compares reported monthly Trustee disbursements by participant to the authorized amounts. However, the funds financial activity is not recorded by Schools in the accounting system throughout the year and reconciled to trust statements monthly. Also, there is no documented analysis of monthly investment statements for performance and compliance with objectives.

CAUSE(S):

- Lack of designated fiduciary oversight and strategic monitoring.
- A Statement of Investment Policy has not been documented.
- Trustee services have not been procured competitively.
- Fund activity has been recorded annually in accounting records.

EFFECT(S):

- Growth in the unfunded SRP liability.
- Trustee investment services and performance have not been actively managed. Investment purpose, objective, strategy and measurement parameters are not documented without a Statement of Investment Policy.
- Non-compliance with County's purchasing requirements.
- Fund activity is not available for timely monitoring and reporting to decision makers.

ACTION(S) TAKEN:

The Administrative Committee has approved a short-term investment strategy and is scheduled to act on a long-term strategy. Two solicitations for service are in process related to actuary services and investment management services.

RECOMMENDATION(S):

We recommend CFO:

7. Coordinate with Administrative Committee to continue to formalize and work towards the requirements outlined in the newly revised Plan document to provide fiduciary oversight and management reporting.
8. Coordinate with Administrative Committee to document a Statement of Investment Policy as part of its fiduciary responsibilities and monitor investment performance against objectives.
9. Coordinate with Administrative Committee to complete the active procurement for Trustee services.
10. Develop procedures to record fund activity in accounting records throughout the year (instead of annually) for timely monitoring and reporting.

FINDINGS, RECOMMENDATIONS, RESPONSES

Trust and Investment Compliance

(Point Sheet C-1.3, Continued)

MANAGEMENT'S RESPONSE(S):

7. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta is working on a work plan and calendar to ensure the Administrative Committee is performing the work and reviews as outlined in the plan document.*
8. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta will be working with the Trustee/Investment Manager to recommend and develop an Investment Policy to the Administrative Committee.*
9. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta will coordinate with the Administrative Committee to introduce the new Trustee once the procurement process is completed*
10. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. Ms. Berta has worked with the budget staff to develop a process of reviewing the fund activity received from Suntrust monthly to ensure that transactions are occurring as expected. OneSolution is not used to track fund activity by the County Accounting department. If this were to begin we would need to coordinate with County Accounting since this would be addressed via our Shared Services Agreement.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Benefit Processing and Eligibility Exceptions

(Point Sheet C-1.4)

CRITERIA:

Benefit and eligibility are described in the Plan document. The benefit is generally 175% of final annual compensation paid over several years. Benefits are distributed to participants in two phases. Retirees return to serve a 9 to 11 month required work period in a temporary, part-time assignment paid through payroll. After completing this service requirement, remaining benefits are paid from the trust fund. Certain Plan definitions and requirements pertinent to our testing include (items impacted by 2017 Plan revisions are noted):

- The full time retiring employee must:
  - Retire from a VRS covered position and is not eligible for disability benefits under this system. The 2017 Plan revision limits new participants to 175 per year.
  - Be at least fifty. The 2017 Plan revision raises age requirement to fifty-five years or sixty if hired after 2010.
  - Complete at least ten years of service with the Chesterfield County School system, with five of these years completed immediately prior to retirement. If terminated by a School Board approved management reorganization, the service requirement is reduced to five years. The 2017 Plan revision raises service requirement to 20 or 15 years if the employee is 65 years or older, and removes the exception for terminations from management reorganizations.
  - Have 20 years of service in VRS, or related experience as granted by CCPS. The 2017 Plan sets as 20 years of service as defined by VRS.
  - Complete the break in service requirement immediately preceding the start of the temporary, part-time service period.
  - Have been hired or rehired before July 1, 2013.
- Final annual compensation is the annual contract rate paid by employer at the commencement of retirement. The 2017 Plan revision limits the benefit calculation to $95,000 for annual salary.
- Participants shall serve in a part-time position that is the same or equivalent to their previous full-time position. Plan Administrator, or its designee, may approve a participant "work in an equivalent assignment compatible with the Participant's training, experience, qualifications and previous position." The 2017 Plan revision tightened the temporary, part-time position assignment to be no more than a two pay grade change from their previous full-time position.
- During the required work period, a "maximum of one day of approved leave per month…may be granted for unforeseen emergencies".
- In "the event the retirement benefit results in a lower payment than the federal minimum wage rate, the participants shall be paid at the minimum wage rate" during the work period.
- Benefits are paid over a minimum of 5 years. The 2017 Plan revision increased this minimum to 7 years.

