



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841
FAX (615) 741-6216

July 28, 2006

To the Metropolitan Employee Benefit Board Members,

As a result of requests made to this office by the benefit board through a letter from David L. Manning, Director of Finance, we conducted a limited review of the administrative costs of the Pension Trust Fund of the Metropolitan Employee Benefit Board. This review focused on the administrative costs and the basis for allocation of such costs for the period July 1, 2004, through June 30, 2005. This limited review included the administrative charges from the offices of human resources, finance, treasury, general services, and law. The finding, together with our recommendation, is presented in this report.

During our examination of the Pension Trust Fund, we noted that the methods used by the various departments to allocate administrative costs to the Pension Trust Fund did not clearly reflect the actual administrative costs incurred on behalf of the fund. The treasury department indicated that they would charge the Pension Trust Fund actual administrative cost. The other departments indicated that they would charge the Pension Trust Fund with budgeted administrative cost; however, two of these departments did not charge budgeted cost. The use of budgeted costs rather than actual costs does not provide the Metropolitan Employee Benefit Board with a clear understanding of what the actual cost is to administer the Pension Trust Fund. Due to several personnel changes in the various Metro departments, there was a lack of understanding on their part of the benefit board allocation process. Due to this lack of understanding, we had to sort through inaccurate or incomplete information.

The Finding and Recommendation resulting from our limited review of the administrative costs of the Pension Trust Fund is attached together with the response of Mr. David L. Manning, Chairman of the Metropolitan Government Employee Benefit Board.

Sincerely,

Arthur Alexander, CGFM
Director of County Audit

Attachments: Finding and Recommendation
Response of Mr. David L. Manning

cc: Mayor Bill Purcell
Mr. Don Dodson, Director of Internal Audit

Metropolitan Employee Benefit Board
 Limited Review of Administrative Costs of the Pension Trust Fund
 For the Year Ended June 30, 2005

FINDING AND RECOMMENDATION

FINDING 05.01

AMOUNTS CHARGED TO THE TRUST FUND FOR ADMINISTRATIVE COSTS WERE INCONSISTENTLY APPLIED. SOME DEPARTMENT CHARGES WERE BASED ON BUDGETED ALLOCATIONS AND OTHERS WERE BASED ON ACTUAL ADMINISTRATIVE COSTS

Certain administrative costs of the human resources, finance, treasury, general services, and law departments were charged to the Pension Trust Fund for the year ended June 30, 2005. The treasury department indicated to us that they charged the Pension Trust Fund with the actual administrative costs. The other departments indicated that they charged the Pension Trust Fund with budgeted administrative costs, even though two of those departments did not charge budgeted administrative costs. We were unable to determine why it was the intent of one department to charge the Pension Trust Fund with actual administrative costs and the intent of the other departments to charge the Pension Trust Fund with budgeted administrative costs.

The budgets for the various departments contain administrative costs related to the Pension Trust Fund. The treasury department prepares the Pension Trust Fund budget based upon these budgeted administrative costs. The following table presents the actual administrative costs charged (\$3,765,786) to the Pension Trust Fund and the budgeted amounts (\$3,550,330) from the various departments that were approved by the Metropolitan Employee Benefit Board for the period July 1, 2004, through June 30, 2005, a difference of \$215,456.

Administrative Charges to the Pension Trust Fund
 Compared to Budget Approved by the Board
 June 30, 2005

Table 1

Department	Services	Administrative Costs Charged to Pension Trust Fund	Budgeted Administrative Costs Approved by Board	Variance (Over)/Under
A.	Human Resources			
	Support/Benefit/Pension	\$ 2,803,600	2,802,288	(1,312)
	Pension Automation Project	282,866	*	(282,866)
B.	Finance			
	Support/Benefit/Pension	252,500	255,626	3,126
C.	Treasury			
	Support/Investment Deferred	136,247	206,016	69,769
D.	General Services			
	Customer Service	136,400	136,400	-
E.	Law			
	Legal Services	150,000	150,000	-
F.	Classification Error			
		4,173	-	(4,173)
	Total	\$ 3,765,786	3,550,330	(215,456)

* Board approved project without available cost estimate

Metropolitan Employee Benefit Board
 Limited Review of Administrative Costs of the Pension Trust Fund
 For the Year Ended June 30, 2005
 Page 2

We discovered the following deficiencies concerning the administrative cost allocations:

A. The Department of Human Resources indicated to us that the Pension Trust Fund was to be charged \$2,802,288, which was the amount their office budgeted and presented to the benefit board. However, human resources actually charged \$2,803,600, which was \$1,312 more than the amount budgeted for the year ended June 30, 2005. In addition to these costs, a contract with Deloitte Consulting for a pension automation project was channeled through the Department of Human Resources. The Metropolitan Employee Benefit Board approved this automation project; however, cost figures were not available. For the year-ended June 30, 2005, Deloitte Consulting was paid \$282,866 for this automation project. Since human resources incurs the majority of the administrative expenses, the following table presents a breakdown of the actual, budgeted, and variances noted during our review:

Human Resources	Table 2		
	Budget Amount	Actual Amount Charged to Trust	Variance
28 Full-time Employees	\$ 1,651,588	1,651,588	1 -
Postage	15,000	15,000	2 -
General Supplies	25,000	25,000	2 -
Printing/ME News	18,000	18,000	2 -
Telephone Charges	9,000	9,000	2 -
Information System Charges	33,700	33,700	2 -
Deloitte Consulting	1,050,000	1,050,000	3 -
Deloitte Consulting - Pension Automation Project	-	282,866	4 (282,866)
Amount Charged Over Budget	-	1,312	5 (1,312)
Total	\$ 2,802,288	3,086,466	(284,178)

- 1 - Represents payroll for 28 full-time employees.
- 2 - Represents budgeted overhead charges.
- 3 - Represents the amount for general consulting charged to the trust fund; however, the department only paid \$963,345 for general consulting, \$86,655 less than the budgeted and charged amount.
- 4 - Represents actual amount paid to Deloitte Consulting for Pension Automation Project; board approved project without available cost estimate.
- 5 - Amount charged over budget.

