



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

Denny L. Nester, City Auditor
MBA CPA CIA CFE CGFM

15-04 Fire Department Follow-up on Pensions

February 2015

Purpose

The purpose of this audit was to follow up on the 2011 City Auditor's Fire Department Consulting Letter (Report) recommendations. Additionally, we reviewed to identify potential for pension spiking that had not been addressed in the Report.

Highlights

We conclude that overall the City administered Colorado Springs Fire Department pensions in a manner that reduced the risk of timing payments to increase pensionable income. The 2011 Report identified areas in which members could increase pensionable income, known as pension spiking. The most significant recommendations in the 2011 Report had been implemented when that Report was issued. Our review noted some recommendations from 2011 were still open, but these items did not present significant risk. Our audit did not identify additional areas in which members could pension spike. However, we identified one observation to improve administration and communications between the City and the plan administrator. More information regarding our observations can be found at page two of this report.

In 2011 the Office of the City Auditor (OCA) entered into a consulting agreement with City Management to assist with the implementation of the time and labor system for the Colorado Springs Fire Department (CSFD) (Report Number 11-19).

Colorado Springs Fire employees participate in one of two plans, the Statewide Defined Benefit Plan, or the New Hire Pension Plan. Both Plans are administered by the Fire and Police Pension Association of Colorado (FPPA).

FPPA is responsible for determining and disclosing the definition of base salary in the Plan Rules and Regulations for each applicable pension plan. The City Payroll and Pension Department is responsible for ensuring that contributions to the Plan are calculated and remitted based on the definition of base salary.

Please see page two of this report for observation details.

Management Response

Management was generally in agreement with our recommendations.

Recommendations

1. We recommend that the City update the Sworn PPM as recommended in the 11-19 Report.
2. City PPM and CSFD policies should be updated to limit vacation sell back elections to twice in an 18 month period. The Payroll and Pension Department should verify policy compliance.
3. The City Payroll and Pension Department should formally document City earnings codes along with the corresponding pensionable earnings definitions based on the Plan's Rules and Regulations. Additionally, formal correspondence should be retained to document any FPPA interpretations of plan rules.

City Council's Office of the City Auditor

City Hall, 107 North Nevada Ave. Suite 205, Mail Code 1542, Colorado Springs CO 80901-1575

Tel 719-385-5991 Fax 719-385-5699 Reporting Hotline 719-385-2387

www.SpringsGov.com/OCA

15-04 FIRE DEPARTMENT FOLLOW-UP ON PENSIONS

Observation 1

The City Sworn Policy and Procedure Manual (PPM) had not been revised as recommended in the 11-19 Fire Department Consulting Letter (Report.) The policies requiring update included the longevity payment calculation for light/limited duty 56-hour employee holiday pay, and the paramedic certification payment. The Report recommended changes in PPM to prevent timing of payments to increase pensionable income.

Processes were changed and the Colorado Springs Fire Department (CSFD) policy was updated, but the PPM had not yet been revised. Process changes and guidance available through departmental policy reduce the risk of non-compliance.

Recommendation

We recommend that the City update the Sworn PPM as recommended in the 11-19 Report.

Observation 2

The initial Report recommended that the PPM and CSFD policy be updated to limit the vacation sell back election to once every 12 months. This recommendation was intended to ensure that no more than two vacation sell back payments could be included in the pensionable period of 18 months. We noted in our review that PPM and CSFD policies had not been updated.

Certain eligible employees are allowed and encouraged to sell back vacation in lieu of taking time off. City Management determined that given operational considerations the policies should be updated to limit the elections to twice in an 18-month period, but not necessarily once in a 12-month period. The risk of noncompliance was reduced because only certain fire personnel were eligible to elect to sell back vacation. In addition, of those that were eligible, few elect to sell back vacation.

Recommendation

City PPM and CSFD policies should be updated to limit vacation sell back elections to twice in an 18 month period. The Payroll and Pension Department should verify policy compliance.

Observation 3

The City does not have formal documentation of City earnings codes that corresponds to pensionable earnings definitions per the various FPPA Plan Rules and Regulations. The City did not obtain formal documentation from FPPA when seeking interpretation of plan rules.

Formalized documentation helps to ensure consistent administration and provides a reference for new City Payroll and Pension Department employees.

Recommendation

The City Payroll and Pension Department should formally document City earnings codes along with the corresponding pensionable earnings definitions based on the Plan's Rules and Regulations. Additionally, formal correspondence should be retained to document any FPPA interpretations of plan rules.