FINDINGS, RECOMMENDATIONS, RESPONSES

Benefit Processing and Eligibility Exceptions

(Point Sheet C-1.4, Continued)

CONDITION(S):

Benefit Processing

We tested eligibility and calculated total benefit amount from multiple groups:

- Fifteen participants that entered their SRP service year in Fall 2017 (FY18 after the most recent Plan revision) to:
    1. Verify eligibility.
    2. Ensure temporary part-time position was the same or no more than two pay grades different than the previous full-time position.
    3. Recalculate SRP benefit, review application and approvals.
    4. Verify service break from their full-time position.
    5. Recalculated payroll and compared to payroll detail to confirm this met our expectations of part-time SRP pay.

No exceptions were identified. However, we noted School position approval documentation only lists position titles for last full-time position and the new position assignment. Pay grades are not included on the "notice of assignment" form and "employee data" ONESolution screen print. In most cases position title is unchanged, and grade would be the same.

- Fifteen participants that entered their SRP service year Fall 2016 (FY17 payroll) and began trust payments in Fall 2017 (prior to 2017 Plan revision) to:
    1. Verify eligibility.
    2. Recalculate SRP benefit, review application and approvals.
    3. Verify service break from their full-time position.
    4. Recalculated payroll and compared to payroll detail to confirm this met our expectations of part-time SRP pay.
    5. Verify part-time payroll termination at the end of SRP service year.
    6. Determine if approved absences were within SRP service year requirements.
    7. Agree Trustee monthly disbursement schedule to our recalculated monthly payment amount.

No exceptions were identified, however there is no control to document attendance requirement during the SRP service year. The leave for these salaried part-time positions is not documented as done in ONESolution for full-time employees. HR relies on the individual School Attendance Clerks and Principals to contact HR if there is a concern with attendance.

FINDINGS, RECOMMENDATIONS, RESPONSES

Benefit Processing and Eligibility Exceptions

(Point Sheet C-1.4, Continued)

- Thirty participants receiving monthly trust payments completing their SRP service year during FY16 and prior years to:
    1. Verify eligibility.
    2. Recalculate SRP benefit, review application and approvals.
    3. Agree monthly disbursement from Trusttee schedule to our recalculated monthly payment amount.

In recalculating benefit, we noted 3 participants' benefits were based on compensation $9,000 greater than the annual salary listed on the last "notice of assignment". Upon follow-up, we discovered this $9,000 was a yearly car allowance.

During testing above, we noted certain matters applicable to all samples:

- There is no system computation of SRP benefit that also identifies when a pay rate adjustment is needed to comply with federal minimum wage rate for the SRP service year. The "application for supplemental retirement program" form includes a checkbox to indicate if a participant needs this adjustment, which would be manually calculated. There were three tested participants where the required minimum wage adjustment was not documented on their application form. Payroll identified one prior to SRP service year start, and two participants did not have adjustments made until October of the SRP year (i.e. after being paid at rate below minimum wage). One of these required two adjustments to reach minimum wage.
- Position start dates in ONESolution are based on the most recent hire date. Therefore, years of service for rehires must be manually calculated.

Eligibility Exceptions

We requested a list of all eligibility exceptions made throughout the history of the Plan for:

- An "equivalent" temporary, part time work assignment (i.e. different than their last full-time position).
- Chesterfield County years of service (i.e. approved reorganization).