B. The Department of Finance indicated that the Pension Trust Fund was to be charged \$255,626, which was the amount their office budgeted for administrative cost of the Pension Trust Fund. However, the Pension Trust Fund was charged \$252,500, which was \$3,126 less than the amount budgeted for the year ended June 30, 2005.

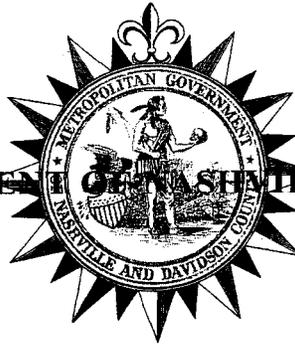
- C. The budget for Pension Trust Fund administrative activity in the treasury department was \$206,016 for the year ended June 30, 2005. However, the treasury department indicated that the Pension Trust Fund was to be charged the actual amount of administrative cost. The actual amount of administrative cost that the treasury department incurred for pension activity was \$203,475 for the year ended June 30, 2005. During the 2004-05 fiscal year, a performance review recommended that the treasurer become the Chief Investment Officer of Metro's closed teacher pension plan and provide service and support for this plan. Based on this performance review, the treasurer allocated the cost of pension activity in the treasury department between the Pension Trust Fund (67%) and the closed teacher pension plan (33%). Sixty-seven percent of the pension activity (\$203,475) in the treasury department amounts to \$136,328; however, there was a calculation error of \$81 and the Pension Trust Fund was only charged \$136,247.
- D. The Department of General Services charged the Pension Trust Fund \$136,400, which was the amount their office budgeted and presented to the benefit board for three full-time employees in the call center. It should be noted that the entire salaries of the three call center employees were charged to the trust fund even though these employees answered all benefit or human resource related questions and not just pension specific questions.
- E. The Department of Law indicated that the trust fund was to be charged \$150,000, the amount their office budgeted and presented to the benefit board. The trust fund was charged \$150,000. It should be noted that the actual legal expenses the law center incurred, as a result of trust fund related issues, were more than twice this amount based on the actual time legal spent for benefit related issues.
- F. A classification error resulted in a \$4,173 pension payroll supplement being charged to administrative costs instead of to the pension payroll account during the year-end adjustment process. It should be noted that this was a classification error and did not result in the pension trust fund being overcharged.

The methods used by the various departments to allocate administrative costs to the Pension Trust Fund did not clearly reflect the actual administrative costs incurred on behalf of the fund. The departments, except treasury, indicated that they would only charge the trust fund for the budgeted amounts that were presented and approved by the benefit board; however, some departments charged the trust fund more or less than the budgeted amounts. In addition, the use of budgeted costs instead of actual costs does not provide the Metropolitan Employee Benefit Board with a clear understanding of the actual cost to administer the Pension Trust Fund.

RECOMMENDATION

The departments should have charged the Pension Trust Fund for administrative costs in a consistent manner rather than charging both budgeted costs and actual costs. The departments should have only charged the Pension Trust Fund for the amounts agreed upon by the departments and the Metropolitan Employee Benefit Board. If the Pension Trust Fund is going to be charged for administrative costs, then the departments and the Metropolitan Employee Benefit Board should look closely at establishing a formula for allocation that more closely relates to actual costs. All amounts charged to the Pension Trust Fund should be reviewed for proper classification.

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



BILL PURCELL
MAYOR

DIRECTOR OF FINANCE
METRO CITY HALL
225 POLK AVENUE, SUITE 250
NASHVILLE, TENNESSEE 37203
(615) 862-6151
(615) 862-6156 FAX

July 25, 2006

Mr. Art Alexander
Director of County Audit
Office of the Comptroller
505 Deaderick Street, Suite 1500
James K. Polk Building
Nashville, TN 37243

Dear Mr. Alexander:

I appreciate the work you have done to review the administrative costs charged to the Pension Trust Fund for the fiscal year ending June 30, 2005, and I agree with your findings and recommendations. Fiscal Year 2005 was the last year administrative costs were charged to the Pension Trust Fund. Over the past couple of years, Metro has been moving toward implementing full cost recovery, and those efforts have allowed us to more accurately recoup the costs related to administering employee benefits without charging the Pension Trust Fund.

The 2005 fiscal year was also the first year that Finance, Human Resources, and General Services operated fully as Internal Service Funds. Prior to that time, only the Treasury Division of Finance had been established as an Internal Service Fund with the ability to charge for services, which is why Treasury was the only administrative cost that was charged to the Pension Trust Fund based on actual costs incurred.

With regard to the total amount charged, the Board will be pleased to learn that your work has concluded that the administrative costs allocated to the Pension Trust Fund were, in total, appropriate. The total budgeted cost for Finance and Treasury were not charged nor was the total actual cost expended by the Legal Department for their services.

The changes made beginning with the 2005-2006 fiscal year have resolved all of the findings and recommendations in your report. Please contact me or any other Board member if you have any additional questions or concerns.

Sincerely,

A handwritten signature in black ink that reads "David L. Manning".

David L. Manning
Chairman
Metropolitan Government Employee Benefit Board

Copy: Employee Benefit Board Members
Mr. Karl Dean
Ms. Kim McDoniel