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To: The Honorable Jay Musleh, President of the Council
The Honorable James Hilty, President Pro Tem
The Honorable Brent Malever
The Honorable John McLeod
The Honorable Mary Sue Rich
The Honorable Kent Guinn, Mayor
John Zabler, City Manager

Date: March 31, 2015

Re: Defined Contribution Plan Implementation and Annual Review

On August 6, 2013, City Council established a 401 (A) Governmental Money Purchase Retirement (Defined Contribution) Plan to be administered by the International City Management Retirement Corporation (ICMA-RC) through Resolution 2013-59. All members of the City's Defined Benefit General Employees Pension Plan as of September 30, 2013 were given the option to join the Defined Contribution Plan. Any full-time employees hired after September 30, 2013 automatically become a member of the Defined Contribution Plan. Defined Contribution Plan members become 100% vested after 6 months of accredited service with the City. Employees contribute 3% and the City contributes 8% of gross base wages to the plan each pay period. The City's contribution is forfeited if an employee does not meet the vesting period.

We reviewed the process to convert 199 employees from the City's General Employees Defined Benefit Plan to the City's Defined Contribution Plan and the Plan administration during fiscal year 2014. The objectives of the review were to determine if the conversion accurately reflected employee pension reform plan selections as supported by appropriate documentation and that the first year of the plan administration appropriately applied forfeiture requirements of the plan.

Based upon our procedures, we conclude that all employee conversion elections were appropriately processed. The \$589,789.53 transferred from the General Employees Pension Plan to the Defined Contribution plan agreed to the actuarial calculations, which represented the greater of the accumulated employee contributions to the Pension Plan or the present value of the accrued pension benefit as of September 30, 2013. However, we identified one error in the data provided to the actuary which resulted in \$83 transferred in error. Management has corrected the error and the funds will be returned to the General Employees Pension Fund.

Five non-vested Defined Contribution Plan members left the City during Fiscal Year 2014. All City contributions made to the Plan on behalf of these employees were appropriately forfeited. We identified one employee that reclassified from a full-time to a part-time position prior to meeting the vesting period for whom City contributions of \$946 were not forfeited. It appears that there was not a process in place to notify the plan administrator at the time employee reclassifications occur. Management has implemented procedures and the oversight is being corrected with the plan administrator.

We identified a forfeiture that occurred in error. An employee that was fully vested in the Employees General Pension Fund elected to transfer to the Defined Contribution Plan on September 30, 2013.

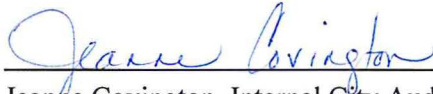
Thus, the employee was fully vested in the Defined Contribution Plan at the time of the conversion. Upon the employee's death during fiscal year 2014, the plan administrator incorrectly forfeited the City's contribution of \$663 from the employee's beneficiary. Management and the plan administrator have corrected the error and the funds have been reapplied to the beneficiary's account.

We discussed with Management opportunities to strengthen internal controls over the City's administration of the Defined Contribution Plan. The Plan's quarterly financial reports received from the plan administrator should be reviewed at the time of receipt to assure all financial transactions, including contributions and forfeitures, are processed appropriately.

Internal Audit will review the Defined Contribution Plan annually going forward as part of the assistance provided to the external auditors, Purvis Gray and Company, LLP.

We appreciate the assistance of all personnel that assisted with the review, especially, Alicia Gaither, Pension Manager, Lisa Mauldin, Payroll Manager, and Diane Reichard, Chief Financial Officer and Assistant City Manager.

Generally Accepted Government Auditing Standards and the Institute of Internal Auditors Standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our observations and conclusions.



Jeanne Covington, Internal City Auditor

c: Diane Reichard, Assistant City Manager and CFO
Mary Ann Davis, Finance Director