There are not specific forms or procedures to document these exceptions, and such data is not available in ONESolution. School Benefits provided a list of eight employees with years of service exceptions, primarily resulting from the July 2016 Custodial outsourcing. We tested these eight and observed a related School Board approved reorganization. We could not determine the completeness of the reported exceptions. However, no additional years of service requirement exceptions were noted during other participant testing.

FINDINGS, RECOMMENDATIONS, RESPONSES

Benefit Processing and Eligibility Exceptions

(Point Sheet C-1.4, Continued)

Schools did not provide a list for equivalent position exceptions, so we had to develop an alternative procedure to test potential equivalent position exceptions. We selected all 33 Trust participants from 2007 through 2017 with monthly payments exceeding $3,000 (i.e. annual salaries exceeding $100,000) for evaluation. We identified 3 of these 33 had different work assignments for their SRP service year. All three had specific letters describing the assigned position, and the equivalent position titles (i.e. Director, Assistant Superintendent) were similar.

CAUSE(S):

- Paygrades did not impact SRP service year position eligibility prior to the 2017 Plan revision, and paygrades have not been previously documented for SRP purposes.
- During the SRP service year participants are paid a set amount. Time off is not tracked in ONESolution for these part-time positions.
- Before FY12, car allowances included in the SRP calculation were not listed on the "notice of assignment" form with the annual salary.
- Minimum wage adjustments are manually determined and can be missed.
- Position start dates in ONESolution are based on the most recent hire date. There are not separate designated fields to track prior years of service for rehires.
- SRP application documentation does not identify authorized exceptions.

EFFECT(S):

- Verification that participants are being assigned SRP positions within two paygrades of their full-time position, as required by the new Plan document, is not documented.
- There is no documentation that SRP participant service year absences complied with requirements.
- Car allowances were not clearly documented on "notice of assignment" form prior to FY12.
- Minimum wage non-compliance may occur for SRP service year.
- Rehires require manual identification and calculation to determine years of service.
- It is difficult to determine how many authorized exceptions were made during the duration of the Plan because this has not been tracked.

ACTION TAKEN:

- Since FY12, car allowances are included in the "notice of assignment" and used in the SRP benefit calculation. In 2017, the School Board changed policy to provide mileage reimbursement in lieu of car allowance.
- 2017 Plan revision eliminated years of service exceptions and tightened the equivalent service year position requirements.

FINDINGS, RECOMMENDATIONS, RESPONSES

Benefit Processing and Eligibility Exceptions

(Point Sheet C-1.4, Continued)

RECOMMENDATION(S):

We recommend CFO:

11. Document verification SRP service year position paygrade is within two paygrades of full-time position to ensure compliance with 2017 Plan revision.
12. Document time-off during SRP service year to verify requirements have been fulfilled.
13. Develop automated benefit calculation to indicate if minimum wage adjustments are needed before establishing service year position pay rate.
14. Designate fields in ONESolution to capture all required information to manage SRP benefits and document approvals (accurate years of service, time off tracking, pay grades and position titles for full-time and the SRP service year).

MANAGEMENT'S RESPONSE(S):

11. *Concur. Christina Berta, CFO and Kim Carter, Director of Compensation and Benefits are responsible for implementing 7/1/18. Ms. Berta will be developing written processes for use by all departments that have a role in the process. Ms. Carter will be verifying the SRP service year position and ensuring compliance with the 2017 plan document*
12. *Concur. Christina Berta, CFO and Kim Carter, Director of Compensation and Benefits are responsible for implementing 7/1/18. We will be collectively working to ensure that we have documentation for our SRP year one participants to indicate time-off.*
13. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. We have developed a digital benefit calculator and are in the process of testing. This will capture anyone that is not in compliance with the requirements of minimum wage calculations and ensure they are accurately reflected in the year one pay for the participant.*
14. *Concur. Christina Berta, CFO is responsible for implementing 7/1/18. To the extent ONESolution is able to capture data digitally, it is our goal.*